

AGENDA FOR A REGULAR MEETING OF THE BOARD OF DIRECTORS
OF THE VALLECITOS WATER DISTRICT
WEDNESDAY, NOVEMBER 21, 2012 AT 4:00 P.M.
AT THE DISTRICT OFFICE
201 VALLECITOS DE ORO, SAN MARCOS, CALIFORNIA

CALL TO ORDER – PRESIDENT GENTRY

PLEDGE OF ALLEGIANCE – DIRECTOR HERNANDEZ

ROLL CALL

In the case of an emergency, items may be added to the Agenda by a majority vote of the Board of Directors. An emergency is defined as a work stoppage; a crippling disaster; or other activity which severely imperils public health, safety, or both. Also, items which arise after the posting of the Agenda may be added by a two-thirds vote of the Board of Directors.

ADOPT AGENDA FOR THE REGULAR MEETING OF NOVEMBER 21, 2012

ORAL COMMUNICATIONS

Persons wishing to address a matter not on the Agenda may be heard at this time; however, no action will be taken until the matter is placed on a future agenda in accordance with Board policy.

NOTICE TO THE PUBLIC

All matters listed under the Consent Calendar will be voted upon by one motion. There will be no separate discussion of these items, unless a Board member or member of the public requests that a particular item(s) be removed from the Consent Calendar, in which case it will be considered separately under Action Items.

CONSENT CALENDAR

1.1 APPROVAL OF MINUTES

- A. REGULAR BOARD MEETING – NOVEMBER 7, 2012
- B. COMMITTEE MEETING OF THE WHOLE SPECIAL BOARD MEETING – NOVEMBER 13, 2012

Approved minutes become a permanent public record of the District.

Recommendation: Approve Minutes

1.2 WARRANT LIST THROUGH NOVEMBER 21, 2012 - \$3,405,995.35

Recommendation: Approve Warrant List

1.3 FINANCIAL REPORTS

- A. WATER METER COUNT – OCTOBER 31, 2012
- B. WATER PRODUCTION/SALES REPORT – 2012/2013
- C. WATER REVENUE AND EXPENSE REPORT – OCTOBER 31, 2012
- D. SEWER REVENUE AND EXPENSE REPORT – OCTOBER 31, 2012
- E. RESERVE FUNDS ACTIVITY – OCTOBER 31, 2012
- F. INVESTMENT REPORT – OCTOBER, 2012

*****END OF CONSENT CALENDAR*****

ACTION ITEMS

2.1 DESALINATION RESOLUTION OF INTENT AND CONTRACTS

The District is currently 100% reliant on imported water deliveries from the San Diego County Water Authority.

Recommendation: **1) Affirm support for the regional project with equal consideration of rate Alternatives 1a, 1b, 2a, and 2b;**
2) Adopt a Resolution of Intent to enter into a UMAPC for 3,500 AF per year

2.2 WATER PURCHASE AGREEMENT WITH OLIVENHAIN MUNICIPAL WATER DISTRICT

Upon completion of a contract with the SDCWA, Olivenhain Municipal Water District will have additional treatment capacity available to VWD at a rate discounted from SDCWA's melded M&I treatment rate.

Recommendation: **Authorize staff to execute the Selling of Water Treatment Services contract between VWD and Olivenhain Municipal Water District.**

2.3 RESOLUTION DECLARING THE OFFICIAL INTENT OF THE DISTRICT TO BE REIMBURSED FOR CERTAIN CAPITAL EXPENDITURES FROM THE PROCEEDS OF INDEBTEDNESS

The District's adopted 2012/13 budget includes a financing of \$7.1 million for the capacity portions of the San Marcos Interceptor and Linda Vista Sewer Projects.

Recommendation: **Adopt Resolution accepting Bank of America fixed rate loan and authorize staff to execute loan documents**

2.4 RESOLUTION MODIFYING GENERAL MANAGER'S SALARY

The Board of Directors has completed the process of evaluating the General Manager.

Recommendation: Request Board consideration

*******END OF ACTION ITEMS*******

REPORTS

3.1 GENERAL MANAGER

3.2 DISTRICT LEGAL COUNSEL

3.3 SAN DIEGO COUNTY WATER AUTHORITY

3.4 ENCINA WASTEWATER AUTHORITY

3.5 ACWA/REGION 10

3.6 LAFCO

3.7 DIRECTORS REPORTS ON TRAVEL/CONFERENCES/SEMINARS
ATTENDED

*******END OF REPORTS*******

OTHER BUSINESS

4.1 MEETINGS

CSDA Legislative Days

May 14 – 14, 2013 – Sacramento, CA

*******END OF OTHER BUSINESS*******

5.1 ADJOURNMENT

*******END OF AGENDA*******

If you have any disability which would require accommodation in order to enable you to participate in this meeting, please call the Executive Secretary at 760.744.0460 ext. 264 at least 48 hours prior to the meeting.

