SLVWD Board Meeting Summary

May 7, 2020

Mark Dolson

Public Input

None.

Old Business

PG&E Letter

Gina Nicholls (Legal Counsel) approved President Swan's impromptu proposal that this item be moved to the top of the agenda. All Directors were happy with the final version of the letter (based on the letter drafted by Director Fultz and subsequently revised by Director Fultz, Carly Blanchard (Staff), and Nancy Macy (Public)). Director Henry, however, argued that the Board had failed to follow proper procedure because responsibility for writing this letter resided exclusively with the Environment committee. Other Directors expressed surprise, but there was no significant discussion of this point. The only actual question was whether the Board would approve sending the letter separately to each recipient (as recommended by staff) or sending the letter with carbon copies. The Board opted for the latter without any discussion or explanation. The vote was 4-1 in favor with Director Henry opposed.

Unfunded Liabilities

This item was placed on the agenda at the request of multiple Directors, consistent with Director Fultz's desire for more visibility into the long-term financial challenges facing the District. All Directors were highly appreciative of the substantial staff effort that went into producing this response. President Swan emphasized that this was intended purely as an informative first look and that there will be ample opportunity to drill deeper in future meetings.

Stephanie Hill (Finance Manager) outlined the Post Employment Benefit Liabilities which now must be explicitly shown on the books: two CalPERS pension retirement plans ($3.8M) and CalPERS medical plans after retirement ($1.1M). The District is in the same boat as a great many other pension plans which were overfunded in the 1990s and were then hammered by the economic downturns in 2000 and 2008. In 2013, the District switched from the Classic plan to the PEPRA plan which is less favorable to employees. However, all current retirees are still on the Classic plan. The District's liability will also increase as CalPERS continues to lower its benchmark return on its investment (currently at 7%).

The District has lessened its CalPERS obligations by amortizing over a shorter period (a fresh start in 2016 switched from 30 years to 15 years, saving $800K in interest) and making a lump-sum prepayment each year (saving $10K each year). The District is contemplating additional options as well; the most promising may be to make additional one-time payments (e.g., $50K per year over the next five years to save $600K in interest). There is no obvious way to use grants as a source of offsetting revenue, and a Pension Obligation Bond is not recommended by the Government Finance Officers Association. The overall message was that there is no quick fix for this situation – it will take years of careful planning to address.

James Furtado (Director of Operations) outlined the unfunded liability associated with water tanks. A well-maintained welded steel tank can last indefinitely, but we currently have a maintenance backlog. Painting and coating is planned for two tanks per year (at $200-500K per tank) for the next eight years. Bolted steel tanks should be refurbished and replaced. Redwood tanks are in the process of being replaced. Poly tanks are not a significant expense to replace. The total estimated cost is at least $10M.

<u>Low Income Ratepayer Assistance (LIRA)</u>

The Board had previously directed staff to carefully consider the proposal from Friends of San Lorenzo Valley Water for initiating a LIRA program and to bring relevant questions and concerns to the Board. Stephanie Hill summarized as follows:

1. What is the District's ultimate goal?

    a. A long-term monthly discount? This would be internally run. Even though it might be ideal to prioritize the "neediest" ratepayers, it would be most practical to base eligibility on whether the ratepayer is enrolled in PG&E's CARE program (which is available to individuals and families earning less than 200% of the federal poverty guidelines) This would greatly reduce the burden on staff, who would otherwise need to obtain and review ratepayer income documentation.
    b. One-time relief? This could be internally or externally run. The District has already suspended shutoffs, but this action merely defers the day of reckoning without in any way easing the financial burden.
    c. A temporary pilot program? This could be an experiment or a stop-gap while we continue to await a statewide response. AB401 (passed in 2015) directed the state to develop such a response, but progress continues to be extremely slow, and a 2/3 majority will be required to enact anything. Lois is seeking an update.

2. Who will run this?

    a. District staff?
    b. A third-party partner? A 501(c)3 organization would be able to solicit tax-deductible donations. The only obvious candidate in the SLV is Valley Churches United. This solution would trade off control to minimize staff impact.

3. How will it be funded?

    a. The District can work around Prop. 218 by funding this via non-water-rate revenue. Property taxes are the obvious means to do this, but there might need to be some shuffling of other funds if this revenue stream is interrupted.
    b. The District can solicit direct customer donations. This would most likely be a much smaller and much less reliable source of funding.
    c. The District can partner with a third party to receive donations.

