

**SPECIAL MEETING OF THE  
FLORIN RESOURCE CONSERVATION DISTRICT  
BOARD OF DIRECTORS**

**Agenda**

**Thursday, June 9, 2022**

**7:00PM**

Compliance with Government Code Section 54957.5

The Board will discuss all items on the agenda and may take action on any item listed as an "Action" item. The Board may discuss items that do not appear on the agenda, but will not act on those items unless there is a need to take immediate action and the Board determines by a two-thirds (2/3) vote that the need for action arose after posting of the agenda.

If necessary, the Meeting will be adjourned to Closed Session to discuss items on the agenda listed under "Closed Session." At the conclusion of the Closed Session, the meeting will reconvene to "Open Session."

Pursuant to the Sacramento County Shelter in Place order effective March 19, 2020, we are requiring all members of the public to participate virtually. Public participation and comment are limited to the following procedures:

- A. The electronic submission of written comments in advance to the Board Secretary ([stefani@egwd.org](mailto:stefani@egwd.org)). Those comments will be read into the record for a maximum of three (3) minutes per comment.
- B. Join Zoom Meeting: <https://us02web.zoom.us/j/85252320318> Meeting ID: 852 5232 0318  
Dial by your location

+1 669 900 6833 US (San Jose)	+1 346 248 7799 US (Houston)
+1 312 626 6799 US (Chicago)	+1 929 205 6099 US (New York)
+1 253 215 8782 US	+1 301 715 8592 US
- C. Please press Star+9 (\*9) to raise your hand for Public Comment – Members of the audience may comment on matters that are not included on the agenda in accordance with the procedures listed above. Each person will be allowed three (3) minutes, or less if a large number of requests are received on a particular subject. No action may be taken on a matter raised under "Public Comment" until the matter has been specifically included on an agenda as an action item. Items listed on the agenda will be opened for public comment as they are considered by the Board of Directors.

**CALL TO ORDER, ROLL CALL AND PLEDGE OF ALLEGIANCE**

- 1. **Florin Resource Conservation District/Elk Grove Water District Fiscal Year 2022-23 Operating Budget Revenue and Expense Assumptions**  
(Bruce Kamilos, General Manager)

Associate Director Comment

Public Comment

- Recommended Action:**
- 1. **Approve a 3.0% revenue rate increase effective January 1, 2023, and a 7.20% cost-of-living adjustment to be included in the Fiscal Year 2022-23 Operating Budget; and**
  - 2. **Direct staff to return with a policy amendment at the next regular board meeting to use the CPI-U index instead of the CPI-W index when calculating future cost-of-living adjustments.**

Adjourn to Regular Meeting – June 21, 2022

June 9, 2022

TO: Chair and Directors of the Florin Resource Conservation District

FROM: Bruce Kamilos, General Manager

SUBJECT: **FLORIN RESOURCE CONSERVATION DISTRICT/ELK GROVE WATER DISTRICT FISCAL YEAR 2022-23 OPERATING BUDGET REVENUE AND EXPENSE ASSUMPTIONS**

## **RECOMMENDATION**

It is recommended that the Florin Resource Conservation District Board of Directors:

1. Approve a 3.0% revenue rate increase effective January 1, 2023, and a 7.20% cost-of-living adjustment to be included in the Fiscal Year 2022-23 Operating Budget; and
2. Direct staff to return with a policy amendment at the next regular board meeting to use the CPI-U index instead of the CPI-W index when calculating future cost-of-living adjustments.

## **SUMMARY**

Each year, staff develops the draft operating budget of estimated revenues and expenses and presents the draft budget to the Florin Resource Conservation District (District) Board of Directors (Board) for review and discussion. Following the presentation and discussion, staff generally makes revisions and brings the revised draft budget back to the Board at a subsequent meeting(s) for further discussion prior to advancing the operating budget to the Board for adoption in June.

