

April 22, 2021

Mr. Rich McLaughlin, General Manager
Gold Mountain Community Services District
P.O. Box 5
Clio, CA 96106

Sent via Email

Subject: Cost of Service and Rates Study

Dear Mr. McLaughlin:

Thank you for the opportunity to submit a proposal to prepare a Cost of Service and Rates Study (Study) for the Gold Mountain Community Services District (GMCSO or District). Hansford Economic Consulting LLC (HEC) brings more than twenty years of experience in municipal finance and economic consulting with specialization in the water industry. With a proven track record of completed projects and references provided in **Exhibit A**, HEC demonstrates the skill sets for successful execution of the Study in a straightforward manner.

We typically work with small communities (population less than 10,000), and we are located in Truckee, which is about one-hour travel time from the District office. We work with several small districts in and around the Sierra Nevada, including Heather Glen CSD, Midway Heights CWD, Georgetown Divide PUD, Donner Summit PUD, Squaw Valley PSD, Northstar CSD, Sierra County Water Works #1, Sierra County Fire Protection District, and Sierraville PUD. HEC was recently awarded the American Valley CSD Utility Rates Study through a competitive RFP process.

Proposed Scope of Services

The proposed scope of services includes three tasks. Only task A has been requested by the District; however, tasks B and C are included as optional tasks for the District's consideration.

TASK A: UPDATE EXISTING CUSTOMER MONTHLY RATES.

The Study will calculate five years of water and wastewater rates that will ensure the financial stability of the enterprise funds during normal and drought conditions, collecting the revenue required to operate the utilities in a safe manner and in compliance with existing and anticipated regulations. Revenues will pay for ongoing operations and maintenance, completion of rehabilitation projects and new capital improvement projects, as well as any existing or anticipated debt service payments.

The cost allocation methodologies used for the cost of service and calculation of rates will adhere to legal requirements of the California Constitution to demonstrate that customer

groups are paying for their proportionate share of the utility systems' costs. The final proposed rates will be adopted pursuant to the Proposition 218 Omnibus Implementation Act.

A summary of subtasks to complete Task A is provided below.

A-1: Orientation, Data Collection and Policy Review	In-person (preferable) or virtual kick-off meeting. HEC will provide a list of data and information needs to be provided by the District. District policies and study objectives will be discussed.
A-2: Determine the Revenue Requirement and Craft a Financial Plan	<p>HEC will review the utility funds to establish the historical and current financial health of the utility systems. The amount of revenue that needs to be raised over the next five years (the revenue requirement) will be projected based on model assumptions that will be developed by HEC with District staff input.</p> <p>A financial plan will be developed for the capital improvement projects costs and a cash flow projection will demonstrate sufficiency of funding for the next five years to pay for operations and capital costs.</p>
A-3: Conduct Cost of Service Analysis and Rate Calculations	<p>Once the revenue requirement is established, it is allocated to customer groups based on cost classifications and usage characteristics to determine cost-of-service by customer type.</p> <p>The current rate structures for water and wastewater will be assessed in light of case law, as well as alignment with District goals and objectives, and fit with customer usage patterns. The water rate design will examine alignment of fixed operating costs with base charges and variable costs with volume charges. Up to two alternative rate structures will be modeled for both systems. New and/or alternative customer classifications will be recommended if appropriate to fit with District objectives and current legal interpretations.</p>
A-4: Prepare Report and Present Findings	<p>The report will demonstrate cost of service and proportionality requirements in compliance with Proposition 218. Draft, Final Draft, and Final iterations of the report will be provided.</p> <p>HEC will present the findings of the study to the District Board of Directors (Board) and will attend the public hearing to present and/or answer questions.</p>
A-5: Implementation Assistance	HEC will work with District staff to draft the public hearing notice and newspaper notification for updated rates. The public hearing notice will specify the basis of the fees, the reason for the fees, the customer's right to protest the fees, and the date/time/location of the public hearing.

