

**VALLEY CENTER MUNICIPAL WATER DISTRICT  
MINUTES**

**Regular Meeting of the Board of Directors**

Monday, January 6, 2025 — 2:00 P.M.

**The Valley Center Municipal Water District Board of Directors' meeting was called to order by President Ferro at 2:00 PM.** In the Board Room at 29300 Valley Center Rd.; Valley Center, CA 92082, and livestreamed on the District's website at [www.vcmwd.org](http://www.vcmwd.org).

**ROLL CALL**

**Board Members Present:** *Directors Ferro, Smith, Ness, and Stehly.*

**Board Members Absent:** *Director Holtz.*

**Staff Members:** *General Manager Arant, District Engineer Grabbe, Director of IT Pilve, Director of Finance & Administration Pugh, Director of Operations and Facilities Lovelady, Manager of Accounting/Deputy Director of Finance & Administration Velasquez; Water Systems Supervisor Nichols, Special Projects & Regulatory Compliance Manager Nichols, Executive Assistant/Board Secretary Peraino, and General Counsel Nick Norvell present in-person.*

**Guest Presenter(s):** *Auditor Shannon Ayala with Davis Farr, LLP., the District's Certified Public Accountant.*

**PUBLIC COMMENT(S)**

President Ferro established for the record the process by which public comments are received by the Board; this process was also described in the Agenda for the meeting.

**2024 ELECTION RESULTS**

Director Stehly (Div. 1) and Director Ferro (Div. 4) won their respective Division Elections in the November 2024 General Election, and were reappointed to 4-year terms expiring December 2028.

**ELECTION OF BOARD OFFICERS**

1. Per Water Code, an election of officers, President and Vice President, shall be conducted during the first meeting in January of each odd numbered year.

*Before the nominations for President and Vice President, Director Smith asked that the Board consider rotating out the Board Officer positions on a regular basis, as opposed to majority vote.*

**Action:** Upon motion by *Ness*, seconded by *Stehly*, and carried with three (3) affirmative votes, Director Ferro was re-elected **President** of the Board of Directors.

Upon motion by *Ferro*, seconded by *Ness*; and carried with four (4) affirmative votes, Director Holtz was re-elected **Vice President** of the Board of Directors.

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**CONSENT CALENDAR ITEMS**

*Consent calendar items will be voted on together by a single motion unless separate action is requested by a Board member, staff or member of the audience.*

2. **Minutes of the Regular Board Meeting Held Monday, December 16, 2024;**
3. **Audit Demands;**
4. **Treasurer's Report for Month Ending October 31, 2024; and**
5. **Board Member Reimbursement for Per Diem & Expenses and Disclosure per Government Code Section 53065.5.**

**Action:** Upon motion by *Stehly*, seconded by *Smith*; and carried with four (4) affirmative votes, the previously listed consent calendar items were approved.

**PRESENTATION ITEM(S)**

6. **Review, Receive and File of the District's Annual Comprehensive Financial Report (ACFR) for Fiscal Year (FY) 2023-24 and Review of Appropriation Limit Worksheet:**

The District's Annual Comprehensive Financial Report (ACFR) for the fiscal year ending June 30, 2024, was presented for the Board's review. Deputy Director of Finance Velasquez provided a summary of the ACFR financial highlights.

**Water Purchases and Sales:**

The District's water sales were 11,493 acre feet (AF), down 1,527 AF or -11.7% from sales of 13,020 AF in the previous fiscal year (FY 2022-23). The average price of water, however, increased by 9.1% or \$162/AF. The average price per acre-foot is impacted by the fixed components paid to the Metropolitan Water District (MWD) and San Diego County Water Authority (SDCWA), regardless of the volume of water sold. Those fixed components are the Ready to Serve Charge & Capacity Reservation Charge paid to MWD; and the Customer Service, Emergency Storage, & Supply Reliability Charges paid to SDCWA.

The District's agricultural sales accounted for 55.3% of all deliveries in FY 2023-24. Sales to Certified Agricultural customers decreased by 1,055 AF, or -14.2%, from the prior year. Agricultural Discounts passed through to District customers from the SDCWA on their melded water rate totaled \$1,585,677. In Calendar Year 2024, customers in the Permanent Special Agricultural Water Rate (PSAWR) Program paid \$2,023/AF, which is 25%, or \$676 less per acre-foot than domestic & commercial customers whose water rate was \$2,699/AF.

