

MINUTES OF THE
FINANCE/INVESTMENT COMMITTEE
OF THE VALLECITOS WATER DISTRICT
TUESDAY, APRIL 7, 2009 @ 5:00 P.M.
AT THE DISTRICT OFFICE, 201 VALLECITOS DE ORO,
SAN MARCOS, CALIFORNIA

The meeting was called to order at the hour of 5:02 p.m. by Director Gentry.

Present: Director Gentry
Director Shell
General Manager Rucker
Director of Finance Scaglione
Administrative Secretary Posvar

RATES

Director of Finance Scaglione reviewed the modifications to the draft Notice of Public Hearing on Proposed Change in Water and Wastewater Service Charges and Establishment of Drought Rates. He stated that staff continues to make progress on more accurate budget numbers as information becomes available. Staff will budget for the regular rate structure as this will provide the nexus for setting the base rate. Changes in the rate structure for January, 2010, will include a significant acceleration to the tiers. Drought rate revenues net of penalties will provide for the flexibility in the conservation budget. Staff looked at revenue projections assuming continued drought and conservation versus average rainfall and no conservation and budgeted the more conservative average rainfall scenario. Staff has considered only price induced conservation to reduce anticipated demand.

Director of Finance Scaglione discussed projected revenues. Staff has assumed 96 meters for FY 09/10 and 120 meters for FY 10/11 for growth estimates. Revised rates in the draft Notice cover operating costs. Assumptions hit the BMP 11 target in FY 09/10 and exceed the BMP 11 target in FY 10/11. In order to maintain the target, in FY 10/11, a 31% increase to the retail ready-to-serve (RTS) would be required. The positive trend in fixed revenue vs. fixed costs for FY 09/10 will remain the same in FY10/11. The 12.9% increase to retail RTS in FY 10/11 is to avoid negative trending.

Director Shell provided in writing suggested verbiage changes to the draft Notice of Public Hearing which staff will review and incorporate accordingly.

Director of Finance discussed revenue and reserve projections. Preliminary budget estimates project \$1.3 million in water net operating income and \$2.1 million in sewer net operating income (total of \$3.4 million) for FY 09/10. In FY 10/11, the water net operating income is projected at \$2.7 million and \$2.4 million in sewer net operating income (total of \$5.1 million).

Reserve projections look ahead to June, 2010, after budget. The minimum total reserve requirement is \$17.2 million. The assumption for water EDU's in FY 09/10 is 80 and increases to 176 for FY 10/11, with the assumption being 190 thereafter. The assumption for sewer EDU's in FY 09/10 is 92 and increases to 184 for FY 10/11, with the assumption being 223 thereafter. Staff's goal is not to use O&M rates to offset the \$11.7 million deficiency in the June 30, 2010 balance estimate; the goal is to set aside

and defer. The goal for FY 11/12 is to meet the debt ratio requirement without capital fees or property taxes. Staff still needs to refine assumptions for how much usage is in which tier and reduce demands for price elasticity in the latter half of FY 10/11. Changes may reduce the FY 10/11 revenue projection.

Staff requested the Committee recommend submitting the Draft Notice of Public Hearing to the Board for consideration and approval to duplicate and mail.

The Finance/Investment Committee recommended submitting the Draft Notice of Public Hearing to the Board for consideration and approval to duplicate and mail .

OTHER BUSINESS

Director of Finance Scaglione presented and discussed the Revenue and Expense Reports for the nine months ended March 31, 2009. He stated that other than net operating income still being a little over budget on the water activity, there is not much change. On the water report, staff will be changing the category for the general and administrative line item. The new FIS system associates payroll taxes, benefits, and vacation time specifically to departments and not to general and administrative, therefore, the reports will show some inconsistencies. Sewer collection and conveyance is slightly higher because of the change in the new FIS and the sewer operating income is a little less than anticipated. [Director of Finance Scaglione reviewed the Appropriated Fund Balance report noting](#) that the ending balance is \$3.5 million in excess of the minimum requirement reserve level.

Director of Finance Scaglione discussed the Investment Report for March, 2009. He stated that some funds have been withdrawn from the State of California's Local Agency Investment Fund and placed in the San Diego County Investment Pool. The weighted average yield is down to 2.118% from 2.620% three months ago. FDIC-backed corporate notes with Bank of America and Morgan Stanley have been purchased. The weighted average maturity is up. Investments are well above the minimum liquidity levels. On April 2, 2009, the AGFI's S&P rating was lowered to B, non-investment grade. Fitch and Moody's still maintain investment grade ratings for the AGFI commercial paper. Staff intends to hold the paper until it matures on June 5, 2009.

This item was for information only. No action was necessary.

There being no further business to discuss, the meeting was adjourned at the hour of 6:25 p.m.