

**Grizzly Flat Community Services District
Notice of Special Meeting of the Board of Directors**

Date: Thursday, September 7, 2023 **Time: 5:30 PM**
Location: The Grizzly Flats CSD Office (4765 Sciaroni Rd, Grizzly Flats, CA)



This meeting will be held in person at the District office and electronically to invite the public to listen, observe, and provide comments during the meeting by either method provided herein. By participating in this meeting, you acknowledge that you are being recorded. Meeting materials are available no less than 24 hours prior to the meeting on the District's website at www.grizzlyflatscsd.com or can be requested by email from gfwater@sbcglobal.net during normal business hours (Monday through Friday, from 9:00 AM – 2:00 PM.)

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AGENDA

A. CALL TO ORDER, ROLL CALL OF THE BOARD MEMBERS and SALUTE TO THE FLAG

B. APPROVAL OF THE AGENDA

C. PUBLIC COMMENT: Items not on the agenda - *This is an opportunity to express your views on any topic within the jurisdiction of the District in order to inform the Board. Once recognized by the Chair, you will have 3 minutes to speak. No discussion or action can be taken at this time. The Board may refer the matter to staff or determine whether the matter should be included on a future agenda.*

D. REVIEW PROGRESS OF THE COST OF SERVICES STUDY

1. Findings and Calculated Rates – HEC (Catherine Hansford) and Schaelene Rollins will present the findings of the rate study and schedule to adopt new water charges. The Board should spend some time discussing the information presented since the financial projections need to be as accurate as possible to ensure that rates adequately cover the District's expenses / Gustafson (discussion)

2. Rate Structure Options – Discuss the proposed rate structures suggested by HEC and consider the option of implementing a Special Tax / Gustafson (discussion/action)

Recommended Motion/Action: Authorize the General Manager to proceed if the Board of Directors would like to place a measure on the ballot to adopt a Special Tax.

E. ADJOURN

-
- *In compliance with the Americans with Disabilities Act, contact Kim Gustafson at gfwater@sbcglobal.net or (530) 622-9626 if you need special assistance to participate in this meeting. Notification 48 hours prior to the meeting will enable the District to make reasonable arrangements to ensure accessibility to this meeting. (28FR35.102-35.104 ADA Title 11).*
 - ***Our next regular Board meeting will be held in person and by teleconference on Thursday, September 14, 2023, at 6:00 PM.***

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Section 1: INTRODUCTION

1.1 STUDY BACKGROUND AND BEST PRACTICES

Background

The Grizzly Flats Community Services District (District or Grizzly Flats CSD) provides treated water services within its service territory of about 1,450 acres, encompassing the Grizzly Flats community. Grizzly Flats is located south of Interstate 50, approximately 22 miles by road from Placerville. The closest community is Somerset, approximately 11 miles by road. The District's service territory is typical of the Sierra Nevada, in mountainous terrain with pine trees. In August 2021, the Caldor Fire devastated the area, destroying 395 (about two-thirds) of all homes, the elementary school, post office, church, and fire protection district station.

The District contracted with Hansford Economic Consulting (HEC) to perform a Water Rates and Fee Study (Study) to determine the level of funding required over the next five years to sufficiently fund service provision, and to update the water capacity fee paid by new development to connect to the water system. The last rate study was conducted in 2016 and the District's finances and customer base has changed significantly since then due to the Caldor Fire.

The monthly property-related fees (also called "rates" in the Study) are subject to California Constitution Article XIII D (commonly referred to as Proposition 218) requirements for water, wastewater, and solid waste property-related fees. This Study provides an explanation of, and justification for, calculated monthly water rates through June 30, 2029 (a five-year period), and documents adherence to the law regarding the setting of property-related fees by a special district. Specifically, the California Constitution requires that the fees for water service shall not be extended, imposed, or increased by any agency unless they meet all 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.

(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.

The financial model projects revenues and expenses and calculates monthly property-related fees for the next five years under two scenarios:

- Under **Scenario A**, the District continues with its current combination of rates, assessments, and fees to support the operating and capital expenses of the water system.
- Under **Scenario B**, the District repeals the existing \$4 monthly standby assessment and restructures collection of revenues by increasing its rates **and adopting a new special tax**.

To adopt the **calculated rates**, the District would proceed with public notification and a public hearing as required by Proposition 218.

To adopt the **special tax**, the District would be required to conduct a mailed ballot and garner two-thirds support from registered voters.

In addition to calculating monthly rates, and a potential special tax, the water financial model calculates capacity fees, which are one-time, non-recurring fees. Capacity fees are adopted and collected pursuant to the Mitigation Fee Act (California Code 66013).

To adopt **capacity fees**, the District must provide notice in a newspaper of general circulation (or at 3 conspicuous locations) and hold a public hearing.

Best Practices

Fee studies are typically conducted every three to five years to ensure revenue sufficiency. A cost-of-service analysis, which not only determines rates to support revenue sufficiency, but also examines whether customers are paying for their share of system costs and adjusts rates and customer classifications to achieve equity to the maximum extent practicable, is advisable whenever there has been a shift in the economic base of the community, and whenever proportional cost of service is in question.

As part of the regular periodic reviews of the utility fees, best practices include maintaining financially self-sustaining utilities, setting policies on reserve levels for utility funds (if not already in place), and conducting regular customer outreach/ communications to educate the community on their utility system(s) and value of the service(s) provided.

Table 1 shows utility best practices and the District's current practices. The District is very well run and cost-efficient; the need for the Study is the impact of the Caldor Fire on the District's financial health, and a need to evaluate the rate structure given the changed operating conditions since the fire.

Table 1
Water Utility Best Practices

Best Practice	Grizzly Flats CWD
Rate study every 3 to 5 years	Last rate study conducted in 2016
Collect for system rehabilitation (for upkeep of existing infrastructure) in rates	Rehabilitation is included in the rates but it needs to increase to keep pace with inflationary cost pressures
Regular customer communications to educate on the utility systems and value of service	The District uses bill inserts and a quarterly newsletter to communicate with customers
Meet bond covenants	The District has had a loan with USDA since 2011; it is currently deficient in its debt service reserve fund and falling short of the debt service coverage requirement
Self-sufficient enterprise fund	Since the Caldor Fire, the District has struggled to fund operating costs (the fiscal year 2024 budget does not cover operating costs); in addition, many infrastructure repairs are still needed that will be grant-funded but on a reimbursement basis, requiring the District to have greater cash reserves than it currently has (or has as a target).
Meet target cash balance	The District met its target cash balances in fiscal year 2022 except for the debt service reserve, but will be short of its target cash balance without rate increases

1.2 RATE SETTING PRINCIPLES AND ORGANIZATION OF THE REPORT

This report was prepared using the principles established by the American Water Works Association. The American Water Works Association “Principles of Water Rates, Fees, and Charges: Manual of Water Supply Practices M1 (the “M1 Manual”) establishes commonly accepted professional standards for cost-of-service studies. The M1 Manual general principles of rate structure design and the objectives of the study are described below.

According to the M1 Manual, the first step in the ratemaking analysis is to determine the adequate and appropriate funding of a utility. This is referred to as the “revenue requirements” analysis. The analysis considers the short-term and long-term service objectives of the utility over a given planning horizon, including capital facilities and system operations and maintenance, to determine the adequacy of a utility’s existing rates to recover its costs.

After determining a utility's revenue requirements, a utility's next step is determining the cost-of-service. Utilizing a public agency's approved budget, financial reports, operating data, and capital improvement plans, a rate study generally categorizes (functionalizes) the costs, expenses, and assets of the water system among major operating functions to determine the cost-of-service.

After the assets and the costs of operating those assets are properly categorized by function, the rate study allocates those "functionalized costs" to the customer types. Rate design is the final part of the M1 Manual's rate-making procedure and generally uses the revenue requirement and cost-of-service analysis to determine appropriate rates for each customer class.

The study is presented in five sections:

Section 1: Introduction, summary of findings, and calculated fees.

Section 2: Information about the water system including the customer base, the water fund, and future infrastructure capital needs.

Section 3: Projection of the revenue requirement and estimated future cash balances assuming the calculated rates are adopted.

Section 4: Water rate analysis and detail of the two rate scenarios prepared for the District. Also included is a comparison of calculated water bills under both scenarios with water bills in neighboring and similar communities.

Section 5: Capacity fee calculations.

Appendix A includes support tables for the water rates analysis.

1.3 KEY FINDINGS AND CALCULATED FEES

This Study makes the following key findings:

Monthly Rates

- The District should continue to collect monthly base rates from all water connections with service at the property, or immediately available to it, whether the customer is actively taking water through their service pipe or not.
- Both the base monthly charges and the water use rate need to be increased as soon as possible. Operating revenues are projected to be insufficient to cover operating expenses in fiscal year 2024, which will draw on cash reserves, and the District is not currently in compliance with its debt covenants. The District needs to build its reserve funds to complete restoration of the water system and it needs to raise rates to pay for projected increasing operating expenses as well as to be compliant with the USDA loan requirement for debt service coverage. The new rates are assumed to be effective July 1, 2024 in the Study.
- The 2015 San Juan Capistrano decision reaffirmed that rates must be proportional to the costs of service received. Customers with larger water meters have greater

capacity to use the water system; therefore, the recommended rate structure charges the base monthly water rates by water meter size.

Calculated cost-of-service rates are shown in **Table 2 (Scenario A)** and **Table 3 (Scenario B)**. The base monthly water rates are lower under Scenario B because a portion of revenue requirement is collected with special taxes.

**Table 2
Calculated Water Rates (Scenario A)**

Charge	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029
Base Charge per Month					
1-inch or smaller	\$98.71	\$99.98	\$100.68	\$102.69	\$106.01
1.5-inch	\$197.43	\$199.95	\$201.36	\$205.38	\$212.02
2-inch	\$315.89	\$319.92	\$322.18	\$328.60	\$339.22
3-inch	\$631.77	\$639.85	\$644.37	\$657.21	\$678.45
4-inch	\$987.14	\$999.76	\$1,006.82	\$1,026.89	\$1,060.08
6-inch	\$1,974.29	\$1,999.52	\$2,013.65	\$2,053.78	\$2,120.15
Use Charge, per HCF [1]	\$3.24	\$3.30	\$3.33	\$3.41	\$3.53

Source: HEC rate study, June 2023.

calc

[1] Rate also applies to construction water. District staff assign a fire hydrant and install a hydrant flow meter (for a call-out fee) for temporary use.