**Combined Revenues:**

- **Total Revenues** (excluding capital contributions) for FY 2024 were \$48,476,446, down \$197,660, or -0.4%, over the previous fiscal year.
- **Water Sales and Pumping Revenue** decreased by 3.0%, \$863k due to above average rainfall and the overall downward trend of agricultural sales. Those decreases were partially offset by Water rate Increases in 2024:
  - The Domestic rate increased 9.2%, and the PSAWR rate increased 7.6%.

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- **Meter Service Charge Revenue** rose 4.5% due to a 1.8% increase to the monthly service charge that went into effect January 3, 2024. There was also an increase of 157 active meter services.
- **Meter Installation Fee Revenue** dropped 51.5%, nearly \$507k, from the previous year due to fewer water meters and backflow devices sold and installed. The majority of which are attributable to the new Park Circle development.
- **Other Water Operating Revenues** decreased by 5.1% or just over \$36k, as a result of lower delinquency fees and the one-time revenues of \$12,368 that were received in the prior year for the District's share of the MWD Litigation Damages Award.
- **Wastewater Charges** increased by about \$274k, primarily due to the following two reasons:
  - 1) The Capital Improvement Charge, first implemented in January 2024, which generated \$132,000 during FY 2023-24.
  - 2) The Woods Valley Ranch service area saw an increase in total active service connections, leading to higher revenue from sewer service charges.

The number of active meters rose by 59 to 976 in FY 2023-24, up from 917 the prior year, though this was partially offset by lower sewer standby fee revenue.

- **Property Taxes and Assessments** increased by 6.0% or \$252k. This is due to the increase in Total Assessed Value from the Park Circle Development, resulting in higher Current Secured Property Tax Revenue than in the prior year.
- **Investment Income** increased 16.3% or \$287k compared to the prior year. The increase is due to a higher yield on investments, as the average yield increased from 2.3% in FY 2022-23 up to 4.1% in FY 2023-24. The majority of the District's investments are held in the California Asset Management Program, the San Diego County Investment Fund, Certificates of Deposits, and Treasuries.
- **Other Non-Operating Revenues** increased 1.9%, or \$7,522 due to increased lease fees collected from the lease of facilities for cellular sites. It was noted that all cellular site lease agreements include a factor of annual fee escalations.

### Combined Expenses:

- **Total Expenses** were \$46,839,902, down 8.9%, or -\$4,596,405 from the previous FY.
- The **Total Cost of Water Sold** during FY 2023-24 was \$23,863,733, or 0.8% lower than the previous year. The total amount of water purchased during the year was 12,236 AF compared to 13,458 AF in the previous year.
- **Energy and Pumping Costs** decreased by \$318k or 9.8%. This is a result of the lower sales volume resulting in less energy requirements to pump the water through the distribution system as well as a billing adjustment totaling \$265,590 calculated by SDG&E and credited to the District's account.
- **Water Systems Operations Expenses** increased \$280,054, or 4.6%, over FY 2022-23. The increase is due to higher labor and benefits, software maintenance, and outside professional services partially offset by lower maintenance of facilities costs.
- **Combined Wastewater Collection and Treatment Costs** for Moosa and Woods Valley were \$77,156 or 4.0%, less than the prior year. The decrease is a result of decreased labor

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and benefits and maintenance of facilities partially offset by increased outside professional services and chlorine.

