

Hornbrook Community Service District Staff Report

To: HCSD Board of Directors

From: Peter Kampa, General Manager

Topic: AGENDA ITEM 5. DISCUSSION AND ACTION ITEMS:

Adoption of a resolution approving a revenue needs study and proposed interim water rate increase proposal, and establishing a public hearing date for the receipt of comments and protests on the proposed rates

Board Meeting Date: November 29, 2017

Recommended Motion:

I move to adopt a resolution approving a revenue needs study and proposed interim water rate increase proposal, and establishing a public hearing date for the receipt of comments and protests on the proposed rates

Summary:

Due to drastically increasing legal expenses, increasing operating costs and the need to plan and build water system improvements to improve water quality and protect the safety of the community water supply; the Board has directed the evaluation of the expenses and revenue needs of the district on an immediate, interim basis. As discussed during our November 8, 2017 meeting, district monthly revenue is less than expenses by an average of \$2000 to \$4000 per month. At this rate, it is anticipated that the balance of the District's funds will be depleted by spring 2018.

In response, staff has developed the attached Exhibit A Water Service Expense and Revenue projection through the end of the current fiscal year, June 30, 2018. We have attempted to anticipate reasonably expected costs, to ensure that any short term rate increase would ensure that operating revenue and expenses balance; but not including the cost of capital improvements. A Capital Improvement Plan (CIP) is planned to be developed to prioritize projects and to quality for state and federal grant dollars.

The expense projections were developed using the following assumptions:

1. Expenses through the end of December 2017 are expected to occur at the same rate as experienced on average through the last 12 months.

For the projections through June 30, 2018:

2. The scheduled state inspection of the water system will result in a required increase in staff maintenance time, or contracted repairs costing up to \$13,000 annually. This increase is shown in the personnel cost line, but the required work may be best contracted out, with oversight provided by onsite staff.
3. Doubled the expense for bookkeeping work (to \$1500 per month) to allow the scope of work to be increased to include all billing, accounting and collection activities required to maximize revenue collection and inform management decisions. This work scope has not yet been bit or its cost determined definitively.
4. Water testing, power, chemicals, portable restroom, phone, meeting locations, state permitting, insurance and legal expenses are budgeted to continue at the same rate through June 30, 2018.
5. Maintenance, materials and supplies are the direct cost of inventory related to the required increased maintenance and repairs. These amounts have been estimated to increase by double the recent amounts.
6. Publications and office supplies, including postage, are expected to increase at a higher rate as we enforce collections and publish required notices.
7. Management and legal fees are anticipated to be paid at the same rate through the period, although the legal services debt is expected to increase at a faster rate than paid down until the lawsuits stop.
8. A contingency of \$8500 is included to ensure a balanced budget, due to the many unknown factors affecting costs in the short term
9. A \$10,000 line item is included to ensure cash is available to fund local match and/or cashflow before grant reimbursements; to complete capital improvement planning.

As shown in the Revenue and Expense evaluation, through the end of December 2017, the rates would have had to be increased by \$12.82 per customer per month to produce a balanced revenue and expense. In order to fund the increased maintenance, small contingency, planning, and contracting for work currently performed by an outgoing Board member, the rates will need to be increased by \$37.45 per month.

Please note that although this substantial increase does not cover future system capital improvements, the District is considered a severely disadvantaged community and will be eligible for significant grant funds. The District can only qualify for grants if it is solvent and has funding to meet the technical, managerial and financial criteria of the state; which we currently do not meet. It is also anticipated, that with grant investments in system improvements, that the cost of chemical and power may be able to be reduced significantly. Also, success in the current lawsuits could result in repayment of some of the current legal cost liability; but this cannot be counted on as a source of repayment.

The draft Notice of Public Hearing and Proposed Water Rate Increase is being developed and will be provided and read at the meeting, or before if completed.

