

**MINUTES OF THE REGULAR MEETING  
OF THE  
BOARD OF DIRECTORS**

**Thursday, March 14, 2024**

The meeting was called to order at 7:31 p.m.

**1. ROLL CALL:**

Directors Present: Don Amuzie  
Perry Bautista  
Janet Medina  
Julie Richards  
Tom Chambers

Staff Present: Michael Conneran, Attorney  
Wendy Bellinger, Office Supervisor  
Joubin Pakpour, Pakpour Engineer  
Patricia Mairena, General Manager

Visitors Present: Catherine Tseng - L&T Consultants

**2. PLEDGE OF ALLEGIANCE:** Led by Director Amuzie.

**3. CONSENT CALENDAR:**

President Chambers asked the Board if there were any questions or comments with the Consent Calendar; otherwise, he asked if there was a motion to approve.

Director Medina moved to approve the Consent Calendar as written, seconded by Director Bautista.

The motion was carried unanimously.

**4. PUBLIC COMMENT:** None.

**5. BUSINESS (OLD):**

- A. Consideration to Authorize Director/Staff Attendance to the ACWA/JPIA Spring Conference, Sacramento, California, May 7 thru May 9, 2024.**

Two of Nine

Minutes of the Regular Meeting of the Board of Directors

Thursday, March 14, 2024

General Manager Mairena stated that the Board had previously approved Director Medina and President Chambers or General Manager Mairena to attend the conference, but since neither Director Medina, nor she would be able to attend, Director Amuzie had expressed interest in attending the conference.

Director Medina moved to Authorize Director Amuzie's attendance to the ACWA/JPIA Spring Conference, Sacramento, California, May 7 thru May 9, 2024, seconded by Director Bautista.

The motion was carried unanimously.

**6. BUSINESS (NEW):**

**A. Review/Approve June 30, 2023, Audit Report (*presented via Zoom*).**

General Manager Mairena introduced Chris Brown, Principal of C.J. Brown & Company CPAs. General Manager Mairena displayed Mr. Brown's PowerPoint presentation. Mr. Brown thanked the Board for having him and proceeded to make his presentation for the results of the 2023 audit. Mr. Brown stated that there were two documents generated from the audit: the financial audited reports and the Letter to Management. Mr. Brown reported that within the financial statements was the Auditor's opinion which stated that the District received a "clean" opinion and congratulated the District on receiving it.

Mr. Brown told the Board that the Letter to Management was a report that communicated to the Governing Board that the auditors had not encountered any issues within the District's internal control structure and if there had been any, these would have been noted in this report, as well as presented verbally. Mr. Brown indicated that they would also note any accounting practices that they may want to comment on and that this report also contained a list of adjustments, including an adjustment to the pension plan and a prior period adjustment to compensated sick leave, in order to match District's policy. Mr. Brown stated that there were no difficulties encountered during the audit and no noted disagreements with Management.

Mr. Brown displayed a slide of Condensed Statements of Revenues, Expenses, and Changes in Net Position highlights. Mr. Brown pointed out the prior period 2022 is shown as "Restated" due to the sick leave accruals and proceeded to review the report highlights with the Board:

- Total assets increased by \$1,124,092.

Three of Nine  
Minutes of the Regular Meeting of the Board of Directors  
Thursday, March 14, 2024

- Total revenue increased by about \$515,000.
- Total expenses increased by approximately \$948,000.
- Change in net position increased by \$568,932.

The net position at the end of the year was \$10,979,980.

Mr. Brown reviewed a condensed version of the Water and Sewer Enterprise Funds reports and pointed out that the Water Fund kept experiencing operating loss but was mostly flat. Mr. Brown pointed out possible suggestions for future consideration: Splitting the two funds' activities into two separate funds within the accounting system and implementing a Pooled Cash System (different banking accounts), both would require time and commitment from the District.

Mr. Brown gave a brief recap and told the Board they were providing the District an unmodified opinion and he asked the Board if they had any questions.

President Chambers made a comment regarding an email he sent to Jeff Palmer and stated that he really appreciated the clarification on the restatement. President Chambers mentioned that on page 52 of the financial report, the column label should read "As Restated". General Manager Mairena displayed that page of the financial report which already showed labeled "As Restated," and Mr. Brown stated that it was probably added after his email to Jeff.