TASK B: NEW CUSTOMER FEES. (OPTIONAL)

This task includes calculation of a schedule of fees applicable to new development pursuant to the Mitigation Fee Act, Government Code section 66013. These one-time fees are exempt from being classified as taxes under Proposition 26, and they are not subject to the requirements of Proposition 218.

Connection fees and/or capacity charges can be based on buy-in to existing infrastructure and equipment costs, and/or new facilities and equipment costs. Oftentimes, fees incorporate both buy-in and new facilities costs; note that new development cannot be charged costs related to any existing system deficiencies. HEC will review existing available systems capacity, projected necessary capital expenditures to increase capacity, and new development growth potential to update the capacity charges. If financing is anticipated to be necessary for any of the infrastructure, financing costs will be added in the calculation of the connection fees and/or capacity charges.

A technical memorandum will summarize the work conducted and will demonstrate that a reasonable relationship exists between future development, use, and need of the facilities, and the amount of the fee(s) assigned to future customers.

TASK C: REGULATORY FEES. (OPTIONAL)

If desired, HEC can review and update the District's regulatory fees. Examples of such fees are water turn on fees, and septic inspection fees. These fees are one-time regulatory fees adopted under the authority of Proposition 26, which exempts them from being classified as taxes.

Regulatory fees recover the costs of services provided on an occasional basis, when triggered by customers. HEC will update the existing regulatory fees based on cost accounting and interviews with District staff. Issues to be addressed with the regulatory fees include:

- Tolerance / acceptability for cost recovery (100% or lesser amount),
- Identification of other services that fees could be charged for (if any); and
- Accounting for indirect costs of the services provided.

Budget and Schedule

The estimated budget is based on HEC's 2021 standard hourly rates of \$185 per hour for Catherine Hansford, \$125 for support, and \$80 per hour for travel time and clerical. These rates will be held for the duration of the work. HEC charges for services on a cost not-to-exceed basis; therefore, you will only be billed for the work completed up to the authorized budget amount. Invoices are issued monthly and are due on receipt. Invoices include staff time and direct expenses (vehicle mileage reimbursement at the current Federal GSA Mileage Reimbursement Rate for Privately Owned Vehicles).

If additional work is requested that is beyond the original scope of services, or if work efforts are greater than anticipated in development of the budget, HEC will request authorization for additional budget.

The total estimated cost for Task A is \$28,000, as shown in **Table 1** below. The estimated budget excludes costs associated with printing and mailing of the Proposition 218 public hearing notice. HEC has allowed for four trips/meetings to the District office / systems sites in the budget. If additional trips are desired, the cost per trip is estimated at \$865 per meeting, which includes Catherine's preparation, travel, and meeting time, as well as mileage reimbursement. Additional meeting costs would be in addition to the authorized budget for Task A.

Tasks B and C are optional and can be authorized by the Board in the initial contract or as amendments to the contract in the future. The cost estimates shown in Table 1 are preliminary and should be refined before approval.

Table 1
Budget

Task	Staff		Travel & Clerical	Total Estimated Cost
	Hansford \$185	Support \$125		
Hourly Billing Rates				
Task A-1: Orientation, Data Collection, Policy Review	20	0	11	\$4,580
Task A-2: Revenue Requirement and Financial Plan	18	0	0	\$3,330
Task A-3: Cost-of-Service Analysis and Rate Calculations	58	0	0	\$10,730
Task A-4: Prepare Report and Presentations	20	5	12	\$5,290
Task A-5: Implementation Assistance	10	10	0	\$3,100
Subtotal Task A (includes 4 trips/meetings)	126	15	23	\$27,030
Direct Costs (mileage reimbursement for 4 trips)				\$224
Contingency and Rounding				\$746
Total Task A				\$28,000
Task B: New Customer Fees (optional)	16	2	4	\$3,530
Task C: Regulatory Fees (optional)	10	2	4	\$2,420

HEC will work on a schedule that suits the District. HEC anticipates that new rates could be implemented with either the second or third quarter fiscal year bills (October 1, 2021 or January 1, 2022), depending on how the project progresses. Typically, it takes six to eight months from the project start date for new rates to be implemented.

