

MINUTES
BOARD OF DIRECTORS
SUNNYSLOPE COUNTY WATER DISTRICT
Special Meeting
August 6, 2013

- A. CALL TO ORDER:** The meeting was called to order at 5:15 p.m. by President Meraz, at the Sunnyslope County Water District office, 3570 Airline Highway, Hollister, California.
- B. ROLL CALL: Present:** President Dave Meraz; Directors Dave Clapham, Kathleen Hill, John M. Johnson, and Danny Villalon.
- C. PLEDGE OF ALLEGIANCE:** Director Villalon led Directors, staff, and public in the Pledge of Allegiance.
- D. APPROVAL OF AGENDA:** Upon motion made by Director Hill, seconded by Director Clapham, and carried 5-0, the agenda was approved as presented.
- E. PUBLIC COMMENTS AND AUDIENCE INTRODUCTIONS:** The Board welcomed members of the public and opened the meeting to public comments regarding matters not itemized on the agenda; there were no comments from the public.

Staff present for Open Session: General Manager/Secretary Don Ridenhour; Attorney David Laredo; Executive Assistant/Stenographer Carol Porteur; District Engineer Ken Girouard; and Water Superintendent Jim Filice.

Others present: Harry Blohm, Program Manager for the Hollister Urban Area Water Project; Sanjay Gaur, Senior Manager for Raftelis Financial Consultants, Inc.; customers of the District; and members of the public.

F. NEW BUSINESS:

1. RECEIVE PRESENTATION AND UPDATE OF THE HOLLISTER URBAN AREA WATER PROJECT BY PROGRAM MANAGER HARRY BLOHM:

Project Manager Harry Blohm gave a presentation on the Hollister Urban Area Water Project (HUAWP) regarding the benefits of the project and why it is necessary. Mr. Blohm explained that it is essential for the entire Hollister Urban Area to have better quality drinking water, the ability to treat and reuse our wastewater now and in the future, to have a reliable water supply, and to have an affordable project that meets State Regulations.

Mr. Blohm explained that Phase 1 of the project will cost \$30 million, of which Sunnyslope County Water District and the City of Hollister will be responsible for \$15 million each. He stated that the project will maximize use of currently available water supply, and will include: Lessalt Water Treatment Plant (WTP) upgrades; dedicated pipeline to high zone; the new West Hills WTP in the near future; pipelines to serve central Hollister; and the environmental mitigation.

The HUAWP is a plan to meet regulatory requirements imposed by the State Regional Water Quality Control Board that regulates the District's wastewater discharges, and the Disinfection Byproducts (DBP) rule imposed by the California Department of Public Health. The Lessalt WTP process must be upgraded to meet a new DBP rule by the end of 2013. Mr. Blohm explained that the DBP are a result of chlorine combining with organic compounds found in the water and the organic compounds must be filtered from

the water prior to the chlorination process. The wastewater discharge requirements mandate a reduction in salinity in wastewater effluent to protect the groundwater basin, and these requirements must be met to avoid fines. Mr. Blohm stated that a “do-nothing” approach will likely lead to a more expensive solution as the State will still require the work be done and would also impose fines and penalties.

Mr. Blohm explained that the HUAWP will provide direct benefits for the residents, such as receiving higher quality water with less salt, reduce the need for water softeners, and eliminate the need for customers to purchase expensive bottled drinking water. Mr. Blohm stated that the higher quality water will extend the life of appliances as well. Avoiding potential future fines is essential, as Mr. Blohm stated, the City of San Juan Bautista was fined \$116,000 for exceeding salinity limits in its wastewater discharge.

The HUAWP will provide long-term benefits such as higher quality water; supply reliability; local control; meeting DBP and Waste Discharge Requirements on our terms; and protects our groundwater basin.

As a recap, Mr. Blohm explained that the program is essential to protect our resources, provide good quality and reliable water, save us from paying costly fines, and supports the viable future and economy of San Benito County.

