EDUCATIONAL SERIES
Release 6, August 17, 2021

The Coverup - Reserves

FVC's Educational Series serves as educational communications to Vallecitos Water District Board Members and advocates to provide information sufficient to acquire an understanding and comfort level for initiating and supporting Board actions for positive change for the benefit of ratepayers.

Board Members, please see "Caution – Open Meeting Act Compliance" at the end of this release. These communications cannot be a means to reach a consensus of the Board majority or communicate a position on an issue. That must be done at meetings posted and open to the public. These communications are strictly to educate, inform, and mitigate the current lack of transparency at the Vallecitos Water District.

Background and Summary

Vallecitos Water District (VWD) is a publicly-owned, independent special district (political subdivision of the State of California) formed by the community it serves for one purpose – to provide water and sewer service to its customers. The community (ratepayers) elects members to a governing Board who, ***collectively***, make policy, set the general direction of the District, and supervise the General Manager. Being a publicly-owned utility, VWD is not subject to California Public Utilities Commission (PUC) oversight. The PUC provides oversight to investor-owned utilities, like SDG&E. For VWD, the Board is the watchdog on behalf of the community.

The Board of a public utility will make policy, like how much money to maintain in reserve, and most importantly, what rates to set to cover operating costs, including capital asset replacement costs. The California Constitution limits rates to covering ***only*** the cost necessary to provide the service. The VWD Board uses their Reserve Policy to justify higher water rates to fund an excessive accumulation of capital replacement reserves. Coincidently, **developer fee subsidies** are funded from capital replacement reserves.

VWD's current water rate includes a $6.9 million annual "Transfer to Capital Reserve", 14.5% of what customers pay for "water", even though VWD's current water capital replacement reserve balance exceeds total water capital replacement needs for the entire foreseeable future (at least ten years).

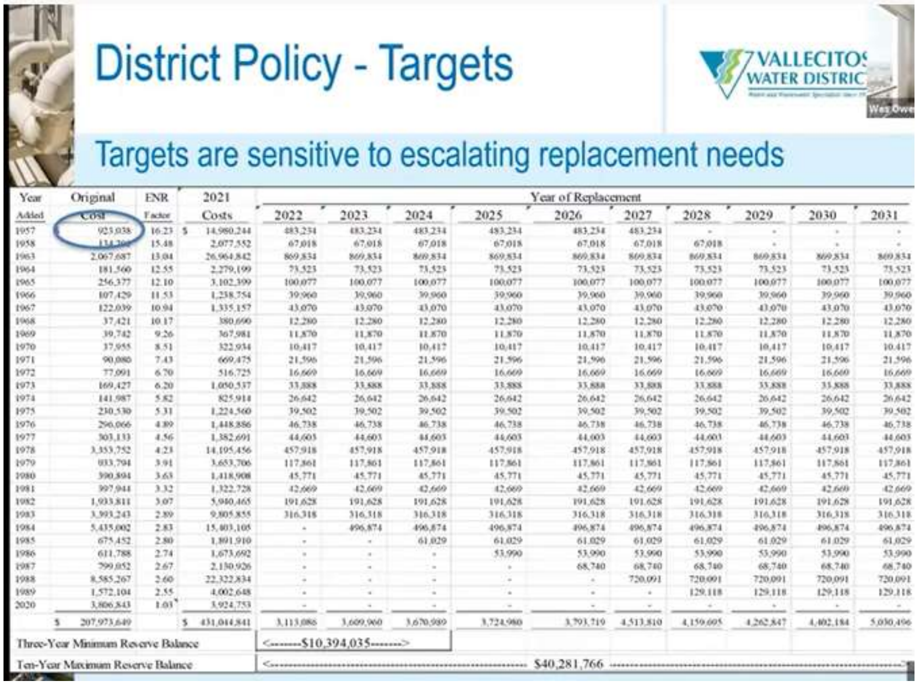
At VWD's June 28, 2021, Finance Committee meeting youtube.com/watch?v=BhHs-u_UJS0, VWD responded to FVC Educational Series, Release 2, Reserves not by incorporating the recommendations included in the Release, but rather by presenting false and misleading information, leading the Committee to consent ***not*** to change the reserve policy and to continue to overcharge for water by at least 14.5%.

The following sections of this release highlight selected false and misleading statements and false information presented at the June 28, 2021, Finance Committee meeting (Meeting) and provide corrections.

<u>Using Depreciation to Determine Reserve Targets</u>

VWD has been able to set capital reserve target levels beyond amounts actually needed for capital replacement by using accounting methods, rather than commonly used engineering methods (the budget), to determine target reserve levels.

At the Meeting, staff presented this slide to explain how VWD uses straight-line depreciation to estimate replacement costs and set floors and ceilings for capital replacement reserve targets funded by water rates.



