

SAN JUAN WATER DISTRICT

Board of Director's Special Minutes

July 29, 2025 – 6:00 p.m.

BOARD OF DIRECTORS

Ted Costa	President
Mike McRae	Vice President
Dan Rich	Director (absent)
Pam Tobin	Director
Manuel Zamorano	Director

SAN JUAN WATER DISTRICT MANAGEMENT AND STAFF

Paul Helliker	General Manager
Donna Silva	Director of Finance
Tony Barela	Director of Operations
Adam Larsen	Field Services Manager
Devon Barrett	Customer Service Manager
Mike Spencer	Water Treatment Plant Manager
Greg Zlotnick	Water Resources Manager
Teri Grant	Board Secretary/Administrative Assistant

MEMBERS OF THE PUBLIC

Adam Vasquez	
Charles Biegel	
Elizabeth	
Kevin Knauss	
Meera Deshmane	
Megan Murray	
Nina M	
Randy D	
S&K	
Tiffany Larsen	
Wyatt B	
Mark Hildebrand	Hildebrand Consulting
Craig Locke	Sacramento Suburban Water District
Kevin Thomas	Sacramento Suburban Water District
Entela Fallstead	SJWD Staff
Mark Hargrove	SJWD Staff

AGENDA ITEMS

- I. Roll Call**
- II. Retail Rate Structures Analysis Project**
- III. Discussion and Action Items**
- IV. Adjourn**

President Costa called the meeting to order at 6:00 p.m. and opened the floor for public comment. There were no public comments.

I. ROLL CALL

The Board Secretary took a roll call of the Board. The following directors were present in the Boardroom: Ted Costa, Mike McRae, Pam Tobin and Manuel Zamorano. Director Dan Rich was absent.

II. RETAIL RATE STRUCTURES ANALYSIS PROJECT

GM Helliiker informed the Board that the main focus of tonight's agenda item is to do some brainstorming regarding the actions and tasks that are needed for the project. Mr. Mark Hildebrand conducted a brief presentation – the slide set is posted to the District's website. Mr. Hildebrand reviewed the Rate Setting Process, the Rate Structure Policy Decisions Elements (assumes all cost-of-service legal requirements have been met), and the Rate Structure Continuum (along with review of each type of rate structure).

Mr. Hildebrand reviewed how agencies define customer classes such as per type of account (single or multiple family, irrigation, commercial, etc.), per meter size or per geographic location. He explained that grouping customers by meter size is supposed to be an indication of peak water demand. He explained that it is common to group meter sizes of 1 inch or smaller together as it is not an indicator of their peaking demand but more of a reflection on when the house was built. Additionally, he stated that estimating peak demands is effective for 1.5" and up meters and for 1" and smaller meters it is less reliable in terms of what their peak needs are and that is why utilities tend to group those together.

Vice President McRae voiced his opinion with the following points – there are regulations not to charge the customer more than it costs to deliver water to their parcel (with courts broadly interpreting the law to give the water utilities a lot of flexibility in applying rates), the original intent of Prop. 218 made ethical sense in order not to subsidize other customers, implementing the regulations would be difficult due to extreme price ranges, and current rate structure does not come close enough to ethically apply rates to customers. In addition, he stated that a major driving issue behind reviewing the retail rate structure is the difference in costs between serving gravity-fed customers versus those located in pump zones. In response to Vice President McRae's question, Mr. Hildebrand explained that there are agencies that have pump zone surcharges in their fees when there are elevation zones that are easy to define; however, applying a surcharge to a customer class because delivery of water to their area requires more costly infrastructure becomes more problematic as you define a customer class. President Costa pointed out, and Mr. Hildebrand concurred, that the District needs to rely upon the consultant or attorney's advice since it has been shown in cases that if a District acts on their own, against the advice of a consultant or attorney, then their actions could be undefendable in court.

Mr. Hildebrand pointed out that the intent of Prop. 218 was to allow water utilities to raise water rates without a vote, and it provided regulations to limit the water rate increase to no more than the cost of providing service, thus prohibiting entities such as cities from subsidizing their general fund with water rate revenues to pay for unrelated services such as police, fire, parks and recreation. In addition, he stated that Prop. 218 is very general and the courts have determined that the intent was not to charge every parcel

down to the last penny on the costs to provide service, but rather to charge what is reasonable for utilities to manage and charge customers and create customer classes that are easy to identify that behave in a similar way.

