

MAY 2021 – GOLD MOUNTAIN RATE STUDY PACKAGE

What are “rates”?

Districts tend to use the term “rates” as a collective term for rates, fees, and assessments. It is important for you, the consumer, to understand the different rates charged by the Gold Mountain Community Services District (GMCSD) aka “District”, as well as associated terminology:

- **Water system fees** – fees to operate and maintain the District’s water system; billed quarterly combined with sewer system fees
- **Sewer system fees** - fees to operate and maintain the District’s sewer system; billed quarterly combined with water system fees
- **Consumption charges** – a fee based on the quantity of water used in units of 1,000 gallons; currently billed annually
- **One-time regulatory fees** – specific one-time fees such as for Water Shutoff, Escrow, On-demand Septic Inspections, etc.; billed at time of use to the specific entity requesting or causing the service requirement
- **System Development Charge (SDC)** – a fee paid to connect into and begin using the District’s water and sewer system
- **Fire Tax** – annual tax paid for Fire Protection and Fire Services; billed directly to commercial customers; collected annually with property tax for residential customers
- **Rate Classes**- The District currently has three (3) rate classes:
 - 1) Residential users (connected customers)
 - 2) Residential non-users (standby customers)
 - 3) Commercial customers

The proposed rate study would be focused on the District’s water and sewer fees charged to our three (3) Rate Classes. The master study would consist of two components, one study for water and one study for sewer. While conducted simultaneously, each component study requires its own cost of service analysis.

Why Do We Need a New Water and Sewer Rate Study?

The GMCSD conducted its last rate study in 2006, 15 years ago. We last implemented a rate increase in 2011, 10 years ago. California recommends that utility providers conduct a rate study at least every 5 years to promote utility sustainability, rate stability, and fairness to rate payers.

Attachment 1 provides a history of GMCSD rates for both users (connected) and non-user (standby) customers.

In California, rate setting including fees and assessments, is governed by a complex set of laws and regulations including Propositions 26 and 218 designed to protect the rights of rate payers. These laws and regulations have changed since the District was first formed in 1996, changed again since our last rate increase, and have been impacted by a number of more recent court decisions. Utility providers

have legal obligations to review their rate structures on a regular basis. Rate changes in California require a cost-of-service study, a public hearing process, a period for rate payer protest, and a final resolution by the Governing body. As a result of court cases in 2019 and 2020, water rate increases are no longer subject to referendum unless certain conditions are met.

Attachment 2 provides a primer on the District's authority to assess rates.

An important distinguishing GMCS D feature is that every parcel in the district is already served with an existing water and sewer connection, which means that whether or not owners of those lots use the connection, they must share in the cost of operating and maintaining the system. This point is critical to the GMCS D as we have a large number of undeveloped lots whose owners pay quarterly non-user fees representing roughly 50% of the District's operating income. The legality of such fees was upheld in 2009 in a landmark District Court of Appeals decision.

Attachment 3 provides an overview of the Padland v Brooktrails decision.

Where the GMCS D Stands Today

Residents petitioned the Plumas County Board of Supervisors for and received control of the District in 2005. Starting with minimal funding and only a partial and in many ways a failing infrastructure, early boards focused on raising the funding necessary to operate and maintain the systems. Two major system failures, a landslide threatening the destruction of the District's two water storage tanks, and failure of our primary leach field, quickly dictated the need for both operating and reserve funding. The District paid for an engineering rate study in 2006 resulting in three significant rate increases 2006, 2007, & 2008, and the two cost of living increases between 2009 and 2011. These increases allowed the District to make needed system repairs, and just as importantly to start building the reserves necessary for future infrastructure improvements and operational contingencies.

Over the last 10 years the CSD had seen approximately a 60% growth in our operating budget, versus only a 23% growth in operating income. In 2011, the CSD was able to contribute significant surplus operating funds to our Capital Reserves account. Fast forward 10 years and our 2020-2021 budget required pulling \$30k from operational reserves to meet budget. Between 2010 and 2018, operating surpluses at end of the year, while dwindling, served to mask the need to stay abreast of water and sewer rates. In 2019 the District recognized the need for a rate adjustment which started the processes leading to today's meeting.

