MINUTES OF REGULAR MEETING
May 5, 2022
RUBIDOUX COMMUNITY SERVICES DISTRICT

DIRECTORS PRESENT:	Armando Muniz Bernard Murphy, Vice President John Skerbelis F. Forest Trowbridge Hank Trueba, Jr., President
DIRECTORS ABSENT:	
STAFF PRESENT:	Jeffrey Sims, General Manager Ted Beckwith, District Engineer Brian Laddusaw, Director of Finance Brian Jennings, Customer Service Manager Miguel Valdez, Operations Manager

Call to order: the meeting of the Board of Directors of the Rubidoux Community Services District by President Trueba, at 4:00 P.M., Thursday, May 5, 2022, by teleconferencing at District Office, 3590 Rubidoux Boulevard, Jurupa Valley, California.

ITEM 4. APPROVAL OF MINUTES

Approval of Minutes for April 21, 2022, Board Meeting.

Director Muniz moved, and Director Skerbelis seconded to approve the April 21, 2022, Regular Board Minutes as presented.

Roll call:

Ayes – 5 (Muniz, Murphy, Skerbelis, Trowbridge, Trueba)
Noes – 0
Abstain – 0
Absent – 0

The motion was carried unanimously.

ITEM 5. Consideration to Approve the May 6, 2022, Salaries, Expenses and Transfers.

Consideration to Approve the May 6, 2022, Salaries, Expenses and Transfers.

Director Trowbridge moved, and Director Muniz seconded to Approve the May 6, 2022, Salaries, Expenses and Transfers.

Roll call:

Ayes – 5 (Muniz, Murphy, Skerbelis, Trowbridge, Trueba)
Noes – 0
Abstain – 0
Absent – 0

The motion was carried unanimously.

ITEM 6. PUBLIC ACKNOWLEDGE OF NON-AGENDA MATTERS

There were no members of the public to address the board.

ITEM 7. CORRESPONDENCE AND RELATED INFORMATION

None included.

ITEM 8. MANAGER'S REPORT

Operations Report:

Water deliveries to Jurupa Community Services District has recommenced.

Emergency and Fire Report:

Presented at the second meeting of the month.

ITEM 9. Consideration to Accept Proposal and Award Contract for Financial Statement Audit Services with RAMS Ending FY's 2022 thru 2026. DM 2022-36.

<u>BACKGROUND</u>

The District's auditors, Rogers, Anderson, Malody, & Scott, LLP ("RAMS") have audited the District's financial statements since FYE June 30, 2016. The District's most recently audited financial statements, FYE June 30, 2021, completed the 3rd year of a three (3) year contract with RAMS. No current state law or audit regulations precludes the District from engaging with RAMS once again for audit services. The only regulation the District must remain mindful of its Government Code Section 12410.36(b) which in summary states the lead audit partner who has performed audit services for six (6) consecutive years must rotate to a new lead audit partner within the firm. The District's current audit partner, Scott Manno, completed his sixth consecutive year with the conclusion of the most recently audited financial statements. Should the Board decide to engage with RAMS for audit services once again, the firm has already assigned a new audit partner, Terry Shea. In addition, all other staff members within the firm who have previous experience auditing the District's financial statements are allowed to remain on the engagement.

RAMS provided the District with a five (5) year cost proposal for audit services (Attachment A) and summarized below:

TABLE DM 2022-36-1			
	Amount	$Increase	% Increase
FY 2022	$ 32,000		
FY 2023	$ 32,600	$600	1.875%
FY 2024	$ 33,300	$700	2.147%
FY 2025	$ 34,000	$700	2.102%
FY 2026	$ 34,700	$700	2.059%

The first year of the proposal, $32,000, represents a $60 decrease from the $32,060 the District paid for its FYE June 30, 2021, audited financial statements. Each subsequent year reflects a $600-$700 increased cost over the previous year.

In addition, the District reached out to a secondary CPA firm whose had previous experience auditing the District, Clifton Larson Allen LLP, formerly known as GALLINA LLP, and received a 5-year cost proposal as summarized below:

TABLE DM 2022-36-2			
	Amount	$Increase	% Increase
FY 2022	$ 34,400		
FY 2023	$ 35,430	$ 1,030	2.994%
FY 2024	$ 36,500	$ 1,070	3.020%
FY 2025	$ 37,595	$ 1,095	3.000%
FY 2026	$ 38,725	$ 1,130	3.006%

The first year of the proposal, $34,400, represents a $2,340 increase, or 7.3%, from the $32,060 the District paid for its prior year financial statements. Each subsequent year reflects an approximate 3% increase over the previous year.