Mr. Hildebrand informed the Board that utilities rarely charge the correct percentage to recover their fixed costs, as it would be close to 90% fixed and 10% variable rates. He explained that California water utilities had targeted at least 70% variable revenue due to best management practices (BMPs) published by the California Urban Water Conservation Council (CUWCC); however, driven by revenue volatility during droughts, the balance shifted towards more fixed revenue. He informed the Board that drought rates have worked to help bring in revenue during periods of drought to make an agency whole and eliminate the financial risk of a drought. In response to Director Tobin's comment, GM Helliker explained that since the District moved to 75% fixed rates, a drought surcharge would not be necessary when another drought happens.

GM Helliker informed the Board that the consultant looked at the operational costs of the gravity zone versus the pump zone and it is possible to define the cost differential between the two, which is estimated to be \$0.15 per 100 cubic feet of deliveries. In addition, he stated that he is not aware of any agency that distributes infrastructure project costs to specific groups of customers. He stated that the Board will be discussing the scope of work to look at whether it makes sense to look at a way to allocate infrastructure costs by a subset of the service area at the August 14th Board meeting. Vice President McRae suggested, as an example, that we look at which customers are negatively impacted if Kokila Reservoir was not in service – which customers could no longer be served and which can still be served but reliability/redundancy is removed. Vice President McRae explained that those who are impacted would then have the financial responsibility for the Kokila Reservoir. Mr. Hildebrand pointed out that you would have to do that with each capital asset throughout the District.

Vice President McRae questioned whether there have been excessive capital expenses over the years for the pump zones which are not needed by customers in the gravity-fed zones. President Costa pointed out that the Board has a fiduciary duty to do what is best for the District and needs to take the advice of our consultants and attorneys to make sure that our rates are defensible. GM Helliker stated that part of the scope of work will be to make sure that we have a solid foundation in knowing what the legal requirements are, and he suggested that one of the meetings be focused on Proposition 218, the case law since it was passed, and what the District needs to do to meet the requirements of the law. Director Tobin stated that there will need to be customer outreach for any changes in the rates, noting that the District is a customer rate-based service industry and there is a fiduciary duty to make sure rates are fair.

Ms. Meera Deshmane addressed the Board and thanked them and the consultant for their time. She previously gained approval from President Costa to make a presentation – a copy of her presentation will be added to the website. She voiced concern that the retail water rates are not fair, showing the District's rates compared to the Wholesale Customer Agency rates, the Cost/CCF Consumption Dependence, and a Comparison of Quartiles. She explained that because the fixed rate is a fee it falls under the Prop.

218 requirements; therefore, it has a burden of applying the proportionate rate and actual cost of service.

Ms. Deshmane stated that the current “weighted average” rate method should be abandoned because it has no equity, incorrect proportionality, and produces artificially higher, unjustified base rates, including both the 0.75 and 0.92 factors. She reviewed a table on Current Retail Rates and stated that the rates are not proportionate, especially between gravity-fed and pressurized zones. In addition, she stated that Prop. 218 requires proportionality, not equity, reviewed the slide regarding this and the slide regarding Ways to Implement 218-Compliant Fair Rates, and the summary slide. Ms. Deshmane concluded that she feels that she is subsidizing other customers.

Mr. Charles Biegel addressed the Board and inquired if the Board felt that the current rate structure would survive a Prop. 218 challenge. President Costa stated that he felt the current one would. Mr. Biegel stated that he believes that there are clear differences that are not proportional as required in Prop. 218. In addition, Mr. Biegel suggested that the Board consider a 50/50 split between fixed and variable rates, as that feels more balanced and beneficial to everyone and provide more incentive to conserve.

GM Helliker informed the Board that Special Counsel Michael Colantuono, who provided a written memorandum to the Board at the last meeting, can no longer work with the District due to a conflict of interest since his law firm represents another agency which will not sign a waiver, and his services have been replaced by another firm. Mr. Biegel commented that the memo was one opinion from a lawyer that was hired by the District, and he has lawyers that are saying the opposite with looking at the same data, that there is room to bring a class action lawsuit. In response to Mr. Biegel’s comment about having two lawyers debate the issue, GM Helliker commented that the District’s multiple law firms have said that the rates as they stand are in compliance with Prop. 218, but would welcome Mr. Biegel’s attorneys to attend a Board meeting to discuss. Ms. Deshmane commented that lawyers, including the District’s lawyers, cost the rate payers money. Mr. Hildebrand commented that he stands behind his work and has a vested interest in making sure that the District’s rates are defensible. In addition, Mr. Hildebrand stated that the District’s rates are well within anything that he has seen challenged.

