

Financial Analysis prepared for the Hornbrook Community Services District



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August 1, 2020

Andrew Lawrence
State Water Resources Control City Council - Division of Financial Assistance
1001 I St. 16th Floor
PO Box 944212
Sacramento, CA 95814

Subject: Hornbrook CSD Rate Study
AR 5931

Dear Andrew,

Enclosed please find the printed final report for Hornbrook CSD Rate Study.

The report will be presented to the community on September 9, 2020. RCAC will continue to support the community through the Prop 218 process.

If you have any additional questions, feel free to contact Rodney Page 530-782-0339.

Sincerely,

Ari Neumann

Ari Neumann
RCAC, Director
Community & Environmental Services

Enclosure: Hornbrook CSD Water Financial Analysis
CC: Robert Puckett, Board President, Hornbrook Community Services District

Hornbrook CSD

Community

Hornbrook is a Community Services District (HCSD) within Siskiyou County that covers approximately 1.2 square miles in the northern section of the county.

The community has a population of 248¹. There is no expectation of population growth in the area.

The Median Household Income (MHI) of Hornbrook is estimated to be \$26,094².

Water system

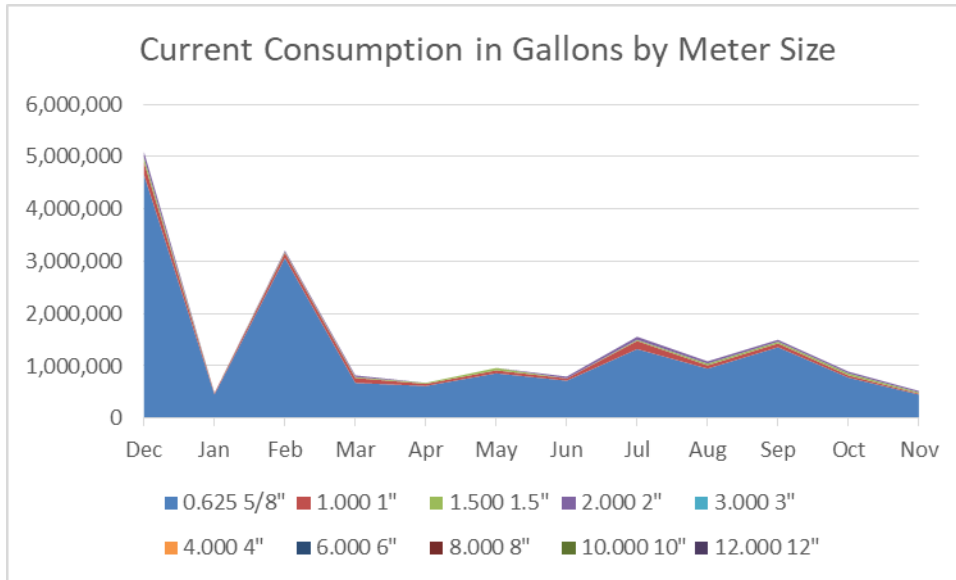
The Hornbrook Community Services District serves the community of Hornbrook and surrounding agricultural properties, which has a population of about 248 through 125 current service connections.

The system has three wells, one of the pumps was replaced in 2017 and two of the pumps were replaced in 2020. The system was devastated in 2018 during the Klamathon fire, including extensive damage done to storage tanks/cisterns. The district treatment system is located inside the primary facility, west of I-5 on Bradley-Henley road. The concrete storage tank located adjacent to the treatment building suffered structural damage and is irreparable. Storage tank #2 is located south on the same access road and was spared fire damage but has an antiquated tin roof that has had rodent infestations, causing failed inspections and occasional (BWN) boil water notices to be issued.

¹ U.S. Census 2010. (American Fact Finder)

² ACS MHI 2017, Hornbrook, CA.

Current production & consumption



In Hornbrook, due to the current practice of only reading some meters for a portion of the year, there is a sharp increase in consumption when the meters are read again. This practice will now be replaced with monthly reads, giving a more accurate view of the usage data. Revisiting this data once twelve months of continuous data has been collected will give a more accurate profile for the systems volume requirements.

Current rates

The current water rates are shown in the Hornbrook CSD Schedule of Rates & Fees. It has an effective date of September 2019 and is attached as Exhibit 7.

Hornbrook currently uses a multi-class tiered block rate and has three classes: Residential, Commercial, and Government. This base charge includes 12,000 gallons of water.

This rate schedule currently does not comply with the latest interpretation of Prop 218 because of the unjustifiable customer classes, as well as providing a free initial tier.

Proposed rate structure

While the CSD currently bills customers based on a tiered block rate, customer classes, and water usage, we recommend that the utility move to uniform block rates. Based on those uniform block rates, all customers are charged the same rate per gallon purchased, and the same base rate, depending on the customer's meter size. The base rate does not include any base volume of water as it does now.

Guiding principles of this rate study

Sustainability

Water rates should cover the costs to the water utility to allow it to provide water services for the foreseeable future.

Fair

Water rates should be fair to all ratepayers. No single ratepayer or group of ratepayers should be singled out for different rates. Therefore, the proposed rates do not make any distinction between residential/standard, commercial/industrial, and governmental users.

The company should not charge more for water than the cost to provide the water. However, the costs should include: operations, repairs, reserves, and all other costs related to the production, treatment, and distribution of potable water now and in the foreseeable future.

Conservation

Water rates can and should promote conservation, water is a valuable and limited resource and should be conserved.

Justifiable

Water rates must be based on the actual financial needs of the company. Revenue generated from water rates cannot be used for anything else but to pay for the costs of procuring, treating, and distributing water within its service area, plus any administrative costs and required reserves.

Therefore, the proposed rates are based on the CSD's budget, Capital Replacement Program, and a sales forecast.

Purpose of this study

The purpose of this study is to provide the CSD with recommended rates to prepare for funding applications. The water system must be able to build the necessary reserves to cover the inevitable need to replace all components of the operation.

Board decision

While this document recommends certain rates, the ultimate decision rests with the Hornbrook CSD Board of Directors. However, the board has a fiduciary responsibility to set the rates at such a level that the company will be able to continue to operate in the future, including providing funds to replace all parts of the system as they reach their life expectancy and wear out.

Disclaimer

The recommendations contained in this rate study are based on financial information provided to RCAC by the CSD. Although every effort was made to ensure the reliability of this information, no warranty is expressed or implied as to the correctness, accuracy or completeness of the information contained herein.

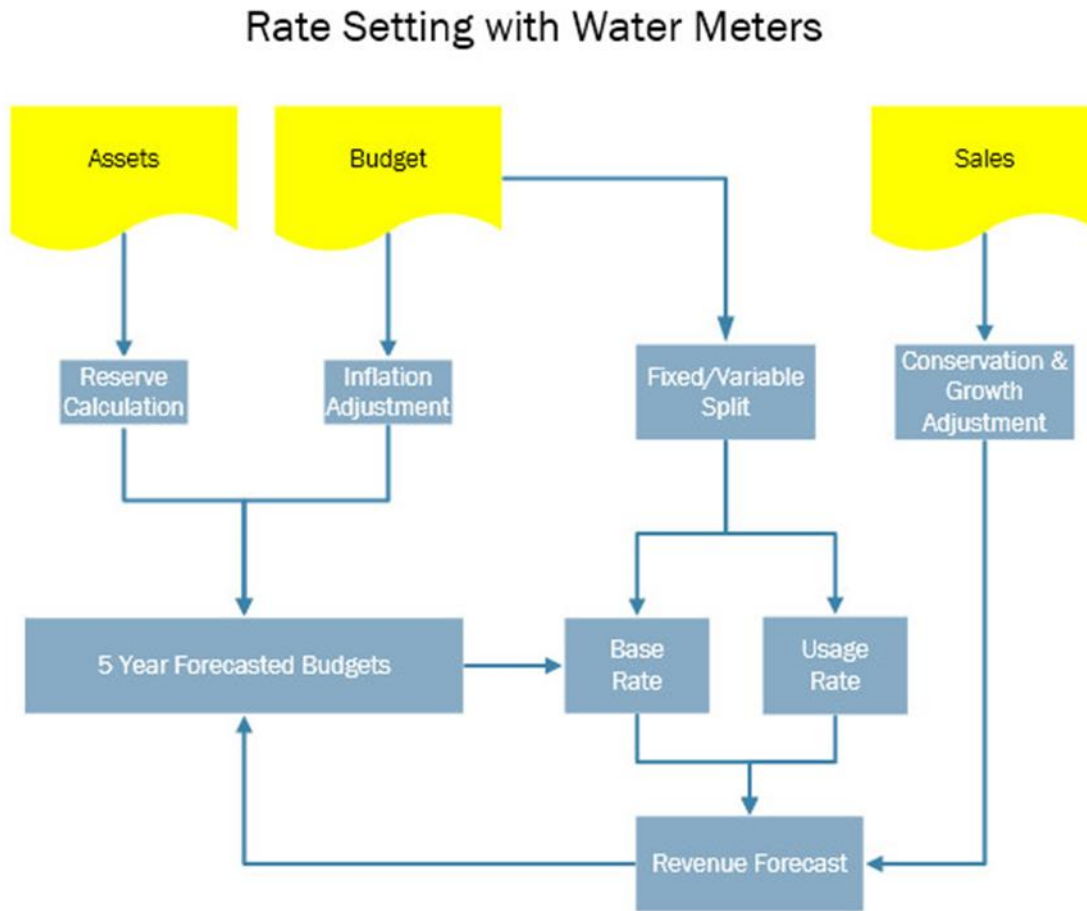
Any opinions, findings, and conclusions or recommendations expressed in this material are solely the responsibility of the author and do not necessarily represent the official views of SWRCB, who funded this rate study.

