

VALLEY CENTER MUNICIPAL WATER DISTRICT MINUTES

Regular Meeting of the Board of Directors
Monday, August 4, 2025 — 2:00 P.M.

The Valley Center Municipal Water District Board of Directors' meeting was called to order by President Ferro at 2:02 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.

ROLL CALL

Board Members Present: *Directors Ferro, Holtz (arrived late at 2:08 p.m.), Ness, and Stehly.*

Board Members Absent: *Vacancy in Election Division Three (3) Seat.*

Staff Members Present: *General Manager Arant, District Engineer Grabbe, Director of Finance and Administration Pugh, Director of Operations and Facilities Lovelady, Manager of Accounting/Deputy Director of Finance & Administration Velasquez; Senior I.T. Specialist Day, Executive Assistant/Board Secretary Peraino, Administrative Assistant/Assistant Board Secretary Williams, Special Projects and Regulatory Compliance Manager Nichols, and General Counsel Paula de Sousa present in-person.*

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.

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.

1. **Minutes of the Regular Board Meeting Held Monday, July 21, 2025; and**
2. **Audit Demands for Check Nos. 171958 – 172012 from July 12 – July 25, 2025.**

Action: Upon motion by Ness, seconded by Stehly; and carried with 3 affirmative votes, the previously listed consent calendar items were approved.

INFORMATION ITEM / POSSIBLE ACTION ITEM(S)

3. **Review and Adoption of the Fiscal Year 2025-26 Operating and Capital Budget:**

The Valley Center Municipal Water District ("District") Board of Directors began discussing the Fiscal Year ("FY") 2025-26 Annual Budget at its May 5, 2025 Board Meeting. Since the initial presentation, several updates have been presented, reminded Manager of Accounting/Deputy Director of Finance and Administration Velasquez. At the May 15, 2025 Board Meeting, a rate sensitivity analysis was presented. The June 16, 2025 Board Meeting provided a review of the San Diego County Water Authority ("SDCWA") Fixed Transportation Charge implementation. On

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June 26, 2025 SDCWA adopted wholesale rate increases for calendar year 2026. Using that information, staff determined reasonable rate increases to cover passing through the wholesale costs and cover local operating costs.

Ms. Velasquez provided a detailed presentation of the Proposed FY 2025-26 Budget, including operating and capital fund summaries. The presentation included assumptions, key revenue and expense projections, rate changes, and capital project funding considerations. Key highlights included:

- **Water Sales & Purchases:**

For FY 2025-26, the District is budgeting water sales at 12,500 AF and purchases are projected at 13,300 AF.

- **Water Rates:**

Included in the budget are assumptions for proposed water rates and charges. The total Domestic Rate including both the Wholesale Water Rate and the Local VCMWD Commodity Rate is proposed to increase 5.1% or \$159.51 per acre foot (AF) from \$3,101.96 to \$3,261.47. The total PSAWR Rate is proposed to increase \$217.75 per AF from \$2,193.21 to \$2,410.96. The PSAWR discount was estimated at \$851/AF for FY 2025-26, down from the current \$908/AF.

Other rate and charge assumptions included in the FY 2025-26 Budget were discussed as well. Any rate increases would be adopted by separate ordinance for implementation at a later date, to be effective January 1, 2026.

- **Local Operating Cost Coverage:**

Proposed rate adjustments and revenues are expected to cover 76% of the FY 2025-26 local operating costs. The Local Commodity Component will cover 19% and the Meter Service Fee Revenue will cover 57%. The remaining 24% will be covered with Non-Operating Revenues including Investment Income, Lease Revenue, and Other Misc. Revenue.