In response to Mr. Biegel’s comment, Mr. Hildebrand explained that the reason the District is going through this process is because there are many rates that are well within the legal parameters and the Board wants to explore other rate structures. Mr. Biegel questioned whether the majority of the Board really wants to do this as it has been mentioned that it could open the District to a potential lawsuit. Director Zamorano expressed concern regarding the potential for lawsuits and the related expense. Ms. Deshmane commented that it was not her intention to discuss bringing lawyers into this process as she has been negotiating and bringing her findings to the attention of the Board.

Mr. Kevin Knauss addressed the Board and commented that he has watched the Board over the years, and the District is really on the maintenance and the costs, and Ms. Deshmane’s slides do not work because she is not factoring in variable versus fixed on

the comparison rates and the cost structure of the other water agencies. He stated that this District has kept up on the capital improvements and he is happy with where the District is with regard to the fixed versus variable rate percentage. Director Tobin commented that complying with Prop. 218 was not the issue, the Board wanted to look at the rates for the benefit of the rate payers to make sure that they are fair and equitable.

Vice President McRae commented that there is new information being presented to the Board, so even though the current rates are legal, a new rate structure could also be legal and that is how you could address it to the customers. Director Zamorano disagreed and stated that he is concerned that this could turn into a legal quagmire and is concerned that this could happen if the rates are impacted significantly. President Costa commented that Prop. 218 includes language that all attorney fees are paid for by the defendant and he wants to rely on the consultant and attorney advice to avoid any litigation.

Director Tobin commented that she wants the best possible outcome and, based on the information to come forward, the rates may or may not change. She commented that, no matter what the District decides, the rates will be in compliance with Prop. 218.

Ms. Deshmane suggested that the Board look at the low hanging fruit – separating the ¾", 5/8" and 1" meters. President Costa commented that the District is solving this issue by replacing all ¾" and 5/8" meters with 1" meters. Ms. Deshmane voiced concern that that is not the solution. GM Helliker commented that staff has explained why the meters are grouped because single family residential customers are similarly situated whether they have a ¾" meter or a 1" meter. Ms. Deshmane did not agree with this explanation.

GM Helliker explained that the next step is to prepare the scope of work and bring it back to the Board on August 14th. He noted that Vice President McRae requested that the proposed scope of work include a couple of examples of how you would analyze dividing up capital charges among subsets of customers. GM Helliker explained that the scope of work is for a potential RFP to have a consultant analyze two projects, starting with the Kokila Reservoir. Mr. Barela stated that he is working with the modeler to get an estimate on the cost, and was informed that both projects (Kokila and Cavitt Stallman) could be included in the scope of work and each could be separate line items. Vice President McRae commented that the Kokila project could be analyzed first then the Board may or may not want to execute the second project.

GM Helliker commented that this is one piece of a very big puzzle, as Mr. Hildebrand pointed out, so if the Board agrees on this methodology of allocating capital costs to subsets of customers then every retail asset would need to be analyzed. Vice President McRae commented that a line would need to be drawn. Director Zamorano commented that he wants to see the Kokila Reservoir analyzed so that the Board can see the facts. Ms. Silva commented that the task is for the Board to have an understanding of which customers, specifically and most directly, benefit from the Kokila Reservoir. In addition, Ms. Silva pointed out that everything is still on the table for discussion – Ms. Deshmane's points, Mr. Knauss's points, the Board member points, etc.

III. DISCUSSION AND ACTION ITEMS

1. General Manager Employment Contract (W & R)

This agenda item was deferred to the August 14, 2025, Board meeting. In addition, there is a Special Board meeting on Friday, August 1, 2025, at 2:00 pm.

IV. ADJOURN

The meeting was adjourned at 8:00 p.m.

ATTEST:

EDWARD J. "TED" COSTA, President
Board of Directors
San Juan Water District

TERI GRANT, Board Secretary