General Manager/Secretary Ridenhour explained that the District had considered treating the groundwater but found the cost to be approximately three times the cost, as opposed to using surface water. Mr. Ridenhour stated that the District was cautious with the estimates in the water rate study, estimating customer growth at 0.8 %, and factoring in environmental mitigation costs. The District is pursuing grants which could total approximately \$3.5 M and we should know if we will be awarded these grants by the end of the year. In addition, new developers will pay their share of cost for the upgrades through connection fees and the District will review revenue and finances over the next 5 or 6 years. If grant money is received and District growth brings in connection fees raising the District’s capital available, rate increases could possibly be reduced in the future.

Mr. Ridenhour explained that planning for the wastewater treatment project began a decade ago to meet State requirements, and in 2006 the Board discussed the option of joining the City of Hollister with their new wastewater treatment plant. In 2007, the District completed a rate study based on a cost projection to build their own wastewater plant and rates were adopted based on that study. The first phase, which is being completed now, was estimated to be \$6.5M. In 2008, several public meetings were held to compare construction costs with connecting to the City’s wastewater system, and the construction costs had already begun to increase. The Board decided to stay independent and build their own wastewater plant. In 2011, the design of the wastewater plant was completed and now the cost estimate had increased to about \$11M. The decision to stay independent or connect to the City’s wastewater plant was revisited, comparing capital costs, and the decision was made to remain independent, with benefits of maintaining local control and retaining the possibility to have recycled water in the future. Mr. Ridenhour stated the project was awarded to Anderson Pacific Engineering for \$9.5M in 2011, which is approximately \$3M more than originally projected, and that increase, coupled with no growth in customers as anticipated in the 2007 adopted wastewater rates, resulted in a revenue short fall, which is why there is a need for rate increases now.

2. PUBLIC HEARINGS – RECEIVE PRESENTATIONS OF THE WATER FUND FINANCIAL PLAN AND PROPOSED WATER RATE INCREASES, AND WASTEWATER FUND FINANCIAL PLAN AND PROPOSED WASTEWATER

**RATE INCREASES BY RAFTELIS FINANCIAL CONSULTANTS, AND
CONSIDER THE FOLLOWING:**

- Consider Approval of Ordinance No. 73 Imposing Rates, Fees, and Charges for Water Service Amending Article III, Section 3.40.150 and Table 3.40.150 of the Sunnyslope County Water District Code,
- Consider Approval of Ordinance No. 74 Imposing Rates, Fees, and Charges for Wastewater Services Amending Section 4.36.060 and Table 4.36.060 of the Sunnyslope County Water District Code, and
- Consider Approval of Ordinance No. 75 Increasing Water and Wastewater Capacity Charges for New and Increased Water and Wastewater Connections Amending Section 3.40.090 and 4.32.160 of the Sunnyslope County Water District Code.

President Meraz opened the Public Hearing at 6:05 p.m. Sanjay Gaur, Senior Manager with Raftelis Financial Consultants, Inc. began his presentation.

Mr. Gaur explained that the goal to developing sound rates is a financial plan that meets the future obligations of the water enterprise; the required coverage ratios, and reserve requirements, which are all key factors. Second, allocating the costs on the water rate components associated with different costs tied to individual tiers; and changing the rate structure can assist in achieving affordability, conservation, and goals and objectives such as revenue stability.

Mr. Gaur stated that the water rate study consists of a Financial Plan, cost of service analysis, and a rate design. Financial planning takes into consideration revenues, growth rate, operation and maintenance (O & M) expenses, capital expenditures, and debt service. One of the drivers for the study is operating costs and the fact that conversion to surface water is substantially more expensive.

A graph of the financial plan revenues was presented using a growth rate of 0.8% and counting on that revenue to be received. Mr. Gaur pointed out that in the projection of the revenues includes revenue from operating Lessalt now, and in the future, West Hills. The plan is for Sunnyslope to operate the plants and San Benito County Water District (SBCWD) will be financing the capital costs.