**Table 3
Calculated Water Rates (Scenario B)**

Charge	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029
Base Charge per Month					
1-inch or smaller	\$79.02	\$79.69	\$79.79	\$81.16	\$83.81
1.5-inch	\$158.04	\$159.39	\$159.58	\$162.33	\$167.63
2-inch	\$252.86	\$255.02	\$255.33	\$259.72	\$268.21
3-inch	\$505.72	\$510.04	\$510.65	\$519.45	\$536.41
4-inch	\$790.19	\$796.93	\$797.89	\$811.64	\$838.14
6-inch	\$1,580.38	\$1,593.87	\$1,595.79	\$1,623.27	\$1,676.29
Use Charge, per HCF [1]	\$3.24	\$3.30	\$3.33	\$3.41	\$3.53

Source: HEC rate study, June 2023.

calc B

[1] Rate also applies to construction water. District staff assign a fire hydrant and install a hydrant flow meter (for a call-out fee) for temporary use.

Special Tax

It is recommended that if the Board proceed with a special tax, that the special tax be set at a maximum of \$226 per Improved Lot per year and \$170 per Unimproved Lot per year and an adjustment allowance provided annually for inflation using the San Francisco Engineering News Record Construction Cost Index change in the previous 12 months from May to May. The maximum special tax would be calculated each year, and each year the Board would determine the amount to be levied.

Definitions

Improved Lot – A lot that has water facilities and a permanent structure on the property. It does not include the lots that currently have temporary living units on them.

Unimproved Lot - A lot that is vacant or has a temporary living unit on it. This type of lot includes lots with water facilities and lots without water facilities.

Total Monthly Water Charges

Table 4 shows the total annual charges payable by all three types of properties with a one-inch or smaller water meter in the District:

1. Improved Lots that have water service and use it, at least periodically.
2. Unimproved Lots that have a connection to the District's facilities.
3. Unimproved Lots that do not have a connection to the District's facilities.

Note: The total cost for an Improved Lot assumes use of 6 HCF per month.

The total annual charges are lower under Scenario B for Improved Lots and for Unimproved Lots that have a connection at their property than they would be under Scenario A. The special tax shifts capital costs to Unimproved Lots that do not have a connection to the District's facilities but that benefit from the existence of the District (maintaining or increasing property value); in addition, the District's 150 fire hydrants protect the Unimproved Lots (albeit not from a catastrophic event like the Caldor Fire).

Figure 1 summarizes the monthly total cost for a home using 6 HCF under the current rate structure (\$4 monthly assessment + base charge and use charge), Scenario A (\$4 monthly assessment + increased base charge and increased use charge), and Scenario B (increased base charge and increased use charge + special tax).

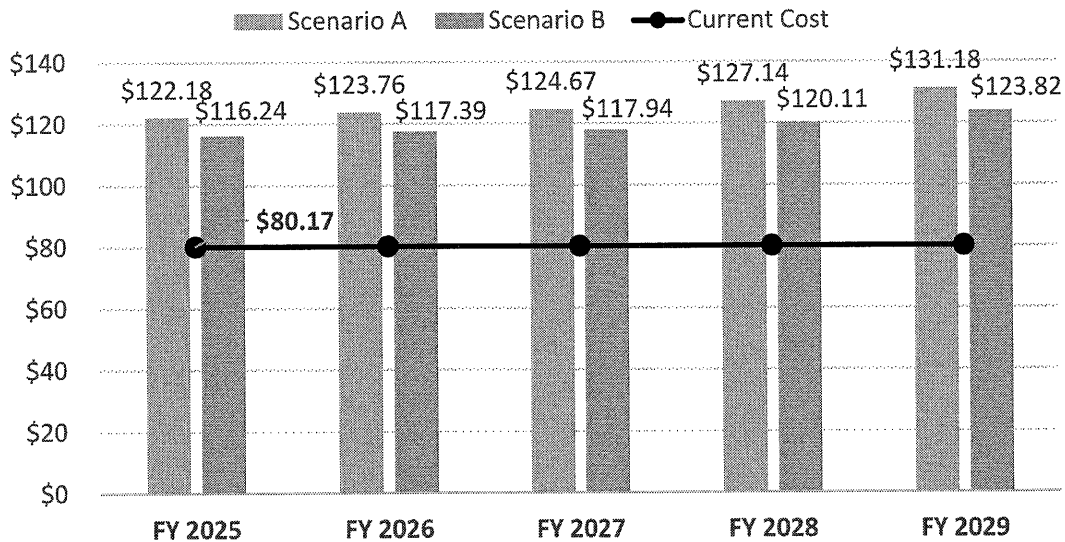
Table 4
Annual Cost Impact to the Three Property Types

Property Type	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029
Improved Lot					
Current	\$962	\$962	\$962	\$962	\$962
Scenario A	\$1,466	\$1,485	\$1,496	\$1,526	\$1,574
Scenario B	\$1,395	\$1,409	\$1,415	\$1,441	\$1,486
Difference in Scenarios	(\$71)	(\$76)	(\$81)	(\$84)	(\$88)
Unimproved Lot, Has Water Facilities					
Current	\$876	\$876	\$876	\$876	\$876
Scenario A	\$1,233	\$1,248	\$1,256	\$1,280	\$1,320
Scenario B	\$1,108	\$1,118	\$1,121	\$1,141	\$1,176
Difference in Scenarios	(\$124)	(\$129)	(\$135)	(\$139)	(\$144)
Unimproved Lot, No Water Facilities					
Current	\$48	\$48	\$48	\$48	\$48
Scenario A	\$48	\$48	\$48	\$48	\$48
Scenario B	\$160	\$162	\$164	\$167	\$170
Difference in Scenarios	\$112	\$114	\$116	\$119	\$122

Source: HEC August 2023.

sc diff

Figure 1
Monthly Water Cost for a Home using 6 HCF



Capacity Fees

- The water capacity fee should be increased to pay for buy-in to the existing system, assuming all facilities are fully functional (not damaged by the Caldor Fire).
- It is recommended that the water capacity fee be increased from \$6,030 per Equivalent Residential Unit (ERU) to \$8,326 per ERU, and that the residential fee be charged per building square foot. Non-residential developments would be charged by water meter size, as shown in **Table 5**.
- Under the authority of the Mitigation Fee Act, section 66013, the District will apply the updated capacity fee to Accessory Dwelling Units (ADUs). California law allows the building of ADUs on single-family and multi-family zoned property. A new detached ADU may be charged a capacity fee whenever it is built. A new attached ADU may be charged a capacity fee ONLY when it is constructed with a new single-family home.
- Updating the water capacity fees is a faster process than updating or adopting new rates and taxes. It is recommended that the District implement the water capacity fee January 1, 2024.

Table 5
Recommended Capacity Fee Schedule

New Development Use Type	Jan 2024 Capacity Fee
Residential (per building sq. ft.)	\$5.24
Non-Residential (by meter size)	
1-inch or smaller	\$8,360
1.5-inch	\$16,720
2-inch	\$26,752
3-inch	\$53,504
4-inch	\$83,600
6-inch	\$167,201

Source: HEC August 2023.

conn fees

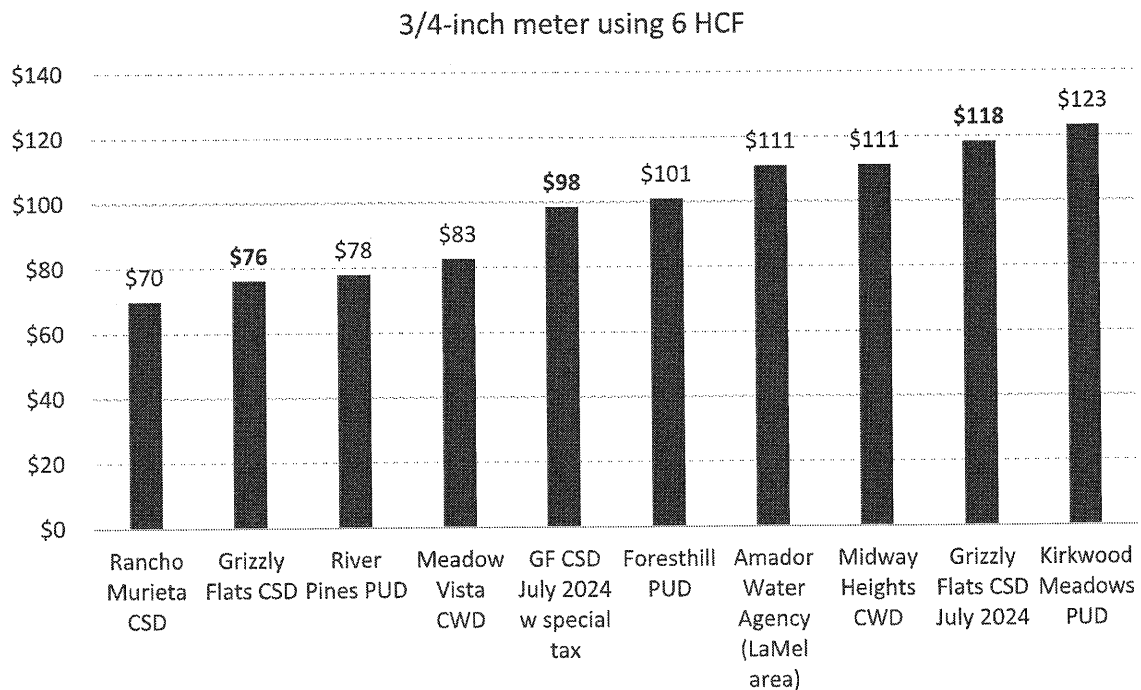
It is recommended that the District update the Water Capacity Fee every January 1 based on the change in the San Francisco Engineering News-Record Construction Cost Index for the previous 12 months November to November period.

1.4 COMPARISON OF WATER BILLS WITH OTHER WATER PROVIDERS

Figure 2 compares the District’s current and calculated water bill for a home using 6 hundred cubic feet (HCF or ‘units’) with the bills of other regional water providers with rates under Scenario A and Scenario B.

Currently, Grizzly Flats customers have very similar water bills as Rancho Murieta and River Pines. With the calculated rate increase in July 2024, under Scenario A, the water bill will be close to that of a home in Kirkwood Meadows. If the District adopts the calculated special tax and water rates under Scenario B, the water bill will be similar to a bill paid by a home in Foresthill.

Figure 2
Comparison Monthly Water Bills for a Home using 6 HCF



Section 2: GRIZZLY FLATS CSD WATER SYSTEM

2.1 SYSTEM DESCRIPTION

Grizzly Flats is located south of Interstate 50, approximately 22 miles by road from Placerville. The closest community is Somerset, approximately 11 miles by road. The District's service territory is typical of the Sierra Nevada, in mountainous terrain with pine trees. The majority of the water system was built in the 1960's and 1970's. The water system is fed by two diversions of snowmelt water (Big Canyon Springs and North Canyon Springs). Water is treated with chlorine at the treatment plant before being released into the distribution system.

In August 2021, the Caldor Fire devastated the area, destroying about two-thirds of homes, the elementary school, post office, church, and fire protection district station.

