

**COMMUNITY ADVISORY COMMITTEE MEETING MINUTES  
OF THE FLORIN RESOURCE CONSERVATION DISTRICT/  
ELK GROVE WATER DISTRICT**

**Thursday, March 22, 2018**

**Attendance:**

Committee Members Present: Robert Blank, Gary Crotwell, Robert Stresak, Ken Strom, Shahid Chaudhry and Dwight Weathers  
Staff Present: Mark J. Madison, General Manager; Patrick Lee, Finance Manager; Stefani Phillips, Board Secretary; Bruce Kamilos, Associate Civil Engineer; Donella Murillo, Finance Supervisor; Sarah Jones, Program Manager; and Amber Parker, Administrative Assistant II (Confidential)  
Consultants Present: Shawn Koorn, HDR Consulting, Inc.; Kevin Lorentzen, HDR Consulting, Inc.

**1. 2018-2022 Water Rate and Connection Fee Study**

General Manager Mark J. Madison opened the meeting and shared the itinerary before giving the floor to Shawn Koorn, HDR Consulting Inc. Mr. Koorn provided information to the Community Advisory Committee (CAC) on the process of moving forward with the 2018-2022 Rate Study.

Escalation Factors

The consultants developed three (3) basic Model Escalation Factor Scenarios associated with the District's Operational expenses to look at revenue projection (growth) and cost inflation (escalation of expenses):

1. Low Inflation/High Customer Growth
  - Customer Growth increase at 1% annually
  - Average of all expenses increase at 3% annually
2. Medium Inflation/Medium Customer Growth
  - Customer Growth increase at 0.5% annually
  - Average of all expenses increase at 3.8% annually
3. High Inflation/Low Customer Growth
  - Customer Growth increase at 0% annually
  - Average of all expenses increase at 4.6% annually

Discussion occurred on the factors that are included in the scenarios. Mr. Koorn specified that the scenarios are based on all the different cost components that the District incurs. He pointed out that all of the factors in the escalation of expense categories increase at different rates and while reviewing the rate study, changes may need to be made. The consultants expect the medium scenario to be the closest guess at this point considering that the low and high scenarios are extremes.

Associate Director Shahid Chaudhry declared that looking at potential income growth first and then potential expenses make it easier to understand the escalation factor scenarios because

there is probably not going to be much growth in Region (1) of the Elk Grove Water District (EGWD), so the medium scenario is probably the most realistic.

Robert Stresak asked the consultants if the three (3) labor escalation estimates assume a growth in the labor force or an increase in Retirement/Other Post-Employment Benefits (OPEB). Kevin Lorentzen, HDR Consulting Inc. informed Mr. Stresak that the District currently has a stable number of Full Time Employees (FTE). Discussion occurred regarding the EGWD labor force, retirement and benefits.

Mr. Madison stated the biggest factors to be focusing on for the Rate Study are retirement and medical costs. He went over how the medical cap and medical costs work for the EGWD employees.

Mr. Koorn mentioned medical costs are a challenge for many Utilities because the California Public Retirement System (CalPERS) costs are going up by 8% each year. He mentioned that the cap the District currently has on its medical benefits is helpful when it comes to future costs.

The purchased water expense was also brought up, as it is a cost factor that the District has no control over. A discussion occurred regarding the Wholesale Water Agreement with Sacramento County Water Agency (SCWA). Robert Blank informed the CAC of his findings on the SCWA water agreement and his answer was that he could not find much information because it was all hidden or missing.

After discussing the factors, Mr. Madison stated the medium estimate is probably the closest scenario with the exception of changing the purchased water cost factor to a higher percentage. He mentioned the District has a meeting with Don Nottoli and the Sacramento County Board of Supervisors to discuss the SCWA wholesale water charges. Further discussion ensued on this topic.

Mr. Koorn mentioned that the District is going to give notice to the customers and set the maximum rate for a five (5) year period. Through Proposition 218, the District will show what the maximum rates are going to be over that time period, whether it be one (1) year, three (3) years, or five (5) years. The goal is to be as close as possible in the Rate Study so the District does not have to use reserves or go through another Proposition 218 process to increase rates.

