

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

**Wednesday, May 2, 2018**

**Attendance:**

Directors Present: Lisa Medina, Sophia Scherman, Jeanne Sabin  
Directors Absent: Bob Gray, Tom Nelson  
Committee Members Present: Gary Crotwell, Kenneth Strom, Inderjit Kallirai, Mark Freathy  
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  
Kavert, Administrative Assistant II (Confidential)  
Consultants Present: Shawn Koorn, HDR Consulting, Inc.; Kevin Lorentzen, HDR  
Consulting, Inc.  
General Counsel Present: Ruthann Ziegler, Meyers Nave'

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

Director Jeanne Sabin stood in as Acting Chairperson for Chairperson Tom Nelson in his absence.

General Manager, Mark Madison recommended that the Community Advisory Committee (CAC) introduce themselves to the Florin Resource Conservation District (FRCD) Board of Directors (Board). Introductions were made.

Shawn Koorn, HDR Consulting Inc. began his presentation by providing the agenda for the night's meeting.

Connection Fee Study

Mr. Koorn mentioned that a connection fee is one of the fee's the District charges that should be looked at every couple of years. He went on to say, the District wants a cost-based connection fee consistent with the Board's philosophy that "growth should pay for growth", meaning rates should not be paying for growth on the system, the customers that cause the growth should be paying their fair share of those costs.

Mr. Koorn mentioned, when coming up with the connection fee, the goal is to provide a value of the capacity in the existing system that is available for new customers to use, as well as what facilities are necessary to meet new customer growth. He reiterated the 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. He commented that current customers have been paying into the system for years, and for new customers to be on equal footing with them, they need to buy into the system.

Mr. Koorn discussed the difference between rates and connection fees. He mentioned that rates are collected every year and are normally around the same amount, while connection fees will vary and are not counted on. He stated the two (2) purposes the connection fee can be used for are: 1) to pay for growth related infrastructure, and 2) to pay for growth related debt services.

He mentioned that when building into the rate study, connection fees are an unstable revenue source driven by the market. Within the last 5-10 years, bond rating agencies have no longer allowed connection fees to be included in the debt service coverage ratio.

Mr. Koorn explained there are three (3) methods to determine a connection fee.

1. Buy-in Methodology
  - Assumes the District has sufficient supply to meet future growth needs.
  - Divide by cost per unit serving today.
2. Incremental Methodology
  - Assumes the District has enough supply for existing needs, but to supply more customers there needs to be another infrastructure built.
  - Look at Capital Improvement plan and see what portion is related to growth. 3.2% of pipeline to “future customers”.
3. Combined Methodology
  - Assumes the District has some available capacity, but there are also some projects that need to be oversized to meet future needs.
  - Mixture of both the Buy-in Method and the Incremental Method.

Mr. Koorn stated that most companies, including the District, fall within combined methodology. He goes on to say, the next step is to determine how to develop the connection fee and what requirements there are. There are state laws and regulations and a Rational Nexus, which is the relationship between the price and the cost incurred; the Rational Nexus is key because it is what the consultants need to prove as part of the connection fee study.

Mr. Koorn informed the CAC and FC, under the combined methodology approach, the consultants look at the existing assets, find the value for each one, take that and figure out how much it would cost to build the asset today, and then back out depreciation to demonstrate it in today's dollars.

CAC member, Gary Crotwell asked how the depreciation is calculated. Mr. Koorn responded that the consultants take useful life of the infrastructure and straight line it.

Associate Board Member, Kenneth Strom asked where the consultants put down future costs, wondering if it is in the connection fee. Mr. Koorn responded no, not the connection fee. He mentioned that one of the key things the consultants need to look at is what infrastructures can be included in the connection fee. The consultants cannot include anything that has been contributed, only District paid infrastructures. He commented that is why the consultants go line by line through the asset listings and see what should be included and what should not; he mentioned that sometimes an infrastructure can be partially included.