AFFIDAVIT OF POSTING

I, Diane Posvar, Executive Secretary of the Vallecitos Water District, hereby certify that I caused the posting of this Agenda in the outside display case at the District office, 201 Vallecitos de Oro, San Marcos, California by 3:00 p.m., Friday, November 16, 2012.

Diane Posvar

MINUTES OF A REGULAR MEETING OF THE BOARD OF DIRECTORS
OF THE VALLECITOS WATER DISTRICT
WEDNESDAY, NOVEMBER 21, 2012, AT 4:00 PM AT THE DISTRICT OFFICE,
201 VALLECITOS DE ORO, SAN MARCOS, CALIFORNIA

President Gentry called the Regular meeting to order at the hour of 4:00 p.m.

Director Hernandez led the pledge of allegiance.

Present: Director Ferguson
Director Hernandez
Director Poltl
Director Shell
Director Gentry

Staff Present: General Manager Lamb
Assistant General Manager Scaglione
Legal Counsel Scott
Finance Manager Fusco
Administrative Services Manager Taylor
Public Information/Conservation Supervisor Urabe
Executive Secretary Posvar

General Manager Lamb requested that Agenda Item 2.3, Resolution Declaring the Official Intent of the District to be Reimbursed for Certain Capital Expenditures from the Proceeds of Indebtedness, be tabled to a future Board meeting due to a last minute change from Bank of America which needs to be clarified before moving forward.

ADOPT AGENDA FOR THE REGULAR MEETING OF NOVEMBER 21, 2012

12-11-05 MOTION WAS MADE by Director Hernandez, seconded by Director Ferguson, and carried unanimously, to adopt the agenda for the Regular Board Meeting of November 21, 2012, as amended.

ORAL COMMUNICATIONS

None.

CONSENT CALENDAR

12-11-06 MOTION WAS MADE by Director Shell, seconded by Director Poltl, and carried unanimously, to approve the Consent Calendar as presented.

1.1 Approval of Minutes

- A. Regular Board Meeting – November 7, 2012
- B. Committee meeting of the Whole Special Board Meeting – November 13, 2012

1.2 Warrant List through November 21, 2012 - \$3,405,995.35

1.3 Financial Reports

- A. Water Meter Count – October 31, 2012
- B. Water Production/Sales Report – 2012/2013
- C. Water Revenue and Expense Report – October 31, 2012
- D. Sewer Revenue and Expense Report – October 31, 2012
- E. Reserve Funds Activity – October 31, 2012
- F. Investment Report – October, 2012

ACTION ITEMS

DESALINATION RESOLUTION OF INTENT AND CONTRACTS

General Manager Lamb stated that in 2005, the Board joined eight other public agencies, including the City of Carlsbad that was the lead agency in the project EIR, to form the Desal Partners. As a group the project was pursued and was fully permitted for construction in 2010. Subsequent actions by the Metropolitan Water District of Southern California (MWD) in response to litigation filed by the SDCWA resulted in MWD subsidies for the project to be withdrawn. In 2010 the Desal Partners approached the SDCWA to take over and construct the project as a regional project in accordance with their long term water supply planning.

At the November 13 Board Committee meeting, staff presented an update to the costs, and anticipated program itself. The Board Committee recommended this item be presented to the full Board for consideration to reaffirm the District's support for the Desal project which will be considered by the SDCWA on November 29, and to adopt a Resolution filing a Notice of Intent with the SDCWA to purchase 3,500 AF per year from the project. Staff supports this recommendation and requested the Board move forward.

Mr. Michael Hunsaker, member of the public, addressed the Board stating he was speaking as a citizen. Mr. Hunsaker stated that he has worked many years ago and appeared at a conference at which he presented a paper on desalination. He looked at a number of different types of desalination and one of the things that have come glaringly is that this is the wrong type of desalination. It is not even the most common type of desalination. The most common type is gas distillation. This is where you can use hot water, from any source, and use it to desalinate. It's common on Navy ships; it is the most common large quantity desalination process in the world. It works exceptionally well when you team it with an electric power plant. Electric power plants are 37% - 54% efficient depending on the technology. That means there is a lot of waste heat that has to go out in cooling water. As a consequence, the gas distillation is often teamed with electric power plants. And it produces considerable valuable water as a byproduct as well as cooling. There is no need to go forward with a project as a reverse osmosis system. As a matter of fact, it should not.

