

VALLEY CENTER MUNICIPAL WATER DISTRICT

Regular Board Meeting
Monday, May 4, 2020
Time: 2:00 P.M.
Place: Board Room
29300 Valley Center Road
Valley Center, CA 92082

Due to the COVID-19 State of Emergency and pursuant to waivers to certain Brown Act provisions under the Governor's Executive Orders, the Board Meeting was conducted via Web Conference and Live Stream.

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

President Polito established for the record that all Directors were able to hear the proceedings, that all members of the Board were able to hear the Directors participating by teleconference clearly, and that all votes would be taken by a roll call vote pursuant to the provisions of the Brown Act. President Polito further established for the record the process by which public comments would be received by the Board; this process was also described in the Agenda for the meeting. It was announced that one written public comment had been received for Agenda Item 2 below.

ROLL CALL

Board member present was President Polito with Directors Haskell, Ferro, Holtz, Smith and General Counsel de Sousa teleconferencing. Staff members present were: General Manager Arant, District Engineer Grabbe, Director of Operations Hoyle, Director of Finance and Administration Pugh, Director of IT Pilve, Manager of Accounting Velasquez, and Executive Assistant Johnson. Spectator present via teleconference was Dr. House - WEC.

CONSENT CALENDAR

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

- Minutes of the Board meeting held April 20, 2020
- Audit demand check numbers 157196 through 157285 for April 10, 2020 through April 23, 2020

ACTION AGENDA

2. Approval of Agreement for Out of Agency Service with Rainbow Municipal Water District for the Meadowood Project and Agreement Related to Detachment and Annexation with Pardee Homes:

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On March 2, 2020, the Board of Directors approved the concept of the Meadowood Project being served on an interim basis and then ultimately annexing into the Rainbow Municipal Water District (RMWD) reported General Manager Arant. Since that time, staff and General Counsel have been working on documents to complete the service transfer and ultimate detachment of Meadowood from VCMWD and annexation to RMWD.

On April 28, 2020, the Rainbow MWD Board of Directors approved the Agreement for Out of Agency Service for Meadowood. This agreement allows Rainbow to serve Meadowood while still in VCMWD's jurisdiction. It will relieve VCMWD of the obligation and liability to serve Meadowood. VCMWD agrees to not oppose the reorganization and to reasonably assist in the process.

District General Counsel has developed an "Agreement Related to Detachment and Annexation" between Pardee and VCMWD. This agreement memorializes the terms and conditions pertinent to the legal and financial aspects of the transfer of service. This includes Pardee paying VCMWD's direct and indirect costs associated with processing the agreements and the reorganization documents. VCMWD agrees to issue a Resolution in support of the reorganization once Rainbow files their application with LAFCO.

Staff recommends approving the "Agreement for Out of Agency Service" and the "Agreement Relating to Detachment and Annexation" substantially in its present form, and direct staff to finalize and execute the documents on behalf of the District following final review by District Counsel.

A written comment was received from Allen Kashani of Pardee Homes indicating his support of this request.

Upon motion by Haskell, seconded by Smith and unanimously carried, the Board approved staff's recommendation.

3. Photo-Voltaic Solar Development – Approval to Enter into Power Purchase Contract Negotiations with Blue Max Energy and Consulting for the Lower Moosa Canyon WRF and Corporate Facility Projects:

At the April 20 Board Meeting, General Manager Arant provided a status report on the efforts to develop four additional solar projects and indicated that only one proposal had been received. Dr. Lon House of Water and Energy Consulting (WEC) was then instructed to explore various issues and options concerning the proposal received from Blue Max Energy and Consulting. WEC concluded the following:

- Site development at Miller and Betsworth pump stations were a concern;
- Blue Max expressed interest in eliminating Miller and Betsworth and modifying their proposal to develop solar arrays at only Moosa and the Corporate site;
- Developing only the two sites could double the savings rate from \$0.01 to \$0.02 per kWh;
- After 25-years the solar arrays would become the property of the District and could continue to produce solar energy for an additional 15 to 20 years; and

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- Over a 25-year Power Purchase Agreement, the two new arrays would reduce GHG/CO₂ production by an estimated 3,824 tons. This could provide regulatory advantages as California moves toward 100% carbon free energy.

Staff recommended that that the Miller and Betsworth solar projects be deferred and re-evaluated at a later time. They also recommended the Board direct staff to:

- 1) Seek a formal addendum to the Blue Max proposal memorializing a fixed charge rate providing an initial savings of \$0.02 kWh compared to the then effective SDG&E rate at Moosa and the Corporate Facility;
- 2) Negotiate, with the assistance of WEC and General Counsel, a revised Power Purchase Agreement providing the initial fixed solar power rate over the 25-year life of the agreement, with ownership of the solar arrays transferring solely to the District at the end of the agreement;
- 3) Return in a timely manner so the Board can consider approval of the PPA and make the final environmental determination on both projects.

Upon motion by Smith, seconded by Haskell and unanimously carried, the Board approved staff's recommendations.

INFORMATIONAL ITEMS

4. Revenue and Expense Projections in the Proposed FY 2020-2021 Budget and a Review of District Budget Policies:

A general overview of the revenue and expense projections for the proposed fiscal year 2020-2021 Budget was presented by Accounting Manager Velasquez. The budget process began in January and the majority of the assumptions had already been analyzed prior to the COVID-19 pandemic. Staff has been re-evaluating estimates for revenues and expenses, including the Capital program, because of the uncertainties surrounding the pandemic.