Graphs showing the Operations and Maintenance (O&M) Escalation Factor Scenarios and Revenue Escalation Factor Scenarios over the next ten years were discussed. Mr. Madison asked the Community Advisory Committee (CAC) if the numbers and scenarios they were seeing makes sense and felt right. Mr. Chaudhry said the medium scenario makes sense in relation to his earlier comment. Mr. Blank asked for a graph that blends both the O&M Escalation Factor Scenarios graph and Revenue Escalation Factor Scenarios graph together. Mr. Koorn stated they have one that can be presented.

HDR Consulting, Inc. will be aiming for the middle scenario for the rest of the Rate Study and will report back if any assumptions are changed.

#### Private Fire Service Charge

Mr. Koorn gave background information on what the private fire service charge is and who it affects, mentioning that most Utilities have this charge. After discussing with District legal counsel, it was determined that it is more equitable and defensible to have a private fire service charge. HDR Consulting recommends that the EGWD continues charging a private fire service charge.

Mr. Madison mentioned to the CAC that with some research it shows that the District is the norm and not the exception with this charge. He mentioned that legal counsel stated it is far more justifiable to have this charge because if not, the rate payers are subsidizing with no benefit.

With that said, Mr. Madison informed the CAC that the District will make a strong recommendation to continue charging for private fire service. The CAC generally agreed.

#### Inactive Accounts

Mr. Koorn gave background about inactive accounts and how the District handles the customer accounts. After sitting down with legal, it is confirmed that the District can only charge a customer if they have paid a connection fee, have an account with EGWD, and have not requested shut off.

Mr. Madison reiterated what Mr. Koorn stated, adding that he had hoped to create something such as a break-out fee; this fee would be a small portion within the fixed fee that correlates with how much the District incurs to keep the fire hydrants going. The fee would still get charged even if there is no bill paid because there is still a service being provided. A discussion followed on the subject.

#### Fixed and Variable Rate Structure

Mr. Koorn discussed the District's current rate structure, which is a fixed charge and a 2-tier monthly consumption charge with 65-70% of revenue derived from the fixed charge and the other 30-35% derived from consumption. In summary, he stated there is no industry standard for what percentage to collect for fixed and variable charges. There are companies that believe the percentage should be the inverse of what the District currently uses (which would be 30% fixed and 70% variable). The Utilities that use that rate structure were in a world of hurt during the drought and were losing significant revenue due to the state mandate for water conservation.

Mr. Koorn then talked about the fixed and variable cost, mentioning the majority of the District's costs are fixed (86%) and that not all fixed costs are collected through fixed charges.

Mr. Koorn informed the CAC when going through the Rate Study process and to meet Proposition 218 requirements, the consultants have to meet the cost of service analysis principals to determine the fixed and variable revenue needs. Whether it stay with the current 65/35 or a different ratio, it will have to be documented with an explanation of the relevance of the changes made. The four (4) customer classes the analysis looks at are: 1) Residential customers, 2) Non-residential customers, 3) Irrigation customers, and 4) Private Fire customers. The consultants look at why the District incurred certain costs: average day need cost, base cost, extra capacity cost or customer related cost and then it gets allocated to the residential, non-residential and irrigation customers. Doing this gives the cost of service for residential customers, the fixed charge, and tiers one and two for consumption.

Mr. Chaudhry asked what the American Water Works Association's (AWWA) guidelines are for the two tiers the District has for monthly consumption. Mr. Koorn responded that AWWA does not talk about what size the tiers should be, but more of what the Districts goals are for those tiers.

Mr. Madison summarized the meaning of high fixed/low variable and low fixed/high variable. After explaining both, he mentioned that stability is important to him, specifically in droughts. In Mr. Madison's opinion, it is more financially stable for the District to have a high fixed/low variable rate structure. Dwight Weathers stated that he supports Mr. Madison's thoughts, but with the addition

of a conservation component. A good discussion occurred regarding balancing the fixed and variable costs of service, as well as a discussion regarding drought measures.

