

SAN ANTONIO WATER COMPANY
MINUTES OF THE SAN ANTONIO WATER COMPANY
Tuesday, February 21, 2017

An open meeting of the Board of Directors of the San Antonio Water Company (SAWCo) was called to order at 5:01 p.m. on the above date at the Upland City Hall Council Chambers, 460 North Euclid Avenue, Upland, California. Directors present were Tom Thomas, Will Elliott, Ken Willis, John Gerardi, Bob Cable, Glenn Bozar and Sue Sundell. Also in attendance were Justin Scott-Coe with Monte Vista Water District (MVWD), City of Upland Councilmember Janice Elliott and Public Works Director Rosemary Hoerning, and SAWCo's General Manager Charles Moorrees, Assistant General Manager Teri Layton and Senior Administrative Specialist Kelly Mitchell. Director Thomas presided.

- Salute to the Flag lead by Ms. Elliott
- 1. Recognitions and Presentations: Mr. Moorrees announced Pierce Rossum with Carollo Engineering will be making a presentation on the proposed rate study. He also apologized for the technical difficulties which hindered getting the rate study and copy of the presentation to the Board in a timely manner. Attention was drawn to the dais where a letter of support for the California Rural Water Association and National Rural Water Association placed along with a letter in support of the Inland Empire Utilities Agency's (IEUA) Water Conservation Field Services Grant Program Application.
- 2. Additions-Deletions to the Agenda: Item 6D was moved to after Item 7B on the agenda.
- 3. Shareholder-Public Testimony: None.
- 4. Consent Calendar Items:
 - A. Approval of Board Meeting Minutes
Regular Meeting Minutes January 17, 2017.
 - B. Planning, Resources, and Operations Committee (PROC) Meeting Minutes
PROC Minutes of November 22, 2016.
 - C. Administrative and Finance Committee (AFC) Meeting Minutes
No meeting minutes to report.
 - D. Ad Hoc Committee Office/Yard Relocation Meeting Minutes
Ad Hoc Committee meeting minutes of December 1, 2016.
 - E. Financial Statement
Comparative Income Statement and Balance Sheet for December 31, 2016 and year-to-date.
 - F. Investment Activity Report
Monthly Report of Investments Activity
 - G. Water Production
Bi-Monthly water production [Jan/Feb, Mar/Apr, May/June, July/Aug, Sept/Oct, Nov/Dec]
 - H. Prominent Issues Update
Status summaries on certain on-going active issues.
 - I. Projects and Operations Update
Status summaries on projects and operations matters.
 - J. Groundwater Level patterns [Quarterly in April, July, October & January]
Tracking patterns of groundwater elevations relative to ground surface.
 - K. Correspondence of Interest
None.

Director Bozar moved and Director Gerardi seconded to approve the consent calendar as presented. Motion carried.

- 5. Board Committee – Delegate Report:
 - A. **Pomona Valley Protective Association (PVPA) Representative's Report** – Director Thomas reported on the PVPA meeting held the previous week. The draft financial statement was presented. A long-term license agreement with the City of Claremont for the Thompson Creek bike path is set

to expire but will be renewed. Through West End Consolidated Water \$8,700 has been allocated to calibrate new meters in the San Antonio Spreading Grounds.

B. Six Basins Representative Report – Mr. Moorrees reported during the January meeting of Six Basins Watermaster the board approved the transfer of 1,000 acre feet (AF) from SAWCo's stored water account to the City of Pomona. The election of the board also took place with representatives from the previous year remaining in their same roles. New legal counsel, John Mendoza, was also introduced. The board approved an amendment to extend the completion date for the task order to prepare the planning proposal to implement the Strategic Plan projects to June 20, 2017. Staff presented an update on the operating plan with new methodology to determine when to curtail spreading at the San Antonio Spreading Grounds. The methodology is based on measured water levels with specific indexed wells. Staff directed PVPA to curtail spreading when the water levels of these wells rise to within 40 feet of the groundwater. Staff was also directed to begin utilizing the new methodology immediately until the court approves the updated operating plan.

