CALL TO ORDER – PRESIDENT MARTIN

PLEDGE OF ALLEGIANCE

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 SPECIAL MEETING OF JUNE 10, 2014

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.

ACTION ITEMS

1.1 DISTRICT PHONE SYSTEM REPLACEMENT (pp. 3)

The District’s current Toshiba phone system is approximately 20 years old and is at the end of its life cycle as components of the system are obsolete or unsupported.

Recommendation: Approve replacement

1.2 WATER OFFSET AGREEMENT WITH ORANGE GROVE ENERGY, LP (pp. 4-10)

Orange Grove Energy, L.P. owns/operates a power generating station near Fallbrook and inquired on any opportunities to enter into a funding/long term agreement for any proposed or future water reclamation projects.

Recommendation: Enter into Agreement
1.3 RESERVE POLICY REVISIONS AND RESOLUTION (pp. 11-21)

Annual review and recommendations.

Recommendation: Adopt Resolution

1.4 PROPOSED FISCAL YEAR 2014/2015 BUDGET

Proposed budget presented for review and discussion.

Recommendation: Request Board direction

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

OTHER BUSINESS

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

2.1 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. 261 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., Thursday, June 5, 2014.

Diane Posvar
BACKGROUND:
The District’s current Toshiba phone system is approximately 20 years old, is at the end of its life cycle as components of the system are obsolete or unsupported, and the last major upgrade of the current system took place approximately nine years ago. The current system is not capable of providing features like video and web conferencing, metric tracking, messaging and mobile applications, and does not provide our customers with features or customer service options such as automatic call back, call queue or other automated features.

DISCUSSION:
A team was formed including members from the Information Technology, Customer Service and Finance Departments to research different phone systems. After researching different phone systems, the team released the Request for Proposal (RFP) for an Avaya or ShoreTel Voice Over IP (VoIP) Telephone System.

An open RFP was released February 25, 2014, and proposals were due on March 20, 2014. The District received one Avaya system proposal and five ShoreTel system proposals. These vendors were invited to the District to demonstrate their system and do a “walk-through” to verify system needs and review District operations, particularly in the Customer Service Department. After reviewing the proposals submitted and the onsite review, the ShoreTel system software and hardware was determined to best meet the needs of the District. The five ShoreTel vendors provided quotes as follows:

Teldata                      $180,551.62
PacketFusion                $149,983.53
Black Box                   $117,419.71
BTS                         $  90,127.63
Windstream                  $  88,910.79

As noted, the quotes ranged from $88,910.79 to $180,551.62. Of the submittals made, Windstream provided the lowest cost proposal and the most favorable presentation and project scope of the ShoreTel phone system and installation. Reference checks on Windstream were made and excellent responses and feedback was provided by all contacted. The team met with Windstream and was able to reduce their initial quote amount to $88,653.

FISCAL IMPACT:
The fiscal year 2013/14 budget included $100,000 for the system installation.

RECOMMENDATION:
Staff recommends awarding the contract to Windstream for the new District ShoreTel phone system in the amount of $88,653.
DATE: JUNE 10, 2014
TO: BOARD OF DIRECTORS
SUBJECT: WATER OFFSET AGREEMENT WITH ORANGE GROVE ENERGY, LP

BACKGROUND:
Orange Grove Energy, L.P. (OGE) owns and operates a power generating station located near the Fallbrook area of North San Diego County. OGE approached the District in early 2014 to determine if there were any opportunities to enter into a funding/long term agreement for any proposed or future water reclamation projects that would increase the available reclaimed water for the District. The purpose would be to provide an off-set to potable water that the power generation facility would use for cooling.

DISCUSSION:
The upgrades to Lift Station No. 1, Pump Improvements, Work Order No. 2013-100533, were in design but had not moved forward to construction yet. The project would include the replacement and installation of a larger pump and motor, piping upgrades and an upgrade to the station electrical system for the larger motor. These upgrades would result in the ability of the District to increase water reclamation by an additional 150 acre foot (AF) per year. The project is being funded through Proposition 84 Funds as well as capacity fees.