Mr. Hunsaker stated that no one has considered the effect of carbon taxes in this whole situation. SDG&E has been a support for this project when it calls for an additional

large amount of electrical consumption. It collects carbon taxes for this consumption. It's going to accumulate a lot less carbon taxes if it is forced to recycle its heat rather than just dumping it in the ocean. Another problem is the EPA is dramatically tightening environmental controls in water. There is good possibility that we may not be able to operate this plant dumping concentrated brine or heat into the ocean. He thinks that risk should be in there that we have some sort of safe harbor in case something like this happens. Last thing we want is to be unable to use it. Inflation factor is ludicrous. There is supposed to be a 30% cap. That assumes about 1½% inflation rate over 20 years. That is not going to be California in the future. It's not going to be the United States in the future. If you look at Stone Peak who is the primary investor for this, they specialize in inflation linked investments. How do you cap things at extremely low rate of inflation and have investors get their inflation linkage? One of the problems is that these individuals have very high contacts and influence can be used. And the State has indicated that it wants every region to denote what are the limiting factors for growth for its affordable housing units, which is another subject altogether. One of these is going to be water. You may be required to buy the water at any price in order to maintain so called affordable housing concepts. He doesn't think that we have adequate risk analysis present in what we're doing and what we're doing going forward. He thinks these factors should be considered and reverse osmosis is definitely not the way to go. He thanked the Board.

General Manager Lamb addressed Mr. Hunsaker's concerns stating he would address the escalation factor and protection for the public. The 30% that Mr. Hunsaker referenced is a separate issue from inflation; it has no bearing on inflation nor does it have any bearing on escalation costs. The 2½% that we have is an escalation factor which is a maximum that can be built into the contract for any escalation per year. This covers finance costs and cost of living. The power itself is a shared cost; no matter what it is, we pay for that power. This issue was addressed at length and was brought to a head at the SDCWA Board Workshop held two weeks ago. Right now the State Water Project consumes about 27½% power to get the power to us. The desalination project is about 30%. The difference between the two is about 2½%. What was looked at was a 30 year history of power consumption to get to here and what the average inflation was (it's about 1.2%). Also looked at was worst case scenario over the next 30 years on desalination - at 2.4% in the average case and the worst case at 4% escalation over that period for desalination and comparing that to State Water Project costs. At the end of the 30 year period, it ended up that the actual component of power for the desalination would be less than it is now. So in other words, even though there is an escalation factor in there, it's not a concern with respect to desalination. The 30% is a 10% maximum cap that can ever be invoked for the project itself on an annual basis. This is in case there is a catastrophic failure, a major change to technology or something else. They are limited to 10% three times over the life of the project. With respect to the desalination technology, he can't speak to that. He assumes the project was brought forward in the most cost effective manner. It does take advantage of the cooling water, which is heated coming to the treatment plant as Mr. Hunsaker indicated. We are actually just using the waste cooling water product from the treatment plant itself.

General Manager Lamb stated that the risk, with respect to the project, is retained by the SDCWA vs. the risk that's retained by Poseidon. If there is no water produced, we don't pay. With respect to the return that the investors will be receiving, it's a \$971 million project. The private investment is limited to \$180+ million. This is the amount of capital that is put into this that the investors are receiving a return on. They are not receiving a return on the balance. That is done through the bond sales which are the risk of Poseidon. If they do not produce water, the recourse of the bond holders is to make it trued up against Poseidon.

General Manager Lamb stated that the EPA is currently going through promulgation of the discharge requirements and guidelines and how they can be allowed to dump into the ocean. They are looking at possibly adopting or starting the process of adopting something in 2013. It may impact the existing inlet or the discharge facilities in place at the power plant. We have already assumed in the contract a \$21 million cap. That is the maximum that can be passed on to the SDCWA if the Coastal Commission, along with the Regional Water Quality Control Board, changes the requirements for the intake/outlet structure. The initial review that we have from the experts that conducted the study for the State, was that there are a variety of different technologies that need to be considered whenever you look at intake and outlet structures; they need to be site specific. Their preliminary review was that the structure that is already available and used at Carlsbad meets the demands of the area. The problem is that there are no rules promulgated yet. To say that it is or isn't going to have an impact would be premature at this time.