For accounting advice, a CPA should be consulted. For legal advice, the company should seek the advice of an attorney.

Rate study process

The figure³ below explains the process of setting rates.

We begin with the list of all capitalized assets, the current budget, and the current sales history as provided by the administration from the CSD.



From the list of assets the required reserves are calculated (Section 4 of this report) and fed into a 5-year budget projection (Section 5).

The budget is adjusted for inflation, estimated to be 2.4 percent per year.

³ All yellow fields and cells in the figures and exhibits of this report are based on external data. All blue fields or cells are calculated.

The rate model adjusts for the number of customers (125), for unpaying customers (1%-1.5%), undeveloped lots and future water conservation (2%-10%), and community growth (0%).

The budgeted expenses are split between fixed and variable costs, which lead to a recommended base rate and usage charges.

The calculated rates are then applied to the forecasted sales to arrive at a revenue estimate. This process was repeated several times to arrive at an acceptable rate that would balance the forecasted budget.

On June 26 and July 16, RCAC met with Hornbrook CSD and reviewed the data and discussed the rate options. RCAC guided the CSD stakeholders who arrived at the rates proposed in this report and intend to implement them.

Capital Replacement Program

Source of the data

The data in the Capital Replacement Program (CRP) or Capital Improvement Program (CIP) comes from the data supplied by the CSD and AWWA standards. It is shown on attached Exhibit 1.

The list of the system's components, their installation date and their original costs were all supplied or estimated by the utility or RCAC.

The Normal Estimated Life is based on AWWA or industry standards.

The Estimated Remaining Life is based on the best judgment of the district staff and RCAC.

Sources of funding

Funding for the replacement of components can only come from the cash saved by the CSD, a grant, or a loan.

The possibility of the CSD obtaining a grant in the near future is high, but due to changing funding streams, access to grants may change.

With the current funding information, Hornbrook CSD may qualify for grants provided by various governmental agencies, and will also need to utilize cash reserves. It is assumed that the replacement of smaller capital assets valued less than \$20,000 will be funded with cash, and assets less than \$100,000 will be 25 percent funded with cash and 75 percent funded with a loan and the replacement of capital assets from \$100,000 and above will be funded by cash (3%) and grant (97%).

CRP description

The CRP provides us with a detail of the reserves needed to replace the existing, funded, and future unfunded capital assets. The total line of the CRP table (Asset Inventory, \$35,313) is the amount the CSD must put aside each year to be able to replace the assets listed when they reach the end of their life expectancy. This amount varies slightly every year as older equipment is replaced, generally reducing each year.

The CRP amount (\$35,313) is carried forward to the 5-year forecasted budget. It replaces the annual depreciation calculated by accountants.

Alternative

If the district decides not to fund the annual capital reserve contributions, the system will have to come up with these amounts from other sources, or steeper rate increases in future years. The system cannot and should not count on the future generosity of the state or other government sources to provide any substantial grants. It will require an effort by the CSD to obtain these grants. The amount of grants obtained for future projects has a very substantial impact on water rates. Therefore, this study recommends a new rate study every five years.

Forecasted budget

Source

All actual expenses shown in Exhibit 2 (yellow fields in the 5-year forecasted budget sheet) were provided by the CSD as its current approved budget.

The following adjustments were made to the approved budget:

- It is assumed a part-time manager will be hired at \$35 per hour
- Also, a certified part-time operator is budgeted at \$25 per hour
- Annual audits will be budgeted at \$12,000 per year
- Monthly accounting expenses will increase to \$1,500

The capital replacement reserves were calculated in the previous section.

The cash revenue shown is a calculated number based on:

- Water rates entered on the rates sheet
- The number of paying customers
- An annual inflation factor of 2.4 percent
- A community conservation factor (2%-10%) and a community growth factor (0%)

Reserve funding

As of June 26th, 2020 the CSD holds approximately \$40,000 in unrestricted cash and cash equivalents.

AWWA standards recommend a review of four types of reserves:

1. Debt reserve: Hornbrook CSD has no debt reserve requirements.
2. Operating reserve: operating reserves are established to provide the utility with the ability to withstand short term cash-flow fluctuations. The industry standard calls for 1.5 times the revenue collected during a billing cycle. The target operating reserve is \$16,302 and the utility has \$20,000 in operating reserves at this time. The difference of \$3,698 in the operational reserve will be transferred to the CIP reserve.
3. Emergency reserve: emergency reserves are intended to help utilities deal with short-term emergencies, such as mainline breaks or pump failures. An emergency reserve is intended to fund the immediate replacement or reconstruction of the system's single most critical asset. Your emergency reserve should be set at the replacement cost of the most expensive component that could fail. In the case of Hornbrook CSD, it was determined that \$20,000 was sufficient. This amount is currently available in the checking account. RCAC recommends

setting up a separate emergency savings account and transfer \$20,000 from checking to the savings account.

4. Capital replacement reserve (CRP): This reserve is strictly to be used to fund the company portion of any replacement of capital assets that are worn out. The CSD currently has \$3,698 available from excess cash in the operating account. This amount is assumed to be used for capital reserves, only. The calculation of the CRP is shown in the previous section of this report. RCAC recommends setting up a separate capital reserve savings account and transfer \$3,700 from checking to the new savings account.

The benefits of splitting the reserves into four types are:

1. These reserve types have different time horizons: operating reserves and emergency reserves should be readily available. CRP funds can be invested with different maturity dates to coincide with the planned need for capital replacements.
2. These four different reserves require different policies related to:
 - a. investment terms and vehicles
 - b. what the funds can be used for
 - c. who can access the funds and
 - d. what procedure has to be followed to access the funds

RCAC recommends that the CSD develop a reserve policy.

Existing Reserves	Amount	
Debt Reserve	\$0	As per lending agreement(s)
Operating Reserve	\$20,000	To be placed in Checking Account
Emergency Reserve	\$20,000	To be placed in Savings Account
Capital Reserve	\$0	Often in CD or Investment account
Total	\$40,000	

Reserve Targets	Amount	First Year Reserve Addition	Excess funds to be transferred to CIP	Goal
Debt Reserve	\$0	\$0	\$0	As per lending agreement(s)
Operating Reserve	\$16,302	\$0	\$3,698	45 days of expenses
Emergency Reserve	\$20,000	\$0	\$0	Critical equipment replacement cost
Capital Reserve	\$3,698			

Sales adjustments

Higher water rates cause a reduction in the quantity of water sold as customers adjust their consumption due to the new rates.

Sales adjustment over Base year	Year 1	Year 2	Year 3	Year 4	Year 5
Conservation Factor	-10.0%	-8.0%	-6.0%	-4.0%	-2.0%
Community Growth Factor	0%	0%	0%	0%	0%
Total Sales Adjustment	-10.0%	-8.0%	6.0%	-4.0%	-2.0%

The proposed increase is substantial and RCAC is expecting a significant drop in consumption. The Hornbrook CSD is expecting minimal growth over the next five years.