This was presented to OGE as a project that would increase water reclamation within the District. The proposed contract would contribute additional funds of approximately $150,000, or $1,500 per acre foot of water purchased, towards the project and offset capital funds that the District would have to commit.

The contract allows for a long term commitment of 100 acre foot of water to the project through 2035 and precludes the District from obtaining similar funding or committing the increased water yield in a similar fashion.

FISCAL IMPACT:
Provides up to $150,000 towards the costs of the improvements, reducing District capital costs and expenditures.

Recommendation:
Staff recommends the District enter into the Water Offset Agreement with Orange Grove Energy, LP.
WATER OFFSET AGREEMENT

THIS WATER OFFSET AGREEMENT (this "Agreement"), dated as of June 10, 2014 (the "Effective Date"), is made and entered into by and between ORANGE GROVE ENERGY, L.P., a Delaware limited partnership ("OGE"), and Vallecitos Water District, a County Water District organized and operating pursuant to California Water Code sections 30000 et seq. (the "District") (collectively, the "Parties" and individually, a "Party").

RECITALS

A. The District is considering an improvement project (the "Project") related to its Sewer Lift Station No. 1 ("LS1") which currently pumps raw sewage from the sanitary sewer system to the Meadowlark Reclamation Facility ("MRF"). Raw sewage is treated at MRF to produce recycled water primarily utilized in landscape irrigation. The Project is anticipated to include the installation of a new 150 horsepower, 2000 gallons per minute sewer pump that shall increase the capacity of LS1 by approximately 0.5 millions of gallons per day. The implementation of the Project shall result in an increase in MRF's annual recycled water production by 150 acre feet per year.

B. OGE, the owner of a natural gas fired electric generating plant located in Pala, California (the "Plant"), recently submitted an application with the California Energy Commission's ("CEC") seeking approval to amend OGE's Application for Certification (CEC Docket Number: 08-AFC-04) (the "Certification Amendment") and is committed to diligently pursue CEC approval of this Certification Amendment.

C. OGE has determined that the implementation of the Project will offset the Plant's increased demand for [groundwater] as contemplated by the Certification Amendment, and is willing to provide financial assistance to the District in connection therewith.

NOW, THEREFORE, for good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the Parties hereby agree as follows:

AGREEMENT

Section 1. Financial Assistance. Subject to the Early Termination of this Agreement, OGE hereby agrees to pay to the District the sum of One Thousand Five Hundred Dollars per Acre Foot, for a total of One Hundred Fifty Thousand Dollars ($150,000) (the "Financial Assistance") in accordance with Section 2 hereof, as consideration for the District's undertakings pursuant to the terms of this Agreement. The District shall use the Financial Assistance solely as permitted by this Agreement. Any portion of the Financial Assistance which is not used to complete the Project or which is used in violation of this Agreement shall be promptly returned by the District to OGE.

Section 2. Deposit and Disbursement of the Financial Assistance. No later than five (5) business days following OGE's receipt of CEC approval of the Certification Amendment ("CEC Approval"), OGE shall deposit the Financial Assistance into the following account maintained by the District: Lift Station No. 1 Pump Improvements, Work Order No. 2013-100533.
The District shall maintain the Financial Assistance in an account segregated on its books to be used as a restricted fund solely for the benefit of completing the Project.

Section 3.  District Covenants. The District hereby agrees for the benefit of OGE that:

(a)  It shall accept and utilize the Financial Assistance in full solely for the purpose of completing the Project, including, but not limited to, the purchase of equipment which is required for the Project and the procurement of services which are necessary for the completion of the Project.  Notwithstanding the preceding sentence, the District shall have the unilateral right to spend the Financial Assistance so as to accomplish the purpose of completing the Project within the District's sole judgment.

