

**CONTRA COSTA WATER DISTRICT
BOARD OF DIRECTORS
REGULAR MEETING
FEBRUARY 16, 2022**

MINUTES

CALL TO ORDER

President Borba called to order a regular meeting of the Board of Directors of the Contra Costa Water District (District or CCWD) at 6:30 p.m., via teleconference.

SAFETY BRIEFING

General Manager Welch indicated a safety briefing was not necessary, as the meeting is being held telephonically.

ROLL CALL

Directors Present:	Lisa M. Borba, President Ernesto A. Avila, Vice President John A. Burgh Connstance Holdaway Antonio Martinez
Directors Absent:	None
General Manager:	Stephen J. Welch
Legal Counsel:	Douglas E. Coty
District Secretary	Veronica Sepulveda
Executive Management Analyst	Shelly Wise

PLEDGE OF ALLEGIANCE

President Borba led the pledge of allegiance.

ADOPTION OF AGENDA

The Board adopted the agenda by rule.

PUBLIC COMMENT (Please observe a three-minute time limit)

President Borba asked for public comment; there were none.

CONSENT CALENDAR

1. Approve Directors' Services/Business and Travel Expenses
 - a. Expenses – January 2022
 - b. Compensation – January 2022
2. Approval of January 19, 2022 meeting minutes.
3. Approve the warrant register dated February 17, 2022.
4. Authorize a change order authority increase in the amount of \$266,889 with JMB Construction, Inc for the Pine Hollow Reservoirs 1 & 2 and Pump Station Improvements Project, for a revised total authorization not to exceed \$1,694,039.

President Borba asked the Board if any item should be removed from the Consent Calendar for separate consideration. There were no items removed. There were no Board or public comments.

MOTION: Holdaway/Martinez to approve Consent Calendar. The motion was approved by roll-call vote (Ayes: Avila, Borba, Burgh, Holdaway, Martinez; Noes: None; Abstain: None; Absent: None).

ACTION

5. Receive update and approve continuation of the local emergency, as declared in the Contra Costa Water District Resolution No. 22-003, resulting from the COVID-19 pandemic.

General Manager Welch reported there have been several improvements of COVID-19 within the District, which may result in the deactivation of the Emergency Operations Team. Two key changes provided in the summary was the announcement of Governor Newsom restoring the COVID-19 paid sick leave and the indoor facemask requirements being lifted from a variety of counties. The District will keep the mask mandate for all employees regardless of vaccination status for the time being. If the District continues to see significant improvements, an action item to cease the declaration of a local emergency will be brought to the Board at the next Board meeting.

President Borba asked for Board and public comments; there were none.

MOTION: Avila/Burgh to approve continuation of the local emergency, as declared in the Contra Costa Water District Resolution No. 22-003, resulting from the COVID-19 pandemic. The motion was approved by roll-call vote (Ayes: Avila, Borba, Burgh, Holdaway, Martinez; Noes: None; Abstain: None; Absent: None).

DISCUSSION AND INFORMATION

6. Review the status of the District's FY22 financial results and year-end projections as of December 31, 2021.

Rate and Financial Analyst, Celia Cheung provided an update on the FY22 mid-year financial review. Based on the mid-year review, a net of \$3.7 million positive impact to the Financial Plan is projected for FY22. It is anticipated that the District will have sufficient cost savings to offset lower water sales revenues. Revenues are projected for a \$8.5 million negative impact to the Financial Plan. The largest shortfall is \$11.3 million due to lower water sales, drought conservation response and use reductions from Marathon.

As of December 31, 2021, the delinquent account balances reached \$745,000 and at the end of January the District received financial assistance, in the amount of \$705,000, from the California Water Arrearages Payment Program. A chart was shown to represent the reduction of the aging account balance due to the assistance from the State. Account balances are projected to be in the \$100,000 range, by the end of June.

