**GOLD MOUNTAIN COMMUNITY SERVICES DISTRICT**

**Portola, CA**

**Final Budget**

**Fiscal Year 2021-2022**

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**Established 1996**

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**Fiscal Year 2021-2022 Final Budget**

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**GOLD MOUNTAIN COMMUNITY SERVICES DISTRICT**

**Fiscal Year 2021-2022 Final Budget**

**District Profile**

Gold Mountain Community Services District (the District) was established in 1996 as a dependent district under the Plumas County Board of Supervisors. Transitioning to local control as an independent district in 2005, the District provides domestic water, wastewater, and contracted Fire Protection and Emergency Medical services to the Nakoma Community. The District encompasses approximately 1280 acres, 401 homesites, 125 acres of common area open space, and the Nakoma resort consisting of the Frank Lloyd Wright clubhouse, recreation facility, 43-unit hotel, and a fractional ownership residential complex.

Representing an altitude variance of approximately 1000 feet from north to south, District infrastructure moves water from four (4) deep granite wells through nine (9) pressure zones for both domestic water use and fire flows. Critical infrastructure consists of five (5) well sites, seven (7) lift stations, two (2) 140,000-gallon water storage tanks, fifteen (15) fire hydrants, a 90,000-gallon pool designated for fire use, two golf course ponds designated for fire use, and two leach field facilities. The District’s extensive infrastructure is critical to providing fire flows for structural fire protection, but also for providing water necessary to support wildfire suppression for the entire region.

A five-member Board of Directors governs the District. The Board members are elected from registered voters within the District boundaries, elected to serve staggered four-year terms. The Board assigns administrative responsibilities to a General Manager. The General Manager is responsible for implementing the policies of the District and is also the District Treasurer. The Treasurer is responsible, through the District’s Administrative Manager, for installing and maintaining the system of auditing and accounting that shall completely, and at all times, show the financial condition of the District. A senior Board member serves as the Financial Advisor, providing a cross check of District finances and manages invested reserve funds.

The small staff consists of the General Manager, Assistant General Manager/Lead Operator, Administrative Manager, two Operator I’s, and a part-time Fire Coordinator. The Administrative Manager is responsible for billing, accounting, budgets, payroll, contracting, human resources, computer support, and general administration of the District. The Assistant GM/Lead Field Operator is responsible for all field operations including project planning, installations, repairs, maintenance, trouble shooting, and employee supervision. The Fire Coordinator interacts with the local contracted Fire Protection District, manages the District’s Quick Attack Vehicles (QAV), and assists the board, staff, and Firewise Committee on all fire related issues. The entire staff works cooperatively to accomplish the District’s mission to provide domestic water, wastewater, and Fire Protection services.

The District’s Board maintains three standing committees, Finance, Policy, and a joint Firewise USA committee with the Nakoma Community Organization. The Board currently sponsors a number of ad-hoc committees including the Risk Mitigation and Transparency Committees to address emerging requirements.

**District Financial Overview**

The District’s Fiscal Year (FY) runs from July 1st to June 30th of each year. District finances are organized into two “funds,” the Water and Sewer Fund with revenues generated by user and non-user fees for water and sewer, as well as System Development Charges (SDC) and Consumption Fees; and the Fire Fund, with revenues generated by the District’s self-imposed Fire Tax. The Administrative Manager maintains separate books and bank accounts for each fund.

The District bills residential and commercial customers directly for user and non-user fees. We collect the fire tax on residential properties through the County tax roll and bills commercial customer directly for their annual fire tax. The District maintains three reserve accounts invested with Fidelity Investments; Capital Restricted Reserves funded by connection and consumption fees; Operation Reserves funded by surplus annual operational funds; and Fire Reserves, funded by surplus fire operating funds.

Figure 1 provides a summary depiction of the District’s funding structure

**Diagram

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***Figure 1, District Funding.*** The District maintains discreet funding structures to provide clear separation of Water and Sewer (W&S) and Fire funds, as well as separation of Capital and Operating funds.

Figure 2 provides a summary depiction of funding sources, allocations, and accounting categories.

Timeline

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***Figure 2, Accounting Allocation Categories.*** The District maintains discreet funding structures so as to not intermingle dollars in different operating categories

Notes:

1. The District maintains only one payroll account in the Water and Sewer Fund. Labor executed in the Fire Fund is accounted for through an annual funding transfer from Fire to W&S to account for Fire labor.
2. Overhead expenses allocated to Fire are handled by an annual 15% transfer of funds from Fire to W&S to account for management and general administrative costs.

