

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

**Thursday, April 19, 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**

General Manager, Mark Madison started the meeting by informing the Finance Committee (FC) the Community Advisory Committee (CAC) meeting went great and the committee members are a great bunch of individuals.

Chairperson, Tom Nelson asked if the FC and the CAC are going to have a joint meeting; he made the recommendation that the two (2) committees should have a joint meeting. The Florin Resource Conservation District (FRCD) Board of Directors (Board) is in sync to have a joint meeting with the CAC.

Shawn Koorn, HDR Consulting Inc. presented the Policy Level right now and the agenda for the meeting. He reiterated the key study assumptions and considerations and let the Board know he is looking for input during the meeting.

Mr. Koorn reminded the FC that the rate study is assuming the medium escalation from last meeting's scenarios. He also informed them that both the FC and CAC agreed that having a 65 fixed/35 variable rate structure is reasonable. The 65/35 rate structure is what he is recommending.

Mr. Madison spoke to Director Jeanne Sabin on a past comment she made, mentioning that he does not want her or anyone on the Board to feel pressured into making any kind of a decision relative to a new building by virtue of adopting this study. Ms. Sabin responded that she is assuming preliminary plans are somewhere in the works whether or not they plan for a building or not. Mr. Koorn responded that the answer to the question regarding spending reserves to fund a new building is "yes" and it would not have an increase on the rates. The consultants ran the scenario of including a new building in the model and it showed that it did nothing but drop the reserves.

Mr. Koorn informed the FC that for the revenue requirement, the consultants take the detailed budget and look at each line of expense and what escalation factor fits it best, (labor, retirement, equipment, etc.) and continues through each line to develop revenue requirements. Discussion occurred.

In regard to the categorized expenses, Vice-Chairperson Bob Gray asked if electricity was included in utilities, in which Mr. Koorn responded yes.

Mr. Nelson asked if the new Associate IT contract was placed under professional services. Finance Manager, Patrick Lee responded that the Associate IT contract was not budgeted, but the 3.5% escalation factor is sufficient; he mentioned that outside the Associate IT contract there is no other professional services contract. Mr. Madison added that the staff will review it.

Mr. Koorn went over the Summary of Revenue Requirement slide with the FC. In this summary, the consultants show a 0% increase in rate adjustments the first two (2) years and 3% the last three (3) years (Option 1). A discussion took place on the information provided. He then stopped to ask the Board if they had any comments on how the Rate Study is looking so far.

Mr. Madison informed the Board that he asked the CAC if it would make more sense to just do 3% over the five (5) year period and if the District does not need it, back off in a year or so (Option 2), much as the Board has already done over the past two (2) years or would they like to see Option 1. He mentioned that the general consensus of the CAC was they really liked the idea of not increasing rates the first two (2) years because it demonstrates to the customers that the District is trying to keep rates down.

Mr. Koorn stated that everything in the Draft Rate Study is based off Option 1 and that drives the cost of service. He mentioned that the consultants looked at the reserve balances and they are staying within target.

Mr. Koorn presented a drought scenario over the course of a seven (7) year period. A discussion followed.

Mr. Madison reminded the Board the District is setting rates for five (5) years not 10, even though the study shows projected information over a 10-year time period.

Mr. Koorn provided an overview of the Cost of Service by informing the Board that utilities do not track costs by customer and that the Cost of Service Analysis gives an equitable method to allocate costs between the different customers based on how they use the system and the facilities necessary to provide that service.

Mr. Koorn presented a preliminary cost of services graph comparing the present rates to the allocated cost in relation to residential customers, non-residential customers, and irrigation customers. Director Lisa Medina asked about the 18.4% increase for the irrigation customers shown in the graph. Mr. Koorn responded the irrigation customers are the one part of the study that is a challenge, stating that they are under-collecting \$29,000 a year; he mentions the driver for the 18.4% increase is based on how they use the system, specifically their peak usage.

