

AGENDA FOR A WORKSHOP FOR THE BOARD OF DIRECTORS  
OF THE VALLECITOS WATER DISTRICT  
MONDAY, OCTOBER 27, 2008, AT 1:00 P.M.  
AT THE DISTRICT OFFICE  
201 VALLECITOS DE ORO, SAN MARCOS, CALIFORNIA

CALL TO ORDER – PRESIDENT SHELL

PLEDGE OF ALLEGIANCE – GENERAL MANAGER RUCKER

ROLL CALL

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.

1. DROUGHT RATE PRICING
2. 1" OVERSIZED METER FOR DOMESTIC AND FIRE SERVICE

OTHER BUSINESS

\*\*\*\*\*END OF AGENDA\*\*\*\*\*

ADJOURNMENT

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 ours prior to the meeting.

AFFIDAVIT OF POSTING

I, Carol Lewis, 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 1:00 p.m., Friday, October 24, 2008.

  
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Carol Lewis

MINUTES OF A WORKSHOP OF THE BOARD OF DIRECTORS  
OF THE VALLECITOS WATER DISTRICT  
MONDAY, OCTOBER 27, 2008, AT 1:00 PM AT THE DISTRICT OFFICE,  
201 VALLECITOS DE ORO, SAN MARCOS, CALIFORNIA

President Shell called the Board Workshop to order at the hour of 1:03 p.m.

General Manager Rucker led the pledge of allegiance.

Present:                 Director Ferguson  
                              Director Gentry  
                              Director Hannan  
                              Director Poltl  
                              Director Shell

Staff Present: General Manager Rucker  
                              Assistant General Manager Mason  
                              Legal Counsel Scott  
                              Director of Engineering/Operations Lamb  
                              Director of Finance Scaglione  
                              Director of Human Resources Caudle  
                              Engineering Manager Gerdes  
                              Manager of Operations and Maintenance Arrant  
                              Executive Secretary Lewis  
                              Administrative Secretary Posvar

ORAL COMMUNICATIONS

None.

DROUGHT RATE PRICING

General Manager Rucker stated that the San Diego County Water Authority (SDCWA) has developed a mathematical matrix that staff has implemented into part of our analysis which was presented to the Finance/Investment Committee on October 14. The Finance/Investment Committee suggested that the analysis be presented to the entire Board.

Director of Finance Scaglione stated that over the last two months the SDCWA hosted some meetings and varied presentations from four or five different consultants and conservation staff from various areas. The common theme from the presentations heard was two different rate structures: 1) tiered rate structure and, 2) budget rate structure (Irvine Ranch Water District sample). The presentation will focus on these two structures as well as VWD's water supply allocation under the present methodology proposed by Metropolitan Water District (MWD), the drought rate structure as presented to the Finance Committee, assumptions and considerations, and what other agencies are doing.

Director of Finance Scaglione stated that the District will be faced with an allotment in which the District will need to incentivize its customers. This can be accomplished by 1) non-price inducements – consists of enhances public awareness/outreach; low-flow fixture and turf replacement incentives; water audits; restrictions on use; and, 2) price inducements – consists of the need to be revenue neutral; tiered water rate structures; budget-based structures. There have not been many studies done on non-price inducements so it's hard to pinpoint the results. There have been over one hundred studies done on price inducements so data is available. Director of Finance Scaglione stated that with price inducements, revenue is realized unless there is 100% price elasticity; it has to be revenue neutral and it is subject to Prop. 218. Any revenues that are generated from price induced structure will have plenty of costs to go with it such as extra staffing.

Dr. Tom Chestnutt, who was hired by the SDCWA, developed a tiered rate structure model. Many agencies are embracing this structure in part. Some advantages to the tiered rate structure are that VWD currently uses a tiered structure; there are no costs associated with billing applications; there are no additional resources needed to implement this (additional resources would be needed with the budget rate structure); can minimize the impact to the low-volume users; can be implemented now. The disadvantage is that it is not as equitable as the budget rate structure – it does not individualize customers; it groups customers into categories.

Irvine Ranch Water District (IRWD) presented a good example at the SDCWA on their water budgeting. In the first six months of implementation they developed a rate philosophy – allotments, and tiers for those allotments; conducted a demographic research within their boundaries; determined the allocations; tested the allocations; their staff performed the software programming. Beyond the first six months, they had to gather customer data and evapotranspiration data; changes to their billing system; customer transition period – how do they educate the public about their new plan; political support.

IRWD's residential base allocations consist of four categories: 1) single family residence (4 occupants; 75 gallons per day; 1,300 sf of landscaping), 2) townhouse/condo (3 occupants; 75 gallons per day; 435 sf of landscaping), 3) apartment (2 occupants; 75 gallons per day; no landscaping), 4) variances (pool; additional occupants; medical needs; others). Other allocations consisted of commercial businesses (they have 5,000 sites and all were visited more than once throughout this program) and landscape (real time ET was used and they give a generous allotment for cool season turf).

IRWD's residential rate structure is comprised of five categories: 1) low volume, 2) base, 3) inefficient, 4) excessive, and 5) wasteful. The rates for these categories are \$0.91, \$1.07, \$2.14, \$4.28, and \$8.56, respectively.

Since IRWD's adoption of the program in 1991, the average water use dropped for 3.5 AF/acre to 1.9; the irrigated area doubled but the water increased only about 3%; the rate structure funded: high penalty outreach, water audits, education/workshops in-house, and financial incentives (recycled water development, toilets, clothes washers, smart timers, rotary nozzles, weather-based controllers, irrigation upgrades, California friendly landscaping, process improvements).