**District Rate History**

District rates were originally set by the Plumas County Board of Supervisors (BOS) for users (connected customers) and non-user (standby) customers. All residential parcels in the district, and the majority of the commercial parcels, have water and sewer connections at the lot with appropriate meter sets. Both users and non-users were assessed a fee for the operation and maintenance of the water and sewer system. The developer originally agreed to subsidize 50% of the non-user fee on each residential parcel to encourage property sales but failed to reimburse the County for those subsidies. When the developer filed for bankruptcy in 2005, the BOS rolled back non-user fees to the 50% level to avoid having to assess owners for back fees. The developer completed roughly 50% of district infrastructure prior to filing bankruptcy and made no provisions for completion of the remaining segments. Additionally, the County failed to establish a property sharing agreement to cover the cost of fire protection resulting in the District being significantly underfunded in the early years. In 2005 local owner/residents successfully petitioned the BOS for local control of the District. The new independent CSD commissioned a rate study in 2006 resulting in a series of both user and non-user rate increases between 2006 and 2011. No rate increases have been executed since 2011. Figures 3 and 4 provide an overview of the Districts W&S rate history for both user and non-user fees.

Table

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***Figure 3, W&S User Rate History.*** District water rates have increased by Board resolution five times since 2006 with no increases since 2011.

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***Figure 4, W&S Non-User Rate History.*** District non-user rates were initially reduced due to a failed subsidy agreement with the developer, and later adjusted upwards by Board Resolution.

In 2006, lacking funds to provide mandated fire protection and emergency medical services, the District passed a Fire Tax to establish a steady source of fire revenues. The District uses Fire Tax revenues for contracted Fire Protection, fuel break maintenance, firefighting equipment, and community hazardous fuel removal. The Fire Tax includes a provision for annual increases voted in by Board Resolution.

**District Budget History**

With the 2006 rate study and passage of the community Fire Tax, the District started down a path to a balanced budget and healthy financial posture. As shown in Figures 3 and 4, the District struggled with finding a correct balance and overcoming a number of major incidents with serious financial impacts including a landslide that threatened the District’s water storage and a failed leach field. By 2009 the District achieved a solid budget with annual operating surpluses that fueled growing reserves for both the W&S and Fire funds. 3% percent annual escalations in 2010 and 2011 based on the 2006 5-year rate study positioned the District for several years of strong performance.

For reasons unknown, the District did not commission another 5-year rate study after 2011 and did not continue the practice of small annual escalations. With a regular turnover of Board members, a balanced budget, and healthy reserves, one can assume that the need for rate increases was effectively masked over the next 9 years. A number of factors working in the background however served to slowly erode the budget surpluses put in place in 2006-20011.

1. Due to high employee turnover, the District recognized the risk of relying on part-time employees that traditionally are looking for more full-time opportunities, especially critical in the limited Portola employee market. In 2015 the District transitioned both the senior Feld Operator and Administrative Assistant to full time positions. With the intent of retaining these strong employees in both positions, the District took the next step and instituted a benefit program for full time employees. At the time, the District only had two full-time employees, but the benefits policy set a precedence that has a much greater impact six years later with 4 full time employees. The District’s compensation and benefit plan has served the District well in retaining strong performers with zero turnover in the last four years.
2. In 2010 the District had two part time field operators and a licensed part time General Manager. Growing infrastructure requirements during the ensuing years highlighted the need for additional licensed operators and general laborers. The District’s water and sewer systems are manually operated, requiring operators to make daily rounds of the District 7 days a week, 365 days a year. In addition, even a small District requires an emergency backup capability on call 7/24. By 2018, the need for a third operator resulted in the District hiring a full-time entry level position to bolster the field staff.
3. Continually aging infrastructure since 2010 has manifested itself in growing failure rates. Critical pumps, valves, pressure tanks and other components require replacement to keep the District in a state of good repair. In addition, the District’s two Leach fields are requiring increased monitoring and control to prevent oversaturation and failure at the cost of increased labor requirements.
4. In December 2018, the District lost its long time General Manager who was also the District’s senior and most experienced licensed operator. The Board President stepped down to temporarily manage the District until a new GM could be identified and hired. A six-month employee search failed to find a qualified candidate meeting the District’s requirements and the acting GM was hired at 25% time to manage the district, promoting the District’s one experienced licensed Operator to a Lead Operator/Assistant GM position. This again left the District with only one experienced operator which is an untenable position for a water and sewer operation. In 2020 the District hired a second experienced and licensed operator to provide backup and resilience to the field staff.
5. Economic factors in California have resulted in an overall inflation rate averaging 1.78% since 2010 resulting ins a 21.4% increase in the cost of doing business. A key indicator of these increased costs in the price of electricity which has increased 45% increase since 2011.
6. State mandates for the testing, inspection, and safety of water and sewer systems have steadily risen over the past 10 years. Each year those requirements have increased and now include mandatory annual inspections of all septic tanks, mandatory blowout of dead-end mains, mandatory exercising of system valves, and a host of other new requirements. These are just a few examples of expanding day-to-day requirements and challenges faced by the District field unit.

