

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

Wednesday, May 23, 2018

Attendance:

Directors Present:	Bob Gray, Tom Nelson, Sophia Scherman, Jeanne Sabin
Directors Absent:	Lisa Medina
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.
General Counsel Present:	Ruthann Ziegler, Meyers Nave'

1. 2018-2022 Connection Fee Study

Chairperson, Tom Nelson started the meeting with the Pledge of Allegiance and complimented the Community Advisory Committee (CAC) for working so well together using quotes about teamwork.

General Manager, Mark Madison kicked off the discussion by introducing Shawn Koorn, HDR Consulting, Inc. to speak about the Connection Fee Study.

Mr. Koorn presented the slides for the Connection Fee Study. He mentioned the purpose of the study is to review and update the Elk Grove Water District's (EGWD) Connection Fee to reflect existing conditions and values of assets in place, as well as capacity available in Service Area 1.

Mr. Koorn 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 or a customer who wants to increase their water capacity. He mentioned that the purpose is to have equity between existing and new connections to be consistent with the Board's philosophy that "growth should pay for growth", as to not burden the current ratepayers for growth on the system.

Mr. Koorn discussed the difference between rates and connection fees. He mentioned that rates are looking at one (1) year to see how much revenue is needed to pay the District's bills, while connection fees are additional revenue sources to help minimize rates.

Mr. Nelson asked if the District has a separate account for the revenue from the connection fee or if there is just one general account. Mr. Lee responded there is a separate general ledger (GL) account that it goes in to, but that account has other sources of revenue going into it as well. In summary, the District tracks what revenue sources go into the GL account, but they do not track what revenue sources pay for which services.

Director Sophia Scherman asked if it was a good business practice to not know which revenue sources paid for what services or if the District is looking at changing that. Mr. Lee responded the District is possibly looking into changing it by setting up a separate distinct revenue GL account. He mentioned from an expenditure standpoint, the District would have to look further into how to track what types of revenue will be used to pay for what types of expenses.

A quorum was announced for the Finance Committee Meeting at 6:12pm.

Mr. Koorn stated the consultants use a combined methodology approach for the District's Connection Fee Study, meaning the District has some existing assets, but also some projects that need to be oversized to meet future needs. He mentioned that the District did really good at retrieving data to accurately enter into the equation.

Mr. Koorn informed the CAC and FC, when developing the connection fee, the consultants look at how much it would take to build the system today, then back out depreciation to determine today's dollars, this is called the replacement cost less depreciation; that number is then divided by the number of equivalent units on a system for Service Area 1. He then showed the connection fee calculation with the District's numbers and the proposed connection fees, which although are higher than the current rates, they are still low in comparison to the other District's around the area.

Mr. Koorn stated the consultants take a look at Service Area 1's Plant assets, which are treatment, transmission, and distribution. They also provide a credit for debt service. He explained that the District issues debt to buy the system and customers are paying for that through rates, which means the debt should not be included in the connection fee so customers aren't paying twice.

Associate Board Member, Kenneth Strom asked how the connection fee relates to the debt. Mr. Koorn responded the debt is backed out so that customers do not pay for it once in the rates and once in the connection fee. Mr. Madison mentioned new customers need to pay their fair share of what the current customers have already paid.

Mrs. Scherman asked how the District measures for multi-use units, such as a unit with a business on bottom, apartments on top. Mr. Koorn responded that since it is determined by meter size, the multi-use unit would need a bigger meter to serve the non-residential and residential units, as well as the unit would need individual meters for the apartments on top.

Mr. Koorn reminded the CAC and FC, the connection fee is not determining what the customer will always use, but the potential of what they could use.

Vice-chairperson Bob Gray commented that a six (6) inch meter is what you put in if you are adding two (2) extra hydrants. Mr. Madison responded that the connection fee is only for domestic service and not for a fire-line.

CAC member, Robert Blank asked about determining the replacement cost, stating it sounds like its apples to oranges because the consultants are using replacement costs less depreciation, which is determined when it was built. Mr. Koorn responded for the calculation and depreciation, the consultants took useful life and the replacement cost to the asset and did a straight line depreciation. He mentioned they did not use original depreciation, but instead used replacement cost depreciation value.

Mr. Blank mentioned the connection fees are only reviewed at every five (5) years, which leads to high increases; he asked if there were companies that phase in the increases over the five (5)

year period instead of a huge increase at one time. Mr. Koorn responded yes, some have done that.

There was a discussion on multi-unit meter requirements.

Mr. Madison mentioned he will reach out to the Building Industry Association (BIA) again regarding the connection fee. He does not think that the BIA will have an issue with the increase, but wants to speak with them so the changes will not be a surprise to them.

Mr. Madison commented the Public Hearing will be on July 1, 2018 and there will be a 60 day process for the fees going into effect, which include both the new rate fee and connection fee; with the public hearing and process, the new connection fee will go into effect October 1, 2018.

Mr. Madison clarified the connection fee by explaining the Connection Fee Study is regarding capacity, but there is a second connection fee, which is a meter charge. The District charges time and material on the costs incurred to install a meter.

Mr. Nelson asked if a customer wants a separate irrigation connection, would they pay a connection fee or a meter fee. Mr. Madison responded the customer would be paying both. Mr. Koorn explained that it goes back to capacity and demand on the system.

Mr. Gray commented that it might pencil out for the customer who wants two separate meters, depending on their consumption.

Mr. Madison clarified that the meters that are being installed are the District's meters, not the customers. He explained that if a meter breaks, the District fixes it at its own expense, not the customer's expense.

CAC member, Dwight Weathers asked when switching from the flat rate to the meters did each customer get charged for transferring the meters. Mr. Madison responded no, the existing customers did not pay, the District was able to get a sizeable grant that helped temper the cost.

Mr. Madison stated the District will put a separate page in the study on meter charges.

Mr. Nelson thanked the CAC committee.

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.