

SAN ANTONIO WATER COMPANY
ADMINISTRATION and FINANCE COMMITTEE (AFC)
MINUTES

June 12, 2012

An open meeting of the Administration and Finance Committee (AFC) of the San Antonio Water Company (SAWCo) was called to order at 3:23 p.m. on the above date at the Company office located at 139 N. Euclid Ave., Upland, California. Committee Members present were Glenn Bozar, Sue Sundell, Tom Thomas, and Bob Cable. SAWCo's General Manager Charles Moorrees was also in attendance. Ms. Sundell presided.

1. Recognitions and Presentations: None.
2. Additions / Deletions to the Agenda: None.
3. Public Comments: None.
4. Approval of Committee Meeting Minutes: Mr. Bozar moved and Ms. Sundell seconded to approve the meeting minutes of April 24, 2012 as presented. Motion carried with Mr. Thomas abstaining.
5. Administrative and Financial Issues:
 - A. ***Depreciation Reserve*** – Mr. Moorrees reported that previously, staff presented a proposal to the AFC which outlined the objectives as: 1) certifying SAWCo's assets that require renewal, rehabilitation, and replacement, 2) determining the cost for renewing, rehabilitating, and replacing; 3) determining Water Master Plan projects; 4) establishing a depreciation reserve. Staff proposed eliminating the existing reserve funds and combining them all into a single reserve entitled "Depreciation and Obsolescence Reserve". A draft resolution number 2012-07-01, which is needed to update this policy, was included in the committee meeting packet.

A positive balance at the end of the year would be deposited into Depreciation Reserves to fund annual depreciation and expenditures. A summary of assets were included in the committee packet together with Water System Master Plan projects. Annual Consumer Price Index (CPI) would be factored into future costs to compensate for inflation. It is the intent that the Depreciation Reserve funds ensure that by the time the asset stops functioning, the Water Company has collected sufficient necessary funds to replace or rehabilitate the asset without suffering losses.

Mr. Moorrees stated that at the end of the calendar year for 2011 (CY2011) SAWCo's financial statements detailed the amount designated for reserve funds. Operating reserve, Emergency reserve, Emergency Drought fund, and Master Plan Projects totaled \$5,076,582. Accumulated depreciation at the year's end was \$6,653,977. Staff proposes the "Depreciation and Obsolescence Reserve" contain a beginning amount of \$5,076,582.

A worksheet included in the committee packet identified SAWCo's assets and life expectancy including projects identified in the Water System Master Plan for the next 25 years for a total of \$25,188,936. Mr. Moorrees recommended these projects be reviewed with the Board annually during budget preparation to re-calibrate and adjust proposed expenditures as needed.

Mr. Cable moved and Mr. Bozar seconded to recommend to the Board the combining of existing established reserves into a single Depreciation and Obsolescence Reserve fund and to adopt the “Draft” Resolution No. 2012-07-01. Motion carried with Mr. Thomas abstaining.

- B. *In-house Rate Study*** – Mr. Moorrees explained that the Board requested staff to prepare the study in-house rather than hire an outside consultant. As such, staff prepared a worksheet that identifies SAWCo’s average revenue and expense that was included in the committee packet. Base rate and tiered rate were broken down as percentage of revenues generated shown as Entitlement Demand and Supplemental Demand respectively. Using this methodology, the gains and losses as a result of the rate structures was seen. The worksheet showed a net loss utilizing the current base rate of \$0.42 per hundred cubic foot (hcf). Various other configurations of base rate and supplemental rate were calculated to gauge possible gains or losses. It was apparent that the tiered rate subsidized the base rate. It was presented that by increasing the base rate by \$0.08 the ratio of expenses was positive and the revenues covered expenses; however, it did not provide the positive balance to fund depreciation.

Mr. Thomas suggested altering the base and supplemental rates by three cents each, which will not quite put SAWCo where it needs to be, and look at another adjustment the following year. Mr. Cable recommended a three year plan to bring SAWCo to where it needs to be whereby the base and tiered rate could be adjusted by \$0.03 each annually for three years.

Mr. Moorrees stated that he would revise the figures to calculate a three cent adjustment to both base and supplemental rates annually for the next three years. He recommended the committee recommend the Board approve a commodity rate adjustment for a three year plan to increase the base rate by three cents and the tiered rate by three cents per year for three years subject to a public hearing.

Mr. Cable moved and Mr. Bozar seconded to recommend, subject to a public hearing, the Board approve a commodity rate adjustment for a three year plan to increase the base rate by three cents and the tiered rate by three cents per year for three years. Motion carried.

- C. *Proposed Fee Schedule Amendment*** – Deferred to the next AFC meeting.

- D. *Record Management Policy*** – Mr. Moorrees explained that in 2007 The Water Company hired ITIQ Solutions, a consultant, to establish a policy for the proper management of its office files from creation to destruction. The policy presented by the consultant was not custom tailored to the water company as desired.

The Records Retention Guide included in the policy was combined with SAWCo’s retention guide and then updated. It was approved by the Board in December of 2010.

The remaining information in the policy has been reviewed and revised slightly and customized by management. The policy was presented to the AFC Committee for review and feedback and recommendation for the Board to approve the final draft as attached to this report.

Mr. Moorrees proposed the committee recommend the Board approve the Record Management Policy as presented.

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Mr. Bozar moved and Mr. Cable seconded to recommend the Board approve the Record Management Policy as presented. Motion carried.

E. *Personnel Update* – Mr. Moorrees reported that the part-time General Laborer position has been filled and the new employee, Jeff Barker, began work on June 11th.

6. Closed Session: The committee went into closed session at 4:15 p.m. to discuss the General Manager's Performance Review [subdivision 9b) of Section 54957, CGC].

The committee came out of closed session at 4:30 p.m. Ms. Sundell stated that a recommendation will be made at closed session during the next Board meeting.

7. Committee Comments and Future Agenda Items: None.

Adjournment: The committee determined there was no further business and adjourned the meeting at 4:31 p.m.

Assistant Secretary
Charles Moorrees