Alternatives

If the CSD does not fund its budget by setting appropriate water rates, it does not mean that the company can't pay its bills. It simply means that the company is not providing for future replacement of the capital assets and will not be able to guarantee the continuous operation of the water system.

The Board of Directors has a fiduciary responsibility to set rates to a level at which the company can continue to operate and provide clean water for the foreseeable future.

Fixed versus variable expenses

Exhibit 3 shows the split between Fixed and Variable Expenses.

Source

The data comes from the budget as shown in Exhibit 2.

Description

Some expenses vary by the volume of water sold. For example, electricity costs will go up when more water is processed.

Other expenses are fixed. For example, insurance costs remain the same whether water is sold or not.

Most costs are somewhere in between.

In Hornbrook's case, 91 percent of all expenses are fixed and only 9 percent are variable. It is not unusual for smaller water systems to have a higher percentage of fixed costs.

Alternatives

While fixed expenses should be covered by the base rate (the same every month), variable cost should be covered by the usage rate (based on the quantity sold). Should fixed costs not be covered by the base rate, but by variable income (usage charges), there may be seasonal shortfalls in cash-flow of the company, and the company will have to dip in its operating reserves.

The split between fixed and variable expenses is not relevant to the overall balancing of the Budget. It is only relevant to cover seasonal cash flows of the utility.

Rate calculation

A. Theoretical base rate calculation

In theory, fixed expenses should be covered by fixed income (base charges) and variable expenses should be covered by variable income (usage charges). The \$206,765 fixed expenses shown in Exhibit 3 should be covered by fixed revenue (base charges).

The fixed expenses should be collected from 125 customers and should be based upon the customer's meter size. The theoretical base rate is calculated by determining the maximum demand for each meter according to the AWWA Safe Maximum Operating Capacity, multiplying by the number of meters by that size in the system, and determining the percentage of total fixed costs that are allocated by meter size. This calculation results in the following:

Meter Size in "	Decimal Size	Number of Meters	AWWA Safe Maximum Operating Cap. (GPM)	Max Demand (GPM)	% of Max Demand by Meter Size	Total Fixed Costs Allocated by Meter Size	Theoretical Base Rate by Meter Size per M
A	B	C	D	E= D * C	F= % of total	G= % * total	H=G/C/12
5/8"	0.625	116	20	2,320	75.08%	\$155,241	\$111.52
1"	1.000	5	50	250	8.09%	\$16,729	\$278.81
1.5"	1.500	2	100	200	6.47%	\$13,383	\$557.62
2"	2.000	2	160	320	10.36%	\$21,413	\$892.19
3"	3.000	0	320	0	0%	\$0	\$0
4"	4.000	0	500	0	0%	\$0	\$0
6"	6.000	0	1000	0	0%	\$0	\$0
Total		125		3,090	100.00%	\$206,765	

Notes:

1. Safe maximum meter capacity for 5/8" through 6" meters (column D) based on AWWA C700 displacement meters.
2. Safe maximum meter capacity for 3" through 6" meters based on AWWA C702 compound meters.

B. Base rate calculation

On June 26, CSD staff decided not to accept the above theoretical base rates but settled on a compromise: lower base rate, but a higher usage rate.

The goal was to set a uniform block rate in such a way that it generates enough revenue to balance the budget, and not cause seasonal cash flow issues

Hornbrook CSD Standard: Base Rate Calculation

Meter Size	Proposed Base Charge for Year 1	Year 2	Year 3	Year 4	Year 5
	Future Increase	4.00%	4.00%	4.00%	4.00%
5/8"	\$84.45	\$87.83	\$91.34	\$95.00	\$98.80
1"	\$211.13	\$219.58	\$228.36	\$237.49	\$246.99
1.5"	\$422.26	\$439.15	\$456.72	\$474.98	\$493.98
2"	\$675.62	\$702.64	\$730.75	\$759.98	\$790.37

The base rate selected is 76 percent of the theoretical amount. This means that 24 percent of the fixed charges will be covered by variable expenses. That is acceptable, as long as it does not cause any seasonal cash flow problems, which it does not (see below).

These initial rate increases will be followed by an annual increase of 4 percent during the next five years. This results in a reasonable increase for residential customers and a substantial increase for customers with larger meters in the first year.

Customers with large water meters could potentially draw a substantial volume of water (see the table on page 15). Therefore, they should pay a proportionally higher share of the fixed costs of the system, hence the larger increase. In prior years, customers with large meters have not paid their fair share of the fixed costs of the system.

C. Usage rate calculation

According to Prop 218, the rate of water has to be based on cost.

The current usage rate for Hornbrook CSD will be converted to a uniform usage rate for all customers. Currently, the base rate includes the first 12,000 gallons of water, which will be removed. The CSD expects no growth rate in the community, however, it does expect a conservation factor once the new rates take effect.

Growth of Consumption over Base year
Conservation Factor

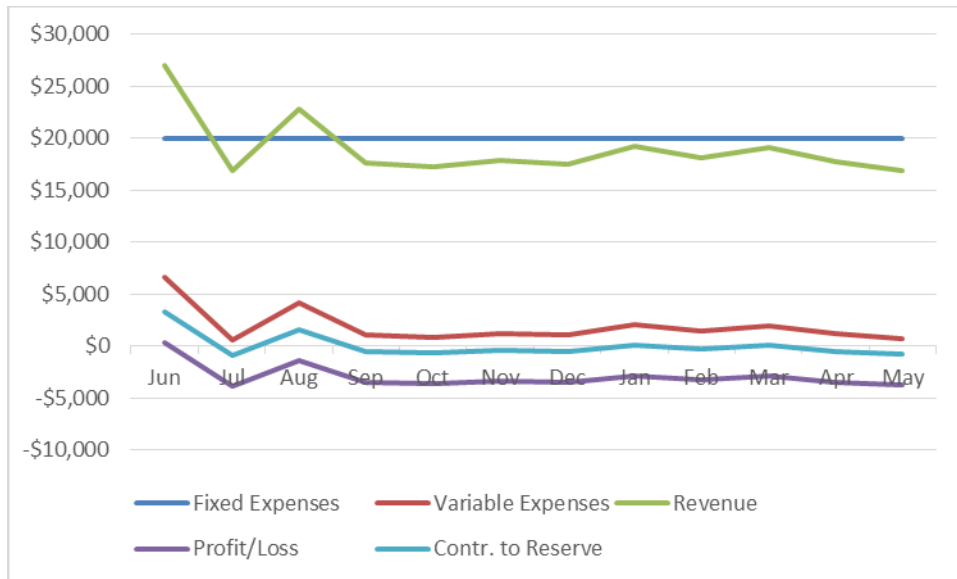
Year 1	Year 2	Year 3	Year 4	Year 5
-10%	-8%	-6%	-4%	-2%

The new usage charge per 1,000 gallons is \$2.25 for all customers in year one and increased by the same 4 percent for the following years. However, there is no “free” water included in the base rate; the usage rate applies for all water purchased. This is in keeping with the requirements for Prop 218.

D. Seasonal cash flow

By setting the base rate to less than the theoretical rate, and relying on usage charges to balance the budget, seasonal cash flow issues may appear.

An analysis of the seasonal cash flow over the next five years indicates there is no cash flow problem in the next five years. The graph below shows the monthly cash flows for the first year and the light blue line is above zero for each month of the year. The cash flows for the next five years were also analyzed, and no cash flow problems are anticipated.



E. Estimated profit

While the table below shows a loss in the first four years, the revenue estimated in the fifth year will reduce the budget difference to only a net shortage of (-\$81,668) over the five year period.

Results of the new rates	2021	2022	2023	2024	2025	5 Years
TOTAL EXPENSES	\$227,497	\$231,240	\$235,072	\$221,639	\$220,659	\$1,136,108
TOTAL REVENUE	\$192,360	\$201,821	\$210,693	\$219,952	\$229,615	\$1,054,440
NET LOSS OR GAIN: (Short/Over to Reserves)	-\$35,137	-\$29,419	-\$24,380	-\$1,688	\$8,956	-\$81,668
NET CASH FLOW (Contribution to Reserves)	\$175	\$5,894	\$10,933	\$15,299	\$25,943	\$58,244

It is important to understand, these losses in the first four years do not impact cash flows, but only impact the amount put into reserves.

Lastly, an annual increase of 4 percent across is recommended to reduce the need for drastic rate changes in the future and to keep up with increasing costs of operating the system.