President Chambers asked if anyone else had any questions or comments.

Director Amuzie asked if it would make a significant difference if the District was to unbundle the two funds' costs. President Chambers explained that it would make a difference when establishing the rates, and it would help to split the general expense costs. Engineer Pakpour mentioned that splitting the funds would also provide transparency to the customers.

Attorney Conneran asked Mr. Brown how easy it would be to split these costs. Mr. Brown replied that some of the costs would be easier than others, and that something like pensions, may be a little harder.

Director Bautista asked Mr. Brown why operating expenses had increased by almost one million dollars. Mr. Brown stated that waste treatment had increased by around \$502,000, water purchases by almost \$198,000, plus pension liabilities, among other general expenses.

President Chambers stated that he would entertain a motion for approval.

Four of Nine  
Minutes of the Regular Meeting of the Board of Directors  
Thursday, March 14, 2024

Director Bautista moved to approve the June 30, 2023, Audit Report, seconded by Director Medina.

The motion was carried unanimously.

President Chambers and the Board thanked Mr. Brown for his presentation.

**B. Consider Preliminary Results from Rate Study and Provide Direction to Rate Study Committee Regarding Rate Proposals and Discuss Allocation of General Expenses Between Water and Sewer Enterprises.**

Engineer Pakpour re-introduced Catherine Tseng, the District's consultant from L&T for the Rate Study. Engineer Pakpour mentioned that the driving force behind the Rate Study was the need for capital expenditures and reinvesting in the District's infrastructure. Engineer Pakpour proceeded to give the Board a refresher on where the District was at with respect to the capital expenditures and the need for capital. General Manager Mairena displayed his presentation and Engineer Pakpour commented on the District needing the capital to replace the pipes due to earthquakes, AWWA-recommended age for AC pipe replacement, etc.

Ms. Tseng told the Board that although she had met twice with President Chambers and Director Bautista, she wanted to make sure she shared the numbers with the rest of the Board. She proceeded to review her slide presentation and gave the Board a background on when the last rate increases took place. Ms. Tseng stated that both the water and sewer systems need significant infrastructure improvements, with a proposed amount of \$2.5M for water and \$1M for sewer per year. She mentioned that the Rate Study will cover a 5-year period with the first increase being effective July 1, 2024.

Ms. Tseng provided an overview of Prop 218 and its procedural requirements for adopting rates. She reviewed why rate increases are necessary: to fund operating and maintenance costs, to fund capital improvements, to eliminate operating deficits, and to retain a positive credit rating to obtain debt financing. Ms. Tseng also reviewed the goals of the Rate Study: to meet the fund reserves target (both the operating fund and the capital fund), to meet the debt service coverage with a ratio of 1.25 or greater, and to maintain a positive net operating revenue.

Ms. Tseng proceeded to present her analysis of the District's financials and its net position. Ms. Tseng presented their proposed reserves for both the water and sewer funds. Ms. Tseng also presented a chart with their projection for the G&A Expenses for the next five years and reviewed a list of G&A Expenses that they are proposing allocating between water

## Five of Nine

Minutes of the Regular Meeting of the Board of Directors  
Thursday, March 14, 2024

and sewer funds starting next year, such as the GM's salary at 2/3 water and 1/3 sewer, and the remaining G&A expenses at 70% water and 30% sewer. Ms. Tseng also proposed to split all Other Revenues (except Rental Income) at 70% water and 30% sewer. Director Chambers inquired if salaries included benefits, Ms. Tseng replied she would need to check on that. Ms. Tseng told the Board that this was just a starting point, and in the future, if the District felt it was not the correct allocation, that split could easily be changed.

Ms. Tseng proceeded to review the Water Fund and its components: the meter charge, a fixed charge for recovering fixed expenses, for example staffing, customer service, system maintenance, and repairs, and the water charge, a variable charge (based on water consumption) for recovering variable expenses, for example water purchases, utilities, and chemicals. Ms. Tseng stated that currently, the fixed charge generates about 31% of total water sales, and they are proposing to change it to 35%; thus, providing more stability to the District. Engineer Pakpour mentioned that the AWWA recommends something like 40 or 45%. Ms. Tseng displayed the District's water usage history for the past five years, and told the Board that going forward, they will be using the lowest year consumption of 320,000 HCF. Ms. Tseng also reviewed the SFPUC's rate history and stated that they are anticipating a 6% increase per year. Engineer Pakpour explained that although the District may adopt a 5-year pass-through policy, the District is still allowed to make rate adjustments upwards if it turns out that the assumptions of the SFPUC rate increases were not correct. Ms. Tseng explained that in that case, the Prop. 218 notices would be that which is used under the wholesale pass-through noticing process, because the other increases would have already been included in the original Prop 218 notices.

