



COTTONWOOD WATER DISTRICT

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MINUTES

REGULAR BOARD MEETING

Date: November 10, 2021

Time: 4:00 PM

Location: District Office

Board Members

Art Parham	Chairperson	Absent
Lewis Presley	Vice Chair	Present
Ron Spurgeon	Board Member	Present
Nick Shidlovsky	Board Member	Present
Vince Dunn	Board Member	Present

District Staff

John Hollmer	General Manager	Present
Candice Krames	District Secretary	Absent

AGENDA ITEM(S):

1. Call to Order

- a. The Cottonwood Water District Board of Director's meeting was called to order at 4:00pm by Lewis Presley Vice Chairman.

2. Comment Period

- a. Persons wishing to address the Board on a matter, which is not listed on the agenda, Pursuant to Government Code Section 54950. (Time Limit may be utilized at the discretion of the Board). Members of the public may address the *Closed Session* matters at the time the closed session is announced.

1. We have guest speaker Laurie McCollum, a representative with PACE Engineering. Also community business owner, Woody Clendenen joined the meeting.

3. Consent Agenda Items

- a. Approve minutes of the Regular Board Meeting of October 13, 2021.
 1. The motion to approve was tabled due to two board members present were not present last meeting.
- b. Financial Statement; approve payment of October, 2021 bills.
 1. The motion to approve was tabled due to two board members present were not present last meeting.

4. Regular Agenda Items

- a. Review and adopt Independent Auditors Report outlining the Financial Statements Dated June 30, 2021.
 1. A few questions were addressed from board members about CalPERS market value asset dropping by \$200,000.00. John updated them stating since his father had retired and then passed away, there was a Retirement payout to his family. This was the significant change in value. Details for the financials for year end and unsolved checks on account were made present along with some accounting corrections needed to be handled by Candice and the Accountants.
- b. Review of Management Report and execution of Management Representation Letter.
 1. Board members reviewed the management representation letter and a motion to approve this letter was made by Spurgeon and seconded by Dunn. Motion passed and letter was signed.
- c. PACE Engineering Rate Study Presentation.
 1. Laurie from PACE Engineering presented first. John and Laurie have worked together the last few months on the rate study. The existing rate structure as of now won't keep up with inflation and foreseen needs of the district. Based on our prior years revenues and expenditures, they were able to see how much inflation rate is expected for our District. They came up with 4%-6% inflation to be able to keep up with cost demands for our District to stay out of the red zone. The existing rate shows with our connections are mostly 5/8" which use 87% of the water but yet these

connections pay 93% of the cost to produce it. Ideally, the connections using water should be paying equal costs for the District. That is why rate studies are so important to have, they show proof of why a rate increase is important. The average inflation nation wide is about 3%, but with our District historical expenditures, the cost of labor & materials the 6% inflation rate is much more realistic. The larger services are not paying their fair share of the cost for operational reserves for this District. Recommendation is the rates will increase for the next 5 years so that each year there will be about 30% maintenance reserve available (suggested 20%-40% is the goal). A rate increase would keep this District in good standing financially to keep a reserve, annual depreciation and be able to hire another full-time Operator employee. The goal of the rate study is each customer whether they be residential or commercial, will pay their fair share of the water cost to produce.

Options to consider: #1 Maintain existing rates and increase rates to account for 6% inflation now; this would continue to have every customer pay the same base rate and additional usage rate regardless of their meter size. #2 Switch to Hydraulic Capacity rates by increasing rates to meet the 4%-6% inflation- this involves basing rates on meter sizes therefore a 2" meter will pay a higher base rate per month than a standard 5/8" meter. The reason being a 2" meter puts a larger strain on the supply in the District vs a 5/8" meter. The Hydraulic Capacity rate schedule is the most commonly used method because it's a proven standard to help a District be sustainable. Laurie presented a financial plan summary table that shows the total average monthly bill and the result at the 5th year of a rate increase (4% inflation vs 6% inflation. If the District decides to go with the Hydraulic capacity rate increase, the average bills for 5/8" meter accounts would pay roughly \$55.00/monthly and the average bill for 3" meter accounts would pay around \$1,110.00/monthly (its about \$365.00/monthly currently). The chart highlights the significant usage by 1" or larger meters and how they impact our District. Out of 1200 connections in our District, only have between 40-60 customers with 1" or larger meters. These accounts include three school Districts, a few mobile home parks and a few others. Either recommendation will help fund the District so they have an operation reserve, funds for depreciation and funding for a new employee. If the District maintains the existing base rates, the smaller services will continue to fund the larger ones however the Hydraulic option would be a significant increase for larger services. Suggestions such as downsizing their meter could be an option. Depending on the meter size already existing, this could be a large project involving engineers and large cost for both parties. In summary, the PACE rate study recommends to implement the hydraulic capacity rate basis with a 4% inflation or keep the existing rate basis and increase rates to account for the 6% inflation now. Laurie showed the board members several examples of the different rate options and how they would affect the community. These charts verified that if our District continues at the current base rates, we would be in the red by year 3. She reiterated how operating reserve is essential. John asked Laurie to present the table figures if the District was not to hire a new employee. She showed 4 different scenarios which reflects the base rates which be slightly lower. Its is not feasible to hire a part time employee. Facts supplied from the American Water Works Association (AWWA) details on how much