Year Added	Original Cost	ENR Factor	2021 Costs	Year of Replacement 2022	2023	2024	2025	2026	2027	2028	2029	2030	2031
1957	923,038	16.23	$ 14,980,244	483,234	483,234	483,234	483,234	483,234	483,234	-	-	-	-
1958	134,202	15.48	2,077,552	67,018	67,018	67,018	67,018	67,018	67,018	67,018	-	-	-
1963	2,067,687	13.04	26,964,842	869,834	869,834	869,834	869,834	869,834	869,834	869,834	869,834	869,834	869,834
1964	181,560	12.55	2,279,199	73,523	73,523	73,523	73,523	73,523	73,523	73,523	73,523	73,523	73,523
1965	256,377	12.10	3,102,399	100,077	100,077	100,077	100,077	100,077	100,077	100,077	100,077	100,077	100,077
1966	107,429	11.53	1,238,754	39,960	39,960	39,960	39,960	39,960	39,960	39,960	39,960	39,960	39,960
1967	122,039	10.94	1,335,157	43,070	43,070	43,070	43,070	43,070	43,070	43,070	43,070	43,070	43,070
1968	37,421	10.17	380,690	12,280	12,280	12,280	12,280	12,280	12,280	12,280	12,280	12,280	12,280
1969	39,742	9.26	367,981	11,870	11,870	11,870	11,870	11,870	11,870	11,870	11,870	11,870	11,870
1970	37,955	8.51	322,934	10,417	10,417	10,417	10,417	10,417	10,417	10,417	10,417	10,417	10,417
1971	90,080	7.43	669,475	21,596	21,596	21,596	21,596	21,596	21,596	21,596	21,596	21,596	21,596
1972	77,091	6.70	516,725	16,669	16,669	16,669	16,669	16,669	16,669	16,669	16,669	16,669	16,669
1973	169,427	6.20	1,050,537	33,888	33,888	33,888	33,888	33,888	33,888	33,888	33,888	33,888	33,888
1974	141,987	5.82	825,914	26,642	26,642	26,642	26,642	26,642	26,642	26,642	26,642	26,642	26,642
1975	230,530	5.31	1,224,560	39,502	39,502	39,502	39,502	39,502	39,502	39,502	39,502	39,502	39,502
1976	296,066	4.89	1,448,886	46,738	46,738	46,738	46,738	46,738	46,738	46,738	46,738	46,738	46,738
1977	303,133	4.56	1,382,691	44,603	44,603	44,603	44,603	44,603	44,603	44,603	44,603	44,603	44,603
1978	3,353,752	4.23	14,195,456	457,918	457,918	457,918	457,918	457,918	457,918	457,918	457,918	457,918	457,918
1979	933,794	3.91	3,653,706	117,861	117,861	117,861	117,861	117,861	117,861	117,861	117,861	117,861	117,861
1980	390,894	3.63	1,418,908	45,771	45,771	45,771	45,771	45,771	45,771	45,771	45,771	45,771	45,771
1981	397,944	3.32	1,322,728	42,669	42,669	42,669	42,669	42,669	42,669	42,669	42,669	42,669	42,669
1982	1,933,811	3.07	5,940,465	191,628	191,628	191,628	191,628	191,628	191,628	191,628	191,628	191,628	191,628
1983	3,393,243	2.89	9,805,855	316,318	316,318	316,318	316,318	316,318	316,318	316,318	316,318	316,318	316,318
1984	5,435,002	2.83	15,403,105	-	496,874	496,874	496,874	496,874	496,874	496,874	496,874	496,874	496,874
1985	675,452	2.80	1,891,910	-	-	61,029	61,029	61,029	61,029	61,029	61,029	61,029	61,029
1986	611,788	2.74	1,673,692	-	-	-	53,990	53,990	53,990	53,990	53,990	53,990	53,990
1987	799,052	2.67	2,130,926	-	-	-	-	68,740	68,740	68,740	68,740	68,740	68,740
1988	8,585,267	2.60	22,322,834	-	-	-	-	-	720,091	720,091	720,091	720,091	720,091
1989	1,572,104	2.55	4,002,648	-	-	-	-	-	-	129,118	129,118	129,118	129,118
2020	3,806,843	1.03	3,924,753	-	-	-	-	-	-	-	-	-	-
	$ 207,973,649		$ 431,044,841	3,113,086	3,609,960	3,670,989	3,724,980	3,793,719	4,513,810	4,159,695	4,262,847	4,402,184	5,030,496
Three-Year Minimum Reserve Balance				<-------$10,394,035------->									
Ten-Year Maximum Reserve Balance				<---------- $40,281,766 ---------->									

VWD determines the capital replacements reserve balance targets as noted in the following excerpt from their policy:

> The balance for the Water Replacement Reserve shall be greater than the sum of the next three years of projected system replacement costs, but less than the next ten years of system replacement costs. The balance for the Wastewater Replacement Reserve shall be greater than the sum of the next three years of projected system replacement costs, but less than the next eight years of system replacement costs.
>
> Replacement costs shall be projected using the following assumptions:
>
> - Replacement costs equal net additions to infrastructure and system assets increased according to the published Construction Cost Indices from the year of acquisition to the most current monthly index.
> - Water System replacement occurs starting on year forty through year seventy of the life of the additions at an amount equal to 3.226% of the replacement cost for each year.
> - Wastewater System replacement occurs starting on year thirty-five through year fifty of the life of the additions at an amount equal to 6.25% of the replacement cost for each.