Ms. Tseng introduced new charts with the updated Water Fund Income and the Water Operating Expenses. She also presented a chart with the Water Debt Assumptions. Ms. Tseng mentioned that getting a bank loan would be simpler and less costly for the District. She stated that the goal was to have a \$2.5M CIP for each of the next five years, and to have half of it funded via debt service, so they were proposing the District go out for a loan in year 2 or 3, and not the first year, since per her conversation with Engineer Pakpour, it would not be realistic to have projects ready by then. Ms. Tseng displayed charts of Water Revenue Cash Flow Assumptions and Water Expense Cash Flow Assumptions. She also introduced a chart with the Proposed Water Rate Structure Changes, which included a change to the fixed vs. variable revenue recovery from 31% fixed to 35% fixed. Their proposal included using the AWWA-recommended meter capacity ratios and each meter size to determine their fixed rates based on their proportional impact on the system.

Engineer Pakpour provided a thorough explanation on the impact of the larger meters on the system. Director Medina asked who would have the larger meter. Engineer Pakpour

Six of Nine  
Minutes of the Regular Meeting of the Board of Directors  
Thursday, March 14, 2024

replied that a multi-unit development was the one with the largest meter. Director Chambers asked if the District could offer to install a smaller meter in that development. Engineer Pakpour replied that he would not recommend it, but yes, it was their prerogative to request a smaller meter; however, they would have to do flow analysis to make sure the new meter would suffice for fire protection.

Attorney Conneran posed a question regarding justification for having a portion of the fees as fixed charges, either 35% or 40%. Ms. Tseng replied that the majority of the District's fixed costs were more like 90%, but to maintain a balance of affordability, they recommended using 35%. Engineer Pakpour stated that the best way to explain it to customers was that they were paying for the availability of the water in the pipe in front of their home, and being able to use it when they needed it, or having a fire-hydrant ready to be used in the event of a fire, so these were all fixed costs, and the variable costs would be associated with the water they actually used. Ms. Tseng stated that sometimes fixed charges were called ready-to-serve charges.

Ms. Tseng reviewed two proposed water rate scenarios and projections for debt service in years 2 and 3. She also reviewed single family residential bimonthly bill comparisons for the next five years. Ms. Tseng displayed single family residential water bill comparisons with neighboring agencies.

Director Amuzie mentioned that he would like to explore other options for borrowing money. Engineer Pakpour replied that getting a bank loan would be simpler and less costly for the District, since the issuance of bonds took time and was more costly. Engineer Pakpour mentioned that State Fund loans are geared towards disadvantaged communities.

Engineer Pakpour asked President Chambers if the Board would like to decide on the water scenario before moving on to discussing the sewer fund. President Chambers replied they should do that and asked board members to pick a scenario.

The Board provided unanimous guidance to proceed with scenario 1, 2.5 Million CIP Projects with Debt in Year 2.

Ms. Tseng proceeded to provide a history of the sewer rates and stated that the average usage in January – February was 10 HCF and she displayed the Sewer Fund financials. Ms. Tseng introduced two Sewer Debt scenarios: one with debt and the other without it. Ms. Tseng displayed charts of Sewer Revenue Cash Flow Assumptions and Sewer Expense Cash Flow

Seven of Nine  
Minutes of the Regular Meeting of the Board of Directors  
Thursday, March 14, 2024

Assumptions. She presented the Board with the option of increasing the sewer charge minimum from 2 HCF to 4 HCF. There was a discussion on how using 4 HCF would be defensible under Prop 218. Ms. Tseng stated that a justification would be needed for charging the 4 HCF. Attorney Conneran stated that the Board could adopt whatever fixed charge they wanted, but under Prop 218, the 2 HCF was grandfathered in, and it would be riskier to go from 2 HCF to 4 HCF.

