President Martin called the Workshop Meeting to order at the hour of 1:01 p.m.

Director Sannella led the pledge of allegiance.

Present: Director Elitharp  
Director Evans  
Director Hernandez  
Director Sannella  
Director Martin

Staff Present: General Manager Pruim  
Legal Counsel Gilpin  
District Engineer Gumpel  
Finance Manager Owen  
Principal Financial Analyst Arthur  
Executive Secretary Posvar

Others Present: Todd Cristiano, Senior Manager, Raftelis  
Lutfi Kharuf, Associate, Best Best & Krieger

ADOPT AGENDA FOR THE WORKSHOP MEETING OF DECEMBER 9, 2019

19-12-01 MOTION WAS MADE by Director Sannella, seconded by Director Hernandez, and carried unanimously, to adopt the agenda for the Workshop Meeting of December 9, 2019.

PUBLIC COMMENT

None.

ITEM(S) FOR DISCUSSION

CONSIDERATION OF WATER RATE ADJUSTMENT

General Manager Pruim stated the purpose of the workshop was to provide the Board with an opportunity to consider potential water rate adjustments. No action would be taken, and no rate changes can be implemented until the District goes through the Proposition 218 (218) process. Staff anticipates placing an item on the December 18 Board agenda for review and approval of the public notice to initiate the 218 process for rate increases.
General Manager Pruim further stated the current budget was based on the assumption that there would be rate increases beginning in the second half of the current fiscal year (January). The District last conducted a 218 process in 2017 which culminated in water rate adjustments over a two-year period; the first adjustment occurred on January 31, 2018 and the second on January 1, 2019. There were no adjustments to the wastewater rate. No additional increases to water or wastewater rates are allowed without going through another 218 process.

General Manager Pruim stated staff would be providing information on the primary cost drivers of the budget, the anticipated revenue requirements for the next five years, and possible rate options and the revenues they would generate as well as impacts on District reserves. A comparison of the District’s rates with other agencies would also be provided. He clarified the Cost of Service Study (COSS) that is currently underway will be utilized for rates effective in 2021.

General discussion took place regarding a one-year rate increase. General Manager Pruim stated the focus of the workshop was to discuss rate adjustments based on the current COSS and rate model which could be implemented for a one-year period to address any revenue shortfalls while the more comprehensive COSS is being conducted.

Staff facilitated a discussion on rates which included the following:

- Budget Process & Calendar
- 2019/20 Water Operating Expense Budget - $44,306,000
- Water Operating Expenses
- Water Reserves – Budgeted
- Days in Cash
- Average Single-Family Residence Bill
- Total Bill Comparison – 22 Agencies
- Total Bill Comparison – 7 Agencies
- Low and High User
- Revenue Requirement, Water Fund
  - No Increase FY 2020, 3.61% Increase 01/01/21
  - No Increase FY 2020, Budgeted Revenues FY 2021
  - 2% Increase FY 2020, Budgeted Revenues FY 2021
- Water Reserves – Budgeted
- Water Reserves – No Increase
- Days in Cash
- Days in Cash – No Increase
Principal Financial Analyst Arthur presented data regarding the impacts of the proposed rate increases, based on the current budget, on an average single-family residence bill with a 5/8-inch meter using 13 units of water. Approximately 70.2% of the District's single-family residence customers use 13 units or less of water per month. A 3.5% rate increase in water and ready-to-serve charges with no increase in sewer would result in an increase of $3.14 (2.4%) for the average customer bill. A 3.5% rate increase would increase a low user bill $2.02 (2.1%) (six units of water per month) and a high user bill $10.93 (3.1%) (42 units per month). The maximum bill increase for any class of customer would be 3.5% (single family, irrigation, commercial).

General Manager Pruim presented data on the cumulative effects over a five-year period of not increasing water rates in 2020 but increasing rates as projected for the subsequent four years which would result in a shortfall in reserves of almost $8 million. Other options presented were no increase in 2020 with an accelerated increase of 7.35% in 2021, or a 2% increase in 2020 with a 5.17% increase in 2021.

General discussion took place during which General Manager Pruim distributed samples of 218 notices from other agencies.

Todd Cristiano of Raftelis, who is assisting the District with the COSS for 2020, provided a presentation on the Water Cost of Service Rate Study as follows:

- FY20 Revenue Requirement Increase
- FY20 Cost of Service Review
- FY20 Cost of Service and Proposed Rates
- Comparison of Current FY19 and FY20 Readiness to Serve Charges
- FY20 Commodity Structure Retains Existing Thresholds
- Comparison of Current FY19 and Proposed FY20 Commodity Rates
- Water Monthly Bill Comparison
- Next Steps

Finance Manager Owen stated the 218 notice will be presented to the Board for approval at the December 18 Board meeting. The approved notice will be mailed on February 19, 2020. Adopted rates will be effective March 1, 2020.

General discussion took place regarding the sample 218 notices from other agencies that were provided to the Board and suggestions for revisions to the District’s notice. Mr. Lutfi Kharuf of Best Best & Krieger stated that legally the notice must contain information which explains why the rates are increasing, on what basis, and how they are calculated.

General Manager Pruim suggested adding a revised 218 notice incorporating the Board’s input to the Special Board meeting agenda on December 11, 2019. Final approval of the notice would take place at the December 18 Board meeting.
General discussion took place regarding the term of the 218 notice, one or multiple years, and the COSS for 2020. Consensus of the Board was to proceed with a one-year rate increase.

OTHER BUSINESS

None.

ADJOURNMENT

There being no further business to discuss, President Martin adjourned the Workshop Meeting of the Board of Directors at the hour of 2:38 p.m.

A Special Meeting of the Vallecitos Water District Board of Directors has been scheduled for Wednesday, December 11, 2019, at 5:00 p.m. at the District office, 201 Vallecitos de Oro, San Marcos, California.

Hal J. Martin, President
Board of Directors
Vallecitos Water District

ATTEST:

Glenn Pruim, Secretary
Board of Directors
Vallecitos Water District