Table DM 2022-36 below compares the two firms cost differences during the proposed 5-year term:

TABLE DM 2022-36-3	
	Amount
FY 2022	$ 2,400
FY 2023	$ 2,830
FY 2024	$ 3,200
FY 2025	$ 3,595
FY 2026	$ 4,025

Accepting the RAMS proposal would result in a cost savings of $16,050, to the District over a 5-year period.

District staff is recommending the Board accept the proposal and award a contract to RAMS for audit services for FY's 2022-2026. District practice over the years has been to operate on a 3-year contracts buy due to the minimal incremental increases proposed by RAMS, ~ 2.0%/year, and the volatility of the consumer price index and wages in the area now and expected into the future, its financially prudent to secure relatively low known fixed costs for the next 5-years. In addition, the new lead audit partner, Terry Shea, has over 40 years of public accounting experience and has been with RAMS since3 1987. Terry currently oversees most of the governmental audits conducted by RAMS and staff expects a smooth transition between lead audit partners.

Director Skerbelis moved, and Director Muniz seconded the Board of Directors consider authorizing the General Manager to:

1. **Accept the proposal and award a professional services contract to Rogers, Anderson, Malody, & Scott, LLP for a period of 5 years.**

2. **Issue Rogers, Anderson, Malady, & Scott, LLP a Task Order in the amount of $32,000 for audit services for fiscal year ending June 30, 2022, and each subsequent year pursuant to the fee schedule as notes in Table EDM 2022-36-1.**

Roll call:

Ayes – 5 (Muniz, Murphy, Skerbelis, Trowbridge, Trueba)
Noes – 0
Abstain – 0
Absent – 0

The motion was carried unanimously.

ITEM 10. Consideration to Accept Proposal by California Municipal Advisors for CalPERS Pension Management Policy Department.

<u>BACKGROUND</u>

The Rubidoux Community Services District ("District") is a member of the California Public Employees' Retirement System ("CalPERS"), and as such, is obligated by the Public Employees' Retirement Law an the contract between the Board of Administration of CalPERS and the District to make contributions to CalPERS to (a) fund pension benefits for its employees who are members of CalPERS, (b) amortize a portion of the unfunded accrued liability the (the "UAL") with respect to such pension benefits, and (c) appropriate funds for the purposes of paying for the pension benefits and such Unfunded Liability.

Under the CalPERS contract, the District is legally obligated to make certain payments to CalPERS in respect to current and retired public safety employees and miscellaneous employees under the associated pension plans that amortize such obligations over a fixed period of time, including normal costs.

The District currently has a UAL account balance of $5.9 million ($10.1 million factoring in accrued interest), which is required to be paid off during the next 25-year period at 6.8% interest. The District's UAL is the shortfall of comparing its current total pension assets of $17.9 million against its current total pension obligations of $23.8 million. In addition to bi-weekly payroll contributions made by the District to CalPERS, the District makes an annual lump-sum payment which represents the amortized payment year-over-year. As of today, the District's estimated amortized UAL payment over the next ten fiscal years is as follows:

A description of the various cost components of the trash rate is as follows:

TABLE DM 2022-37-1

	Amount	$Increase	% Increase
FY 2022	$ 433,300		
FY 2023	$ 490,900	$ 57,600	13.29%
FY 2024	$ 520,400	$ 29,500	6.01%
FY 2025	$ 551,500	$ 31,100	5.98%
FY 2026	$ 572,000	$ 20,500	3.72%
FY 2027	$ 590,900	$ 18,900	3.30%
FY 2028	$ 600,800	$ 9,900	1.68%
FY 2029	$ 611,000	$ 10,200	1.70%
FY 2030	$ 621,400	$ 10,400	1.70%
FY 2031	$ 632,200	$ 10,800	1.74%

The growth of the District's UAL is a combination of factors. Every year CalPERS prepares updated and actuarial valuation reports for each of the District's pension plans wherein it calculates the District's total pension liability as of the end of the prior fiscal year. If the investment performance during that fiscal year was different from the Discount Rate, or if CalPERS made any changes to its actuarial assumptions, or if the actual demographic or compensation experience within the pension plans was different from the actuarial assumptions (i.e., life expectancy and retirement age), new line items, or UAL amortization "Bases," may be added to the plan and result in a change to the UAL balance. Such UAL amortization bases may be positive (indicating funding shortfall for the Pension Plans) or negative (indicating funding surplus for the pension plans). Since CalPERS can add new UAL amortization bases every year, the pension plans must be monitored annually and managed continually – there is no one-time solution.

