

MINUTES
BOARD OF DIRECTORS
SUNNYSLOPE COUNTY WATER DISTRICT
Special Meeting
June 5, 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, Kathy Hill, John Johnson, and Danny Villalon.
- C. PLEDGE OF ALLEGIANCE:** President Meraz 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; Finance & Human Resources Manager Cathy Buck; and Water Superintendent Jim Filice.

Others present: Harry Blohm, Program Manager for the Hollister Urban Area Water Project; Tarasa Bettencourt, President of Ridgemark Homes Association; Diana Cooley, resident of Venture Estates; Jeff Cattaneo, District Manager for San Benito County Water District; and Sanjay Gaur, Senior Manager for Raftelis Financial Consultants, Inc.

F. NEW BUSINESS:

- 1. RECEIVE A PRESENTATION UPDATE OF THE HOLLISTER URBAN AREA WATER PROJECT BY PROGRAM MANAGER HARRY BLOHM:** Program Manager Harry Blohm updated the Board of Directors 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; pipelines to serve central Hollister; and the environmental mitigation. Additional upgrades will be to repaint, and seismically retrofit, the Ridgemark Tanks.

The HUAWP is a plan to meet regulatory requirements imposed by the State for the quality of drinking water, 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. The State will allow a time extension to meet the new regulations as long as construction of the Lessalt WTP upgrade is underway.

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.

The project was selected based on the lowest total costs, including capital, operations and maintenance (O&M), and the cost of water, with each respectively making up one-third of the overall cost. The phased implementation of the plan allows us to match the project to today’s needs. The water treatment plant O&M should be efficient and cost effective with SSCWD providing O&M for both the Lessalt and West Hills Water Treatment Plants. In addition, the West Hills WTP is ideally located to provide gravity supply, which will minimize energy use and pumping costs.

Mr. Blohm stated that \$30 million will be financed by San Benito County Water District, in addition to them contributing \$10 million. The HUAWP has also applied for a maximum grant of \$4.5 million and should find out sometime in October if the grant request is successful.

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 added that the committee is trying to inform the community of the benefits and requirements of the project by giving presentations to various clubs and groups.

2. PUBLIC HEARINGS – RECEIVE PRESENTATIONS BY RAFTELIS FINANCIAL CONSULTANTS ON THE WATER FUND FINANCIAL PLAN AND PROPOSED WATER RATE INCREASES; AND ON THE WASTEWATER FUND FINANCIAL PLAN AND PROPOSED WASEWATER RATE INCREASES – AND AUTHORIZE THE MAILING OF THE WATER RATES PROPOSITION 218 NOTICE SETTING A PUBLIC HEARING ON AUGUST 6, 2013; AND AUTHORIZE THE MAILING OF THE WASTEWATER RATES PROPOSITON 218 NOTICE SETTING A PUBLIC HEARING ON AUGUST 6, 2013: President Meraz opened the Public Hearing at 5:55 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 are 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, a rate design, and connection fees. Financial planning takes into consideration revenues, growth rate, 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. Mr. Gaur’s graph on capital expenditures shows the expense increase for repainting & seismic retrofit to the Fairview Tanks and the possibility of the Best Road pipeline in the future. He explained that the District’s debt will include the CSCDA revenue bond payments with an annual debt of \$333,000, the San Benito County Water

District annual payment of two separate loans of approximately \$1.2 million, and this could not happen without a rate increase. Mr. Gaur's presentation included a Financial Plan scenario with revenue adjustments & debt coverage; CIP & funding sources; and reserves chart with 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.

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 is for some outdoor water use; and that tier 3 is for additional, or higher than average, outdoor water use. The proposed rate study treats a 5/8", 3/4", and 1" meters all as a standard meter size at the same rate. This is due to the new requirement that fire sprinklers be installed in new homes constructed and this requires a 1" meter. The rate study shows the impact for the first year for a single-family residence with the proposed water rate increase to be \$2 to \$5 per month for 65% of our customers and \$5 to \$10 per month for 18% of our customers, which is the largest impact of all the customers.

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 it 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. Mr. Gaur stated that the proposed connection fees are also based on the American Water Works Association standards for determining these fees.

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 Water and Wastewater Treatment Plant is projected to be approximately \$760,520 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. As a result of the reclassification, the fixed charge for SFR has increased by \$0.49 to \$67.74 and the fixed charge for MFR has increased by \$0.38 to \$51.54 at the current rate. For 2014, the proposed consumption charge increases to \$4.47 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. The proposed Connection Fees increase 5% for SFR and MFR inside Ridgemark, and 5% for SFR outside Ridgemark and 4% for MFR outside Ridgemark.

President Meraz opened the meeting up for public comments. Tarasa Bettencourt of Ridgemark Homes Association expressed her disappointment that funding the construction needed for recycled water was not part of the Ridgemark Water and Wastewater Project or included in this rate study. She expressed her believe, through previous meetings, that the golf course would be receiving recycled water. She also stated that she is disappointed that the District is not taking responsibility for the problems with sewer laterals in the Ridgemark streets.