## **DISCUSSION**

### **Background**

The Fiscal Year (FY) 2022-23 budget development worksheet was presented to the Board for review and discussion during a special Board meeting on April 26, 2022. Staff received comments from the Board and have incorporated the changes into the budget development worksheet.

On May 17, 2022, staff presented to the Board the Draft Florin Resource Conservation District FY 2022-23 Proposed Operating Budget for review and discussion. During this meeting, staff received direction from the Board to prepare additional analysis showing; 1) the effect on revenues by deferring the 3.0% revenue rate adjustment effective January 1, 2023; 2) the effect on expenses with a 7.20% cost-of-living adjustment (COLA) versus

**FLORIN RESOURCE CONSERVATION DISTRICT/ELK GROVE WATER DISTRICT  
FISCAL YEAR 2022-23 OPERATING BUDGET REVENUE AND EXPENSE  
ASSUMPTIONS**

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a 5.0% COLA; and 3) the implications of falling out of compliance with the District's 2014 Series A Refunding Bond debt covenant ratio requirement of 1.15%.

Present Situation

Staff completed an analysis (Attachment 1) showing the results on revenue and expenses based on the following scenarios:

1. A 3.0% revenue rate increase and a COLA of 5.0%;
2. A 0.0% revenue rate increase and a COLA of 5.0%;
3. A 3.0% revenue rate increase and a COLA of 7.2%; and
4. A 0.0% revenue rate increase and a COLA of 7.2%.

In addition to the analysis completed, the following items should be taken into consideration in selecting the revenue and expense assumptions to be used for the District's FY 2022-23 Proposed Operating Budget:

1. The 2018 Water Rate Study, adopted by the Board on July 18, 2018, recommended revenue rate increases of 0% (2019), 0% (2020), 3.0% (2021), 3.0% (2022) and 3.0% (2023). With customer growth increasing at a higher rate than originally projected, the District conducted a 2020 Rate Study Update to determine if a 3.0% revenue rate increase in 2021 could be deferred. The 2020 Rate Study Update determined the 2021 rate increase could be deferred. The 2020 Rate Study Update was based, however, on a 3.0% revenue rate increase occurring for all subsequent years after 2021. Based on the update, the Board elected to defer the 3.0% revenue rate increases in 2021. The Board also elected to defer a rate increase in 2022.

With customer growth slowing and the state calling for 20% water conservation this year, the District is expected to experience a negative impact on revenues. Inflation is also high resulting in higher expenses to the District for goods and services. Without the 3.0% revenue rate increase, the District could be jeopardizing its ability to continue meeting its required bond covenant ratio for the 2014 Series A Refunding Bonds.

The District's 2014 Series A Refunding Bond rate covenant requirement states:

"The District hereby covenants to establish, maintain and collect gross revenues sufficient in each fiscal year to provide adjusted net revenues equal to 1.15 times the sum of debt service on the outstanding 2014 Series A Bonds, all Outstanding

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Parity Bonds, and Parity installment payments due and any amounts payable to the Insurer under the Financial Guaranty Agreement.

In the event the District fails in any Fiscal Year to comply with its rate covenant, the District shall retain an Independent Financial Consultant to undertake a rate study for the purpose of establishing a rate structure which will enable it to comply with its rate covenant during the succeeding Fiscal Year. Failure to meet the coverage requirement set forth above at the end of a fiscal year shall not constitute an event of default under Section 8.01 of the Indenture of Trust so long as the District has complied with this paragraph.”

With rate studies costing an estimated \$90,000 to \$125,000, this would put the District in a position to have to incur additional avoidable costs due to improperly managing revenue requirements and rate increases as recommended by the 2018 Rate Study and the 2020 Rate Study Update.

To ensure the District is able to comply with the 2014 Series A Refunding Bonds rate covenant requirement, staff is recommending that the Board move forward with the recommended 3.0% revenue rate adjustment effective January 1, 2023 as directed by the 2018 Water Rate Study and 2020 Rate Study Update.