Quality Assurance

HEC has a reputation for delivering projects on schedule in a professional manner. There will be no replacement of personnel. Catherine Hansford has all the necessary professional skills and knowledge to complete the project; she will lead the project, provide overall project management, coordinate meetings and respond directly to GMCSO staff and consultants.

HEC has earned a reputation for being open-minded, patient, thorough, and excellent at communications with decision makers. Catherine Hansford has first-hand experience of working at a water utility and understands the process necessary for adopting updated rates

and charges. In addition to utility fee consulting, HEC has spearheaded strategic planning efforts to help agencies and communities define their goals and set achievable action items. These skills help with fee-setting, which is often a very difficult topic for decision makers.

We look forward to having the opportunity to discuss our qualifications and proposal further. HEC appreciates the challenge of balancing equity, feasibility, and customer acceptance goals when approaching utility rate and fee changes. HEC will strive to help GMCSO operate the potable water and wastewater community septic systems to meet all regulatory requirements with reasonable rates and charges.

You can reach Catherine at (530) 412-3676 or catherine@hansfordecon.com with any questions about this proposal.

Sincerely,

A handwritten signature in blue ink, appearing to read "CR Hansford".

Catherine R. Hansford, Principal
HANSFORD ECONOMIC CONSULTING LLC

Attach: Exhibit A

EXHIBIT A

HEC QUALIFICATIONS AND EXPERIENCE

Introduction to HEC

Hansford Economic Consulting LLC (HEC) provides planning, economic, and financial services for public and private clients in the Western United States. The company is owned and managed by Catherine Hansford, an experienced applied economist who specializes in water utilities finance in California.

HEC clients include regional agencies, counties and cities, special districts, non-profits, private entities, and homeowner associations. Our high-quality work products span a breadth of land and water resource related topics that touch human communities and environments. HEC endorses progressive and adaptive planning, understanding that plans are useful only if they are comprehensive, relevant to the specific local conditions, and lead to implementation.

HEC's services include:

- **Water Utilities Resource and Financial Plans**
- Infrastructure Networks Analysis
- Agency Governance, Mergers & Organization
- Economic Development & Business Impact Analysis
- Public Facilities and Services Financing Plans
- Fee Nexus Studies
- Fiscal Impact Studies

Water Utilities Resource and Financial Plans

HEC has a long history of providing utilities resource and financial plans, including: water and wastewater demand analysis projections; income surveys; water, wastewater, recycled water, and solid waste utility rate and fee studies; and assistance with state and federal low-interest loan and grant program applications.

HEC has provided rate setting advisory services to more than 40 public agencies. While HEC's clients range from very small to very large, the majority of HEC's clients serve a population less than 20,000. Our core strengths include:

- More than 20 years of experience in municipal finance, planning, and economic services.
- Specialization in water utilities public finance.
- Small project team; hands-on and readily accessible.
- Large portfolio of completed rate, user fee, development impact and connection fee water and wastewater utility studies.
- Assisted many small water utility providers with USDA and SRF funding applications and administration of funds.
- Frequently work for small communities.

Catherine Hansford, Project Manager



Catherine is a practitioner of financial, economic, and resource sciences. As a professional for more than 20 years, Catherine has built a reputation for creative problem solving, excellent speaking skills and written products.

Catherine has a passion for the water industry. She has worked in both the public and private sectors on water resource and finance issues, and she offers a fresh perspective, having training and experience in both economics and finance. She is continually looking for creative strategies to meet utility revenue needs.

In the public sector, Catherine worked as a senior planner for the Truckee Meadows Water Authority (TMWA), performing management analyst functions such as cost-benefit analysis, managing interlocal agreements, performing rate and fee studies, and working with stakeholders. Catherine served as liaison/chair between TMWA and various customer groups. These included a Rate Making Review Committee and Landscape Subcommittee. Catherine served on the Advisory Committee on Conservation for the Washoe County Regional Water Planning Commission from 2001 through 2004, and as its Chair from 2003 through 2005.