2.2 CUSTOMER BASE

The District's service territory encompasses 1,220 lots. The District was about 50% built-out before the Caldor Fire. As of summer 2023, the District has service available to 584 lots. These include the properties that have not had structures on them since the Caldor Fire. An additional 22 lots have paid capacity fees but are currently unbillable because their services have not yet been repaired for fire damage. The District will have all 622 services restored by the start of fiscal year 2025 (July 1, 2024).

Currently, there is one service that has paid the capacity fee for a water service larger than 1-inch. This property is currently billed at the base rate for a 1-inch or smaller service, pursuant to District Ordinance 88-1 and the current rate schedule adopted in 2016. The proposed rate schedule will have different base charges according to water meter size to ensure proportionality requirements are met pursuant to Proposition 218. To calculate the rates by water meter size, the Study calculates the number of equivalent meter units (EMUs). The total number of billable services and calculated number of EMUs is shown in **Table 6**.

Like most mountain towns in the western U.S., Grizzly Flats experiences greater water demand in the summer than the winter due greater visitation by seasonal property users and outside applications of water. **Figure 3** shows water use by month pre-Caldor Fire and post-Caldor Fire. The seasonal variation has been less pronounced since the fire because there are fewer residents and less visitation, but over time it is anticipated that the seasonal water use pattern will return to pre-fire use. **Appendix Table A-1** shows water use by month, by year. Water use by month was averaged for periods when water meter reads were not taken, such as August 2021 through January 2022 due to the Caldor Fire, and other occasional months during the winter when snow covers the meter boxes.

Table 6
Billable Meters and Equivalent Meter Units

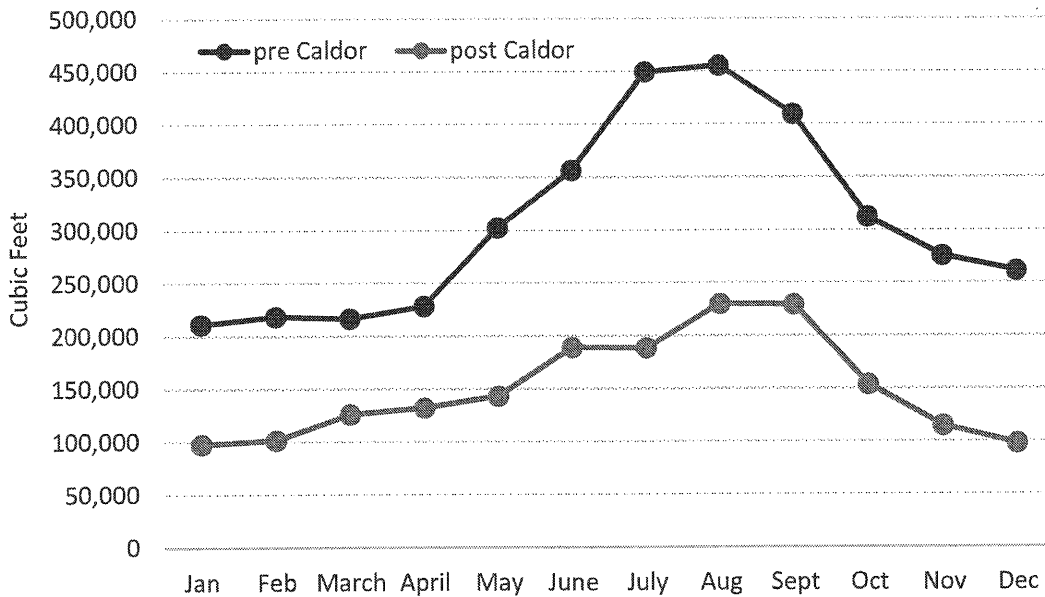
Meter Size	Number of Billing Meters	AWWA Meter Ratios		
		Meter Flow (gpm)	Ratio to 1-inch Meter	Equivalent Meter Units
		[1]		
1-inch or smaller	621	50	1.0	621
1.5-inch	0	100	2.0	0
2-inch	1	160	3.2	3
3-inch	0	320	6.4	0
4-inch	0	500	10.0	0
6-inch	0	1,000	20.0	0
Total	622			624

Source: Grizzly Flats CSD and AWWA M1 Manual.

ratios

[1] AWWA-tested meter flow for any type of meter smaller than 2-inches and Class I compound meters 2-inch and larger.

Figure 3
Seasonal Water Use



Growth in Customers and Water Demand

Due to the Caldor Fire, the District will see water use increase back to pre-fire levels as customers who paid their capacity fees and had improved properties before the fire but that are now vacant, unimproved properties, rebuild their properties. In addition, undeveloped properties are developing and adding to the rate-paying customer base. Last year, the County had 53 applications for property development within the service area. Of that activity, 4 applications were for lots not previously served by the District (before the Caldor Fire). Using this information, an estimate of units built or rebuilt was projected for the next five years to estimate total water use by year. The projection is shown in **Table 7**. Of the total 584 lots with water service (to be increased to 622 lots by the end of this year), 271 are improved and use water. At the end of the five-year period, it is projected that 440 lots will be using water.

**Table 7
Projected Customer Growth and Water Use**

Item	FY 2024	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029
<i>Assumed Number of Units Built or Rebuilt [1]</i>		26	52	39	26	26
Number of Residential Units using Water	271	297	349	388	414	440
Average Monthly Water Use (HCF) per Unit	5.6	5.6	5.6	5.6	5.6	5.6
Estimated Annual Water Demand (HCF)	18,211	19,958	23,453	26,074	27,821	29,568

Source: GFCSD meter reads and HEC, June 2023.

proj

[1] In fiscal year 2022/23, 53 building permits were pulled. The schedule assumes completion of half that each year the first two years, and 26 permits each year thereafter, also half completed each year.

2.3 FINANCIAL HEALTH OF THE DISTRICT

Historical financial audited statements are summarized in **Table A-2** of Appendix A for fiscal years ending 2018 through 2022. Excluding depreciation, which is not a cash expense, the District maintained positive net income before the Caldor Fire. In fiscal year 2022, the first year to record the effects of the Caldor Fire, net income excluding depreciation was negative \$224,000 (rounded). The primary cause of the negative net income in fiscal year 2022 was loss of water sales (rate revenues).

Table 8 shows the year-to-year change in cash and cash equivalents and the amount of cash reserves at the end of each fiscal year that is Restricted or Unrestricted. The District had to draw on its cash reserves after the Caldor Fire due to the decrease in water rates revenue. Note in particular that the District used most of its restricted cash reserve to pay the USDA debt service. This reserve must, by bond covenants, be replenished immediately.

Cash increased between fiscal year 2022 and fiscal year 2023 because the District resumed billing base rates to all customers with service available at their property.

Table 8
Historical District Cash and Cash Equivalents

Item	Fiscal Year Ending					
	2018	2019	2020	2021	2022	2023
Beginning of Year	\$770,501	\$752,350	\$801,005	\$909,402	\$926,483	\$574,795
End of Year	\$752,350	\$801,005	\$909,402	\$926,483	\$574,795	\$1,050,295
(Drawdown) or Addition to Cash	(\$18,151)	\$48,655	\$108,397	\$17,081	(\$351,688)	\$475,500
Restricted	\$42,856	\$42,941	\$42,008	\$41,980	\$42,451	\$41,186
Unrestricted	\$709,494	\$758,064	\$867,394	\$884,503	\$532,344	\$1,009,109

Sources: GFCSD audited financial statements.

cash

[1] Caldor Fire started August 2021. Costs would start to show in fiscal year 2022.

The District adopted unrestricted target cash reserves in Resolution 2016-01 as shown in **Table 9**. The District has a cash reserve target of \$305,000 for operations and a cash reserve target of \$550,000 for capital projects. In total, the District's target is \$850,000 in cash reserves. The District has recovered financially from its deficit in fiscal year 2022; however, reserves are only about \$150,000 over the target balances. The District has many financial uncertainties ahead in its endeavor to fully repair the water system as it waits for grant funding sources to be disbursed; in addition, the District will have to wait for reimbursement from some of the grant sources, requiring greater than normal cash reserves.

Table 9
Unrestricted Reserve Targets

Reserve Accounts	Fiscal Year	
	2022	2023
Unrestricted Reserves	\$532,344	\$1,007,500
Operations		
Asset Management	\$75,000	\$75,000
Emergencies	\$150,000	\$150,000
General O&M	\$80,000	\$80,000
Total Operations Reserve Target	\$305,000	\$305,000
Remaining after Operations	\$227,344	\$702,500
Capital		
CIP Dedicated	\$275,000	\$275,000
CIP Restricted	\$250,000	\$250,000
Hydrant Replacement	\$25,000	\$25,000
Total Capital Reserves Target	\$550,000	\$550,000
Remaining after Ops. And Capital	(\$322,656)	\$152,500

Source: FY2022 audit and GFCSD Resolution 2016-01.

targ

Section 3: PROJECTED COSTS AND REVENUES

3.1 OPERATING COSTS AND EXISTING DEBT

Table 10 shows operating expenses 2019 through 2022 as well as the unaudited estimates of operating expenses in fiscal year 2023, and budgeted operating expenses for fiscal year 2024. The budget for fiscal year 2024 includes a new part-time employee, which accounts for most of the budgeted increase over fiscal year 2023.

Table 10
Operating and Capital Costs

Cost Category	Fiscal Year Ending					
	2019	2020	2021	2022	2023	2024
Operating Expenses					Unaudited	Budget
Personnel	\$260,064	\$267,912	\$274,274	\$237,215	\$177,199	\$235,756
Contract Operations	\$178,073	\$173,991	\$172,722	\$168,735	\$125,600	\$200,000
Utilities	\$9,435	\$8,085	\$9,958	\$5,040	\$5,101	\$5,150
Liability Insurance	\$15,756	\$16,688	\$22,481	\$17,191	\$17,232	\$20,988
Professional Services	\$7,430	\$8,919	\$7,413	\$1,049	\$31,309	\$55,500
System Maintenance & Testing	\$48,550	\$27,983	\$34,379	\$11,784	\$46,487	\$47,300
Fleet Maintenance	\$10,825	\$11,505	\$8,439	\$6,555	\$12,500	\$12,800
Office Supplies & Other	\$38,566	\$62,549	\$72,051	\$27,325	\$47,124	\$39,150
Total Operating Expenses	\$568,698	\$577,630	\$601,716	\$474,894	\$462,551	\$616,644
Capital Projects						
Fire Hydrants	\$0	\$0	\$3,820	\$0	\$0	\$0
All Other Water System	\$13,720	\$4,836	\$0	\$0	\$0	\$0
Total Capital Projects	\$13,720	\$4,836	\$3,820	\$0	\$0	\$0

