

SAN ELIJO JOINT POWERS AUTHORITY
MINUTES OF THE BOARD MEETING
HELD ON APRIL 8, 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, April 8, 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
Thomas M. Campbell
Mark Muir
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

Greg Moser

City of Encinitas,

Director of Engineering and Public Works
Public Works Management Analyst

Glenn Prium
Bill Wilson

City of Solana Beach,

City Manager
Director of Engineering/Public Works

David Ott
Mohammad "Mo" Sammak

Santa Fe Irrigation District,

President of the Board of Directors
General Manager

Michael T. Hogan
Michael J. Bardin

St. Francis Court HOA

Al Evans
Frank Warner

GHD Inc.

Mary Grace Pawson

3. PLEDGE OF ALLEGIANCE

General Manager Michael Thornton led the Pledge of Allegiance.

4. ORAL COMMUNICATIONS

None

5. PRESENTATION OF AWARDS

None

6. CONSENT CALENDAR

Moved by Board Member Zito and seconded by Board Member Barth to approve the Consent Calendar.

Motion carried with unanimous vote of approval.

Consent Calendar:

Agenda Item No. 7	Approval of Minutes for the March 11, 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

Chair Campbell requested that Agenda Item No. 13 be moved ahead of Agenda Item No. 12.

13. RECYCLED WATER COST OF SERVICE STUDY

General Manager Thornton presented the draft Cost of Service Study to the Board of Directors. He stated that the goals of the study are to:

- provide decision makers with information on the cost of providing recycled water service relative to revenues generated from the program;

- provide decision makers with information regarding the estimated future financial condition of the program under a range of planning scenarios;
- analyze the financial impacts of decoupling all wholesale agreements from the potable water rate structure; and
- describe the policy decisions that are necessary to implement reserve funds and a cost-of-service revenue model.

Mr. Thornton introduced Mary Grace Pawson from GHD Inc., who is the consultant responsible for preparing the study. Ms. Pawson provided a brief summary on the drivers for the cost of service study, a review of the Board Members direction provided at the February 2013 Board meeting, a description of the current cost of service, initial recommendations on the reserve fund, and future scenarios and impacts on the cost of service for recycled water.

Ms. Pawson discussed the cost of service with and without infrastructure replacement reserves based on current water sales. Ms. Pawson stated that attempting to fully fund reserves right now is likely impractical as it would drive the price of recycled water higher. Instead, Ms. Pawson suggested that as the SEJPA transitions to the cost of service program, a hybrid reserve policy that partially funds capital reserves is more practical for managing repair and replacement of utility system assets. Ms. Pawson stated that the financial model used to develop the cost of service study uses the assumption of partially funding a capital reserve and having an operational reserve equal to one year of operational costs, including debt service costs. Based on the current balance in the Recycled Water Program Fund, estimated at \$2.2 million, there is adequate funding to create the proposed operational reserve. For Capital Reserve, the study utilized a fiscal model to help determine “milestone” capital reserve goals that would allow accrual of a capital reserve with a value close to the depreciated value of the assets in FY 2030-31. This initial analysis suggests that SEJPA should budget for a capital reserve of approximately \$3.0 million in FY 2020-21, a key program milestone after which the recycled water program SRF loan is paid off. The analysis also suggests that SEJPA should budget for a capital reserve of approximately \$4.8 million by FY 2025-26, another key program milestone after which the last of the incentive funding expires. These repair and replacement goals reflect a practical strategy for managing replacement of assets, given the current fiscal status of the system.

Ms. Pawson then described several scenarios of the resulting “cost of service”, after factoring in the reserve fund requirements. The first scenario, Status Quo, assumes recycled water sales remain flat, except for the Olivenhain Municipal Water District service area where recycled water sales grow from 35 acre feet to 80 acre feet annually over six years. The second scenario, assumes recycled water deliveries grow at a rate of approximately 2 percent per year for total program sales of 1,335 acre feet per year by FY 2018-19. Finally, the third scenario assumes recycled water deliveries grow at the rate of 4 percent per year for total program sales of 1,437 acre feet per year by FY 2018-19.

Ms. Pawson concluded her presentation by stating that:

- Meeting the SEJPA’s reserve goals is possible.
- Transitioning from an “indexed” to a cost of service model is possible.

- With sales at or above 1,335 acre feet per year (approximately 2 percent annual growth), the cost of servicing recycled water remains very competitive.
- Without growth in sales, the SEJPA may need to modify near-term reserve goals to keep recycled water pricing attractive to the end customers.

Upon completion of the presentation, Chair Campbell requested if there were questions from the public. Questions and requests subsequently raised by Board Members and public included:

- Do the water purveyors add additional costs to the final rate charged to the customer?
- Provide examples that illustrate the San Diego County Water Authority's incentive calculation when the SEJPA charges less than 85 percent of the potable water rate.
- What are the current terms of the Recycled Water Program loans?
- Can staff provide projections of future potable water rates vs. recycled water rate projections?
- Provide a brief history of Member Agency funding that was contributed to this recycled water program and if/when they will get repaid.
- Add footnotes to Table 4 of the cost of service study to assist the reader in understanding the table.

General Manager Thornton stated that in two weeks he will publish an updated draft-final cost of service study to include answers to the aforementioned questions, requested footnotes, charts and examples, for distribution. General Manager Thornton stated that staff will provide a 30-day public comment period upon reissuance of the study. He will return this item to the Board of Directors at the June Board meeting for consideration of acceptance.

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

12. PRESENTATION OF THE SAN ELIJO JOINT POWERS AUTHORITY FISCAL YEAR 2013-14 RECOMMENDED BUDGET

Greg Lewis, Director of Finance/Administration, provided a PowerPoint presentation on the Fiscal Year (FY) 2013-14 Recommended Budget and answered questions from the Board of Directors. The budget estimates all expenditures necessary to provide wastewater treatment, waste disposal, water reclamation, laboratory, ocean outfall, and pump station services. The total recommended FY 2013-14 budget for the Wastewater Treatment Fund is \$5,629,967. The total recommended FY 2013-14 operating budget for the Water Reclamation Fund is \$2,086,111. The recommended FY 2013-14 appropriation for the Capital Project Fund is \$1,138,000.

It was reported that the total cost to the Member Agencies of the FY 2013-14 recommended budget for all programs funded including capital improvements and debt service will increase from a year ago. The City of Encinitas' portion, which includes the Cardiff Sanitation Division, parts of the Encinitas Sanitation Division, and other miscellaneous programs within the City will see an increase in cost of 3.1 percent, while the City of Solana Beach's portion, which includes the Solana Beach Sanitation

District and other miscellaneous programs within the City will see an increase of 1.1 percent.

It was recommended that the Board of Directors take the Recommended Budget to their respective Councils for further discussion and support. The budget will then be discussed at the next scheduled Board meeting.

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

14. GENERAL MANAGER'S REPORT

General Manager Thornton reported that the Advanced Water Treatment project received final permit approval by the Regional Water Quality Control Board. The SEJPA is now permitted to operate the Advanced Water Treatment facility to produce recycled water for our communities. General Manager Thornton also requested information from the Board Members on ideas for the Advanced Water Treatment facility ribbon cutting ceremony.

15. GENERAL COUNSEL'S REPORT

None

16. BOARD MEMBER COMMENTS

None

17. CLOSED SESSION

None

18. ADJOURNMENT

The Board of Directors adjourned at 11 a.m. The next Board of Directors meeting will be held on May 13, 2013.

Respectfully submitted,



Michael T. Thornton, P.E.
General Manager