CalPERS has adopted the UAL amortization methods that were meant to help public agencies "ease into" paying for the UAL increases., New UAL amortization bases are implemented incrementally, with a five-year ramp-up period, and at times include additional small increases in each of the subsequent years. The ramp-up period, while reducing the cash flow impact in the new term, increases the overall UAL repayment costs for the District by delaying repayment. Since the UAL balances accrue interest at the rate that is equal to the then current Discount Rate, the delayed payments prior to the commencement of the amortization and the reduced payments during the ramp-up period that do not fully cover the interest costs result in negative amortization, causing further increases to the UAL balance. So, while the District is paying everything that is requested by CalPERS, the obligation continues to grow.

The District's unfunded liability is not unique to Rubidoux. All government agencies who currently contract with CalPERS for retirement and have not otherwise developed a pension management policy of their own, undoubtedly face an unfunded liability obligation similar to the District. Currently, the District does not have a pension management policy. A sound pension management policy accomplishes the following:

1. Identifies all potential cost mitigation measures
2. Requires an annual review of potential actions to be undertaken as part of the budgeting process
3. Provides financial analysis and associated impacts of each cost mitigation measure
4. Determine preferred pension liability management scenarios and key variables

The District received the attached proposal (Attachment A) from California Municipal Advisors LLC ("CalMuni") to assist the District in developing a pension management policy. CalMuni is an independent registered municipal advisor with the Securities and Exchange Commission and their team has over 50 years of industry experience and diverse backgrounds in local government and has helped a number of California public agencies address their UAL. The not-to-exceed cost for this work is $5,700.

If authorized, staff expects to work with CalMuni and their team over the next few months to develop an appropriate pension management policy for the District which will be presented and considered by the Board during a future Board meeting. Once implemented, staff expects to use the policy as a blueprint to begin mitigating the District's growing UAL whether through budgeting future excess contributions, sale of non-essential assets, pension obligation bonds, etc.

This work was not included in the current FY 21-22 operating budget but the District has projected approximately $11,000 in excess budgeted monies at the end of the fiscal year in the General Fund Consulting Fee: Labor expense account. Staff recommends using this projected excess capacity for this expense.

Director Skerbelis moved, and Director Muniz seconded the Board of Directors consider authorizing the General Manager to:

1. **Accept the proposal and award a professional services contract to California Municipal Advisors LLC.**

2. **Issue California Municipal Advisors LLC a Task Order in the amount of $5,700 for the development of a pension management policy.**

3. **Use projected excess capacity in the District's General Fund Consulting Fee: Labor operating expense for this consulting fee.**

Roll call:

Ayes – 4 (Muniz, Murphy, Skerbelis, Trueba)
Noes – 1 (Trowbridge)
Abstain – 0
Absent – 0

The motion was carried 4-1.

ITEM 11. Consider Adoption of Resolution No. 2022-890 – A Resolution Authorizing Western Municipal Water District's Application for and Approving Negotiation and Execution of a Cooperative Agreement with The United States Bureau of Reclamation for Federal Funding Under Watersmart Drought Resiliency Program. DM 2022-38.

<u>BACKGROUND</u>

The United States Bureau of Reclamation (USBR) WaterSmart Drought Resiliency Program is accepting applications for grant funding to help water service providers implement projects to mitigate impacts of drought.

Generally, USBR supports applications having a regional benefit and to that end, Western Municipal Water District (Western) proposes taking the lead on a joint application under this funding opportunity entitled – “Building Groundwater Reliability and Resiliency: Regional Well Installation and Water Quality Treatment Project” (Project). The joint application proposes installation of groundwater wells and treatment facilities for Rubidoux Community Services District (Rubidoux), Riverside Highlands Water Company (Riverside Highlands), and Western. The application proposes increased utilization of local groundwater sources to enhance regional drought resiliency to reduce impacts of drought on the dependability of imported water deliveries from the State Water Project and Colorado River Aqueduct.

Rubidoux for this joint funding application proposes a project comprised of installing a new well and necessary treatment processes. The new well would be on land at 3590 Rubidoux Blvd. owned by Rubidoux and leverage use of piping and treatment processes currently in place for existing Well No. 2. The estimated project cost for Rubidoux’s proposed project is $2,915,000 based on costs contained in Rubidoux’s draft 2022 Water Master Plan. If USBR approves the joint grant application at the requested amounts, Rubidoux would receive 50% of the project cost, or $1,457,500. The local match funding of 50% would come from existing Rubidoux reserves and additions to reserves from water system capacity fees and rate revenues.