(b)  In completing the Project, it shall, and shall require its contractors, if any, to at all times comply with all applicable laws, rules, regulations, codes, ordinances, and orders of every kind whatsoever issued, adopted, or enacted by any federal, state, or local governmental body having jurisdiction over the Project.

(c)  It shall complete the Project no later than December, 2014.

(d)  Upon completion of the Project, it shall utilize the Project to cause MRF to produce no less than 100 acre feet per year of recycled water for a continuous period ending at 12:00 a.m. on June 16, 2035.

(e)  Upon written request of OGE, it shall provide an acknowledgement that the District would have been highly unlikely to complete the Project by December, 2014, without the Financial Assistance provided by OGE and that the District would have required to utilize additional funding sources which would have further delayed the completion of the Project.

Section 4.  Term. The term of this Agreement shall commence on the Effective Date and shall expire either (i) upon OGE's failure to secure CEC Approval by December 31, 2014 (the "Early Termination"), or (ii) at 12:00 a.m. Pacific time on June 16, 2035 (the "Termination").

Section 5.  District Responsibilities. The District shall maintain accurate and complete accounting records of the expenditures made and costs incurred in connection with the Project. Such records shall be maintained in accordance with recognized commercial accounting practices. In addition, upon completion of the Project, the District shall maintain complete and accurate records of the increase in recycled water production by MRF which results from completion of the Project. OGE may review such records at the District's offices upon reasonable notice during normal business hours. The District shall retain all of such records for a period of not less than [two (2)] calendar years after the Termination of this Agreement. Upon the written request of OGE, the District shall provide a copy of such records to OGE, together with any supporting material reasonably requested by OGE.

Section 6.  OGE's Representations and Warranties. OGE hereby represents and warrants, as of the Effective Date:

(a)  OGE is a Delaware limited partnership duly organized and existing in the State of Delaware, and has the requisite right, power and authority to execute, deliver and perform the
terms and conditions of this Agreement, and to consummate the transactions contemplated in this Agreement.

(b) OGE has taken all action necessary to authorize the execution, delivery and performance of the terms and conditions of this Agreement.

(c) The individual executing this Agreement has been duly authorized to do so.

(d) The performance by OGE of OGE's obligations and responsibilities under this Agreement will not violate or constitute a default under the terms and provisions of OGE's partnership agreement or any material agreement, document or instrument to which OGE is a party or by which OGE is bound or affected.

(e) No further consent of any person or entity is required in connection with the execution and delivery of, or performance by OGE of its obligations under this Agreement.

Section 7. District's Representations and Warranties. The District hereby represents and warrants, as of the Effective Date:

(a) The District is a public agency organized and operating pursuant to the California County Water District Act (Water Code Section 30000 et seq.), and has the requisite right, power and authority to execute, deliver and perform the terms and conditions of this Agreement and to consummate the transactions contemplated in this Agreement.

(b) The District has taken all action necessary to authorize the execution, delivery and performance of the terms and conditions of this Agreement.

(c) The individual executing this Agreement has been duly authorized to do so.

(d) The performance by the District of District's obligations and responsibilities under this Agreement will not violate or constitute a default under the terms and provisions of the District's bylaws or any material agreement, document or instrument to which the District is a party or by which OGE is bound or affected.

(e) All proceedings required to be taken by or on behalf of the District to authorize the District to execute, deliver and perform the terms and conditions of this Agreement have been duly and properly taken.

(f) No further consent of any person or entity is required in connection with the execution and delivery of, or performance by the District of its obligations under this Agreement.

(g) The Project would be highly unlikely to proceed at the currently proposed time frame without the Financial Assistance provided by OGE and the District would need to utilize additional funding sources not currently contemplated which would further delay the completion of the Project.

