AGENDA FOR A COMMITTEE MEETING OF THE WHOLE
SPECIAL BOARD MEETING OF THE BOARD OF DIRECTORS
OF THE VALLECITOS WATER DISTRICT
MONDAY, NOVEMBER 7, 2011, AT 1:00 P.M.
AT THE DISTRICT OFFICE
201 VALLECITOS DE ORO, SAN MARCOS, CALIFORNIA

CALL TO ORDER – PRESIDENT POLTL

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.

ITEMS FOR DISCUSSION

1. FISCAL YEAR 2010/11 ANNUAL AUDIT REPORT
   (Draft report provided under separate cover) (pp. 1)

2. EASEMENT ACQUISITION UPDATE FOR THE SAN MARCOS INTERCEPTOR
   (pp. 2 - 4)

3. SAN MARCOS INTERCEPTOR CONSTRUCTION SCHEDULE AND PHASING
   UPDATE (pp. 5 - 6)

4. QUARTERLY CIP UPDATE (pp. 7 - 21)

*****END OF DISCUSSION ITEMS*****

OTHER BUSINESS

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

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 1:00 p.m., Thursday, November 3, 2011.

Diane Posvar
MINUTES OF A COMMITTEE MEETING OF THE WHOLE
SPECIAL BOARD MEETING OF THE BOARD OF DIRECTORS
OF THE VALLECITOS WATER DISTRICT
MONDAY, NOVEMBER 7, 2011, AT 1:00 PM AT THE DISTRICT OFFICE,
201 VALLECITOS DE ORO, SAN MARCOS, CALIFORNIA

President Poltl called the Committee meeting to order at the hour of 1:00 p.m.

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

Staff Present: Finance Manager Scaglione
              Legal Counsel Scott
              Administrative Services Manager Caudle
              District Engineer Gerdes
              Principal Engineer Gumpel
              Public Information/Conservation Supervisor Urabe
              Accounting Supervisor Fusco
              Accounting Technician Johnson
              Executive Secretary

Others Present: Harvey Schroeder, White Nelson Diehl Evans, LLP
               David Forman, White Nelson Diehl Evans, LLP

ORAL COMMUNICATIONS

None.

COMMITTEE ITEMS

FISCAL YEAR 2010/2011 ANNUAL AUDIT REPORT

Finance Manager Scaglione introduced Mr. Schroeder and Mr. Foreman. Finance Manager Scaglione reviewed the Management’s Discussion and Analysis as follows:

- Effective January 1, 2011, the wholesale cost per acre foot of treated water increased by 9%. Fixed wholesale costs increased 24.9%. The cost of water increased by $865,000, even though purchases declined by 875 acre feet (5.4%).
- The Board of Directors rescinded Level 2 Drought Declaration on May 4, 2011. The District returned to the non-drought rate structure with no restrictions on water use.
- In June 2011, Governor Jerry Brown signed a budget-related bill eliminating redevelopment agencies in their existing form. Starting in 2013/14, the District will no longer receive the RDA pass-through from the City of San Marcos. The District received a $734,000 pass-through in 2011/12.
Minutes of a Committee Meeting of the Whole
Special Board Meeting of the Board of the Directors of the Vallecitos Water District
November 7, 2011