Mr. Gaur showed a graph of the operating expenses over the next 6 years covering SBCWD capital recovery, current debt, Lessalt & West Hills O&M, and SSCWD O&M including groundwater costs.

Mr. Gaur's graph of the District's capital expenditures shows the expense increase of \$1M in fiscal year (FY) 2014 for the Ridgemark Tank rehabilitation and in fiscal year 2019 for \$1.1M for the Best Road pipeline, and this could not happen without a rate increase. The presentation included a Financial Plan scenario with revenue adjustments & debt coverage; operating financial plan; and CIP & funding sources; reserves chart using the current rates as well as the proposed scenario of an 11.5% increase per year over the next 5 years and then drop down to a 3% increase in the sixth year. The proposed financial plan shows that cash reserves will cover the CIP expenditures.

Mr. Gaur explained that in doing a rate structure, you want to achieve affordability for essential use; promote conservation; and achieve revenue stability. There must be justification of tiered rates, which cannot be arbitrary and capricious. The rationale for the tiered pricing is that tier 1 is for basic indoor water use; that tier 2 includes some outdoor water use; and that tier 3 is for additional, or higher than average, outdoor water

use. The proposed rate study treats 5/8", 3/4", and 1" meters all as a standard meter size at the same rate. The rate study shows the impact for the first year for a single-family residence with the proposed water rate increase to be from \$2 to \$5 per month for 65% of our customers and from \$5 to \$10 per month for 18% of our customers, which is the largest impact of all the customers. Proposed increased water usage rates for FY 2014 to FY 2019 for Tier 1 range from \$1.99 in FY 2014 to \$3.17 in FY 2019. The projected increase in the water bill for FY 2014 for 10 hundred cubic feet (HCF) is \$2.57, reaching the highest peak in FY 2018 at \$6.46 over the prior year and dropping back down to \$1.85 in FY 2019.

Mr. Gaur explained that connection fees are a one-time capital charge assessed against each new residence in a development to contribute toward their share of the costs of capital facilities constructed, and must reflect the link between fees and benefits received by new customers. The System Buy-In method focuses on total value and capacity of existing system; the Marginal Incremental cost method recovers for the growth portion of a capital plan; and the methodology Raftelis used for Sunnyslope, is a combination of the Buy-in and Incremental Methods. The proposed water connection fees will increase by \$4,001 for 5/8" and 3/4" meter sizes, and \$1,817 for a 1" meter, which is the average meter size.

Mr. Gaur's presentation of the wastewater rate study uses the same basic components that the water study uses. The Financial Plan considers revenues, growth rate, O&M expenses, capital expenditures, debt service, and the proposed rates and connection fees to support the plan. He explained the annual debt for the State Revolving Fund Loan for the Ridgemark Wastewater Treatment Plant is projected to be approximately \$760,530 starting in FY 2015. He added that the debt is 52% of revenues from rates and 76% of O&M. The financial plan proposal is to have two 19% increases for FY 2014 and FY 2015. Currently, the District has 17 multi-family residents (MFR) that are classified as "granny units" and the rate study has reclassified these units into the Single Family Residence (SFR) status. For 2014, the proposed consumption charge increases to \$4.74 per hundred cubic feet for SFR customers and the proposed service charge increases to \$80.62 per month. For MFR customers, the proposed consumption charge will increase to \$4.74 per hundred cubic feet and the proposed service charge increases to \$61.33 per month in 2014. Projected increases for the water and wastewater bill were presented for FY 2014 through FY 2019.