The advantages to the water budget rate structure are: much more equitable; reduce the impact to those who conserve; is minimally subjective. Some of the disadvantages are: the resources needed to set up and maintain this program – staffing increase required; requires intensive and extensive ongoing data collection; requires sophisticated billing software; time to implement the program; customer adversity (some customers feel an invasion of privacy); the Prop. 218 challenge (fee may not exceed cost of service attributable to parcel).

VWD's water supply allotment (based on averaged AF sales for 2004, 2005, 2006), as adjusted for growth, would be 8,384,244 units. MWD allows only for the average county-wide growth factor, which is much less than the actual growth of VWD's demand. For a 10% reduction in VWD's allotted demand, the District would have to require rate payers to conserve 15.5% due to fact the District experienced more growth than the county as a whole. The projected demand for calendar year 2009 is 8,671,000.

VWD's current rate structure is a three-tiered structure with the following categories: residential, irrigation, agricultural, commercial, construction. The Tier 1 upper-bound is 16, which is based on 90% of average use within the categories. Tier 2 captures 90% of the use for the entire category. The rate comparisons for 2006, 2007, and 2008 were provided, as well as the adopted rates for 2009.

The potential drought tier structure consists of the following categories: residential - single family; residential - multi-unit; irrigation; commercial; and institutional. This structure consists of five tiers based on an analysis of demand from January 2006 through December 0f 2007. Tier 1 = lowest average month; Tier 2 = 90% of average month; Tier 3 = 110% of average month; Tier 4 = captures 90% of use in category; Tier 5 = captures 95% of use in category. The potential drought rates were presented based on the 2009 adopted rate and at specific cut-back levels (10% - 50%). Also presented was the potential fiscal impact to different users at different levels.

The significant assumptions are based on: established allotment using MWD methodology; 80% non-price conservation compliance; price elasticity = 20% for summer months and 12% for non-summer months; water sales before conservation = growth adjusted 06/07 sales.

Considerations consist of: flattening the rate acceleration within a structure to flatten the impact; price elasticity is short-term; changes to assumptions (non-price compliance, price elasticity); timeline for Prop. 218 hearing; appropriations for revenue neutrality (additional public awareness and education, incentive programs, audits, restriction enforcement, penalties, increased customer service/conservation staffing, uncollectible accounts offset, billing modifications, data collection, consulting, recycled water conversion studies).

The adopted drought rates by Olivenhain Municipal Water District and Otay Water District were presented for a comparison as to what other agencies are doing. In addition to this information, Director of Finance Scaglione stated that Rincon del Diablo Municipal Water District has formed an advisory committee group of seven and has had two meetings already; Vista Irrigation District is considering a conservation-based tiered structure and looking to avoid individual budget allocations; Helix Water District is considering a price-based rate structure and including commercial, multi-family, and government classes in a new tiered rate structure – looking long-term at water budgeting; Padre Dam is considering combining water budgeting concept with conservation rates by assigning EDU baseline water usage allocation in five water consumption tiers – shift burden of conservation to higher tiers; Valley Center Municipal Water District is carefully and patiently watching to see what everyone else does.

General discussion followed the presentation. Suggestions were made to name the tiers (frugal, efficient, inefficient, etc), meet with institutions within the District boundaries, keep frugal users as close to current rate as possible, incentivize low volume users, and flatten conservation compliance rate.

Staff will develop additional calculations and return to the Finance/Investment Committee for their consideration.

#### 1" OVERSIZED METER FOR DOMESTIC AND FIRE SERVICE

General Manager Rucker presented the draft Ordinance modifying Ordinance No. 102 and adding a monthly Capacity Fee Surcharge for 1" oversized combined residential fire services.

Legal Counsel Scott stated that the Ordinance is restricted to a very small group of property owners and within this small group, there are probably five who go over the 30 unit usage maximum. The District has a recorded Water Service Agreement (WSA) with the property owners and subject to Ordinance No. 102 are provided water service by a 1" oversized meter. They are charged a ready to serve charge that is equivalent to a 5/8" meter as long as they are under 30 units per month. The proposed draft Ordinance provides property owners the option of paying a Capacity Fee Surcharge of \$1.50 per unit for all units in excess of 30 units per month in lieu of the lump sum payment of additional capital facility fees identified in the WSA.

General discussion took place. Written comments provided by community member Mr. Ray Bender prior to the workshop were incorporated into the discussion.

Following general discussion, the Board directed staff to present the draft Ordinance to the Board at the November 5 Board meeting for consideration.

#### OTHER BUSINESS

Director Gentry personally thanked General Manager Rucker and his staff who assisted the Savannah Homeowners Association with a line break a couple of days ago. He stated that the first staff responder, Brian Spencer, spent a great deal of time with the Association. Director Gentry publicly thanked and commended Brian Spencer for his good customer service, his responsiveness, and great assistance to the Association.

Director Ferguson stated that the water leak on Daisy Lane is still occurring.

There being no further business to discuss, President Shell adjourned the Workshop of the Board of Directors at the hour of 3:05 p.m.



Timothy M. Shell, President  
Board of Directors  
Vallecitos Water District

ATTEST:



William W. Rucker, Secretary  
Board of Directors  
Vallecitos Water District