

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

Thursday, February 15, 2018

Attendance:

Committee Members Present: Chairperson Tom Nelson, Robert Blank, Ken Strom, Gary Crotwell, Robert Stresak, Mark Freathy, Inderjit Kallirai, 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 Ouellette, Finance Supervisor; Sarah Jones, Program Manager; and Amber Parker, Administrative Assistant II (Confidential)

Consultants Present: Shawn Koorn, HDR Engineering Inc., and Kevin Lorentzen, HDR Engineering Inc.

1. 2018-2022 Water Rate and Connection Fee Study

General Manager Mark J. Madison started the meeting by thanking the Community Advisory Committee (CAC) for their attendance.

Mr. Madison introduced Chairperson Tom Nelson to the CAC and introductions were made.

Review of Key Study Assumptions

Shawn Koorn, HDR Engineering Inc., led the discussion/presentation. The purpose of the presentation was to review assumptions and drivers of the development of the rate study. Mr. Koorn wanted to discuss how the 2018 Rate Study will project revenue and expenses to help determine what rate and revenue adjustments will look like for the Elk Grove Water District.

Mr. Koorn discussed the next piece of the 2018 Rate Study will be to plug data into the Water Rate Model, which will be presented at the next meeting.

Financial Policies

Mr. Koorn explained the (6) reserve funds that the District has: 1) Operating Reserve fund 2) Capital Improvement fund, 3) Capital Replacements fund, 4) Elections fund, 5) Future Capital Replacement fund, and 6) Future Capital Improvements fund.

Mr. Madison reminded the CAC that the Future Capital Replacement and the Future Capital Improvements reserve funds have the surplus reserves that the District needs to do something about.

Robert Blank asked what the \$4.7 million net gain in 2016 was. Staff to respond by email.

Mr. Koorn explained that the Debt Service Coverage Ratio is simply Total Operating Revenue minus (–) Operating Expenses divided by (÷) Annual Debt Service Payments. The Elk Grove Water District is legally required to have 1.15x the amount of their debt service payment in revenue at any given point in time. The District currently has Net Operating Revenue at 1.69x the annual debt service payment.

Mr. Koorn presented information on purchased water, which is provided to Service Area 2 by the Sacramento County Water Authority (SCWA) and how it is a pretty significant component of the District's budget. Wholesale Water Rate increases are a big assumption in the rate study and is out of the District's control. The SCWA does not have adopted rate changes beyond 2018 at this point, so HDR Engineering has to assume a percentage for the rate study; they have used the SCWA's Annual Rate change of 2% that has been seen over the past (5) years.

Mr. Madison shared information regarding the Wholesale Water Agreement with the Sacramento County Water Authority. Mr. Madison explained how the agreement is structured in a way that favors Sacramento County.

Urban Water Management Plan (UWMP)

Mr. Koorn explained the Urban Water Management Plan, which is the District's plan, is based on information regarding revenue and customer growth. The District has historically seen a 1.7% annual growth over the last (10) year period.

Mr. Koorn explained that when looking into revenues and how they may change, there are (2) components that need to be looked at: Customer Growth and Consumption Growth.

Discussion occurred regarding the home size of properties within the boundaries of the EGWD in relation to consumption growth. The question of whether the lots are all "normal" size was asked. Mr. Madison explained that Service Area 1 has mostly "normal" size lots, while Service Area 2 has several different developments that have acre plus size properties.

Mr. Koorn reminded the CAC that Service Area 2 uses purchased water from the SCWA and that drives up costs for the District. The demand from Service Area 1 is constant, while Service Area 2 is where the District is seeing the demand increase.

Expenditures Escalation

Kevin Lorentzen, HDR Engineering Inc., provided background on CPI (Consumer Price Index) and how it is used to identify the appropriate rate of escalation. HDR Engineering Inc. used (3) numbers to get the CPI: U.S. City Average, West Urban (B/C) with population of 50,000 to 1,500,000, and the San-Francisco-Oakland-San Jose, Metropolitan Statistical Area.

Mr. Madison explained how the compilations of the (3) numbers above, which were chosen by the Board are used to get averages that are reasonable for the EGWD's Cost Of Living Adjustments (COLA).

A question was asked regarding the increase in expenses in 2016-2017 and staff will review this.

Discussion occurred on the increase and decline in expenses.

Mr. Lorentzen explained that medical care is an issue with most utility companies. Mr. Madison explained that the District has a cap of what they will contribute into Employee Medical Benefits and that the Board will revisit the medical cap in the near future.

Rate Study Assumptions

There was much discussion on the assumptions provided in the Rate Study. Among the discussion, Mr. Koorn inquired what assumptions should be looked at more. Mr. Blank suggested that all long-term costs (Benefits, Medical, Dental and Vision, Labor, Retirement, Workers Compensation, and OPEB) should be looked at further. Shahid Chaudhry, Assistant Director suggested HDR Engineering Inc. create (3) assumption numbers: low, normal, and high for the CAC and FRCD Board of Directors to review.

Mr. Blank asked the question of why the Holiday percentage increased over the (5) year period and staff will review.

More discussion regarding the Wholesale Water Agreement took place. Patrick Lee, Finance Manager will email a copy of the 1996 Wholesale Water Agreement, as well as the 2002 First Amended Wholesale Water Agreement to the CAC.

The question of whether the District could get supplemental water from a different source was discussed. Mr. Madison explained it could be done if the agreement was changed. Mr. Madison mentioned that Bruce Kamilos, Assistant General Manager is working with a group, Regional Water Authority as they create a Regional Water Reliability Plan, where water can be shuffled around to all the different agencies in the region to create more water and a groundwater bank.

Chairperson Tom Nelson commented his concern about CalPERS costs rising. The CAC commented that employees are being required to pay 6%, which Mr. Madison responded that the staff is already contributing the 6%.

Mr. Madison explained that we are almost fully funded (90%) for Other Post-Employment Benefits (OPEB). Mr. Nelson followed by mentioning that the District placed \$700,000 - \$800,000 in a separate account about 9 years ago for Retirement Medical costs.

Mr. Koorn explained the differences in how the fixed and variable billing components are derived in the model. The CAC questioned if they can view a rate study model with (3) levels: High, Medium, and Low.

Mr. Madison stated next month the Board will discuss the percentage between the fixed and variable components. Mr. Madison commented on his concern about flip flopping the percentage to a high variable, low fixed structure because in the case of a drought, the District would have to ask for emergency rate increases, which is highly controversial.

Private Fire Service Charge

Mr. Koorn explained what a private fire service charge is and provided rate comparisons between EGWD and other districts in the area.

Mr. Madison presented the question, should we have a private fire service charge at all? HDR Engineering is currently working with legal to determine if a water rate structure having separate charges for private fire services is more or less defensible than a rate study structure without.

Standby/Inactive Account Charges

Mr. Koorn explained that HDR Engineering is working with legal to determine if having a readiness/availability to serve charge is defensible in court.

Respectfully submitted,

Stefani Phillips

Stefani Phillips, Board Secretary
AP/SP

Adjourn to next Community Advisory Committee Meeting: TBD