- **Engineering Expenses** were up 10.3%, or \$220,633, compared to the previous fiscal year. This increase is a result of increased labor & benefits partially offset by increases in capital planning expenses, outside professional services, and special department expenses.
- **General and Administration Expenses** decreased 55.8%, or nearly \$5M, mainly due to lower Pension expenses compared to the prior year as a \$3.8M loss recorded in the prior year.
  - The District's net pension liability for the risk pool is measured as the proportionate share of the risk pool's net pension liability. Under GASB 68, gains and losses related to the changes in total pension liability and fiduciary net position are recognized as a pension expense systematically over time. Similar gains and losses are recognized for OPEB expenses. These systematic adjustments are gains and losses that reflect the overall performance of the plans at the measurement date.
  - Other factors that resulted in the overall decrease to general and administrative expenses were decreases in legal services and write-off of uncollectible accounts that were partially offset by increases to labor and benefits, outside professional services, membership fees and dues, insurance, and electricity.
- **Depreciation Expenses** increased by \$424k, or 9.0% due to the purchase of new equipment and completed projects in both the current and prior FY.
- **Interest Expenses** increased by almost \$29k, or 6.2% as a result of construction period interest paid on the latest SRF Loan used to fund the 2020 Pipeline Projects. That payment was partially offset by decreases to the regularly scheduled amortization payments made during the year on the other SRF Loans.

### Operating Results:

The District's **Total Operating Revenues** include Water Sales and Pumping Charges, Meter Service Charges, Wastewater Charges, Meter Installation Fees and Other Water Operating Revenues. In total, Operating Revenues decreased by \$782k or 1.9% compared to the prior year mainly due to reduced water sales and fewer new meter installations. This was partially offset by increased water and wastewater charges. **Total Operating Expenses** include the Cost of water purchased from the SDCWA, the Cost of Energy and Pumping paid to SDG&E, Water System Operations, Wastewater collection and treatment, Engineering, General and Administrative costs, and Depreciation. In total, operating expenses decreased by \$4.6M or 9.1% because of lower Pension and OPEB expenses in FY 2023-24 compared to the prior years. This resulted in an operating loss of \$4.8M.

### Net Position at Year End:

Combining the District's funds, including **non-operating revenues** (property taxes and assessments, investment income, other non-operating revenues, interest expense and gains on disposal of fixed assets) and **capital contributions** the overall **Net Position** at the end of FY 2023-24 totaled \$97,163,126 an increase of \$5,897,985, or 6.5%, compared to the prior year.

### Water Operating Revenue:

The District's standard is to maintain unrestricted or uncommitted reserves not anticipated to be used in the current fiscal year to a minimum of 3 months and a maximum of 6 months of the operations and maintenance budget, not including wholesale water and power purchases. At June 30, 2024, the District continued to meet this standard, by designating \$5.2M to the water

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operating reserve, representing 4 months of the budgeted operating and maintenance expenses.

At the conclusion of staff's presentation, *Auditor* Shannon Ayala with Davis Farr, LLP., the District's Certified Public Accountant, was introduced to present the Independent Audit Report and the Appropriation Limit Worksheet.

An independent audit of the District's financial statements as of June 30, 2024, was completed by Davis Farr, LLP. The audit process was reviewed by Ms. Ayala who reported that, in the opinion of Davis Farr, the financial statements present fairly, in all material respects, VCMWD's financial position and cash flows as of June 30, 2024, in conformity with generally accepted accounting principles. Ms. Ayala reported that the Independent Auditor's Report expressed an unmodified opinion, the highest level of opinion that can be received on the financial statements. Ms. Ayala outlined the audit process and fieldwork, which involved risk assessments, planning, documentation of internal controls, and testing of transactions, along with substantive and analytical testing of material balance sheet accounts and financials.

Davis Farr's Independent Auditor's Report on *Applying Agreed Upon Procedures* to the Appropriations Limit Worksheet shows compliance with Article XIII B of the California Constitution. While this law limits the annual increase in the property taxes public agencies can receive, the District receives less than one-half the limit provided.

**Action:** The Board received and filed the ACFR and the Appropriation Limit Worksheet.

### **INFORMATIONAL ITEM(S)**

#### **7. Aqueduct Shutdown Strategies and Consideration:**

Water Systems Supervisor Mike Nichols offered a summary of the strategies and factors that District staff consider during aqueduct shutdowns. For the past several years, the San Diego County Water Authority (SDCWA) has performed ten-day shutdowns of the first and second aqueducts to maintain and repair the pipelines that serve its member agencies in San Diego County. During these shutdowns, water supply from the SDCWA is halted, leaving only stored water or what can be fed through our VC7 and 8 connections (connections located off of the second aqueduct). Determining how many reservoirs to fill and how many gallons of total storage for domestic use and fire protection while ensuring water quality is a complex and timely process involving multiple factors.