Mr. Strom asked what the error potential is in the connection fee study process. Mr. Koorn responded the most challenging part is tracking the contribution component because historically the contribution components are not always captured.

In relation to the connection fee, Mr. Koorn mentioned that some key study assumptions to consider are: 1) the connection fee developed only applies to Service Area 1, and 2) current debt is funded through rates, so when calculating the connection fee, the assets the debt paid for are being calculated so the District can back out the debt from the assets as to not count them twice.

Mr. Koorn showed the connection fee calculation for the District and then the proposed connection fees to the CAC and FC. The Districts proposed connection fee for a 1” meter is \$5,170; he mentioned that this is the legal maximum connection fee that the District can charge based on the analysis. He also showed the CAC and FC the connection charge comparison of the District

versus other districts. From his graph, the District is on the low side in comparison to other agencies in the region.

Ms. Sabin asked how the District can legally decrease the connection fee. Mr. Koorn responded that there is no requirement to have a connection fee and the Board can technically charge anything below that, but to be financially prudent they would want to be closer to the maximum.

CAC member, Dwight Weathers asked who pays the connection fee. Mr. Koorn responded, it depends on who is building the home, it can be a home owner or developer.

CAC member, Mark Freathy asked if a business upgrades to a larger line, how they would pay for it. Mr. Koorn responded the business would pay the incremental difference in cost between the lines.

Mr. Madison informed the CAC and FC, the connection fee report will not be presented at the next board meeting on May 16, 2018. He mentioned the District will have a discussion with the Building Industry Association (BIA) so they are aware of what is going on. If it goes through, it will be adopted by the Board in July and go into effect on October 1, 2018.

Ms. Sabin asked the CAC about their feelings on the Connection Fee.

Mr. Weathers commented he feels it is fair to pass on the connection fee to developers rather than ratepayers because it eventually gets buried into the price of the house anyways; he believes the consultants have done a great job explaining the connection fee.

Mr. Strom commented that assuming the connection fee is low cost, they seem fair; he further stated the person who caused the cost should have to pay.

Director Sophia Scherman mentioned she is okay with moving forward, but warned, this is a hefty raise and the District might need a larger room for public hearings because she doesn't know how the developers will feel about this increase.

Mr. Madison replied to Mrs. Scherman that although he has not yet engaged with the BIA and does not know how they will feel about it, the connection fee is not monetarily huge and the big thing the District has to offer is capacity for growth. With the ability to provide the developers room to grow, he is optimistic about how they will react. He mentioned the District is willing to have focus groups on the subject if need be.

Director Lisa Medina stated she is okay with moving forward as well.

Ms. Sabin thanked staff for providing the necessary data needed to conduct the study.

Mr. Madison gave thanks to Mr. Kamilos and Travis Franklin, GS Technician I, mentioning the data stems from the asset management program, which looks out a hundred years. He stated the assets are very well defined, and Mr. Kamilos and Mr. Franklin did a marvelous job at setting the table to have defensible data.

### Rate Study

Mr. Koorn mentioned to the CAC and FC that since the last meeting, the consultants have made some adjustments to the Rate Study report. He stated the projections did not change from the rate adjustment, but staff noticed there was a glitch in the irrigation customer class. He mentioned

there were no changes in the summary of the revenue requirements, as well as the projected ending fund balances.

Mr. Koorn stated the Rate Study changed under the Cost of Service results after the consultants uploaded new data provided by staff; the irrigation customers decreased from an 18.4% adjustment down to an 8.2% adjustment. The change also decreased the non-residential customers and slightly increased the residential customers.

Mr. Koorn mentioned that the changes in the Cost of Services results created a slight difference in the proposed rates, specifically the monthly charge. The monthly charge went up a bit from the last proposed rate graph, but the District was still able to maintain the tiered rate structure at 30 Centum Cubic Feet (CCF).

Mr. Koorn commented on the water tank outside, in front of the EGWD administration building that is being used as a visual to show the cost of water. Finance Supervisor, Donella Murillo mentioned that a message will be put on the website indicating the cost relationship between a bottle of water and the water tank.

