



August 26, 2019

Board of Directors
Vallecitos Water District
201 Vallecitos de Oro
San Marcos, CA 92069

Re: August 29, Workshop Meeting

Dear Members of the Board of Directors of the Vallecitos Water District:

I would like to take this opportunity to comment on the proposed Capital Facility Fees as I will be unable to attend the August 29th Workshop due to a commitment to teach Accounting and Finance classes at California State University San Marcos. None of my concerns expressed in my May 28th letter (attached) were addressed at the August 7th Public Hearing. I respectfully request that each issue raised in my previous letter and those mentioned in this communication be addressed in a return email to me and at the upcoming Workshop.

Rate Calculation Deficiencies

Among the deficiencies I detailed in my May 28 letter to you was a calculation error that has not been corrected or addressed. Please correct the error before adopting the rate. The letter is attached.

Recovering the developer fund deficit, which has been paid for by ratepayers, has been down-played in public deliberations. Please address it directly at the Workshop. If all of the assumptions in the rate calculations are true, ratepayers will wait sixteen years to be paid back. Some of the assumptions are not only aggressive, but impossible. If the rates are adopted as proposed, ratepayers will never get paid back. Please change the recovery period to five years, as revised on my May 28 letter, in an effort to recover the deficit before the next Master Plan.

Lack of Transparency and Responsiveness Towards Ratepayers / Public Trust

I teach roles and responsibilities of public officials to graduate students in the Water Management and Leadership Certificate Program at CSUSM. The Board sets policy and executive management must implement that policy, even if it is not in the best interest of ratepayers. But executive management has the responsibility to disclose to the Board and to the Public the impacts of such decisions. At the August 7 Public Hearing, there was no mention of the scores of millions of dollars ratepayers have paid since 2013 to fund the developer deficit and accumulate reserves sufficient to continue to fund developer obligations.

Ratepayers will suffer further negative impacts from the adoption of capital facility fees that I have clearly demonstrated in my May 28 letter are not sufficient to pay for developer obligations. From July 1, 2013, through June 30, 2019, ratepayers have paid \$54 million to fund the developer deficit and amass reserves sufficient to continue to cash finance developer obligations – that’s according to your audited financial statements, the June 30, 2019 water revenue and expense report, and reserve reports all prepared by the District. During that same six-year period, developers paid \$31.3 million towards their obligations – less than ratepayers have paid.

Director Hal Martin admonished staff at a Finance Committee meeting saying in regards to the proposed capital facility fees, “I want to be competitive.” I hope the rest of the Board does not share this objective. It is not in the best interest of ratepayers to keep developer fees low since ratepayers have already paid many millions of dollars to subsidize developer rates. Any rate adopted lower than the revised rates mentioned in my May 28 letter is an accommodation to developers. The Board should wait at least until the deficit is restored before considering accommodations to developers.

The Building Industry Association (BIA) provided the capital facility fee comparison shown at the August 7 Public Hearing. The comparison was misleading as the lowest rates presented were from agencies that haven’t adjusted their rates in decades – no need since there is no new development in those agencies. Olivenhain Municipal Water District has five zones for water capacity ranging from \$10,256 to \$21,644. Only the lowest rate was included in the comparison without a footnote or explanation. A fair presentation would be to average the zones as I did when I presented the State of the Water Rates lectures at Palomar College. The BIA has clearly demonstrated a lack of credibility, particularly in their representative’s comments at the August 7 Public Hearing, nearly all of which were misleading, inaccurate, or false. The “misinformation” I was accused of “spewing” was ironically from Vallecitos Water District’s audited financial statements, meeting minutes, reserve reports, budgets, and other public records. Vallecitos Water District (VWD) management has a responsibility to the public to review information, particularly from the BIA, before presenting such information to the Public. In effect, even though the report was prepared by the BIA, it was VWD that misled the public, due to lack of due diligence.

VWD used to post all materials presented in a public meetings on the website. Nothing presented at the August 7 Public Hearing or any finance committee meetings related to the proposed capital facility fees have been posted on the VWD website. There are no materials posted with the August 29th Workshop Agenda.

At the August 7 Public Hearing, Finance Manager Owen presented the last year of a five-year projection showing the deficit down to “only” seven or eight million dollars. What he failed to disclose was the \$28 million in debt proceeds included towards the end of the projection period. VWD has demonstrated no intention to debt finance developer obligations. Without the debt proceeds and with the capital facility fees as proposed, VWD is projecting that the current \$14 million developer fund deficit will increase to \$35 million in five years – to be funded by ratepayers. These impacts need to be disclosed to the Public.

Financing Developer Obligations

At an April Finance Committee, staff and the Committee expressed the intent to finance developer obligations with ratepayer money. I expressed concerns in my May 28 letter about using ratepayer money for purposes other than providing water and sewer services. At the August 7 Public Hearing, staff publicly expressed the intention of issuing bonds instead of cash financing with ratepayers’ money.

Actions speak louder than words. No reimbursement resolutions anticipating debt financing of capital improvement projects were adopted with the budget or since then. The VWD budget contemplates a \$16 million dollar paydown of a 50-year liability (pension obligation), before issuing bonds. VWD does not intend to maximize debt proceeds, as a \$16 million reduction in current cash position for a 50-year obligation will significantly impact VWD's capacity to incur debt and obtain a favorable credit rating.

The time to issue debt is not four years from now as noted in the budget. The time was two years ago when my efforts to issue bonds were shot down. Had I the respect of the Board and General Manager at that time, and bonds were issued then, the need to raise customer rates to cover developer obligations could have been significantly reduced, as well as the magnitude of the increase needed in capital facility fees.

Every Board meeting that passes without reimbursement resolutions, without actions authorizing the General Manager to enter into agreements with a financial adviser, underwriter, bond counsel, and disclosure counsel, and without authorizing the issuance of debt is further evidence of the Board's true intention to continue to cash finance developer obligations with ratepayer money, costing ratepayers millions.

No More Delays in Implementing New Rates

The BIA has had these proposed rates to review since February, but yet the Board continues to accommodate their requests to delay implementation. Delays in implementing this much-needed increase to the capital facility fees have saved developers \$11 million. While there is a developer fund deficit, whatever developers save, ratepayers pay. These rate subsidies paid by ratepayers are not a cost of service. Please, no further delays in implementing capital facility fee increases.

Legal Strategy

Director Martin mentioned that the closed session preceding the August 7 Public Hearing was related to the Cap Fees, so I assume the "initiation of litigation" item noted on the closed session agenda was from developers or the BIA, which is a smart strategic move on their part given the precedent set by this Board. Please do not cave in, settle and give developers an accommodation as was done in 2013 with Mr. McDonald. Because of the developer fund deficit, ratepayers are paying for such settlements. Please reverse precedent and defend such challenges aggressively, to the point of going to trial, if necessary.

Thank you for your careful consideration of these ratepayer concerns.

Sincerely,



Tom Scaglione, Co-founder
Friendship of Vallecitos Customers