2. The District’s Employee Policy Manual prescribes that COLAs may be made annually at the determination and discretion of the Board. The COLA is generally based on the average of the consumer price indexes (CPI) for All-Cities CPI-W, Western CPI-W, and San Francisco CPI-W. The District’s practice has been to use the CPIs published in April of each year. As published by the U.S. Bureau of Labor Statistics (BLS), the April 2022 average of the CPI-W indexes is 8.10%.

For the past four (4) years, the District has inadvertently used the CPI-U instead of the CPI-W when determining COLAs. The BLS publishes two (2) different CPIs: the CPI-W and the CPI-U. The CPI-W is the oldest index and is currently used only for calculating Social Security COLAs. The CPI-U is used more broadly throughout government applications. As published by the BLS, the April 2022 average of the CPI-U indexes is 7.20%.

Since the CPI-U index has become the more widely used index in government applications, staff recommends the Board approve a 7.20% COLA based on the CPI-U index. Staff also recommends that the Board direct staff to return with a policy amendment at the next regular board meeting to use the CPI-U index instead of the CPI-W index when calculating future District COLAs.

June 9, 2022

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Staff will deliver a PowerPoint presentation (Attachment 2) to the Board, which provides additional information to support staff's recommendation of a 3% revenue rate increase and 7.2% COLA. A budget comparison (Attachment 3) using various revenue rate increases and water conservation percentages is also being provided for the Board's information.

**ENVIRONMENTAL CONSIDERATIONS**

There are no direct environmental considerations associated with this report.

**STRATEGIC PLAN CONFORMITY**

This item, and all other budget related activities, conforms to the FRCD/EGWD's 2020-25 Strategic Plan. Adoption of an annual balanced budget is specifically identified as a goal in the Fiscal Responsibility section of the Strategic Plan.

**FINANCIAL SUMMARY**

The financial impact associated with this report, if the Board approves a 3.0% revenue rate increase effective January 1, 2023, and a 7.2% COLA to be applied to salaries and benefits for FY 2022-23, will be an increase in expenses of \$64,926, and a resulting total projected expenses in excess of revenues of \$483,152 for FY 2022-23.

Respectfully submitted,



BRUCE KAMILOS  
GENERAL MANAGER

Attachments

	FY 2022-23 Budget 3.0% rate increase 5.0% COLA	FY 2022-23 Budget 0.0% rate increase 5.0% COLA	FY 2022-23 Budget 3.0% rate increase 7.2% COLA	FY 2022-23 Budget 0.0% rate increase 7.2% COLA
Total Revenues	\$ 15,950,188	\$ 15,722,820	\$ 15,950,188	\$ 15,722,820
Operational Expenditures				
Salaries and Benefits	4,775,652	4,775,652	4,847,546	4,847,546
Seminars, Conventions and Travel	40,393	40,393	40,393	40,393
Office and Operational	1,402,320	1,402,320	1,402,320	1,402,320
Purchased Water	3,455,261	3,455,261	3,455,261	3,455,261
Outside Services	1,077,032	1,077,032	1,077,032	1,077,032
Equipment Rent, Taxes and Utilities	499,674	499,674	499,674	499,674
Subtotal Operational Expenditures	11,250,331	11,250,331	11,322,226	11,322,226
Less: Capitalized Labor	(452,121)	(452,121)	(459,089)	(459,089)
Total Operational Expenses	10,798,210	10,798,210	10,863,137	10,863,137
Non-Operating Expenditures/ (Income)	3,887,204	3,887,204	3,887,204	3,887,204
Capital Equipment and Expenditures	1,683,000	1,683,000	1,683,000	1,683,000
Total Net Expenditures	16,368,414	16,368,414	16,433,340	16,433,340
Revenues In Excess of Expenditures, Principal Retirement and Capitalized Labor	\$ (418,226)	\$ (645,593)	\$ (483,152)	\$ (710,520)
Transfers (to)/from Reserves	418,226	645,593	483,152	710,520
Net Budget Excess/(Deficiency)	\$ -	\$ -	\$ -	\$ -
Bond Covenant Ratio (Required 1.15)	1.33	1.27	1.31	1.25