In the private sector, Catherine worked for Economic and Planning Systems (Sacramento office) helping clients with municipal bond sales, financing plans, special district formation, user fee studies, fiscal studies, and nexus fee studies. At ECO:LOGIC Engineering (now Stantec), Catherine specialized in water utilities public financing. Since 2005, Catherine has been the owner and principal of HEC, engaging in municipal planning and finance issues.

Publications: “Setting and Assessing the Impact of Water-Related Development Fees”, The Water Spot, First joint issue of the Nevada Water Environment Association and Nevada Water Resources Association, Winter 2017.

Notable Accomplishments

- In 2003, Catherine was selected as Chair of the Advisory Committee for the Regional Water Planning Commission in Washoe County, Nevada.
- HEC assisted the Donner Summit Public Utility District (DSPUD) secure the first California Clean Water State Revolving Fund (CWSRF) planning loan to finance the significant planning costs associated with their wastewater treatment plant upgrade project in July 2010. Also, for the for the same project, HEC helped DSPUD obtain the first refinancing of debt in the State through the California CWSRF. The completion of the project has led to the first snow making from recycled water in California at the Soda Springs Ski Resort. Snow making started January 2016.

- In 2013, HEC conducted a unique analysis on the feasibility of a special district to retire water rights in the Diamond Valley Basin to rectify over-appropriation of groundwater. The analysis was the first of its kind in the State of Nevada and has been used by the State Engineer in consideration of actions for the hydrographic basin.
- In 2013, 2017, and 2019, Catherine Hansford gave a 3-hour class on water rate and fee setting for the Nevada Rural Water Association. The class was held at the Truckee Meadows Community College and video-broadcast to colleges throughout the state of Nevada.

Catherine is a frequent speaker. Speaking engagements include:

- **Funding Groundwater Management Programs: How Fees were established for Two New Agencies tasked with Groundwater Sustainability**, *January 2021 Nevada Water Resources Association*
- **Storm Water Rate Calculation**, *April 2018 Nevada Water Environment Federation*
- **US Western Water Issues**, *March 2018 Women in Economics Forum, University of Nevada Reno*
- **Funding for Flood Facilities that Serve New Development**, *September 2017 Nevada Rural Water Association Fall Water Event*
- **Understand the Planning Cycle, Short and Long-term Financial Responsibilities, and Facility Funding Options**, *March 2017 Nevada Rural Water Association Conference*
- **Successful Strategic Planning Starts with Understanding Your Financial Position and Engaging a Wide Range of Stakeholders**, *March 2014 Nevada Rural Water Association Conference*
- **The Cost of Rectifying Over-Appropriation of Groundwater in Diamond Valley**, *February 2014 Nevada Water Resources Association Conference*
- **What is a Reasonable Water Rate?** *February 2011 Nevada Water Resources Association Conference*
- **Finding Funding for Energy Efficiency Projects in the Water World**, *April 2010 California Rural Water Association Conference*
- **Projecting Population and Employment: A Platform for Projecting Water Purveyor Demands in an Urban Area**, *February 2003 Nevada Water Resources Association Conference*

Similar Work Experience (past 3 years only)

- Bishop Paiute Tribe Water and Wastewater Rates Study (2018)
- Woodbridge Sanitary District Wastewater Rate Study (2020)
- Linden County Water District Water and Wastewater Cost of Service and Rate Study (2020)
- Midway Heights County Water District Water Rate Study (2019)
- Georgetown Divide Public Utility District Wastewater Rate Study (2019)
- Donner Summit Public Utility District Water and Wastewater Cost of Service and Rates Study (2021)
- Sierra County Water Works District #1 Water Rate Study (2021)
- Sierraville PUD Water Rate Study (2021)
- Calaveras Public Utility District Water Capacity and Connection Fees Study (2021) – *in progress*
- Minden-Gardnerville General Improvement District Wastewater Rate Study (2021) – *in progress*
- American Valley CSD Utility Rates Study (2021) – *in progress*

References

HEC has selected the following projects to demonstrate relevant experience and qualifications.