- Capital spending during 2010/11 decreased to $2.8 million compared to $7 million in the prior year, $9.4 million two years prior, and $27.3 million three years prior.
- On June 15, the Board of Directors adopted the District budget for 2011/12 which included a reduction in operating costs from the previous budget of $1.9 million or 5% mainly due to a projected decline in water demand and consequent wholesale water cost reduction, and a reduction in salaries and benefits. The reduction in benefits is reflective of the Last Best and Final Offer to the District’s Employees Association adopted the same day. The reduction in salaries is due to attrition from retirements.
- On June 30, 2011, the District transferred $3,013,545 to CalPERS to pay off a side fund created in 2003 when agencies with like pension formulas were pooled. The side fund had a 15-year amortization period. Payment of the side fund was facilitated by adding principle payments and interest at 7.75% to the annual required pension contribution (ARC). The ARC decreased by $506,000 in 2011/12. The District intends to seek variable rate debt financing to replenish reserves from which the side pay-off was drawn.
- On July 20, 2011, the District adopted two years of rate increases effective August 1, 2011: 5.6% sewer increase and a 9.3% ready-to-serve increase. A 28¢ (10.6%) per unit (12¢ retail, 16¢ wholesale) increase will be effective on January 1, 2012. On July 1, 2012, 5.5% sewer increase and an 8.3% ready-to-serve increase will be effective. A 28¢ (9.6%) per unit (15¢ retail, 13¢ estimated wholesale) will be effective January 1, 2013. The actual wholesale increase that will pass through to retail customers is not known at this time.
- Operating activities, property taxes, capital facility fees, and other sources helped fund $4.8 million in debt service and $2.8 million in capital acquisitions and construction.
- The current ratio indicates that the District can pay 2.43 times its current debt from current assets. The District can pay 2.29 times its current obligations with assets readily convertible to cash. The District’s current and quick ratios show a high degree of solvency and a strong current position. The decline from the prior year is a result of estimating a pending construction litigation claim at $1.5 million, but not paid as of the draft of this report. The capital-assets-to-long-term-liabilities ratio indicates that for every dollar of debt the District has $4.16 in capital assets. The debt-to-equity ratio indicates that for every dollar of debt the District has $2.94 of net assets.
- The $1.2 million increase in ready-to-serve (RTS) charges was due to rate increases. RTS charges are a fixed monthly charge.
- The District recovers costs of tertiary sewer treatment from reclaimed water sales to the City of Carlsbad and the Olivenhain Municipal Water District. These costs, included in MRF expenses, increased significantly in the prior year due to the startup of the new treatment plant and reduced flow from extraordinary conservation. Costs are now beginning to stabilize.
Minutes of a Committee Meeting of the Whole
Special Board Meeting of the Board of the Directors of the Vallecitos Water District
November 7, 2011

- Other revenues from the previous year include a $405,000 settlement, $202,000 more in annexation fees, and $117,000 more in investment income.
- Other expenses include the change in the net assets of the Encina Wastewater Authority (EWA). The District accounts for its share in EWA as an investment and recognized an allocated share of the decline in EWA’s net assets of $964,000 more than the previous year.
- Capital contributions from the prior year includes adjustments to recognize contributions accumulated in projects not yet completed, including contributed capital incurring in prior years.
- The District considered the following economic factors in establishing 2011/12 budget amounts: continued extraordinary conservation; increases to wholesale water rates; District retirements and reduction in force from attrition; and, last, best and final offer to the District’s employee association concerning benefits.
- The 2011/12 budget includes: decrease water sales and water costs from continue conservation partially mitigated from rate increase; 7.8% reduction in salaries and benefits from the 2010/11 budget; and, increased wastewater service charges from an adopted 6.5% increase in rates effective August 1, 2011.

Mr. Schroeder stated that a clean and unqualified opinion on the financial statements has been rendered. He reviewed the statements of net assets, statements of revenues, expenses and changes in net assets, and statements of cash flows.

Mr. Schroeder reviewed the Audit Committee letter, financial statements and notes as follows:

- There were no changes in any of the accounting principles.
- Estimates were used in the preparation of the financial statements – management’s estimate of the fair market value of investments which is based on fair market values by outside agencies; the estimated useful lives for capital assets which are based on industry standards; the annual required contribution for the District’s Other Post Employment Benefit (OPEB) Plan is based on certain actuarial assumptions and methods; the funded status and funding progress of the public defined benefit plan with CalPERS which are based on actuarial valuations; management’s estimate of their construction litigation liability.
- Encountered no significant difficulties in dealing with management in performing and completing the audit.
- The following material adjustments detected as a result of audit procedures were corrected by management: construction liabilities were increased and the cost of a construction project was increased by $1,500,000; developer deposits were reduced and accounts receivable were increase and reclassified as contributed capital in the amount of $429,626; certain CIP projects were reevaluated to determine whether they were completed or still in progress. As a result, $421,656 was capitalized as completed capital assets and contributed capital increased by $205,846.
Minutes of a Committee Meeting of the Whole
Special Board Meeting of the Board of the Directors of the Vallecitos Water District
November 7, 2011