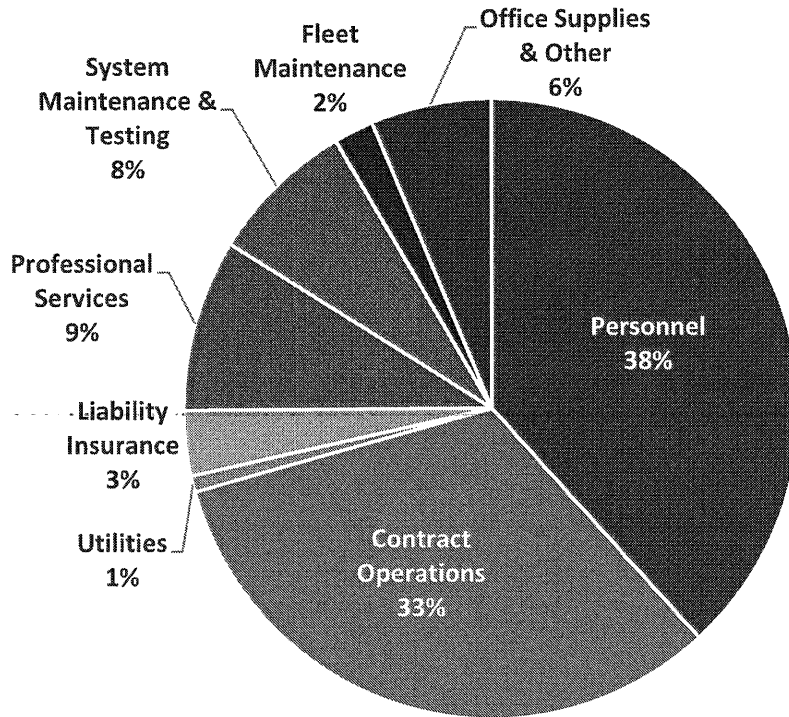
Source: GFCSD financial records.

exp5

Projected operating costs are based on the fiscal year 2024 budget, assuming the new part-time position, approved for fiscal year 2024, has been filled. The largest operating costs are for personnel (salaries and benefits) at 38% of total cost, and contract operations at 33% of total cost. **Figure 4** shows a breakdown of budgeted expenses for fiscal year 2024.

The District sold Certificates of Participation to the United States Department of Agriculture (USDA) in 2011 to pay for water system improvements. The loan carries annual debt service of about \$41,186. The loan will be paid off in fiscal year 2051. The loan repayment schedule is provided in Appendix A, **Table A-3**.

Figure 4
Budgeted Fiscal Year 2024 Operating Expenses



3.2 SYSTEM REHABILITATION AND REBUILD IMPROVEMENTS COSTS

Customers are responsible for the upkeep of existing system facilities, as well as capital costs (and associated soft costs) of new facilities. Depreciation of the assets is used as a proxy for the amount that should be collected each year to fund system rehabilitation. The calculated annual depreciation is \$101,000 for fiscal year 2024.

The District has identified several projects that need to be completed to restore the water system to full pre-Caldor condition to serve rebuilt and new services. The list of projects is summarized in **Table 11**. It is anticipated that almost all the costs to rebuild the water system will be paid for with grants; however, the timing for receiving the funds from grant sources is unknown.

Table 11
Projected System Improvement Costs

Improvement	Funding	FY 2024	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029
Rehabilitation							
Depreciation		\$100,000	\$100,000	\$100,000	\$100,000	\$100,000	\$100,000
Percentage in Rates		0%	100%	100%	100%	100%	100%
Collection for General System Rehabilitation	Rates	\$0	\$100,000	\$100,000	\$100,000	\$100,000	\$100,000
System Rebuild & Improvements							
Completion of Fire Damage Repairs	Standby Fees	\$150,000	\$150,000				
Clearwell and Booster Pump Station Reliability	ARPA Grant	\$2,530,000					
Hazard Tree removal along Eagle Ditch	USDA Grant	\$998,250					
Intake Diversions Watershed Restoration [1]	FEMA/Cal OES	\$209,850					
System Rebuild & Improvements Cost Estimate		\$3,888,100	\$150,000	\$0	\$0	\$0	\$0

Source: GFCSD staff and HEC, June 2023.

[1] Includes repairing Eagle Ditch pipeline, North Canyon diversion intake, and Big Canyon diversion intake.
The cost estimate could increase if mitigation funds are approved.

cip

3.3 PROJECTED REVENUE REQUIREMENT

The revenue requirement is the amount of money that must be raised through monthly fees each year to achieve revenue sufficiency. The projected revenue requirement over the next five years is provided in **Table 12**.

Currently the District raises about \$503,000 annually from rates which falls shy of the projected revenue requirement of about \$747,000 for fiscal year ending 2024. In the first year of the rate increase, rates need to raise about \$824,000.

Table 12
Projected Revenue Requirement

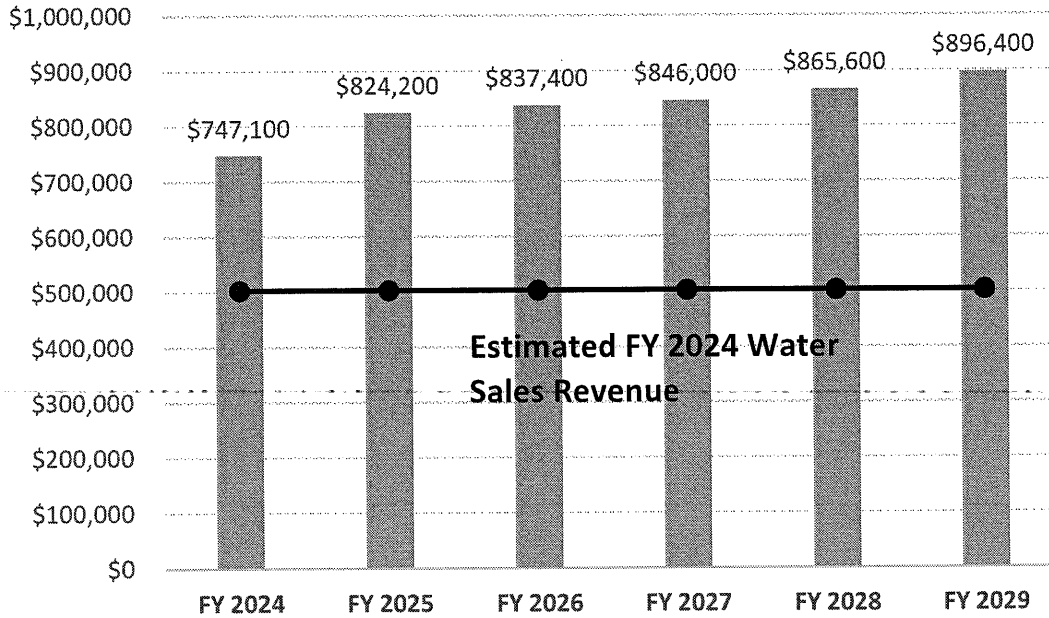
Expense Items	Annual Escalator	FY 2024	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029
			1	2	3	4	5
Operating Expenses							
Personnel	4.0%	\$235,800	\$245,300	\$255,200	\$265,500	\$276,200	\$287,300
Contract Operations	3.0%	\$200,000	\$206,000	\$212,200	\$218,600	\$225,200	\$232,000
Utilities	7.0%	\$5,200	\$5,600	\$12,100	\$13,000	\$14,000	\$15,000
Liability Insurance	3.0%	\$21,000	\$21,700	\$22,400	\$23,100	\$23,800	\$24,600
Professional Services	3.0%	\$55,500	\$57,200	\$59,000	\$60,800	\$62,700	\$64,600
System Maintenance & Testing	3.0%	\$47,300	\$48,800	\$50,300	\$51,900	\$53,500	\$55,200
Fleet Maintenance	3.0%	\$12,800	\$13,200	\$13,600	\$14,100	\$14,600	\$15,100
Office Supplies & Other	3.0%	\$39,200	\$40,400	\$41,700	\$43,000	\$44,300	\$45,700
Subtotal Operating Expenses		\$616,800	\$638,200	\$666,500	\$690,000	\$714,300	\$739,500
Capital Expenses and Reserves							
Debt Service (rounded)		\$41,200	\$41,200	\$41,200	\$41,200	\$41,200	\$41,200
Compliance Fees	3.0%	\$1,100	\$1,200	\$1,300	\$1,400	\$1,500	\$1,600
Rehabilitation	4.5%	\$101,000	\$105,600	\$110,400	\$115,400	\$120,600	\$126,100
Rebuild Reserves & Cashflow Capital			\$50,000	\$30,000	\$10,000	\$0	\$0
Subtotal Capital Expenses & Reserves		\$143,300	\$198,000	\$182,900	\$168,000	\$163,300	\$168,900
Total Expenses		\$760,100	\$836,200	\$849,400	\$858,000	\$877,600	\$908,400
Credits							
Water User Penalties		\$6,000	\$6,000	\$6,000	\$6,000	\$6,000	\$6,000
Interest		\$1,000	\$1,000	\$1,000	\$1,000	\$1,000	\$1,000
Service Installation		\$2,000	\$1,000	\$1,000	\$1,000	\$1,000	\$1,000
Miscellaneous		\$4,000	\$4,000	\$4,000	\$4,000	\$4,000	\$4,000
Total Credits		\$13,000	\$12,000	\$12,000	\$12,000	\$12,000	\$12,000
Revenue Requirement		\$747,100	\$824,200	\$837,400	\$846,000	\$865,600	\$896,400
FY 2024 Rates Revenue Estimate		\$503,000	\$503,000	\$503,000	\$503,000	\$503,000	\$503,000
Increase Needed from FY 2024			\$321,200	\$334,400	\$343,000	\$362,600	\$393,400

Source: GFCSD financial records, and HEC August 2023.

rev req

The water revenue requirement projection is illustrated in **Figure 5**.

