

**FALLBROOK PUBLIC UTILITY DISTRICT
BOARD OF DIRECTORS
SPECIAL BOARD MEETING / WORKSHOP**

MINUTES

WEDNESDAY, MAY 17, 2017
4:00 P.M.

FALLBROOK PUBLIC UTILITY DISTRICT
990 E. MISSION RD., FALLBROOK, CA 92028
PHONE: (760) 728-1125

I. PRELIMINARY FUNCTIONS

CALL TO ORDER / ROLL CALL / ESTABLISH A QUORUM

President Wolk called the Special Meeting / Workshop of the Board of Directors of the Fallbrook Public Utility District to order at 4:01 p.m. A quorum was established with attendance as follows:

Board of Directors

Present: Charley Wolk, Member / President
Al Gebhart, Member / Vice-President
Don McDougal, Member
Jennifer DeMeo, Member (*arrived at 4:04 p.m.*)

Absent: Milt Davies, Member

District Staff

Present: Paula de Sousa Mills, General Legal Counsel
Brian J. Brady, General Manager
Jack Bebee, Assistant General Manager
Noelle Denke, Public Affairs Specialist
Soleil Develle, Engineering Technician III
Marcie Eilers, Administrative Services Manager / Treasurer
Jeff Marchand, Engineering Supervisor
Mary Lou West, Secretary

Also present were others, including, but not limited to: Fire Chief Stephen J. Abbott of the North County Fire Protection District, Kirk Dulin, and Donna Gebhart.

PLEDGE OF ALLEGIANCE

President Wolk led the Pledge of Allegiance.

ADDITIONS TO AGENDA PER GC § 54954.2(b)

There were no additions to the agenda.

APPROVAL OF AGENDA

MOTION: Director McDougal moved to approve the agenda as submitted; Director Gebhart seconded. Motion carried; VOTE:

AYES: Directors DeMeo, Gebhart, McDougal, and Wolk

NOES: None

ABSTAIN: None

ABSENT: Director Davies

PUBLIC COMMENT

There were no comments from members of the public.

II. ACTION CALENDAR / WORKSHOP -----(ITEM A)

A. FINANCIAL PLANNING AND RATE STUDY WORKSHOP WITH RAFTELIS

Following a brief introduction by Dr. Brady, Mr. Sanjay Gaur of Raftelis Financial Consultants, Inc. (Raftelis) stepped to the podium and stated he would be presenting a slide show of the financial plan and rate study prepared for the District. Mr. Gaur further stated Raftelis developed the financial plan and rate study in collaboration with District staff and the Fiscal Policy & Insurance Committee.

Mr. Gaur began the presentation with discussion of the three major components of a rate study: (1) the financial plan (2) the cost of service, and (3) the development of an administrative record. Mr. Gaur explained the financial plan reflects the cash required annually to meet the District's needs, the cost of service allocates the cost proportional to the service provided as required by Prop 218 and supports rates as a fee for service, and the administrative record explains and supports the logic of the rate structure.

Continuing, Mr. Gaur provided an overview of the financial planning process that went into the plan and study developed for the District. The process evaluated revenues, financial policies, and expenses and determined the rate increases required. Mr. Gaur summarized the policy and noted the proposal would gradually increase the District's reserves over a period of several years.

Next, Mr. Gaur discussed the key assumptions of the financial plan. An overview of the water and wastewater capital improvement charges, pass-through charges from the Metropolitan Water District of Southern California and the San Diego County Water Authority, wholesale water rate increases, sales of water and recycled water, debt service, and CalPERS unfunded liability was provided by Mr. Gaur.

Mr. Gaur followed with a series of slides of the financial plans for the wastewater, water, and recycled water accounts. The slides demonstrated the impact to District finances assuming varied scenarios; i.e., no revenue increases, revenue increases, reduction in sales, and the Santa Margarita Conjunctive Use Project. The last slide in the series provided a 10-year summary of the projected annual revenue adjustments of 8% to water, 8% to recycled water, and 4.5% to wastewater.

The subsequent series of slides provided an overview of the cost of service analysis for wastewater rates and included a proposal to change the wastewater rate methodology to average winter use, utilize a 75% return to sewer formula, and set the cap at 22 units. The rate components, the rate framework, proposed rates for fiscal year 2018, and the impact to residential customers were demonstrated in the slides.

A series of slides with an overview of the water rates design followed. Mr. Gaur noted the recommendation suggests revising the inclining tiers for residential customers and changing ag domestic to a two-tiered rate structure. Mr. Gaur discussed fixed charges framework, water usage rates framework, water revenue requirements, and proposed rates for fiscal year 2018. Additionally, a customer impact analysis was provided.

Mr. Gaur concluded the presentation with discussion of the proposed recycled water framework, recycled water rates, and drought rates.

Director McDougal asked if the Fiscal Policy & Insurance Committee agreed with the recommendations by Raftelis, and President Wolk affirmed the proposal set forth in the presentation reflects the Committee's efforts. Director Gebhart added that all expenses have been included as a hedge to ensure the rate structure is protected.

A brief question and answer period followed Mr. Gaur's presentation.

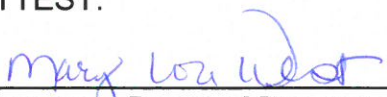
III. ADJOURNMENT OF MEETING

There being no further business to discuss, President Wolk adjourned the Special Meeting / Workshop of the Board of Directors of the Fallbrook Public Utility District at 5:15 p.m.



President, Board of Directors

ATTEST:



Secretary, Board of Directors