

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

**Thursday, May 2, 2024**

The meeting was called to order at 7:32 p.m.

**1. ROLL CALL:**

Directors Present: Don Amuzie  
Perry Bautista  
Julie Richards  
Tom Chambers

Directors Absent: Janet Medina – Excused Absence

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

Visitors Present: Catherine Tseng - L&T Consultants

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

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

The motion was carried unanimously.

**4. PUBLIC COMMENT:** None

**5. BUSINESS (OLD):** None

**6. BUSINESS (NEW):**

**A. Resolution No. 675, Approval of Allocations in Accounting Treatment Between the Water and Sewer Enterprise Funds.**

President Chambers commented that he did not find it necessary to include the table that was incorporated with the resolution, as the resolution did not refer to the table. Attorney Conneran confirmed that the table was not part of the resolution, so it will be removed.

Director Bautista moved to approve Resolution No. 675, Approval of Allocations in Accounting Treatment Between the Water and Sewer Enterprise Funds., seconded by Director Amuzie.

Roll Call

|                   |     |
|-------------------|-----|
| Director Amuzie   | Aye |
| Director Bautista | Aye |
| Director Richards | Aye |
| Director Chambers | Aye |

The motion was carried unanimously.

**B. Resolution No. 676, Rescinding Resolution 355 and Adopting a New Reserve Fund Policy.**

President Chambers asked if there was any discussion on this resolution.

Attorney Conneran asked if this resolution represented the policy that was approved by the Finance Committee; President Chambers confirmed that it was. Attorney Conneran recommended approval of this resolution. Director Bautista confirmed that he recommended approval, as he was also part of the Finance Committee that put it together.

Director Bautista moved to approve Resolution No. 676, Rescinding Resolution 355 and Adopting a New Reserve Fund Policy, seconded by Director Amuzie.

Roll Call

|                   |     |
|-------------------|-----|
| Director Amuzie   | Aye |
| Director Bautista | Aye |
| Director Richards | Aye |
| Director Chambers | Aye |

The motion was carried unanimously.

**C. Consideration of Final Recommendations from Rate Study, Selection of Rate Options, and Authorization to Proceed with Proposition 218 Approval Process for rate setting.**

General Manager Mairena stated that L&T Consultant, Catherine Tseng had a presentation and proceeded to display it.

Ms. Tseng proceeded with her presentation to the Board. She stated that this was a presentation of their final rate recommendations, as they had refined some of the operating costs. She mentioned that they had also received the SFPUC-approved rates, so they were able to update their projections, and, in addition, they had updated the CIP projects with the assistance of Engineer Pakpour. President Chambers inquired if there had been any notice from the North San Mateo County Sanitation District (NSMCSD) - Daly City regarding sewer rates. General Manager Mairena replied there was a board meeting scheduled for May 13<sup>th</sup>.

Ms. Tseng reviewed the following reasons why rate increases were needed:

- Fund the cost of providing service:
  - Operating & maintenance costs
    - Annual operating cost inflation
    - SFPUC wholesale water purchases
    - NSMCSD sewer treatment costs
  - Capital improvement projects
  - Debt Service
    - Debt Service Coverage = 1.25x annual debt service
  - Maintain reserve funds for emergencies
- Prevent operating deficit
- Retain positive credit rating to obtain debt financing

Ms. Tseng also reviewed the following proposed water and sewer fund objectives:

- Meet fund reserve targets
  - Recommended operating fund target = 25% of O&M expenses
  - Recommended capital fund target = \$182,500 (50% of depreciation)
- Meet debt service coverage (1.25x)
  - Financial measure of an agency's ability to repay outstanding debt
  - Net Operating Revenue/Total Annual Debt Service => 1.25

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- Maintain positive operating revenues
  - To ensure each utility is covering its cost of service
  - To avoid an operating deficit and dipping into reserves

Ms. Tseng gave the Board an overview of the updates since the April meeting:

- Update Water CIP spending for 2023/24
  - Estimated Actual (\$175,000) vs. Budget (\$1.3M)
  - Revenue increase % for Year 1 reduced from 19.0% to 18.0%
- SFPUC 2024/25 rate increase = \$5.67 per ccf (8.8% increase)
  - Previous estimate was \$5.55 per ccf (6.5% increase)
  - Total estimated 5-year increase = 27.0%
- Drought Surcharges (*which would only be implemented if the Board decided to*)
  - Temporary additional charge on consumption
  - Recovers lost revenue due to reduced usage

Ms. Tseng displayed the combined funds net income for the current year.