Mr. Koorn mentioned the challenge with the Cost of Service Analysis is it is only looking at one (1) point in time, one (1) year of costs and one (1) year of consumption data. He concluded that is why the data needs be looked at every five (5) years, because it changes.

Mr. Madison stated that the high consumption irrigators, led by the Consumnes Services District (CSD) and the Elk Grove Unified School District (EGUSD) are going to see an increase. He cautions that the District has to be careful when tinkering with the rates, because it could subject the District to legal jeopardy. He mentioned that if the District is not careful, one customer class ends up subsidizing another customer class.

Mr. Gray commented the CSD and EGUSD may be tempted to build more of their own wells with this change. Mr. Madison informed the Board that the District plans on having separate meetings with the CSD and EGUSD to be open and forthright with them on these changes.

Bruce Kamilos, Assistant General Manager put the 18.4% (\$29,000) increase for irrigation customers into perspective by informing the Board that the CSD and EGUSD are the District's top two (2) irrigation customers; he goes on to say, even if they split \$20,000 of that increase, over the 12 months the increase is pretty insignificant compared to the cost of a new well. Discussion occurred on the rate increase.

Director Sophia Scherman commented that the City of Elk Grove (City) owns some parks that might also cause some adjustments with the CSD and to keep that in mind for open forum discussions.

Director Jeanne Sabin asked if the consultants can refer back to the drought years to see if the percentage is still constant during the drought. Mr. Koorn responded they would have to see what they have for data.

Mr. Gray commented he hopes the District gets the breakdown between the three (3) classes correct this time; five (5) years ago the District went through a Rate Study and was using estimates on how much water went to irrigation, fire, and commercial. Mr. Koorn stated that the District did pretty well with the estimates.

Mr. Koorn showed the difference between a 65/35 (fixed/variable) rate structure and a 60/40 rate structure. He mentioned when talking to the CAC about this, they liked the feel of the 65/35 rate structure. He showed the Board that with the 65/35 rate structure the fixed charge decreases compared to the current rate structure, but it also increases the consumption costs in each customer class.

Mr. Madison commented that a CAC member stated he liked the 65/35 rate structure approach, as it introduced more of a conservation element into the rate structure because of the higher rates on the consumption side. He also commented that it is interesting to note that the current fixed fee is \$66.67 and in five (5) years a normal customer with a 1" meter will still be paying less with the proposed Rate Study.

Mr. Koorn showed an example of how the new rate structure will impact each customer class. He mentioned, the District will need to be clear that the bill impacts will be a result of a new rate structure and not a revenue increase.

Ms. Sabin asked to clarify that the conservation desire was not what was legally justifying the rate changes, to which Mr. Koorn responded absolutely not. He mentioned that the District is not setting a price to be punitive towards conservation and that they just have a conservation based rate because they use a tiered rate structure.

Ms. Sabin also asked if there is an average residential consumption in the rate study. Mr. Kamilos responded yes, the average residential consumption is 12 centum cubic feet (CCF).

Mr. Gray asked if the District could even the load on the system in summer by requiring irrigation customers to water before midnight and have residential customers water after midnight. Mr. Madison responded that he will have to look into it. Discussion followed.

A discussion occurred regarding the first tier (30 CCF) capturing the average customer. Mr. Nelson commented that the District needs to be very careful on how they publicize the rate structure change; he mentioned that they cannot state that there is no rate increase.

Mr. Madison mentioned that the District is going to add the rate calculator on the website for the customers so they can calculate what their bill would look like based on consumption.

Mr. Koorn went over the bill examples for the non-residential and irrigation customers, indicating that the irrigation customers will be impacted the greatest by the new rate structure. Mr. Nelson mentioned that the irrigators are the only ones who can really save a bunch by cutting down on water usage. He commented that it would be great if the District could work with the heavy irrigators to help them reduce their consumption.

