

VALLEY CENTER MUNICIPAL WATER DISTRICT

Regular Board Meeting
Monday, January 6, 2020
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, Ferro, Holtz and Smith. Staff members present were: General Manager Arant, General Counsel de Sousa, District Engineer Grabbe, Director of Operations Hoyle, Director of Finance and Administration Pugh, Director of IT Pilve, Manager of Accounting Velasquez, Safety & Regulatory Compliance Supervisor Olson, Project Managers Carrillo and Sandoval, Sr. Constr/Maint. Technician Martineau, and Executive Assistant Johnson. Spectators present were Eric Heideman – City of Poway, Steve Northcote and Neil Glass – Leaf & Cole, Jeff Marston – SDCWA, Megan Anderson – HGR, and several District residents.

COMMENTS

The Public Works Director from the City of Poway, Eric Heideman, thanked the District for providing personnel to help with meeting the State's demands and test requirements during their recent Boil Water Order. General Manager Arant noted that John Martineau provided that assistance to Poway.

CONSENT CALENDAR

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

- Minutes of the Board meeting held December 16, 2019
- Audit demand check numbers 156184 through 156359 for December 6, 2019 through December 26, 2019
- Board of Director's request for reimbursement of expenses and report of expenses.
- Treasurer's Report for month ending October 31, 2019

ACTION AGENDA

2. Comprehensive Annual Financial Report for Fiscal Year 2018-19 Review and Auditor's Report:

An independent audit of the District's financial statements as of June 30, 2019 was completed by Leaf & Cole, LLP. The audit process was reviewed by Steve Northcote who reported that, in the opinion of Leaf & Cole, the financial statements present fairly

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VCMWD's financial position and cash flows as of June 30, 2019, in conformity with generally accepted accounting principles.

The Statement of Cash Flows indicates a net decrease of \$1,046,755 in cash and cash equivalents. This includes cash flows from investing activities, capital and related financing, non-capital financing and operating activities.

The District's Comprehensive Annual Financial Report (CAFR) for fiscal year ending June 30, 2019 was presented for the Board's review. Accounting Manager Velasquez provided a summary of the financial highlights including:

Water Purchases and Sales: The District's water sales volume decreased 25% over the previous year for a total amount sold of 16,116 acre feet. Water purchases decreased 23.8% for a total purchase amount of 17,166 acre feet. The average price of water increased \$94 per acre foot, or 6.9%. The average price per acre foot is impacted by the fixed components paid to MET and SDCWA regardless of water sales.

Combined Revenues: Total revenues for FY 2019 were ~\$45.65M, down 15.1% over FY 2018. The most significant changes were in water sales and pumping charges (down \$8.6M, or 22.1%). This is due to both the significant increase in rainfall, as well as the decrease (29%) in water sold to Certified Agricultural customers. Investment income was up 149.1% due to higher investment yields and higher cash balances. Lower gain on disposal of capital assets (86.8%, or \$107K) was due to a decrease in the sale of surplus property over the prior year. In addition, capital contributions were up 791.7%, or \$397K, due to improvements to the Woods Valley Ranch Wastewater Expansion.

Total revenues and capital contributions were down 9.2% (~\$5M) over the previous year for a combined total of \$49,187,364 for FY 2019.

Combined Expenses: Total expenses were down 11.3% over the previous year. This is due to a decrease in the cost of water sold (down \$5.7M) associated with a decrease in sales volume. Energy and pumping costs also decreased due to lower water sales offset by higher labor, outside services and maintenance expenses. Wastewater collection and treatment costs for Moosa and Woods Valley increased 9.4% (\$125K) as a result of increased labor and chemical costs, administrative, overhead, and regulatory permits and fees, offset by lower electricity costs.

Depreciation increased by 21.5%, or \$732,510, from the prior year due to the first full year of depreciation for the Expansion of the Woods Valley Ranch Reclamation Facility that was capitalized in 2017/18.

Operating Results: Separating operating transactions from non-operating transactions resulted in a net operating loss of \$4,039,262 for FY 2019.