usage each meter size can provide. 2" meters can get 8 times the amount of flow than a 5/8" meter. The District could run out of water if these larger meters turned on at full capacity. These rate increase options are set at a 5-year plan. PACE highly recommends a 5-year plan to make it all worth it. All Prop-218 regulations will be followed. Worldwide inflation reports came out recently at 7.8%. Laurie mentioned we could lower our rates after the inflation lowers but recommends to wait until the 5-year plan completion. She has never seen a District lower their rates though. She did mention how good financially our District is doing compared to others. John reflected back on his first year with the District and how he realized how bad the District needed a rate increase to fund the District demands. Even with the rate increase we adopted, John is happy to have PACE rate study report to bring some perspective on where this District sits financially and the expectations ahead. Discussion of the current economic stance with Covid would be tough on our community to raise the rates. But one big emergency could sorely hurt this District. Woody Clendenen, a community business owner was asked to give his opinion. He was unaware there was so little of large connections and didn't realize how their usage affecting the entire community. He believes no matter the decision made; we will hear from the community. He feels the rate study will help justify the increase to the community. Concerns we as a District should be careful to consider is we have never treated residential and commercial different in the past. Another concern from our Board member is this community has a lot of poverty and raising rates could be tough and lawns will go brown. Woody also mentioned our rates are not that high compared to other Districts and lower than the sewer supplied by the County. The number of infrastructures is what is driving the needs for this District. The next steps with the information provided would be to pick an option, Laurie would then create a draft. This draft would be the rate study report explaining all the details discussed for the option chosen. This would act as proof in documentation for our District to hold in court. John would need to review and the board would need to adopt the final rate study at a board meeting to approve to start Prop-218 process. All agreed it's a good idea to show customers the big picture of the two rate increases. On the existing structure signify the percentage will be the same all customers vs with the hydraulic capacity rate the increase between residential and commercial accounts will be significant. Laurie suggests we as a District should also adopt a policy (ordinance) to require duplex units or multi-units to have a 1" or larger meter for capacity fees. Update our By-Laws and the Prop-218 to convert all residential household equivalent regulations so the base rate will be billed fairly. For example, a duplex property would pay two base rates and additional usage charge instead of one base rate and additional usage as it is currently. But using household equivalent is not as easy as it seems and won't protect the District from larger connections. Research needs to be done first by Laurie to see if the already existing multi-unit accounts are to be grandfathered in or if this could only take affect on future connections. The Board was addressed on which direction they would like to go as far as the options presented. Legally the District cannot leave residential rates as is and make only 1" or larger meters have the rate increase. Ron Spurgeon, our board member suggested another option to stick with existing rates with a 6% inflation increase for the first 4 years

(including the ordinance to adopt for multi-unit requirements) and then to switch to the Hydraulic capacity rate in the 5th year of plan. This gives the commercial accounts enough time to prepare for the future increase and make decisions on if they want to downgrade their meter. This option was favored and considered by all.

Recap details: Our current base rate existing, our 40% reserve will become zero in year 3. If we go with option #1 to keep existing rates and increase based on 6% inflation, the estimated monthly bill would be \$48.00/monthly with \$1.40 additional usage rate per customer. A motion to table this rate study to increase our rates was made by Spurgeon and seconded by Shidlovsky. Motion passed.

5. Closed Session

- a. Not Requested.

DISCUSSION: John discussed the seasonal employee we are hiring starting December 6th. He will be a full-time operator for 6 months only. John mentioned how nice it will be to have the extra help and how hindered this District is by lack of personnel.

ADJOURN: With there being no further business, The Cottonwood Water Board of Director's meeting was adjourned by Lewis Presley at 5:38pm.

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