Riverside Highlands and Western proposed projects total $10,058,620. Western proposes a $7 million project with a 28% grant ask, $2,012,690. Riverside Highlands proposes a $3,058,620 project with a 50% grant ask, $1,529,810.

If the joint application is successful and grant funding is received, the projects by the agencies would need to be implemented by March 31, 2026.

Western is taking the lead in preparation of the joint application on behalf of Rubidoux and Riverside Highlands, who are both retail agencies within Western’s General District Boundaries. The application needs to be submitted to USBR by June 10, 2022, with a goal to have everything ready to go for the application by May 27, 2022. Western has requested two items requiring approval by Rubidoux’s Board of Directors:

1. A letter of commitment for the joint application
2. An adopted resolution indicating support of the application, concurrence Western is lead and will be the administrator of the grant if awarded, and Rubidoux can produce the local match for the proposed project.

Staff supports seeking grant funding to help offset costs to build facilities benefiting the Rubidoux’s customers, increases drought resiliency, and enhances utilization of local groundwater supply. Staff appreciates Western including Rubidoux in the application and taking the lead in its preparation. Based on Western’s request, staff has prepared the Letter of Commitment and Resolution No. 2022-890 for the Boards consideration.

Director Trowbridge moved, and Director Muniz seconded the Board of Directors to authorize the General Manager to:

1. **Authorize the General to sign the Letter of Commitment**

2. **Approve and adopt Resolution No. 2022-890; a Resolution Authorizing Western Municipal Water District’s Application for and Approving Negotiation and Execution of a Cooperative Agreement with the United States Bureau of Reclamation for Feder Funding Under Watersmart Drought Resiliency Program**

Roll call:

Ayes – 4 (Muniz, Murphy, Trowbridge, Trueba)
Noes – 1 (Skerbelis)
Abstain – 0
Absent – 0

The motion was carried 4-1.

ITEM 12. Consideration to Seek Financing for 3590 Rubidoux Blvd. and 5473 Mission Blvd. Building Purchase and Remodel Projects. DM 2022-39.

<u>BACKGROUND</u>

On March 17, 2022, the Board of Directors ("Board") of the Rubidoux Community Services District ("District") directed staff to proceed with the purchase of a building currently owned by the County of Riverside at 5473 Mission Blvd., Jurupa Valley, CA ("5473 Mission"). In addition to the purchase of 5473 Mission, the Board considered a number of different options and scenarios for the purchase of 5473 Mission and a remodel project of the current Administrative headquarters at 3590 Rubidoux Blvd, herein referred to as the 'Admin/Field Bldg. Proj.'for the combined building projects.

The District's architectural consultants, Ruhnau Clarke, provided a feasibility cost estimate for the entire project, which is described in detail below:

Insert Table 2022-39-1 here

The estimated cost of $3.5 million above represents the Phase 1 "hard-costs" of the Admin/Field Bldg. Proj. Phase 1 improvements in summary provide for acquisition of 5473 Mission making improvements to the building and grounds to be used as the District Administrative Facility, and improvements to 3590 Rubidoux building and grounds to be used as the District primary Field Facility. The grounds improvements in Phase 1 for 3590 Rubidoux would include security fencing about the current parking area.

Future Phase 2 improvements proposed for 3590 Rubidoux include a 12,000 sq. ft. vehicle apparatus building and perimeter security fencing on the vacant lot owned by the District between the elementary school and Stater Brothers. The estimated cost for Phase 2, staff recommends Phase 2 after successful completion of Phase 1. With Phase 1 improvements it is intended the Pacific Avenue Field Office would become the main Field Warehouse in the interim until Phase 2 is completed.

On April 21, 2022, the Board considered and approved a proposal from Ruhnau Clarke for architectural and engineering work related to Phase 1 in the amount of $356,200, which includes a $40,000 contingency for other expenses related to the project. The full scope of Ruhnau Clarke's work consists of the following:

1. Schematic design phase
2. Design development phase
3. Construction document phase

4. Bidding phase
5. Construction phase

Adding Ruhnau Clarke's ("soft-costs") to Phase 1 results in a total estimated cost of Phase 1 of $3,845,584 as detailed below:

Insert Table DM 2022-39-2 here

Currently, the District funds approximately $100,000 annually to its Admin/Field Building Reserve account. This account was established by the District's Board in 2014 with the specific purpose of funding expenditures related to the and/or remodel of the District's administrative and field facilities. As of March 31, 2022, the reserve account has a balance of $703,003. On April 21, 2022, the Board appropriated $356,200 of this balance for Ruhnau Clarke's work, leaving available funds of $347, 803, which is significantly less than the amount needed to fund Phase 1.