Donner Summit Public Utility District Water and Wastewater Cost of Service Studies

Contact: Tom Skjelstad, General Manager
(530) 426-3456.....tskelstad@dspud.com

Relevance to GMCS: *Fees calculated for existing and future (standby) customers adopted through a Proposition 218 process. Capacity fees for new connections adopted pursuant to CA Code 66013.*

The Donner Summit Public Utility District (District) was operating under a Cease-and-Desist Order from the State Water Resources Control Board (SWRCB). The District needed to make significant improvements to the wastewater treatment plant. The District engaged HEC, who conducted the cost-of-service and rate studies for water and wastewater, at the beginning of the contentious upgrade project. HEC liaised with the SWRCB and the USDA rural utilities programs staff, as well as local CDBG representatives, to craft a financing strategy for construction of the approximately \$24 million in improvements. HEC assisted the District with formation of a Community Facilities District (CFD) to fund the costs of the project and completed a cost-of-service study, including user fees (rates) and capacity fees. The Project broke ground in August 2012 and a ribbon cutting ceremony took place July 2015.

In 2017, HEC helped the District with renegotiating their Clean Water State Revolving Fund loan for the wastewater treatment plant. The effort was successful; the District's interest rate was decreased to 0%, saving District customers \$3.5 million. In 2021, HEC updated both water and wastewater rate studies for the District. The public hearing for the new rates will be held in June.

Sierra County Water Works District #1 (Calpine) Water Financial Planning and Cost of Service Study

Contact: Jim Murphy, President of the Board
murphandlizzie@gmail.com

Relevance to GMCSD: *Water rates calculated for a small community per Proposition 218.*

Since 2015, HEC has been assisting the small community of Calpine in Sierra County obtain funding for several capital improvement projects. HEC has assisted the District with applying for two State Drinking Water Revolving Fund (DWSRF) loans and one United States Department of Agriculture (USDA) loan and continues to assist the District with financing strategy and administration of the financing agreements. As part of the application process with DWSRF the District needed to raise rates to at least 1.5% of median household income so that the community could qualify for principal forgiveness under the DWSRF program. HEC provided the District with a water rate study demonstrating the need for rate increases over the next five years. The District adopted the rates and has since received 100% grant funding for both DWSRF projects. HEC updated the water rate study in 2021. The public hearing for the new rates will be held in June.

Linden County Water District, CA Water and Wastewater Rate Studies

Contact: Paul Brennan, Retired Board President
(209) 403-1537.....*ptbrennan@verizon.net*

Relevance to GMCSD: *Water and wastewater rates calculated per Proposition 218; removal of several water consumption tiers.*

New rate studies were necessary in 2020 to a) ensure revenue sufficiency of the utility systems for the next five fiscal years, and b) demonstrate cost-of-service as required by California's Proposition 218. The studies incorporated all three major elements of cost-based rate making; revenue requirement analysis, cost-of-service analysis, and rate-design analysis.

Changes to the water rate structure included removal of five consumption tiers (keeping a base allowance), establishment of different use rates per thousand gallons for residential, commercial, and school customers, and consolidating In District and Out of District customers into one water rate schedule (previous differences included different base allowances and number of consumption tiers). Changes to the wastewater rate structure included creating new customers groups. Several rate designs were evaluated as part of the study, including fees based on wastewater strength and flow. Another major change for the wastewater system was allocating the revenue requirement projection based on cost functionalization between customer-related and flow-related costs. This change caused bill impacts (increases and decreases) to be significant for some commercial customers. A change applied to both utilities was that those properties contributing property taxes to the District were given a credit on their water and wastewater bills under the new rate structures.

The proposed water and wastewater rate structures were adopted by the Board and only six protests were recorded at the public hearing.