As a result, over the last 10 years the CSD had seen approximately an 80% growth in our operating budget, versus only a 18% growth in operating income. In 2011, the CSD was able to contribute significant surplus operating funds to our Capital Reserves account. Fast forward 10 years and our 2020-2021 budget required pulling $30k from operational reserves to meet budget. Between 2010 and 2018, operating surpluses at end of the year, while dwindling, served to mask the need to stay abreast of slowly rising operating expenses. For comparison purposes, Exhibit 1 provides a 5-year summary of W&S performance. Exhibit 2 provides a 5-year summary of Fire performance.

**2020/2021 W&S BUDGET PERFORMANCE**

FY 2020/2021 represented the first operating year requiring an augment of reserve funds to meet the proposed operating budget. The year also represented a number of significant accomplishments to include:

1. Completion of new Well 37 (expected to come online in June 2021)
2. Completion of Well 36 remediation work
3. Purchase of lot 348 for a high elevation water tank
4. Update of Booster Stations #4 and #5 with new more efficient jockey pumps to significantly reduce cycling and cut energy costs
5. Installation of the new Red Sky fire hydrant providing a direct feed from the District’s water tanks.
6. Installation of new monitoring wells at both the Windsong and Falling Water leach fields.
7. Upgrades to the Falling Water dousing station
8. Complete rebuild of the Well 17 pump house and field office
9. Completion of the meter replacement project with electronic meters
10. Replacement of a number of new main distribution buried valve sets
11. Realignment of reserve funds into a Capital Restricted Reserve and Operational Reserve accounts to prevent the commingling Restricted Reserve Dollars

These projects required close observation and management of operational dollars to prevent cost overruns. While we were able to prevent transferring further dollars from Operational Reserves, we recognized in March 2020 that we were pressuring our W&S Operational budget to the limit and took two significant steps to control W&S spending. First, we cut our two Field Operators back to 4 days a week and set up flexible schedules to maintain our 7-day a week rounds and on-call assignment. Second, we shifted field operators to hazardous fuel treatment (HFT) projects accounted against the fire fund, including removal of fuels around the District’s water storage tanks and the Windsong leach field. In late April, the District was awarded a $242k Power Resilience grant from CalOES. Funded in May 2021, the grant dollars are allowing us to return our field staff to full time and takes pressure off the W&S operating budget. As a result of these actions and the grant, the District is forecast to end the year in the black.

**2021/2022 W&S BUDGET CHALLENGES**

Ending FY 2020/2021, the District is preparing for a new rate study to examine adequacy of District water and sewer rates. The rate study process is expected to take from 6 months to a year before new rates can be proposed and approved. As a result, FY 2021/2022 presents significant challenges to operating with a balanced budget. At the same time, the District intends to keep the momentum moving to return the District to a state of good repair and working on infrastructure improvements. The key to meeting these objectives is the newly funded CalOES grant. While the majority of grant dollars will go towards equipment costs, we will use District labor to execute most of the required work. Grant funding effectively represents $29k of labor which will offset W&S labor, essentially equivalent to the $30k required in FY 2020/2021 to meet budget. In addition, we will continue the practice adopted this past year to move a small portion of field labor to the Fire Fund, continuing HFT and Fire related tasks.

**2021/2022 PROPOSED W&S BUDGET**

Exhibit 3 provides our proposed 2021/2022 Budget. The first Tab represents our proposed W&S budget. The District is fortunate to have a residential customer base with exceptionally low delinquencies. Previous issues with commercial customer payments to a great extent have been remedied with a now solid payment record. Our primary assumption in this budget is that delinquency rates will remain low for both residential and commercial customers.

**Income**: We do not expect any significant changes to either User or Non-User fee income. While there has been considerable turnover in the district, there is only a possibility of two new projects moving from Non-User to User status in this FY.

Notable changes include:

**Line 6201.1** – new line item - $29,000 in grant funding

**Line 6201.2** – new line item – Fire Labor Transfers. The District maintains only one payroll account accounting for all employees. Previously, we transferred dollars from the Fire fund to reimburse W&S as employees (previously the Fire Manager/Fire Coordinator) accrued hours. We are changing this practice to directly budget for Fire labor reimbursements based directly of forecast hours. This practice will make it easier to track execution against budget.