**Action:** Informational item only, no action required.

#### **8. Water Use Efficiency Report:**

Special Projects & Regulatory Compliance Manager Alisa Nichols provided an overview of the State's "Making Conservation a CA Way of Life" water use efficiency regulatory framework. District staff previously updated the Board on the State's water use efficiency regulations in 2023 during the rule-making process. The regulations have now been finalized and were adopted by the State Water Board on July 3, 2024.

The regulatory framework includes a required Urban Water Use Objective that each water supplier must meet and a host of Commercial, Industrial, and Institutional (CII) performance measures related to both indoor and outdoor water use efficiency standards. Water suppliers like the District – not individual households or businesses – are required to meet an annual Urban Water Use

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Objective that includes separately regulated Water Loss Performance Standards. The requirements of the framework will be rolled out over the next fifteen years, with varying deadlines for compliance and reporting and a ramp-up of enforcement for noncompliance.

Water Loss Performance Standards were established by Senate Bill 555 in 2015 and adopted by the State Water Board in 2023. Each urban water supplier must meet a real loss standard of gallons per connection per day. Water loss standards are distinct in that they were previously regulated and can be enforced independently, unlike the Indoor and Outdoor standards.

In addition to the Urban Water Use Objective, the newly approved regulations include separate performance measures for CII intended to enable customer water-usage benchmarking per twenty-two (22) CII classification categories, as well as establish and implement sector-specific best management practices for CII indoor and outdoor water use. Additionally, as part of the State's emergency drought regulations and reinforced by the regulatory framework, Assembly Bill 1572 prohibits the use of potable water for irrigating nonfunctional turf on CII properties. The prohibition includes turf located on road medians and within street rights-of-way, HOA common areas, and businesses that are not used for recreation. Exempt from the ban are residential lawns, functional grass (i.e. sports fields, picnic areas, and cemeteries), and areas irrigated with recycled water. The nonfunctional turf ban takes effect in stages for CII landscapes, with requirements beginning January 1, 2027.

The regulatory framework became effective January 1, 2025, with compliance roll-out over a 15-year timeframe. Suppliers must meet the Urban Water Use Objective by January 1, 2027, with full compliance (including CII performance measures and installation of Dedicated Irrigation Meters or in-lieu technologies for large landscapes) required by 2040. The State Water Board may issue warnings and requests for action if objectives are not met.

**Action:** Informational item only, no action required.

### **9. General Information:**

General Manager Arant provided highlights of the District's October Status Report.

**Action:** Informational item only, no action required.

### **DISTRICT GENERAL COUNSEL'S ITEM(S)**

*None.*

### **BOARD OF DIRECTORS' AB1234 REPORTS ON MEETINGS ATTENDED**

*Director Smith reported on his attendance at the LAFCO (Local Agency Formation Commission) SDAC (Special Districts Advisory Committee) on September 20, 2024 and December 20, 2024*

### **CLOSED SESSION ITEM(S)**

*At any time during the regular session, the Board may adjourn to closed session to consider litigation, personnel matters, or to discuss with legal counsel matters within the attorney-client privilege. Discussion of litigation is within the attorney-client privilege and may be held in closed session (per Government Code § 54956.9).*

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**10. A Closed Session was called by President Ferro at 3:45 PM pursuant to:**

- **Government Code §54957 – Public Employee Performance Evaluation:**  
Unrepresented Employee: *General Manager*
- **Government Code §54957.6 – Conference with Labor Negotiators:**  
Agency Designated Representatives: Board of Directors  
Unrepresented Employee: General Manager

**RECONVENE**

**Action:** The Board came out of closed session at 4:02 PM with no reportable action.

**ADJOURNMENT**

**Action:** Upon motion by *Smith*, seconded by *Stehly*, motion passed with four (4) affirmative votes, the regular meeting of the Board of Directors was adjourned at 4:03 PM.

**ATTEST:**

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**Kirsten N. Peraino**, *Secretary*

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**Enrico P. Ferro**, *President*

**Approved at a regularly scheduled Board Meeting on Tuesday, February 18, 2025**