

VALLEY CENTER MUNICIPAL WATER DISTRICT

Regular Board Meeting
Monday, February 5, 2018
Time: 2:00 P.M.
Place: Board Room
29300 Valley Center Road
Valley Center, CA 92082

The Valley Center Municipal Water District Board of Directors' meeting was called to order by President Polito at 2:00 P.M.

ROLL CALL

Board members present were: Directors Polito, Haskell, Broomell and Ferro. Staff members present were: General Manager Arant, General Counsel De Sousa Mills, District Engineer Grabbe, Finance Director Pugh, IT Director Pilve, Director of Operations/Facilities Hoyle, Manager of Accounting Velasquez, Safety and Regulatory Compliance Supervisor Olson, Wastewater Systems Supervisor Beath, Wastewater Systems Technicians Feik, Madson and Truesdale, and Executive Assistant Johnson. Spectators present were John Christopher – Louis Berger, Jacqueline Howells – HGR and Michael Zizzi – Leaf & Cole.

CONSENT CALENDAR

1. Upon motion by Haskell, seconded by Broomell and unanimously carried, the following consent calendar items were approved:

- Minutes of the Board meeting held January 16, 2018
- Treasurer's Report for month ending December 31, 2017

SPECIAL RECOGNITION

The District's Wastewater Division received special recognition and thanks for their efforts in achieving the 2017 CWEA San Diego Section, Small Plant of the Year Award for the Woods Valley Ranch Water Reclamation Facility. The plant will now be considered for state recognition.

ACTION AGENDA

2. Comprehensive Annual Financial Report (CAFR) for Fiscal Year 2016-17:

The District's Comprehensive Annual Financial Report for the fiscal year ending June 30, 2017 was presented for the Board's review. Accounting Manager Velasquez provided a summary of the District's financial highlights.

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Combined Revenues – Total revenues for FY 2017 were \$46.6M, up 10.4% over FY 2016. The most significant increases were in water sales and pumping charges (up \$1.96M or 6.5%) and wastewater charges (up \$1.7M or 68.1%). The large jump in wastewater charges is due to fees associated with Assessment District 2012-1.

Capital contributions were down \$1.4M (87.5%) due to low activity on developer projects. FY 2016 was high due to the Woods Valley Expansion. Total revenues and capital contributions were up \$2.9M (6.7%) over the previous year.

Combined Expenses – Total expenses were up \$2.47M (6%) over the previous year mostly due to the cost of water sold which increased \$1.57M. General and administrative, engineering, and wastewater collection and treatment also showed increases due to several factors including increased labor costs, legal expenses, maintenance and insurance costs, increases in regulatory permits and fees and interest expense associated with the state revolving fund loans.

Net Position at Year End – Combining all of the District's funds, the overall change in net position was up \$2.9M (3.4%) over the previous year. This measures the success of the District Operations and determines if the District recovers its costs through user fees and other charges. Reserve account strategic goals were met.

Auditor's Report:

An independent audit of the District's financial statements as of June 30, 2017 was performed by Leaf & Cole, LLP. Michael Zizzi reviewed the audit process and concluded that in the opinion of Leaf & Cole, the financial statements present fairly VCMWD's financial position and cash flows as of June 30, 2017, in conformity with generally accepted accounting principles.

The Statement of Cash Flows indicates a net increase of \$5.2M in cash and cash equivalents. This includes cash flows from investing activities, capital and related financing, non-capital financing and operations.

Upon motion by Broomell, seconded by Haskell and unanimously carried, the FY 2016-17 CAFR was received and filed.

3. Approval of Administrative Code Changes to Sections 50.3 and 50.4 to Allow the Use of Community Facilities Districts (CFDs) for Land-Secured Financing:

Board action to approve Ordinance No. 2018-01 amending Administrative Code Sections 50.3 and 50.4 to allow the use and formation of Community Facilities Districts to finance District facilities was requested by Director of Finance Pugh.

Fieldman, Rolapp and Associates provided a presentation to the Board outlining the benefits and drawbacks of CFDs, compared to assessment districts, at the request of staff on November 6, 2017. CFDs generate funds up-front in advance of new development while assessment districts are typically utilized for developed property.

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A review of the District's Debt and Land Secured Financing Policies, Sections 50.3 and 50.4 was performed and suggested changes to allow for the inclusion of CFDs was provided by Fieldman Rolapp, with input from General Counsel, and was included in the board package. Also included were changes to make these policies compliant with SB 1029, Section 50.3(i) - Internal Controls for Debt Administration, which came into effect last year.

Staff recommended approval of Ordinance No. 2018-01 to be effective 30 days from the date of adoption.