Expenditures are projected \$12.2 million in positive benefits to the Financial Plan due to less net operating expenditures from vacancies, lower debt services and lower rate funded capital expenditures. Current supply chain constraints will delay projects, equipment deliveries and project schedules, resulting in approximately \$7.3 million in rebudgets for FY23. These delays will affect annual vehicle replacements and materials needed for construction projects. Staff is working on modifying contractor agreements to shift material procurements to the contractors, which may have improved access to materials.

An update on the Phase 2 Los Vaqueros Reservoir Expansion project was provided. The project budget is approximately \$15 million. Mid-year expenditures are approximately \$3.5 million, and funds received are also approximately 3.5 million. The cash reserves balance is just under \$1.4 million.

President Borba asked for Board comments; Director Martinez asked about vacancy savings due to recruitment issues. General Manager Welch explained there has been a greater impact to fill positions, but it is typical to see a gap in staffing. Director Martinez asked if language is included in projects contracts to protect the District from supply and demand issues; recommends adding language for future contracts. General Manager Welch responded there is no specific language due to material delays and each issue is handled on an individual basis. Staff is considering changing the language, but hopes it is a temporary issue due to the COVID-19 pandemic.

Director Burgh commended staff on the presentation; stated it was a clear and effective presentation.

Vice President Avila commended staff on the presentation; spoke about construction impacts from other agencies; expressed appreciation to rate payers for their efforts in water conservation; and commended staff for their creative efforts to mitigate loss of revenue and approaches to offset costs.

President Borba echoed the comments made by Vice President Avila and thanked customers for their water conservation efforts.

President Borba asked for public comments; there were none.

7. Review and comment on the Draft Ten-Year Capital Improvement Program and Financial Plan for Fiscal Years 2023-2032. [Draft 2023 CIP Document]

General Manager Welch stated this Capital Improvement Program (CIP) is the most significant investment proposal provided to the Board in 30 years. This proposal was created with care and creativity to ensure rate payers know the District provides expertise in the system and operation, to create a sustainable and reliable water system.

Assistant General Manager of Engineering, Operations and Maintenance, Rachel Murphy provided an overview of the key messages of the proposed CIP. The 2023 CIP represents a significant increase in capital investments in comparison to the CIP documents approved over the past 10-years. The District's financial cycle was reviewed to show the process between the effects and influences of the CIP and Financial Plan on the budget and rate analysis.

In comparison to the adopted 2021 CIP costs, the 2023 CIP has an increase of \$487.3 million for Priority 1 and 2 projects, primarily driven by Canal Modernization investments, additional funding for Canal Replacement Segment 5, Los Vaqueros Reservoir Expansion Phase 2 (LVE2) and additional investments in renewal and replacement. The Canal Modernization project was moved to a priority 2 project which subsequently decreased the unfunded projects (Priority 3) amount by \$535.2 million. Additionally, pie charts were reviewed to show the comparison of Priority 1 and 2 costs by funding source between the 2023 CIP and 2021 CIP. The biggest change was the component of debt-funded projects, as a result of the funding plan for Canal Modernization and LVE2.

An overview of new 2023 CIP projects was provided. New projects include Concord yard fuel tank replacements, Bollman sedimentation basin #3 sludge removal equipment replacement, and the future abandonment of a portion of the Shortcut Pipeline.

The budgets for the following programs were reviewed – Administrative, Future Water Supplies, Los Vaqueros Watershed, Treated Water Facilities, Untreated Water Facilities and Water Treatment Facilities. All programs include significant funding increases, with the exception of the Los Vaqueros Watershed program due to the completion of the identified program improvements. A Watershed Master Plan Update will be completed in the next fiscal year, which will identify future priorities.

Overall, there are no significant operating impacts related to items proposed in the CIP and the increase in labor demand is only 0.5 of Full Time Employees over a 10-year period. Future projects that may have operating impacts include the Concord Naval Weapons Station, LVE2 and Canal Modernization. As the scope and timing of these projects are better defined, any operating impacts will be reflected in future CIP updates.