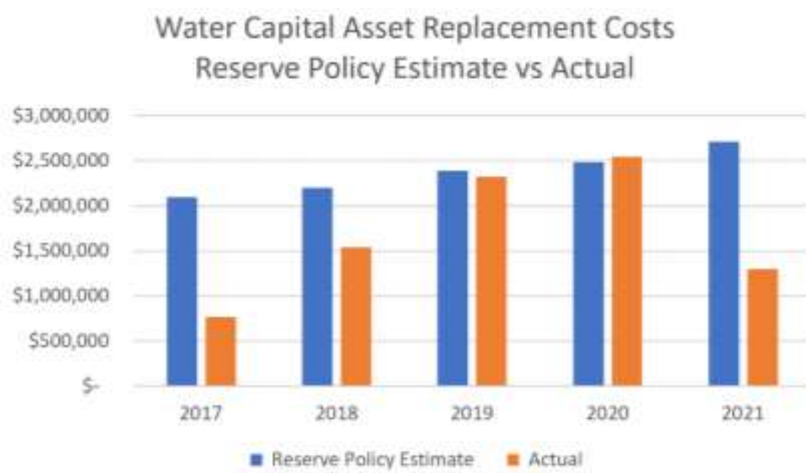
In the presentation, staff noted that the current reserve target calculation starts by taking asset additions noted in the 1957 audited financial statements. They actually start in 1952 with asset additions – accounting data that is seventy years old with no reconciliation to assets that are still in service.

The author of this Release has taught accounting since 1994 and tells his students that ***depreciation*** is the systematic allocation of the cost of an asset from the balance sheet to the income statement. ***Accounting depreciation is not a means of determining value or replacement cost.***

At the beginning of the Meeting, staff noted that VWD follows "Industry Best Practices" as per Government Finance Officers Association (GFOA), and California Special Districts Association (CSDA). Neither guidance refers to using depreciation to estimate replacement cost.

GFOA's best practice for replacement reserve targets is a percentage of the 5-year budget for capital asset replacements, as was recommended in FVC Educational Series, Release 2, Reserves. CSDA's guidance basically refers to GFOA's best practices. Capital budget amounts are typically determined from engineers' estimates, not from the accounting department.

Committee Member Dr. Tiffany Boyd-Hodgson asked if theoretical depreciation was ever matched to actual replacement costs. Staff responded, "It would be very complicated …" It took the author of this Release about forty minutes to compile the underlying data and prepare this chart.



Reserve Policy Estimate is from Year One on the second-to-last page of each respective Budget https://www.vwd.org/departments/budget-finance
Actual is from annual water asset replacement costs as reported on the Reserve Activity Report the second Board agenda packet of each July https://www.vwd.org/departments/board-of-directors/meetings-minutes

In the most recent five years, the depreciation method overestimated replacement costs on average by 65.1% annually.

Of the agencies surveyed by VWD and the author of this Release, none use depreciation to estimate replacement costs or set reserve target levels.

Accumulating ***ten*** years of replacement costs is more of an issue than the accuracy or appropriateness of estimating annual replacement costs. None of the agencies surveyed by VWD or the author of this Release, use more than five years of budgeted replacement costs as a reserve level target and neither does the GFOA nor CSDA guidance.

Customers already pay for property insurance premiums to protect against losses in asset value and property damage. VWD accumulates reserves as though they are self-insured. They are not.

The main reason why no other agency accumulates so much money for asset replacement is the alternative for debt. Customers have cash financed VWD's entire foreseeable water asset replacement program (and then some) in advance and now VWD plans to issue debt to cover the same replacements.

VWD continues to collect $6.9 million annually from water customers, 14.5% of their water bill, as a "Transfer to Capital Reserve" even though customers already funded more than VWD's entire foreseeable asset replacements, and even though VWD is debt financing the same assets, and VWD customers pay insurance premiums on those same assets. Coincidentally, VWD funds developer fee subsidies from replacement reserves.

Reserve Policy Was Not Developed by Experts and Not Reviewed by VWD's Financial Advisor

At 59 minutes and 50 seconds into the Meeting, VWD's Finance Manager said that the reserve policy was "developed by experts" and "reviewed by Lora [the Financial Advisor] and her team." Neither of these statements are true. The Reserve Policy was not developed by experts and it was never reviewed by Lora, or anyone from her firm, or any other finance professional.

Author's Editorial Comment:

The reserve policy was developed by one person, me, not "expert*s*" plural, as stated by the Finance Manager. I wrote the policy in 2004, one year after I transitioned from Senior Accountant to Director of Finance. Accounting and Finance are two distinctly different disciplines. I may have been an expert in accounting at the time I endeavored to write my first finance-related policy, but I had no practical finance experience. I was not a finance expert in 2004. I taught my first finance class ten years after I wrote the reserve policy and noted a priority to change the policy in my transition memo when I provided my resignation letter in January of 2018.