Ms. Tseng reviewed two proposed sewer rate scenarios: one without debt (including one line with an increase to 4 HCF minimum) and the other with debt in year 2 (including one line with an increase to 4 HCF minimum). She also reviewed single family residential bimonthly bill comparisons for the next five years. Ms. Tseng displayed single family residential sewer bill comparisons with neighboring agencies, as well as one of combined water and sewer bills.

Ms. Tseng presented the next steps in the process:

<u>Date</u>	<u>Action</u>
March 14, 2024	Present preliminary recommendations to Board of Directors
April 11, 2024	Present updated recommendations to Board of Directors
May 2, 2024	Present final recommendations to Board; Board selects rate option and votes to proceed with Prop 218 process
May 23, 2024	Mail out Prop 218 Notices (50 days prior to hearing)
July 11, 2024	Prop 218 Hearing

President Chambers asked the Board if they would like to decide whether they wanted debt for sewer or not, as his preference would be no debt. Director Bautista replied he would also prefer no debt. Director Amuzie stated he would prefer the option with debt as the rates would be lower. Engineer Pakpour commented that if the rates dropped it would make sense to use debt. Director Medina stated that her preference would be to go with the debt option. Director Richards opted for the scenario with debt in case the funding was needed. Thus, the decision was to proceed with the debt scenario.

Engineer Pakpour suggested that the Board send any comments to General Manager Mairena prior to the next board meeting.

**C. Review/Approve Proposal for the Installation of Controllers Replacement for the Rowntree Pump Station.**

General Manager Mairena stated that this item was removed to allow District Staff to collect and review more comparable proposals. This item will be back on the agenda for the

next board meeting.

**D. Review/Approve Proposals for Roofing for the Rowntree Pump Station.**

General Manager Mairena reminded the Board that at the last meeting, she had shared pictures of the Rowntree Lift Station roof after the wastewater overflow incident. General Manager Mairena mentioned that the wastewater had ponded on top of the roof; hence the roof was damaged. General Manager Mairena stated that sanitation staff had recommended the roof be replaced and they asked for bids from contractors. General Manager Mairena pointed out that their packet contained the results of the bids and clarified what the alternate bid option was, and that the Board either had to select the base bid, or the one with the new drain improvement (the alternate option), and not a combination of both.

President Chambers asked General Manager Mairena what her recommendation was. General Manager Mairena replied that she had met with Patrick Sumner and Mike Patolo from Sanitation to discuss delaying the control panels project, as well as the roof replacement, and it was their recommendation that the District approve the bid with the alternate option, and that she agreed with them.

Director Medina moved to approve the proposal from Stronger Building Services including the alternate services for the roofing for the Rowntree Pump Station in the amount of \$37,500 and also to authorize a change order up to 10%, and subject to Attorney Conneran's agreement approval, seconded by Director Bautista.

The motion was carried unanimously.

**7. WRITTEN COMMUNICATIONS:** None

**8. ATTORNEY'S REPORT:** None

**9. GENERAL MANAGER'S REPORT:**

**A. Report on District's Water Conservation for February 2024.**

General Manager Mairena displayed the comparison charts, and she reported that water consumption for February 2024 had gone up slightly in comparison to last month's consumption. General Manager Mairena mentioned that she suspected that customers were using more water after the drought was over.

**10. ITEMS FROM BOARD OF DIRECTORS:** None



Nine of Nine  
Minutes of the Regular Meeting of the Board of Directors  
Thursday, March 14, 2024

**11. CLOSED SESSION:**

- A. CONFERENCE WITH LEGAL COUNSEL—ANTICIPATED LITIGATION**  
Initiation of litigation pursuant to subdivision (d)(4) of Section 54956.9: One case.

Attorney Conneran led the Board into closed session at 10:00 p.m.

The Board reconvened from closed session at 10:11 p.m.

Attorney Conneran reported that the Board had met in closed session to discuss a matter of potential litigation and gave instructions to counsel. No reportable action was taken.

**12. ADJOURNMENT:**

Without objection, President Chambers adjourned the meeting.  
Time 10:11 p.m.

\_\_\_\_\_  
Secretary

\_\_\_\_\_  
President

\_\_\_\_\_  
Date