

SAN ELIJO JOINT POWERS AUTHORITY
MINUTES OF THE BOARD MEETING
HELD ON FEBRUARY 11, 2013
AT THE
SAN ELIJO WATER RECLAMATION FACILITY

Thomas M. Campbell, Chair

Mark Muir, Vice Chair

A Meeting of the Board of Directors of the San Elijo Joint Powers Authority (SEJPA) was held Monday, February 11, 2013, at 9:00 a.m., at the San Elijo Water Reclamation Facility at 2695 Manchester Avenue, Cardiff by the Sea, California.

1. CALL TO ORDER

Chair Campbell called the meeting to order at 9:00 a.m.

2. ROLL CALL

Directors Present:

Teresa Barth
Mark Muir
Thomas M. Campbell
David Zito

Others Present:

General Manager
Director of Finance/Administration
Director of Operations
Administrative Assistant
Accounting Technician
Safety/HR Administrator

Michael Thornton
Greg Lewis
Christopher Trees
Jennifer Basco
Carrie Cook
Marisa Buckles

SEJPA Counsel:

Procopio, Cory, Hargreaves & Savitch

Aiko Yamakawa

City of Encinitas,

Public Works Management Analyst
Director of Engineering and Public Works

Bill Wilson
Glenn Prium

City of Solana Beach,

Director of Engineering/Public Works
City Manager

Mohammad "Mo" Sammak
David Ott

St. Francis Court HOA

Al Evans
Frank Warner

3. PLEDGE OF ALLEGIANCE

General Manager Michael Thornton led the Pledge of Allegiance.

4. ORAL COMMUNICATIONS

None

5. PRESENTATION OF AWARDS

The General Manager informed the Board of Directors that the California Sanitation Risk Management Authority awarded the San Elijo Joint Powers Authority with the 2011-12 Workers' Compensation Excellence – Small Agency Category.

The General Manager also informed the Board of Directors that the California Water Environment Association (CWEA), San Diego Section, awarded the San Elijo Water Reclamation Facility the 2012 Safety Award. The San Elijo Water Reclamation Facility will be considered for the CWEA awards at the state level.

General Manager stated that these awards are a reflection of the employees' attitudes and efforts in making the SEJPA a safe and productive workplace.

6. CONSENT CALENDAR

Moved by Board Member Barth and seconded by Vice Chair Muir to approve the Consent Calendar.

Motion carried with the following vote of approval:

AYES: Barth, Muir, Campbell
NOES: None
ABSENT: None
ABSTAIN: Zito

Consent Calendar:

Agenda Item No. 7	Approval of Minutes for the January 14, 2013 meeting
Agenda Item No. 8	Approval for Payment of Warrants and Monthly Investment Report
Agenda Item No. 9	San Elijo Water Reclamation Facility Treated Effluent Flows – Monthly Report
Agenda Item No. 10	San Elijo Joint Powers Authority Recycled Water Program – Monthly Report

11. ITEMS REMOVED FROM CONSENT CALENDAR

None

12. SAN ELIJO JOINT POWERS AUTHORITY MID-YEAR REVIEW OF THE FISCAL YEAR 2012-13 OPERATING BUDGET

The Director of Finance/Administration, Greg Lewis, presented the mid-year analysis of the SEJPA's FY 2012-13 Budget. Mr. Lewis stated that overall, the SEJPA is expected to conclude the fiscal year at or slightly below budget. Personnel and non-personnel costs such as supplies and services should end the year below budgeted levels.

Wastewater treatment operations are projected to end the year approximately 2% under budget. However, at this time, it appears that the use of contingency funding may be required for the Wastewater Treatment Program to repair or replace one of the standby generators. Mr. Lewis stated that due to the generator's age, it may be more cost-effective to replace than rebuild. If replacing the Generator is the recommended action, Staff will seek Board Approval for this purchase.

Overall, the programs associated with wastewater treatment and disposal are expected to be at 98% of budget and the program for recycled water is expected to finish the year at 94% of budget.

No action required. This memorandum was submitted for information only.

13. BRIEFING – RECYCLED WATER PROGRAM RESERVE FUND POLICY

General Manager Michael Thornton presented to the Board of Directors the concept of updating the reserve fund policy for the SEJPA Recycled Water Program. The General Manager introduced consultant Mary Grace Pawson from GHD Inc., who has been retained to conduct a Cost of Service Study for the Recycled Water Program. General Manager Thornton stated that today the SEJPA is in a position where revenues meet day-to-day operating costs as well as debt service requirements with allowance of putting some funding away for capital and reserve needs. The General Manager discussed the current reserve fund policy and provided information and recommendations for updating it.

Currently, the Recycled Water Program is funded by revenues from wholesale water agreements, as well as local water development incentives provided by the Metropolitan Water District and the San Diego County Water Authority. Recycled water is currently sold at a price point at or below 85% of the cost of "like service" potable water, as set by each water purveyor. Several of these wholesale water agreements are set to expire in the next four years. Staff has been given direction from the Board of Directors to complete a Cost of Service Study to gain clarity on what the cost is to produce recycled water. This information will help in negotiating future agreements to keep the cost of water fair to all parties and to keep the program financially sustainable.