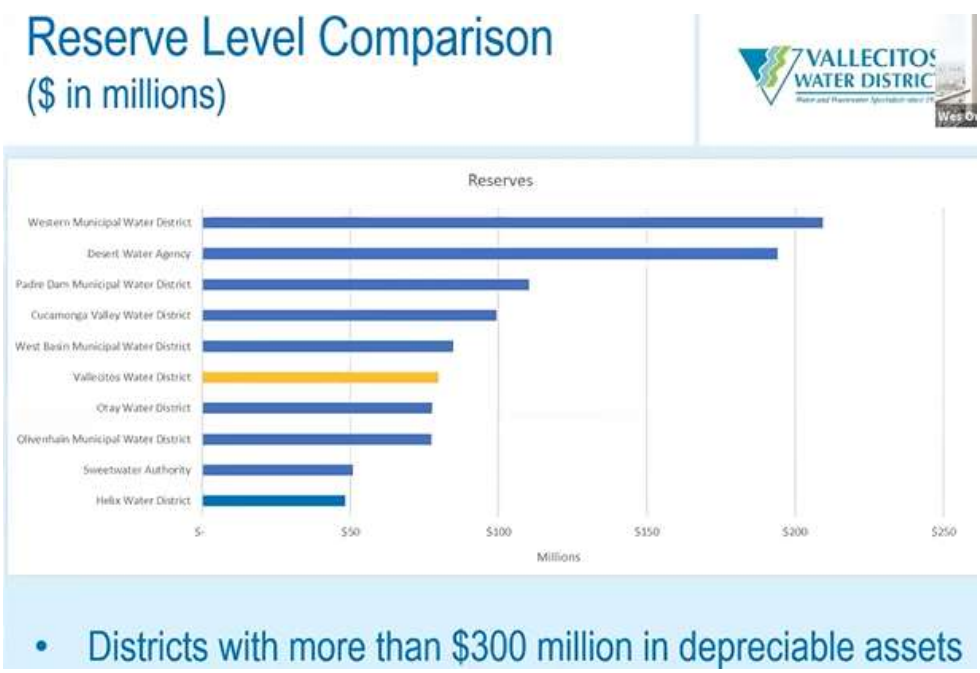
"[The reserve policy has] also been reviewed by Lora and her team and who could ask for a better team to review your policy, right? So, um, [clears his throat] I almost got a smile out of her." *Wes Owen, VWD Finance Manager, one hour into the Meeting*

Lora wasn't smiling because she never reviewed the reserve policy. Lora's reputation is at stake if anyone were to believe she reviewed a policy with so many deficiencies and did not recommend changes.

On August 5, 2021, the author of this Release sent a Public Records Act request to VWD for documents related to any review of the Reserve Policy. No documents related to such review were provided. Go to [PRA request and response](#).

VWD Presented Misleading Information in Reserve Level Comparisons

At the Meeting the following chart was presented to show how staff "compared their reserve levels currently in their audited 2020 financial statements." Staff also noted "this is the total reserves for all these districts" and "includes operating and capital".



The Finance Manager stated "we are the fifth lowest of the ten agencies as far as reserve levels." VWD reported total cash and investments for the other agencies, including not only operating and capital reserves, but also cash and investments restricted for specific purposes and paid in by developers or from bond proceeds, and not paid in by customers. For example the following amounts of restricted developer fund money were included:

Western Municipal	$20.3 million	Cucamonga Valley	$12.8 million
Desert Water	80.8 million*	Vallecitos Water	(18.2) million**
Padre Dam	11.6 million	Olivenhain Municipal	4.4 million

*("State Water Project" - Source was not identified but likely from developers as the project relates to capacity)
Note: Not all agencies maintain restricted developer funds as they charge connection fees to recover the costs of *existing* system capacity. VWD is the only independent special district in San Diego County that does not require developers to pay for existing system capacity. See FVC Educational Series, Release 4, Capital Facility Fee – Buy-In Component

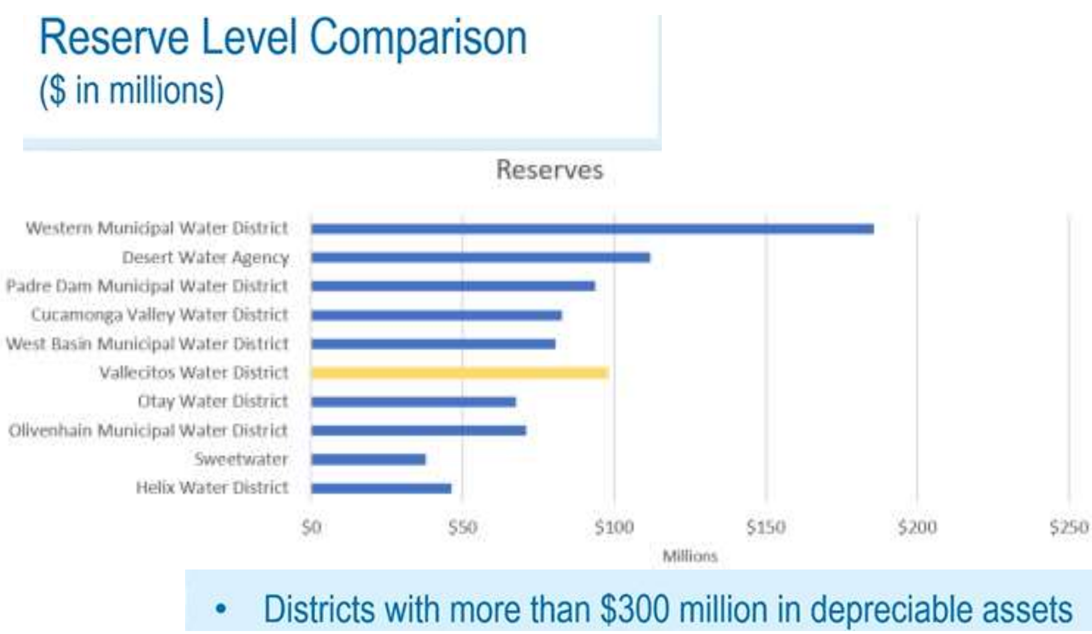
** For purposes of the comparison, VWD reduced ratepayer reserves by $18.2 million paid by customers for developer fee subsidies.

