

**Minutes of the Florin Resource Conservation District
Finance Committee Meeting**

Monday, May 14, 2012

Attendance:

Committee Members: Chuck Dawson – present
Barrie Lightfoot – present
Elliot Mulberg – present
Tom Nelson – present
Tony Perez – absent

Associate Members: Don Menasco – present

Staff: Mark J. Madison, General Manager
Stefani Phillips, Board Secretary
Bruce Kamilos, Associate Civil Engineer
Dennis Coleman, Finance Manager
Ellen Carlson, Management Analyst
Donella Ouellette, Finance Supervisor
Jose Carrillo, Water Distribution Foreman
Steve Shaw, Water Treatment Foreman
Richard Salas, Water Utility Foreman

Consultants: Habib Isaac, Gregg Tobler, and Chris Fisher, Willdan Financial Services

Public: Bob Gray

The meeting began at 5:30 p.m.

This was a posted meeting and one member of the public was present.

1. Review of the Proposed Elk Grove Water District FY 2012-13 Annual Operating Budget

Mark J. Madison, General Manager, presented the first draft of the proposed Elk Grove Water District FY 2012-13 Annual Operating Budget.

Dennis Coleman, Finance Manager, explained the prepared budgeted revenues and expenditures by category and budget summary by departments.

Comments and inquiries include:

- The CIP Budget is separate from the operating budget.
- 65% of the Utility Departments labor budget (\$581,222) and materials from the operations budget (\$192,723) are being capitalized and depreciated and spread over 30 years.
- Two positions will be frozen (currently vacant positions - Operations Manager and a Distribution Operator) for FY 2012-13.
- A 2% COLA was built into the salaries.
- Add the bond covenant ratios.
 - The bond covenant ratios will be covered through the water rate study.
- The same figures from FY 2011-12 were used for budgeted revenues for FY 2012-13.

- Would there be a change in proposed revenues after meters are installed?
 - The District will need to review those figures to allow for the change in revenues.
- Correct figures under Salaries and Benefits – 5225 Retirement Benefits – Post Employment.
- Has the District received reimbursement for the retirees post employment benefits that have been pre-funded?
 - The District will reduce the OPEB payment accordingly.
- Review travel costs.
- Develop a summary for the accounts.
- Separate legal from non-legal under Outside Services – 5535 Legal Services.
- Show reimbursements from legal matters.
- Review sampling costs.
- Establish rules for moving expenses within the budget.
- How will meter and installations be funded?
 - The CIP and funded by revenues and reserves.
- Review depreciation.
- Add figures for interest earned.
- Quantify other expenses.

2. **Progress Update on 2012 Water Rate Study**

Habib Isaac, Willdan Financial Services presented a slide show of the 2012 water rate study model.

The project objectives

Develop water rate structures that:

- Provide adequate revenues in short and long term
- Update and incorporate CIP
- Strong financial outlook for utility
- Minimize revenue adjustments

Rate Design:

- Are defensible / equitable across customer classes
- Consider ability to pay / affordability
- Minimize rate shock

Phase I –

Revenue Requirements Analysis:

- Determine revenue needed to meet utility costs
- Project O&M, capital, and debt expenses
- Analyze reserves

Revenue Options – Five Scenarios

Revenue Adjustments Based on Annual Needs:

- Reserves allow District to defer two years of increases
- 4th and 5th yr adjustments @ 9% and 11%, respectively
- Bond covenants maintained and reserves funded
- Yearly fluctuations in revenue collection

- Rate shock to customers starting in 4th year
- Reactive approach to utility's 5yr/10yr financial plan

One Year Delay on Revenue Adjustments:

- O&M Reserve equals 180 days of O&M
- Reserves allow District to defer adjustment for 1 year
- Revenue adjustments of 4% , 4%, 4%, 6% for remaining years
 - o Bond covenants satisfied
 - o District already has three years of 3% adjustments approved
 - o Essentially two years of new increase (Years 4 and 5)
 - o Allows economy to recover
 - o Years 6 through 10 not pro-actively considered

3% Revenue Adjustments:

- Revenue adjustments of 3% for next five years
 - o District already has three years of 3% adjustments approved
 - o O&M Reserve adjusted from 180 days to 120 days
 - o Reserves fully funded – including reserve programs
 - o Bond covenants satisfied
 - o CIP funded with a combination of existing Debt and PAYGO
 - o Higher increases necessary in later years

O&M Reserves Adjusted to 90-Days:

- District already has three years of 3% adjustments approved
- O&M Reserve adjusted from 180 days to 90 days
- All five years reflect 3% revenue adjustments
- Reserves fully funded – including reserve programs
- CIP funded with a combination of existing Debt and PAYGO
- Bond covenants satisfied
- Funds short-term and long-term needs
- Years 6-10 revenue adjustments range between 4%-6%

Debt Restructure with 90-Day O&M Reserve:

- O&M Reserve adjusted from 180 days to 90 days
- Debt management allows District to take advantage of current market conditions
 - o Debt obligation reduced
 - o Bond covenants easier to satisfy
- Reserves fully funded – including reserve programs
- CIP funded with a combination of refinanced Debt and PAYGO
 - o May consider funding certain improvements with debt restructure
- Funds short-term and long-term needs
- Revenue adjustments in years 6-10 limited to 3%-4%

Next Steps

- Incorporate consumption data into model
- Review and correlate CIP with depreciation
- Rate Design
 - o Analyze peaking factors and demand characteristics
 - o Set unique rates for each customer class
 - o Discuss tiered structure
 - o Options for residential
 - o Conservation objectives
- Collaborate with EGWD staff throughout rate design process

Mr. Isaac stated that the model provides a strong record to support their findings in the water rate study. He also commented that they continue to look for scenarios in which to keep the water rates down.

Comments and inquiries include:

- What method will be used to determine the average consumption for water useage?
 - Willdan will use the “mean” to determine the average consumption for water useage
- How will the model be calibrated to ensure the accuracy?
 - Willdan will do a revenue check (based on the assumption analysis after the rate design)

Mr. Isaac stated that they will continue to their study and will narrow the revenue options down to approximately three to bring back to the Board for review.

Adjourn to: Wednesday, June 13, 2012.

Respectfully submitted,

Stefani Phillips, Secretary