- **Fund Summaries:**

- **Water General Fund:** Operating revenues are projected to exceed operating expenses, resulting in a surplus budget. If at year end an actual surplus exists, the surplus will be transferred to the Operating Reserve and/or the Capital Reserve to fund future capital projects.
- **New Capital Appropriation Requests total** \$3,100,000 and will require the use of Non-Operating revenues to complete the capital expenditures.
- The **Lower Moosa Canyon Water Reclamation Facility (WRF)** estimated revenues are expected to exceed expenses. There are no new capital appropriation requests for Lower Moosa in FY 2025-26. The budgeted surplus will be transferred to the Replacement Reserve and is necessary in order to meet the debt coverage requirements of the State Water Resources Control Board for future Clean Water State Revolving Fund Loans on future capital needs.
- The **Woods Valley Ranch** WRF estimated revenues are expected to exceed expenses. However, new Capital Appropriation Requests at Woods Valley Ranch total \$655,000 and will require funds from the Replacement Reserve to complete the capital expenditures.

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- **Capital Summary:** Appendix E includes capital projects requiring outside financing as funding is not currently available. Once financing is secured, staff will present a request to the Board for a mid-year budget amendment to approve the funding and authorize staff to proceed with the construction phase of each project. The total for each fund is shown below:
 - Water Fund: 2 projects totaling \$13.5 million
 - Moosa Fund: 2 projects totaling \$9.4 million

Action: Upon motion by Holtz, seconded by Stehly; motion to approve the following Resolution passed with 4 affirmative votes.

RESOLUTION NO. 2025-23

**RESOLUTION OF THE BOARD OF DIRECTORS OF THE VALLEY CENTER
MUNICIPAL WATER DISTRICT ADOPTING THE FINAL OPERATING AND
CAPITAL BUDGET FOR THE FY 2025-26 AND ESTABLISHING CONTROLS
ON CHANGES IN APPROPRIATIONS FOR THE VARIOUS FUNDS**

Was adopted by the following vote, to wit:

AYES: *Directors Ferro, Holtz, Ness, and Stehly.*
NOES: *None*
ABSENT: Vacancy in Election Division Three (3) Seat

AND

Action: Upon motion by Ness, seconded by Holtz; motion to approve the following Ordinance passed with 4 affirmative votes:

ORDINANCE NO. 2025-08

**ORDINANCE OF THE BOARD OF DIRECTORS OF THE
VALLEY CENTER MUNICIPAL WATER DISTRICT AMENDING
THE ADMINISTRATIVE CODE TO PROVIDE FOR CHANGES IN
AUTHORIZED STAFFING LEVELS PER THE FY 2025-26 BUDGET**

Was adopted by the following vote, to wit:

AYES: *Directors Ferro, Holtz, Ness, and Stehly.*
NOES: *None*
ABSENT: Vacancy in Election Division Three (3) Seat

4. Review of the Strategic Plan Performance Measures Results for the 2024 Calendar Year:

The Strategic Plan sets forth twelve measurable performance goals, which are reported to the Board after each calendar year. The following summary of results for calendar year 2024, was provided by General Manager Arant:

1. **Customer Satisfaction:** Goal "Met" or "Exceeded" Customer Expectations – 95%.
2. **Unknown Water Loss:** Goal "Met"– Measured in terms of percent of water sold, acre feet and value of water loss over last ten years.
3. **Reserves:** Goal "Met".
4. **Return on Investments:** Goal "Not Met" – For the last twelve months, our weighted average yield was 4.377%, .316 basis points or 6.73% below the benchmark of 4.693%.