12-11-07 MOTION WAS MADE by Director Poltl, seconded by Director Ferguson, and carried unanimously, to 1) affirm support for the regional project with equal consideration of rate Alternatives 1a, 1b, 2a, and 2b; and 2) adopt the Resolution of Intent to enter into a Uniform Member Agency Purchase Contract for 3,500 AF per year.

Resolution No. 1406 - The roll call vote was as follows:

AYES: Ferguson, Hernandez, Poltl, Shell, Gentry
NOES:
ABSENT:
ABSTAIN:

WATER PURCHASE AGREEMENT WITH OLIVENHAIN MUNICIPAL WATER DISTRICT

General Manager Lamb stated that Olivenhain Municipal Water District (OMWD) is under contract to treat and deliver water to the San Diego County Water Authority (SDCWA) until March of 2014. Upon completion of the contract with the SDCWA, OMWD will have additional treatment capacity available to Vallecitos Water District (VWD) at a rate discounted from SDCWA's melded M&I treatment rate.

The OMWD Board approved a Water Purchase Agreement in concept last year. Since then, OMWD and VWD staff members have been meeting to negotiate agreeable terms. Protections for both parties have been included in the agreement. Staff prepared a study and provided updates regarding the potential agreement to the Board Committee at the June, September and October 2012 Committee meetings. The Board Committee, at its November 13 meeting, recommended this item to the to the full Board.

Staff recommended approval of the Water Purchase Agreement.

Rainy Selamat of Olivenhain Municipal Water District addressed the Board thanking them for their support of this project. She feels it will be a good project for the ratepayers. She also thanked the General Manager and Assistant General Manager for all their time and consideration for this project.

12-11-08 MOTION WAS MADE by Director Shell, seconded by Director Hernandez, and carried unanimously, to approve the Water Purchase Agreement.

RESOLUTION MODIFYING GENERAL MANAGER'S SALARY

Legal Counsel Scott stated that the Board completed the evaluation process of the General Manager and looked at the Goals and Objectives for next year. The Board requested that the salary be at the mid-point of the other General Managers representing specials districts in San Diego County. What is being presented is a modest increase to the current salary.

12-11-09 MOTION WAS MADE by Director Hernandez, seconded by Director Poltl, and carried unanimously, to approve the Resolution.

Resolution No. 1406 - The roll call vote was as follows:

AYES: Ferguson, Hernandez, Poltl, Shell, Gentry

NOES:

ABSENT:

ABSTAIN:

REPORTS

GENERAL MANAGER

General Manager Lamb stated that the SDCWA changed the agenda format of the meeting for next Thursday. The morning session will be all the committees, there will be a Special Board meeting which begins at 1:00 pm which will consist of only the desalination project, and will then go into a regular Board meeting after that.

General Manager Lamb stated that two press releases will go out this evening with respect to the Board's approval of the desalination item as well as the contract with Olivenhain Municipal Water District.

DISTRICT COUNSEL

Legal Counsel Scott stated that this meeting was a significant one and that it has to be gratifying for Directors Gentry and Shell to see the culmination of a couple of really important matters that will have significant effects for the community the District serves for the future.

SAN DIEGO COUNTY WATER AUTHORITY

None.

ENCINA WASTEWATER AUTHORITY

Director Poltl stated that a Policy and Finance Committee meeting will be held on November 27.

Director Poltl reported on the EWA Board meeting.

President Gentry stated that a Capital Improvement Committee meeting will be held on December 5.

ACWA REGION 10

President Gentry stated that an ACWA Board meeting was held last week and his written report has been distributed.

President Gentry stated that a special Region 10 meeting took place and his written report was provided.

LAFCO

None.

DIRECTORS REPORTS ON TRAVEL/CONFERENCES/SEMINARS ATTENDED

President Gentry noted that written reports were provided electronically. The reports are on file.

OTHER BUSINESS

None.

ADJOURNMENT

There being no further business to discuss, President Gentry adjourned the Regular Meeting of the Board of Directors at the hour of 4:40 p.m.

A Regular Meeting of the Vallecitos Water District Board of Directors has been scheduled for Wednesday, December 5, 2012, at 4:00 p.m. at the District office, 201 Vallecitos de Oro, San Marcos, California.

Darrell Gentry, President
Board of Directors
Vallecitos Water District

ATTEST:

Dennis O. Lamb, Secretary
Board of Directors
Vallecitos Water District