# FLORIN RESOURCE CONSERVATION DISTRICT / ELK GROVE WATER DISTRICT

FY 2022-23 Proposed Operating Budget Presentation

Presented by  
Bruce Kamilos, General Manager

# Staff Recommendation

- 3% Rate Increase
- 7.2% Cost-of-Living Adjustment
- Change Policy on Cost-of-Living Adjustment from CPI-W to CPI-U



# Justification for Recommendation

- 2018 Rate Study / 2020 Rate Study Update
- Current Inflation
- Retain Skilled & Knowledgeable Employees
- Pay-as-you-go Practice
- Long-term View of District Management

# 2018 Rate Study / 2020 Update

- ❑ Reviewed District's operating and capital costs to develop rates
- ❑ Analyzed revenue requirements for FY 2018-19 thru FY 2027-28
- ❑ Included O&M expenses, debt service and capital projects
- ❑ Primary financial inputs were District's FY 2017-18 Operating Budget and 5-Year CIP
- ❑ Rate Study used historical inflationary factors over 10-year analysis period

# 2018 Rate Study Recommended

- 0% Rate Increase (2019)
- 0% Rate Increase (2020)
- 3% Rate Increase (2021)
- 3% Rate Increase (2022)
- 3% Rate Increase (2023)

# 2020 Update Confirmed

- 0% Rate Increase (2019)
- 0% Rate Increase (2020)
- 0% Rate Increase (2021)
- 3% Rate Increase (2022)
- 3% Rate Increase (2023)

✓ District has had 0% rate increases for the past 4 fiscal years, 0% (2019), 0% (2020), 0% (2021), 0% (2022).

# 2018 Rate Study / 2020 Update used historical inflation factors over 10-year analysis period

- ❑ Materials & supplies: 3%
- ❑ Repairs & maintenance: 3.3%
- ❑ Utilities: 2%
- ❑ Miscellaneous: 2.5%

# Current Inflation

Per U.S. Bureau of Labor Statistics, West Region  
(April 2021 to April 2022) and Engineering News-  
Record

- ❑ Fuel: 45.0%
- ❑ PVC Pipe: 35.6%
- ❑ Chlorine and Treatment Chemicals: 15.0%
- ❑ Asphalt-Cement: 42.7%
- ❑ Concrete: 6.9%
- ❑ Sand: 10.0%
- ❑ Electricity: 11.0%

# Higher Actual Inflation than that used in 2018 Rate Study / 2020 Update must be considered in rate decision

- ❑ Rate studies built on 3% rate increases every year
- ❑ Compounding effect of rates
- ❑ Bond covenant ratio cannot draw on reserves

Bond Covenant Ratio = (Revenues – Operational Expenses)/Debt

# Retain Skilled and Knowledgeable Employees

- Strategic Goal 6 of Strategic Plan: Employer of Choice, attract and retain skilled employees
- Provide competitive salaries and benefits
- Certified Operators receive job advertisement mailers all the time from other water agencies
- Stay committed to Policy Principles (long-term view)



# Cost of Living Adjustment

- ❑ Employee Policy Manual – Section 4.2.5

COLAs may be made annually at the determination and discretion of the Board of Directors. The COLA is generally based on the average of the All Cities CPI-W, Western CPI-W, and San Francisco CPI-W.