Over the next five years, reserves will build up to about \$58,244. This is \$81,668 short to be able to fund the required capital reserves. It is expected that rates will have to be further increased slightly in years six through 10.

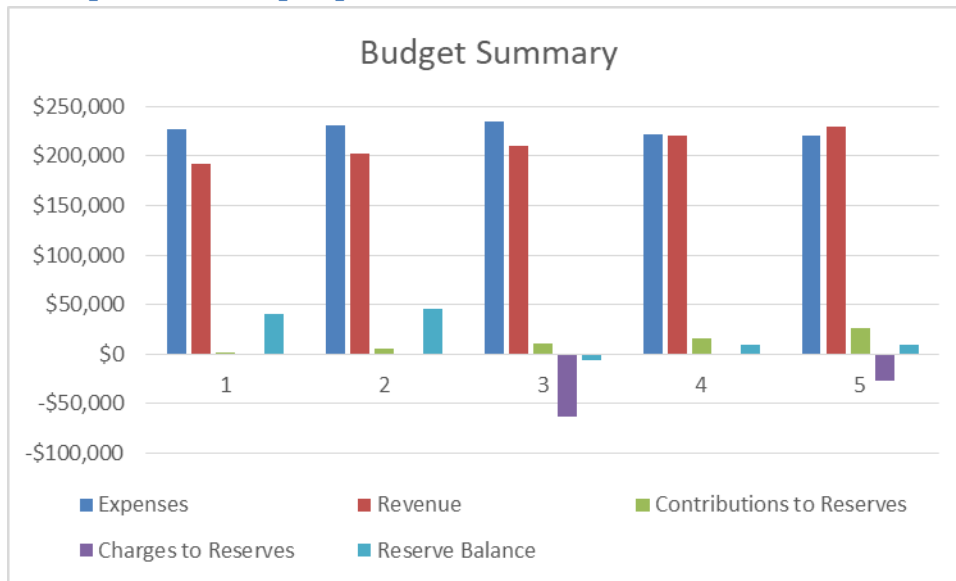
F. Affordability index

		Year 1	Year 2	Year 3	Year 4	Year 5
Affordability Index						
MHI of	\$23,750.00	5.60%	5.85%	6.11%	6.39%	6.67%

The median household income (MHI) of the CSD's service area (from American Community Survey 2017) is estimated at \$23,750. The "affordability index" was calculated by dividing the average annual water bill of all residences by the MHI.

Any number below 4 percent is considered "affordable" and any number below 1.5 percent is considered too low and any replacement project may not be eligible for certain funding. While these values are higher than the 4 percent, they will play in favor of the district to receive grant funding to cover all projects.

G. Impacts of the proposed rates



- Expenses (blue bar) shows a steady increase over the next five years.
- Revenue (red bar) gradually climbs each year starting the first year as the Hornbrook CSD continues to contribute a fixed revenue to the existing CRP for asset replacement.
- Contributions to reserves (green bar) remain relatively steady for five years.
- Charges to reserves (purple bar) are the replacement costs of certain assets, according to the CRP.
- The reserve balance⁴ (light blue bar) is the amount available to replace the system in future years. After the first year, the reserve balance shows an increase due to continuous contribution to the revenue for the CRP.
- A new rate study should be done in five years or when a grant or loan is obtained.

⁴ Total Reserves (Capital Replacement Reserves, Emergency Reserves, Debt Reserves, etc.)

H. Estimated monthly bill(s)

Average Bill Every Month by Meter Size

Average Bill Every M by Meter Size for the Standard Class									
Meter Size	Count	Meter Size	Current	Year 1	Year 2	Year 3	Year 4	Year 5	
0.625	116	5/8"	\$73.43	\$107.60	\$112.44	\$117.50	\$122.78	\$128.29	
1.000	5	1"	\$106.26	\$243.27	\$253.74	\$264.67	\$276.06	\$287.94	
1.500	2	1.5"	\$246.54	\$450.02	\$468.66	\$488.08	\$508.30	\$529.35	
2.000	2	2"	\$248.86	\$709.85	\$739.04	\$769.42	\$801.05	\$833.99	

As shown in the above table, all customers will see an increase in their monthly billing with the adoption of the new uniform rate model.

Next steps

Start the Prop 218 process at a board meeting

The district must follow Proposition 218 (Exhibit 4) in implementing the water rates. The board must have a hearing and pass a motion that includes:

1. The selected rates.
2. Approval of the wording of the Prop 218 Notice (Sample in Exhibit 5 and emailed to the GM for editing. Make sure the Public Notice reflects the rates, tiers, and fees approved by the Board).
3. Set a date for the notices to be mailed to all the property owners and renters within the district. (No need to send them registered mail. Send the notices to all “property owners of record”. Your county tax collector or assessor can provide you with a list of addresses and address labels.) Notices must be mailed to owners of vacant parcels also. It is appropriate to combine multiple letters to the same address in one envelope to save postage.
4. Set the effective date of the rate increase.
5. Set a due date for the protest votes to be received, at least 45 days after the notices are mailed.
6. At the second meeting, the board must plan to take testimony. You may want to set multiple hearing dates or “educational meetings⁵” to explain the rate increases to the public.
7. Set an effective date for the proposed rates and fees.

Second hearing

At the due date of the protest votes, tally the protest votes. If more than half of the parcels protest (one vote per property, either by the renter or the owner); then the board cannot adopt the rates proposed in step 1, but must:

- keep the rates unchanged
- or repeat the process starting with step 1

If less than half of the property owners protest, the board can adopt the rates and fees. At that time in the process, the board can only accept or reject the proposed rates and fees—they cannot change them (unless steps 1-7 are repeated.)

Implementation

The billing system needs to be updated with the new rates.

Proposed Schedule

8/31/20	RCAC will deliver 6 printed copies and one electronic copy of this rate study.
9/9/20	RCAC will make a presentation to the full board and the public.
10/14/20	Board starts the Prop 218 process with a motion (RCAC will attend).
10/28/20	Staff mails the notice to all parcel owners.

⁵ “Hearings” imply the presence of the Board and require an agenda and the appropriate notices. “Education Meetings” can be presented by staff, without the presence of Board members or an agenda.

12/12/20 RCAC will provide an “informational meeting” on a Saturday, to explain the rates and protest procedures.
12/16/20 Protest letters are due. Final board resolution to adopt the rates (or not).
1/1/21 First billing with new rates.

Exhibits

1. Capital Replacement Program
2. Five year forecasted budget
3. Fixed vs variable expenses
4. Prop 1 text
5. Sample public notice
6. Sample board resolution
7. Current water rates