Ms. Tseng presented a slide of the proposed combined fund reserves, including \$1M for water and \$2,347,102 for sewer, which includes an \$800,000 loan from the Sewer Fund to the Water Fund to be repaid over 8 years.

Ms. Tseng reviewed the previously agreed list of the G&A expenses that will be split between the water and sewer funds beginning in 2024/25:

- 1/3 of the General Manager's Salary & Benefits will be allocated to the Sewer Fund.
- Unless designated 100% to water, most G&A expenses are split 70% to water and 30% to sewer.
- All Other Revenues (except for Rental Income) will be split 70% to water and 30% to sewer.
- Total Proposed G&A Allocation = 83% Water / 17% Sewer

Ms. Tseng proceeded to review the District's current water rates and the current revenue recovery, which is 31% fixed and 69% variable.

Ms. Tseng displayed a chart of the Water Fund Net income for current and previous years, which showed a deficit of \$476,344, but once the CIP projects amount was revised to the correct amount due to a tank project not being completed, then the net income showed as a positive \$648,856.

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Ms. Tseng mentioned that the SFPUC's approved Wholesale Water Rate was \$5.67 per ccf (8.8% increase) for 2024/25, and her previous estimate was \$5.55 per ccf (6.5% increase), so over the next 5 years, they have projected wholesale rates to increase by 27.0%.

Ms. Tseng reviewed a chart with the projected Water Operating Expenses for the next five years and told the Board that the District had no control over the water purchases expenses which amounted to about 66%, and they were just pass through. Ms. Tseng stated that overall, the District's operating expenses were increasing about 6% per year. Ms. Tseng displayed additional graphs and pointed out that without the recommended increases, the District would be unable to pay for the projected expenses.

Ms. Tseng also reviewed the proposed water debt assumptions of \$1.25M per year. She stated that the total debt = \$6.25M over 5 years (2025/26 through 2029/30) and the first loan would be in year 2 (2025/26) with a \$137,000 annual payment at 7% for 15 years, based on preliminary information received from the District's bank, and that the total 5-year debt service would be \$685,000.

Ms. Tseng stated that they are proposing two water rate structure changes:

1. Fixed Vs. Variable Revenue Recovery  
Current Allocation: 31% Fixed and 69% Variable  
Proposed Allocation: 35% Fixed and 65% Variable
2. Update Meter Capacity Ratios  
Use American Water Works Association (AWWA) recommended meter capacity ratios. Each meter size will be charged based on their proportional impact on the system.

Ms. Tseng discussed the current and proposed meter ratios and rates with the larger meters having a larger impact on the system; hence, higher increases. Engineer Pakpour commented that the justification was that the smaller meters have essentially been subsidizing the larger meters.

Ms. Tseng reviewed Water Scenario 1 with proposed increases ranging from 18.4% to 28.2% for the first year, and then 8% for the following four years, and stated that these increases will allow the District to keep all of its objectives. Ms. Tseng displayed charts with the proposed water rates and average bi-monthly bill amounts based on 6, 10, and 20 ccf, for the next five years, with the percentage increases.

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Ms. Tseng displayed a survey of neighboring agencies showing single family residential bimonthly water bills based on 10 ccf. She pointed out where the District currently stood vs. where the District will be standing after the increases, and she pointed out that most of the other agencies were currently working on also increasing their rates. There was a discussion about including surrounding agencies' data.