General Manager Thornton requested the Board of Directors provide feedback on the following four items:

- Confirm staff recommendation to establish a dedicated repair and replacement fund that goes beyond the minimum required by the SRF Loan contract.
- Confirm staff recommendation to maintain an unrestricted operating reserve equal to one year of operating expenses.
- Confirm the goal of achieving uniform recycled water rates by 2020. Right now the Recycled Water Program is indexed to the potable water rates set by the multiple water districts, so whatever the water districts sets its rate at, the SEJPA is typically 85% of that. Wholesaling to multiple districts that have multiple rates, the SEJPA's wholesale price varies across a spectrum of pricing.
- Direct staff to complete the Cost of Service Study with this direction and return with recommendations on "target" repair and replacement reserve funding based on projected future revenue.

Mary Grace Pawson provided a PowerPoint Presentation to the Board of Directors that highlighted various options for creating reserve policies.

Ms. Pawson stated that an option for the future is an Operational Reserve set to match one year of operational costs, and a Repair and Replacement Reserve based on the concept of managing assets. An Operational Reserve is essential due to the SEJPA's high fixed costs and variability in operating sales (dependent on weather). The SEJPA does not have strong control of its revenues (indexed to other agencies' water rates) and incentive payments are reduced when sales are down. Depreciation is the most straightforward and commonly understood asset management technique.

Ms. Pawson then discussed options of managing assets for the utility. Historically the SEJPA funded improvements through a debt service program. A second option, repair and replacement or sinking fund program, is the notion that you put enough money in the bank to cover depreciation and when you need to replace an asset, you pull money out of the bank. Most utilities do a hybrid for large fixed capital improvements, which includes some cash and some borrowing.

The Sinking Fund Reserve program is straight-line depreciation, where depreciation is considered an expense and funded equally over the fixed asset life. Assuming a 50-year asset life, this would be approximately \$450,000-\$550,000 per year.

Another concept is the Decay-Curve Concept, which assumes that long-lived assets don't lose a constant value over their life, and annual expenditures would begin lower and increase as the asset grew nearer to the end of its useful life.

Ms. Pawson's recommendation was a hybrid program, which uses cash reserves along with some borrowing, based on the Cost of Service Study to help determine what reasonable goals would be for the program, given the SEJPA revenue expectations.

Following the staff presentation, Board Chair Campbell allowed public comments on this topic.

Frank Warner, homeowner from the St. Francis Court HOA, addressed the Board of Directors and stated that he has been appearing before the Board of Directors for over 3 years, requesting a price for recycled water that is based on the cost of producing and distributing that water. He is concerned that applying this policy to only one portion of the operations is inappropriate and can overburden the cost of the recycled water as compared to other operations. Mr. Warner also commented on the long term agreements with other agencies in the absence of the Cost of Service Study being completed. Mr. Warner is concerned that these agreements are not based on any Cost of Service Study or any other factors, and seem to be arbitrary. He suggested that until the SEJPA adopts a standardized pricing for recycled water, they not enter into any more of the long term agreements. Mr. Warner would like the Board of Directors to set a timetable for setting the pricing of recycled water sooner than 2020.

Al Evans, homeowner of St. Francis Court HOA, also addressed the Board of Directors. Mr. Evans would like the Board of Directors to give some very specific direction to complete the Cost of Service Study within 60 days and suggested that the Board of Directors give some targets to the General Manager. Mr. Evans also stated that the Santa Fe Irrigation District is the largest consumer of recycled water and he believes they are paying the highest price.

Moved by Vice Chair Muir and seconded by Board Member Barth to:

1. Confirm staff recommendation to establish a dedicated repair and replacement fund that goes beyond the minimum required by the SRF Loan contract;
2. Confirm staff recommendation to maintain an unrestricted operating reserve equal to one year of operating plus debt service expenses;
3. Confirm the goal of uniform recycled water rate by 2020; and
4. Direct staff to complete the Cost of Service study with this direction and return with recommendations on "target" repair and replacement reserve funding based on projected future revenue.

Motion carried with unanimous vote of approval.

14. SAN ELIJO JOINT POWERS AUTHORITY ADMINISTRATION BUILDING

General Manager Thornton updated the Board of Directors on the condition of the SEJPA's modular administrative building that is in need of repair and likely should be replaced.

A typical location for the new administrative facilities would be at the front of the treatment plant, which would provide greater site security and improved public access. After a complete site analysis, the General Manager will provide the information to the Board of Directors for discussion and approval.

No action required. This memorandum was submitted for information only.

15. GENERAL MANAGER'S REPORT

General Manager Thornton provided an update on the AWT project permit. As part of AWT project, the SEJPA is required to amend its recycled water permit with the Regional Water Quality Control Board. Staff has been working with Regional Board Staff to prepare the permit amendment and it is expected to be considered for approval at the March 2013 Regional Board Meeting.

The General Manager also reported on the North San Diego County Cooperative Demineralization Project. General Manager Thornton anticipates that he will be presenting to the Board Members, an agreement with the County Water Authority for the million dollar grant that the SEJPA had teamed with the OMWD and the San Elijo Lagoon Conservancy. The funding for this project is in place and the agreement has been finalized.

16. GENERAL COUNSEL'S REPORT

None

17. BOARD MEMBER COMMENTS

None

18. CLOSED SESSION

None

19. ADJOURNMENT

The Board of Directors adjourned at 10:20 a.m. The next Board of Directors meeting will be held on March 11, 2013.

Respectfully submitted,



Michael T. Thornton, P.E.
General Manager