- Certain representations have been requested from management.
- There were no consultations with other independent accountants.
- During the fiscal year ended June 30, 2011, the increase in total assets of $378,289 and the increase in total liabilities of $1,134,096 resulted in a decrease in net assets of $755,807.
- The operating loss of $3,220,250 includes non-cash depreciation expense of $8,220,514. Depreciation on contributed assets, for which the District never realized cash outflows, is also included in the $8.2 million of depreciation. The District has established reserve floors for the replacement of aging infrastructure.

The Board Committee recommended this item be presented to the full Board for consideration and acceptance.

EASEMENT ACQUISITION UPDATE FOR THE SAN MARCOS INTERCEPTOR

Principal Engineer Gumpel stated that the District is going to require both permanent and temporary easements along the alignment of the San Marcos Interceptor project. All easement descriptions and plat maps have been completed and have been forwarded to Keagy Real Estate who has been hired by the District to perform appraisals of all impacted properties. Draft appraisal reports have been completed for the parcels between Bent Avenue and Via Vera Cruz. Keagy Real Estate is continuing to work on reports for all remaining properties; all reports should be completed by the end of November.

District staff is working directly with the City of San Marcos to obtain right of entry permits for City owned parcels in lieu of temporary construction easements. The District has an existing 20 foot easement between Bent Avenue and Via Vera Cruz (the existing alignment of current interceptor; replacing it in the same trench) and staff will be requesting an additional 10 feet of temporary construction easement from the property owners. Keagy Real Estate is performing the property appraisals along the alignment.

Director Ferguson disclosed that she is one of the property owners and withdrew from any discussion on this project.

General discussion took place with the rest of the Board members.

This item was provided for information only and will be brought before the Board at a later date.

SAN MARCOS INTERCEPTOR CONSTRUCTION SCHEDULE AND PHASING UPDATE

Principal Engineer Gumpel stated that the City of San Marcos and developers requested the District accelerate the San Marcos Interceptor project between Grand Avenue and Bent Avenue which will be broken out as Phase 1A. Currently all environmental permits for the entire San Marcos Interceptor project have been issued or
Minutes of a Committee Meeting of the Whole  
Special Board Meeting of the Board of the Directors of the Vallecitos Water District  
November 7, 2011

will be issued by late November; all easements between Grand Avenue and Bent Avenue have been received; staff is waiting on right of entry permits from the City of San Marcos properties prior to bidding out the project.

General discussion took place.

This item was presented for information only.

QUARTERLY CIP UPDATE

Principal Engineer Gumpel provided the update as follows:

San Marcos Interceptor: The project consists of replacing the exiting 21” sewer interceptor with approximately 5,000 LF of 36” and 42” diameter sewer pipe between Twin Oaks Valley Road and Lift Station #1. Kennedy Jenks has given approval to break out Phase 1A portion of the project; 90% of submittal of plans and specs are currently under review by District staff; staff is working directly with the City of San Marcos on right of entry agreements for City owned parcels; all environmental permits to be issued by the end of November. Phase 1A design contract completion date is December, 2011 and the estimated construction start date is March, 2012. Outstanding issues include finalize and obtain all permanent and temporary easements; finalize Caltrans permit and environmental documents 401, 404, and 1603; finalize right of entry permits with the City of San Marcos.

Wulff Tank Replacement: The existing tank is currently leaking and in need of replacement. The project is currently under construction; coating of the tank should take place next week. Currently on schedule for contract completion date, however, if rains continue, completion date could go into December. There is one credit change order for $10,100.

