

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

Thursday, March 22, 2018

Attendance:

Directors Present: Bob Gray, Lisa Medina, Tom Nelson, Sophia Scherman, Jeanne Sabin
Directors Absent: None
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
Consultants Present: Shawn Koorn, HDR Consulting, Inc.; Kevin Lorentzen, HDR Consulting, Inc.
General Counsel Present: Trevor Taniguchi, Meyers Nave'

1. 2018-2022 Water Rate and Connection Fee Study

Shawn Koorn, HDR Consulting, Inc. presented the itinerary of the meeting, as well as what will be happening moving forward with the 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

Mr. Koorn mentioned that the ultimate goal is to have the middle scenario be the baseline model as the consultants move forward.

There was a discussion on the different cost component factors that impact the scenarios. Mr. Koorn informed the Finance Committee that the numbers correlating to the cost components presented in the scenarios are not set in stone and can/may change over the course of the meetings depending on what the Community Advisory Committee (CAC) and Finance Committee (FC) decide; he mentioned for instance, the CAC talked about the purchased water component and wanted to increase it from 3.5% to 5% due to the variability that could come from that rate.

Mr. Koorn presented two graphs, the Operations and Expenses (O&M) Escalation Factor Scenarios graph and the Revenue Escalation Factor Scenarios graph, showing what the change is over a 10-year period in all three scenarios. He mentioned that this is important because when it comes to establishing rates for a multiyear period, the consultants want to be as close as possible because they are the maximum rates the District can charge before going through another Proposition 218 process.

Chairperson Tom Nelson asked if there was a discussion about the medical benefits. Mr. Koorn answered that there was an extensive discussion on medical benefits including the cap that is currently in place and the associated issues with the California Public Retirement System (CalPERS) and other post-employment benefits (OPEB).

General Manager, Mark Madison mentioned that the CAC generally felt that the medium inflation figured felt about right. He informed the Finance Committee (FC) that he thinks the medium scenario is a good estimate other than changing the purchased water factor up from 3.5% to 5%. He also mentioned that the model is designed so that all three (3) scenarios (low, medium, and high) can be ran.

Mr. Nelson talked about having a committee meeting to discuss the medical cap.

Director Lisa Medina asked about the purchased water contract. Mr. Madison stated that the District does not have a good relationship with the Sacramento County Water Agency (SCWA) and has a low amount of control on what they decide to charge for water. The District is having a meeting with Sacramento County Board of Supervisor, Don Nottoli to discuss the water charges.

Mr. Madison informed the FC that in the past, the District has used 5% as a standard rule of thumb for the purchased water factor. For the scenarios being looked at in the Rate Study, he mentioned 3% will be for the low scenario, 5% for the medium scenario, and 7% for the high scenario.

Mr. Koorn mentioned CAC member, Robert Blank's comment about creating a graph that blends the O&M Escalation Factor graph and the Revenue Escalation Factor graph together to show what the differential would be between costs and revenue.

Unless there is a change that the committee wants to make, the consultants will move forward with the expected being the medium scenario; the low and high scenarios will also be run to give the Finance Committee a feel of what the change is.

Private Fire Service Charge

Mr. Koorn restated what the private fire service charge is and how it is different from the public fire service charge.

Vice-chairperson Bob Gray commented he has an issue with the definition of "private fire service" because he finds it hard to differentiate residential hydrants from a curb hydrant at a commercial lot. Discussion occurred regarding private hydrants versus public hydrants.

Mr. Madison asked the FC to make the decision on whether the District should continue to charge for private fire services. He mentioned to the Board that after discussion with legal counsel, it is more defensible in court to have the private fire service charge. Mr. Madison stated that the Community Advisory Committee (CAC) wants to continue charging the fee.

After much discussion, the FC's general consensus is to continue charging for Private Fire Services.

Inactive Accounts

Mr. Koorn gave background information about inactive accounts and how the District handles the customer accounts. After sitting down with legal counsel, it was determined 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.

Ms. Medina asked if the Dodd bill has any impact on inactive accounts. Mr. Madison responded that it does not.

Discussion on the subject took place. Mr. Madison stated that by law, the District will not be charging an inactive account fee other than for what is legal. The District is already charging correctly.