The Strategic Plan workshop was held immediately after the Six Basins Board meeting. Outside agencies were invited to discuss a more regional approach to the MS4 permit requirements. This permit requires city agencies to manage storm flows locally created by impervious surfaces.

Mr. Moorrees commented SAWCo was able to produce only 66% of its operating safe yield (OSY) in Six Basins during 2016 which meant that 100 AF of water was lost and not carried over. The 2017 OSY is 14,000 AF, down from 16,000 AF in CY2016.

C. Chino Basin Representative Report – Ms. Layton reported on the Chino Basin Watermaster 2015 Safe Yield Reset Agreement (SYRA). The Court was to issue a briefing schedule by February 17, 2017 but has pushed the date back to February 24, 2017. The Court will issue a briefing schedule with a list of questions for further briefing. The Court also noted that further oral argument is not foreclosed.

The Appropriative Pool met on February 9th and discussed the consideration of local storage agreements. Watermaster has consistently tracked water in storage accounts and reported account balances in the annual assessment packages. Watermaster put forward Local Storage Agreements for Excess Carry Over and Supplemental Water for the Non-Agriculture and Appropriative Pool. These storage agreements were basically solidifying the party's storage. The Agriculture Pool is concerned if the water is actually there and since the court has not answered their questions to the court decision, did not approve the agreements. SAWCo's legal counsel advised that Watermaster should wait until the court makes a decision and they voted no on the issue at the Pool meeting.

Watermaster brought forward a revised Form 8 for standard local storage agreement. The parties discussed the agreement and there are anticipated revisions to the form forthcoming. SAWCo's legal counsel again advised them to wait on the court decision. No action was taken at this time.

The Chino Basin Chapter in the book "Dividing the Waters" by William Blomquist covers the institutional management in Chino Basin through the early 1990s. An opportunity has been presented for the author to prepare a manuscript including the earlier writing and incorporating the time from the 1990s until present. The total cost of the effort is estimated at \$30,000. There was mixed feeling by the Appropriators. Most felt the timing was not right and if the book was to be sold that cost should be recuperated.

A quick advisory meeting took place with the Appropriative Pool having a closed session. Since the Agriculture Pool voted no and there was concern that they may file court action, the Appropriator's Chair and Vice-Chair are planning to meet to discuss the issue on the local storage agreements.

Watermaster Board and staff will be going on a retreat for a workshop in 6 weeks. The Chair of the Board has invited the Chair and Vice-Chair of the Appropriator Pool to attend. The Chair is to get clarification of process and expectations of the retreat.

D. Administration and Finance Committee (AFC) Chairman's Report – No meeting to report.

E. Planning, Resources, & Operations Committee (PROC) Chairman's Report – Two of the items discussed at the most recent PROC meeting are included in the General Manager's Report on Activities.

F. Office Feasibility Study Ad Hoc Committee – Ms. Layton stated a meeting was held on January 23rd to discuss the pre-concept sketch and provide input. The next meeting is scheduled for March 1st at 2:00 p.m. The architect and Ms. Hoerning will be in attendance to provide feedback.

6. General Manager's Report on Activities:

A. California Urban Water Conservation Council (CUWCC) – Mr. Moorrees reported SAWCo joined CUWCC in 2005 for the ability to utilize their Best Management Practices (BMPs) and Demand Management Measures (DMMs). These are needed for the development of SAWCo's Urban Water Management Plan (UWMP). As a retailer, IEUA picked up the cost for SAWCo's membership in CUWCC. In 2010 SAWCo became classified as a wholesaler and was no longer subsidized by IEUA. Staff feels there is no longer any benefit in membership with CUWCC and feels they can produce their own DMMs and BMPs.

