

**MINUTES OF THE SPECIAL MEETING OF THE
BOARD OF DIRECTORS OF TRABUCO CANYON WATER DISTRICT
OCTOBER 19, 2015**

The Special Meeting of the Board of Directors of the Trabuco Canyon Water District (TCWD) was called to order by President Stephen Dopudja at 6:00 PM, in the Board Room at the District Administrative Facility, located at 32003 Dove Canyon Drive, Trabuco Canyon, California. Mr. Michael Perea, District Secretary, recorded and transcribed the minutes thereof.

DIRECTORS PRESENT

President Stephen Dopudja
Vice President Glenn Acosta
Director James Haselton
Director Edward Mandich
Director Michael Safranski

STAFF PRESENT

Hector Ruiz, General Manager
Michael Perea, District Secretary
Lorrie Lausten, Engineer
Karen Warner, Accounting Supervisor
Lisa Carmouche, Administrative Assistant

DISTRICT CONSULTANTS PRESENT:

District General Legal Counsel – Rob Anslow (Bowie, Arneson, Wiles & Giannone)
District Treasurer – Cindy Byerrum (Platinum Consultants)
Assistant District Treasurer – Josh Byerrum (Platinum Consultants)
Steve Gagnon, PE, Senior Consultant, Raftelis Financial Consultants, Inc.
Sanjay Gaur, Vice President, Raftelis Financial Consultants, Inc.

PUBLIC PRESENT

There were members of the public present.

PLEDGE OF ALLEGIANCE

Director Safranski led the Board and District staff in the pledge of allegiance.

VISITOR PARTICIPATION

There was no Visitor Participation received.

ORAL COMMUNICATION

There was no Oral Communication received.

DIRECTOR'S COMMENTS

Director Mandich had no comments.

Director Safranski had no comments.

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Vice President Acosta welcomed the visitors in the audience.

Director Haselton had no comments.

President Dopudja welcomed the visitors in the audience, and expressed his appreciation for District staff and Raftelis Financial Consultants (RFC) work and preparation of the Water, Wastewater, and Recycled Water Rate Analysis (Rate Analysis). President Dopudja commented that the Rate Analysis process has included the Regular Board Meetings and multiple Special Board Meeting/Rate Workshops for a transparent presentation of the development of the proposed rate adjustments and encouraged public input.

REPORT FROM THE GENERAL MANAGER

Mr. Ruiz reported on the following matters:

- Mr. Ruiz reported that the District experienced a 37% reduction of potable water use for the month of September 2015 in comparison with September 2013, and that an approximate 150 million gallons of water has been saved to date. Mr. Ruiz added that the month of October will be a crucial period for continued potable water savings, unless this month has equal or more precipitation than October 2013.
- Mr. Ruiz advised the Board of Directors that District staff has prepared additional District "Thank You" cards for their signature.

ACTION CALENDAR

ADMINISTRATIVE MATTERS

ITEM 1: WORKSHOP REGARDING TCWD'S WATER, WASTEWATER AND RECYCLED WATER RATES

Mr. Ruiz provided a status update concerning the District's Rate Analysis of Water, Wastewater and Recycled Water Rates for the Board, and mentioned that Mr. Gaur and Mr. Gagnon from Raftelis Financial Consultants, Inc. (RFC) were in attendance to deliver a presentation on the District's Financial Plan for the determination of the proposed rates. Mr. Gagnon's presentation included the following topics:

Pricing Objectives Review

Mr. Gagnon reviewed the pricing objectives determined at the August 3, 2015 Special Board Meeting/Rates Workshop with the Board, and mentioned that the Board expressed a desire to implement a rate design that emphasized revenue stability but was affordable to the District's customers as well. Mr. Gagnon highlighted the impacts of recent drought-related legislation and case law decisions which affect the development of water rates. Discussion occurred concerning the City of San Juan Capistrano vs. Taxpayers of San Juan Capistrano case.

Cost of Services Analysis and Rate Design Discussion

Wastewater Rates

Mr. Gagnon presented and reviewed the proposed Wastewater Cost of Services (COS) Analysis, and explained that the Water Environment Federation (WEF) Manual of Practice No. 27, Financing and Charges for Wastewater Systems (2004) was used as the standard basis for the proposed COS. Mr. Gagnon reviewed the methodology for determining the proposed wastewater rate, which included (1) the flow and strength of wastewater, (2) the functionalization of operations and maintenance and capital costs into functions, and (3) the allocation of functionalized revenue requirements into cost components. Mr. Gagnon reviewed the COS analysis results, and highlighted the proposed wastewater rates based on the COS analysis and the related customer impacts. Discussion occurred concerning internal changes for District utility billing of wastewater services, and the overall impact to the typical residential customer monthly utility bill.

