



**BEAUMONT-CHERRY VALLEY WATER DISTRICT
MINUTES OF REGULAR MEETING
OF THE BOARD OF DIRECTORS
560 Magnolia Avenue, Beaumont, CA 92223
Thursday, July 26, 2018 at 6:00 p.m.**

Call to Order: President Covington

President Covington began the meeting at 6:01 p.m.

Roll Call:

Directors present:	Directors Diaz, Hoffman, Slawson
Directors absent:	Covington, Ramirez
Staff present:	General Manager Dan Jagggers, Director of Finance and Administrative Services Yolanda Rodriguez, Senior Finance and Administrative Analyst William Clayton; Senior Engineer Mark Swanson, Administrative Assistant Erica Gonzales

Members of the public who registered their attendance: Fran Flanders, Jeff Davis and Dr. Blair Ball.

Public Comment: None.

ACTION ITEMS

1. Sites Reservoir Project: Overview and Funding Requirements

General Manager Dan Jagggers explained that BCVWD has an agreement to participate in the Sites Reservoir project for 4,000 acre-feet. The San Geronio Pass Water Agency has applied for 14,000 acre-feet of Class 1 and Class 2 water. The landscape of the project is moving quickly and there is much for both SGPWA and BCVWD to do and understand.

San Geronio Pass Water Agency General Manager Jeff Davis echoed that things are changing with the proposed Sites Reservoir project. He presented the background of the project located in the Sacramento Valley and having a proposed capacity of 1.8 million acre-feet, with a proposed annual yield of 500,000 acre-feet.

Water would have to be pumped into the Sites Reservoir due to off-stream storage. However, when water is moved from the reservoir to the Sacramento River for delivery, it will flow by gravity and therefore will generate power. Mr. Davis detailed the anticipated capacities and yields of the reservoir and indicated it appears to be a good dry year yield project and is a complement to the Cal Water Fix.

Mr. Davis noted that \$2.7 billion was reserved from Proposition 1 Water Bond funds for new infrastructure (storage). The Sites Reservoir applied for funding and received \$816 million. This funding can only be used for public benefit; water supply is not considered a public benefit, so the SGPWA portion must be paid through rates.

The Water Commission also granted \$40.8 million in early funding which will help defer some of the Phase 2 near-term costs. He referred Directors to the California Water Commission's website for further details.

There are 28 water purveyors around the state participating in the Sites project, Mr. Davis continued. Director Hoffman pointed out that the 28 are wholesalers, and BCVWD is connected through the SGPWA. The total subscription for water purchased to date is 404,411 acre-feet of the 500,000 acre-foot yield, but that will likely change in Phase 2 with a rebalancing.

Mr. Davis explained Class 1 and Class 2 water. Under the terms of Proposition 1, the state could buy a maximum of half the water. Class 2 water could convert to Class 1 water in Phase 2 no matter what the state buys; some of the Class 2 water will be bought by the state, but the amount is unknown. Those purchasing Class 1 water are assured of receiving it. Class 2 water is cheaper, but there is risk of losing that water if the state purchases it.

Participation resulted in 6,285 of Class 1 and 3,715 of Class 2 water for SGPWA and 2,514 of Class 1 and 1,486 of Class 2 for BCVWD. In Phase 2, any Class 2 water that is converted to Class 1 will increase in price by the difference, calculated by Mr. Davis to be \$90,000 for the SGPWA and a maximum of \$36,000 for BCVWD if all of the 1,486 is reclassified as Class 1. This is expected to be billed in the first quarter of 2019, Davis said.

BCVWD requested 4,000 acre-feet of Class 1 water only, however, that would leave SGPWA absorbing the risk; the SGPWA Board would accept only equal partnership and the BCVWD Board agreed.

From the Sites' yield, the state and federal agencies will take about 25 percent. It is also anticipated that some investors in Phase 1 may reduce their request or drop out of Phase 2; SGPWA then expects that all of its Class 2 water will be converted to Class 1, explained Mr. Davis. He advised there is a reasonable chance that BCVWD's Class 2 water will become Class 1 water in Phase 2.

Director Slawson asked about the Joint Powers Authority; Mr. Davis noted that the SGPWA is part of the conversation in Sacramento. Director Slawson asked how much time between the decision on classification and when it can be brought back to the Board for discussion. Mr. Davis indicated the process has not yet been completely defined. Currently, there is a Phase 2 participation agreement being finalized, which will give everyone the opportunity to look at cost and determine if they still want to participate. By November, agencies will need to figure out what they want and vote on the amount of their request. If BCVWD is interested in more than 4,000 acre-feet, Mr. Davis indicated the SGPWA would prefer to know sooner rather than later.

Mr. Davis explained the Joint Powers Authority and the Reservoir Committee governance structure. The Committee meets monthly.