Director Sophia Scherman asked how many irrigators the District has. Mr. Koorn informed her there are 60 irrigation meters. Sarah Jones, Project Manager mentioned that she can work with the large irrigators to help them reduce. She mentioned that the District could provide education on conservation landscaping as well. Discussion occurred on the subject.

Mr. Madison asked that the Board read and provide comments on the Rate Study report. Mr. Nelson and Mr. Madison will review the report with legal counsel.

#### Connection Fee

Mr. Koorn gave a definition of what a connection fee is, which is a one-time charge based on the value of the District's capacity and the amount of capacity needed by the new customer.

Mr. Koorn mentioned that this fee is for new customers, as well as existing customers requesting increased water capacity. Mr. Gray asked if a residential customer, who already has a 1" meter, decided to add an additional meter for irrigation would have to pay a connection fee. Mr. Madison stated yes, to which Mr. Gray responded, but he is not increasing consumption at all. Mr. Madison mentioned he would have to think about that. Mr. Koorn commented the question Mr. Gray had would be a philosophical discussion to have. Discussion followed.

Ms. Sabin asked if the District has a definition or policy for an irrigation regarding qualifications. Mr. Madison mentioned he would need to check into that matter. When it comes to defining an irrigation account, there are complexities such as potentially needing to have a backflow prevention device and annual tests, etc.

Mr. Koorn will have a Connection Fee Status Update next meeting, May 2, 2018. He mentioned the next steps are to have the Board except the study on May 16, 2018 at the Regular Board Meeting. From there the Proposition 218 notice will go out on May 17, 2018 and the hearing will take place on July 18, 2018. Mr. Madison explained that when he originally created the timeline he thought the protesting process was 30 days, but it is 45 days, which would push the deadline past July.

Mr. Madison mentioned the report is coming along quite nicely. He is pleased with the work HDR Consulting, Inc. has done on the report this far. He mentioned to the Board that on May 16, 2018, he will request tentative approval of the Rate Study subject to receipt of any protests during the Proposition 218 process. The protest deadline is July 2, 2018.

Ms. Medina mentioned, HDR Consulting, Inc. has done an incredible job; she stated the consultants made the process easy for the Board to understand.

Mr. Madison mentioned, Mr. Gray recommended separating credit card fees for those that use it. He cited the CAC feels it should be left alone as a general cost of service and rolled into the rates. A discussion occurred.

Ms. Sabin asked if the District has a cost estimate. Mr. Madison stated, the credit card costs are about \$100,000 a year. Donella Murillo, Finance Supervisor mentioned, the District brings in over \$4 million a year in credit card payments from the 3,000 customers who use their cards. The District likes credit cards because they do not normally bounce. Mr. Madison mentioned he is fearful of adding a separate charge and having the customers think they are being dinged, which may lead to them not using their credit cards.

Mrs. Murillo quoted CAC member, Robert Blank who commented, "There is a reason people use their credit cards to pay their bills". She continued that Mr. Blank stated, "When looking at a change like having a separate credit card fee imposed on the credit card users and thinking things will continue as they used to, they won't. He mentioned that as soon as the change is made, there will be unintended consequences (i.e. customers will stop using their credit cards and will miss payments or customers will use checks instead that may bounce, etc.). He stated, the fee is just a cost of doing business". A discussion took place.

Mr. Nelson asked when the decision would need to be made, to which Mr. Madison responded May 16, 2018. Mr. Madison recommended to the Board that they keep the credit card fee rolled into the rates.

Mr. Gray mentioned spending extra for electronic bill pay. Mr. Madison stated, after looking into it, electronic billing is not a financially prudent decision. Mr. Gray commented back, there is something they are missing. Mr. Madison responded, he wants make prudent decisions for this District and the ratepayers, but if the Board wants to look into it again, the District will look into it.

Mr. Nelson suggested looking into it in August after the budget and rate study is finalized.

Respectfully submitted,

*Stefani Phillips*

Stefani Phillips, Board Secretary  
AK/SP

Adjourn to next Finance Committee Meeting: Wednesday, May 2, 2018.