Five year forecasted budget

Budget					Date:	08/17/20	Exhibit 2		
Hornbrook CSD					Inflation Factor (%):	2.40			
					Loan Interest Rate (%):	4.50			
					System Number:	CA4700513			
EXPENSES AND SOURCES OF FUNDS	2018	2019	2020	% Belonging to Water	2021	2022	2023	2024	2025
OPERATIONS & MAINTENANCE EXPENSES									
Wages	13,788	16,566	17,785	100%	18,212	18,649	19,096	19,555	20,024
Workmen's Compensation	1,763	1,266	1,071	100%	1,097	1,123	1,150	1,178	1,206
				100%	0	0	0	0	0
				100%	0	0	0	0	0
				100%	0	0	0	0	0
Education - Training Expense	159	159	49	100%	50	51	53	54	55
Lab Testing	2,748	2,780	2,512	100%	2,572	2,634	2,697	2,762	2,828
Maintenance		1,138		100%	0	0	0	0	0
Outside Services	22,063	21,691	4,727	100%	4,840	4,957	5,076	5,197	5,322
Payroll Taxes	1,441	1,695	1,766	100%	1,808	1,852	1,896	1,942	1,988
Plant supplies expense	8,952	8,874	6,688	100%	6,849	7,013	7,181	7,354	7,530
Repairs		6,287	15,248	100%	15,614	15,989	16,372	16,765	17,168
Water Resource Fee		226	728	100%	745	763	782	800	820
Well Pump (Rebuild)		138,657		100%	0	0	0	0	0
Utilities	13,301	18,238	15,844	100%	16,224	16,614	17,012	17,421	17,839
				100%	0	0	0	0	0
				100%	0	0	0	0	0
Total Refurbishing and Rebuilding Cost					0	0	0	0	0
Manager wages (1/2 time @ \$35/hour)					36,400	37,274	38,168	39,084	40,022
Certified Operator wages (1/2 time @ \$25/hour)					26,000	26,624	27,263	27,917	28,587
Total Operation and Maintenance Expenses:	64,215	217,577	66,418		130,412	133,542	136,747	140,029	143,390
GENERAL & ADMINISTRATIVE EXPENSES									
Operating Reserve Funding					0	0	0	0	0
Emergency Reserve Funding					0	0	0	0	0
Debt Reserve Funding					0	0	0	0	0
Replacement of Existing Capital Assets					29,045	29,045	29,045	10,720	10,720
Replacement of Funded Project Assets					6,267	6,267	6,267	6,267	6,267
Reserves for Additional Capital Assets					0	0	0	0	0
Debt Service					0	0	0	5,967	5,967
Advertising Expense	843	600	150	100%	154	157	161	165	169
				100%	0	0	0	0	0
Dues & subscriptions	385	445	467	100%	478	490	501	513	526
Insurance - Liability	1,549	3,784	1,918	100%	1,964	2,011	2,059	2,109	2,159
				100%	0	0	0	0	0
Office expenses	319	195	120	100%	123	126	129	132	135
Property taxes	83	83	78	100%	80	82	84	86	88
Rent & Lease	1,336	1,356	1,235	100%	1,265	1,295	1,326	1,358	1,390
Telephone	1,611	1,938	2,948	100%	2,710	2,775	2,841	2,909	2,979
Penalties & Fines	36			100%	0	0	0	0	0
License	630			100%	0	0	0	0	0
				100%	0	0	0	0	0
Auditor					12,000	12,000	12,000	12,000	12,000
Accounting					18,000	18,450	18,911	19,384	19,869
Legal & Professional	39,799	38,538	40,928		25,000	25,000	25,000	20,000	15,000
Total General and Administrative Expenses:	46,591	46,939	47,542		97,085	97,698	98,325	81,611	77,270
TOTAL EXPENSES	110,806	264,516	113,960		227,497	231,240	235,072	221,639	220,659
SOURCE OF FUNDS / REVENUES RECEIVED									
Sales Revenue (Base + Usage)	81,208	91,812	96,876	100%	192,217	200,730	209,616	218,891	228,574
New connections	120		0	100%	0	0	0	0	0
Interest income	512	325	2,921	100%	2,991	3,063	3,136	3,212	3,289
Uncollectable Receivables					-2,883	-2,007	-2,096	-2,189	-2,286
Reconnect/Admin Refund		-40		100%	0	0	0	0	0
Fees Late/NSF				100%	0	0	0	0	0
Bulk Sales				100%	0	0	0	0	0
Misc. Revenue	1,386	204	34	100%	35	36	37	37	38
State Disaster Relief CA OES		130,837	0	100%	0	0	0	0	0
Other Governmental Agency				100%	0	0	0	0	0
Compensation Insurance				100%	0	0	0	0	0
Contributions				100%	0	0	0	0	0
Ford Family Relief Income		24,000	0	100%	0	0	0	0	0
Insurance Income		182,295	0	100%	0	0	0	0	0
				100%	0	0	0	0	0
				100%	0	0	0	0	0
				100%	0	0	0	0	0
				100%	0	0	0	0	0
Transfers from outside this enterprise									
TOTAL REVENUE	83,226	429,433	99,831		192,360	201,821	210,693	219,952	229,615
NET LOSS OR GAIN:	-27,580	164,917	-14,129		-35,137	-29,419	-24,380	-1,688	8,956
NET CASH FLOW (Contribution to Reserves)	-27,580	164,917	-14,129		175	5,894	10,933	15,299	25,943
Affordability assuming MHI of \$23750 for residential meters.					5.60%	5.85%	6.11%	6.39%	6.67%
Does the Budget Balance?					No	No	No	No	Yes
Positive Annual Cash Flow?					Yes	Yes	Yes	Yes	Yes

Fixed vs Variable Expenses				Exhibit 3	
Hornbrook CSD					
		5-Year Average	% Fixed	\$ Fixed	\$ Variable
OPERATIONS & MAINTENANCE EXPENSES					
	Wages	19,107	100%	19,107	0
	Workmen's Compensation	1,151	100%	1,151	0
	Education - Training Expense	53	100%	53	0
	Lab Testing	2,699	100%	2,699	0
	Maintenance	0	80%	0	0
	Outside Services	5,078	100%	5,078	0
	Payroll Taxes	1,897	100%	1,897	0
	Plant supplies expense	7,185	75%	5,389	1,796
	Repairs	16,382	90%	14,743	1,638
	Water Resource Fee	782	100%	782	0
	Well Pump (Rebuild)	0	100%	0	0
	Utilities	17,022	0%	0	17,022
	Total Refurbishing and Rebuilding Cost	0	100%	0	0
	Manager wages (1/2 time @ \$35/hour)	38,190	100%	38,190	0
	Certified Operator wages (1/2 time @ \$25/hour)	27,278	100%	27,278	0
	Total Operation and Maintenance Expenses:	136,824		116,367	20,456
GENERAL & ADMINISTRATIVE EXPENSES					
	Operating Reserve Funding	0	100%	0	0
	Emergency Reserve Funding	0	100%	0	0
	Debt Reserve Funding	0	100%	0	0
	Replacement of Existing Capital Assets	21,715	100%	21,715	0
	Replacement of Funded Project Assets	6,267	100%	6,267	0
	Reserves for Additional Capital Assets	0	100%	0	0
	Debt Service	2,387	100%	2,387	0
	Advertising Expense	161	100%	161	0
	0	0	100%	0	0
	Dues & subscriptions	502	100%	502	0
	Insurance - Liability	2,061	100%	2,061	0
	0	0	100%	0	0
	Office expenses	129	100%	129	0
	Property taxes	84	100%	84	0
	Rent & Lease	1,327	100%	1,327	0
	Telephone	2,843	100%	2,843	0
	Penalties & Fines	0	100%	0	0
	License	0	100%	0	0
	Auditor	12,000	100%	12,000	0
	Accounting	18,923	100%	18,923	0
	Legal & Professional	22,000	100%	22,000	0
	Total General and Administrative Expenses:	90,398		90,398	0
	Total All Expenses	227,222		206,765	20,456
	Fixed-Variable as % of all Expenses			91%	9%

Exhibit 4

Proposition 218 Certification

CALIFORNIA CONSTITUTION

ARTICLE 13C (VOTER APPROVAL FOR LOCAL TAX LEVIES)

SECTION 1. Definitions. As used in this article:

(a) "General tax" means any tax imposed for general governmental purposes.

(b) "Local government" means any county, city, city and county, including a charter city or county, any special district, or any other local or regional governmental entity.

(c) "Special district" means an agency of the State, formed pursuant to general law or a special act, for the local performance of governmental or proprietary functions with limited geographic boundaries including, but not limited to, school districts and redevelopment agencies.

(d) "Special tax" means any tax imposed for specific purposes, including a tax imposed for specific purposes, which is placed into a general fund.

CALIFORNIA CONSTITUTION

ARTICLE 13C (VOTER APPROVAL FOR LOCAL TAX LEVIES)

SEC. 2. Local Government Tax Limitation. Notwithstanding any other provision of this Constitution:

(a) All taxes imposed by any local government shall be deemed to be either general taxes or special taxes. Special purpose districts or agencies, including school districts, shall have no power to levy general taxes.

(b) No local government may impose, extend, or increase any general tax unless and until that tax is submitted to the electorate and approved by a majority vote. A general tax shall not be deemed to have been increased if it is imposed at a rate not higher than the maximum rate so approved. The election required by this subdivision shall be consolidated with a regularly scheduled general election for members of the governing body of the local government, except in cases of emergency declared by a unanimous vote of the governing body.

(c) Any general tax imposed, extended, or increased, without voter approval, by any local government on or after January 1, 1995, and prior to the effective date of this article, shall continue to be imposed only if approved by a majority vote of the voters voting in an election on the issue of the imposition, which election shall be held within two years of the effective date of this article and in compliance with subdivision (b).

(d) No local government may impose, extend, or increase any special tax unless and until that tax is submitted to the electorate and approved by a two-thirds vote. A special tax shall not be deemed to have been increased if it is imposed at a rate not higher than the maximum rate so approved.