Staff is projecting that water operating revenues, plus other non-operating revenues, will be sufficient to cover projected operating expenses. Total new water capital expenditures of \$4.9M will be requested and will require use of property taxes, availability charges, capacity charges and capital improvement reserves.

Actual water sales for 2019-2020 are estimated at 16,000 AF, 4,000 AF under budget due to the wet winter. Water sales for 2020-21 are being budgeted at 18,000 AF.

The San Diego County Water Authority's wholesale rates are anticipated to increase by 7% for treated water. Fixed charges that the District is required to pay to SDCWA and MWD, regardless of the amount of water sold, is estimated to increase 7% for 2020. Final rate increases will be presented in detail at the June 1, 2020 Board meeting.

SDCWA approved the extension of the Special Agricultural Water Rate and made it permanent beginning January 1, 2021. The current rate offers a \$566 discount per AF.

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In September 2019, the Board adopted a policy directing that water rates and charges, which include the District's local commodity charges and monthly meter service charge, be set so that revenue from these sources fully cover the local operating costs, excluding wholesale water costs and power costs. This goal is expected to be reached within five years. Due to the pandemic, non-operating revenues are expected to decrease by 1.2% in FY 2020-21 and local operating costs are expected to increase 3.6%.

The preliminary budget includes a 4.8% increase in the commodity rate and is expected to generate \$207,720 in additional annual revenue. Staff is also proposing a 4.8% increase to the meter service charge which will generate \$277,000 in additional annual revenue.

A 10% increase to pumping rates is included in the budget calculation to offset the increasing costs of electricity, natural gas and pump and motor maintenance. Total energy costs are estimated to increase 16%, however the maximum increase allowed is 10% due to Prop 218 regulations. With the proposed increase, pumping revenues are estimated at \$2.5M in 2020-21.

Other income includes secured property taxes of \$2.6M for 2020-21 and water availability charges of \$574,000.

Staffing is budgeted at 70 full-time equivalent positions, same as the current year. A cost of living allowance of 2.4% is included in the budget per the current MOU.

Total operating expenses, excluding Source of Supply, are budgeted at \$13.6M, a net increase of 5% over the current fiscal year.

Wastewater - Woods Valley Ranch and Moosa Water Reclamation Facilities are anticipated to have sufficient revenues to meet all expenses for FY 2020-2021.

Moosa Wastewater – Rate increases are expected; estimates will be presented at the June 1, 2020 Board meeting.

Woods Valley Ranch Wastewater – No rate increases are proposed.

Woods Valley Ranch Expansion – No increases are proposed for sewer service charges or sewer standby fees. However, the grinder pump maintenance charge may require an increase to cover operating costs. Rate estimates will be presented on June 1, 2020.

Capital Improvement Projects – Proposed new water projects for the 2020-21 budget total \$4.9M. Projects authorized in prior years, considered "Construction in Progress," have a budget of \$6.5M, for a total water capital budget of \$11.4M. Details of the proposed new projects will be provided at a future Board meeting.

Because of the fiscal uncertainties brought by the response to the pandemic, staff has closely evaluated the capital budget and identified projects that must be completed in FY 2020-21 (\$1.8M); projects that can be deferred until there is more financial clarity (\$6.5M), and projects which will be deferred pending SRF funding approval from the State (\$3.1M).

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New capital wastewater projects include \$890,000 for Moosa, which will be prioritized in the same format as the water projects, with \$225K required for completion in 2020-21.

Debt - Three Clean Water State Revolving Fund (SRF) Loans with an outstanding balance of \$21.7M at 2.2% interest are being used solely for the Woods Valley Ranch Wastewater Expansion Project. Debt service payments against this loan are \$1.54M for FY 2020-21. In addition, a Safe Drinking Water State Revolving Fund loan obtained for the Cool Valley Reservoir Cover/Liner Replacement has a remaining balance of \$3.2M, with a debt service payment of \$220K for FY 2020-21.

Reserves: It is projected that a portion of the Capital Improvement Reserve will be utilized to balance the budget but the reserve balances at the end of FY 2020-21 are expected to still meet the requirements as set forth in the District's Strategic Goals. However, it will all ultimately depend on the short and long-term impacts of the pandemic on the District's finances.

The District's Budget Policies were reviewed by Ms. Velasquez and are codified in Administrative Code Section 50.2. No changes to policy were recommended.

5. San Diego County Water Authority's Board of Directors Meeting:

General Manager Arant reported that the SDCWA Board of Directors' meeting held on April 23, 2020 via teleconference consisted of general business items.

6. Miscellaneous:

The following miscellaneous items were reviewed:

- Initial financial impacts from loss of payments for water bills and delinquency charges, because of the pandemic, will be provided at the next Board meeting.
- The hybrid A/B workweek continues to work well with no issues reported.

GENERAL COUNSEL'S AGENDA

7. General Counsel de Sousa reported that the Legislative Assembly reconvened and the Senate will be back in session on May 11th. There will be a lot of changes due to the pandemic. The legislature needs to pass a balanced budget by June 15th and has until the end of August to submit legislation to the governor for approval. A number of bills are focusing on bonds to stimulate the economy including a statewide resilience bond.

The Governor indicated that many areas could move to Stage 2 of reopening the state, beginning with opening low risk businesses. BBK will advise clients of all state and local requirements to keep everyone in compliance.

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ADJOURNMENT

8. Upon motion by Haskell, seconded by Ferro and unanimously carried, the regular meeting of the Board of Directors was adjourned at 3:32 p.m.

ATTEST:

President

ATTEST:

Secretary

Approved at a regular meeting of the Board of Directors on May 18, 2020