Section 8. Confidentiality. The District agrees that neither it, nor its officers, employees, representatives, agents, or successors, will disclose information with respect to the transaction
contemplated by this Agreement to any third party or use the same in any manner without the prior written consent of OGE. Notwithstanding the foregoing sentence, this Agreement shall be subject to the District's legal obligations in response to any valid request under lawful subpoena, request for records under the applicable statutes (FOIA/CPRA), or other similar provisions of law. Neither the placement of the Agreement on an upcoming agenda for the District Board of Directors, nor providing a copy of this agreement in the Board Agenda packet, nor the deliberation, discussion and action to approve this Agreement by the Board of Directors of the District shall constitute a breach of this Section.

Section 9. Indemnification. The District agrees to indemnify and hold OGE, its officers, employees, representatives, agents, successors and assigns (collectively, the "OGE Indemnities"), harmless from and against any and all losses, liabilities, claims, causes of action or proceedings in any court or administrative forum, judgments, penalties, costs and expenses of whatever nature or kind (including reasonable attorney's fees), in law or equity (collectively, the "Indemnity Claims"), incurred or suffered by the OGE Indemnities, or any of them, including Indemnity Claims arising by reason of any personal injury (including, without limitation, disease or death) of any person or property loss, loss of use, or damage, to the extent the same arise out of or in connection with the District's use of the Financial Assistance received by the District hereunder or otherwise in the performance of this Agreement.

Section 10. Notices. Any notice required or permitted to be given under this Agreement shall be deemed to be delivered (a) when received or delivery is refused by the addressee if delivered by courier service or overnight service, or (b) if sent by facsimile, when transmission is received by the addressee with electronic or telephonic confirmation, in each such case addressed or sent by facsimile to the addresses or facsimile numbers set forth herein below as follows:

if to the District:

Vallecitos Water District
201 Vallecitos de Oro
San Marcos, CA 92069-1456
Attention: Dennis O. Lamb, General Manager
Fax: (760) 744 - 3507

if to OGE:

Orange Grove Energy, L.P.
1900 E. Golf Rd. Suite 1030
Schaumburg, IL 60173
Attention: Christopher Bluse
Fax: (847) 908-2888

With a copy to:

Baker & McKenzie LLP
300 East Randolph Street, Suite 5000
Chicago, Illinois 60601
Section 11. Modification. This Agreement may not be altered in whole or in part except by a modification, in writing, executed by all the Parties to this Agreement.

Section 12. Time of the Essence. Time and each of the terms and conditions of this Agreement are hereby expressly made of the essence.

Section 13. No Partnership of Joint Venture. OGE and the District shall not be partners or joint venturers with each other and nothing in this Agreement shall create or be deemed to create any partnership or joint venture between OGE and the District. No employee, agent, supplier or client of either Party shall be considered to be an employee, agent or supplier of the other Party. Each Party shall be solely responsible for complying with whatever laws, regulations or other legal obligations may be applicable to its activities.

Section 14. Assignment. The District shall not be entitled to assign any right, title, interest or obligation under this Agreement to any person without the prior written consent of OGE. Nothing in this Agreement shall obligate OGE to give such consent. Any purported assignment without OGE's prior written consent shall be void.

Section 15. Governing Law. This Agreement shall be governed by the laws of the State of California, without reference to its choice of law provisions. By execution and delivery of this Agreement, each of OGE and the District hereby irrevocably and unconditionally accepts and submits itself to the exclusive jurisdiction of the state and federal courts in the County of San Diego, State of California.

Section 16. Prior Agreements. This Agreement supersedes any and all oral or written agreements between the Parties which are prior in time to this Agreement. Neither OGE nor the District shall be bound by any prior understanding, agreement, promise, representation or stipulation, express or implied, not specified herein.

Section 17. Further Assurance. OGE and the District agree to execute all documents and instruments reasonably required in order to consummate the transactions contemplated in this Agreement.

Section 18. No Waiver. The failure of either Party to enforce any term, covenant, or condition of this Agreement shall not be construed as a waiver of that Party's right to enforce this, or any other, term, covenant, or condition of this Agreement at any later date or as a waiver of any term, covenant, or condition of this Agreement.

