

**MINUTES OF A REGULAR MEETING
OF THE BOARD OF DIRECTORS OF THE KINNELOA IRRIGATION DISTRICT
OCTOBER 17, 2017**

MEMBERS PRESENT: Directors Tim Eldridge, Frank Griffith, Gerrie Kilburn, Bill Opel
Director Gordon Johnson was absent.

STAFF PRESENT: General Manager Melvin Matthews, Facilities Supervisor Chris Burt
Office Manager/Secretary to the Board Bernadette Allen

1. CALL TO ORDER: The meeting was called to order by the Chair, Gerrie Kilburn, at 7:36 P.M.
A quorum of Board Members was present. The Agenda was reviewed. Director Opel requested
that Item 4 – Proposed 2018 Budget be moved after Item 6 – Review of Financial Reports.

2. PUBLIC COMMENTS: No members of the public were present.

3. REVIEW OF MINUTES: The minutes of September 19, 2017, were reviewed and approved as
presented for filing and posting on the website. The minutes of October 4, 2017, were
reviewed and approved as presented for filing and posting on the website.

5. GENERAL MANAGER'S REPORT: The General Manager reviewed his report

Facilities Operator: He stated that a job offer was extended, but not yet accepted.

ACWA Board Meeting: Director Opel asked for detail regarding Item VI. 6 Provide Sound Water
Rates Policy and Senate Constitutional Amendment 4. The General Manager said there has
been a push to subsidize low-income customers. Current legislation does not allow the use of
water revenue to subsidize low-income customers. The state legislature is trying to change the
legislation to make it easier for water districts to provide a low-income program.

Meetings/Conferences: Director Griffith asked if general managers from other local agencies
attended the conference and meetings. The General Manager stated that CSDA has several
general managers in attendance, and ACWA has a mixture of general managers and directors,
with a much higher proportion of directors. ACWA is made up of public water agencies only
and all the local agencies have either the general manager or director in attendance.

ACWA Board Workshop: Director Kilburn asked for detail regarding Item IV. Agriculture
Committee. The General Manager stated that one of ACWA's missions is to better represent
the agricultural interests of the state and member agencies that primarily deliver water to
agriculture. The work committee recommended establishing an Agriculture Committee, which
will be a proposed by-law amendment to be voted upon at December's meeting. The General
Manager emphasized that ACWA, along with CSDA, are the voice for water interests in
Sacramento.

Facility and Equipment Failures, Maintenance and Repairs: Director Eldridge asked about the
estimated cost and actual cost of the Pasadena Glen Road pipeline project and how projects are
tracked. The General Manager said that an updated project list is presented to the Board
annually. Director Eldridge asked if the Far Mesa Tunnel was back in service. The staff replied,
not yet. Director Eldridge asked about the valve pit at Far Mesa Tunnel. The General Manager
stated that the plans to finish the valve pit are still under consideration.

Water Leaks: Director Griffith asked if there has been any additional water bubbling up on
Clarmeya Lane. The General Manager said that there has been no recurrence.

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6. REVIEW OF FINANCIAL REPORTS: The Financial Reports for September 30, 2017, were reviewed. Director Opel highlighted general ledger accounts under budget, capital projects, and installment payments paid by regular net revenue. The General Manager answered questions regarding general ledger accounts and confirmed that the borrowed funds had been in a project escrow account. All funds were spent, and the account was closed. The reports were approved for filing as presented.

4. PROPOSED 2018 BUDGET (taken out of order): The General Manager reviewed the proposed budget documents, highlighting that the trends forecast that income will cover debt service as well as normal expenses. There is evidence that customers are conserving more and using less water, which necessitates raising rates to cover fixed expenses. The General Manager stated that approximately 67% of the District's revenue comes from the commodity charge (variable water usage sales), and 33% from the daily service charge (fixed water sales). As discussed in the past, optimal rates would swap the percentages the other way around to match the variable and fixed expense percentages. But, that would dictate a drastic change to the fixed daily service charge. The General Manager concluded that the proposed 2018 budget reflects the rationale that rates should not be increased simply to raise more revenue, but to cover inflation. The 3% rate increase in the budget will enable the District to cover increases in expenses due to inflation and maintain the ability to undertake \$200,000 to \$300,000 worth of improvement/maintenance projects each year.