Phase 2, Mr. Davis continued, is about getting the WISAP application in for Proposition 1 funding. As part of the action, the CEQA and NEPA documents were produced and preliminary engineering was done. In order to get funding, all permits must be obtained by 2022 and the project must be online by 2030. To meet the timetable, Phase 2 must start in January 2019.

After Phase 2, there will be a limited opportunity to pull out of the project and only if another investor is willing to take over. Any investment would be lost, and the agency would still be liable for any of the debt incurred to that point.

Phase 2 is a serious financial commitment. During Phase 3, Mr. Davis said, bonds will be sold. Director Hoffman asked about the sense of urgency. Mr. Davis indicated it is due to the availability of Proposition 1 money and a 2010 law enabling the formation of JPAs to do large infrastructure projects.

Phase 2 financing includes revolving bank loans, and bonds. Through 2022, the loans would be interest only. After Phase 3, assuming construction will move forward, the Phase 2 debt would be paid off with bonds and rolled into larger payments from 2022 onward. If the project does not proceed, the principal incurred during Phases 1 and 2 can be paid off, or can be refinanced.

Mr. Davis reported that Phase 2 costs are anticipated to be approximately \$418 million. Proposition 1 funds of \$40.8 million and federal WIN Act funds will be contributed, leaving about \$350 million to be financed in Phase 2 with the revolving line of credit. The SGPWA would be invoiced in November 2019 for its portion of the first interest payment. Payments for Phase 2 would begin in January 2020; thereafter annually through 2022 or 2023, and then the long-term bond payments would begin.

Mr. Davis presented a cost estimate of \$5.5 billion in 2018 dollars based on potential risks. Financing would include \$816 million from the state and an anticipated \$1 billion from federal sources, leaving \$3.7 billion to be financed. Once operational, revenues will be generated from hydropower, but there will be additional costs of pumping.

Mr. Davis pointed out the major milestones / tasks of the project. The reservoir would be filled in 2031 or 2032 and deliveries would begin in 2032.

He summarized the issues:

- The costs in Phase 2 will increase but are manageable (\$55 to \$60 per acre-foot)
- Phase 3 costs will significantly increase. At 14,000 acre-feet per year, it will translate to \$7 to \$8 million per year in debt service
- The Phase 2 agreement will have a step-up provision in case an agency drops out; SGPWA will also need such an agreement with BCVWD
- The first payment in January 2019 would be approximately \$15 per acre-foot.

Mr. Davis pointed out some potential obstacles and discussed risk. He reiterated that the SGPWA would need to know of any changes in BCVWD's participation by October.

Director Slawson asked about the step up provision. Mr. Davis clarified.

General Manager Jagers pointed out the potential for a tax-based funding strategy. Mr. Davis noted that since the Sites Reservoir is not part of the State Water Project (SWP), it cannot be funded through the tax rate paid for the SWP. However, local state water contractors may work together to build a local project which could be considered part of the SWP. If so, the payments could be put on the statement of charges for the Department of Water Resources (DWR), which would allow it to be paid with the tax rate, if the SGPWA Board chose to do so. This is a policy decision at the DWR, and there is no precedent. Mr. Davis met with the Director of the DWR and she has assured the group that a decision on this will be made by October.

If the cost cannot be paid through the tax rate, the SGPWA Board may have to reconsider the amount of its participation.

In response to Director Diaz, Mr. Jagers explained that if not funded by the tax base, options include a rate-based strategy, or a capacity fee, but neither fully accomplish the funding. Water is being purchased for future population growth, but the development to fund it is not yet here.

Mr. Jagers pointed out that BCVWD's \$2 million for 4,000 acre-feet spread across the current 18,300 connections on a cost per connection fee would be about \$109 per year or \$9.10 per month. As the District grows, that diminishes as the base increases. The 4,000 acre-feet could be absorbed, but not likely the SGPWA's 14,000 acre-feet.

Mr. Davis stressed that this is a tremendous decision for the respective boards of directors, which will secure the future of water supply in the region. He said the SGPWA Board believes it is critical to get development to pay for a portion of the cost since if people were not coming this investment would not be needed; however, the SGPWA has no authority to impose developer fees.

Director Hoffman acknowledged the decisions to be made and stated the Board must prepare for the future and do the best it can for the community.

Mr. Jagers explained the District is in a position to move forward independently as well as in collaboration with partners to assure the District's needs are met.

Mr. Jagers explained the SGPWA is also working on additional sources of water supply. Director Diaz pointed out the risk that the development planned over the next 15 years may not happen then the District is stuck with the bill. Mr. Jagers noted the District's ratepayers pay half of their water bill on the tax roll.

Director Hoffman asked about the reliability of the Sites supply and capacity for delivery. Mr. Jagers explained the relationship of the California Water Fix and any supply absorbed by the Delta and the capacity of the BCVWD. Director Hoffman suggested it may be better to have the water available than potentially be subject to rationing in the future. Director Slawson commented that this is the time for developers to get involved if they want to be able to build.

