

HERITAGE RANCH COMMUNITY SERVICES DISTRICT
BOARD OF DIRECTORS MEETING
MINUTES OF December 17, 2009

Directors present: Richard Gourley, Marilyn Breland, Ralph Allison, Dan Burgess, Don Clarke
Directors absent: None
Staff present: John D'Ornellas, General Manager, Debbie Fransen, Finance Manager

OPEN SESSION 4:00 PM

CALL to ORDER/FLAG SALUTE

President Allison called the meeting to order and led the flag salute.

ROLL CALL

All Directors in attendance.

PUBLIC COMMENT

None.

MINUTES

3. Minutes of November 19, 2009: President Allison asked if there were any questions about the minutes. There were no questions. Director Breland moved to approve the November 19, 2009 minutes. Director Gourley seconded the motion. The vote carried 5-0 in favor.

PAYABLES

4. November 2009 Payables: President Allison asked if there were any questions about the November payables. There were no questions. Director Clarke moved to approve the Warrant Register for October. Director Burgess seconded the motion. The vote carried 5-0 in favor.

PUBLIC HEARING

5. Water & Sewer Rate Increase: D'Ornellas introduced the item and said he would give a brief background and then turn the presentation over to District rate consultant, Clayton Tuckfield, for a report on his findings and recommendations. D'Ornellas said the Board authorized a study for water and sewer rates in April 2009 and issued a notice to proceed for the work to Tuckfield and Associates in May. He indicated the goal of the study was to balance the District's revenue requirements for water/sewer operations while providing a

rational and fair rate plan to our customers. He reported that a public workshop was held on October 15 to receive the consultant's recommendations and provide a forum for open discussion between the Board, staff and public. D'Ornellas introduced Clayton Tuckfield and said he was uniquely qualified to review the District's rates and make recommendations because he has an MBA and an Engineering Degree with 23 years of experience in developing successful financial plans for utility operations and has prepared over 60 rate studies for cities, districts, state and county governments.

Tuckfield presented his findings in a PowerPoint presentation that highlighted a five year financial plan for the District's water and sewer funds with recommendations for rate increases to both funds over a five year period. Tuckfield said the rate study conducted in 2001 projected annual cost increases of 2% while the actual increase in both funds has been 5%. He said that revenue has not kept pace with actual O&M expenses and that reserves have been drawn down to meet annual obligations. He said there has also been a reduction in property tax revenue/interest income during this time period further causing revenue to fall short of operating costs. Tuckfield indicated there has been no adjustments to rates over the last 3 years and that we need to increase rates now to avoid further decline in capital reserves. Clayton presented a rate plan for water and sewer rates that gradually phases in new rates over a five year period. He reported the rate plan assumes slow growth over the period with a 5% increase in cost annually, and a 1% decrease in water use per customer. Tuckfield said the plan provides for a 90 day operating reserve for the water and sewer funds and assumed cash reserves will earn 1.5% interest and that all water and sewer capital expenditures will be paid from sources of funds outside of the water and sewer funds. He indicated the water rate structure will continue to have a fixed meter fee, an allotment of water within the fixed fee and a new tiered volume fee for water used above the first block. He said the new three block rate structure will encourage water conservation. Tuckfield presented the proposed rates for sewer services that included a flat fee based on a single family dwelling unit.

Tuckfield showed a series of slides with the proposed water and sewer fees over the next five years. He also compared the District's rates with other agencies in SLO County. The comparison revealed the rates at Heritage Ranch are still in the lower third for water and sewer services when compared to other agencies revealing the District's costs are appropriate. Tuckfield said the necessary rate adjustment for water is 20% per year for the first two years and 8% per year for the final three years of the study. He said the increase for sewer rates is 10% per year. Finally he reported the increase that would be needed if property taxes were no longer received by the District to fund its operations. Tuckfield reported the average annual increase for water and sewer combined, over the five year period for a customer with 3/4" meter and using 14 units of water, is \$11.91 bimonthly.