Ms. Tseng mentioned that they were also proposing to include Drought Surcharges which would make the District remain financially sustainable and to offset reduced revenues in the event of a drought or water shortage emergency. Ms. Tseng stated that the Drought surcharges would be temporary and would only apply to the Water Charge (\$/ccf). The surcharges would correspond to the cutback levels in the Water Shortage Contingency Plan. President Chambers stated that he had no problem having this on the report, but not on the Prop. 218 notice, as he thought many customers would likely object. Since we do not have tiered rates our revenues hold up much better than most agencies during drought. He also couldn't see more than 20% rationing as SFPU is committed to a maximum of 20% rationing. Ms. Tseng replied that the reason they had included it on this Prop. 218 notice was that if in the next few years, the District wanted to implement it, and it was not in this notice, then the District would need to send out a new Prop. 218 notice. Ms. Tseng displayed a chart with projected Drought Surcharge – Expense Projections and another one with the Proposed Drought Surcharges. Mr. Chambers said he would be okay with a new Prop 218 notice if we needed to increase rates during drought. Thanks to significant storage in the regional water system, mandatory rationing doesn't occur until the later years in a multi-year drought.

Ms. Tseng then proceeded with presenting a chart with the current sewer rates charged by the District and the NSMCSD for treatment cost, which made up about 95% of the District's Sewer Operating Cost. Ms. Tseng mentioned that the NSMCSD's increase for the past few years has been averaging 9%, but the District's increase has only been 7%, which has not totally covered the operating and inflation costs.

Ms. Tseng commented that the Sewer Fund has been looking good for the past five years and they were projecting a positive income of about \$47,000 for this year.

Ms. Tseng mentioned that Daly City was currently conducting their own rate study, but had not provided any numbers to the District, so they had assumed an 8% increase for next year and a 10% increase for the subsequent years; however, if Daly City's rates were to come in lower once their rate study was completed, the District could always choose to implement lower rates in the future.

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Ms. Tseng displayed a chart with Sewer Operating Expenses and confirmed that sewer treatment cost was about 93% of the expense, and it was out of the District's control, and that overall, operating costs were expected to increase about 10% per year.

Ms. Tseng reviewed the proposed sewer debt assumptions of \$0.5M per year. She stated that the total debt = \$2.5M over 5 years (2025/26 through 2029/30) and the first loan would be in year 2 (2025/26) with a \$55,000 annual payment at 7% for 15 years, and that the total 5-year debt service would be \$275,000.

Ms. Tseng displayed the projected total sewer expenses and commented on them.

Ms. Tseng reviewed the Sewer Scenario 2 with proposed increases of: 8% for 2024/25, and 10% for the subsequent four years, and stated that these increases will allow the District to keep all of its objectives

Ms. Tseng displayed a chart with the proposed sewer rates for the next five years, showing 8% for 2024/25 and 10% for the subsequent four years.

Ms. Tseng also displayed samples of sewer bill impacts for 2, 10, and 20 ccf bi-monthly usage, just for comparison, since most of the sewer charges are billed annually thru the tax rolls with only a few multi-family accounts billed bi-monthly. President Chambers asked about the sewer rates being adjusted depending on what the NSMCSD approved; Ms. Tseng agreed that the rates could be reduced.

Ms. Tseng displayed a survey of the surrounding agencies showing single family residential bimonthly sewer bills based on 10 ccf. She mentioned that the agencies on the survey are not the same ones on the water survey as some of the cities do not have the same provider for water and sewer. Ms. Tseng pointed out where the District currently stood vs. where the District will be standing after the increases, and that the rates listed are current, as most agencies will be adopting a new rate by July 1<sup>st</sup> and one agency has already adopted a multi-rate plan. Ms. Tseng also displayed a chart showing combined water and sewer bills for these agencies. Attorney Conneran suggested adding "Rates shown are bi-monthly basis to facilitate comparison."

Ms. Tseng also displayed another survey showing a combined water and sewer bill based on 10 ccf, again for comparison purposes only.