VWD did not included developer fund money in its own reserves because they have none. Instead they reduced reserves by the amount customers paid on behalf of developers for developer obligations.

Author's Editorial Comment:

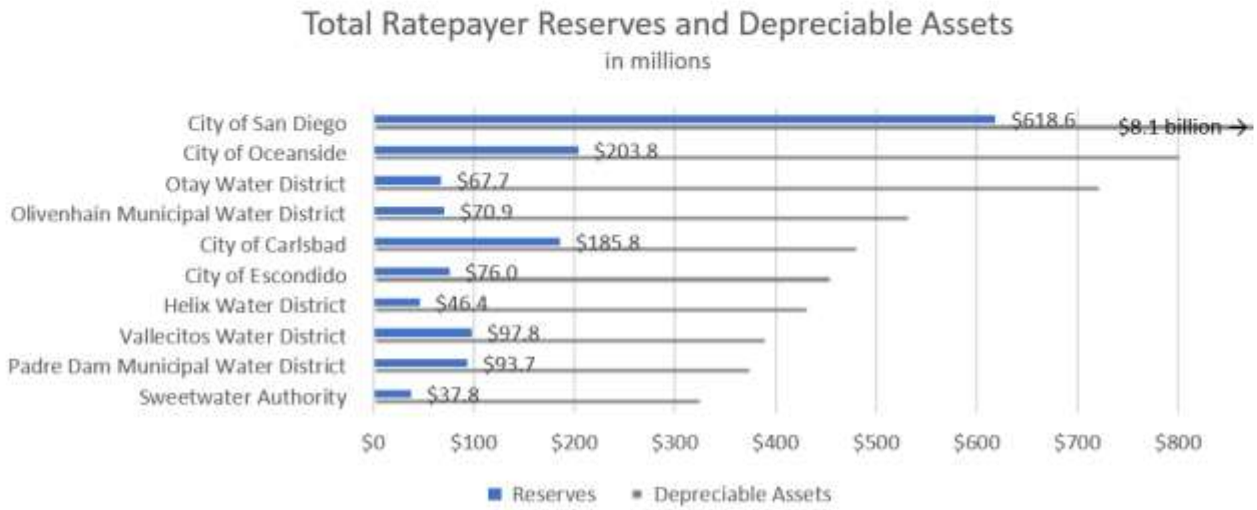
VWD threw in everything including the kitchen sink for the other agencies to unfairly inflate their numbers, and reported an amount less than ratepayer reserves for their own numbers.

The most critical measure of reserves is those reserves that are paid in by customers, or unrestricted cash and investments. The following chart adds back the developer fee subsidy paid by customers to VWD's reserves and reports the maximum possible ***ratepayer*** reserves for the other agencies – total unrestricted cash and investments from their respective 2020 audited financial statements.



The selection of agencies is conspicuous. Usually financial comparisons for a San Diego County water agency are limited to other agencies in San Diego County. VWD selected two agencies from Riverside County, one from Los Angeles County, and one from San Bernardino County. Riverside County has 21 water agencies. Los Angeles County has 25 water agencies. San Bernadino has 32 water agencies. These counties include large service areas and many water agencies with more than $300 million in depreciable assets, not just four. VWD's depreciable assets are less than each of the four agencies selected outside of San Diego.

The following chart is a complete, honest, and more meaningful comparison of San Diego County water agencies with more than $300 million in depreciable assets and their maximum possible ***ratepayer*** reserve levels (2020 audited unrestricted cash and investments) compared to VWD's reserves.



Vallecitos Water District reserves – Source: June 2020 Reserve Activity Report
vwd.org/home/showpublisheddocument/11522/637299910869630000 page 25

Only the combined water and sewer departments of the cities of Carlsbad, Oceanside, and San Diego have accumulated more ratepayer money (reserves) than VWD. No other independent special retail water district in San Diego County has accumulated more ratepayer money than VWD. No other agency in San Diego County, and perhaps all of California, uses ratepayer money to subsidize urban development.

VWD Presented a Survey of Developer Connection Fees with False Information

VWD staff stated one hour and twenty-nine minutes into the meeting, "We are the third highest of eighteen agencies for capacity fees" and presented the following table. (*Connection fees and capacity fees are synonymous*.)

Connection Fees

Rank	*Agency*	*Water*	*Sewer*	*Total*
1	San Diego, City of	$ 3,047	$ 4,124	$ 7,171
2	Carlsbad MWD	4,455	2,897	7,352
3	San Dieguito WD	3,300	5,089	8,389
4	Sweetwater Auth	5,778	3,892	9,670
5	Yuima MWD	2,980	7,733	10,713
6	Escondido UWD	4,690	7,500	12,190
7	Vista Irrigation	6,308	6,405	12,713
8	Fallbrook PUD	5,778	7,115	12,893
9	Helix WD	6,842	6,226	13,068
10	Valley Center MWD	4,950	8,935	13,885
11	Padre Dam MWD	9,862	6,876	16,738
12	Olivenhain MWD	13,634	3,200	16,834
13	Otay WD	11,147	7,193	18,341
14	Oceanside, City of	8,520	11,691	20,211
15	Santa Fe Irrigation	17,636	3,200	20,836
16	**Valletitos WD**	**7,896**	**12,986**	**20,882**
17	Ramona MWD	8,740	15,379	24,119
18	Rainbow MWD	10,401	16,951	27,352
	Average	**$7,554**	**$7,633**	**$15,187**

VWD omitted some connection fees assessed in San Diego County and reported erroneous fees for some agencies.