- ❑ SSWD uses Western CPI-U (August) – 6.7% last year
- ❑ RWA uses Western CPI-U (November) – 6.9% last year
- ❑ EGWD (April) – 3.97% last year
- ❑ Change Policy to use CPI-U instead of CPI-W to determine COLA

# Compensation Study

- ❑ Independent District-wide Compensation Study planned for FY 2022-23
- ❑ Compensation Study will guide District on staff salaries
- ❑ Competitive salaries = Above regional median salaries

# Pay-as-you-go Practice

- ❑ Total debt \$35,170,000. (\$3,887,204 per year)
- ❑ Pay-as-you-go practice for capital projects, using capital reserves judiciously. No new debt!
- ❑ District averaging \$1.7M - \$2M annually for pay-as-you-go capital projects
- ❑ Build reserves to proactively replace major capital assets

# Long-Term View of District Management

- ❑ Manage District using a long-term view, not short-term.
- ❑ Proactively invest in and maintain the water system's health
- ❑ Retain knowledgeable and skilled employees
- ❑ Use Water Rate Studies to guide rate decisions
- ❑ Implement gradual rate increases. Avoid rate spikes.

**Elk Grove Water District  
Budgeted Revenues and Expenditures by Category  
For the Fiscal Year ending June 30, 2023**

	FY 2022-23 Budget 3.0% rate increase 7.2% COLA No Conservation	FY 2022-23 Budget 3.0% rate increase 7.2% COLA 10% Conservation	FY 2022-23 Budget 3.0% rate increase 7.2% COLA 15% Conservation	FY 2022-23 Budget 3.0% rate increase 7.2% COLA 20% Conservation	FY 2022-23 Budget 2.0% rate increase 7.2% COLA No Conservation	FY 2022-23 Budget 2.0% rate increase 7.2% COLA 10% Conservation	FY 2022-23 Budget 2.0% rate increase 7.2% COLA 15% Conservation	FY 2022-23 Budget 2.0% rate increase 7.2% COLA 20% Conservation
Total Revenues	\$ 16,494,042	\$ 15,889,123	\$ 15,586,663	\$ 15,284,204	\$ 16,414,645	\$ 15,812,641	\$ 15,511,639	\$ 15,210,637
Operational Expenditures								
Salaries and Benefits	4,847,546	4,847,546	4,847,546	4,847,546	4,847,546	4,847,546	4,847,546	4,847,546
Seminars, Conventions and Travel	40,393	40,393	40,393	40,393	40,393	40,393	40,393	40,393
Office and Operational	1,402,320	1,402,320	1,402,320	1,402,320	1,402,320	1,402,320	1,402,320	1,402,320
Purchased Water	3,617,239	3,455,261	3,384,835	3,320,288	3,617,239	3,455,261	3,384,835	3,320,288
Outside Services	1,077,032	1,077,032	1,077,032	1,077,032	1,077,032	1,077,032	1,077,032	1,077,032
Equipment Rent, Taxes and Utilities	499,674	499,674	499,674	499,674	499,674	499,674	499,674	499,674
Subtotal Operational Expenditures	11,484,204	11,322,226	11,251,800	11,187,253	11,484,204	11,322,226	11,251,800	11,187,253
Less: Capitalized Labor	(459,089)	(459,089)	(459,089)	(459,089)	(459,089)	(459,089)	(459,089)	(459,089)
Total Operational Expenses	11,025,115	10,863,137	10,792,711	10,728,164	11,025,115	10,863,137	10,792,711	10,728,164
Non-Operating Expenditures/ (Income)	3,887,204	3,887,204	3,887,204	3,887,204	3,887,204	3,887,204	3,887,204	3,887,204
Capital Equipment and Expenditures	1,683,000	1,683,000	1,683,000	1,683,000	1,683,000	1,683,000	1,683,000	1,683,000
Total Net Expenditures	16,433,340	16,433,340	16,433,340	16,433,340	16,433,340	16,433,340	16,433,340	16,433,340
Revenues In Excess of Expenditures, Principal Retirement and Capitalized Labor	\$ 60,701	\$ (544,218)	\$ (846,677)	\$ (1,149,137)	\$ (18,695)	\$ (620,699)	\$ (921,701)	\$ (1,222,703)
Transfers (to)/from Reserves	(60,701)	544,218	846,677	1,149,137	18,695	620,699	921,701	1,222,703
Net Budget Excess/(Deficiency)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Bond Covenant Ratio (Required 1.15)	1.41	1.29	1.23	1.17	1.39	1.27	1.22	1.15
	New Avg Bill	Difference			New Avg Bill	Difference		
Avg Customer bill assuming 15 CCF of water consumed and 1' meter. \$89.95 baseline with current rates.	\$ 92.69	\$ 2.74			\$ 91.75	\$ 1.80		