With no real benefit in participating in CUWCC, staff presented to the PROC that the DMMs and/or BMPs can be developed by SAWCo staff. Mr. Moorrees recommended the Board remove itself from the CUWCC membership, to develop its own DMMs and BMP, and to present SAWCo's draft DMMs and BMPs to the PROC for recommendation to the Board for adoption.

Director Bozar moved and Director Gerardi seconded the general manager's recommendation to remove itself from the CUWCC membership, to develop its own DMMs and BMP, and to present SAWCo's draft DMMs and BMPs to the PROC for recommendation to the Board for adoption. Motion carried.

B. Holly Drive Reservoir – Mr. Moorrees requested a budget increase to provide additional California Environmental Quality Act (CEQA) requirements for the planning process to construct a proposed Holly Drive Reservoir. Staff engaged with TKE Engineering in April 2016 to provide engineering services and initial environmental work for the design of the Holly Drive Reservoir. There are some additional requirements needed to comply with CEQA that were not part of their original proposal. Additional studies include; air/quality/greenhouse gas, biology, coastal California Gnatcatcher (CAGN), cultural resources, noise, and hydrology. The total amount of the increase for the studies is \$23,900. The additional studies are projected to take up to 6 months to complete with the majority of the time associated with conducting the CAGN protocol surveys and completing the AB52 consultation process which consists of mandatory consultation with local Native American tribes regarding "traditional tribal resources".

Mr. Moorrees recommended the Board agree with the PROC and appropriate an additional \$24,000 for TKE Engineering for the additional environmental work for the 100,000 gallon Holly Drive Reservoir design from Depreciation & Obsolescence Reserve as appropriate.

Director Thomas questioned whether or not in the meantime the site would be prepped to be ready to build once the studies are complete. Mr. Moorrees advised the design of the reservoir is budgeted for this year but building the reservoir will be budgeted for next year.

Director Sundell voiced concern that these items seemed fairly standard and wondered why they were not included in the original proposal. Mr. Moorrees replied the CAGN is not usually required at

the elevation the reservoir will be built and AB52 was approved after the original proposal was submitted.

Director Bozar moved and Director Willis seconded to approve \$24,000 from Depreciation & Obsolescence Reserves for TKE Engineering to conduct the additional environmental work for the 100,000 gallon Holly Drive Reservoir design. Motion carried.

C. Water Shortage Stage Alert Status – Mr. Moorrees proposed changing the current water shortage stage alert from High to Moderate. The rains and snow pack received in December to date have been more than seen in previous years. January's rain total this year was nearly double that of 2016. Changing the water shortage stage does not remove restrictions but reduces them. An example is moving from outdoor watering two days a week to odd numbered addresses watering on odd numbered days and even numbered addresses watering on even numbered days.

Director Thomas inquired about future raising of water entitlement per share. Mr. Moorrees advised staff will be looking at production and will hopefully be able to propose an increase in entitlement in late spring.

Mr. Moorrees recommended the Board approve reducing the High Water Shortage Stage to the Moderate Water Shortage Stage alert effective March 1, 2017.

Director Cable moved and Director Gerardi seconded to approve implementing the Moderate Water Shortage Stage alert effective March 1, 2017.

Director Bozar recommended a grammatical change to the alert stage to clarify the hosing off of driveways and sidewalks.

Motion carried.