Here is an honest and complete survey of San Diego County connection fees (Cap Fees) per Equivalent Dwelling Unit prepared by the author of this Release:

Actual Capacity Fees for all of San Diego County
As of May 12, 2021

Water		Sewer	
Yuima	$ 2,980	Olivenhain 4S	$ 2,330
San Diego, City of	3,047	Carlsbad	2,751
San Dieguito	3,300	Olivenhain RC	4,070
Lakeside	4,387	San Diego, City of	4,124
Escondido	4,690	Leucadia	5,089
Valley Center	4,950	Vista Sanitation	5,327
Rincon	5,024	Otay within ID	6,037
Del Mar	5,240	Buena Sanitation	6,405
Fallbrook	5,778	Padre Dam	6,876
Sweetwater	5,778	Fallbrook PUB	7,115
Vista Irrigation	6,308	Escondido	7,500
Carlsbad	6,351	Otay outside ID	8,350
Helix	6,953	Valley Center	8,935
Vallecitos Water	**7,935**	Del Mar	9,665
Otay Triad	8,360	Oceandside	11,691
Oceanside	8,520	**Vallecitos Water**	**13,051**
Ramona	8,928	Rainbow	14,126
Padre Dam	9,002	Ramona SV	15,328
Olivenhain Zone B	10,399	Ramona SM	15,708
Rainbow	10,401	*Average*	*8,130*
Olivenhain Zone C	10,592		
Olivenhain Zone E	10,741		
Otay IDs	11,147		
Olivenhain Zone A	14,493		
Santa Fe Irrigation	17,636		
Olivenhain Zone D	21,947		
Average	*8,265*		

VWD is not "the third highest" in developer capacity fees in San Diego County. They have the fourth highest fee for sewer, and at the median and *below* the average for water.

Developer Cap Fees should not be set on market basis as VWD has and continues to defend the fees by claiming they are the third highest in the County. Cap Fees need to cover the costs and impacts of growth, regardless of how they compare to other fees, and for VWD, they do not. VWD reduced a planned increase in the Cap Fee pursuant to a directive from the Finance Committee, "I want to be competitive", which paved the way for continued developer fee subsidies paid for by customers.

On top of not covering impacts from growth, VWD does not require developers to pay for existing capacity, known as a Buy-In, as recommended by the author of this Release ***and VWD's consultant***. At the Meeting, Director Mike Sannella dismissed the recommendation to add a Buy-In component to the Cap Fee stating that developers already pay an annexation fee. An annexation fee is paid only for development outside of VWD's existing service boundaries. VWD could simply credit a developer's annexation fees for the Buy-In charge instead of forgoing a Buy-In completely. But that would not be in the developers' best interests.

VWD has foregone an estimated $15.6 million in revenue from not having a Buy-In component, revenue that could have been used to offset water and sewer rate increases. However, developer Cap Fees would not have been "competitive." This developer focus has cost ratepayers millions. Please see FVC Educational Series, Release 4, Capital Facility Fee – Buy-In Component for more detail.

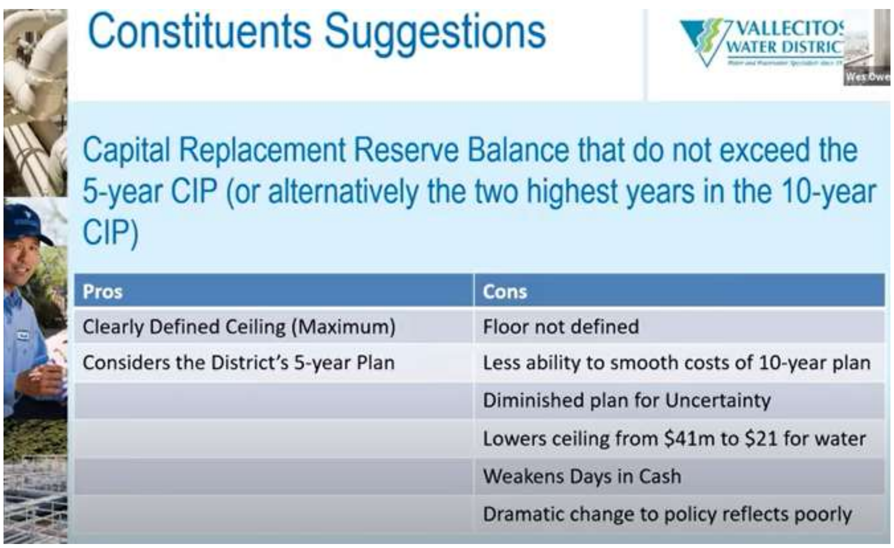
"Constituents" Suggestions for Ratepayer Equity Rebuked

At the end of the reserve policy presentation at the Meeting, the Finance Manager systematically rebuked specific recommendations presented in FVC Educational Series, Release 2, Reserves.

1. Capital Replacement Reserve Ceiling (maximum)
The following is an excerpt from *FVC Release 2* regarding a recommendation to maintain capital replacement reserves between the most recent year budgeted for Capital Improvement Projects (CIP, or asset replacements) and the five-year asset replacement budget.

Reserve	Min Balance	Max Balance
Capital Replacement	First year budgeted replacement CIP	Five-year budgeted replacement CIP

VWD's Finance Manager presented this slide in response.