EXHIBIT A
Water Service Expense and Revenue Evaluation

Expense Item	Total Expenses Through November 2017	Projected Through December 31, 2017	Projected Through June 30, 2017 (18 month total)
Payroll Expenses (includes staff or potential contracted maintenance work)	\$ 12,375.00	\$ 13,500.00	\$ 29,587.50
Personnel Reimbursement, Vehicle (meter reading, system maintenance)	\$ -	\$ -	\$ 300.00
Accounting Contract and Billing services	\$ 8,250.00	\$ 9,000.00	\$ 18,000.00
Pacific Power	\$ 11,811.14	\$ 12,884.88	\$ 19,327.32
Basic Laboratory	\$ 1,679.00	\$ 1,831.64	\$ 2,747.45
System Maintenance Materials and Supplies	\$ 600.00	\$ 800.00	\$ 1,500.00
System Equipment Replacement	\$ 1,000.00	\$ 1,000.00	\$ 2,000.00
Chemicals	\$ 6,339.93	\$ 6,916.29	\$ 10,374.43
Plant Restroom - Siskiyou Sanitary	\$ 834.90	\$ 910.80	\$ 1,366.20
State Water Resources Control Board - Permit	\$ 151.00	\$ 151.00	\$ 302.00
AT&T	\$ 1,650.00	\$ 1,800.00	\$ 2,700.00
Business Insurance	\$ 2,423.00	\$ 2,423.00	\$ 2,907.60
Office Supplies	\$ 800.00	\$ 1,000.00	\$ 1,200.00
Hornbrook Community Association	\$ 1,100.00	\$ 1,200.00	\$ 1,800.00
Publications - Legal Notices	\$ 100.00	\$ 200.00	\$ 250.00
Murphy, Pearson, Bradley & Feeney, P.C. (per agreement)	\$ 11,000.00	\$ 12,000.00	\$ 18,000.00
Kirsher, Winston, & Boston (Per Statement)	\$ 16,500.00	\$ 18,000.00	\$ 27,000.00
Kampa Community Solutions - (per agreement)	\$ 18,500.00	\$ 20,000.00	\$ 30,000.00
Digital Deployment - Streamline - website	\$ 550.00	\$ 600.00	\$ 600.00
Operating Contingency (10%)	\$ -	\$ -	\$ 8,498.13
System Capital Improvement Planning and Implementation	\$ -	\$ -	\$ 10,000.00
Total	\$ 95,663.97	\$ 104,217.60	\$ 188,460.63
Total Revenue	\$ 74,800.00	\$ 81,600.00	\$ 122,400.00
Revenue over (under) expenses	\$ (20,863.97)	\$ (22,617.60)	\$ (66,060.63)
Revenue Shortage per connection (annual)		\$ (153.86)	\$ (449.39)
Rate Increase Necessary per Connection (monthly)		\$ (12.82)	\$ (37.45)

HORNBROOK COMMUNITY SERVICES DISTRICT

RESOLUTION 2017-XX

APPROVING A REVENUE NEEDS STUDY AND PROPOSED INTERIM WATER RATE INCREASE PROPOSAL, AND ESTABLISHING A PUBLIC HEARING DATE FOR THE RECEIPT OF COMMENTS AND PROTESTS ON THE PROPOSED RATES

WHEREAS, the Hornbrook Community Services District (“District”) has incurred increasing expenses for important water treatment chemicals, materials, supplies, compliance with governmental regulations, and other costs of service related to providing safe, reliable drinking water; and

WHEREAS, the District faces increased costs to fund necessary repair, maintenance, upgrading and improvements to its infrastructure and facilities to protect the community water supply and to provide safe water for drinking, sanitation and firefighting; and

WHEREAS, the District has incurred over \$200,000 in legal expenses defending itself from over twenty lawsuits, which must now be paid back; and

WHEREAS, the District has evaluated its existing revenue and expenses, and determined that increases to the monthly base rate paid by all District customers is necessary to keep the District solvent and prepare for the estimated short term future cost of water system operation; and

WHEREAS, the District has prepared a Notice of the proposed rate increase, to be published and mailed to each affected property as required by law; stating the date, time, and location of the public hearing to consider public comments and protests regarding the adoption of the rate increases; and

WHEREAS, the District’s Notice set forth the reasons for the increase and the procedure by which a parcel owner may protest the increase, including the address to which a protest could be mailed or delivered; and

WHEREAS, pursuant to the provisions of California law, the District must provide the Notice and a period of 45-days for public review and comment on the proposed water rate increase, prior to the public hearing and Board action to increase the water rates; and

WHEREAS, the Board shall not approve the water rate increase if a majority of the properties affected by the water rate increase submit a written protest to the District by the date and time specified in the Notice. .

NOW, THEREFORE, THE BOARD HEREBY FINDS AND IT IS HEREBY RESOLVED as follows:

1. The Interim Water Rate Increase Study attached hereto as Exhibit 1 is hereby approved.
2. A Public Hearing is hereby called to receive public comments and protests on the water rate increase proposal on January 24, 2018.
3. The Notice of Public Hearing and Proposed Water Rate Increase, attached hereto as Exhibit 2 is hereby approved and the General Manager is hereby directed to mail said Notice to the owners of the properties affected by the rate increase as detailed in the latest Siskiyou County Assessors Tax Rolls and to the customers contained in the District utility billing system.
4. The Notice of Public Hearing and Proposed Water Rate Increase is to be published in the Newspaper of Local Circulation; a discretionary action of this Board to fully inform local citizens of the rate increase proposal.
5. A draft resolution approving the increased water rates is to be prepared and may be considered by this Board on January 24, 2018 following the close of the public hearing and tabulation of the number of protests received. Said water rate increase resolution may not be considered by this Board if it is determined that written protests are submitted by a majority of properties affected by the rate increase. Only one protest per affected property will be counted.

APPROVED, PASSED AND ADOPTED at a regular meeting of the Board of Directors of the Hornbrook Community Services District this 29th day of November 2017 by the following vote: