



**BEAUMONT-CHERRY VALLEY WATER DISTRICT
MINUTES OF SPECIAL MEETING
OF THE BOARD OF DIRECTORS
560 Magnolia Avenue, Beaumont, CA 92223
Thursday, October 17, 2019 at 6:00 p.m.**

Call to Order: *President Covington began the meeting at 6:05 p.m.*

Pledge of Allegiance: *Led by Director Hoffman.*

Roll Call:

Directors present:	President Covington Directors Hoffman, Slawson, Williams
Directors absent:	Ramirez.
Staff present:	General Manager Dan Jagers, Director of Finance and Administration Yolanda Rodriguez, Senior Engineer Mark Swanson, Senior Finance and Administrative Analyst William Clayton, Administrative Assistant Erica Gonzales, Engineering Assistant Daniel Baguyo, Customer Service Representative III Sandra Delgadillo, Senior Accountant Sylvia Molina, Accountant III Lorena Lopez.

Members of the public who registered attendance: Bob Wortley, Teri Wortley, Fran Flanders, Dr. Blair Ball. Also attending were Tara Bravo with CV Strategies and Sudhir Pardiwala and Lauren Demin from Raftelis Financial Consultants.

Public Comment:

Ms. Teri Wortley of the Fairway Canyon area drew attention to increases in her water bills over the last three months without change in use and expressed dissatisfaction with BCVWD response. She indicated that at least 40 to 50 others had also experienced bill increases. She requested BCVWD investigate issues in the neighborhood. President Covington responded. Mr. Jagers indicated that staff would investigate.

1. Discussion and Review of Preliminary Water Rater Study Findings and Recommendations presented by Raftelis Financial Consultants and Direction regarding Rate Structure Options

Director Hoffman, Board Treasurer and chair of the Finance and Audit Committee, expressed the goal to have the study done as completely and accurately as possible. He pointed out that this is the first time this Board will have heard information from a rate study. He requested patience with any questions and to allow time for understanding and any requests for extra information. The goal is to make a correct and accurate decision to support the ratepayers for the next five years.

General Manager Jagers explained the last rate study in 2010 and current capital reserves. The rates expired in 2015 and uncertainty due to drought delayed a new rate study. He noted additional challenges for water rates including differences in household use, personnel changes, increased health benefit costs, a safety program, regulatory burdens, imported water supply rate increase, change in Southern California Edison rate structure, and other post-employment benefits.

Mr. Jagers shared a list of 2020-2024 capital replacement projects totaling \$36 million. Staff will continue to look for savings, and there is potential for grant funding, he advised. Director Hoffman asked about the CIP plan related to area growth. Mr. Jagers noted that a facilities fee is collected for infrastructure, and rates fund maintenance. A facilities fee study is also ongoing with Raftelis, he said.

Sudhir Pardiwala, Executive Vice President with Raftelis Financial Consultants, presented a model for determining fair and equitable rates including drought rates. The objective of the study is to ensure collection of adequate revenues to meet operating and capital expenses, Pardiwala said, plus coverage of debt and fiscal reserves in order to run the utility in an efficient manner, and meet cash flow and capital requirements. He described the study process and assumptions.

If the District does nothing, Pardiwala explained, reserves would continue to drop. Even with funding the CIP at 75 percent, by 2020 the District would be in the negative, Pardiwala said, and stressed that the District must take care of its finances right now. He described a minimum and maximum target.

The industry standard average increase in water and wastewater rates is typically 6 percent per year, Pardiwala noted. BCVWD has not increased its rates since 2012. During that time the Consumer Price Index has risen by 15 percent, he said, allowing the District to have fallen significantly behind. The CIP is a significant factor in the level of adjustments being considered, Pardiwala said.

Pardiwala explained components of the rate and suggested increases of 11 percent per year for the first three years, then 9.5 percent for two years. Increases in water and power costs will be passed through separately, he said. Director Hoffman pointed out this is a 51 percent increase over the five years. Missing rate increases for the past seven years means the District is now catching up, Pardiwala noted. He detailed costs and revenue needs.

Director Hoffman asked about additional assumptions in the rate. Pardiwala explained and said that Proposition 218 requires that the rates be representative of the cost to serve and detailed the methodology for identifying costs.

Pardiwala proposed a selection of tiered rates and structures based on the standard of 55 gallons per capita per day for the first tier, BCVWD customer average use in the second tier, and amount over the annual usage in the third tier. There is no suggested change to the current fixed / variable ratio. He estimated the average 5/8-inch meter would see a bi-monthly increase of approximately \$5 (\$2.50 per month) the first year.

The tiers are based on the goal to conserve water, he said, and explained the impacts on customers and design of tiers tied to average usage. He gave an overview of drought rates.

Pardiwala pointed out the District currently uses a two-tier system and suggested the District change to three tiers to promote conservation and impact the large users. There is also a four-tier option.