At 6:05 p.m. President Meraz opened the meeting up for public comments. Doug Keck spoke in support of the rate increases and explained that he has previously been on the Board for Sunnyslope County Water District and San Benito County Water District and had lived in the City of Hollister for 15 years and was not happy with the water quality. Since he has lived in the Sunnyslope Water District and began receiving water from the Lessalt Water Treatment Plant, which is treated surface water, he now has much better water quality. Mr. Keck stated that groundwater is readily available whereas with surface water depends on the rain water we get and asked how secure the source of surface water was. Mr. Keck commented on the use of salt for water softeners, which pollutes the groundwater. In addition to the treated water being better, his appliances seem to last longer. Mr. Keck stated that he was happy to see that the District had taken a conservative increase for the less fortunate.

Rob Bernosky stated that he runs a water company, Rancho San Joaquin, and protests the increases. He stated that the increase is too much, and he does not feel that he has been given enough information to make a decision. Mr. Bernosky is concerned that even the middle class people will not be able to afford the increases and will have to let their landscaping die as they will not be able to pay for the additional water needed to water their yards. Mr. Bernosky stated that he does not use more capital than a low water user

and that there should not be a tier system for charging for the water. He presented many questions; what alternatives were considered? What the cost benefits were? Has the District asked for regulatory relief including from our State Assembly Member? The possibility of working with other water districts? He suggested the District go through our legislative representative for help with the SRF loan, adjust expenses, and restructure the water District, as he feels the employees are too highly paid. Mr. Bernosky reiterated that customers can not afford the increases and understands that the issue does need to be addressed in the future, but feels that the water is not toxic and the upgrade can be delayed.

Chuck De Vita stated that he has reviewed the plans and financial projections and he is concerned that the inflation projection is high compared to what he is seeing at this time. He asked if the District has considered an alteration of the inflation assumption. Mr. De Vita feels that seeking grants is a good idea and regulatory relief is a reasonable request. He also stated that the financial plan is anticipating a 0.8% growth rate, but has the District considered assuming a negative growth rate due to the possibility of people moving out of the District because they will not be able to afford the increase. Lastly, Mr. De Vita asked, with the terms of improvements being provided, are price increases equivalent across all areas or do they affect the level of improvement in these areas.

Jeff Quattrin thanked the Board for the reasonable and concise information that was given and stated that he was unsure about the work that was done to improve the sewer system; which he feels he is paying for but is not a part of. Mr. Quattrin stated that he moved here in 1999 because he was getting a nice house that was affordable to maintain, with his first bill being \$30 for the month and now during the summer time he pays \$200 a month. He noted that there is a lot of landscaping in the Oak Creek, Quail Hollow, Cielo Vista and Ridgemark areas and people cannot afford to pay the increased rates, so they may let the landscaping die, which will decrease the value of the homes.

Sara Singleton stated that she is a 22 year resident of Ridgemark and a Sunnyslope customer who works at San Benito County Water District. Ms. Singleton stated that it is always difficult to increase rates and everyone needs to look at the alternatives available to the customers. She made three points on the current and future borrowings of the District and what it may mean if the rate increase does not go through. The District has a 2.7% loan with the State Revolving Fund that the District needs to make sure they have sufficient revenue to pay this loan; The District will be in violation of the wastewater discharge requirement and the water Disinfection By-Product requirement and will likely incur fines; and if the decision is delayed it will be more expensive for everyone in the future. Ms. Singleton stated that when the decision was made for Sunnyslope to build their own wastewater treatment plant, it was for the autonomy, being able to speak to the Board and having some control of the matters, because once you are in violation you have the State Water Control Board and other regulatory agencies involved. She feels the right thing to do is to approve the rates, as hard as the increase may seem, because the alternatives may be much worse.

Stephen Rosati stated he is a customer of Sunnyslope Water and is in support of the rate increases. He feels with the rate increases there should be something in writing that states what the benefit will be in the end. Mr. Rosati was happy to see that even though the consultant laid everything out and the proposal was higher, that the District decided to be more conservative. Mr. Rosati pointed out that when the City of Hollister imposed the moratorium, it costs the community a lot of money, and he cannot think of a time when Sunnyslope had to increase their rates due to poor decisions made that would stress the system, which is a big concern of his. Mr. Rosati stated that his feeling on the granny unit is, if the unit has a separate kitchen and bathroom it should be a service on its own.

