

MINUTES OF THE
FINANCE/INVESTMENT COMMITTEE
OF THE VALLECITOS WATER DISTRICT
THURSDAY, FEBRUARY 27, 2009 @ 12:00 P.M.
AT THE DISTRICT OFFICE, 201 VALLECITOS DE ORO,
SAN MARCOS, CALIFORNIA

The meeting was called to order at the hour of 12:00 p.m. by Director Gentry.

Present: Director Gentry
 Director Shell
 General Manager Rucker
 Deputy General Manager Lamb
 Director of Finance Scaglione
 Engineering Supervisor Brandstrom
 Executive Secretary Lewis

REQUEST FOR ANNEXATION OF CERTAIN PROPERTY DESIGNATED AS THE
“T.E.R.I., INC. ANNEXATION” APN: 182-260-10 INTO THE SEWER IMPROVEMENT
DISTRICT

General Manager Rucker reported that the property owner, T.E.R.I., Inc., has submitted a letter requesting annexation of their property. The request is for annexation into the Vallecitos Water and Sewer District (VWD) for water and sewer service. The property is approximately 19.83 acres, located at 555 Deer Springs Road, east of Twin Oaks Valley Road, south of Deer Springs Road, and west of the SR15 freeway. The property is within Vista Irrigation District (VID) and would require detachment from VID and annexation into VWD. The property is within the 1028 pressure zone and existing VWD water and sewer facilities are located adjacent to the property in Twin Oaks Valley Road and Deer Springs Road. Sewer facilities are also located on the south side of the property within a VWD easement. The property is also within the “Boot” area of the District. The “Boot” area will ultimately be served by VWD for water and sewer service. Although the Boot properties are outside of the District boundaries, it is in an area recommended by LAFCO to be served by VWD. Both VID and VWD staff concurred that annexation to VWD is consistent with the overall objective of the District to ultimately serve the “Boot” area. The request for annexation requires LAFCO approval. The owner is aware that water service from VID would be terminated and new water service from VWD will be required including payment of water capital facility fees.

General Manager Rucker stated that subsequent to the request for annexation, a letter, dated January 30, 2009, was received from the C.E.O./Founder, Cheryl Kilmer, requesting waiver of annexation fees. General Manager Rucker responded with a letter referencing the District’s Annexation Policy and the Board of Directors historical past practice of upholding annexation fees.

The Finance/Investment Committee discussed this item with regard to the annexation fees. After discussion, the Committee decided to uphold the District’s Annexation Policy and forward this item to the Engineering/Equipment Committee in March for Committee review in compliance with annexation goals for water and sewer service but not regarding the fees and charges which lies with the Finance Committee, and then to the full Board for consideration.

Staff recommended approval of the request for annexation with the following conditions:

1. Payment of sewer annexation fee of \$6,809.00 per acre (19.83) = \$135,022.47.
2. Payment of water annexation fee of \$5,010.00 per acre (19.83) = \$99,348.30.
3. Payment of State Board of Equalization fee of \$800.00.
4. Payment of San Diego LAFCO Processing Fee call LAFCO @ 619-531-5400.
5. Payment of Detachment Fee from VID call VID at 760-597-3100.
6. Submit a copy of title report with metes and bounds legal description of the property to be annexed including track maps and traverse calculations, if applicable.
7. No construction or connection to District water and sewer facilities will be allowed until completion of annexation, payment of all annexation fees, water and wastewater capital facility fees, completion of water and sewer facilities required for the project, and payment of all current fees and charges.
8. Completion of annexation within one year of initial Board approval.
9. It is the owner's responsibility to make arrangements with VID regarding termination of VID service upon completion of the reorganization.

The Finance/Investment Committee recommended that the request for a waiver of annexation fees of certain property designated as the T.E.R.I., Inc., be denied and forwarded to the Engineering/Equipment Committee for review of annexation goals and recommendation to the Board.

REVENUE AND EXPENSE REPORTS FOR THE SEVEN MONTHS ENDED JANUARY 31, 2009

Director of Finance Scaglione reported on the Water and Sewer Revenue and Expense reports for the seven months ended January 31, 2009. The favorable variance in water net income is from the net variance in water sales and water costs. The unfavorable G&A variance is offset by a favorable G&A variance for sewer operations.

Director of Finance Scaglione noted on the sewer side, the unfavorable variance in net operating income is mainly due to unanticipated chemical costs at Meadowlark. Director of Finance Scaglione also reviewed the appropriated fund balance activity, reporting that the total balance of funds in the replacement and capacity funds exceed the minimum required reserves.

This item was presented for informational purposes only.

REVISED 2009 INVESTMENT POLICY

Director of Finance Scaglione proposed changes to the 2008 Investment Policy to include FDIC-backed corporate notes as a permissible investment, as well as California Asset Management Program, a pooled investment fund, to allow for diversity of the liquidity in the portfolio. Adding state and local agency bonds to permissible investments was also proposed to further diversity, along with other minor technical changes.

Staff proposed that the Finance/Investment Committee recommend that the Board of Directors review and consider adoption of the revised annual Investment Policy Resolution.

The Finance/Investment Committee recommended that the revised annual Investment Policy Resolution be submitted to the Board for consideration and approval.

REVISED DROUGHT RATE PRICING STRUCTURES

Director of Finance Scaglione facilitated a PowerPoint presentation on drought rate structures. The District's current 3-tiered rate structure is based on average use by customer type (residential, commercial, irrigation, and agricultural). Institutional customers (governments, schools, and churches) are not subjected to tiers. At the October 27, 2008 Board Workshop, staff presented a 6-tiered drought rate structure by customer-type intending to progress towards more equitable meter-size based structures and ultimately, individual allotments, as resources become available. Staff compared the impacts of the water costs to customers to other agencies that adopted or proposed drought rates subsequent to the October 27, 2008 workshop. Staff presented a revised drought rate structure with reduced rates on the more punitive tiers to be more in line with drought rate structures of other agencies, and assumed higher non-price induced conservation. Staff also presented an alternative structure by meter size to recognize customers who pay for additional capacity, pay higher monthly ready-to-serve charges, and have higher than average demands as determined by the District. The revised structure by category and the alternative meter size based structure eliminate Level 4 drought rates to avoid undue scrutiny. The drought rate structures subject institutional customers to tiers. Staff presented example water bills for commercial and institutional customers at the current rate structure and the two drought rate structures.

The Finance/Investment Committee will meet on March 5, 2009, to discuss in greater detail the drought rate structures, next steps which include preparation of the 218 Notice to customers, the budget and community outreach efforts.

This item was presented for informational purposes only.

UPDATE ON BOND RATING

Director of Finance Scaglione reported that Standard and Poor's is considering information submitted by the District for surveillance of the District's current AA- rating. Staff is anticipating either maintaining the current rating or receiving an upgrade. Staff will pursue an upgrade of Fitch's AA rating pending the results of S&P's surveillance.

This item was presented for informational purposes only.

There being no further business to discuss, the meeting was adjourned at the hour of 1:40 p.m. to Thursday, March 5, 2009 beginning at Noon for the purpose of continuing discussion regarding revised drought rate pricing structures.