The floor is specifically articulated in the recommendation, equal to the first year of budgeted asset replacements - $7.6 million, on page 117 of VWD's current budget. This "dramatic change" is consistent with GFOA and CSDA industry best practices and would reflect positively from a financial prudence and public trust stand point.

Author's Editorial Comment:

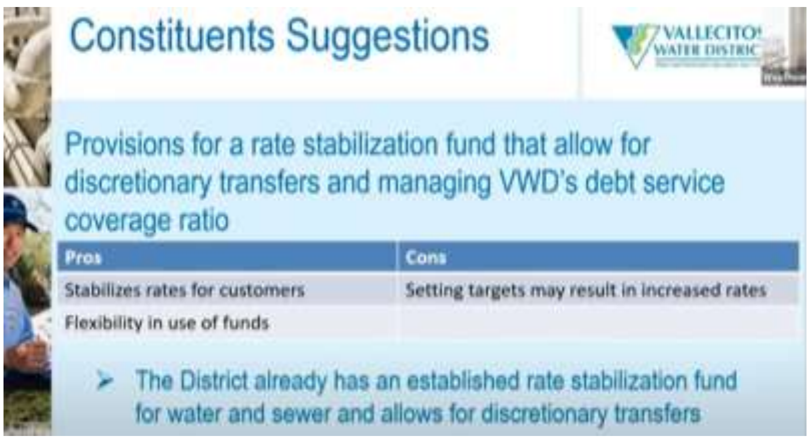
The other cons noted are absolute nonsense. How could a utility not have the financial competence to "smooth costs" or "plan for uncertainty" or manage "days in cash" with the ability to accumulate enough cash in advance to pay for their entire 5-year capital improvement plan? Their current $41 million ceiling is nearly double their entire 5-year budgeted CIP and $15 million in excess of their entire foreseeable CIP needs. No other agency has established a ceiling in excess of their 5-year CIP. No other agency subsidizes urban development with capital replacement reserves.

2. *Rate Stabilization Funds*

Excerpt from [FVC Educational Series, Release 2, Reserves:]

> ***Rate Stabilization Funds*** are established and maintained to mitigate volatility in water and sewer rates caused by spikes in wholesale rates, water revenue fluctuations from changes in demand, and other unforeseen reasons. The minimum target should be zero affording the Board and management full discretion to use the funds for their intended purpose. Typical maximums relate to percentages of water sales or water purchases. There should be a stated maximum to avoid unnecessary runup in rates to fund rate stabilization. VWD's policy has no limit on rate stabilization funds.
>
> Rate stabilization funds are also used to manage debt service (interest and principal repayment) coverage requirements. Draws from rate stabilization count as revenue for calculating the ratio of revenue to debt service, known as the Debt Service Coverage Ratio (DSCR). Conversely, funding rate stabilization reduces the revenue used in the DSCR. Prudent utilities will fund rate stabilization when the DSCR is high, and draw from rate stabilization when they are in danger of revenue falling below the contractual DSCR which is typically 1.25 times debt service. The target levels of rate stabilization should afford the Board and management discretion to mitigate rate volatility and manage the DSCR.
>
> VWD funds rate stabilization only after the capital replacement reserves exceed their limits. Draws from rate stabilization are, first, to restore capital replacement reserves to their maximum. After capital replacement reserves are restored to their maximum, the rate stabilization funds are automatically funded with the excess amounts and used to stabilize rates. This affords only very limited discretion to the Board and management. In the past, draws from the rate stabilization funds have been disregarded as revenue for the DSCR calculation because of these unconventional provisions.

VWD's response:



Author's Editorial Comment:

> "Setting targets may result in increased rates"??? Following this policy and political favoritism towards developers have resulted in unnecessarily high water rates.

The following is VWD's policy on rate stabilization in its entirety. It does not allow for discretionary transfers into the fund and does not allow transfers out unless other reserve limits are at their maximum (*as stated earlier, the water capital reserve maximum is nearly double the budgeted replacements*).

Excerpt from VWD's Reserve Policy:

> Section 4: - Rate Stabilization Funds
>
> The District shall maintain two rate stabilization funds in cash equivalents and short-term investments: One for the District's water operations, and the other for the District's wastewater operations. Amounts accumulated in replacement reserves in excess of replacement reserve limits will be transferred to the respective rate stabilization fund. Rate stabilization funds will be used to restore reserves to their limits in subsequent years while holding rates for commodity and recovery of fixed costs steady. If, after restoring reserve funds, the rate stabilization fund balance continues to increase, rates will be lowered to the extent deemed necessary by management, and subject to Board approval and public hearing, to curtail increasing trends in the rate stabilization funds.
>
> Water replacement reserves will be maintained at the limits established and water rate stabilization funds will increase in anticipation of the wholesale water cost increases from contracted desalinated water deliveries. After desalinated water deliveries commence, the District will use water rate stabilization funds to mitigate pricing impacts to its customers from the wholesale cost of desalinated water.

3. VWD has No Policy for Restricted Funds (e.g., Developers Funds)

Excerpt from FVC Release 2:

> 3. ***VWD's reserve policy should also note that uses and transfers from any reserve must be in compliance with federal, state, and local law. This provision is only necessary for VWD since VWD is the only water district in San Diego County, and likely all of California, that subsidizes urban development with ratepayer-funded reserves, which is a violation of the California Constitution and a breach of VWD's fiduciary responsibility to water and sewer customers.*** The Policy should also include remedies for inadvertent deficit balances in the capacity fund, like immediate acquisition of debt proceeds.