D. Project Status Report –

- **WFA Pipeline Connection** – The design is complete. SAWCo is utilizing the City of Upland's water quality sampling to meet the State Water Resources Control Board's (SWRCB) requirement of additional sampling to remove the Bin 2 classification. Once the classification is changed and approved by SWRCB SAWCo will look to WFA to approve the connection.
- **Water Master Plan** – A meeting is scheduled with staff to strategize and prioritize future projects.
- **Basin 6 Desilting** – The County recently completed their review of the environmental report. It will go out for the 30 day comment period.
- **Cucamonga Basin-Desilting Project at Crosswalls** – Payment was issued to the Regional Water Quality Control Board for the 401 permit. The permit has not been received. Staff is still awaiting a permit from the Army Corps of Engineers who has asked for a baseline maintenance plan. TKE Engineering has provided the plan, staff is reviewing it before submittal. SAWCo is also waiting for San Bernardino County Flood Control District to approve the alternate haul route. A revised proposal from GRB Equipment and Holliday Rock is also expected.
- **Water Rights Investigation** – Activity – A meeting took place with two representatives from the State Water Resources Control Board, Division of Water Rights (SWRCB) on February 3rd. SAWCo staff asked that they meet with the United States Forest Service (USFS) to identify diversions. Special counsel recommended a meeting between the SWRCB, USFS, and SAWCo staff.
- **Office Relocations Feasibility Study** – Upcoming meeting on March 1st.
- **Well 31 Biological Treatment** – This project is currently on hold. It does not appear that the final cost per acre foot of water is feasible. Staff has asked the consultant to look at an adjustment using less reactors to see if the cost can be reduced.

7. Public Hearing –

A. Proposed Rate Increase and Water Availability Fee Implementation Presentation-

Director Thomas stated that because the materials for the public hearing were not received in a timely manner the Board would have the presentation by the consultant and open up the item for comments and questions but would postpone acting on the item until next month's Board meeting.

Mr. Moorrees introduced Mr. Pierce Rossum with Carollo Engineers who gave a presentation on the four options for the proposed rate increase and water availability fee implementation.

Mr. Moorrees recommended using the fourth option presented which would fund 1 million dollars in fixed costs, enhance equity and revenue stability, and maintain a variable rate structure. A \$13.50 water availability charge would be billed per water share with the base rate moving to \$0.66 per hundred cubic foot (hcf) and the supplemental rate moving to the 'at cost' price the water company pays to purchase water from an outside entity (currently \$1.78/hcf).

Mr. Rossum described how each option affected fixed cost recovery. Option 1 was similar to SAWCo's current rate structure as only 10 percent of funds came from fixed costs with the remainder from variable costs. Option 2 had 50 percent of funds coming from fixed costs. Options 3 and 4 had 23 percent of revenues coming from fixed costs.

Mr. Moorrees stated Options 3 and 4 are in line with what other water companies aim for with fixed cost recovery.

Director Thomas requested an option with a mix of readiness to serve charge and water availability charge. He also requested the cost per acre foot of water under each option.

Mr. Moorrees suggested an option that based the water availability charge on entitlement.

Mr. Rossum advised the proposed rates would be indexed so they will go up with inflation.

Mr. Peter Cherbak, a shareholder, questioned such a shortfall in 2017 when it's only two months into the year. He stated there are wet and dry cycles which last about 5 to 7 years and questioned why the study is basing everything off of a dry cycle.

Mr. Rossum replied they based the study on current figures and projections. There is no way revenues will stay completely static. Each year the rates will be adjusted reflective of what entitlements are. They have identified a need for \$4.5 million in the next year in order to meet the budget. Having 1 million dollars covered by the water availability charge requires \$3.5 million coming from the base rate. Calculating \$3.5 million using an entitlement of 12,000 cf equates to a \$0.66 per hcf base rate.

Mr. Ken Petschow, a shareholder, stated there are assets that will need replacements and it's difficult to know what the costs will be. He is a shareholder in another local water company and when they need to do capital improvements or repairs they assess the shareholders. He stated that not getting the revenues needed due to lack of water sales doesn't warrant a rate increase, it warrants a stop gap measure. He recommends assessing the shareholders, eliminating the readiness to serve charge, and adjusting the rates slightly.