Staff recommends the Board authorize staff to seek financing for most of the costs associated with Phase 1 rather than spending down all of the reserves held in the Admin/Field Building Reserve Fund. Absent financing, in addition to using the remaining funds within the Admin/Field Building Reserve Fund, the District would require capital commitments from other unrestricted reserve accounts. An example of a financing strategy to pay for Phase 1 is as follows:

Insert Table DM 2022-39-3 here

Using cash of approximately $356,000 from the District's Admin/Field Building Reserve would leave a balance of approximately $348,000 to use for furnishings or other unexpected expenses related to the Admin/Field Building Proj.

Financing of $3,500,000 ($3,550,000 including estimated closing costs of $50,000) gives the District different options with regards to terms. Based on some preliminary quotes the District received from on of its potential lenders, payback years drives the interest rate. A shorter payback period, i.e., 5 years, would have a more favorable interest rate compared to a 20-year loan. A lower interest rate results in less interest being paid throughout the life of the loan but would require a significantly larger annual debt service payment. Table DM 2022-39-4 below estimates the various terms for a 5-, 10-, 15-, and 20-year payback period.

Insert Table DM 2022-29-4

Although the options above are estimates, in nature, they give staff and the Board a general idea of yearly debt service by terms. Ultimately, the right option will rely on budgetary constraints.

With direction to proceed with the purchase of 5473 Mission, staff is now seeking authorization to move on acquisition of financing in an amount not-to-exceed $3,500,000 plus estimated closing costs. Typically, the application and underwriting process is between 60-90 days. During that time, staff will routinely update the Board and seek additional approvals and authorization as necessary to complete the financing.

Director Muniz moved, and Director Trowbridge seconded the Board of Directors to authorize the General Manager, or designee to:

1. **Seek competitive financing in an amount not-to-exceed $3,500,000 plus closing costs for the District's Admin/Field Bldg. Proj.**

Roll call:

Ayes – 5 (Muniz, Murphy, Skerbelis, Trowbridge, Trueba)
Noes – 0
Abstain – 0
Absent – 0

The motion was carried unanimously.

ITEM 13. Consider Approval of a Task Order with Webb Associates to Prepare the District's Annual Water Supply and Assessment. DM 2022-40.

<u>BACKGROUND</u>

The State of California despite historical investments in water infrastructure is now experiencing a water supply crisis. The California Department of Water Resources ("DWR") establishes the amount of water State Water Project ("SWP") Contractors will receive and this allocation has been reduced to 5% of normal. The State Water Project is the project that moves water from northern California to areas south of the California Delta. This low allocation requires agencies dependent on SWP water to impose aggressive water conservation measures on its customers. An example of this is demonstrated in the attached article from the Press Enterprise dated April 28, 2022. This article reports Metropolitan Water District ("MWD"), a SWP Contractor, is imposing a 35% reduction in water agencies it sells water to dependent on SWP water.

Although Rubidoux Community Services District ("District") is not impacted by this MWD directive, the District will be subject to directives by the state. The state has grappled with how to dal with cyclical hydrological patterns affecting precipitation and snowmelt duration and attribute the changes to climate change. Hydrological patterns, temperature, and snowmelt duration have been measured for decades and findings indicate precipitation events are shorter, but more intense, and snowmelt occurs faster due to increased temperature. Due to a variety of reasons construction of major physical improvements such as increased surface storage and conveyance facilities around sensitive environmental areas to be compatible with the change conditions have not moved forward. Instead, state policy makers attempt to mitigate the water supply crisis by reducing water usage through calls for mandatory conservation.

Governor Newsom issued Executive Order No N-7-22 on March 28, 2022, to set into motion statewide water use restrictions in response to the current drought crisis. In response to Executive Order No N-7-22, DWR pursuant to California Water Code is requiring all water suppliers in the state to submit an Annual Water Supply and Demand Assessment ("AWSDA") in preliminary form by June 1, 2022, and in final form by July 1, 2022. Preparation of an AWSDA will be a first and DWR is providing guidance for its preparation. A.A. Webb Associates ("Webb") is participating in seminars and reviewing documents issued as guidance to be able to assist clients with preparation of the AWSDA. Webb has provided the District with a proposal (attached) to prepare the AWSDA. The cost is $12,100.00.