**Figure 5
Projected Revenue Requirement**



3.4 CASH FLOW PROJECTION

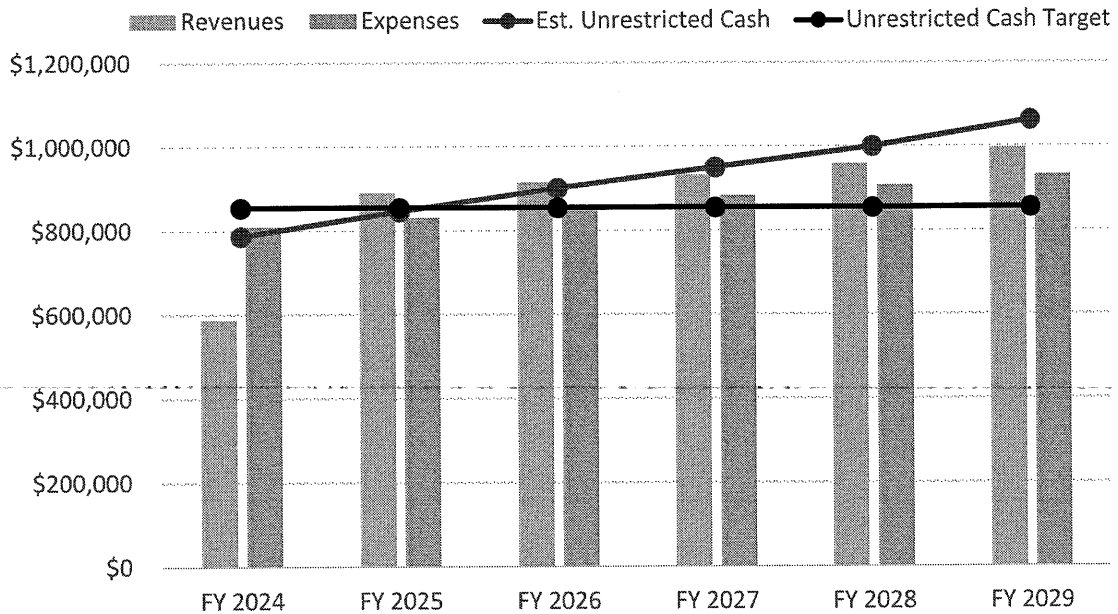
If the monthly fees are adjusted to generate the projected five-year revenue requirements, total unrestricted cash is projected to meet the unrestricted cash targets set by the Board of Directors (Board), and an additional margin to allow for uncertainties associated with Caldor Fire repairs costs and timing of projects and regaining full functionality of the water system.

Figure 6 illustrates projected revenues, expenses, and total unrestricted cash.

The detailed projected cash flow is provided in Table 13.

Table 14 shows the estimated cash balance by operations and capital uses of revenues. Usually, the USDA requires at least 1.1 debt service coverage ratio each year. The District is currently falling short of the USDA's requirement; a rate increase is necessary to ensure the District stays in compliance. Also, under the terms of the USDA loan, the District must restrict one year of debt service (about \$41,000) in reserves. All other cash is unrestricted; however, the District has designated which revenue sources are placed into the operations reserve funds and which are placed into the capital reserves funds.

Figure 6
Projected Cash Balances



Details of revenues and expenses by operations and capital functions are provided in **Table A-4** of Appendix A.

All the tables in this section reflect Scenario A; however, the total cash balances would be the same under Scenario B. None of the findings would be affected if the Scenario B water rates and special tax were adopted. The main difference is that the transfer of cash from the operating fund to the capital fund shown in **Table 14** would be reduced or negated under Scenario B because the special tax is designed to generate sufficient revenue to pay for capital expenses whereas the standby fees produce insufficient revenue.

Table 13
Projected Cash Flow

Revenues and Expenses	Fiscal Year Ending					
	FY 2024	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029
		1	2	3	4	5
Operating Revenues						
Water Rates	\$503,000	\$806,540	\$830,980	\$848,240	\$873,850	\$911,110
Water User Penalties	\$6,000	\$6,000	\$6,000	\$6,000	\$6,000	\$6,000
Interest	\$1,000	\$1,000	\$1,000	\$1,000	\$1,000	\$1,000
Service Installation	\$2,000	\$1,000	\$1,000	\$1,000	\$1,000	\$1,000
Miscellaneous	\$4,000	\$4,000	\$4,000	\$4,000	\$4,000	\$4,000
Total Op. Revenues	\$516,000	\$818,540	\$842,980	\$860,240	\$885,850	\$923,110
Operating Expenses	\$616,800	\$638,200	\$666,500	\$690,000	\$714,300	\$739,500
Net Operating Income	(\$100,800)	\$180,340	\$176,480	\$170,240	\$171,550	\$183,610
Debt Service	\$41,200	\$41,200	\$41,200	\$41,200	\$41,200	\$41,200
<i>Debt Service Coverage</i>	-2.4	4.4	4.3	4.1	4.2	4.5
Net Operating Revenues	(\$142,000)	\$139,140	\$135,280	\$129,040	\$130,350	\$142,410
Beginning Cash Balance	\$1,050,100	\$828,200	\$887,340	\$942,520	\$991,360	\$1,041,410
Net Operating Revenues	(\$142,000)	\$139,140	\$135,280	\$129,040	\$130,350	\$142,410
Capital Fund Revenues	\$71,200	\$71,200	\$71,200	\$71,200	\$71,200	\$71,200
Capital Project Costs	(\$151,100)	(\$151,200)	(\$151,300)	(\$151,400)	(\$151,500)	(\$151,600)
Grants	\$0	\$0	\$0	\$0	\$0	\$0
FEMA Reimbursements	\$0	\$0	\$0	\$0	\$0	\$0
Ending Cash Balance	\$828,200	\$887,340	\$942,520	\$991,360	\$1,041,410	\$1,103,420
Restricted for USDA Reserve	\$41,186	\$41,186	\$41,186	\$41,186	\$41,186	\$41,186
Unrestricted Cash Target	\$855,000	\$855,000	\$855,000	\$855,000	\$855,000	\$855,000
Unrestricted Cash	\$787,014	\$846,154	\$901,334	\$950,174	\$1,000,224	\$1,062,234

Source: GFCSD audited financials 2022, and HEC August 2023.

flow

Table 14
Estimated Cash Balances by Function

Cash Balances	Fiscal Year Ending					
	FY 2024	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029
Operations (includes cash in bank accounts and O&M LAIF)						
Starting Balance	\$728,300	\$586,300	\$375,440	\$385,720	\$389,760	\$395,110
Net Operating Revenues	(\$142,000)	\$139,140	\$135,280	\$129,040	\$130,350	\$142,410
Transfer to Capital	\$0	(\$350,000)	(\$125,000)	(\$125,000)	(\$125,000)	(\$125,000)
Ending Balance	\$586,300	\$375,440	\$385,720	\$389,760	\$395,110	\$412,520
<i>Operations Cash Target</i>	<i>\$305,000</i>	<i>\$305,000</i>	<i>\$305,000</i>	<i>\$305,000</i>	<i>\$305,000</i>	<i>\$305,000</i>
Capital (includes CIP LAIF and County Treasury Cash)						
Starting Balance	\$321,800	\$241,900	\$511,900	\$556,800	\$601,600	\$646,300
Revenues	\$71,200	\$71,200	\$71,200	\$71,200	\$71,200	\$71,200
Transfer from Operations	\$0	\$350,000	\$125,000	\$125,000	\$125,000	\$125,000
Capital Projects	(\$151,100)	(\$151,200)	(\$151,300)	(\$151,400)	(\$151,500)	(\$151,600)
Ending Balance	\$241,900	\$511,900	\$556,800	\$601,600	\$646,300	\$690,900
<i>Capital Cash Target</i>	<i>\$550,000</i>	<i>\$550,000</i>	<i>\$550,000</i>	<i>\$550,000</i>	<i>\$550,000</i>	<i>\$550,000</i>
Ending District Cash	\$828,200	\$887,340	\$942,520	\$991,360	\$1,041,410	\$1,103,420
Cash Target	\$855,000	\$855,000	\$855,000	\$855,000	\$855,000	\$855,000

Source: GFCSD audited financials 2022, and HEC August 2023.

func flow

SECTION 4: MONTHLY FEE CALCULATIONS

4.1 COST CLASSIFICATION AND ALLOCATION

After determining the revenue requirement, the next step is determining the cost-of-service. Utilizing the fiscal year 2024 approved budget, financial reports, operating data, and capital improvement plan, the rate study categorizes (functionalizes) the assets and costs of the water system among major operating functions to determine the cost-of-service.

Functional cost allocation for the water system is provided in Appendix A **Tables A-5 and A-6**.

Budgeted fiscal year 2024 water fund expenditures were allocated to the different functions of water service based on one of five methodologies described below.

- 1. Plant-in-Service.** Plant-in-service costs include the original cost of current water system assets. Total cost is allocated 6% to customers, 76% to capacity, and 18% to commodity costs.
- 2. Average to Peak Month Costs.** Certain costs are allocated to reflect additional water production during the peak usage months. These costs are allocated 76% to capacity and 14% to commodity using pre-Caldor Fire use data (see **Table A-1**).
- 3. Utilities.** Utilities costs (electricity) are allocated 95% to use and 5% to capacity. Electricity costs are driven by water demand.
- 4. Customers.** Costs such as most administrative staff costs, water membership/dues, printing and postage are allocated 100% to customer costs. These costs are not affected by the amount of capacity available or the quantity of water delivered.
- 5. Average of Classified Costs.** Some expenses are allocated to multiple functions of water service because they do not directly relate to customer functions, water system capacity, or water deliveries quantity. These expenses are allocated among the customer, capacity, and commodity functions based on the combined percentage allocation of all other classified costs.

The cost classification provides a guideline for the District in determining the portion of revenue requirement to collect through base monthly charges versus usage charges. Base monthly charges are fixed at the same amount each month. Usage charges are variable because they depend on the quantity of water consumed.

Fixed Costs

As described in the AWWA M1 Manual, fixed costs generally consist of costs that a utility incurs to serve customers irrespective of the amount or rate of water used. These typically include (1) customer-related costs such as administrative and billing costs associated with meter reading, postage, and billing, and (2) the infrastructure (capacity-related facilities)

required to provide service to customers. Customer and capacity costs are allocated to customers based on the number of EMUs.

Variable Costs

Variable costs are those that change in total as the volume of water consumption changes, as measured in a specific time period. These include well pumping and distribution electricity costs, and costs related to plant-in-service, the largest of which is maintenance costs, as well as other costs determined in the functional allocation. Variable costs are recovered through use charges applied per hundred cubic feet (HCF) consumed.

The costs are functionalized and allocated to fixed charges and use charges as shown in **Table 15**. In total, the functional allocation assigns 90% of costs to service charges and 10% of costs to use charges.

Table 15
Cost Allocation of Revenue Requirement

Allocation		FY 2024	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029
Revenue Requirement		\$747,100	\$824,200	\$837,400	\$846,000	\$865,600	\$896,400
Fixed Costs	90%	\$672,390	\$741,780	\$753,660	\$761,400	\$779,040	\$806,760
Customer Charge	30%	\$224,130	\$247,260	\$251,220	\$253,800	\$259,680	\$268,920
Readiness-to-Serve	60%	\$448,260	\$494,520	\$502,440	\$507,600	\$519,360	\$537,840
Variable Costs	10%	\$74,710	\$82,420	\$83,740	\$84,600	\$86,560	\$89,640

Source: HEC rate study, June 2023.

alloc

4.2 RATE CALCULATIONS – SCENARIO A

Service Charges

The calculation of monthly service charges by meter size is shown in **Table 16**. The table labels the fiscal year and the date of implementation for rates that fiscal year.