Net Position at Year End: Combining all of the District's funds, the overall change in net position was \$3.14M, up 3.8% from the previous year. The District standard of maintaining unrestricted and uncommitted reserves for a minimum of 3 months to a maximum of 6 months of the operations and maintenance budget, not including wholesale water and power purchases, was met.

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Upon motion by Ferro, seconded by Holtz and unanimously carried, the FY 2018-2019 CAFR was accepted and filed.

3. Review of 2019 Water Rate Survey:

Staff conducted a survey of water rates and charges of 21 retail water agencies, including VCMWD, for an overall perspective and then with a subgroup of 8 agencies that have the same water supply cost basis as the District. The results were presented by Finance Director Pugh. A portion of the results included:

Domestic Commodity Rate: 6th lowest (based on 26th unit consumed per month) same ranking as 2017 survey;

Ag Commodity Rate: 4th lowest (7th ranking in 2017) and 20.6% below the average;

Monthly Meter charge: 18th (same rank as 2017) and 26.6% above average.

When compared to the 8 retail agencies with the same cost basis, the District's ranking is as follows:

Domestic Commodity Rate: Lowest (lowest in 2017 survey);

Ag Commodity Rate: Lowest (2nd lowest in 2017);

Monthly Meter Charge: 7th lowest (same ranking as 2017).

The relative overall ranking of the District to other water agencies between the 2017 and 2019 surveys remained static. It was concluded that the 21 surveyed water agencies have raised rates and charges at a fairly uniform rate. It was also noted that many of these agencies will likely raise their rates sometime this year which could affect the District's overall ranking.

PUBLIC HEARING

4. Ordinance Approving Increases in Water and Wastewater Rates and Charges:

A public hearing to receive written and oral input on the proposed increases in water and wastewater rates and charges was opened by President Polito at 2:46 p.m.

Amendments to Administrative Code Sections 160.3, 160.24 and 160.25 for changes in water rates and charges to be effective with the February 1, 2020 billings was presented by Finance Director Pugh. The increases include pass through of the wholesale price of water from SDCWA and MWD, and an adjustment in the local commodity portion to offset increases in operational and maintenance costs. He noted that the rates being proposed are the same as those previously reviewed at the regular meeting on October 28, 2019.

The proposed total net increase is 3.1% for domestic and 4.1% for TSAWR customers, as shown in the following table:

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Per Hundred Cubic Feet	<u>Current</u>	<u>Change</u>	<u>Proposed</u>
<u>Domestic/Commercial:</u>			
Wholesale: MWD/SDCWA	\$4.3238	\$0.1327	\$4.4565
VCMWD	<u>\$0.5335</u>	<u>\$0.0192</u>	<u>\$0.5527</u>
Total	\$4.8573	\$0.1519	\$5.0092

Per Hundred Cubic Feet	<u>Current</u>	<u>Change</u>	<u>Proposed</u>
<u>Certified TSAWR:</u>			
Wholesale: MWD/SDCWA	\$3.0299	\$0.1272	\$3.1571
VCMWD	<u>\$0.5335</u>	<u>\$0.0192</u>	<u>\$0.5527</u>
Total	\$3.5634	\$0.1464	\$3.7098

Meter Service Charge: A 4.6% increase in the monthly meter service charge is proposed to offset increases in local operating costs. The proposed changes are as follows:

Meter Size	Current	Change	Proposed
¾ inch	\$39.93	\$1.84	\$41.77
1 inch	\$54.55	\$2.51	\$57.06
1-1/2 inch	\$81.83	\$3.77	\$85.59
2 inch	\$109.10	\$5.02	\$114.12
3 inch	\$163.65	\$7.53	\$171.18
4 inch	\$218.20	\$10.04	\$228.21
6 inch	\$327.30	\$15.06	\$342.36
8 inch	\$436.40	\$20.08	\$456.48

No increase is proposed for fire protection meters.

Pumping Rates: A 5.3% increase in pumping rates, effective February 1, 2020, will offset increases from SDG&E.