Assistant General Manager of Planning, Watershed & Lands, Water Resources (AGM), Jeff Quimby provided an overview of the key messages of the Financial Plan. Total water sales projections show lower water sales in 2023 due to drought conditions and lower industrial use. The two drivers for the lower industrial use are the conversion of Marathon Refinery to a renewable fuel refinery and the upcoming closure of USS-POSCO industries. These reductions combined result in a \$102 million impact.

The Facility Reserve Charge (FRC) graphs show similar projections for untreated water and treated water new connections. The projections have been increased to reflect observed housing trends and industry housing projections.

The assumptions for the District's Operations and Maintenance costs were reviewed. A cost increase of \$3.0 million per year is anticipated due to investments in Diversity and Inclusivity, treatment chemicals, fuel and property and liability insurance. In addition, costs for salaries, benefits, utilities, inflation and CVP water cost will also increase. The District is expected to use the drought reserve, as needed, to offset future revenue shortfalls due to drought conditions. It is projected the District will make deposits to the drought reserve beginning in FY26 until FY30 to prepare for future droughts. President Borba asked for the balance of the drought reserve. AGM Quimby responded it is approximately \$8.0 million.

Assumptions for debt financing within the financial plan was discussed. New debt-funded projects include the Canal Modernization Project, Canal Replacement Segment 5, and LVE2 for a total of \$535.5 million. Additionally, the updated cost estimate for the Shortcut Pipeline Refurbishment Project is \$12.0 million. The District's debt service decreased by \$35.9 million due to debt refinancing and the conversion from short-term debt to long-term bonds will begin in 2028 at a 5 percent interest rate.

The District utilizes reserves to maintain financial flexibility, with an established target of 365 days of operating costs with cash on hand and a minimum of 180 days. The reserve target allows the District to maintain high credit ratings to achieve lower financing rates, fund infrastructure investments and provide funding sources for the District to address water sales and revenue impacts from the drought. The District's goal is to maintain 12-months of operating reserves, in order to maintain strong credit ratings to provide financial flexibility for the Canal Modernization Project.

Charts were shown and reviewed for sources of funds, use of funds and long-term financial capacity concept. The District will begin to pay off the original Los Vaqueros debt within the 10-year CIP, which will free up capacity to address other needs and projects, predominately the Canal Modernization Project.

The needed revenue increases are higher than prior year CIP due to demand reductions, operations cost increases, and significant increases in capital investments. Untreated water requires an increase in revenue of 7 percent over the first 3-years and 4 percent there after; whereas, treated water requires an increase in revenue of 7 percent over the first 2-years, then 5.5 percent on the third year, and 4 percent thereafter.

The CIP includes an appendix that describes the potential facility and financial benefits of the LVE2 project to the District. The estimates noted in the appendix are based on the final project configuration, partner participation, and agreements. Revenues will be incorporated in the CIP once the agreements are finalized. The District anticipates receiving approximately \$8.0 million in usage fees, as reimbursement to the District for the prior investments in Los Vaqueros facilities, and to receive reimbursement for a portion of the District's operation and maintenance (O&M) fixed costs. The partners will pay any new or incremental O&M costs and a portion of the District's existing fixed cost for existing facilities. The estimated District Share of Capital Costs is between \$28-45 million. The majority of the cost is included in modifications to existing facilities, such as Pumping Plant No. 1 replacement and the Transfer Pump Station upgrades.

Comments provided by the Board at this meeting will be taken into consideration and the final CIP and Financial Plan will be brought back to the Board for consideration at the March 2, 2022, meeting. AGM Quimby thanked the CIP project team.

President Borba asked for Board comments; Director Burgh commended the project team for the great work on the CIP document; stated it is an insightful look into the uncertain future of business.

Director Martinez commended staff for their work on the CIP document and the presentation; referenced the cost for fleet vehicle replacement and suggested staff consider future costs for zero emission vehicle requirements; stated staff should consider reaching out to local cities to coordinate projects in efforts to save on paving costs; and commented the supply chain issue will likely continue and there could be significant impacts on projects.