Mr. Koorn talked about tier 1 and tier 2 and how they were created to capture the average target consumption. He mentioned that there are four (4) ways to create tiers depending on how the District wants to structure them: 1) Uniform, 2) Increasing, 3) Decreasing, and 4) Seasonal. The consultants took those structures and came up with 60 variations. They now have to think about how these numbers play into the fixed and variable and how many dollars are collected from both sides.

The next part of the process is how the District is going to collect this money in relation to fixed and variable percentages. He mentioned that HDR Consulting has to show that it is using generalized approaches to stay in compliance with Proposition 218. Mr. Koorn showed an example and discussion ensued.

Mr. Madison reiterated he prefers little change and then asked the CAC what their opinions are on what changes, if any, to make.

Mr. Blank mentioned that having a fixed rate, means before using one drop of water the customer already has to pay, does not seem fair even though he understands the concept. Mr. Weathers commented that just like a phone service, customers pay a flat rate whether they make a phone call or not so there is some justification when it comes to a fixed fee.

Mr. Weathers also asked if the District has done customer satisfaction surveys before and what the results of those were. Mr. Madison responded there was a customer satisfaction survey completed four (4) years ago and there were some complaints.

Mr. Chaudhry suggests that with having reserves in our back pocket, the District should try using a 60/40 ratio for a few years instead of 65/35.

Mr. Kamilos suggested that the consultants create a model looking at a 60/40 ratio through a five (5) year drought.

Minimal discussion occurred on past rates. The CAC generally agreed with a 60/40 ratio.

Jim Hollinsworth commented as a member of the public, he thinks that a 60/40 ratio is adequate because the public likes to see green grass in Elk Grove whether there is a drought or not and that the District should have mercy on those with strict budgets.

#### Future Reserves

Mr. Koorn discussed the five reserve funds that the District has: 1) Operating Fund, 2) Capital Improvement Fund, 3) Election Reserve Fund, 4) Future Capital Improvement Reserve Fund, and 5) Future Replacement Reserve Fund. He mentioned there are policies for what the minimum amount the reserves should be, while also giving examples of what the reserves could be used for.

The consultants put together a scenario of what it would look like to use the reserves to delay rate adjustments over a few year time period. In the scenario, Mr. Koorn showed if the District used the reserves for a one-time capital cost and to defer rate increases for two years it should not impact the rates. There are a few caveats that could have an impact on this scenario: 1) reserves fall below target minimums, 2) the District needs to maintain reserves for drought

events or decreased consumption, and 3) the District needs to meet the Debt Service Coverage Ratio. Mr. Koorn mentioned that the District needs to be careful if the reserves are used to offset capital costs or rate adjustments because it can be difficult to “catch up” when rate adjustments are delayed.

Mr. Madison expressed looking at a new administration building. He mentioned it could be done without causing rates to increase, in fact, the rates could be deferred. Mr. Weathers asked what the obsolete date of the building is. Mr. Madison stated that he could not disclose the results of the Needs Assessment, but stated there are three (3) general deficiencies: 1) the customer service capabilities are poor, 2) the board room is not up to par, and 3) there is no more space. A brief discussion occurred regarding a new building. Mr. Blank commented that it is hard to see a new public building go up because most of the time the new buildings are greater than they need to be. He recommends fixing the things that need to be fixed on the current building. Mr. Madison stated there are multiple scenarios that the consultants will create to show if having a new building works or not.

Mr. Hollinsworth commented that the 60/40 rate structure would be a better sale if the public knows that the District is going to try and get a new administrative building. He stated if you are going to take something, give something.

Mr. Madison stated the Connection Fee Study is starting and depending on the results he might need to schedule focus meetings with the Building Industry Association (BIA), the Elk Grove Unified School District, and the Consumes Community Service District (CCSD).

Mr. Weathers suggested having a public committee for the new building.

Respectfully submitted,

*Stefani Phillips*

Stefani Phillips, Board Secretary  
AP/SP

Adjourn to next Community Advisory Committee Meeting: Thursday, April 19, 2018.