CALIFORNIA CONSTITUTION

ARTICLE 13C (VOTER APPROVAL FOR LOCAL TAX LEVIES)

SEC. 3. Initiative Power for Local Taxes, Assessments, Fees and Charges.

Notwithstanding any other provision of this Constitution, including, but not limited to, Sections 8 and 9 of Article II, the initiative power shall not be prohibited or otherwise limited in matters of reducing or repealing any local tax, assessment, fee or charge. The power of initiative to affect local taxes, assessments, fees and charges shall be applicable to all local governments and neither the Legislature nor any local government charter

shall impose a signature requirement higher than that applicable to statewide statutory initiatives.

CALIFORNIA CONSTITUTION

ARTICLE 13D (ASSESSMENT AND PROPERTY-RELATED FEE REFORM)

SECTION 1. Application. Notwithstanding any other provision of law, the provisions of this article shall apply to all assessments, fees and charges, whether imposed pursuant to state statute or local government charter authority. Nothing in this article or Article XIIIIC shall be construed to:

(a) Provide any new authority to any agency to impose a tax, assessment, fee, or charge.

(b) Affect existing laws relating to the imposition of fees or charges as a condition of property development.

(c) Affect existing laws relating to the imposition of timber yield taxes.

CALIFORNIA CONSTITUTION

ARTICLE 13D (ASSESSMENT AND PROPERTY-RELATED FEE REFORM)

SEC. 2. Definitions. As used in this article:

(a) "Agency" means any local government as defined in subdivision (b) of Section 1 of Article XIIIIC.

(b) "Assessment" means any levy or charge upon real property by an agency for a special benefit conferred upon the real property. "Assessment" includes, but is not limited to, "special assessment," "benefit assessment," "maintenance assessment" and "special assessment tax."

(c) "Capital cost" means the cost of acquisition, installation, construction, reconstruction, or replacement of a permanent public improvement by an agency.

(d) "District" means an area determined by an agency to contain all parcels which will receive a special benefit from a proposed public improvement or property-related service.

(e) "Fee" or "charge" means any levy other than an ad valorem tax, a special tax, or an assessment, imposed by an agency upon a parcel or upon a person as an incident of property ownership, including a user fee or charge for a property related service.

(f) "Maintenance and operation expenses" means the cost of rent, repair, replacement, rehabilitation, fuel, power, electrical current, care, and supervision necessary to properly operate and maintain a permanent public improvement.

(g) "Property ownership" shall be deemed to include tenancies of real property where tenants are directly liable to pay the assessment, fee, or charge in question.

(h) "Property-related service" means a public service having a direct relationship to property ownership.

(i) "Special benefit" means a particular and distinct benefit over and above general benefits conferred on real property located in the district or to the public at large. General enhancement of property value does not constitute "special benefit."

CALIFORNIA CONSTITUTION

ARTICLE 13D (ASSESSMENT AND PROPERTY-RELATED FEE REFORM)

SEC. 3. Property Taxes, Assessments, Fees and Charges Limited. (a) No tax, assessment, fee, or charge shall be assessed by any agency upon any parcel of property or upon any person as an incident of property ownership except:

(1) The ad valorem property tax imposed pursuant to Article XIII and Article XIII A.

(2) Any special tax receiving a two-thirds vote pursuant to Section 4 of Article XIII A.

(3) Assessments as provided by this article.

(4) Fees or charges for property related services as provided by this article.

(b) For purposes of this article, fees for the provision of electrical or gas service shall not be deemed charges or fees imposed as an incident of property ownership.

CALIFORNIA CONSTITUTION

ARTICLE 13D (ASSESSMENT AND PROPERTY-RELATED FEE REFORM)

SEC. 4. Procedures and Requirements for All Assessments. (a) An agency which proposes to levy an assessment shall identify all parcels which will have a special benefit conferred upon them and upon which an assessment will be imposed. The proportionate special benefit derived by each identified parcel shall be determined in relationship to the entirety of the capital cost of a public improvement, the maintenance and operation expenses of a public improvement, or the cost of the property related service being provided. No assessment shall be imposed on any parcel which exceeds the reasonable cost of the proportional special benefit conferred on that parcel. Only special benefits are assessable, and an agency shall separate the general benefits from the special benefits conferred on a parcel. Parcels within a district that are owned or used by any agency, the State of California or the United States shall not be exempt from assessment unless the agency can demonstrate by clear and convincing evidence that those publicly owned parcels in fact receive no special benefit.

(b) All assessments shall be supported by a detailed engineer's report prepared by a registered professional engineer certified by the State of California.

(c) The amount of the proposed assessment for each identified parcel shall be calculated and the record owner of each parcel shall be given written notice by mail of the proposed assessment, the total amount thereof chargeable to the entire district, the amount chargeable to the owner's particular parcel, the duration of the payments, the reason for the assessment and the basis upon which the amount of the proposed assessment was calculated, together with the date, time, and location of a public hearing on the proposed assessment. Each notice shall also include, in a conspicuous place thereon, a summary of the procedures applicable to the completion, return, and tabulation of the ballots required pursuant to subdivision (d), including a disclosure statement that the existence of a majority protest, as defined in subdivision (e), will result in the assessment not being imposed.

(d) Each notice mailed to owners of identified parcels within the district pursuant to subdivision (c) shall contain a ballot which includes the agency's address for receipt of the ballot once completed by any owner receiving the notice whereby the owner may indicate his or her name, reasonable identification of the parcel, and his or her support or opposition to the proposed assessment.

(e) The agency shall conduct a public hearing upon the proposed assessment not less than 45 days after mailing the notice of the proposed assessment to record owners of each identified parcel. At the public hearing, the agency shall consider all protests against the proposed assessment and tabulate the

ballots. The agency shall not impose an assessment if there is a majority protest. A majority protest exists if, upon the conclusion of the hearing, ballots submitted in opposition to the assessment exceed the ballots submitted in favor of the assessment. In tabulating the ballots, the ballots shall be weighted according to the proportional financial obligation of the affected property.

(f) In any legal action contesting the validity of any assessment, the burden shall be on the agency to demonstrate that the property or properties in question receive a special benefit over and above the benefits conferred on the public at large and that the amount of any contested assessment is proportional to, and no greater than, the benefits conferred on the property or properties in question.

(g) Because only special benefits are assessable, electors residing within the district who do not own property within the district shall not be deemed under this Constitution to have been deprived of the right to vote for any assessment. If a court determines that the Constitution of the United States or other federal law requires otherwise, the assessment shall not be imposed unless approved by a two-thirds vote of the electorate in the district in addition to being approved by the property owners as required by subdivision (e).

CALIFORNIA CONSTITUTION

ARTICLE 13D (ASSESSMENT AND PROPERTY-RELATED FEE REFORM)

SEC. 5. Effective Date. Pursuant to subdivision (a) of Section 10 of Article II, the provisions of this article shall become effective the day after the election unless otherwise provided. Beginning July 1, 1997, all existing, new, or increased assessments shall comply with this article. Notwithstanding the foregoing, the following assessments existing on the effective date of this article shall be exempt from the procedures and approval process set forth in Section 4:

(a) Any assessment imposed exclusively to finance the capital costs or maintenance and operation expenses for sidewalks, streets, sewers, water, flood control, drainage systems or vector control. Subsequent increases in such assessments shall be subject to the procedures and approval process set forth in Section 4.

(b) Any assessment imposed pursuant to a petition signed by the persons owning all of the parcels subject to the assessment at the time the assessment is initially imposed. Subsequent increases in such assessments shall be subject to the procedures and approval process set forth in Section 4.

(c) Any assessment the proceeds of which are exclusively used to repay bonded indebtedness of which the failure to pay would violate the Contract Impairment Clause of the Constitution of the United States.

(d) Any assessment which previously received majority voter approval from the voters voting in an election on the issue of the assessment. Subsequent increases in those assessments shall be subject to the procedures and approval process set forth in Section 4.

CALIFORNIA CONSTITUTION

ARTICLE 13D (ASSESSMENT AND PROPERTY-RELATED FEE REFORM)

SEC. 6. Property Related Fees and Charges. (a) Procedures for New or Increased Fees and Charges. An agency shall follow the procedures pursuant to this section in imposing or increasing any fee or charge as defined pursuant to this article, including, but not limited to, the following:

(1) The parcels upon which a fee or charge is proposed for imposition shall be identified. The amount of the fee or charge proposed to be imposed upon each parcel shall be calculated. The agency shall provide written notice by mail of the proposed fee or charge to the record owner of each identified parcel upon which the fee or charge is proposed for imposition, the amount of the fee or charge proposed to be imposed upon each, the basis upon which the amount of the proposed fee or charge was calculated, the reason for the fee or charge, together with the date, time, and location of a public hearing on the proposed fee or charge.

