



PAJARO VALLEY WATER MANAGEMENT AGENCY

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Ad-Hoc Funding Committee
October 24, 2013, 3:00 p.m.

500 Clearwater Lane
Watsonville, CA 95076

AD-HOC FUNDING COMMITTEE MEETING MINUTES

1. Meeting called to order

Roll call of Appointed Committee Members: The Ad-Hoc Funding Committee Meeting of the Pajaro Valley Water Management Agency was called to order in the City of Watsonville Water Resources Center Conference Room, 500 Clearwater Lane, Watsonville, CA, at 3:08 p.m. by Committee Chair Dave Cavanaugh.

Committee Members Present: Dave Cavanaugh (Chair), Kirk Schmidt (Co-Chair), John E. Eiskamp, Amy Newell, Skip Fehr, Stuart Kitayama, Steve Palmisano, Bill Lipe, Frank Capurro, Paul Faurot, Dick Piexoto, Stephen Rider, Chuck Allen,

Committee Members Absent: John Martinelli, Tom Karn

Staff Members Present: Mary Bannister, General Manager (GM)
Brian Lockwood, Senior Water Resources Hydrologist (SWRH)
Teresa Delfino, Administrative Services Manager (ASM)
Laura Taay, Administrative Analyst (AA)
Lauren Valk, Agency Counsel Substitute (ACS)

Others Present: Rosemarie Imazio
Richard Shanahan
Warren Koenig
Lidia Gutierrez
Lou Carella
Pierce Rossum
Margie Kay

2. Committee comments: None

3. Public comments: None

4. Consider approval of minutes from September 26, 2013 meeting: Minutes approved as written

5. Rate Setting Process – Engineering and Cost of Service – Carollo Engineers:

Pierce Rossum and Lou Carella, key employees from Carollo Engineers who will be working on this project. The Carollo team builds on success of 2010 rate setting process. The exiting rates will need to be updated to fund new BMP projects and meet 2015 sunset provisions. 2013 process will be similar to the 2010 process but rate structure will be revisited. Changes since 2010- Legal success, Pendry/Griffith etal vs. PVWMA, completed draft BMP, increased focus on conservation, increased recycled water deliveries, new AHFC members and new Board members. Three phased approach will be implemented: (1) Develop recommended rate recover methodology (2) develop service charge report (3) support majority protest process

Questions for the committee that will be addressed early: Which 2010 assumptions remain applicable? How does the BMP influence cost of service process? What are the challenges with tiered rates? Protest and ballot? Who votes? What are the pricing strategies? How do we consider outside funding? Should four customer classes continue? Should assessments be considered? Is an Agency Act amendment needed? A draft rate setting process work plan was distributed to committee. The work plan is the road map for the process and identifies decision points for committee and Board; identifies the primary and secondary topics for each committee meeting. Process results in recommendation of rates per user class. Phase 1 will be completed in February 2014, Phase 2 in November 2014.

6. Rate Setting Process – Legal Framework:

Lauren Valk, of Atchison, Barsone, Condotti, Kovacevich, made a presentation re: legal setting of rate process.

Article XIII D establishes the procedural requirement and substantive requirements for increased charges. She summarized relevant property related fee or charge cases and how the cases apply here, including the recently decided Pendry case. Dick Piexoto asked who is receiving service. Answer was deferred until Richard Shanahan presentation. Summarized how PVWMA augmentation charge ordinance complies with Prop 218 substantive requirements as confirmed in the appeals decision.

Richard Shanahan, of Bartkiewicz, Kronick & Shanhan, addressed the implications of the recent Pendry decision on this new rate setting process. Mr. Shanahan strongly advised the Agency to retain the existing rate methodology, the more you stray from the methodology blessed by the courts, the more vulnerable you become to new legal challenges. Funding conservation? Tiered pricing is one option and need to understand the issues with the Palmdale case; tiered pricing overturned because Palmdale's administrative record was inadequate; however tiered pricing was not heard in the Pendry case and therefore, could leave the agency vulnerable; tiered rates for this Valley are challenging due to multiple well configurations/deliveries, unlike a straightforward domestic potable connection.

Past advice has been that augmentation charge cannot be used for conservation. However, the court of appeal highlighted that augmentation fees could be used to prepare and implement a groundwater management program. As specified in the BMP, conservation is part of the groundwater management program. Therefore, legal team evaluating funding conservation from augmentation charges and not limit to management fees. Rate structure should consider the opportunities for increasing delivered water. For example, consider differential night time vs. day time rates to encourage night time use. Could be accomplished by considering the costs of the additional recycled storage for day time use rates and not night time rates, when not needed. Other options were presented.

Margie Kay questioned if the agency act has to be amended to fund conservation? Possibly not, legal team is reviewing.

Skip Fehr asked if somebody could be exempt if shown to not be pumping from basin. Yes, similar to what was done for water user in last process, east of the San Andreas fault.

Kirk Schmidt asked if sunset provision was a Board decision and can it be "unadopted"? Board can vote to adopt new ordinance simply extending the current rates without triggering a new 218 process because there are no proposed rate increases.

Dick Piexoto asked if the Agency could regulate the use of groundwater wells within the delivered water zone to control rates if tiered pricing is implemented. The tiered pricing is being considered only for pumped water not delivered water. The agency does have the right to implement a mandatory use ordinance or could price such that delivered water use is encouraged not discouraged.

How is supplemental water service defined? The service from the agency is managing the overall basin and implementing projects and everyone in the basin benefits from the service.

Incentives for landowner recharge? The rebates must be based on avoided cost analysis.

Dave Cavanaugh stated that conservation does not necessarily mean higher rates, there are mitigation measures and alternatives.

7. Basin Management Plan Update EIR Schedule and activities:

The Draft EIR Public Review Period began on October 18, 2013 and will run until 5pm on December 2, 2013; The Draft EIR is available in hard copy or CD format for purchase at the PVWMA Office. The Draft EIR is also available on the PVWMA website and can be downloaded at no charge (<http://www.pvwater.org>).

On Wednesday, November 20, 2013 the Public Hearing for the Draft EIR will be at the PVWMA Board of Director's meeting, 7:00 pm, City Council Chambers, 275 Main Street, 4th floor, Watsonville, CA.

8. Future agenda items: None

9. Upcoming Meetings:

- A. Board of Directors Meeting – EIR Public Hearing, November 20, 2013, 7:00 pm, City Council Chambers, 275 Main Street, 4th Floor, Watsonville, CA
- B. Ad Hoc Funding Committee Meeting – November 21, 2013, 3:00 p.m.- 5:00 p.m., City of Watsonville, Water Resources Center, 500 Clearwater Lane, Watsonville, CA

11. Adjournment at 4: 25p.m.