In addition, Stephanie detailed a number of specific implementation questions. She also summarized the programs of a few other relevant districts: Calaveras provides a $20/ month discount to 200 customers at a cost of $24K per year. Coachella allows a $100 credit once per year. El Dorado allows a $25 bimonthly discount for 1500 customers at a cost of $225K per year.

Four of the five Directors stated that they were favorably disposed toward a LIRA program, but each raised different specific concerns. Director Farris worried about the reliability of property tax revenue (transferred to the District) and suggested waiting six months to see whether new relevant information comes to the District's attention. Director Henry suggested allocating $25K to run a pilot program with a $10/month discount; this would allow the District to gain some valuable experience while still responsibly managing public expectations. Director Moran expressed a preference for not relying upon CARE or a first-come, first-served approach and for, instead, explicitly targeting the neediest ratepayers via some mechanism still TBD. President Swan suggested that there is nothing urgent about this issue and recommended revisiting it in six months. Director Fultz did not clearly state a position but seemed to suggest that a LIRA program might not be appropriate for a small District such as SLVWD.

Public input unanimously supported moving forward immediately with some form of LIRA program. Numerous people commented favorably on Lois's proposal for a pilot program, and multiple people suggested that no good argument had been advanced for simply waiting six months to make a decision. President Swan proposed that this issue be sent to committee with specific attention to the possibility of preferentially addressing people who accrue a large unpaid balance over the coming months. All Directors agreed.

Scheduled Rate Increase

This item was placed on the agenda in the hope of resolving an ongoing point of contention. Director Fultz had repeatedly suggested that the District should forego its planned 5% rate increase, due to take effect in November, 2020. This increase has already been approved by voters and incorporated into the Fiscal 2020-21 budget for which the staff is currently awaiting Board approval. (An additional 5% rate increase for November, 2021 has also already been approved by voters.)

Everyone agrees that District water rates have increased substantially in the past decade. Ratepayer dissatisfaction has increased in tandem, and Directors Fultz, Henry, and Swan successfully campaigned on a promise to spend the District's money more prudently and to prevent rate increases. However, it became clear over the course of the ensuing discussion that each of the five Directors had formed his or her own view of the current situation.

Rick Rogers introduced this item by quoting from the state AB401 Final Report, which cited three key factors associated with rising rates for water service across the state:

1. Water has been historically underpriced compared to cost, leading to sustained neglect of infrastructure (which, everyone agrees, is a key issue currently confronting SLVWD).
2. Increasingly stringent water quality standards have driven up costs (but no data was provided to relate this specifically to SLVWD)
3. The percentage of federal support in total public infrastructure spending for water utilities has fallen substantially in recent decades (again, no data was provided specifically for SLVWD)

The staff recommendation was that the rate increase be preserved so as to allow the various essential activities in the draft budget to proceed as planned.

Director Moran began the Board discussion by asking staff to clarify the long-term negative impacts of a rate rollback on the financial health of the District. The answer was that there would be a $1.3M shortfall over the next five years, and this would further hamstring the District's efforts to deal with its unfunded liabilities.

President Swan said he was inclined to stick to his campaign promise to prevent rate increases because he had no reason to believe that the rate increase would be used wisely.

Director Fultz said increased revenue historically goes to increased operating expenses, rather than to margin (and he cited the $750K increase in operating expenses for a $485K increase in revenue in the 2020-21 budget). He insisted that rates cannot be allowed to increase without a multi-year process that the Board can present to the community to demonstrate their responsible oversight.

Director Farris said this will be the seventh rate increase in the last eleven years and that there is a limit to what ratepayers can absorb. On the other hand, he said the long-term consequences of a rate rollback gave him pause. He ended by suggesting a 3-month rollback.

Director Henry challenged the idea that Board members were failing to live up to their campaign promises and/or tolerating wasteful spending. She read a very long list of Board-approved District actions over the past 16 months in order to demonstrate how proactive and effective this Board has been in promoting more efficient District operations. She argued that the Board should trust the staff's superior expertise and accept the rate increase.

Public input unanimously supported the rate increase.

Director Henry moved to preserve the rate increase, to trust the staff, and to enable the budget approval to move forward. Director Moran seconded this motion, noting that water has been historically underpriced, that the Board has not been wasteful, and that there has been good transparency on Board decisions. The vote was 3-2 in favor with Directors Fultz and Farris opposing.