Ms. Hoerning thanked the Board for not taking action on this item at this time. She stated that Option 4 does represent a significant adjustment to the City of Upland and its customers. A one million dollar increase in raw water costs would take place and would equate to a 9% increase to their customers. Ms. Hoerning advocated a hybrid between Option 1 and Option 4. SAWCo water is roughly 45% of the City of Upland's water supply and an increase in their rates will result in a rate increase to City of Upland customers. She suggested sitting down with staff to discuss different rate structuring and phasing in the rate increase. Equity and considerations for benefits should be a part of the equation. Ms. Hoerning also inquired whether the general manager would attend a city council meeting and present the rate adjustment SAWCo needs to implement.

Director Thomas stated he would like to be a part of any meeting held to discuss the topic. He would like to see how the rates structure would affect all shareholders.

Director Willis commented that Upland and San Antonio Heights residents have access to high quality water at the lowest cost in the area. He felt it important to keep the rates low for future shareholders.

Director Sundell reiterated the need for more time to process the options. Another meeting prior to the public hearing would be beneficial.

Mr. Scott-Coe thanked the staff, consultants, and participants of the workshops as he found them very helpful. He commented on Carollo Engineers work on the study as he felt it was high quality work much like what they provided for MVWD and other local entities. SAWCo is not as high of a water supply provider for MVWD however there is the potential of a slight increase in rates to their customers if SAWCo raises their rates. MVWD has questions regarding the revenues and in better understanding the expenditures estimates as well as the water availability charge. He appreciated and supported the recommendations Ms. Hoerning made.

Director Bozar thanked all that spoke. He commented that in becoming drought tolerant water sales have gone down and questioned whether that is going to be permanent and will this affect maintaining infrastructure.

Mr. Moorrees stated that is why it's important to look at fixed costs and how fixed revenue is being implemented. If all fixed revenue covers fixed cost you would not have to raise rates.

Director Cable commented he uses much less water than he is entitled to according to his shareholdings. At the end of a billing cycle he does not receive a dividend or have the ability to sell his remaining entitlement to someone else at a higher price than he paid. He believes there's a little give and take needed when discussing what type of shareholder is responsible for paying for certain types of infrastructure. He liked the idea of the water availability charge recognizing it would be a big hit to the City of Upland. At the \$13.50/share cost the city would incur a \$702,000 fee and with 20,000 customers that would equate to a \$3/month increase on their water bill. He felt it equitable across the board. Assessments for every \$500,000 the water company is in a deficit would be \$78.25 annually per share. A \$3 million dollar deficit such as the one SAWCo is in is a big assessment to charge at the end of the year. Small increments for assessments would not be a big deal. He stated that when you buy into a shareholder owned company you buy into the whole company not just the portion you want or need. You pay to keep the whole company running.

Director Gerardi thanked everyone for their comments. He stated the main objective was to come to an equitable solution.

Director Thomas asked for the figures if MVWD, City of Ontario, and City of Upland took their full entitlement last year. He inquired whether SAWCo would have broken even or still been in a deficit. He also suggested a third tier for those that go well over their entitlement. Mr. Rossum responded that a third tier would go to supplemental reserves and the company would not want to look at balancing the budget with that extra tier. Mr. Moorrees was opposed to a third tier rate as tiered rates do not make sense in a mutual water company. He already does not understand the methodology behind the second tier rate SAWCo currently charges.

The Board felt more information was needed in order to make a decision. Mr. Rossum will take the comments provided at the public hearing and present altered or additional options. Another small workshop is proposed to take place prior to the next Board meeting.

Director Willis moved and Director Gerardi seconded to continue the public hearing to the next Board meeting. Motion carried.

B. Board deliberation and action on approving Resolution 2017-02-01

No action taken.

C. Carollo Engineers – Rate Study – Deferred

8. Closed Session: None.

9. Director's Comments and Future Agenda Items: None.

Adjournment: Seeing no further business the meeting was adjourned at 6:48 p.m.

Future Meetings:

The next Board Meeting will be held on Tuesday, March 21, 2017 at 5:00 p.m.

Assistant Secretary
Charles Moorrees