What factors have contributed to the current budget shortages:

- **Cost of living** – the overall inflation rate in California has averaged 1.78% per year since 2010 resulting in a 21.4% increase in cost (or loss of buying power).
- **The average cost of electricity** in California has increased from 14.75 cents per kilowatt hour in 2010, to 21.43 cents per kilowatt hour in 2011 – representing a 45% increase in the cost of electricity needed to operate both our pressurized water and sewer systems.

- ***Aging infrastructure*** – GMCSO system maintenance costs have increased in excess of 40% since 2010. What was considered relatively new infrastructure in 2010, has now been in the ground for upwards of 20 years. This past year we lost our first major pump motor on a booster pump installed in 1998, 22 years ago. Our system has hundreds of underground valves, many of which are not needed on a day-to-day basis but provide the ability to control the flow of water and wastewater when and where needed. Failure rate on the seldom used valves is now running around 25% when we need to make adjustments to flows. Replacing an underground valve is a major expense.
- ***Increasing State mandates for inspections and testing*** - In 2010 the state requirements for operating a “small water system” were minimal. Each year those requirements have increased and now include mandatory annual inspections of all septic tanks, mandatory blowout of dead-end mains, mandatory exercising of system valves, and a host of other new requirements. Due to an increasing problem of air in the system (cloudy water), our field team has identified the need for improved air release valves throughout high points in each pressure zone. These are just a few examples of day-to-day requirements and challenges faced by the District field unit.
- ***Increased staffing*** - In 2010, the District had the equivalent of 2 full time employees, we now have 4.5 full-time employees and a part time Fire Coordinator. In 2010 the District was able to get by with part-time positions offering no benefits. After cycling through a number of operators and administrative staff, the District revamped its personnel policies in 2016 to provide full-time positions with benefits to retain qualified personnel. While the staff has grown since that time, we have not had a single turnover and all staff are now experienced and knowledgeable in their assigned positions, and we developed some depth, so we aren’t one person deep on infrastructure knowledge.
- ***Infrastructure demands*** - From the beginning of the District, Board and Managers have recognized that the infrastructure turned over by the original developer was not capable of sustaining the District at buildout. Slow growth over the past 10 years has resulted in connection fee income well below that forecast in the District’s 2007 Master Plan. Connection fees are specifically earmarked and reserved for infrastructure improvements. While the income hasn’t come in, water requirements have continued to grow requiring the development of two new wells over the last 10 years. These projects have added to the slow drawdown of District reserves, and there are still many important projects that remain to be developed. While we maintain two (2) quarters worth of operational reserves, It is critical that the District reverse our drawdown and once again start making annual contributions to our reserve accounts.

Attachment 4 is a comparison of the 2011 and 2021 water and sewer operating budgets.

Where Do We Go From Here?

The District has taken the initial steps to contract for a new water and sewer rate study. Managers and Board members participated in various rate setting webinars and conferences to gain a better understanding of the process and legal requirements for rate setting. While there is no mandate to use professional consultants to conduct such a study, the significant legal requirements and challenges presented by rate setting make the use of an experienced consultant a best practice.

While each proposal varies in its details, a cost-of-service rate study generally consists of five basic steps:

Step 1: Data collection looking at every aspect of District Operations

Step 2: Data analysis

Step 3: Cost of service analysis and rate development

Step 4: Reporting and alternatives

Step 5: Proposition 218 compliance – public hearings and rate approval

Working closely with the California Special District Association (CSDA), I compiled a list of 10 CSDA affiliates and recommended consultants specializing in water and sewer rate studies including HDR Engineering, the provider of our 2006 study. I sent an introductory letter to each indicating that we would be interested in discussions or proposals. Out of the ten (10) companies, I received responses from six (6), and held discussions and received proposals from four (4), one of which was incomplete, and my point of contact did not respond to my requests for completion. The three remaining companies provided complete proposals have solid reputations, and excellent references.

Attachment 5 is the Consultant List and a copy of my introductory letter

Attachment 6 offers a comparison of the three proposals received

Attachment 7 – Hildebrand Consulting Proposal

Attachment 8 – NBS Consulting Proposal

Attachment 9 – Hansford Consulting Proposal

Purpose of the May 4th Meeting

1. To provide the Board and customers an opportunity to better understand the issues and ask questions.
2. To review the three proposals on the table and understand the conditions of each.
3. To recommend a follow-on course of action.