Mr. Madison mentioned that the District met with the Consumnes Service District (CSD) and they are good with the changes. Ms. Medina asked if the District is going to meet with the Elk Grove Unified School District (EGUSD). Mr. Madison responded, yes.

Ms. Sabin asked what customer class was moved from non-residential to irrigation during the Cost of Service phase of the study, after the new data was reviewed. Mr. Koorn responded the consultants initially read the data wrong and the irrigation class is only separate irrigation meters for outdoor use.

Ms. Sabin asked if the District should allow customers to have a separate irrigation line. Mr. Madison responded that during the last discussion on the topic it came down to strict economics that it is just not cost effective for ratepayers to have a separate irrigation service. He mentioned the District can look into it, but suggested that the Board does not let the issue drag down the Connection Fee Study.

Mr. Koorn reviewed the drought scenario the consultants ran. He mentioned at the last meeting, the question was asked if the purchased water component was calculated into the scenario, to which it was not. He went on to show that the consultants added the purchased water component and the loss decreased from \$5 million down to \$2.3 million. Mr. Madison stated that the District's higher fixed fee percentage is what really yields the state of financial stability for the District in a drought.

A discussion on conservation efforts pursued.

### Next Steps

Mr. Madison mentioned the game plan is to present the Rate Study to the Board on May 16, 2018. On that day there will be two (2) items for the Board to do: 1) consider and possibly give tentative approval on the Rate Study, subject to following the Proposition 218 process regarding issuance of protest notices, and 2) direct the District to pursue with the Proposition 218 process.

Mr. Madison went over the proposed schedule of the Proposition 218 process:

- Owner and tenant get protest notices on Thursday, May 17, 2018. They will have 45 days to protest.
- The deadline for ratepayers to protest is July 2, 2018.

- At the July Board Meeting, there will be a Public Hearing and possible approval of the Rate Study.

Ruthann Ziegler, General Counsel mentioned there is a specific protocol for the written protests. A small discussion occurred on the subject.

Director Sophia Scherman commented to the CAC, she has been involved in many committees over the years and the CAC's recommendations have been outstanding and have helped tremendously. She mentioned that all the CAC members are level-headed and care about the rates and studies being performed.

Mr. Freathy mentioned the process has been interesting to him. He also mentioned the organization has been outstanding and has helped someone like him, who does not know water, be able to understand.

Mr. Weathers seconded what Mr. Freathy said, adding that all the staff have been very helpful and cordial, leading to a good experience for him.

Ms. Sabin agreed with everything that has been said.

Ms. Sabin asked the CAC if the Board can progress to tentatively approve the Rate Study at the next Board meeting. Mr. Weathers commented that he supports the Board moving forward and that the 30 CCF is good. Mr. Freathy commented yes, he believes the Rate Study is fiscally responsible and it also takes the customers into consideration.

Mr. Strom commented he is happy about the group of members that were formed to create the CAC. Mr. Madison mentioned that CAC member Robert Blank unfortunately could not be at the meeting, but has been a great help and has made good comments.

There was a general consensus by the CAC and FC to approve the Rate Study and move it forward to the regular Board meeting on Wednesday, May 16, 2018.

Mr. Madison mentioned the Connection Fee Study will be talked about at the next meeting on May 23, 2018.

Ms. Medina commented on the Elk Grove Citizen article regarding the last Board meeting. Mr. Madison mentioned the headline was misleading, but he is preparing clarification in the Districts newsletter, the Waterdrop, and that will be going out in two (2) weeks.

Ms. Sabin invited the CAC to attend the May 16, 2018 Board Meeting.

Respectfully submitted,

*Stefani Phillips*

Stefani Phillips, Board Secretary  
AK/SP

Adjourn to next Finance Committee Meeting and Community Advisory Committee Meeting:  
Wednesday, May 23, 2018.