Director Eldridge asked if some of those funds could be used to improve safety in the Glen and that he would be requesting those projects in the future.

Director Griffith asked how much additional revenue will be gained by the 3% increase. The General Manager directed him to Item 4 – Page 2, line 1 showing a projected \$53,000 increase in water sales revenue.

Director Opel stated that he understands the District's perspective, but wanted the Board to consider the customer's viewpoint and undertake comparisons to other water agencies.

Director Opel asked why the District does not charge the fixed daily service charge based upon service connection size.

Director Eldridge stated that the size of the meter, the size of pipelines and the elevation of the reservoir determine the amount of water available for fire flow. Director Eldridge also stated that an assumption cannot be made that customers who have larger meters use greater amounts of water and he could not evaluate a change to rate structure without that information.

The General Manager stated that charges based upon meter size are in place for other agencies because of legacy billing practices and those cost structures are being abandoned as agencies are required to justify water rates to the cost of providing service. If the District wanted to institute a change to a meter size rate structure, customers would be able to challenge and likely win based upon recent court cases that do not support fixed rates based upon meter size. If a customer requests a larger meter, the District charges the customer for the increased costs associated with the larger line and meter. He stated that he does not recommend fixed charges based upon meter size.

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Director Eldridge stated that the District needs a certain amount of money required to pay expenses, and asked Director Opel if he was looking to adjust how much each customer pays or looking for cost cutting. Director Opel replied that the District needs to look at it from the customer's point of view. From the District's point of view, a rate increase is reasonable. But, from the customer's point of view, he is not sure a rate increase is reasonable and is not sure if higher rates will be an issue for the long-term future of the District. Director Opel requested a comparative analysis.

In response, the staff provided a printed copy of the "Survey of Fees and Charges for Water Service" that had been presented in the September 9, 2016 Agenda Packet.

Director Opel asked what would happen if the decision regarding rates was tabled to the next meeting. The General Manager explained that the District was required to give a 45-day notice for the public hearing. If the District wanted a rate increase to go into effect January 1st, then the Board would have to hold a special meeting at the end of December. There would be no problem in delaying the rate increase, but the 2018 revenue would be lower for every month the rate change was delayed.

The General Manager recommended that the Board approve the Proposed 2018 budget and move ahead with the 3% rate increase that is needed from a revenue stand point to provide for operating expenses, maintenance and improvement projects.

In summary, the new rates were proposed, objections were raised, vigorous discussion ensued, and comparative figures for surrounding districts were presented.

It was M/S/C – (Eldridge/Kilburn-3/1/0)

"That the Board approves the Proposed 2018 Budget as presented in the Board Packet."

(Aye-Eldridge,Kilburn,Opel/Nay-Griffith/Abstain-0)

It was M/S/C – (Eldridge/Griffith-3/1/0)

"That the Board authorizes the General Manager to issue a notice of public hearing to consider the adoption of rate increases to the proposed rates to \$4.30 per unit for the Usage Charge and \$2.14 for the Daily Service Charge for the year 2018 with a public hearing to be held at the December 19 Board Meeting."

(Aye-Eldridge,Griffith,Kilburn/Nay-Opel/Abstain-0)

7. CALENDAR: The next special meeting will be on November 9, 2017, at 7:30 P.M. The next regular meeting will be on November 21, 2017, at 7:30 P.M.

Possible Items for the Next Regular Meeting Agenda:

1. Project List
2. Meter Size and Water Usage for the District
3. Updated Survey of Fees and Charges for Water Service

ADJOURNMENT: The meeting was adjourned at 9:12 P.M.

Respectfully submitted by,



Bernadette C. Allen
Secretary to the Board