Zone	Current	Change	Proposed
1	\$0.09500	\$0.00504	\$0.10004
2	\$0.18995	\$0.01007	\$0.20002
3	\$0.21073	\$0.01117	\$0.22190
4	\$0.31470	\$0.01668	\$0.33138
5	\$0.46158	\$0.02446	\$0.48604
6	\$0.51489	\$0.02729	\$0.54218
7	\$0.54603	\$0.02894	\$0.57497
8	\$0.61887	\$0.03280	\$0.65167
9	\$0.64100	\$0.03397	\$0.67497
10	\$0.84900	\$0.04500	\$0.89400

SDCWA Infrastructure Access Charge: SDCWA annually assesses the District an Infrastructure Access Charge based on the number and size of active meters. This charge is passed through and collected from active customers on their water bill. Effective January 1, 2020, the new charge for a ¾-inch meter will be \$3.66 per month, up \$0.65 or 21.6% from the current charge. The other meter sizes will also increase accordingly.

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Construction Water Charges and Permit Fees: Fees for construction water will change in conjunction with the proposed water rate increases. Fees for water truck permits for potable water will range from \$300 for the smallest trucks, to \$595 for trucks with a capacity of 5,000 gallons or more. Permit fees for non-potable water will range from \$190 to \$380, respectively.

The Notice of Public Hearing was mailed to all District customers and/or property owners within the District boundaries on November 11, 2019, according to state law.

Included in the Notice of Public Hearing was a reference to Assembly Bill 3030 which allows a Proposition 218 hearing to provide for pass-through increases in wholesale rates and for adjustments for inflation for a period of five years. These potential future increases would be presented to the Board at public meetings for consideration as needed, may not exceed 10% per year without a new Prop 218 hearing, and in no event shall the rates be increased by more than the cost of providing water service.

No increases are proposed for wastewater service at this time, however, it is anticipated that inflationary adjustments in the cost of operations and maintenance are likely in the future. If approved by the Board, the District may annually make wastewater pass-through adjustments for a five year period, commencing today. These adjustments may not exceed 10% a year and shall not be increased by more than the cost of providing wastewater service.

As of this meeting, five written protest letters were received from property owners of the 26,700 notices sent. Three property owners had comments and/or questions during the public hearing which were addressed by the General Manager. Richard Bruemmer voiced his protest to the rate increases.

The public hearing was closed at 3:21 p.m.

Staff recommended adoption of Ordinance 2020-01 to implement the proposed rate changes to be effective February 1, 2020 and authorizing the pass through of wholesale water, energy, IAC, and limited increases in the retail component of the water and wastewater rates and charges, should they occur, at future meetings of the Board.

Upon motion by Haskell, seconded by Smith and unanimously carried, the following ordinance, entitled:

**ORDINANCE NO. 2020-01
ORDINANCE OF THE BOARD OF DIRECTORS OF
VALLEY CENTER MUNICIPAL WATER DISTRICT
ADOPTING INCREASES IN WATER AND WASTEWATER
RATES AND CHARGES**

was adopted by the following vote, to wit:

**AYES: Directors Polito, Haskell, Ferro, Holtz and Smith
NOES: None
ABSENT: None**

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5. Fiscal Year 2019-2020 Budget Amendment for the Phase 2 Bar Wrapped Concrete Cylinder Pipe Project and Award of Construction Contract for Installation of Pre-Inspection Manways:

In July 2019, the Board awarded Phase 2 of the Bar Wrapped Concrete Cylinder Pipe (BWCCP) Condition Assessment contract to Pure Technologies to inspect the balance of the BWCCP in the District. This includes the following pipelines:

- Betsworth PS to Valley Center PS – 13,700 LF of 30" BWCCP
- Valley Center PS to Miller East PRS – 6,400 LF of 24" BWCCP
- Miller PS to McNally PS – 6,000 LF of 39" BWCCP

Installation of five manways are needed to launch and retrieve the condition assessment instrumentation equipment (the PipeDiver) to access the BWCCP. A 6th manway was added to repair internal mortar coating that chipped off while performing the Phase 1 assessment reported Project Manager Sandoval. This location was not included in the original engineer's estimate of \$65,000 and was added as an addendum during the bidding process.