Mr. Jagers noted this is across Southern California: how to spread the cost between those who come and those who are here. Director Diaz pointed out the decision timeline. Mr. Jagers noted the decision might be an "if / then" scenario, and may require emergency meetings in the fall.

Mr. Jagers presented cost estimates and pointed to the analysis in the white papers prepared by staff last December. The Sites project's average principal loan payment is \$7 million over 40 years. According to the SGPWA, the Phase 2 will require \$350 million in design costs likely funded by interest only payments. The SGPWA will have an obligation from 2019 to 2022 to pay about \$516,000; BCVWD's portion would be \$147,000 annually. However, Jagers continued, the District can tap into the \$8 to \$10 million in facilities fees for purchase of new water rather than include it in rates.

After the initial annual payment, when the project ramps up, the District owns \$2 million of the cost. With 18,300 connections and an average annual gain of 411 homes per year, the annual cost could be funded from increased rates, the SGPWA's tax revenue generated by area growth, and / or new development capacity fees, or a combination.

Mr. Jagers shared conservative projections for growth and estimated the need for 1,500 to 2,000 acre-feet of imported water by 2035, at an average cost of \$80 per year per connection if applied to existing homes through rates. Additionally, Mr. Jagers explained funding through the tax base: growth in the area would

begin to pay for itself by 2028, and the relationship to SGPWA. He explained the variables and noted that staff will tune the spreadsheets to reflect new information and analyze what is best for the District.

Director Diaz asked about SWP water. Mr. Jagers assured that staff has looked at the SWP, and said if the Sites project does not go forward there may be a better opportunity with the California Water Fix. He stressed collaboration with the SGPWA and encouraged Board members to reach out to directors of the SGPWA. Director Diaz urged caution.

Mr. Jagers suggested an Ad Hoc Committee might be appropriate.

2. Consideration of Approval of Legend Well and Pump Services, Inc.'s Proposal for Well 22 Pumping Unit Repair and Well Rehabilitation for \$121,200.00

General Manager Jagers clarified that the intent is to execute a contract with Legend Pump and Well to do the base bid activities for \$74,709. Staff has asked for authorization of the total amount based on the last well done, where President Covington had suggested chemical treatment be included. Mr. Jagers said it would not likely be necessary, however, therefore it is not anticipated that the entire amount would be expended.

The Board approved the proposal from Legend Well and Pump Services, Inc. for Well 22 Pumping Unit Repair and Well Rehabilitation for up to \$121,000 by the following vote:

MOVED: Diaz	SECONDED: Slawson	APPROVED 3-0
AYES:	Diaz, Hoffman, Slawson	
NOES:	None.	
ABSTAIN:	None.	
ABSENT:	Covington, Ramirez	

3. Update: Legislative Action and Issues Affecting BCVWD

Senior Engineer Mark Swanson explained the updated Legislative Report format.

Mr. Swanson updated the Board on SB 998 regarding the right to affordable water. It has been referred to Appropriations. Staff is tracking the bill. It may not impact BCVWD as it pertains to shut off procedures and the District appears to be in compliance.

4. Update: Status of District Wells, Capital Improvements, and Engineering Projects

General Manager Jagers noted a warranty repair on Well 19. It is in the process of coming back online.

5. General Manager's Report

No report.

6. Topics for Future Meetings

Water supply for BCVWD and the region

7. Recessed to Closed Session: 8:12 p.m.

- a. CONFERENCE WITH LEGAL COUNSEL – POTENTIAL LITIGATION
Pursuant to Government Code Section 54956.9 (e) (2):
One Case
Consideration of Claim #18-0721

Reconvene in Open Session: 8:36 p.m.

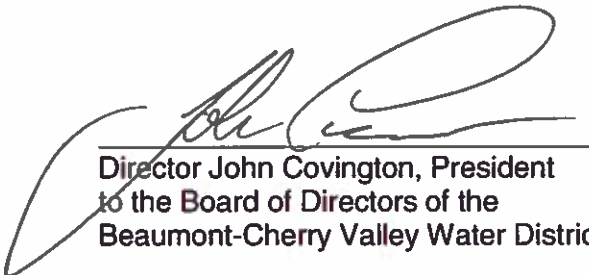
Report on Action Taken During Closed Session:

Director Hoffman reported that the Board voted to approve payment of Claim #18-0721.


8. Adjournment

Director Hoffman adjourned the meeting at 8:37 p.m.

ATTEST:



Director John Covington, President
to the Board of Directors of the
Beaumont-Cherry Valley Water District



Director Claudeen C. Diaz, Secretary
to the Board of Directors of the
Beaumont-Cherry Valley Water District