Midway Heights County Water District, CA Water Cost of Service and Rate Study

Contact: Jason Tiffany, General Manager
(530) 878-8096admin@mhcwd.org

Relevance to GMCSD: *Water user rates calculated per Proposition 218, and connection fees adopted pursuant to CA Code 66013.*

Midway Heights provides dual (raw and potable) water delivery. It purchases wholesale raw water from Placer County Water Agency and treated potable water from Weimar Water. With known system rehabilitation costs looming, particularly for the raw water system, the District needed an evaluation of its financial health, a financing plan for the anticipated capital improvements costs of each system, a cost-of-service study, and calculated five-year water rates, as well as updated connection fees for each system. The District also needed to incorporate new State laws regarding connection fees for Accessory Dwelling Units into their fee structure.

The cost increases were large; although there were not sufficient protests to thwart adoption of maximum fees, the Board asked HEC to re-evaluate the fees given a less ambitious capital improvements completion schedule. With re-evaluated fees, the Board adopted the recommended new fee schedules in February 2020.

Sierraville Public Utility District, CA Water Rate Study

Contact: Elizabeth Archer, District Clerk/Secretary/Bookkeeper
(530) 414-1835sierravillepud.325@gmail.com

Relevance to GMCSD: *Water user rates calculated pursuant to Proposition 218.*

The Sierraville Public Utility District (SPUD or District) provides water to 109 residences and businesses in the community of Sierraville, California. The District had not conducted a water rate study for several years and was in need of one to ensure that it has sufficient revenue to operate the system safely as required by Federal and State regulations, to pay for capital improvements, and to repay debt to the United States Department of Agriculture (USDA), as it is obligated to do.

The District's water rate structure consisted of a monthly service charge per Equivalent Dwelling Unit (EDU) and a consumption charge per thousand gallons applied when a customer's water use exceeds a base allowance of 40,000 gallons per EDU per month. As part of the water rate study conducted by HEC, standby customers were **redefined** as possessing EDUs with a will-serve for a lot without a building or a lot with a building that has not yet connected to the District's facilities. A standby customer had been defined as any customer that has their water service turned off either permanently or only during winter months. Changes to the water rate structure included:

- Separating the base monthly charge into two components: a customer charge and a capacity charge. All 109 customers of the District will now pay the customer charge every month, whether the property is using water or not. All full-service EDU customers (excludes wholesale and standby EDUs) will now pay the monthly capacity charge based on the number of EDUs they have.
- The base monthly allowance was lowered from 40,000 gallons per month per EDU to 30,000 gallons per month per EDU to more accurately reflect the community's consumption and to promote water conservation in accordance with California Article X¹. The base monthly allowance is the amount of water that can be consumed per EDU without incurring any overage charges.

The public hearing for the new rates will be held in June.

¹ Article X, Section 2. It is hereby declared that because of the conditions prevailing in this State the general welfare requires that the water resources of the State be put to beneficial use to the fullest extent of which they are capable, and that the waste or unreasonable use or unreasonable method of use of water be prevented, and that the conservation of such waters is to be exercised with a view to the reasonable and beneficial use thereof in the interest of the people and for the public welfare.

Georgetown Divide Public Utility District Wastewater Rates and Fees Study

Contact: Adam Brown, Water Resources Manager
(530) 333-4356abrown@gd-pud.org

Relevance to GMCSD: Wastewater rates for community septic system, user fees and connection fees updated pursuant to applicable California Constitution requirements.

The Georgetown Divide Public Utility District was in need of a wastewater cost-of-service study, update to monthly fees (rates), update to regulatory fees (permit and inspection fees), and update to wastewater connection fees. HEC conducted a cost-of-service and fees study over the course of eight months.

Due to the different customer groups served wastewater (some lots have individual septic systems and some lots have septic that is pumped to a community leach field), the cost-of-service study had to be explained in detail. A workshop was set up which had very high attendance, and customers voiced their opinions and concerns regarding the wastewater rate structure. The Board adopted revised updated monthly charges, regulatory fees and connection fees per the fee study findings.