It is anticipated DWR will utilize the AWSDA data to make determinations on statewide water uses and promulgate new guidelines on water usage, such as setting per capita daily water use and establishing budgets for water suppliers.

The requirement to prepare the AWSDA is mandated, and the District is required to comply within deadlines established by DWR. Due to the time constraints to provide the information and Webb's knowledge of the District through preparation of its Urban Water Management Plan and 2022 Water Master Plan, staff recommends moving forward with Webb to prepare the AWSDA.

Director Murphy moved, and Director Muniz seconded the Board of Directors to authorize the General Manager to:

1. **Execute a task order with Webb in the amount of $12,100 using funds from Line 38 – Consulting Fees Water Supply Projects: Water Fund Operating.**

Roll call:

Ayes – 5 (Muniz, Murphy, Skerbelis, Trowbridge, Trueba)
Noes – 0
Abstain – 0
Absent – 0

The motion was carried unanimously.

ITEM 14. Consideration to Direct Staff to Prepare DRAFT Ordinance for Water and Wastewater Rate Increases. DM 2022-41.

<u>BACKGROUND</u>

In March 2019, the Rubidoux Community Services District ("District") Board of Director's ("Board") approved by unanimous vote a five (5) year water and wastewater rate plan ("Rate Plan"). The Rate Plan was developed based upon known water/wastewater quality challenges at the time including the uncertainty of declining water sales due to demand hardening from water conservation efforts, emerging regulations, economic fluctuations, and rising costs of electricity and chemicals. This Rate Plan, in accordance with Proposition 218 and compliant with AB 3030 proposed yearly increases to its water and wastewater rates not-to-exceed 6.0% and 5.0% per annum, respectively, beginning FYE 20192020 for a period of five (5) years. For FYE 2019-2020 the District increased its wastewater rate by the allowable 5% effective July 1, 2019, but not a water rate increase.

For FYE 2020-2021 as staff began rate discussions the COVID-19 pandemic was beginning to expand exponentially throughout the country. Due to the financial hardship the pandemic had on many Americans, including District customers, this Board approved a phased approach with regards to water and wastewater rate increases to ease the financial burden on rate payers. As a result, the District increased the wastewater rate by the allowable 5% effective July 1, 2020, while the water rates were increased by the allowable 6% effective January 1, 2021, a six-month delay in implementation. Rates were increased again in year three (3) of the Rate Plan by the allowable 6% for water and 5% for wastewater, which had an effective date of August 3, 2021.

Since approval of the Rate Plan, the District has seen significant changes impacting its operating environment and future economic stability. With regards to the Water Enterprise, the District, along with the entire water industry, was given approximately 2-years to respond/mitigate the emergence of the presence of perfluorooctane sulfonate (PFOS) and perfluorooctanoic acid (PFOA) in the groundwater pumped for potable supplies. This was accomplished as a two-pronged approach by implementing treatment processes at the Anita B. Smith and Leland Thompson Water Treatment Facilities. The total project costs for mitigating these contaminants were approximately $5.0 million, all of which was funded through District reserve accounts. In September 2021, the District successfully achieved non-detect in its potable water for these contaminants.

Along with these new capital improvements has come additional routine operating costs, most notable the periodic change out of media (GAC or resin) held in these pressure vessels, and additional energy costs and sampling, among other costs. Prior to these new emerging contaminants, the District was already dealing with 1,2,3-TCP and relatively high ambient TDS levels in the District's drinking water wells. Based on current operating efforts for PFAS Treatment combined with existing 1,2,3-TCP Treatment, the District is utilizing 13 pressure vessels. Excluding capital expenses, the media change out expenses and added energy and chemical costs is likely to add approximately $1,200,000 to the annual water system operating expense budget, which has been estimated and reflected in the draft budget presented at Budget Workshop 1. In addition, supply chain issues have increased lead times on various District parts/chemicals and the rising cost of inflation has put significant financial constraints on the District's operating budgets.

The above highlights the District's effort and focus in dealing with two of the District's ore pressing issues, PFOS/PFOA and 1,2,3-TCP. In addition, many of the District's infrastructure and long-lived assets are starting to show their age. The District's four (4) potable water tanks (Hunter 1, Atkinson, Watson, Perone) are 20+ years old each. In December 21019, the Board of Directors authorized a professional services contract with Harper & Associates to inspect the tanks with specific emphasis on: 1) corrosion evaluation, 2) structural/seismic, and 3) safety evaluation. The results of the assessment were not good, but otherwise not unexpected given the age and usage of the tanks over the years. Below is a summary of costs of repair and/or replacement. All tanks require substantial structural and safety upgrades to meet AWWA and OSHA regulations.