Linda Vista Sewer East: The project consists of upsizing approximately 3,400 LF of 8” VCP sewer main from the intersection of Bingham Drive and Furniture Row to the intersection of Linda Vista Drive and Las Posas Road. Preliminary design report is completed and staff expects to receive 60% design submittals by the end of the month or first part of December. Staff has made first comments on the screencheck of the environmental report which will be a Mitigated Negative Declaration. There are no change orders at this time. The design contract completion date is estimated for February, 2012 with a construction completion date of December, 2012. Outstanding issues include appraisal completion of Bixby Land Company easement relocation and negotiate new easement agreement; complete 60% design efforts; apply for CalTrans encroachment permit for pipeline installation under SR 78; complete draft Mitigated Negative Declaration and submit for public review.

Rock Springs Sewer Replacement: The project consists of replacement of approximately 3,000 LF of 8” VCP sewer main and 19 manholes within Rock Springs Road and an adjacent greenbelt area with 12” and 15” PVC sewer main. This project is
Minutes of a Committee Meeting of the Whole
Special Board Meeting of the Board of the Directors of the Vallecitos Water District
November 7, 2011

tracking slower than the Linda Vista Sewer job and do not anticipate going out to construction this fiscal year. Preliminary Design Report and Alignment Study is 30% complete and staff is working with affected homeowners and HOAs regarding alignment alternatives. There are no change orders at this time. The design contract completion date is estimated for March, 2012 with a construction completion date of June, 2013. Outstanding issues include: obtaining homeowner and HOA approval for the selected alignment alternative; commend 60% design efforts; complete screencheck environmental document.

Meadowlark Tank No. 2 Refurbishment: This project will provide new coatings inside and outside and update the tank to current OSHA standards. Harper and Associates was awarded the design contract; first submittal of drawings and specs have been reviewed by staff and returned to Harper & Associates. The design completion date is estimated for December, 2011 with a construction completion date of May, 2012.

Larchwood Drive Sewer Manhole: Five homes off of Fulton Road are served through a common private sewer lateral on Larchwood Drive; the District has received complaints of a plugged line. It is in the best interest of the District to install of new manhole in Larchwood Drive so the common sewer lateral can be cleaned and maintained. In-house design has been completed and the project has been sent out to bid to a select group of contractors. The construction completion date is estimated for December, 2011.

Sagewood Way Waterline Replacement: This project will replace approximately 2,025 LF of existing 8” waterline in Sagewood Place in the existing alignment. The project is currently in design by District staff and letters are being prepared for the homeowners. The estimated completion date is December, 2011 with a construction completion date of May, 2012.

These items were presented for information only.

OTHER BUSINESS

Finance Manager Scaglione stated that the November 3 workshop for agricultural customers went very well. Alicia Yerman and Torrey Webb did a wonderful job. Presentations made at the workshop will be provided to each Board member.

Finance Manager Scaglione stated that the OPEB report has been received and reflected in new benefits under the Best, Last and Final Offer. The District will fund $2.5 million to an OPEB Trust this fiscal year. This will be time averaged over 6 months. Each year approximately $450,000 will be deposited into the trust. Staff will use a 7% return assumption for reporting and to fund the trust. The District and Union Bank have begun the process to request a $5.5 million variable rate loan for ten years.
Minutes of a Committee Meeting of the Whole
Special Board Meeting of the Board of the Directors of the Vallecitos Water District
November 7, 2011

ADJOURNMENT

There being no further business to discuss, President Poltl adjourned the Board Committee meeting at the hour of 2:26 p.m.

A Regular Meeting of the Vallecitos Water District Board of Directors has been scheduled for Wednesday, November 16, 2011, at 4:00 p.m. at the District office, 201 Vallecitos de Oro, San Marcos, California.

James W. Poltl, President
Board of Directors
Vallecitos Water District

ATTEST:

Thomas Scaglione, Treasurer
Board of Directors
Vallecitos Water District