Fixed and Variable Rate Structure

Mr. Koorn talked about the District's current rate structure, a fixed charge and the 2-tier consumption charge where the District gets 65-70% of its revenue from the fixed charge and the other 30-35% from the 2-tier consumption charge. In summary, he stated the question is, are these percentages the right numbers or do they need to be changed. He mentioned, there is no industry standard for what percentage to collect for fixed and variable charges. There are companies that believe that 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 fixed and variable costs, 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 FC, the consultants are starting to go through the cost of service process by looking at why the District incurs certain costs: average day need cost, peak day need cost, or customer related cost based off the American Water Works Association (AWWA) regulations. This information is taken and helps with properly allocating costs to the residential, non-residential and irrigation customers. Mr. Koorn mentioned that if the District wants to change the fixed/variable percentages, this process is where it needs to be correctly changed so that if the rates are ever challenged, the District can show how it was done. Discussion occurred on the topic.

Mr. Madison shared the viewpoint of the CAC. He mentioned that one committee member is more inclined to stay with where the District is at (65/35). Another member mentioned changing the fixed/variable to 60/40. He also informed the Finance Committee that Bruce Kamilos, Assistant General Manager had the idea to prepare a model based on a five (5) year drought period to see how the 60/40 split would affect the revenues. Staff will bring this model back to the CAC next month for review.

Mr. Koorn showed the committee a residential bill comparison with a 65/35 charge and a 50/50 charge. He explained that with the 50/50 charge it is lower bill at the beginning, but for those who use over a certain amount, the bill will go up significantly. He mentioned that if this happens the District needs to take into consideration the price elasticity of demand, meaning that if the bill goes up, the consumption of water will go down. This change in consumption could lead to the

District not hitting its revenue targets. Mr. Madison explained that the CAC gave no perception that they wanted to view a 50/50 model, but instead view a 65/35 and 60/40 model.

Director Jeanne Sabin asked to go back to the comment that the District's costs are 86% fixed. She wanted to know if wholesale water was included in that cost. Mr. Koorn responded that he split the wholesale water into both the fixed and variable, 55/45 respectively with the idea that even in a drought the District is buying/selling water for uses such as laundry, showers, toilets, etc.

Ms. Sabin also questioned if the District's costs are 86% fixed, wouldn't that be the justification for the fixed/variable. Mr. Koorn responded that the cost of service analysis is not a fixed/variable analysis, it is to show how the District incurs costs and makes it a requirement to quantify why the District has costs in a certain category. A discussion occurred.

A discussion on changing the fixed/variable occurred. Mr. Koorn mentioned that there will be a bill impact on customers with a fixed/variable change – some customer's bills will go up and some will go down. He showed a comparison between the current cost allocations and a preliminary draft cost allocation. This comparison showed the residential and private fire service customer's bill decreasing, while the non-residential and irrigation customer's bill increases. Mr. Madison mentioned that any time there is a structure change there is going to be "winners" and "losers" and based on the preliminary draft, the businesses and irrigators are the "losers"; he informed the Board that he has already called the Cosumnes Service District (CSD) to let them know there may be changes. From these preliminary results, Mr. Madison mentioned that there may need to be some focus groups with irrigators like the CSD if these numbers stand.

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 reserve minimum amount should be and gave examples of what the reserves could be used for (capital improvements, rate increase deferrals, emergencies, etc.).

Mr. Koorn commented that if the reserves were used for a one-time capital cost and to defer rate increases for two years, it should not impact the rates. He stated that care must be taken if reserves are used to offset rate adjustments because it can be difficult to "catch up" when rate adjustments are delayed.

Mr. Madison shared how he told the CAC, "he could not share the details" about the Needs Assessment of the administrative building.

Vice-chairperson Bob Gray stated he would feel better if the District allocated \$5 million for a one-time use of capital reserves.

The FC asked for information to be brought to the next Finance Committee Meeting on the Proposition 218 process, including posting for public hearing and the public hearing process.

Mr. Koorn went over what the next steps are in the Rate Study process, including the development of the Connection Fee study.

Mr. Madison informed the Board of the upcoming meetings for the months of April, May, and June.

Respectfully submitted,

Stefani Phillips

Stefani Phillips, Board Secretary
AP/SP

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