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Water Rates

Mr. Gagnon presented and reviewed the proposed water COS Analysis, and mentioned that the American Water Works Association (AWWA) M1 Manual, Sixth Edition, was used as the standard basis for the proposed COS. Mr. Gagnon reviewed the methodology for determining the proposed water rates, which included the functionalization of operations and maintenance and capital costs into functions. Mr. Gagnon highlighted the individual functions, which included supply, treatment, storage, pumping, transmission and distribution, fire protection, meter maintenance/service, and customer service – billing and collection. Mr. Gagnon described how the functionalized costs are allocated to each cost component, and commented the method for distribution of cost components to customer classes. Mr. Gagnon reviewed the water COS Analysis results in detail and described how each water cost component is related to the proposed individual service charges for Fiscal Year Ending 2016. Discussion occurred concerning the factors used to determine the implementation of the Temporary Reserve Stabilization Charge (TRSC), and utility bill affordability with the proposed service charges. Mr. Gagnon highlighted the proposed single family residential tier (SFRT) definitions, and recommended that the District reduce its current tiered billing to four tiers. Discussion occurred concerning the methodology for the tier determination and the necessity to classify each tier with a respective title. Mr. Gagnon reviewed the expected impact of the proposed SFRT on District customers based on actual customer class usage for Fiscal Year Ending 2014/2015, and mentioned that approximately two-thirds of all District customers will likely remain below tier three usage.

Mr. Gagnon presented the proposed Meter Flat Rates, and highlighted the components of the rates, which included:

- Billing and Customer Service: Costs associated with meter reading, billing, and customer service, which are uniform for all meter sizes;
- Meter Service: Costs associated with meter maintenance costs which increase in proportion to meter replacement cost;
- Peaking Related Costs: Costs associated with meeting peak water demands which increases with AWWA hydraulic capacity ratios by meter size.

Mr. Gagnon reviewed the proposed Fiscal Year Ending (FYE) 2016 Meter Flat Rates, and highlighted how the rate components impact the proposed rates. Discussion occurred concerning the typical residential meter size and potential impact to customer utility bills.

Mr. Gagnon presented the proposed Water Usage Rates for Board review, and highlighted the components of the rates, which included:

- Variable Water Supply: Variable water purchase costs, which for the District represents untreated and treated water purchases;
- Delivery: Costs associated with water system delivery to meet average daily demand;
- Conservation: Costs associated with the District's Water Conservation Program;
- Peaking: Peaking costs that are collected through the water usage rate;
- Revenue Offset: Property tax and miscellaneous operating revenues used to offset costs to provide affordability to District customers.

Mr. Gagnon reviewed the derivation of water usage rates, and highlighted how the rate components impact the proposed rates, specifically the costs associated with blended water (untreated + treated) usage as opposed to fully treated water usage. Discussion occurred concerning the implementation of the conservation cost component at tiers three and four; Mr. Gagnon mentioned that a portion of the revenue from those specific tiers will be allocated to the District's Conservation Program. Mr. Gagnon reviewed the methodology for the

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determination of the Water Supply Rate, and reviewed the impact of the water supply sources on the unit variable rates. Mr. Gagnon reviewed the definition and methodology for the determination of the proposed peaking factors, and mentioned that the peaking factors were based on actual District customer class data from July 2013 to June 2015. Mr. Gagnon presented the proposed basic water usage rates for FYE 2016 for Board review, and highlighted how the rate components impact the proposed rates. Discussion occurred concerning the impact of the property tax revenue offset on the proposed water rates; Mr. Gagnon mentioned that District customers with usage in tiers one and two will experience the proposed revenue offset. Mr. Gagnon reviewed the proposed FYE 2016 Elevation Surcharges for the specific existing pumping zones within the District's service area, and mentioned that the proposed charges are designed to recover incremental electricity, repairs and maintenance costs for pumping water to elevated pressure zones. Mr. Gagnon presented and reviewed the methodology for the determination of the proposed TRSC, which included a demonstration of the impact of the drought and the State Water Board's mandated Emergency Regulations on District revenues and expenses. Discussion occurred concerning the specific conditions which would require the implementation of the TRSC; Mr. Anslow mentioned that he will work with District staff and RFC to ensure the specific conditions will be included in the Rate Resolution for Board review.