In support of the increase, he feels the reserves are important part of the financial position of the District, so they would not need to come back for more rate increases.

Jan Robles stated that she is not in favor of the rate increase and stated that she would like to see more tiers in the usage table or increasing the usage for the current tiers. She stated that she has calculated her projected increase and feels she will not be paying an increase of \$5 a month, but \$60 more a month. She doesn't feel that the District has considered the middle class in this projection and states that she cannot afford these rates and is considering moving out of the area.

President Meraz asked if there were any more speakers, and seeing none, announced to the members of the public that if they were turning in a protest, now would be the time as the public hearing will be closed. The public hearing was closed at 6:33 p.m. and a short recess was taken to get a preliminary count of the protests.

President Meraz reopened the meeting at 6:44 p.m. General Manager/Secretary Ridenhour stated that with the preliminary count of the protests, his count is 83 water protests, and 227 sewer protests, and stated that the sewer protests had increased but was still less than one-third of customers. A successful protest requires 50% in order to pass, and was not met. There was discussion and questions from the members of the public regarding the protest count and Mr. Ridenhour explained that there were many sewer rate protests that were from residents outside the District's service area so those protests were not counted. Mr. Ridenhour also pointed out that even if all the protests were combined, including water and wastewater protests, that there was not enough protests to prevent the Board from considering taking action this evening on the water and wastewater rate ordinances.

General Manager/Secretary Ridenhour proceeded to answer the questions posed during the public hearing.

1. How secure is the source of surface water? Mr. Ridenhour explained that the District only uses a small fraction of the surface water that is allocated to the City of Hollister and Sunnyslope County Water District. He stated that the District is subject to cut-backs in the event of a drought, but San Benito County Water District banks the unused water and works with Santa Clara County Water District for storing surface water. Another option always available to the District is looking at purchasing water from other agencies. Mr. Ridenhour added that the first phase of both of the projects would be using 4,700 acre feet of water, which are less than half of the surface water allocation for the County for municipal and industrial customers, and as a backup, we could always go back to using the wells in an emergency situation.
2. What alternatives were considered to this project? Mr. Ridenhour explained that Sunnyslope looked at treating existing groundwater, but with preliminary numbers, they found it was too expensive, and concluded that surface water was the best option for its customers. Removing the salt from wastewater, again, was very expensive, so the agencies decided to soften the water prior to delivery. They collectively decided that surface water was the best option for both goals. Originally, larger treatment plants were sought but the cost came in at well over \$100M, so the Governance committee worked at cutting costs, reduced the size of the plants, and brought the cost down to approximately \$30M.
3. Has the District sought regulatory relief from the State? Mr. Ridenhour stated that he does not know what was done prior to his employment, but stated working

with the State in his previous employment was not effective and they spent a lot of money on attorney fees and still ended up paying penalties with nothing resolved.