President Allison opened the public hearing at 4:23 to receive public input and written protests on the proposed water and sewer rate increase. Approximately ten members of the public spoke against the proposed rate structure. Comments included the rates were too high, only one or two year increases should be considered, Heritage Ranch should be a cheap place to live, the poor economic conditions of the area dictate that rates should not be raised, costs must be analyzed, and more education is needed about rates. One resident spoke in favor of the increase saying the study was well done and rates should be increased to maintain the water and sewer systems infrastructure and operations. President Allison closed the public hearing at 5:02 and asked D'Ornellas to count the number of protests

received. D'Ornellas reported that 1,792 protest notices were mailed to customers and five protests were received.

President Allison asked Board members if there were any questions or comments about the report. Director Gourley said he agrees that a rate increase is needed to cover costs but feels rates should be reviewed annually. He said that he is not comfortable implementing the entire five year rate increase. Gourley made a motion to adopt the five year rate increase but require an annual review of the proposed rates before implementation each year of the increase. Director Breland indicated that a new rate study is not needed every year because cost for all supplies, equipment and labor increase annually. She said that depreciation needs to be funded and reserves should not be used to finance daily operations. Breland indicated that she supported the recommendations of the rate study. Breland also mentioned that many of the comments she heard revealed a lack of understanding of District water and sewer operations. Director Burgess said that he is not in favor of higher rates but the District must operate in the black and must only use reserve funds for capital projects. Burgess said he supports a review of the rate recommendations in years three, four and five of the study. Director Clarke said that he supports the recommendations in the study and one item that has not been mentioned is the involvement of Federal and State agencies in water and sewer mandates the District must operate under. He said that much of the District's costs are not discretionary but rather mandated by agencies such as the EPA and the RWQCB. President Allison said that he worked in the health profession all his life and feels that water and sewer services are health issues. He indicated that effective and efficient water and sewer services provide a healthy community and rates must be kept in line with the cost of providing the service. Allison said that he believes costs are appropriate and that staff compensation is set at the median of the labor market. Allison also summarized several of the District's approved capital projects that are using reserve funds.

Director Allison seconded the motion. D'Ornellas read the motion again for clarity that Resolution 09-11 is adopted that approves the five year rate plan as submitted with the provision the rates will be reviewed annually during the budget process. A roll call vote was held with all Directors voting yes. The vote carried 5-0 in favor.

DISCUSSION ITEMS

- 6A. District Officer Rotation Policy. D'Ornellas reported the president and vice president of the Board is elected by the members of the Board for a two-year term. He said the election is held at any time during the first regular meeting following the date members of the Board are eligible to assume office following the general District election. D'Ornellas said we have followed this policy in our ordinance for appointment for many years but the Board asked for discussion on the policy. He indicated the Board has discussed the option of rotating the office of president and vice president every year rather than two years to give all members an opportunity to sit as president. D'Ornellas said most local agencies have a customary arrangement during nomination periods that provides for any serving members to be offered the president position based on seniority. D'Ornellas asked if the Board would like any changes to the current policy. There was discussion amongst the Board of the benefits of rotating officers every year to give all members a chance to serve as president. President Allison indicated that it was a good idea to rotate officers annually so

as not to allow one member to dominate the office of president. There was Board consensus for support of a customary rotation based on seniority rather than a formal policy. Director Allison made a motion to formulate the one year term policy for approval at the next meeting. Director Breland seconded the motion. The vote carried 5-0 in favor. Allison said he would resign as Board President if there is support to nominate the senior Board member, Marilyn Breland, as president for 2010.

Director Clarke departed the meeting at 5:51 PM.

CONSENT ITEMS

- 7A. Treasurer's Report for November 2009: D'Ornellas presented the Treasurer's Report for November 2009. Item was received and filed.
- 7B. Fiscal Report November 2009: D'Ornellas presented the Fiscal Report for November 2009. Item was received and filed.
- 7C. Manager's Report November 2009: D'Ornellas presented the report. Item was received and filed.
- 7D. Engineer's Report November 2009: President Allison asked if there were any questions on the Engineer's Report. There were no questions. Item was received and filed.
- 7E. Staff Report November 2009: D'Ornellas asked if there were any questions on the Staff Reports. Item was received and filed.
-

BOARD STAFF GENERAL DISCUSSION

None.

ADJOURNMENT

Director Burgess made a motion to adjourn the meeting. Director Gourley seconded the motion. The vote was 5-0 in favor. The meeting adjourned at 6:04 PM.

Approved:

Ralph Allison, President Board of Directors

Attest:

John D'Ornellas, Secretary Board of Directors