



Press Release

FOR IMMEDIATE RELEASE
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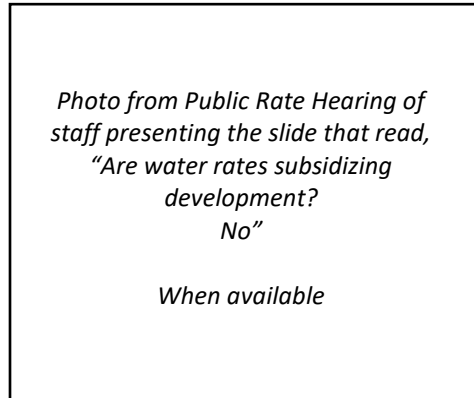
Contact: Tom Scaglione
(760) 684-1800

Will Vallecitos Water Default on \$3.1 Million in Bond Payments?

Vallecitos Water District bondholders are owed \$3.1 million in June this year. The bonds were issued to finance facilities built to accommodate growth and are to be paid back out of reserves collected from developer fees.

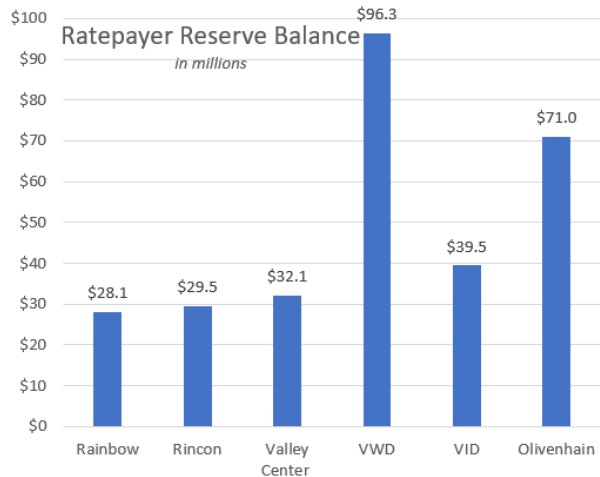
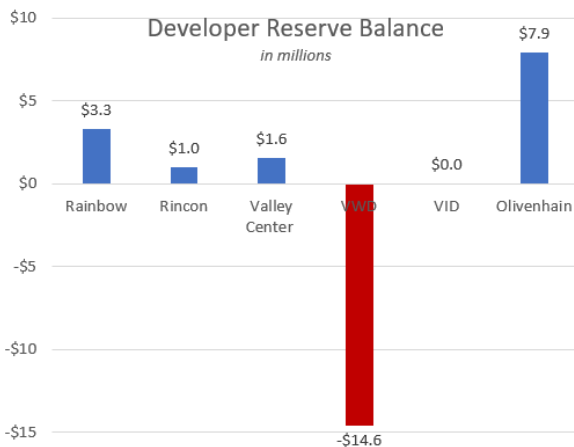
The problem is that there are no developer fee reserves. The reserve report presented to the Vallecitos Board of Directors at the February 26th Board meeting indicates a deficit balance of \$11.8 million in developer reserves, but a surplus balance of \$97.2 million in ratepayer reserves. Vallecitos has no other funds.

At the February 27th Public Hearing to consider water rate increases, Vallecitos officials emphatically denied subsidizing developer costs with ratepayer money – money accumulated through water and sewer charges.



How will Vallecitos fulfill their \$3.1 million obligation to bondholders without a subsidy from ratepayer money?

According to the most recent audited financial statements, no other water agency in San Diego County has accumulated more ratepayer money than the Vallecitos Water District. And Vallecitos is the only water agency in the County with a deficit in their developer funds. The graphs below show reserve balances from the most recent financial statement audit for Vallecitos (VWD) and its neighboring water districts.



15% of Vallecitos’ water charges in 2020 will go to further boost ratepayer reserves and subsidize developer costs.

Vallecitos included the 2020 water rate calculation on line vwd.org/home/showdoc. The \$47.3 million “Net Revenue Requirement” shown in the excerpt from the online calculation below is what Vallecitos is requiring water customers to pay for the year. Fifteen percent, or \$6.9 million, of the revenue requirement, noted as “Capital Reserve,” is included to increase ratepayer reserves.

Vallecitos Water District
Cost of Service and Rate Structure Study 2020

Table 2: FY20 Revenue Requirement

Item	Operating \$	Capital \$	Total \$
Revenue Requirement			
Water Purchase Costs	32,200,000		32,200,000
All Other Operating [1]	12,106,000		12,106,000
Capital Reserve		6,882,908	6,882,908
Total Revenue Requirement	44,306,000	6,882,908	51,188,908
Revenue Requirement Adjustments (Offsets)			
Pumping Charges	(340,000)		(340,000)
Interest	(5,000)		(5,000)
Other Income [2]	(695,000)		(695,000)
Property Tax		(2,072,000)	(2,072,000)
Investment Income		(760,000)	(760,000)
Total Rev Req. Adjustments	(1,040,000)	(2,832,000)	(3,872,000)
Net Revenue Requirement	43,266,000	4,050,908	47,316,908

“That \$6.9 million will help cover the subsidy of the developer fund deficit,” according to the Vallecitos Water District’s former CFO Tom Scaglione. “An FVC member once asked me, ‘What part of the water bill reflects the payment of the subsidy.’ I had to explain that they are not going to show it on your water bill. This is where the subsidy is in the rate calculation.”

At the time rates were adopted, the water capital replacement reserve was \$23.5 million more than their target minimum and just \$3 million less than their target ceiling. “It’s being charged to water customers to be able to continue subsidizing development costs without having to issue bonds,” said Scaglione. “I was shocked to hear them present to the public that water rates don’t subsidize development.”