	Atkinson	**Hunter No. 1**	**Perone**	**Watson**
Capacity	2 MG	424,000 Gallons	1 MG	3.03 MG
Required Safety/Health Modifications	$18,000	$43,100	$19,300	$19,300
Structural Modifications	$351,800	$200,500	$267,500	$41,500
Coating and Painting	$460,000	$180,000	$314,200	$681,200

Optional Items	$238,800	$132,800	$147,800	$49,300
Total w/o Optional Items	$829,800	$423,600	$601,000	$741,500
Grand Total All Modification w/20% increase	$1,068,600 $2,220,000	$695,000 $834,000	$995,800 $1,194,960	$790,800 $948,960
New Welded Steel Tank with Foundation w/20% increase	$1,850,000 $2,220,000	$695,000 $834,000	$9958,800 $1,194,960	$2,272,500 $2,727,000
Rehabilitation Cost – Vs- New Tank Cost	57.8%	80.1%	75.2%	34.8%
Capacity Reduction	2 MG to 1.76 MG	424,000 gal to 286,542 gal	1 MG to 286,542	3.03 MG to 1.99 MG

In short, from this evaluation the District is faced with approximately $4 to $5 million, most likely more today in current dollars, to bring the tanks into refurbished conditions, and replacement of Hunter 1.

On March 17, 2022, the Board directed staff to proceed with the purchase of 5473 Mission Blvd. with the plan to make this location the District's new Administrative headquarters. The real property is estimated to cost the District $390,000 plus applicable closing costs and fees. Further, on April 21, 2022, the Board approved a proposal from Ruhnau Clarke for architectural and engineering work in the amount of $356,200 related to Phase 1 of the Admin/Field Bldg. Proj. Phase 1, which was considered earlier this evening with DM 2022-39 has a total estimated cost of $3,845,000 (rounded), of which staff recommended a financed amount of $3,500,000. Although terms and rates affect annual debt service on a financing, using for example a 10-year payback period on $3,500,000 at 2.5% would add approximately $400,000 in annual debt service to the District's budgets.

Until FY 2021-22, there had not been an emphasis by the District to develop a preventative maintenance program. During this year, the District hired a consultant to develop a valve turning program, which is currently in-process. A valve turning program is an important preventative maintenance technique to ensure the District's water system continues to operate in a smooth and efficient manner. Ideally, when the District is presented with a leak in its water system, being able to isolate the leaky pipe through valve shutoffs is paramount to minimize customer inconvenience and complaints and keep a level of trust and reliability. When valves are not exercised on a regular basis, over time the valves can become stuck or become harder to open, sometimes resulting in failure. This requires District employees to shut down more of the water system, making the overall operation inefficient and more costly. Once the program design is completed, the District will incur implementation costs. These will include staff training and a specialty valve turning truck and equipment which is included in the draft FY 2022-2023 budget. This is just one example of the more programmatic approaches the District is emphasizing over time resulting in inaccurate billings and less revenues for the District for the same amount of water usage. This "water loss" is realized by District staff on an annual basis during the preparation of the Water Loss Audit required by the State of California Department of Water Resources.

With regards to the Wastewater Enterprise, the largest cost component is payment obligations to the City of Riverside for sewage treatment (RST). The City's treatment plant process is not designed to remove Total Dissolved Solids ("TDS"); thus, TDS is considered a pass-through pollutant. TDS is regulated through source water control and the pretreatment program where water quality local limits are established for discharges into the wastewater collection system.

The City's discharge permit has a basin objective of 650 mg/l TDS. The City is requiring the District develop a TDS Mitigation Plan, which will necessitate development of a lower TDS potable supply to blend with current District groundwater supply. This could come in the form of addition of advanced water treatment processes (reverse osmosis) to remove salt such or buying imported low TDS water. On March 3, 2022, the Board considered and approved a five (5) agency agreement to import low TDS water to the District through West Valley Water District (DM 2022-16). As of today, four (4) of the 5 agencies have approved the agreement with the last holdout being Metropolitan Water District ("MWD"). The District is currently working with Western Municipal Water District ("WMWD") on a different approach and strategy to ensure future consideration of the agreement by MWD is approved by their board. Once an agreement to provide import water to the District is approved and the necessary infrastructure is built, this water supply will increase monthly costs to the District and will impact both water and sewer rates.,

Also, the Board is aware of the ongoing ten (10) plus year lawsuit with the City of Riverside regarding District capital participation in the City's wastewater treatment plant upgrade. After approximately seven (7) years of various legal proceedings between the two parties, in May 2019, the presiding judge in the matter issued a Tentative Statement of Decision finding the District is obligated to contribute proportionately based on capacity ownership in capital costs the City incurred when upgrading and expanding its facilities. In April 2021, Phase 2 of the legal proceedings (to establish the actual contribution amount) the presiding judge issued a tentative decision on the contribution amount of $21.1 million. The District staff and legal team are currently evaluating options and anticipate the tentative decision will become final over the next months.