Fixed costs are divided by the number of EMUs to determine the per month service charges. The most common method for levying fixed charges is by meter size because meter size is an indicator of potential capacity or demand requirement that each customer places on the water system. Typically, but not always, the ratio at which the meter charge increases is a function of the meter’s safe operating capacity as established by the American Water Works Association. These meter ratios are used because a significant portion of a water system’s design, and, in turn, the utility’s operating and capital costs are related to meeting capacity needs. The 2015 San Juan Capistrano decision reaffirmed that rates must be proportional to the costs of service received. Customers with larger water meters have greater capacity to use the water system; therefore, base monthly water rates should be charged by water meter size.

Table 16
Monthly Base Charges Calculation

Item	Implementation -->						
	FY 2024	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029	
		1-Jul-24	1-Jul-25	1-Jul-26	1-Jul-27	1-Jul-28	
Allocated Costs	100%	\$672,390	\$741,780	\$753,660	\$761,400	\$779,040	\$806,760
Est. Billable EMUs [1]		624	626	628	630	632	634
Meter Size	Meter Ratio						
1-inch or smaller	1.0	\$89.77	\$98.71	\$99.98	\$100.68	\$102.69	\$106.01
1.5-inch	2.0	\$179.53	\$197.43	\$199.95	\$201.36	\$205.38	\$212.02
2-inch	3.2	\$287.25	\$315.89	\$319.92	\$322.18	\$328.60	\$339.22
3-inch	6.4	\$574.51	\$631.77	\$639.85	\$644.37	\$657.21	\$678.45
4-inch	10.0	\$897.67	\$987.14	\$999.76	\$1,006.82	\$1,026.89	\$1,060.08
6-inch	20.0	\$1,795.34	\$1,974.29	\$1,999.52	\$2,013.65	\$2,053.78	\$2,120.15

Source: HEC rate study, June 2023.

base

[1] Assumes 2 new (undeveloped) lots connect to the water system for the first time each year.

Use Charges

The calculation of use charges is based on allocated cost and projected water use. The projection of water demand is calculated in **Table 7**. The calculated use charge by fiscal year is shown in **Table 17**. The table labels the fiscal year and the date of implementation for rates that fiscal year.

Table 17
Calculated Use Charges per Hundred Cubic Feet (HCF)

Use Charge	Implementation -->						
	FY 2024	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029	
		1-Jul-24	1-Jul-25	1-Jul-26	1-Jul-27	1-Jul-28	
Allocated Cost		\$74,710	\$82,420	\$83,740	\$84,600	\$86,560	\$89,640
Calculated Rates							
Projected Water Use (HCF) [1]	Table 7	18,211	25,400	25,400	25,400	25,400	25,400
Water Cost per HCF		\$4.10	\$3.24	\$3.30	\$3.33	\$3.41	\$3.53

Source: HEC rate study, June 2023.

use

[1] Average annual demand over the 5-year period is used in the rate calculation.

Total calculated rates include the fixed monthly service charges and variable use charges per HCF. The calculated water rates schedule for the next five years is provided in **Table 18**.

Total charges per month are summarized in **Table 19** by property type.

Table 18
Calculated Water Rates (Scenario A)

Charge Implementation -->	FY 2025 1-Jul-24	FY 2026 1-Jul-25	FY 2027 1-Jul-26	FY 2028 1-Jul-27	FY 2029 1-Jul-28
Base Charge per Month					
1-inch or smaller	\$98.71	\$99.98	\$100.68	\$102.69	\$106.01
1.5-inch	\$197.43	\$199.95	\$201.36	\$205.38	\$212.02
2-inch	\$315.89	\$319.92	\$322.18	\$328.60	\$339.22
3-inch	\$631.77	\$639.85	\$644.37	\$657.21	\$678.45
4-inch	\$987.14	\$999.76	\$1,006.82	\$1,026.89	\$1,060.08
6-inch	\$1,974.29	\$1,999.52	\$2,013.65	\$2,053.78	\$2,120.15
Use Charge, per HCF [1]	\$3.24	\$3.30	\$3.33	\$3.41	\$3.53

Source: HEC rate study, June 2023.

calc

[1] Rate also applies to construction water. District staff assign a fire hydrant and install a hydrant flow meter (for a call-out fee) for temporary use.

Table 19
Summary of Total Water Charges (Scenario A)

Charge Type	Current Implementation -->	FY 2025 1-Jul-24	FY 2026 1-Jul-25	FY 2027 1-Jul-26	FY 2028 1-Jul-27	FY 2029 1-Jul-28
Assessments						
Per Lot, per Month	\$4.00	\$4.00	\$4.00	\$4.00	\$4.00	\$4.00
Rates						
Base Rate, per Month	\$68.97	\$98.71	\$99.98	\$100.68	\$102.69	\$106.01
Use Rate, per 1,000 gallons	\$1.20	\$3.24	\$3.30	\$3.33	\$3.41	\$3.53
Total Monthly Charges						
Improved, using water	\$80.17	\$122.18	\$123.76	\$124.67	\$127.14	\$131.18
Unimproved, connection at property	\$72.97	\$102.71	\$103.98	\$104.68	\$106.69	\$110.01
Unimproved, no District facilities	\$4.00	\$4.00	\$4.00	\$4.00	\$4.00	\$4.00

Source: HEC August 2023.

sum

4.3 RATE CALCULATIONS – SCENARIO B

Under Scenario B, the District would repeal the \$4 per month assessment paid by every property and impose a special tax on every property because there is no cost-of-service rationale behind the standby assessment amount. The special tax would provide a dedicated revenue source for capital projects, which the assessment currently does, but at an insufficient amount. Special taxes must be approved by at least two-thirds of the registered voters within the District’s service area¹.

Special taxes are presented as an option because the current assessment of \$4 per parcel per month is permanent (unless repealed by the GFCSD Board of Directors). Per the California Constitution, it cannot be increased without triggering a Proposition 218 process with a landowner ballot procedure. Assessments require a demonstration of special benefit to every parcel in the District and preparation of an Engineer’s Report. Special taxes, on the other hand, can be increased over time. The Board can impose the tax at any amount that is less than or equal to the maximum amount approved. The maximum special taxes can be increased using a defined formula (such as a price index) to allow for inflationary adjustments, or it can be increased by a set percentage each year. Unlike the special benefit demonstration for assessments, special taxes must only be based on a reasonable nexus between the fee amount and purpose of the fee, allowing the community to determine what is a reasonable cost share among the different types of properties in the District’s jurisdiction for capital facility costs.

The methodology for calculating a reasonable special tax is shown in **Table 20** and explained here.

First, the amount to be funded by special taxes is determined. Included in this calculation are capital expenses and debt service identified in the revenue requirement, plus the total amount of revenues currently produced by the assessment. All properties would pay the special tax; however, pursuant to Government Code 61121, the special tax for an Improved Lot can be greater than for an Unimproved Lot. The calculation weights Unimproved Lots at 75% of an Improved Lot as Unimproved lots have a benefit (increase in property value) from the existence of the District’s facilities, including its 150 fire hydrants (albeit not from a catastrophic event like the Caldor Fire).

The total amount to be funded by special taxes is divided by the number of Improved and weighted Unimproved Lots.

¹ As of June 2023, the District has 397 registered voters.

**Table 20
Special Tax Calculation**

Item in Calculation	FY 2024 Implementation -->	FY 2025 1-Jul-24	FY 2026 1-Jul-25	FY 2027 1-Jul-26	FY 2028 1-Jul-27	FY 2029 1-Jul-28
Capital Expenses & Reserves	\$143,300	\$148,000	\$152,900	\$158,000	\$163,300	\$168,900
Current Standby Fees	\$59,900	\$59,900	\$59,900	\$59,900	\$59,900	\$59,900
Amount funded by Special Taxes	\$203,200	\$207,900	\$212,800	\$217,900	\$223,200	\$228,800
Properties	<i>Improved properties per year --></i>	26	52	39	26	26
Improved	[1]	239	265	317	382	408
Unimproved		979	953	901	862	810
Total Properties		1,218	1,218	1,218	1,218	1,218
Unimproved Parcels weighted	75%	734	715	676	647	608
Total Improved + Weighted Unimproved		973	980	993	1,003	1,016
Annual Special Tax per Improved Parcel		\$209	\$213	\$215	\$218	\$222
Annual Special Tax per Unimproved Parcel		\$157	\$160	\$162	\$164	\$170

Source: GFCSD FY24 tax roll, and HEC August 2023.

special

[1] Parcels with permanent structures / buildings per the El Dorado County Assessor as of June 2023 for FY 2024.

Definitions

Improved Lot – A lot that has a permanent structure on the property. It does not include the lots that currently have temporary living units on them.

Unimproved Lot - A lot that is vacant or has a temporary living unit on it. This type of lot includes lots with water facilities and lots without water facilities.

Implementation of a Special Tax

Per Government Code 50077, the District may, following notice and public hearing, propose by ordinance or resolution the adoption of a special tax. The ordinance or resolution shall include the type of tax and rate of tax to be levied, the method of collection, and the date upon which an election shall be held to approve the levy of the tax. The proposition shall be submitted to the voters of the district, and, upon the approval of two-thirds of the votes cast by voters voting upon the proposition, the District may levy the tax.

It is recommended that if the Board proceed with a special tax, that the special tax be set at a maximum of \$226 per Improved Lot per year and \$170 per Unimproved Lot per year and an adjustment allowance provided annually for inflation using the San Francisco Engineering News Record Construction Cost Index change in the previous 12 months from May to May. The maximum special tax would be calculated each year, and each year the Board would determine the amount to be levied.

Each year, the District would use Assessor records to determine if a lot is Improved or Unimproved. The District can choose whether to collect the special tax with utility bills each

month or to place the special tax on the tax roll for all the lots except Unimproved Lots without water service. Special taxes for Unimproved Lots without water service would have to be placed on the tax roll as they do not receive a water bill from the District. The special tax is subject to the same penalty as, or with, other charges and taxes fixed and collected by the District, or, by agreement with the county, by the county on behalf of the District. If the special taxes are collected by the county on behalf of the District, the county may deduct its reasonable costs incurred for the service before remittal of the balance to the District.

There are accountability measures that the District will have to follow with a special tax, including:

- (a) A statement indicating the specific purposes of the special tax.
- (b) A requirement that the proceeds be applied only to the specific purposes identified pursuant to subdivision (a).
- (c) The creation of an account into which the proceeds shall be deposited.
- (d) An annual report that contains the amount of funds collected and expended as well as the status of any project required or authorized to be funded.

Water Rates with Adoption of Special Taxes

The water use rate is unaffected by the addition of special taxes, but the monthly base water rate, which collects the capital costs in the revenue requirement under Scenario A, must be recalculated. **Table 21** shows the calculation of the monthly base rates with special taxes.