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- However, it was noted, for the 10-year period, the Earnings Basis Points cumulative differential was + 103.1, or 1.031% interest, for an average of 10.3 basis points or 0.0103% interest per year.
- 5. **Local Share of Commodity Cost:** *Goal* “Met” – at no time will the local rate be more than 15% of total commodity cost for Full Price (M&I) and 18% of the certified PSAWR supplies.
- 6. **Pump Efficiency:** *Goal* “Exceeded” with 106% of design efficiency.
- 7. **Solar Energy Production:** *Goal* “Exceeded” – Overall, the arrays produced 108.2% of the scheduled production, exceeding the 90% performance goal. The District owned and operated 6 solar facilities with a total capacity of 331.5 kWdc. The 6 facilities produced a total of 507,152 kWhrs. Five of the District’s Solar Facilities exceeded 90% of the scheduled kilowatt hour solar energy production for the current age of the solar panels.
 - Cool Valley Pump Station Solar fell below the performance goal at 89% of the scheduled production due to the failure of 2 inverters and the protracted lead times for the manufacturer warranty of replacement inverters.
- 8. **Project Actual Costs VS. Estimated Costs:** *Goal* “Met” – Five projects were completed in Calendar Year 2024 — Orchard Run Lift Station, Lilac Road Pipeline Upsizing, Moosa Clarifier No. 1 Upgrades, Alps Way Pipeline Replacement, and McNally Mizpah Reservoir Paint & Recoat Project. The combined overall project cost performance for the five projects was 4.2% over the engineer's estimate, meeting the +/- 10% Final Project Cost Performance Goal.
- 9. **Project Timelines:** *Goal* “Met” – Of the 15 projects funded in the FY 2023-24 annual budget, 6 were new projects, 8 were continuing to receive additional recaptured funding that was underway, and 1 was contingency funding for unanticipated projects that may come up during the FY.

Of the six new projects all were either In-House design or planning projects or under contract for design or construction by June 30, 2024. Of the 15 projects all but three were either under contract or In-House design and work on those projects was delayed or deferred due to funding and budget limitations.
- 10. **Water Service Reliability:** *Goal* “Exceeded” – For the 2024 Calendar Year, there were 2075 hours of unplanned outage (compared to 1,797 hours of outage in 2023) in 105,978,480 service hours (110,849, 040 in 2023) for an average of 12,098 active accounts (12,654 in 2023) providing a service reliability factor exceeding 99.999% (exceeded 99.999% in 2023).
- 11. **Lost Time Accidents:** *Goal* “Met” – For the 2024 Calendar Year the District had a total of 4 recordable accidents totaling 728 lost time hours (zero in 2023) out of 137,424 regular and overtime hours worked (133,758 in 2023), or a lost time rate of 0.53% of all hours worked.
- 12. **Compliance with State and Federal Regulations:** *Goal* “Met” with 100% compliance.

Summary:

Out of the twelve measurable performance goals, 4 were exceeded, 7 were met, and 1 was not met:

4/12 Exceeded: **1** (Customer Satisfaction), **6** (Pump Efficiency), **7** (Solar Energy Production), and **10** (Water Service Reliability).

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7/12 Met: 2 (Water Loss), 3 (Reserves), 5 (District Share of Total Commodity Costs), 8 (Project Costs), 9 (Project Schedule), 11 (Lost Time Accidents), and 12 (State/Federal Regulation Compliance).

1/12 Not Met: 4 (Return on Investments).

Action: Informational item only, no action required.

5. Update to the Long-Range Financial Strategy – Part 2:

Staff provided the Board with the second part of the update to the District's 2019 Long-Range Financial Strategy and discuss recommendations for funding District operations and the Capital Improvement Program (CIP) through Fiscal Year 2029-30. This presentation is a continuation from the July 21, 2025 meeting and is part of the lead-up to a future workshop on Capital Improvement Financing.