The Oxford definition of **a subsidy is “a sum of money granted by the government or a public body to assist an industry or business so that the price of a commodity or service may remain low or competitive.”**

At a February 2019 Vallecitos Water District Finance Committee meeting regarding Capital Facility Fees (fees assessed to developers) Board Member Hal Martin directed staff, **“I want to be competitive.”** The Sewer Cap Fee was anticipated to be \$19,640 per home built in the Vallecitos’ adopted budget, but after closed-door negotiations with the Building Industry Association and developers, the Sewer Cap Fee ultimately adopted was \$12,986, with a similar reduction for the Water Cap Fee. The only two neighboring water/sewer agencies with recently adjusted Cap Fees are Rainbow and Olivenhain, both with Cap Fees higher than Vallecitos.



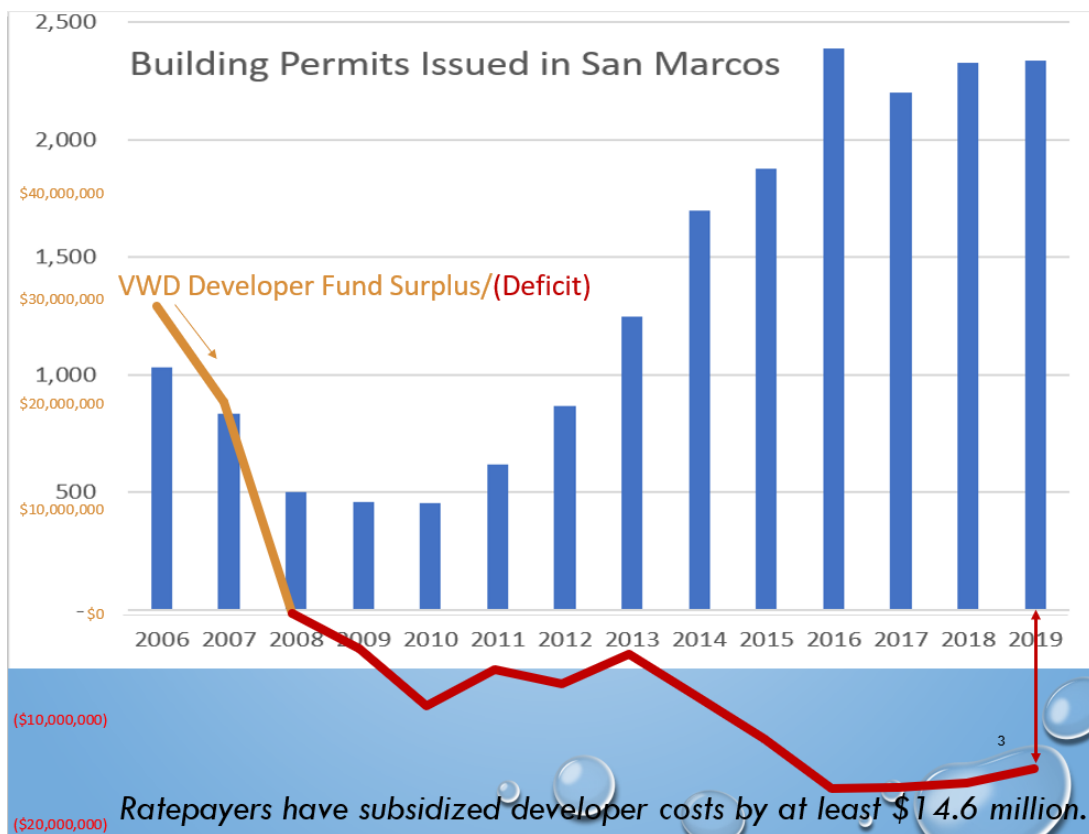
Hal Martin, Vallecitos Water District Board Member

Per Vallecitos' most recent audit report, the developer fund deficit totals \$14.6 million and represents the amount of developer obligations funded by ratepayer (public) money. There was no mention of the deficit at the February 27th Public Rate Hearing until it was noted by a member of the public in her comments.

The Vallecitos General Manager downplayed the deficit saying it has been addressed in the recent Cap Fee study and will be paid back to ratepayers, but it will take time. How much time? According to the Cap Fee study on the Vallecitos website, 8,800 homes need to be built before ratepayers are paid back.

"And that's only if all the other assumptions in the study are true," added Scaglione. One of those assumptions is the new Cap Fees are effective in 2015. The new Cap Fees took effect January 2, 2020.

During the recent peak in building activity, when developer surplus reserves typically surge, Vallecitos' developer reserves plummeted to record deficits.



"That's because of a series on accommodations made to developers starting in 2013, including keeping developer fees far too low," said Scaglione. "They won't default on their bond payments. They will continue to subsidize construction costs and developers' debt service with ratepayer money until they issue bonds and significantly raise the Cap Fees. They don't intend to do either."

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The Friendship of Vallecitos Customers (FVC), a group of Vallecitos Water District (VWD) customers, potential political candidates, past board members, and community leaders, formed to have a unified voice to influence the VWD Board of Directors (the Board) to maintain a ratepayer focus. Since the 2012 elections, the development community has had majority control of the Board. Developer influence and financial mismanagement have resulted in ratepayers paying \$52.3 million towards excessive reserves and developer subsidies. Ratepayers have not had either the will or ability to financially contribute, and therefore win favor, to the extent that developers have financially contributed to the Board. Visit friendshipvallecitoswater.org