To address Ms. Bettencourt's comments, General Manager/Secretary Ridenhour explained that the last wastewater increase was adopted in March of 2007 with annual

increases through 2011, and the cost estimates that were done in January of 2007 included the cost of the Ridgemark Water & Wastewater Treatment Plant (Phase I), which resulted in approximately \$13.50 per month increase per wastewater customer. In addition, an assumption was made when adopting the prior rate increases that the District would have about a 1% growth rate, which did not happen. The District has actually experienced zero growth in sewer customers since 2007. Mr. Ridenhour addressed Ms. Bettencourt's statement regarding the recycled water by stating that he did some research regarding the project and could not find where the recycled water was to be included in the first phase of the Ridgemark Wastewater Treatment Plant upgrade. He stated that the recycled water project could cost up to an additional \$4 million, and due to the size of the proposed increase, that project was not included. It is a project that may be looked at down the road, but not at this time. Mr. Ridenhour stated that in this current proposed wastewater rate increase there is zero percent growth anticipated because he was not aware of any future projects that were likely to develop in the next few years within the district's sewer service area.

Mr. Ridenhour advised the Board that a developer recently came in to meet with staff regarding a project they have near the start of actual construction that has been in the works for some time. They may now be ready to pay for water service connections for the subdivision. Mr. Ridenhour indicated he would like the new connection fees to be adopted prior to any new developments purchasing connections. Finance & Human Resource Manager Cathy Buck pointed out that once connections fees are paid, the developer has one year to connect for service, or they would be subject to paying the difference to bring their total paid to the new, higher connection fee rate.

Cathy Buck noted that on the proposed sewer connection fees, the difference between proposed Inside Ridgemark and Outside Ridgemark for SFR and MFR should remain at a flat rate of \$1,240, which would be due to Ridgemark Corporation, assuming the old agreement is still valid now that we have updated our wastewater treatment plant and developed our own excess capacity.

There was continued discussion on the recycled water project, as to whether it is still a phase of the project that will be considered in the future.

President Meraz closed the public hearing session at 6:47 p.m.

Upon motion made by Director Villalon, seconded by Director Clapham, and unanimously carried 5-0, the Board authorized the mailing of the Proposition 218 Notice setting a Public Hearing on August 6, 2013 for the Water Fund Financial Plan and Proposed Water Rate increases.

Upon motion made by Director Hill, seconded by Director Johnson, and unanimously carried 5-0, the Board authorized the mailing of the Proposition 218 Notice setting a Public Hearing on August 6, 2013 for the Wastewater Fund Financial Plan and Proposed Wastewater Rate increases.

3. CONSIDER APPROVAL OF RESOLUTION NO. 527 ADOPTING GUIDELINES FOR THE SUBMISSION AND TABULATION OF PROTESTS IN CONNECTION WITH FEE AND CHARGE HEARINGS: General

Manager/Secretary Ridenhour explained that the District will mail notices to customers and property owners in the District to set public hearings on August 6, 2013, at which time the Board shall consider proposed water and wastewater rate increases. The notices are sent in accordance with Proposition 218 and pursuant to Article XIID, Section 6 of the California Constitution, which will allow property owners subject to the proposed fees and charges the opportunity to protest the proposed increase.

Neither Proposition 218 nor Article XIID clearly specify who is allowed to submit protests, how written protests are to be submitted, or how the District is to tabulate the protests. District Counsel, David C. Laredo, recommends the Board consider adoption of a resolution to specify the District's procedures to be used in receiving and tabulation protests related to imposing or increasing the water and wastewater fees that are charged.

Director Hill stated that the resolution was well written and clearly states what is acceptable for the written protests.

Upon motion made by Director Hill, seconded by Director Villalon, and unanimously carried 5-0, the Board approved Resolution No. 527 adopting guidelines for the submission and tabulation of protests in connection with fee and charge hearings conducted pursuant to Proposition 218 and Article XIID, Section 6 of the California Constitution.

4. CONSIDER AUTHORIZATION OF PURCHASING LIABILITY INSURANCE FOR THE HOLLISTER-SUNNYSLOPE WATER TREATMENT AGENCY FROM ALLIED WORLD ASSURANCE CO. FOR \$6,860.00: General

Manager/Secretary Ridenhour explained that the Hollister-Sunnyslope Water Treatment Agency's current business insurance coverage is due to expire on June 10, 2013 and a new policy needs to be in place for another year. Mr. Ridenhour explained that with the proposed Hollister Urban Area Water Project and the possible transfer of assets to San Benito County Water District, it is likely the insurance will only be needed for the next few months. If that is the case, and once the interagency agreements are complete, the remaining unused insurance premium will be refunded to the Hollister-Sunnyslope WTA and funds will be split between Sunnyslope County Water District and the City of Hollister.

Staff has received three quotes including one from our current insurance carrier, American Alternative (Glatfelter). President Meraz stated that the Finance Committee has reviewed the quotes and are in agreement to go with Allied World Assurance Company as they came in with the lowest bid of \$6,860.00 for basically the same coverage as the current carrier.

Upon motion made by Director Hill, seconded by Director Johnson, and unanimously carried 5-0, the Board authorized purchasing liability insurance for the Hollister-Sunnyslope Water Treatment Agency from Allied World Assurance Company for \$6,860.00.

G. ADJOURN: Upon motion made by Director Clapham, seconded by Director Hill, and unanimously carried 5-0, the meeting was adjourned at 6:57 p.m.

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

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