Table 21
Monthly Base Rates with Special Taxes (Scenario B)

Item	Implementation -->	FY 2024 1-Jul-24	FY 2025 1-Jul-25	FY 2026 1-Jul-26	FY 2027 1-Jul-27	FY 2028 1-Jul-27	FY 2029 1-Jul-28
Calculated Base Charges							
Allocated Costs		\$529,090	\$593,780	\$600,760	\$603,400	\$615,740	\$637,860
Est. Billable EMUs		624	626	628	630	632	634
Meter Size							
	Meter Ratio						
1-inch or smaller	1.0	\$70.64	\$79.02	\$79.69	\$79.79	\$81.16	\$83.81
1.5-inch	2.0	\$141.27	\$158.04	\$159.39	\$159.58	\$162.33	\$167.63
2-inch	3.2	\$226.03	\$252.86	\$255.02	\$255.33	\$259.72	\$268.21
3-inch	6.4	\$452.07	\$505.72	\$510.04	\$510.65	\$519.45	\$536.41
4-inch	10.0	\$706.36	\$790.19	\$796.93	\$797.89	\$811.64	\$838.14
6-inch	20.0	\$1,412.71	\$1,580.38	\$1,593.87	\$1,595.79	\$1,623.27	\$1,676.29

Source: HEC rate study, June 2023.

special base

Table 22 shows the total monthly water charges by property type under Scenario B.

Table 22
Summary of Total Water Charges (Scenario B)

Charge Type	Current Implementation -->	FY 2025 1-Jul-24	FY 2026 1-Jul-25	FY 2027 1-Jul-26	FY 2028 1-Jul-27	FY 2029 1-Jul-28
Assessments						
Per Lot, per Month	\$4.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Special Taxes						
Improved Lot, per Month	\$0.00	\$17.75	\$17.92	\$18.17	\$18.50	\$18.83
Unimproved Lot, per Month	\$0.00	\$13.33	\$13.50	\$13.67	\$13.92	\$14.17
Rates						
Base Rate, per Month	\$68.97	\$79.02	\$79.69	\$79.79	\$81.16	\$83.81
Use Rate, per 1,000 gallons	\$1.20	\$3.24	\$3.30	\$3.33	\$3.41	\$3.53
Total Monthly Charges						
		Improved property monthly use of 6 HCF				
Improved, using water	\$80.17	\$116.24	\$117.39	\$117.94	\$120.11	\$123.82
Unimproved, connection at property	\$72.97	\$92.35	\$93.19	\$93.46	\$95.08	\$97.98
Unimproved, no District facilities	\$4.00	\$13.33	\$13.50	\$13.67	\$13.92	\$14.17

Source: HEC August 2023.

sum tax

4.4 BILL IMPACTS

Monthly water bill impacts only as of July 1, 2024 are shown in **Table 23** for a home or other water user with a one-inch or smaller water meter under both scenarios.

Figure 7 illustrates the projected bill impact, including all charges (rates and assessment or rates and special tax) for a residential customer using 6 HCF of treated water under both fee structure scenarios. Currently, at this level of use, the water bill is \$76.17, and the assessment is \$4.00, bringing the total monthly water cost to \$80.17.

Scenario A Bill Impact: With the July 1, 2024 rate increase, the water bill would increase to \$118.18 for FY 2025; with the assessment, the total monthly water cost would be \$122.18 under Scenario A.

Scenario B Bill Impact: If the special tax was adopted in addition to the July 1, 2024 rate increase, the water bill would increase to \$98.49, the \$4.00 per month assessment would be removed, and the Improved Lot special tax of \$13.33 added. The total monthly water cost for FY 2025 under Scenario B would be \$116.24.

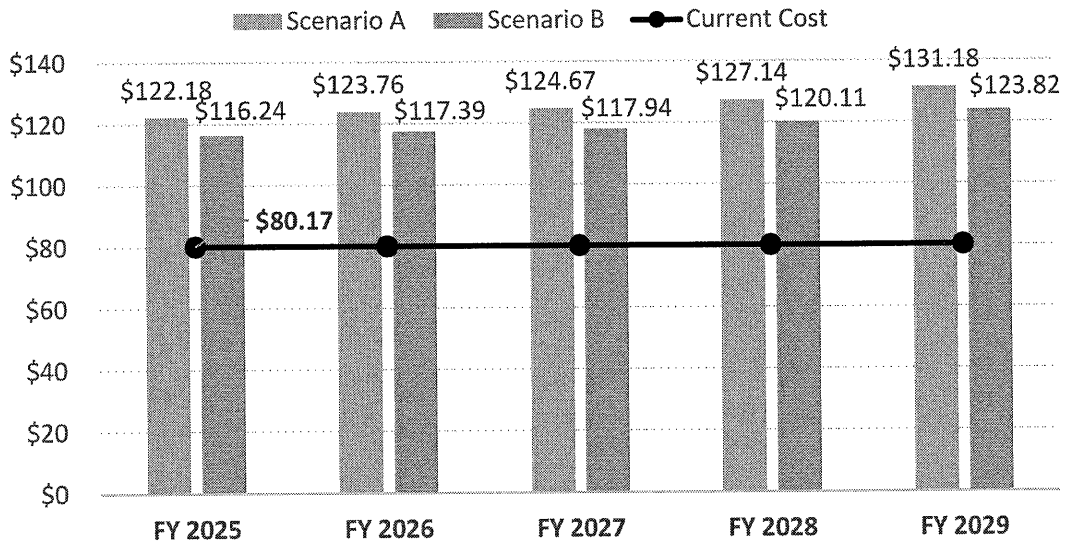
Table 23
Water Customer Bill Impact

Monthly Use (HCF)	Current Bill			July 2025 Scenario A Bill			July 2025 Scenario B Bill		
	Base	Use	Total	Base	Use	Total	Base	Use	Total
	\$68.97	\$1.20		\$98.71	\$3.24		\$79.02	\$3.24	
0	\$68.97	\$0.00	\$68.97	\$98.71	\$0.00	\$98.71	\$79.02	\$0.00	\$79.02
2	\$68.97	\$2.40	\$71.37	\$98.71	\$6.49	\$105.20	\$79.02	\$6.49	\$85.51
4	\$68.97	\$4.80	\$73.77	\$98.71	\$12.98	\$111.69	\$79.02	\$12.98	\$92.00
6	\$68.97	\$7.20	\$76.17	\$98.71	\$19.47	\$118.18	\$79.02	\$19.47	\$98.49
8	\$68.97	\$9.60	\$78.57	\$98.71	\$25.96	\$124.67	\$79.02	\$25.96	\$104.98
10	\$68.97	\$12.00	\$80.97	\$98.71	\$32.45	\$131.16	\$79.02	\$32.45	\$111.47
12	\$68.97	\$14.40	\$83.37	\$98.71	\$38.94	\$137.65	\$79.02	\$38.94	\$117.96
14	\$68.97	\$16.80	\$85.77	\$98.71	\$45.43	\$144.14	\$79.02	\$45.43	\$124.45
16	\$68.97	\$19.20	\$88.17	\$98.71	\$51.92	\$150.63	\$79.02	\$51.92	\$130.94
18	\$68.97	\$21.60	\$90.57	\$98.71	\$58.41	\$157.12	\$79.02	\$58.41	\$137.43
20	\$68.97	\$24.00	\$92.97	\$98.71	\$64.90	\$163.61	\$79.02	\$64.90	\$143.92
22	\$68.97	\$26.40	\$95.37	\$98.71	\$71.39	\$170.10	\$79.02	\$71.39	\$150.41
24	\$68.97	\$28.80	\$97.77	\$98.71	\$77.88	\$176.59	\$79.02	\$77.88	\$156.90
26	\$68.97	\$31.20	\$100.17	\$98.71	\$84.37	\$183.08	\$79.02	\$84.37	\$163.39
28	\$68.97	\$33.60	\$102.57	\$98.71	\$90.86	\$189.57	\$79.02	\$90.86	\$169.88
30	\$68.97	\$36.00	\$104.97	\$98.71	\$97.35	\$196.06	\$79.02	\$97.35	\$176.37

Source: GFCSD rate schedule and HEC 2023 rate study.

impact

Figure 7
Monthly Water Cost for a Home using 6 HCF



The total monthly charges are lower under Scenario B for Improved Lots and for Unimproved Lots that have a connection at their property than they would be under Scenario A. The special tax shifts capital costs to Unimproved Lots that do not have a connection to the District's facilities but that benefit from the existence of the District.

Total annual cost impacts to the three property types are illustrated in **Table 24**.

Table 24
Annual Cost Impact to the Three Property Types

Property Type	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029
Improved Lot					
Current	\$962	\$962	\$962	\$962	\$962
Scenario A	\$1,466	\$1,485	\$1,496	\$1,526	\$1,574
Scenario B	\$1,395	\$1,409	\$1,415	\$1,441	\$1,486
Difference in Scenarios	(\$71)	(\$76)	(\$81)	(\$84)	(\$88)
Unimproved Lot, Has Water Facilities					
Current	\$876	\$876	\$876	\$876	\$876
Scenario A	\$1,233	\$1,248	\$1,256	\$1,280	\$1,320
Scenario B	\$1,108	\$1,118	\$1,121	\$1,141	\$1,176
Difference in Scenarios	(\$124)	(\$129)	(\$135)	(\$139)	(\$144)
Unimproved Lot, No Water Facilities					
Current	\$48	\$48	\$48	\$48	\$48
Scenario A	\$48	\$48	\$48	\$48	\$48
Scenario B	\$160	\$162	\$164	\$167	\$170
Difference in Scenarios	\$112	\$114	\$116	\$119	\$122

Source: HEC August 2023.

sc diff

SECTION 5: CAPACITY FEES CALCULATIONS

5.1 AUTHORITY TO CHARGE CAPACITY FEES

Under the authority of the Mitigation Fee Act (1987), contained in California Government Code Section 66000 et. seq., the Agency is authorized to collect water capacity and connection fees. When a municipality adopts or updates a capacity or connection fee, it must demonstrate that the fee shall not exceed the estimated reasonable cost of providing the service for which the fee is imposed. Maximum justifiable fees are calculated in this report pursuant to demonstration of the nexus between the total amount of development at buildout of GFCSD's service area, and infrastructure capacity required to serve buildout development.

The District may impose a capacity fee pursuant to Government Code Section 66013(b)(3) for:

- (a) public facilities in existence at the time a charge is imposed (a "buy-in" fee) and/or
- (b) charges for new public facilities to be acquired or constructed in the future that are of proportional benefit to the person or property being charged (a "new facilities" fee).

The fee may include supply or capacity contracts for rights or entitlements, real property interest, and entitlements and other rights of the local agency involving capital expense relating to use of its existing and/or new public facilities. The capacity fee should be evaluated at least every five years; over time, inflationary adjustments to fees alone may be insufficient as development plans change, anticipated pace of development changes, and infrastructure solutions to service provision are revised.