**Line 6203** – Fire Admin Fee – increasing this fee from 13% to 15% ($3,200) based on slightly increased cost related to taking over the lease of the HOA office to serve as a fire office. The Fire Coordinator is also taking on more general duties and projects of an administrative nature.

**Expenses**: Notable changes:

**Line 7001.1** – new line item - $12,000. A previously discussed, this represents a new method of accounting for work accomplished in the Fire Fund. These dollars are effectively accounted for against the Fire Labor Transfer funding line (6201.2)

**Line 7001.10** – Elimination of the Fire Manager position.

**Line 7001.91** – Operator 1. Kelsey Allingham was hired in 2020/21 as a temporary probationary employee as reflected in the FY2020/21 budget. Kelsey has exceeded expectations and proven himself as an experienced operator who recently passed his latest licensing exams. Kelsey provides an experienced and capable operator providing depth and resilience should anything happen to our Lead Operator. This expenditure increase represents his full-time status.

**Line 7023** – Performance Incentives. Added at the recommendation of the Executive Committee to provide a budget line to award exceptional performance.

**Line 7036** – Employee Insurance. This increase represents a combination of the effects of our benefit policy and as overall increasing insurance costs.

**Line 7063** – CSD Fees. As a result of our agreement to temporarily halt paying CSD fees on our 4 CSD lots, we are able to zero out this line for this FY.

**Line 7209-5** – Septic Tank Pumping. Represent the increased cost related to the State’s increased septic tank inspection requirements.

Remaining changes represent small adjustments based on analysis of FY 2020/2021 performance. At the bottom line we a projecting a balanced W&S budget.

**2021/2022 PROPOSED FIRE BUDGET**

The Fire Fund remains relatively stable as demonstrated by Exhibit 2, 5-year performance summary. Exhibit 3, Tab 2 presents our proposed FY 2021/2022 Fire Fund budget.

**Income** is forecast to remain stable with a marginal increase due to the annual escalation clause.

**Expenses**. As previously discussed, the change in accounting shows a $30k Fire Labor expenditure as a budgeted item. The $30k values is slightly inflated this year due to the plan to continue to use District labor to perform HFT efforts under the Fire Fund to take pressure off W&S until we can complete the rate study and adjust W&S rates to reflect the increased costs of operation. The result of this adjustment is that the Fire Fund will not generate a surplus this year and therefore not be able to contribute to Fire reserves. In following year, Fire labor should be restricted primarily to the Fire Coordinator allowing the District to renew Reserve contributions.

**2021/2022 DISTRICT RESERVES**

With the realignment of reserves over the past year, we now have a solid reserve plan, fully in line with CSD law. Current total reserves equal $570,303

**Current reserves include:**

Capital Restricted Reserves (CRR): $171,695

* With the reserve realignment in 2020, the CRC account totaled $365,911
* $195,000 in withdrawals to support of Well 36 and 37 development
* Expected income of $24,000 from two 2021 SDC payments
* Current balance reflects investment results.

Operational Reserves (OR): $244,785

* With the reserve realignment in 2020, the OR account totaled $315,102
* $30,000 withdrawal to support the FY 2020/2021 operations budget shortfalls
* $40,000 withdrawal to support the purchase of Lot 348 for a future high elevation water storage tank
* Current balance reflects investment results.

Fire Reserves (FR): $153,823

* No changes to the 2020/2021 FR account

**FY 2021/2022 Forecast**

Capital Restricted Reserves:

* Based on current Design Review Committee reports we are forecasting income of $36,000 in SDC payments and $11,000 in consumption charges.
* Potential withdrawal to support continual rehabilitation of Well 29.

Operational Reserves:

* No FY 2020/2021 surplus forecast to contribute to OR
* Current balance includes three months operating reserve of $150,000
* Balance of $95,000 available for emerging operational contingencies
* Currently have $15,000 designated for reserve studies. This amount is likely insufficient based on rate study proposals

Fire Reserves:

* Possible augment of $10,000 to $15,000 from FY 2020/2021 Fire Fund surplus
* Potential required to withdrawal $20,000 to support Fire District Consolidation Study

**BUDGET CONCLUSIONS**

Despite significant challenges in 2020/2021, we will end the year slightly in the black. While the District is in need of both a strategic study and a rate study, the timely addition of grant dollars in May of 2020 will allow us to executed FY 2021/2022 requirements without pulling funds out of reserves. While the District will need to carefully manage extremely limited operational dollars to make budget, we have the ability to shift some labor from the W&S fund to fire related projects reimbursed from the Fire Fund. Continuing efforts to apply for and receive grant dollars also may take pressure off the operating budget, but at the same time will require renewed efforts of our already close to capacity staff. Completing a rate study and developing a solid 5-year plan needs to be a critical District priority.