Staff reviewed key elements of the 2019 Strategy and introduced updated recommendations that reflect current financial conditions and projections. The central theme of the presentation focused on reducing the District's dependency on variable water sales revenue and transitioning toward stable, fixed revenue sources to fund both operations and capital improvements. Key recommendations discussed included the following:

- **Monthly Meter Service Charge** should cover 60% of the District's local operating costs to ensure revenue stability.
- **Local Commodity Revenue Gap** – A \$2.8 million shortfall currently bridged by interest and miscellaneous income should be partially or fully addressed through adjustments in rates or other revenue sources.
- **Use of Property Tax and Standby Charges** – While historically used for CIP, it is recommended that 50% of these funds remain uncommitted to provide operational flexibility in the event of declining water sales.
- **Meter Capacity Charge Revenue** should be restricted to cash-use for CIP and not pledged toward debt obligations due to year-to-year volatility.
- **Conversion of SDCWA Fixed Charges** – Continued incremental conversion of SDCWA Fixed Charges (Transportation, Customer Service, Storage, and Regional Reliability) to District-fixed charges is recommended over the next five years.
- **Water Capital Improvement Charge** – Consideration should be given to implementing a dedicated charge to support debt service on leveraged CIP financing, such as SRF or other market-based financing programs.
- **Leveraged Financing** – A strategic shift toward short- and long-term leveraged financing using stable revenue streams is proposed to fund the District's future CIP needs.

Historical Context:

Staff noted similarities between current conditions and the District's formation in the 1950s, when initial water system infrastructure was funded largely through property tax and debt financing. The same approach is now proposed to sustain and modernize the system for the next 75–100 years.

Action: Staff will return with a proposed CIP financing model and schedule a Board workshop for late August or early September to further evaluate funding strategies.

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6. San Diego County Water Authority (SDCWA) Board Meeting Summary:

A report on the SDCWA's Board of Directors' Meeting of July 24, 2025 was provided by General Manager Arant.

Action: Informational item only, no action required.

7. General Information:

An overview of the District Status report for the month of April was provided.

Action: Informational item only, no action required.

DISTRICT GENERAL COUNSEL'S ITEM(S)

None.

BOARD OF DIRECTORS' AB1234 REPORTS ON MEETINGS ATTENDED

None.

BOARD OF DIRECTORS' AGENDA

8. Determination of Process to Fill Division Three (3) Vacancy:

The Board was provided an opportunity to determine the process for filling the Board vacancy created by the resignation and retirement of Director Oliver Smith, Director of Division 3 (effective July 21, 2025).

Government Code Section 1780 provides the Board 60 days from the resignation effective date, September 19, 2025, to either appoint a replacement or call an election, explained Board Secretary Peraino. If the Board of Directors *does not* take action within 60 days (by September 19, 2025) of the effective date of the vacancy to either appoint or call for an election the San Diego County Board of Supervisors, within 90 days (by October 18, 2025) of the vacancy effective date, can take action to either appoint a replacement or order the District to call an election. If the Board of Supervisors fails to do so, then the District's Board of Directors must call an election.

Because the vacancy is occurring in the second half of the term and cannot be filled until after July 21, 2025, the election will be held on the next established election date—April 14, 2026. The elected Director will serve through December 2026, completing the remainder of the Division Three term. Friday, September 19, 2025, would be the last day for the Board to call an election before the County Board of Supervisors takes over the decision of whether to appoint or order the District to call an election.

Staff recommended that the Board determine the means by which it will fill the current vacancy in Division 3 and direct staff to make the required postings and notifications to affect the Board's decision within the required time frames.

Action: Upon motion by Holtz, seconded by Ness; motion to fill the vacant Division 3 seat by appointment, and to consider said appointment at a Regular Board meeting to be held Monday, September 15, 2025 and directed staff to make the required postings and notifications, was carried with 4 affirmative votes.

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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).

9. A Closed Session was called by President Ferro at 3:03PM pursuant to the following two (2) items:

- **Government Code §54957 – Public Employee Appointment:**
Title: 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 3:50 PM with no reportable action.

ADJOURNMENT

Action: Upon motion by Stehly seconded by Ness; motion passed with 4 affirmative votes, the regular meeting of the Board of Directors was adjourned at 3:50 PM.

ATTEST:

ATTEST:

Coral L. Williams, Acting Board Secretary

Enrico P. Ferro, President

Approved at a regularly scheduled Board Meeting on Monday, August 18, 2025