(2) The agency shall conduct a public hearing upon the proposed fee or charge not less than 45 days after mailing the notice of the proposed fee or charge to the record owners of each identified parcel upon which the fee or charge is proposed for imposition. At the public hearing, the agency shall consider all protests against the proposed fee or charge. If written protests against the proposed fee or charge are presented by a majority of owners of the identified parcels, the agency shall not impose the fee or charge.

(b) Requirements for Existing, New or Increased Fees and Charges a fee or charge shall not be extended, imposed, or increased by any agency unless it meets all of the following requirements:

(1) Revenues derived from the fee or charge shall not exceed the funds required to provide the property related service.

(2) Revenues derived from the fee or charge shall not be used for any purpose other than that for which the fee or charge was imposed.

(3) The amount of a fee or charge imposed upon any parcel or person as an incident of property ownership shall not exceed the proportional cost of the service attributable to the parcel.

(4) No fee or charge may be imposed for a service unless that service is actually used by, or immediately available to, the owner of the property in question. Fees or charges based on potential or future use of a service are not permitted. Standby charges, whether characterized as charges or assessments, shall be classified as assessments and shall not be imposed without compliance with Section 4.

(5) No fee or charge may be imposed for general governmental services including, but not limited to, police, fire, ambulance or library services, where the service is available to the public at large in substantially the same manner as it is to property owners. Reliance by an agency on any parcel map, including, but not limited to, an assessor's parcel map, may be considered a significant factor in determining whether a fee or charge is imposed as an incident of property ownership for purposes of this article. In any legal action contesting the validity of a fee or charge, the burden shall be on the agency to demonstrate compliance with this article.

(c) Voter Approval for New or Increased Fees and Charges. Except for fees or charges for sewer, water, and refuse collection services, no property related fee or charge shall be imposed or increased unless and until that fee or charge is submitted and approved by a majority vote of the property owners of the property subject to the fee or charge or, at the option of the agency, by a two-thirds vote of the electorate residing in the affected area. The election shall be conducted not less than 45 days after the public hearing. An agency may adopt procedures similar to those for increases in assessments in the conduct of elections under this subdivision.

(d) Beginning July 1, 1997, all fees or charges shall comply with this section.

EXHIBIT 5

NOTICE OF PUBLIC HEARING ON PROPOSED DRINKING WATER RATE CHANGES FOR THE HORNBROOK COMMUNITY SERVICES DISTRICT

Virtual Public Hearing Link Available on <https://hornbrookcsd.specialdistrict.org>, December 16, 2020 at 6 PM

WHY ARE YOU RECEIVING THIS NOTICE?

This notice is being furnished to you by the Hornbrook CSD [HCSD] pursuant to the California Constitution Article XIII Section D (also known as "Proposition 218"). Under terms of Proposition 218, the District is required to notify property owners of proposed changes to property-related fees such as water services. This letter serves as notice that the HCSD will hold a public hearing to consider changes to its current water rates.

WHAT DO WATER RATES FUND?

The HCSD provides water services to about 125 customers. These services must be financially self-sufficient.

Monthly rates paid by users of the system are the primary sources of revenue. All revenue generated from utility bills is used to maintain and operate the water system and not any other HCSD operation. These revenues must meet all the costs such as electricity, chemicals, maintenance, licensing, fees, salaries of staff, repairs, administrative costs and build up reserves for emergency repairs and future replacement of the system when it is time to be replaced.

In the past, the HCSD has relied on government grants to replace the water system. In the future, the HCSD will have to rely more and more on its resources to maintain the water system. The HCSD does not want to burden future generations with debt and a decrepit water system. The HCSD believes in the responsible financial management of the current system.

WHY ARE RATE CHANGES REQUIRED?

A complete budget review and analysis was done by an independent consultant. This rate study was funded by a grant from the State of California. This analysis examined the cost to provide water services to strike a better balance between fixed and variable revenues while continuing to promote a fair and equitable rate structure for all utility customers. Rates need to be adequate to recover the expenses while ensuring that costs are equitably allocated so that rates are fair and in proportion to the services received by each user.

The HCSD also recently completed an analysis of the capital replacement requirements. All the capital assets of the HCSD were reviewed and an estimated replacement timeframe and cost were assigned. These replacements will be funded with grants and the proposed rate increases.

The last rate increase for the HCSD was approved in March 28, 2018 but did not include enough funding of reserves. Since then the HCSD has cut costs everywhere possible. According to the independent consultant, further, cost-cutting is not possible or is ill-advised.

HOW ARE RATES CALCULATED?

The proposed rate structure for water services has two components: (1) a fixed monthly **base** charge; and (2) a variable (water consumption-based) **usage** rate. The first component is a fixed amount calculated to recover the HCSD's fixed costs of operating and maintaining the water system and is based on the potential volume of water a customer could draw, as determined by the size of their water meter. The variable component of the rate structure is based on water consumption. The variable usage rate will be charged from the first gallon of water purchased.

The new base charge (the same every month) will be based on the size of the water meter and not on the type of customer.

Under normal operating procedures, the HCSD should fund 100% of the fixed expenses with the Base Charges and the rest with Usage Charges. The HCSD Board decided to fund only about 76% of the fixed expenses with Base Charges, to bring the cost down for low volume users. This method provides low-volume users with more control over their water bill; low consumption = a lower bill.

The current Base rate includes 12,000 gallons of water. The new Usage Charge, based on the gallons of water purchased will be charged from the first gallon. This method provides low-volume users with more control over their water bill; low consumption = a lower bill, which was not possible under the current rate structure.

The current Base rate includes 12,000 gallons of water. The new Usage Charge, based on the gallons of water purchased will be charged from the first gallon. This method provides low-volume users with more control over their water bill; low consumption = a lower bill, which was not possible under the current rate structure.

NEW RATES

Water rates will increase over five years instead of a large one-time adjustment.

Meter Size in Inches	2021	2022	2023	2024	2025
0.625	84.45	87.83	91.34	95.00	98.80
1.000	211.13	219.58	228.36	237.49	246.99
1.500	422.26	439.15	456.72	474.98	493.98
2.000	675.62	702.64	730.75	759.98	790.37
Rate per 1000 Gallons	2.25	2.34	2.43	2.53	2.63

The above Base Charges and Usage Rates would go in effect with the first billing of the year.

These rates don't cover all the costs of the water system. While Operating and Emergency Reserves are funded, the Capital Replacement Reserve is not fully funded. The proposed rates are the absolute minimum that can be justified as being prudent and necessary. It is expected that after five years, the rates will have to be recalculated and will have to be raised slightly to fund the Capital Replacement Reserves.

MEETING & PROTEST

The purpose of the public hearing is for the HCSD Board to consider all comments about the rate increases to be imposed on parcels within the District. As the record owner or renter of a parcel identified to be subject to the imposition of the proposed rate increases, you may submit a **written** protest against the proposed rate increases. Provided, however, **if the identified parcel has more than one record-owner or renter, only one written protest will be counted.** Each protest must

- (1) be in writing;
- (2) state that you are against the proposed water rates
- (3) provide the location of the parcel (by APN or HCSD account #) and
- (4) include the **original signature of the record owner or renter submitting the protest.**

Written protests must be submitted by mail (Postmarked by December 16, 2020) to HCSD, **PO BOX 29, Hornbrook, CA 96044** or Electronically sent via e-mail to hornbrookcsd@gmail.com (Prior to Meeting Time and Date) on December 16, 2020. HCSD staff will **not** accept protest letters as they all must be mailed to the address above or e-mailed by December 16, 2020. Please identify on the front of the envelope of any protest, whether mailed or submitted in person, that the enclosed letter is for the Proposed Increases of the Water Rates.

During the December 16, 2020 public hearing the written protests will be tallied by an impartial person. After the public hearing on December 16, 2020, the HCSD Board of Directors will consider adopting the proposed rate changes. Oral comments at the public hearing will not qualify as formal protests unless accompanied by a written protest and delivered as stated above. If at the beginning of December 16, 2020, public hearing, written protests against the rate increases, as outlined above, are not presented by a **majority of the owners or renters of the identified parcels** upon which the new rates are proposed to be imposed, the HCSD board will be authorized to impose the rate increases as presented here.