Upon motion by Haskell, seconded by Ferro and unanimously carried, the following Ordinance, entitled:

ORDINANCE NO. 2018-01

**ORDINANCE OF THE BOARD OF DIRECTORS
OF VALLEY CENTER MUNICIPAL WATER DISTRICT
AMENDING THE ADMINISTRATIVE CODE TO PROVIDE FOR THE USE
AND FORMATION OF COMMUNITY FACILITIES DISTRICTS
AND TAKING OTHER ACTIONS RELATING THERETO**

was adopted by the following vote, to wit:

AYES: Directors Polito, Haskell, Broomell and Ferro

NOES: None

ABSENT: Div. 5 Director Seat Vacant

4. Review of Proposed Changes to Administrative Code Section 160.23 to Clarify Fire Service Meter Requirements:

Proposed Administrative Code Changes to the District's Residential Fire Service requirements were presented for discussion and direction by District Engineer Grabbe. Current policy requires a separate fire service meter for residences that require a fire sprinkler system. The proposed changes include possible waivers to current policy under certain conditions, such as when the customer has a private booster pump, an existing remote meter, an existing fire sprinkler system, another water source, or when required for a non-occupied detached structure. Other requests for waivers would be at the discretion of the General Manager.

If the fire service meter requirement is waived, Mr. Grabbe proposed that the property owner should be required to demonstrate that the existing service lateral is sufficient for the domestic and fire sprinkler system demand. In addition, the property owner should be required to indemnify the District from personal loss, and future loss by successors and assigns, by a recorded agreement.

Staff will bring this item back to the Board for final approval in the near future.

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5. Presentation on the Proposed Methodology for Setting Water Meter Capacity Charges and Annexation Fees:

The proposed methodology for setting the water meter capacity charge and annexation fee was presented by District Engineer Grabbe for discussion. The capacity charges were last modified in 2014 when the District converted to a “buy-in” approach; where the asset value of the facilities are divided by the equivalent number of 3/4-inch meters then multiplied by the meter equivalent ratio.

New considerations used in determining the water capacity charge include deducting contributed capital from the asset value, deducting estimated asset value attributed to taxes and availability charges, re-evaluation of facility service life, and modifying the capacity rating for a 3-inch meter to match AWWA recommendations.

The same amount deducted from the facility value for taxes and availability charges was used to determine the recommended annexation fee. Property owners outside the District do not pay availability charges and tax revenues to the District and would need to buy-in to the value attributed to those revenue sources to be on an equal basis as other District customers. The total cost would be divided by the number of acres in the District to arrive at a cost per acre for the annexation fee.

Incremental component charges have also been established for some Special Benefit Areas (SBA); two for District funded water facility projects (High Mountain Water Line and Red Ironbark Pump Station) and two conceptually approved (Country Club Reservoir and Wilkes Road Pipeline) pending final costs for establishing the SBA Connection Charge. Currently, there is only one remaining developer reimbursement agreement in effect (Saiki) with an SBA in the Via Piedra area.

Staff will be reconfirming values as of June 30, 2017 before making their final recommendations on new fees. Proposed increases are expected to be in the 1 to 2% range and will be brought back for Board approval in the near future.

GENERAL MANAGER'S AGENDA

6. Appointment of San Diego County Water Authority Board Proxy:

SDCWA regulations allow member agencies to appoint a Vote Proxy to cast the member's vote if the member's representative cannot be present at a given SDCWA board meeting. The District's current vote proxy, Brian Brady of Fallbrook PUD, recently retired.

Adoption of Resolution 2018-02 will confirm the SDCWA Board Representative from the Fallbrook Public Utility District, whoever that may be, shall be the vote proxy for VCMWD.

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Upon motion by Ferro, seconded by Haskell and unanimously carried, the following Resolution, entitled:

RESOLUTION NO. 2018-02

**RESOLUTION OF THE BOARD OF DIRECTORS
OF VALLEY CENTER MUNICIPAL WATER DISTRICT
CONFIRMING THE DESIGNATION OF ANOTHER MEMBER OF THE
SAN DIEGO COUNTY WATER AUTHORITY BOARD OF DIRECTORS
TO VOTE IN THE ABSENCE OF THE
VALLEY CENTER MUNICIPAL WATER DISTRICT**

was adopted by the following vote, to wit:

AYES: Directors Polito, Haskell, Broomell and Ferro

NOES: None

ABSENT: Div. 5 Director Seat Vacant

BOARD OF DIRECTORS' AGENDA

7. Appointment of ACWA-JPIA Board Representative:

With the retirement of Director Aleshire, a replacement for him as the District's Representative on the ACWA-JPIA Board needs to be appointed.

Upon motion by Broomell, seconded by Haskell and unanimously carried, the Board appointed Jim Pugh as the District's Representative to the ACWA-JPIA Board and Vanessa Velasquez as the Alternate.

ADJOURNMENT

8. Upon motion by Broomell, seconded by Ferro and unanimously carried, the regular meeting of the Board of Directors was adjourned at 3:08 p.m.

ATTEST:

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President

Secretary

Approved at a regular meeting of the Board of Directors on February 20, 2018