Section 19. Construction of Agreement. The language in all parts of this Agreement shall be in all cases construed simply according to its fair meaning and not strictly for or against either of the Parties. The language of this Agreement and all documents and instruments referred to in this Agreement have been prepared, examined, negotiated and revised by each Party and its legal counsel, and no implication shall be drawn and no provision shall be construed against any Party by virtue of the purported identity of the drafter of this Agreement.
Section 20. Severability. If any portion of this Agreement is held to be unenforceable by a court of competent jurisdiction, the remainder of this Agreement shall remain in full force and effect. In the event any such provision of this Agreement is so held unenforceable, the Parties shall promptly renegotiate in good faith new provisions to restore this Agreement as near as possible to its original intent and effect.

Section 21. Binding Effect. This Agreement shall inure to the benefit of and be binding upon the Parties and their respective purchasers, successors, heirs, and assigns.

Section 22. Counterparts. This Agreement and any amendments may be executed in multiple counterparts, each of which shall be deemed an original and all of which together shall constitute one agreement. An executed version of this Agreement and any amendments which has been transmitted by facsimile or portable document format shall be deemed to be an original.

WITNESS WHEREOF, OGE and the District have caused this Agreement to be executed by their duly authorized representatives identified below.

ORANGE GROVE ENERGY, L.P.

By: __________________________
Name: __________________________
Title: __________________________

VALLECITOS WATER DISTRICT

By: __________________________
Name: Dennis O. Lamb
Title: General Manager
DATE: JUNE 10, 2014
TO: BOARD OF DIRECTORS
SUBJECT: RESERVE POLICY REVISIONS

BACKGROUND:
Each year staff revisits certain District policies and makes recommendations to the Board for changes when necessary. Our current reserve policy sets floors (minimums) and ceilings (maximums) for replacement reserves. The floor is equal to three years of estimated system replacements. The ceiling is equal to ten years of estimated system replacements. Amounts over the ceiling become rate stabilization funds.

Staff estimates annual system replacement assuming system additions (pump stations, lift stations, treatment plant and equipment, mains, appurtenances, etc.) are replaced evenly from their 40th year through their 70th and final year. Inflation factors are applied to historical costs to estimate current replacement cost.

Example: In 1976, the cost of assets added to the District’s water system was $296,066. A common measure of inflation is the Engineering News Record’s Construction Cost Index (CCI). CCI rose 406.081% from 1976 to 2014. The $296,066 in water infrastructure costs back in 1976 would by $1,202,267 (296,066 x 406.081%) today. The reserve policy assumes no replacements from 1976 assets until 2016 – the 40th year. Then replacement will occur evenly over the next 36 years – until the 70th year ($1,202,267 ÷ 31 years = $38,783 in replacement costs per year). See excerpt from the 2014/15 Draft Budget below.

DISCUSSION:
The water replacement reserve is calculated separately from the sewer replacement reserve. No distinction is made to the estimated useful life of water assets compared to sewer assets. However, sewer assets have a shorter life than water assets because sewage is more aggressive than potable water.
The graphs below summarize an analysis prepared by staff regarding the adequacy of annual replacement cost estimates.

Historically, staff has slightly underestimated water replacement costs and significantly underestimated sewer replacement costs. The draft budget reflects the change in estimated lives for sewer assets from 70 years to 50 years (replacement between the 35th and 50th years), but only an 8-year ceiling assuming a phase-in to the current 10-year ceiling. Staff also surveyed neighboring districts and reserve policy guidelines of the Association of California Water Agencies (ACWA) and the California Special District Association (CSDA). Reserve policy provisions vary and are unique to many agencies. The graph below summarizes total reserve balances compared to budget amounts from neighboring agencies. Dollar amounts are in millions.
The proposed policy changes were discussed at the Board Workshop on May 19, 2014.