Recycled Water

Mr. Gagnon reviewed the derivation of recycled water rates, and highlighted how the rate components impact the proposed rates, specifically the costs associated with type of water supply, delivery costs, and peaking costs. Mr. Gagnon reviewed the proposed FYE 2016 recycled water usage rates with the Board.

Proposed 5-Year Rates and Customer Impact Analysis

Wastewater Rates

Mr. Gagnon reviewed the proposed 5-year wastewater rate adjustments by customer class. Discussion occurred concerning oral history of the District's wastewater rates; Director Safranski commented that the District has not adjusted the wastewater rates since the early 1990s. Mr. Gagnon reviewed the single family wastewater utility bill impacts for the 5-year period with the Board, and mentioned that the increases are directly related to the District's costs for the pumping and treatment of the wastewater collected in the sanitary sewer system.

Water Rates

Mr. Gagnon reviewed the proposed 5-year water meter flat rate adjustments by meter size. Discussion occurred concerning the overall impact to single family residential customers, and their typical meter size; Mr. Gagnon mentioned that District customers typically have a 5/8" to 3/4" meters. Mr. Gagnon reviewed the proposed 5-year water usage rate adjustments excluding pass-through water supply rates, drought surcharges, elevation surcharges, and highlighted the reduction from eight to four tiers. Mr. Gagnon reviewed the proposed 5-year elevation surcharges by existing pumping zones and the estimated pass-through water supply rates. Mr. Gagnon reviewed scenarios which demonstrated the overall impact to the single family residential utility bill at six different water demand levels, both with and without the implementation of the TRSC.

Recycled Water

Mr. Gagnon reviewed the proposed 5-year recycled water usage rate adjustments. Discussion occurred concerning the differences between the maintenance costs associated with the recycled water system as opposed to the potable water distribution system. Mr. Gagnon reviewed the overall impact to recycled/reclaimed water users on an annual basis.

Director Safranski commended Mr. Gagnon and District staff on the quality of the presentation, and discussed the District's past efforts to control and absorb costs to provide affordable rates of service to its customers. Vice

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President Acosta commended Mr. Gagnon and District staff on the information presented, and addressed District challenges to maintain viability and provide competitive rates based on the true cost of services. Director Haselton commented on the District's challenges, such as the pumping costs directly related to the elevation of the service area. Discussion occurred concerning the total number of District customers relative to the amount of services and the number of District employees; Mr. Ruiz mentioned that twenty District employees serve a population of approximately 13,000 over a large and diverse service area. President Dopudja thanked RFC and District staff for their hard work throughout the rate analysis process, as well as the members of the public who attended the Special Board Meeting. Discussion occurred concerning the District's past cost control efforts, such as the pursuit of available grant funding and loans, to diversify its water supply portfolio and decrease its reliability on purchased water.

Mr. Stan Kirst, District customer, addressed the Board, and inquired about the proposed rate adjustment differences between potable water and recycled water. Mr. Kirst commended District staff on the presentation and thanked the District for the work done on behalf of its customers.

Mr. Chris Kinner, District customer, addressed the Board, and commended the Board and District staff on the presentation, and highlighted the importance of the messaging of the proposed tiers to District customers.

Director Mandich commended RFC and District staff on the presentation, and mentioned that it was easy to follow and understand. Vice President Acosta inquired on the preparation of the Proposition 218 Notice and possible collaboration with a public outreach consultant; Mr. Ruiz mentioned that District staff has contacted Thomas Communication Group for assistance with preparing the Proposition 218 Notice. President Dopudja expressed his appreciation to Mr. Gagnon and Mr. Gaur for their hard work and working with District staff on an aggressive timeline.

Action: The Board received the information concerning the matter, and no action was taken.

ADDITIONAL DIRECTORS' COMMENTS

There were no additional Directors' comments received.

ADDITIONAL GENERAL MANAGER COMMENTS

Mr. Ruiz had no additional comments.

END ACTION CALENDAR

ADJOURNMENT

President Dopudja adjourned the October 19, 2015, Special Board Meeting at 7:55 PM.