4. Have we sought help from our State Representative? Mr. Ridenhour explained that we have not, and with his experience with agencies outside of this community, seeking help from a State Representative, they helped to reduce fines but still had to pay and did not find it to be helpful.
5. Have we looked at restructuring the State Revolving Fund loan? We have not even begun to pay on the loan, and our interest rate is 2.7%, which is a very favorable rate for this type of project, as a normal rate would be in excess of 4% or 5%.
6. Have we considered restructuring the Water District and Salaries? In an ongoing process, the Board and staff continually review salaries and District staffing.
7. Inflation projections are high, and has the consultant considered these economic times? Sanjay Gaur, Senior Manager for Raftelis Financial Consultants, Inc. stated that the O & M components for Sunnyslope assumes a 3.5% increase, and the other major components are the water treatment plant capital costs, and San Benito County Water District treatment of the surface water, so even if you remove the 3.5% increase, assuming there is no inflation, the other costs require an increase in rates. Mr. Ridenhour added that he prefers to be cautious on the projections and does not want to assume a lesser number and end up short.
8. Have we considered a negative growth due to the cost? No, we have been conservative enough in considering customers reducing their water use in the projections.
9. Have we looked at the different costs for all of the areas served? Sunnyslope Water, in partnership with the City of Hollister, built the Lessalt Water Treatment Plant about 10 years ago, which was the first step towards supplying Hollister area customers with surface water. This plant cannot move water to all the areas in the District, so an upgrade to the plant is essential to move water to the high pressure zone. The second surface water plant, West Hills, is necessary to be able to deliver surface water and high quality water to the rest of the community, so the future projects are more equitable to providing water to Sunnyslope District as well as the City of Hollister.
10. Quail Hollow sewer, who pays for what portion? Mr. Ridenhour explained that he has heard the confusion from several people as to who provides sewer service and to what area. He explained that Sunnyslope serves Ridgemark, Quail Hollow, Oak Creek and anything south of Enterprise Road and south of Highway 25, whereas the City of Hollister provides service north of Enterprise Road and north of Highway 25, with a few exceptions. Mr. Ridenhour added that the customers in the Sunnyslope sewer district do not pay for the City of Hollister's sewer plant and vice versa.
11. Could the District consider smoothing rates? Working collectively with the Governance Committee, the City of Hollister, Sunnyslope Water, and San Benito County Water, it was discussed to start out with lower rates but due to the financial situation, that was not possible. There is a slight possibility that if we

have more growth than proposed and we receive grant money that we are applying for; the rates could come down a couple of percent in the later years.

12. Has there been rate increases due to poor decisions or emergencies? This District is aggressive in taking care of its assets and facilities. Although there have been breaks and other issues, they have not been catastrophic because of the ongoing maintenance and care of the facilities. Because Sunnyslope does not have access to other sources of revenue, like general fund money, we need to make sure we have adequate funds for maintenance and repairs.

13. Should granny units be combined? There are approximately 17 units in the District which are treated as granny units but the majority of them are just an extension of the regular household and are functioning as a single family residence, so the District thought it was fair to treat them as single family residences.

General Manager/ Secretary Ridenhour asked if there were any questions from the Board, and received none.

Upon motion made by Director Villalon, seconded by Director Clapham, and unanimously carried 5-0, the Board approved Ordinance No. 73 Imposing Rates, Fees, and Charges for Water Service Amending Article III, Section 3.40.150 and Table 3.40.150 of the Sunnyslope County Water Code.

Director Johnson commented that he was not on the Board in 2011 when the Board of Directors approved the new wastewater plant, but he went back and read the minutes from the meeting, and stated that 95% of the Sunnyslope customers were opposed to joining the \$133M project with the City of Hollister.

Upon motion made by Director Johnson, seconded by Director Hill, and unanimously carried 5-0, the Board approved Ordinance No. 74 Imposing Rates, Fees, and Charges for Wastewater Services Amending Section 4.36.060 and Table 4.36.060 of the Sunnyslope County Water District Code.

Upon motion made by Director Villalon, seconded by Director Johnson, and unanimously carried 5-0, the Board approved Ordinance No. 75 Increasing Water and Wastewater Capacity Charges for New and Increased Water and Wastewater Connections Amending Section 3.40.090 and 4.32.160 of the Sunnyslope County Water District Code.

G. ADJOURN: Upon motion made by Director Hill, seconded by Director Clapham, and unanimously carried 5-0, the meeting was adjourned at 7:11 p.m.

APPROVED BY THE BOARD: s/ Dave Meraz
Dave Meraz, President

RESPECTFULLY SUBMITTED: s/ Donald G. Ridenhour
Donald G. Ridenhour, Secretary