The following graphs show the ceilings, floors and projected balances based on the current draft budget and the policy changes previously discussed. Water reserves are projected to significantly exceed the ceiling because very little system replacement is anticipated, there is no debt in the fund, and water rates for usage in the higher tiers (usage above 110% of the average) are increasing proportionately higher than the base tier. No changes are proposed to Water Reserves. Sewer Reserves reflect the proposed changes.
A red-lined and a clean reserve policy resolution with the proposed changes is included for the Board’s consideration.

**FISCAL IMPACT:**
Changing the estimated life of the sewer system assets from 70 to 50 years will not have an impact on the total balance of funds. Funds that may have been in sewer rate stabilization would be shifted to sewer replacement reserves. The current budget does not project sewer rate stabilization funds until 2016. With the change in estimated useful life, the sewer replacement reserve floor is increased by $2.2 million. The sewer replacement reserve ceiling is increased by $6.6 million.

**RECOMMENDATION:**
Adopt the revised reserve policy resolution.
WHEREAS, the Board of Directors of the Vallecitos Water District (District) recognizes a need to reserve funds for unanticipated, unforeseeable or planned working capital deficiencies, and

WHEREAS, the Board of Directors recognizes a need to reserve funds for unanticipated, unforeseeable, and planned repair or replacement of water and wastewater system equipment and infrastructure, and

WHEREAS, the Board of Directors recognizes that the District’s ability to issue bonds for working capital and the repair or replacement of water and wastewater system equipment and infrastructure is limited, and

WHEREAS, the Board of Directors desires to avoid the cost of debt issuance and ongoing interest expense, and

WHEREAS, the Board of Directors feels that it is more prudent to collect funds for unanticipated, unforeseeable, and planned repair or replacement of water and wastewater system equipment and infrastructure from current customers benefiting from the District’s services and use of the district’s systems, and

WHEREAS, the Statement of Reserve Policy of the Vallecitos Water District is as follows:

Section 1: – Operating Reserves

The District shall maintain two operating reserves in cash equivalents and short-term investments: One for the District’s water operations, and the other for the District’s wastewater operations.

The reserve balances shall be limited to one-hundred eighty days of budgeted operating expenses, calculated by dividing total budgeted operating expenses less water purchases by three hundred and sixty-five and multiplying by one-hundred eighty. The reserve balance limits shall be determined during the budget process, before the beginning of the respective fiscal year.

Anticipated operating reserve deficiencies will be funded first by transfers from rate stabilization funds, if available, next from replacement reserves, if available, and next by budgeted surplus which may result from increased rates.

Amounts anticipated to exceed operating reserve limits shall be transferred to OPEB and replacement reserve funds to the extent of those fund limits.
accumulated in excess of OPEB, operating, and replacement reserve limits shall be transferred to a rate stabilization fund.

Section 2: – OPEB Reserve

The District shall maintain a reserve level necessary to eliminate the required recorded obligation to fund Other Post-Employment Benefits, in accordance with Governmental Accounting Standards Board pronouncements, in cash equivalents and investments. Anticipated OPEB reserve deficiencies will be funded first by transfers from rate stabilization funds, if available, next from replacement reserves, if available, and next by budgeted surplus which may result from increased rates.

Section 3: – Replacement Reserves

The District shall maintain two replacement reserves in cash equivalents and investments: One for the District’s water system, and the other for the District’s wastewater system.

The reserve balances for the Water Replacement Reserve shall be greater than the sum of the next three years of projected system replacement costs, but less than the next ten years of system replacement costs. The balance for the Wastewater Replacement Reserve shall be greater than the sum of the next three years of projected system replacement costs, but less than the next eight years of system replacement costs.

Replacement costs shall be projected using the following assumptions:

- Replacement costs equal net additions to infrastructure and system assets increased according to the published Construction Cost Indices from the year of acquisition to the most current monthly index.
- Water System replacement occurs starting on year forty through year seventy of the life of the additions at an amount equal to 3.228226% of the replacement cost for each year.
- Wastewater System replacement occurs starting on year thirty-five through year fifty of the life of the additions at an amount equal to 6.25% of the replacement cost for each.