The next step is to finalize the water rates, Pardiwala continued. He asked for Board direction on the tier structure in order to begin drafting the report and to set a date for the Prop. 218 public hearing.

Director Slawson opined there is a lot of information. General Manager Jagers advised that staff will be trying to address Senate Bill 606 and Assembly Bill 1668 which requires conservation, including landscaping and indoor use restrictions. Moving to more than two tiers will begin to prepare ratepayers for higher costs based on higher usage, he noted. The District may be required to pay a penalty if goals in the legislation are not met, Jagers warned. He reiterated some anticipated costs such as the CIP program, rising employment costs, and maintenance activities. Additional information can be brought to the meeting on Oct. 24, he noted.

Mr. Pardiwala advised that if the CIP were further reduced, the revenue level could be adjusted. Mr. Jagers advised that the CIP was reviewed with field staff and revised for minimum impact.

In response to Director Slawson, Mr. Jagers further detailed the tier structure. Mr. Pardiwala added that there is elasticity associated with higher tier rates, and while conservation is good, too much conservation impacts District revenues. He said he believes the three tier is a good structure.

President Covington pointed to the previous water rate analysis by Wildan in 2010 and asked if the budgeted \$27 million for the CIP identified projects had been collected between 2010-2015. Jagers detailed the costs included in the program and how these funds were planned to be collected. The majority of the funds were to be collected by the issuance of a bond to be repaid over 30 years; \$1.9 million each year was programmed to be collected for the payment of that bond. These funds were collected and have been put into the Capital Replacement Reserve Fund, which is used to fund the depreciation expense. Current depreciation expense is \$2.6 million per year and the previous rates funded it at \$1 million per year, resulting in a deficit of \$1.6 million. The money not spent on projects is still in the bank, Jagers assured.

President Covington said he understands the components of the rate but wants to see the math and how water bills are impacted. He questioned how to explain the need for a 45 percent increase to backfill an eight-year gap when the blame lies with the District for not picking up the ball in 2014 with another rate study.

General Manager Jagers asked for direction on the tier system and so that staff could come back with the rate casting.

President Covington pointed to the numbers for build-out in 2024. The City's projections were used, Jagers said. Mr. Pardiwala indicated more conservative numbers can be included in the model to adjust costs. Growth has been 400 to 500 units per year in this part of the County, but 220 units per year were used in the model to be conservative Jagers explained, and shared some detail on development. Newer homes use approximately 2/3 the amount of water as the old-style houses, Jagers noted.

President Covington said his intent at this meeting was to understand what drives the rates: the components, percentile to be factored in, and what the numbers look like are what the Board must see.

Jaggers showed a graph of BCWVD rates in comparison to neighboring districts indicating BCWVD was lowest in the area, then showed the averages for homes with new rates. He indicated that staff could prepare averages for typical houses.

Covington requested detail on some of the CIP projects and estimated costs, pointing out they are a significant driver of the rates. Mr. Jaggers reviewed components of the Well 9 project as an example. President Covington asked for the information to be provided before the next meeting.

Director Williams asked about implementation of the legislated conservation. Mr. Jaggers explained that the target is 55 gallons per capita per day and explained water budgeting. Director Slawson asked about changing the amount of water usage to get to tier 4 at a later date; but this would trigger a new Prop. 218 process.

Mr. Jaggers also pointed out that if the BCWVD's share of costs for the Sites Reservoir cannot be fully funded through taxes or facilities fees, it may become a component of the rate in the future.

General Manager Jaggers asked for Board direction on the preferred tier system. President Covington said he understands the components but would like to see the math before making a decision. He requested information at the meeting of Oct. 24 on the impacts to the District and to the ratepayers. Mr. Pardiwala added that the rates are designed to collect the revenues necessary regardless of the rate structure. Mr. Jaggers will prepare samples and average costs.

2. Confirm dates for Rate Study Town Hall Meetings

Ms. Rodriguez advised that a second Board workshop is being considered for Nov. 7 and a decision on the tiers must be provided to Mr. Pardiwala so a draft can be produced. Mr. Pardiwala indicated he could provide the information desired by the Oct. 24 meeting. If a decision can be made then on the tier structure, the Nov. 7 meeting will not be needed, he said.

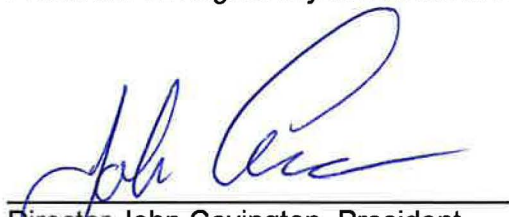
No dates were set for the Town Hall meetings.

3. Action List for Future Meetings:

New rate tier structure and Town Hall meeting dates.


4. Adjournment

President Covington adjourned the meeting at 8:25 p.m.



Director John Covington, President
to the Board of Directors of the
Beaumont-Cherry Valley Water District

ATTEST:



Director Andy Ramirez, Secretary
to the Board of Directors of the
Beaumont-Cherry Valley Water District