VWD's slides in response:

Policy provisions for legal compliance may not prevent further unconstitutional use of ratepayer money, but it would help clarify appropriate use of both restricted and unrestricted funds.

There are no policy provisions for restricted reserves in VWD's Debt Management Policy, Resolution 1598. Resolution 1598 merely refers to the Reserve Policy as "integrated into the decision-making framework utilized in the budgeting and capital improvement planning process." Resolution 1598 vwd.org/WebLink/DocView.aspx?id=63636&dbid=0&repo=Vallecitos

The flexibility noted in the last slide refers to the ability to use ratepayer money to finance developer obligations, which is unconstitutional. Provisions to insure legal compliance would not reflect poorly on rating agencies.

Author's Editorial Comment:

> VWD is worried about causing "confusion about the comingling of funds" while they are setting rates high enough to bolster ratepayer reserves to pay for urban development – a violation of the California Constitution. ? Restricted developer funds have been negative (with customers having to pay for developer obligations) since developer interests controlled the majority of the Board with the 2012 elections. For nearly ten years, nothing has been done to reverse the trend, only further accommodations to developers to exasperate the subsidies illegally exacted from water customers. This is unique to VWD. VWD especially needs policy provisions to address and remedy negative balances in restricted funds.

All recommendations in *FVC Release 2* are consistent with financial prudence and industry best practices and would help restore ratepayer equity. None were incorporated into VWD's policy. VWD intends to continue to accumulate reserves in excess of asset replacement needs, and keep water rates high enough to support the continued excessive ramp-up.

Is This Really a Coverup?

Author's Editorial Comment:

When I present, and in articles, briefs, and these educational releases, I try my best to avoid superlatives and sensationalism (aside from these editorial comments). Everything said is true and supported by either audited financial statements, meeting packets and minutes, budgets, or some other supportive documentation. I hesitated to use the word "coverup" because it sounds sensational, but I can't think of a better, or softer, word. The lies, false and misleading statements and information presented at the Meeting were so numerous I could not incorporate them all in a manageable document. My apologies for the length of this release, but it's not everything. The Finance Committee meeting of June 28, 2021, was a staged and executed coverup of the intended use of an absolutely horrible reserve policy that allows for excessive buildup of ratepayer money by overcharging customers for water. VWD intends to continue to subsidize low developer fees and finance developer obligations with ratepayer money.

The Last Word provided by VWD Director Mike Sannella

Since its inception, VWD's policy and practice has been to rotate members on standing Board committees so that no Board member serves on the same committee two years in a row, with the exception of Hal Martin and Mike Sannella. Mr. Sannella has been on the Finance Committee since his appointment in 2014 and has never rotated off. Here are some of his concluding, direct quotes from the Meeting.

"We serve roughly 100,000 constituents. We have one that who is making a big issue out of this. The other 999,000 are not."

"I don't know how much more time we need to spend on this topic. I'll be mindful of the former, you know, disgruntled employee, quite frankly, whose been raising this issue and we are spending a lot of time and money, I don't know, I mean if you could quantify how much money it cost our other 99,999 customers … those other customers pay for that, right, because one person has a beef with the district. We gotta put an end to this and I actually plan on bringing, um, something to the Board in the future, I'll talk to our legal counsel, I'll talk to our General Manager, ah, but we'll not go ahead and, and, you know keep spending tremendous amount of hours and money of ratepayers' fees on, on one person. It can't go on. It's madness. So I do get a little bit heated, because I'm trying to protect our ratepayers. And, and this is wrong. And it's been going on way too long. And I'm going to try and stop it."

Additional Information

Vallecitos Water District Hidden Subsidies - A case study in the need for transparency and accountability

FVC Educational Series, Release 1, Introduction and the Deficit

FVC Educational Series, Release 2, Reserves

FVC Educational Series, Release 3, Debt

FVC Educational Series, Release 4, Capital Facility Fee – Buy-In Component

FVC Educational Series, Release 5, Water Rates - What Are Customers Paying For?

FVC Get Educated page

Caution – Open Meeting Act Compliance

Article IX of the California Constitution requires the business of the public to be conducted in open meetings. The Board can take action, arrive at consensus, and take positions only in open meetings. While two Board Members do not constitute a majority, the potential for stating a position or attempting to gain consensus could happen, either intentionally or inadvertently, with a series of replies or communications. FVC's Educational Series communications cannot be a means to reach a consensus of the Board majority or communicate a position on an issue. That must be done at meetings posted and open to the public. These communications are strictly to mitigate the current lack of transparency at VWD, educate, and inform.

Excerpt for Article IX of the California Constitution:
11122.5.
(a) As used in this article, "meeting" includes any congregation of a majority of the members of a state body at the same time and place to hear, discuss, or deliberate upon any item that is within the subject matter jurisdiction of the state body to which it pertains.
(b) (1) A majority of the members of a state body shall not, outside of a meeting authorized by this chapter, use a series of communications of any kind, directly or through intermediaries, to discuss, deliberate, or take action on any item of business that is within the subject matter of the state body.
https://leginfo.legislature.ca.gov/faces/codes_displaySection.xhtml?lawCode=GOV&sectionNum=11122.5.