Submitted on October 28, 2020, as instructed by the Board on October 14, 2020.
by Robert Puckett, Chairman of the Board, Hornbrook CSD

Written protests must be submitted by mail (postmarked by December 16, 2020) or electronically sent via e-mail to hornbrookcsd@gmail.com (Prior to Meeting Time and Date), mailing address is HCSD, PO BOX 29, Hornbrook, CA 96044. Any protests received by any other method will not be accepted. HCSD staff will not accept any protest letters as they all must be mailed to the address above or e-mailed by the December 16, 2020, public hearing.

EXHIBIT 6

HORN BROOK COMMUNITY SERVICES DISTRICT

RESOLUTION 2020-25

Resolution to Proceed with the Rate Study 2020

BE IT RESOLVED, that the Board of Directors of the Hornbrook Community Services District hereby adopted a resolution to proceed with the following list of recommendations presented with the Water Rate Study completed by Rural Community Assistance Corporation (RCAC) which were presented at the September 9, 2020 Board of Directors Meeting:

1. The Board adopts the rates as presented and discussed at the September 9, 2020 regular meeting of The Board of Directors;
2. The effective date of the approved rate increase is January 1, 2021;
3. The Board instructs staff to create a Public Notice document, in compliance with Prop 218 which is mailed to all property owners of record in the Hornbrook Community Services District as provided by the Assessor's Office County of Siskiyou;
4. Information to be included in the Public Notice includes proposed new rates, when the new rates would take effect, how property owners or water customers can protest the rate increase, and what the time frame for protests is, and when the public meeting for protest is scheduled;
5. Set the date by which the protest letters must be received which is by Wednesday, December 16, 2020;
6. The Board instructs staff to mail out the Public Notice to all property owners in the District postmarked on or before October 28, 2020.

THIS RESOLUTION PASSED AND ADOPTED THIS 14TH Day of October 2020 by the following vote:

AYES:

NAYES:

ABSENT:

Robert Puckett,
Hornbrook Services District Board President

Attested by Michele Hanson,
Secretary to the Board

EXHIBIT 7
HORN BROOK COMMUNITY SERVICES DISTRICT
NOTICE OF PUBLIC HEARING
PROPOSED INCREASES AND CHANGES IN SEWER SERVICE RATES
MARCH 28, 2018 AT 6:00 PM HORN BROOK COMMUNITY HALL
220 MAIN STREET, HORN BROOK CA 96044

QUESTIONS OR COMMENTS? PLEASE CALL (209) 591-7100

NOTICE IS HEREBY GIVEN that the Hornbrook Community Services District will hold a Public Hearing on the proposed increase in water rates. All members of the public interested are invited to attend and be heard at the meeting, which will commence at 6:00 pm on March 28, 2018 and be held at the Hornbrook Community Hall, at 220 Main St., Hornbrook, California.

PROPOSED WATER RATES BEGINNING APRIL 1, 2018

NOTICE IS HEREBY GIVEN that pursuant to Article XIID of the California Constitution, the Hornbrook Community Services District is proposing increases in water service rates beginning April 1, 2018, for water service to the property for which you are shown as the current property owner and ratepayer.

1. **Background.** The District currently charges the following monthly water service rates:

Fixed Base Rate (Includes 12,000 gallons of water)

Residential Customers - \$39.00 per month

Government Customers - \$225.00 per month

Commercial Customers (Businesses) - \$165.00 per month

Consumption Rate (Metered gallons of water used over the 12,000 base)

\$1.75 per 1,000 gallons

2. **Proposed Increase in Water Rates.** Proposed monthly water service rates to be effective April 1, 2018 are presented in the table below. The monthly water rates **cannot** be increased above the amount shown below, unless an additional public notice is mailed to you, and an additional public hearing held to determine if a majority of customers oppose the rates.

CUSTOMER TYPE	CURRENT MONTHLY BASE RATE	PROPOSED MONTHLY BASE RATE	CHANGE
RESIDENTIAL	\$39.00	\$54.80	\$15.80
COMMERCIAL	\$165.00	\$231.80	\$66.80
GOVERNMENT	\$225.00	\$315.65	\$90.65

3. **Basis for Calculation of Rates.** The proposed water rates have been calculated to yield sufficient revenues to pay the operating expenses of the District's water system, including the cost of pumping from the wells; chemicals to disinfect the water; to provide for the repair of water system infrastructure owned and operated by the District; to pay administrative, billing, accounting and legal expenses; and to ensure a balanced budget to allow the District to access grant funds for required system improvements.

The District has identified that ongoing water system operating expenses have exceeded the revenue received from customers by an average of \$2000 per month, resulting in a deficit of an estimated \$27,000 by December 31, 2017. These expenses are expected to continue into the future, and cannot be significantly reduced until improvements to the water system are completed. An estimated total of \$30,741 in additional revenue, over that generated by the current \$39.00 per month rate, is needed in 2018 to fund the cost of operating the District.

The proposed increase in water rates equally spread the costs of providing water service to each of 128 metered water customers, four commercial customers and three government customers, resulting in an increase of \$15.80 per month per single family residence, (\$15.80 per month x 128 customers x 12 months = \$24,270). The bills for Commercial customers will increase by \$66.80 per month (\$66.80 per month increase x 4 customers x 12 months = \$3207) and the bill of Government customers will increase by \$90.65 per month (\$90.65 per month increase x 3 customers x 12 months = \$3264). The single family rate increase (\$24,270) + the Commercial (\$3207) + the Government (\$3264) = the needed \$30,741 to operate the water system.

4. **Reasons for the Water Rates.** The purpose of the water rates is to generate sufficient revenues to pay for the administration, operation, and maintenance of the District's water operation, water treatment, to provide for repairs and planning for grant funded replacement of the water system, to provide for unforeseen emergencies, and to pay for other obligations and expenses of the District associated with water service.

ADDITIONAL INFORMATION

Additional information on the proposed water rates and the estimated future financial needs and obligations of the District's water system are provided in the *Hornbrook CSD Water Revenue and Expense Evaluation Dated January 23, 2018*. The report is available for review on the District website at www.hornbrookcsd.specialdistrict.org or can be requested by email at pkampa@kampacs.com. You may also contact the District General Manager at (209) 591-7100 for a mailed copy or if you have questions or concerns.

COMMUNITY MEETING ON FEBRUARY 28, 2018

In addition to the formal Public Hearing to be held on March 28, 2018 the District will be holding a community meeting at the Hornbrook Community Hall, 220 Main Street, Hornbrook on February 28, 2018 at 6:00 PM. The meeting will include a presentation on the proposed water rates and rate structure, reasons for the rate adjustments, and the financial obligations of the District's water operations. The meeting will also include an opportunity for questions and answers, as well as information on how individual water bills will be calculated. While no action will be taken during the community meeting, the Board of Directors welcomes your input and comments on the proposed water rates.

FILING A WRITTEN PROTEST

Any affected property owner may submit a written protest to the proposed increases and changes in water service rates; provided, however, only one protest will be counted per parcel. Each protest must (1) be in writing, (2) state that the identified property owner opposes the proposed increases and changes to the water service rates, (3) identify the parcel for which the protest is made (by assessor parcel number or street address), and (4) include the signature of the property owner.

Protests submitted by email, facsimile, or other electronic means will not be counted. Written protests may be submitted by mail to HCSD, P.O. Pox 29, Hornbrook CA 96044, or at the Public Hearing, so long as the protests are received before the end of the Public Hearing. Please identify on the envelope for any written protest, whether mailed or submitted in person to HCSD, that the enclosed written protest is for the Public Hearing on the Proposed Increase in Water Service Rates.

During the Public Hearing, the HCSD Board of Directors will hear all public testimony and consider all written protests. At the conclusion of the Public Hearing, HCSD will decide whether to adopt the proposed water rates. Oral comments at the Public Hearing will not qualify as formal protests unless accompanied by a written protest, but the District welcomes your input. If, at the end of the Public Hearing, written protests against the proposed increases and changes in the water rates are not presented by a majority of affected property owners of the identified parcels upon which they are proposed to be imposed, the District will be authorized to adopt the rates. If adopted, the proposed rates will become effective on April 1, 2018.