Costs of additions shall be recorded from footnotes of audited financial statements.

Replacement reserves shall equal all funds available for debt service, asset acquisition and residual for draws for unusual occurrences such as drought management, excluding funds restricted under the Mitigation Fee Act, and less OPEB and operating reserves.

Anticipated replacement reserve deficiencies will be funded first by transfers from rate stabilization funds, if available, and next by budgeted surplus which may result from increased rates.
Amounts anticipated to exceed replacement reserve limits shall be transferred to operating and OPEB reserve funds to the extent of fund limits. Amounts accumulated in excess of the operating, OPEB, and replacement reserve limits shall be transferred to a rate stabilization fund.

Section 4: - Rate Stabilization Funds

The District shall maintain two rate stabilization funds in cash equivalents and short-term investments: One for the District’s water operations, and the other for the District’s wastewater operations. Amounts accumulated in replacement reserves in excess of replacement reserve limits will be transferred to the respective rate stabilization fund. Rate stabilization funds will be used to restore reserves to their limits in subsequent years while holding rates for commodity and recovery of fixed costs steady. If, after restoring reserve funds, the rate stabilization fund balance continues to increase, rates will be lowered to the extent deemed necessary by management, and subject to Board approval and public hearing, to curtail increasing trends in the rate stabilization funds.

Water replacement reserves will be maintained at the limits established and water rate stabilization funds will increase in anticipation of the wholesale water cost increases from contracted desalinated water deliveries. After desalinated water deliveries commence, the District will use water rate stabilization funds to mitigate pricing impacts to its customers from the wholesale cost of desalinated water.

NOW, THEREFORE, BE IT RESOLVED by the Board of Directors of the Vallecitos Water District as follows:

The Statement of Reserve Policy is hereby approved and the District Treasurer is directed to follow this Statement of Reserve Policy in managing available funds and investments of the District.

PASSED, APPROVED AND ADOPTED by the Board of Directors of the Vallecitos Water District at a regular meeting held on the 6th-4th day of November June, 20132014, by the following roll call vote:

AYES:
NOES:
ABSTAIN:
ABSENT:

____________________________
James Hernandez
President
Vallecitos Water District
ATTEST:

_____________________________
Dennis O. Lamb, Secretary
Board of Directors
Vallecitos Water District
RESOLUTION NO.

RESOLUTION OF THE BOARD OF DIRECTORS OF THE VALLECITOS WATER DISTRICT APPROVING THE STATEMENT OF RESERVE POLICY AND RESCINDING RESOLUTION 1433

WHEREAS, the Board of Directors of the Vallecitos Water District (District) recognizes a need to reserve funds for unanticipated, unforeseeable or planned working capital deficiencies, and

WHEREAS, the Board of Directors recognizes a need to reserve funds for unanticipated, unforeseeable, and planned repair or replacement of water and wastewater system equipment and infrastructure, and

WHEREAS, the Board of Directors recognizes that the District’s ability to issue bonds for working capital and the repair or replacement of water and wastewater system equipment and infrastructure is limited, and

WHEREAS, the Board of Directors desires to avoid the cost of debt issuance and ongoing interest expense, and

WHEREAS, the Board of Directors feels that it is more prudent to collect funds for unanticipated, unforeseeable, and planned repair or replacement of water and wastewater system equipment and infrastructure from current customers benefiting from the District’s services and use of the district’s systems, and

WHEREAS, the Statement of Reserve Policy of the Vallecitos Water District is as follows:

Section 1: – Operating Reserves

The District shall maintain two operating reserves in cash equivalents and short-term investments: One for the District’s water operations, and the other for the District’s wastewater operations.

The reserve balances shall be limited to one-hundred eighty days of budgeted operating expenses, calculated by dividing total budgeted operating expenses less water purchases by three hundred and sixty-five and multiplying by one-hundred eighty. The reserve balance limits shall be determined during the budget process, before the beginning of the respective fiscal year.