The District may also impose a connection fee pursuant to Government Code Section 66013 (b)(5) for the physical facilities necessary to make a water connection, including, but not limited to, meters, meter boxes, and pipelines from the structure or project to a water distribution line, that does not exceed the estimated reasonable cost of labor and materials for installation of those facilities. Currently, the District has fees for new service installation but in practicality does not charge it because the District requires a contractor to install the facilities for the owner with inspection of the facilities by District staff upon completion. The District may supply materials, in which case, the actual costs of the materials are charged to the new customer.

It is recommended that the District update its hook-up and new service installation fees to describe the current system as one of reimbursement for actual costs and inspection time. This Study only updates the water capacity fee, which is currently charged at \$6,030 per ERU.

5.2 METHODOLOGY

The water capacity fee is calculated using the buy-in approach so that customers pay a fee that reflects the value of the existing water capacity. The methodology for calculating the water capacity fee is summarized below:

1. Identify existing and future capacity, expressed in Equivalent Residential Units (ERUs).
2. Determine the total cost of facilities and equipment to be included in the fee calculation using District asset records. The existing assets are estimated to be sufficient to serve the buildout of GFCSD's service territory²; however, there are many assets that must be replaced because they were destroyed, or partially destroyed, by the Caldor Fire.
3. Add the cost of infrastructure improvements to be completed in the current fiscal year (before the new fees are implemented) and add the cost of land. Deduct other revenue sources (developer contributions, grants, and property taxes for example) as credits to the total cost of facilities. Deduct outstanding principal on debt still to be repaid. Add the costs developed in steps 2 and 3 to determine the total cost basis.
4. Adjust the total cost basis by adding unrestricted cash reserves in the water fund as of June 30, 2023. Add a 3% administration charge for studies to update the capacity fee, and District staff time spent on the capacity fee program. This step determines the **total buy-in cost basis**.
5. Divide the **total buy-in cost basis** by the number of ERUs that can be served by the water system infrastructure to calculate the update water capacity fee per ERU.

Capacity fees are charged to pay for current and future Agency facilities that new customers benefit from and will use. Capacity fees pay for major infrastructure such as distribution pipes, tanks, and the water treatment plant, equipment used to service the water system(s), and land.

Water System Capacity

The first step in determining capacity fees is establishing capacity of the water system expressed in ERUs. Prior to the Caldor Fire, the water system could serve the District's entire service territory. While certain facilities were aging and needed replacement, there was no need to increase capacity of the system. Capacity fees had been paid for properties with structures on their property; some of which had structures that were destroyed by the Caldor Fire. The total number of ERUs that had paid capacity fees prior to the Caldor Fire, plus properties that will have paid capacity fees by the end of fiscal year 2024, is estimated

² Per GFCSD staff, August 2023.

to be 597 ERUs. It is estimated that at buildout of the service territory, GFCSD will serve 1,235 ERUs, as shown in **Table 25**.

Table 25
Total Projected Buildout ERUs

Item	Number of ERUs	
Total Lots in Service Area	1,218	
Estimated ERUs at Buildout	1,233	
Estimated ERUs Paid Connection Fee	669 [1]	
Remaining Unpaid ERUs	564	
	Paid at	Buildout
Meter Size	EOY 2024	Estimate
1-inch or smaller (One ERU)	666	1,213
1.5-inch	0	4
2-inch	3	6
3-inch	0	0
4-inch	0	10
6-inch	0	0
Total	669	1,233

Source: Grizzly Flats CSD and AWWA M1 Manual. erus

[1] Existing capacity of properties that have paid capacity fees, not the capacity currently being used.

5.3 TOTAL BUY-IN COST BASIS

Value of Current Assets

There are five different options (methodologies) that could be used in the valuation of existing assets to establish the buy-in cost basis. Supporting **Table A-8** in Appendix A provides the list of water system assets upon which the valuation calculation under each of the options is based.

The five valuation options are generated by the treatment of the value of the assets. Options 1 and 2 use the original cost approach where the buy-in fee reflects the original investment in existing capacity, paying an amount similar to what the existing customers paid for the capacity (or the remaining value of the original investments). A concern with this approach is that it is impractical because insufficient capital is raised to ensure longevity of the asset. This approach is rarely used.

- Option 1 bases the buy-in fee on the original cost of the assets (when it was purchased or constructed).

- Option 2 bases the buy-in fee on the net book value of the District's assets. This methodology is based on an accounting perspective that depreciates the original cost of the assets and assumes that anything beyond its theoretical useful life no longer has any value to new customers.

Most water capacity fee studies calculate the buy-in fee using a replacement cost methodology (Option 3). Under this approach, all the agency's current assets are valued at the current cost to replace them. *This methodology is very appropriate for GFCSO because the water system was partially destroyed in the Caldor Fire, but it had sufficient capacity prior to the fire to serve the entire service territory at buildout.*

The replacement cost approach can also be modified to deduct depreciation from the value of the assets using a straight-line depreciation methodology on either the replacement cost or the original cost of the assets³.

- Option 4 only accounts for the value of assets that still have a useful life (in theory) by deducting the replacement cost depreciation.
- Option 5 recognizes the actual depreciation that has been accounted for on the District's books (based on original cost), and that existing customers have paid for to date. Under this option, assets that have in theory exceeded their useful life may still have a value associated with them that new development would pay for a portion of.

While all five approaches to setting the buy-in fee are legitimate approaches described in both the American Water Works Association M1 Manual, **Option 5 is recommended as the most appropriate given the current state of the District's water system.** This approach recognizes the cost of providing capacity to customers as if the capacity were added at the time it was needed for new growth and it compensates the existing customers for carrying costs of excess capacity to date. In addition, while many of the District's assets have theoretically exceeded their useful life, they are in fact perfectly capable of performing as required.

The recommended buy-in cost basis is \$9.4 million.

Additions and Deduction to Value of Assets

The estimated cost of assets that will be rehabilitated or replaced in fiscal year 2024, prior to the updated fee implementation, is added. The cost of land is also added.

Grant-funded portions of assets are removed, as are contributed capital (assets that were built by a private party and dedicated to the District). Outstanding principal on the USDA loan is also deducted because when new customers become rate-paying customers, they will pay for debt in their rates.

³ American Water Works Association M1 Manual page 332 describes the valuation approaches and states, "A combination of the approaches may also be used."

The subtotal cost basis is \$9.0 million.

Adjustments

Adjustments to the cost basis include addition of unrestricted cash reserves and administration costs.

- Unrestricted cash reserves were \$1.0 million as of June 30, 2023.
- An administrative fee of three percent of the cost basis is added for collection and handling of the fees, public hearing costs⁴, and periodic updates of the fee program.

The capacity fee total buy-in cost basis with adjustments is \$10.3 million.

5.4 CAPACITY FEES CALCULATION

The total buy-in cost basis is divided by the estimated total number of ERUs that the District can serve with its infrastructure (once the portion of the system that was destroyed by the Caldor Fire has been restored). The fee calculation is shown in **Table 26**.

The recommended fee increases the District's current capacity fee from \$6,030 to \$8,312 per ERU.

In accordance with changes to California law in recent years, it is recommended that all residential units pay the capacity fee on a per building square foot basis. Creation of ADUs is permitted by California law on all residential and mixed-use zoned properties. Per Government Code 65852.2, capacity fees for ADUs must be charged on a per building square foot or fixture unit basis. Capacity fees for attached ADUs (and Junior ADUs) may only be charged if the unit is constructed with a new single-family home. A new detached ADU may be charged a capacity fee whenever it is built.

To establish the water capacity fee on a building square foot basis, the fee per ERU is divided by the typical size of a home in the District's service territory. The typical size of a home is calculated as the median of permanent single-family homes in the District's service territory as of June 2023. It is 1,596 building square feet.

The calculated updated water capacity fee by new development land use type is shown in **Table 27**.

⁴ Government Code 66016 (c).

Table 26
Capacity Fee Calculation

Item	Replacement Cost less Depreciation
Buy-In Cost Basis	
Value of 2023/24 Assets	\$9,356,111
+ Fiscal Year 2023/24 Improvements	\$150,000
+ Land	\$237,405
- Grant-funded Projects	\$0
- Outstanding Principal on Debt	(\$754,813)
Subtotal Cost Basis	\$8,988,702
Adjustments	
+ Unrestricted Cash Reserves	\$1,049,576
+ Administration (3%)	\$269,661
Subtotal Adjustments	\$1,319,237
Total Buy-In Cost Basis	\$10,307,939
Number of ERUs Served	1,233
Total Fee per ERU	\$8,360
Typical Size of Home (building sq. ft.)	1,596
Residential Fee per building sq. ft.	\$5.24

Source: GFCSD supporting data and HEC August 2023.

exp costs

Table 27
Calculated Updated Water Capacity Fees

New Development Use Type	Jan 2024 Capacity Fee
Residential (per building sq. ft.)	\$5.24
Non-Residential (by meter size)	
1-inch or smaller	\$8,360
1.5-inch	\$16,720
2-inch	\$26,752
3-inch	\$53,504
4-inch	\$83,600
6-inch	\$167,201

Source: HEC August 2023.

conn fees

5.5 CAPACITY FEE ADOPTION AND FUTURE ADJUSTMENTS

Pursuant to California Government Code 66016, prior to increasing an existing fee or adopting a new fee, an agency must hold at least one open and public meeting. Notice of the time and place of the meeting, including a general explanation of the matter to be considered, and a statement that all supporting studies and information are available to the public, shall be noticed at least 10 days prior to the meeting. Increases to an existing fee or adoption of a new fee may be made by ordinance or resolution.

It is recommended that the District update the Water Capacity Fee every January 1 based on the change in the San Francisco Engineering News-Record Construction Cost Index for the previous 12 months November to November period. Periodic review of the Water Capacity Fee is also recommended whenever estimated costs are revised pursuant to an update of the District's Water Master Plan, or whenever there are land use changes made by El Dorado County that would affect projected growth in the District's service territory.

5.6 MITIGATION FEE ACT COMPLIANCE

The District must deposit capacity fee revenues in a separate Capacity Fees Fund to avoid any comingling with other monies of the District. Any interest income earned must also be deposited into the Capacity Fees Fund. In addition, the District must comply with annual and five-year reporting requirements for the Capacity Fees Fund.

Within 180 days of the end of a fiscal year, the following is to be furnished for the prior fiscal year:

1. A description of the charges deposited in the fund,
2. The beginning and ending balance of the fund,
3. The amount of the fees collected, and interest earned,
4. An identification of each public improvement for which fees were expended and the amount of expenditure for each improvement, including the percentage of the total cost of the improvement that was funded with capacity fees if more than one source of funding was used,
5. An identification of each public improvement on which charges were expended that were completed during the fiscal year, and each improvement anticipated to be undertaken in the following fiscal year, and
6. A description of any interfund transfer or loan made from the Capacity Fee Fund, identification of any public improvements on which any transferred monies are, or will be, expended, and a description of repayment terms.

All the above information may be included in the District's annual financial report.