Ms. Tseng displayed the next steps in the process:

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| <u>Date</u>   | <u>Action</u>  |
|---------------|--|
| May 23, 2024  | Mail out Prop. 218 Notices (50 days prior to hearing).                                 |
| July 12, 2024 | Prop. 218 Hearing.   |
| July 1, 2024  | First rate increase goes into effect (Customers will see increase in September bills). |

Ms. Tseng stated that tonight they were presenting the final recommendations to the Board and the Board would select the rate option and vote to proceed with the Prop 218 process. Ms. Tseng clarified that the Board would not be adopting the actual rates tonight, but would just vote to select the rate option so that the Prop 218 notice could be mailed out, and the rates would be approved at the July 12<sup>th</sup> public hearing, pending official protests.

Attorney Conneran stated that the Rate Study report could also be approved at the July public hearing. Engineer Pakpour suggested that the report be approved ahead of the public hearing, so that there would be copies for the public to review it. Attorney Conneran stated that the Rate Study could also be approved at the June meeting.

General Manager Mairena displayed the redlined file of the Prop 218 that was reviewed by Attorney Conneran and his colleague. There was a dialogue on the suggested changes. Engineer Pakpour suggested to add a statement on the third paragraph that the District had engaged in long-term capital analysis of the infrastructure. Attorney Conneran suggested to add that the District conducted a study to determine what the infrastructure needs are and are now implementing this five-year program to address the most urgent needs. There was an additional change suggested for the Water Charge based on consumption. Ms. Tseng agreed to make those changes.

Attorney Conneran stated that in response to questions as to why we are changing the meter service charges, an appropriate response would be that "We never had a rate study before, and the study informed us that we were not following best practices. We are doing all these changes to try to bring us in line with those practices so that you pay for the water you consume, but you also pay for your fair share of maintaining the system based on the size of your meter and the amount of water it allows you to obtain."

Director Bautista moved to approve the Final Recommendations from Rate Study, Selection of Rate Options, and Authorization to Proceed with Proposition 218 Approval Process for Rate Setting without any Drought surcharges, and subject to modification of the NSMCSD sewer rates, seconded by Director Amuzie.

The motion was carried unanimously.



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President Chambers thanked Ms. Tseng.

**D. Consideration to Move the July 11, 2024, Regular Board Meeting to July 12, 2024 and Set a Date, Time, and Place for the Public Hearing for Water and Sewer Rates and the Collection of Sewer Charges on the Property Tax Roll.**

General Manager Mairena stated that she had emailed the Board that the public hearing needed to be held within District's boundaries. General Manager Mairena mentioned that the only venue option was the Alice Bulos Community Center, but unfortunately, it was not available from Monday through Thursday due to classes being held there, and the only available date closest to the regular meeting date was Friday, July 12<sup>th</sup> at 5:30pm, but we would need a little time to set up. General Manager Mairena commented that the other meeting option was the Westborough Middle School cafeteria or gymnasium, but there had been no reply from their principal.

Director Bautista moved to approve moving the July 11, 2024, Regular Board Meeting to July 12, 2024 at 6pm, seconded by Director Richards.

The motion was carried unanimously.

Engineer Pakpour commented that he was planning to be present at the July 11<sup>th</sup> board meeting, but he was starting a one-month sabbatical, and he will be traveling on July 12<sup>th</sup>; however, his partner, Brandon will be present at the public hearing, and he was knowledgeable on the capital improvement program because he had worked on it.

**E. Review/Approve 5-Year Capital Improvement Plan.**

Engineer Pakpour commented that perhaps the Board could review the 5-Year Capital Improvement Plan today, but wait until after the public hearing when the rates are set to approve it to ensure that we have the dollars in place. Engineer Pakpour mentioned that this plan was reviewed with the CIP Committee a couple of weeks ago, and some tweaks had been made to match up with the amount of money that would be available after the rate increases. Engineer Pakpour proceeded to present the projects to the entire Board and what their cost would be for each of those years. Engineer Pakpour stated that if the District was to have more revenue, then this list could be updated to include more projects.