Anticipated operating reserve deficiencies will be funded first by transfers from rate stabilization funds, if available, next from replacement reserves, if available, and next by budgeted surplus which may result from increased rates.

Amounts anticipated to exceed operating reserve limits shall be transferred to OPEB and replacement reserve funds to the extent of those fund limits. Amounts
accumulated in excess of OPEB, operating, and replacement reserve limits shall be transferred to a rate stabilization fund.

Section 2: – OPEB Reserve

The District shall maintain a reserve level necessary to eliminate the required recorded obligation to fund Other Post-Employment Benefits, in accordance with Governmental Accounting Standards Board pronouncements, in cash equivalents and investments. Anticipated OPEB reserve deficiencies will be funded first by transfers from rate stabilization funds, if available, next from replacement reserves, if available, and next by budgeted surplus which may result from increased rates.

Section 3: – Replacement Reserves

The District shall maintain two replacement reserves in cash equivalents and investments: One for the District’s water system, and the other for the District’s wastewater system.

The balance for the Water Replacement Reserve shall be greater than the sum of the next three years of projected system replacement costs, but less than the next ten years of system replacement costs. The balance for the Wastewater Replacement Reserve shall be greater than the sum of the next three years of projected system replacement costs, but less than the next eight years of system replacement costs.

Replacement costs shall be projected using the following assumptions:

- Replacement costs equal net additions to infrastructure and system assets increased according to the published Construction Cost Indices from the year of acquisition to the most current monthly index.
- Water System replacement occurs starting on year forty through year seventy of the life of the additions at an amount equal to 3.226% of the replacement cost for each year.
- Wastewater System replacement occurs starting on year thirty-five through year fifty of the life of the additions at an amount equal to 6.25% of the replacement cost for each.

Costs of additions shall be recorded from footnotes of audited financial statements.

Replacement reserves shall equal all funds available for debt service, asset acquisition and residual for draws for unusual occurrences such as drought management, excluding funds restricted under the Mitigation Fee Act, and less OPEB and operating reserves.

Anticipated replacement reserve deficiencies will be funded first by transfers from rate stabilization funds, if available, and next by budgeted surplus which may result from increased rates.

Amounts anticipated to exceed replacement reserve limits shall be transferred to operating and OPEB reserve funds to the extent of fund limits. Amounts accumulated in
excess of the operating, OPEB, and replacement reserve limits shall be transferred to a rate stabilization fund.

Section 4: - Rate Stabilization Funds

The District shall maintain two rate stabilization funds in cash equivalents and short-term investments: One for the District’s water operations, and the other for the District’s wastewater operations. Amounts accumulated in replacement reserves in excess of replacement reserve limits will be transferred to the respective rate stabilization fund. Rate stabilization funds will be used to restore reserves to their limits in subsequent years while holding rates for commodity and recovery of fixed costs steady. If, after restoring reserve funds, the rate stabilization fund balance continues to increase, rates will be lowered to the extent deemed necessary by management, and subject to Board approval and public hearing, to curtail increasing trends in the rate stabilization funds.

Water replacement reserves will be maintained at the limits established and water rate stabilization funds will increase in anticipation of the wholesale water cost increases from contracted desalinated water deliveries. After desalinated water deliveries commence, the District will use water rate stabilization funds to mitigate pricing impacts to its customers from the wholesale cost of desalinated water.

NOW, THEREFORE, BE IT RESOLVED by the Board of Directors of the Vallecitos Water District as follows:

The Statement of Reserve Policy is hereby approved and the District Treasurer is directed to follow this Statement of Reserve Policy in managing available funds and investments of the District.

PASSED, APPROVED AND ADOPTED by the Board of Directors of the Vallecitos Water District at a regular meeting held on the 10th day of June, 2014, by the following roll call vote:

AYES:
NOES:
ABSTAIN:
ABSENT:

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

ATTEST:

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