An increase in water and wastewater rates are ultimately at the discretion of the Board but as noted above, over the course of the next five (5) years, the District is facing significant increased expenses. These cost increases, regardless of rate increases, will occur as a result of expanded routine operating and maintenance costs, plus costs in the form of capital improvement and infrastructure. Because of this, January 2022, the District hired IBG Consulting ("IB") to conduct a Comprehensive Cost of Service Study ("COSS") which will accomplish the following:

1. Develop a cost allocation plan for District's administrative staff for proper allocation of costs to District's enterprises.
2. Develop a multi-year financial plan with a 10 to 25 year time horizon including sub funds for operating/capital for water, wastewater, trash and fire. The plan will be Microsoft Excel based and can be modified by staff to incorporate "what-if" factors and evaluate different financial scenarios.
3. Review, modify, develop reserve policies.
4. Water cost of service analysis that allocates cost between customer class, fixed monthly meter charge and commodity rates/tiers.
5. Wastewater cost of service analysis.
6. Assessment of and recommended changes to current tiered water rate structure and potential alternative rate structure, customer classes, and allocation of costs split between fixed and variable charges for the potable and non-potable water operations. A rate comparison with six other local utility districts.
7. Assessment of and recommended changes to current rate structure and potential alternative rate structures, customer classes, concentration charges and split between fixed and variable charges for wastewater operations. A rate comparison with six other local utility districts.

8. Assessment and recommendations for District Water and Sewer Capacity Fees and Fire Mitigation Fees.
9. Assessment and recommendations for adjustments to a component of solid waste charges kept by the District to cover administrative costs associated with the enterprise.

The COSS will be used as a foundational pillar into the District's overall strategic plan being developed simultaneously by the District. Habib Isaac with IGB has presented to the Board twice already and his involvement will be constant during the course of the engagement. At the conclusion of IB's work, it is anticipated the Board will consider a new rate structure for the water and wastewater enterprises which will result in a new Proposition 218 noticing and hearing. This is anticipated to occur in Fall 2022.

In the meantime, staff recommends the Board consider raising the rates by the maximum allowable amount pursuant to the District's current Proposition 218, 6% for water and 5% for wastewater, with an effective date of July 1, 2022.

Management recognizes raising rates is not ideal, especially considering the impact of inflation on other household expenses; however, the District has a fundamental obligation to provide clean and reliable drinking water to its customers and to ensure sewage is collected and adequately treated, and these costs for service need to be included in the rates.

Director Murphy moved, and Director Muniz seconded that the Board of Directors authorize the General Manager to:

1. **DRAFT Ordinance for increase to water rates by 6% with an effective date of July 1, 2022.**

2. **DRAFT Ordinance for increase to RST component of sewer rates by 5% with an effective date of July 1, 2022.**

3. **Schedule First Readings at the regular Board Meeting on May 19, 2022.**

4. **Schedule Public Hearings and Second Readings of Ordinances at the regular Board Meeting on June 2, 2022.**

Roll call:

Ayes – 5 (Muniz, Murphy, Skerbelis, Trowbridge, Trueba)
Noes – 0
Abstain – 0
Absent – 0

The motion was carried unanimously.

ITEM 15. Directors Comments

Director Murphy would like to make sure that he understands the process as to where the board is at with the COLA adjustment with regular personnel. The union has made a written request, and staff has met with the union. The personnel committee will review that and give staff further direction or move it on to the board for action.

Director Murphy stated that he feels it is unfair a customer coming in close to closing and the door is open to pay their bill but they are not allowed to pay. Some customers have no other choice but to come and pay the bill in our office. He feels that it is unfair that the customer cannot pay their bill after 4:00 PM. He is also concerned that the office closes the door in fear of getting sick. Employees have submitted for reimbursement for COVID testing. He feels they should not be reimbursed as there are many COVID free testing services.

Director Trueba adjourned the meeting at 5:07 PM.