President Chambers stated that he would like to approve the plan tonight, as he felt the plan could be modified if it were necessary, but at least, the District would have a plan in place.

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Engineer Pakpour commented that once this plan was put on the website, it would have a sheet for each of the projects.

Director Bautista moved to Approve 5-Year Capital Improvement Plan, seconded by Director Amuzie.

The motion was carried unanimously.

**7. WRITTEN COMMUNICATIONS:**

Attorney Conneran commented on the letter he received from BAWSCA regarding BAWSCA's CEO/General Manager Nicole Sandkulla's retirement. President Chambers commented that she plans on moving to Oregon, as she no longer has any family in the area, and her retirement date is December 20, 2024. President Chambers stated that BAWSCA's Board is currently working on finding her replacement.

**8. ATTORNEY'S REPORT:**

Attorney Conneran commented on the Sheetz case that he mentioned a while back and which was decided by the U.S. Supreme Court. Attorney Conneran explained that the case involved developer fees. The District has connection fees that are slightly different under state law. Attorney Conneran stated that the takeaway for water districts is that there continues to be uncertainty and probably future legal challenges on the fees a developer has to pay to build new houses. Attorney Conneran also stated that last year there was a bill by Assemblyman Grayson that applied to water districts and made agencies charging connection fees do a study that would justify the need for the fees, so this was something the District needed to keep in mind if we ever wanted to increase the connection fees. President Chambers commented that the District had a study done the last time the connection fees were revised. Attorney Conneran mentioned that an updated study would probably be needed if the District was to increase the connection fees.

President Chambers asked about Initiative 1935 that was mentioned at the CSDA meeting he attended, and which limits the ability of voters and state and local Governments to raise revenues for government services. Attorney Conneran commented on it and stated it was worth watching and that there will be a court decision in a case aimed to get it off the November ballot.

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

**A. Engineer's Report (Pakpour).**

Engineer Pakpour commented that the design for Skyline Tank no. 3 was at 90% completed, and there will be a meeting scheduled soon with District staff, but since the project was being pushed to the latter part of the following year, there was no real rush, but he would like to complete the design soon and not have it sit at 90%.

Engineer Pakpour also commented on the sewer side, and mentioned that once the rates are established, we would be meeting with Daly City to refresh the list of projects they gave us and pick up the top projects that would equal \$1M, and combine with the project that has already been designed, package them, and go out to bid.

**B. Status of Roofing Project for the Rowntree Pump Station.**

General Manager Mairena stated that the project was almost completed and shared pictures of the project. General Manager Mairena mentioned that Daly City was supposed to meet with the contractor and produce a punch list, but it was not a long one.

General Manager Mairena mentioned that there was no Water Conservation Report, as the SFPUC bill was not produced yet, since the board meeting was too early in the month.

General Manager Mairena communicated a message to the Board from Director Medina, that she was doing well, and she thanked everyone for the floral arrangement that was sent to her on behalf of the Board.

**10. ITEMS FROM BOARD OF DIRECTORS:**

**A. Report on CSDA San Mateo Chapter Meeting of April 16, 2024 (Chambers).**

President Chambers commented that they are still waiting for a Treasurer's Report and asked if anyone had any questions.

Director Bautista mentioned that he was going to ask President Chambers about Initiative 1935, but Attorney Conneran had already talked about it. Attorney Conneran made additional comments.

Engineer Pakpour asked the Board that an item be added to the June's meeting agenda on how the public hearing will be handled or a have a drafted agenda.

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**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 9:17 p.m.

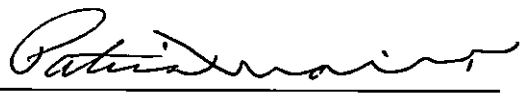
The Board reconvened from closed session at 9:44 p.m.

Attorney Conneran reported that the Board had met in closed session to discuss a matter of potential litigation under code Section 54956.9 and gave instructions to counsel.

**12. ADJOURNMENT:**

Without objection, President Chambers adjourned the meeting.

Time 9:44 p.m.



Secretary



President

06 - 13 - 2024

Date