

MINUTES OF A MEETING OF THE  
FINANCE/INVESTMENT COMMITTEE  
OF THE VALLECITOS WATER DISTRICT  
MONDAY, APRIL 27, 2020 AT 4:00 P.M.  
AT THE DISTRICT OFFICE, 201 VALLECITOS DE ORO,  
SAN MARCOS, CALIFORNIA

Director Martin called the meeting to order at the hour of 4:00 p.m. The meeting was held via teleconference.

Present: Director Sannella  
Director Martin  
General Manager Pruim  
District Engineer Gumpel  
Finance Manager Owen  
Operations & Maintenance Manager Pedrazzi  
Capital Facilities Senior Engineer Morgan  
Principal Financial Analyst Arthur  
Administrative Secretary Johnson

ITEM(S) FOR DISCUSSION

BUDGET UPDATE

General Manager Pruim stated the Committee reviewed preliminary data on materials, supplies, and the Capital Improvement Program (CIP) projects at previous Committee meetings. The focus of this meeting was impacts to reserves in the Fiscal Year (FY) 2020-21 budget and five-year forecast.

Finance Manager Owen discussed the progress of the budget process to date. A preliminary draft budget has been developed incorporating operating and capital budget requests in addition to a preliminary long-range plan with reserve projections.

Finance Manager Owen presented data on the draft water operating budget including operating revenues, expenses, and transfers to replacement reserves. The projected operating expenses for FY 2020-21 total \$12.5 million, including salary and benefits.

Principal Financial Analyst Arthur presented information on water projections by meter size. Water sales are projected to be 5.7 million units of water in FY 2020-21 which equates to \$28.6 million in commodity revenue. Water purchases are projected to be \$30.8 million. He noted that the ratio of the percentage of water sales and revenue is not a one-to-one relationship. If water sales decrease by 5%, revenue does not decrease that same amount. He demonstrated several "what if" demand scenarios to illustrate how changes in commodity and purchased water can affect the net bottom line which determines how much is transferred to reserves. Finance Manager Owen stated the transfers to reserves for FY 2020-21 are projected to be \$756,000 for water.

Finance Manager Owen reviewed the draft sewer operating budget. Total operating expenses are projected to be \$13.2 million. Projected sewer service revenue is projected to be \$18.1 million based on an estimated .3% increase in demand with no change in rates. \$7.8 million will be transferred to reserves to pay for capital replacement assets.

Finance Manager Owen discussed preliminary CIP cost projections for the next five years, reminding the Committee that the Board will be considering the one-year budget for FY 2020-21 for approval. CIP costs are high in FY 2023-24 and FY 2024-25, \$35.9 million and \$41.1 million respectively. It will be important to prioritize projects and determine the District's ability to complete those projects. Some projects may have to be moved to outlying years. Finance Manager Owen reviewed water and sewer reserve projections with and without debt and days in cash.

General discussion took place regarding debt. Finance Manager Owen stated that issuance of debt will be necessary to pay for capacity projects if there is demand from new development. He further clarified that debt does not affect water or sewer rates as it is paid for by development, including interest on the debt, and that no debt is planned for replacement projects.

Finance Manager Owen discussed COVID-19's impact on revenue and how that could be incorporated into the draft budget. Options include postponing CIP projects and delaying the PERS unfunded accrued liability payment of \$4 million scheduled for this year and \$4 million next year.

General Manager Pruim discussed a report commissioned by the American Water Works Association (AWWA) on what the financial impacts of COVID-19 might be on water and wastewater agencies such as reduced water sales, decreased or delayed property taxes, the elimination of late fee collections, and unpaid customer bills. The AWWA report looked at numbers nationally to develop a methodology which staff will use to determine the District's COVID-19 related lost revenue.

General discussion took place regarding cost cutting measures that could be taken. Director Sannella requested staff provide available District data and scenarios to the Board at a workshop meeting.

Finance Manager Owen stated a Board workshop is tentatively scheduled on May 4 for review of the draft budget and discussion of Board requested items. Another Board workshop will be scheduled on May 20 for review of the proposed budget, and the recommended budget will be presented for approval at the June 3 Board meeting.

### COSS UPDATE

Finance Manager Owen presented a tentative Cost of Service Study (COSS) timeline for the FY 2021-22 budget. The purpose of the COSS is not to increase rates but to have Raftelis assist staff in developing a rate structure and model to set future rates. The COSS is tentatively set to begin in July 2020.

During general discussion, Director Sannella asked if the Board will be involved in the COSS. Finance Manager Owen stated Raftelis will address the Board before July to discuss ideas, feasible options, and the Board's requests. General Manager Pruiim clarified that a COSS is not about raising rates, but is performed to ensure revenue needed for operations is apportioned fairly.

Director Sannella requested staff provide the Committee information on any cost savings the District has realized during the COVID-19 situation such as reduced travel or fuel.

#### OTHER BUSINESS

None.

#### PUBLIC COMMENT

None.

#### ADJOURNMENT

There being no further business to discuss, the meeting was adjourned at the hour of 4:51 p.m.