Director Holdaway commended staff on the thoroughness and thoughtfulness of the CIP document; stated infrastructure needs to be completed and projects need to move forward; and commented the rate increases are high but necessary.

Vice President Avila commended staff on the CIP document stating it keeps getting better and more comprehensive; provided several comments on how remarkable staff is in all aspects of the creation of the document and the integration of all future challenges; and stated the District is not an organization that is siloed, it is an organization that has integrated its staff to work collectively with the Board to achieve the District's mission.

President Borba agreed with the comments provided by the Board; reiterated the CIP is a planning document and does not commit funds; expressed concern for the rate increases reaching 7 percent; and commented she will be conscious of future budget considerations to ensure the budgets are not front loaded on the customers today.

General Manager Welch thanked the Board for their feedback; stated the CIP document will be brought back to the Board on March 2 for adoption.

President Borba asked for public comments; there were none.

REPORTS FOR DISCUSSION

8. Committee Report(s):
 - a. Operations and Engineering Committee Post Meeting Report (1/12/22)

President Borba asked for Board comments; Director Burgh commented about the public attendance at the committee meeting; stated he is delighted to see more customers participating in District affairs and recorded in the minutes.

President Borba stated a positive benefit of offering a teleconference option for meetings allows for increased participation from the public.

9. Schedule Future Meeting Dates and Times

President Borba asked for Board comments; there were none.

REPORTS

10. General Manager

General Manager Welch reiterated the improvements of COVID-19 within the District; stated if the improvements continue the next Board meeting will be held in person to receive a presentation on redistricting; and encouraged the Board and public to take the opportunity to review the proposed redistricting maps.

The District has seen a significant decrease of positive COVID-19 cases, going from 5-10 a week to finally having one week with no reports. With the Omicron variant surge decreasing, the District will move to cease the declaration of the local emergency at the March 2 Board meeting and have the Board and staff return in-person.

General Manager Welch led two meetings with the bargaining units to discuss the Retiree COLA liability. Although the discussions are moving in a positive direction, there are many questions and concerns from employees. An update will be provided at the joint Retirement and Other Post-Employment Benefits Committee meeting on February 17; several retirees have submitted letters to be read into the record. The Board will receive a copy of the letters and will be kept informed of all public comments regarding this matter.

11. Legal Counsel

Legal Counsel Coty announced the end of litigation from a February 2020 lawsuit regarding rate structure violations of Prop 218; the District was dismissed without payment of any judgement or settlement and dismissed without prejudice.

12. Board Members

Vice President Avila reported attendance to and provided a brief summary on the Mayor's Conference on February 3; a meeting with Assistant General Manager (AGM) Patil on February 8; the JPA Board meeting on February 9; an ACWA Local Government Committee on February 10; an ACWA Committee Chairs Round Table on February 14; and the East Bay Leadership Council Water & Environment Task Force meeting on February 15.

Director Martinez reported attendance to the Mayor's Conference on February 2 and the first Energy Committee meeting on March 16.

President Borba reported attendance to the Mayor' conference on February 3; a meeting with AGM Patil on February 7; the JPA Board meeting on February 9 and provided a recap of the meeting.

CLOSED SESSION

13. Conference with Legal Counsel – Significant exposure to litigation pursuant to paragraph (2) of subdivision (d) of Section 54956.9: (one case).

At 8:13 p.m. President Borba announced the Board would move into a closed session regarding significant exposure to litigation; there was one additional attendee, Assistant General Manager Jeff Quimby.

RECONVENE FROM CLOSED SESSION

14. Report on Closed Session

At 8:47 p.m. President Borba announced the Board had returned from closed session and did not take a reportable action.

ADJOURNMENT

At 8:48 p.m. President Borba adjourned the meeting. The next regular meeting of the Board of Directors will be on Wednesday, March 2, 2022 commencing at 6:30 p.m. via teleconference.



Lisa M. Borba, President

Attest:



Veronica Sepulveda, District Secretary