Bids were received for the Project on December 10, 2019, in accordance with formal bidding procedures. Only two bids were received as follows: M-Rae Engineering Inc. - \$127,900, and Orion Construction Corp. - \$272,000.

Staff concluded that the engineer's estimate did not take into account the small size of the contract, higher material and equipment rental costs, the 6th manway installation and mobilization and demobilization required for each site.

Staff recommended adoption of Resolution No. 2020-01, amending the FY 2019-2020 annual budget to authorize an additional \$163,383 in funding to award the manway installation contract to M-Rae Engineering for their low bid of \$127,900, increase staff time, cover miscellaneous costs and add a 10% contingency to the project. If awarded today, this project is expected to be completed by late March 2020.

Upon motion by Ferro, seconded by Smith and unanimously carried, the following resolution, entitled:

**RESOLUTION NO. 2020-01
RESOLUTION OF THE BOARD OF DIRECTORS OF
VALLEY CENTER MUNICIPAL WATER DISTRICT
AMENDING THE FY 2019-2020 ANNUAL BUDGET TO AUTHORIZE
ADDITIONAL FUNDING FOR THE PHASE 2 BAR WRAPPED CONCRETE
CYLINDER PIPE CONDITION ASSESSMENT PROJECT AND
AWARDING THE CONSTRUCTION CONTRACT FOR THE INSTALLATION
OF PRE-INSPECTION MANWAYS [PROJECT NO. 01-06-78-51510]**

was adopted by the following vote, to wit:

- AYES: Directors Polito, Haskell, Ferro, Holtz and Smith**
NOES: None
ABSENT: None

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6. Approval of Change Order No. 7 to the Construction Contract with LB Civil Construction for the North Village Collection System Project:

The North Village Collection System Project was completed on December 17, 2019. Change Order No. 7 is to close out the project and includes items and issues encountered during the installation of the 6" forcemain in Old Road reported Project Manager Carrillo. A detail of the previous change orders was provided. Change Order No. 7 consists of:

1. Rock Breaking encountered in Old Road	\$60,342
2. Rework and redesign at the tie in at VC and Old Roads	\$12,333
3. Addition of 2 air vacs on Old Road	\$16,149
4. County inspection cost	<u>\$5,654</u>
TOTAL COST	\$94,478

While the overall total of change order approvals for this project (including CO No. 7) represents a 16.5% increase of the original contract amount, 15.8% is attributable to a change in project scope for the installation of the 6" forcemain in Old Road. Only 0.7% is attributable to the original contract work.

Staff recommended adoption of Resolution No. 2020-02, approving Change Order No. 7 for an increase of \$94,478 for resolving the issues relating to the installation of 1,800 LF of 6" forcemain in Old Road and closing out the project. This will result in LB Civil Construction's revised total contract amount for the North Village Collection System Project to \$2,653,143.

Upon motion by Ferro, seconded by Smith and unanimously carried, the following resolution, entitled:

**RESOLUTION NO. 2020-02
RESOLUTION OF THE BOARD OF DIRECTORS OF
VALLEY CENTER MUNICIPAL WATER DISTRICT
APPROVING LB CIVIL CONSTRUCTION INC'S CHANGE ORDER NO. 7
FOR THE NORTH VILLAGE COLLECTION SYSTEM PROJECT
[PROJECT NO. 16-06-78-56150]**

was adopted by the following vote, to wit:

**AYES: Directors Polito, Haskell, Ferro, Holtz and Smith
NOES: None
ABSENT: None**

GENERAL COUNSEL AGENDA

7. General Counsel de Sousa reported that the Draft Water Resilience Portfolio Report was issued by the State and under public review. It contains four recommendations:

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- Maintain and diversify water supplies;
- Protect and enhance natural ecosystems;
- Build connections; and
- Be prepared for new threats (floods, droughts, hotter temperatures).

She was pleased to note that the report did not indicate a “one size fits all” approach.

ADJOURNMENT

8. Upon motion by Ferro, seconded by Haskell and unanimously carried, the regular meeting of the Board of Directors was adjourned at 4:05 p.m.

ATTEST:

President

ATTEST:

Secretary

Approved at a regular meeting of the Board of Directors on January 21, 2020