**Elk Grove Water District**  
**Budgeted Revenues and Expenditures by Category**  
**For the Fiscal Year ending June 30, 2023**

	FY 2022-23 Budget 1.5% rate increase 7.2% COLA No Conservation	FY 2022-23 Budget 1.5% rate increase 7.2% COLA 10% Conservation	FY 2022-23 Budget 1.5% rate increase 7.2% COLA 15% Conservation	FY 2022-23 Budget 1.5% rate increase 7.2% COLA 20% Conservation	FY 2022-23 Budget 1.0% rate increase 7.2% COLA No Conservation	FY 2022-23 Budget 1.0% rate increase 7.2% COLA 10% Conservation	FY 2022-23 Budget 1.0% rate increase 7.2% COLA 15% Conservation	FY 2022-23 Budget 1.0% rate increase 7.2% COLA 20% Conservation
Total Revenues	\$ 16,375,815	\$ 15,775,203	\$ 15,474,896	\$ 15,174,590	\$ 16,336,985	\$ 15,737,764	\$ 15,438,153	\$ 15,138,543
Operational Expenditures								
Salaries and Benefits	4,847,546	4,847,546	4,847,546	4,847,546	4,847,546	4,847,546	4,847,546	4,847,546
Seminars, Conventions and Travel	40,393	40,393	40,393	40,393	40,393	40,393	40,393	40,393
Office and Operational	1,402,320	1,402,320	1,402,320	1,402,320	1,402,320	1,402,320	1,402,320	1,402,320
Purchased Water	3,617,239	3,455,261	3,384,835	3,320,288	3,617,239	3,455,261	3,384,835	3,320,288
Outside Services	1,077,032	1,077,032	1,077,032	1,077,032	1,077,032	1,077,032	1,077,032	1,077,032
Equipment Rent, Taxes and Utilities	499,674	499,674	499,674	499,674	499,674	499,674	499,674	499,674
Subtotal Operational Expenditures	11,484,204	11,322,226	11,251,800	11,187,253	11,484,204	11,322,226	11,251,800	11,187,253
Less: Capitalized Labor	(459,089)	(459,089)	(459,089)	(459,089)	(459,089)	(459,089)	(459,089)	(459,089)
Total Operational Expenses	11,025,115	10,863,137	10,792,711	10,728,164	11,025,115	10,863,137	10,792,711	10,728,164
Non-Operating Expenditures/ (Income)	3,887,204	3,887,204	3,887,204	3,887,204	3,887,204	3,887,204	3,887,204	3,887,204
Capital Equipment and Expenditures	1,683,000	1,683,000	1,683,000	1,683,000	1,683,000	1,683,000	1,683,000	1,683,000
Total Net Expenditures	16,433,340	16,433,340	16,433,340	16,433,340	16,433,340	16,433,340	16,433,340	16,433,340
Revenues In Excess of Expenditures, Principal Retirement and Capitalized Labor	\$ (57,525)	\$ (658,138)	\$ (958,444)	\$ (1,258,750)	\$ (96,355)	\$ (695,577)	\$ (995,187)	\$ (1,294,798)
Transfers (to)/from Reserves	57,525	658,138	958,444	1,258,750	96,355	695,577	995,187	1,294,798
Net Budget Excess/(Deficiency)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Bond Covenant Ratio (Required 1.15)	1.38	1.26	1.21	1.15	1.37	1.26	1.20	1.14
	New Avg Bill	Difference			New Avg Bill	Difference		
Avg Customer bill assuming 15 CCF of water consumed and 1' meter. \$89.95 baseline with current rates.	\$ 91.30	\$ 1.35			\$ 90.85	\$ 0.90		