

TO: BOARD OF DIRECTORS

REVIEWED: MARIO IGLESIAS  
GENERAL MANAGER

*MB*

FROM: LISA BOGNUDA *LSB*  
FINANCE DIRECTOR

DATE: JUNE 2, 2016

**AGENDA ITEM  
E-5 (B)  
JUNE 8, 2016**

**ADOPT 2016-2017 FISCAL YEAR BUDGET FOR  
NIPOMO SUPPLEMENTAL WATER PROJECT (NSWP)**

**ITEM**

Public Hearing to consider adoption of Fiscal Year 2016-2017 budget for Nipomo Supplemental Water Project (NSWP) [RECOMMEND CONDUCT PUBLIC HEARING, CONSIDER TESTIMONY, ORDER EDITS IF ANY AND BY MOTION AND ROLL CALL VOTE ADOPT RESOLUTION APPROVING NSWP 2016-2017 FISCAL YEAR BUDGET]

**BACKGROUND**

On April 20, 2016, the Finance and Audit Committee met and reviewed the draft Fiscal Year 2016-2017 NSWP Budget. The Finance and Audit Committee recommended changes and their recommendations have been included in the draft. The NSWP Budget was provided to WMWC and GSWC on April 28, 2016 and no comments were received. The Board of Directors reviewed the draft Budget on May 11, 2016

The Nipomo Community Services District (District), City of Santa Maria (City), Woodlands Mutual Water Company (WMWC), Golden State Water Company (GSWC), Rural Water Company (RWC), along with hundreds of other individuals and entities are parties to a certain groundwater adjudication commonly referred to as the Santa Maria Groundwater Litigation. The Judgment (through the Stipulation) requires the District to purchase and transmit to the Nipomo Mesa Management Area (NMMA) a minimum of 2,500 acre-feet of "Nipomo Supplemental Water" each year and to employ its best efforts to timely implement the Nipomo Supplemental Water Project (NSWP).

The Judgment further provides that once the Nipomo Supplemental Water is capable of being delivered, the Parties shall purchase the following portions of Nipomo Supplemental Water each year to offset groundwater pumping within the NMMA.

ENTITY	PERCENT ALLOCATION	AFY
NCSD	66.68	1,667.00
WMWC	16.66	416.50
GSWC	8.33	208.25
RWC	8.33	208.25
TOTAL	100.00	2,500.00

On May 3, 2013, the District entered into a Wholesale Water Supply Agreement with the City of Santa Maria to purchase supplemental water. Upon completion of the interconnection, the minimum quantity of purchase/delivery is as follows:

DELIVERY YEARS	MINIMUM DELIVERY VOLUME (AFY)
1	645
2-5	800
6-10	1,000
11- Term	2,500

On July 2, 2015, supplemental water began flowing from the City of Santa Maria into the Nipomo Community Services District system.

On October 16, 2015, the Supplemental Water Management and Groundwater Replenishment Agreement (Agreement) was approved by the District, WMWC, GSWC and RWC. The agreement outlines all parties' responsibilities and obligations relating to the delivery and payment of supplemental water. Section VIII of the agreement states in part as follows:

- A. District shall operate the NSWP as an enterprise fund, separating all costs related to the NSWP within and only to that NSWP fund. Prudent Utility Practices shall apply to District's management of the NSWP Enterprise Fund.
- B. Each Fiscal Year District shall prepare a NSWP Enterprise Fund Budget (Budget) for all revenues and expenditures related to the NSWP Enterprise Fund. The Budget shall include a summary of projected NSW deliveries and Costs associated with those deliveries. A draft of the Budget shall be available to each Water Company for review by May 1<sup>st</sup> of each year. District shall make every reasonable effort to adopt the final Budget during June of each year at a regularly scheduled District board meeting. The Advisory Committee shall determine the most effective content, format and reporting frequency for financial and budget reports for the NSWP Enterprise Fund.
- C. The Budget shall provide the basis for and detail the cost allocations and quarterly billing described in Section IX.

The District receives and pays a quarterly invoice from the City for the cost of water. The District in turn invoices WMW and GSWC for their applicable percentages of the cost of water in addition to other applicable costs pursuant to the agreement. WMWC and GSWC are current on their quarterly payments.

Attached is the Budget based on purchase of 800 acre feet of supplemental water. The City has provided an estimate of the cost of water for FY 2016-17; however, the Base Energy Cost CPI will be adjusted based on the July index. The Operations and Maintenance (O&M) Budget has been estimated based on current fiscal year expenditures. Since the NSWP has been in operation less than one full year, unanticipated expenditures may arise throughout the year as operations become more refined. The administrative fee is set at 15% of O & M costs.

#### RECOMMENDATION

Conduct a public hearing, consider testimony, order edits, if any and by motion and roll call vote adopt Resolution approving the 2016-2017 NSWP Budget.

#### ATTACHMENTS

- A. Resolution 2016-XXXX (NSWP Budget adoption)
- B. Draft NSWP Budget

June 8, 2016

ITEM E-5(B)

ATTACHMENT A

**NIPOMO COMMUNITY SERVICES DISTRICT  
RESOLUTION 2016-XXXX**

**A RESOLUTION OF THE BOARD OF DIRECTORS  
OF THE NIPOMO COMMUNITY SERVICES DISTRICT  
ADOPTING THE NSWP (NIPOMO SUPPLEMENTAL WATER PROJECT)  
2016-2017 FISCAL YEAR BUDGET**

**WHEREAS**, on October 16, 2015, the Nipomo Supplemental Water Project Water Management and Groundwater Replenishment Agreement ("Agreement") was made between Nipomo Community Services District (NCSD), Rural Water Company (RWC), The Woodlands Mutual Water Company (WMWC), and Golden State Water Company (GSWC), collectively referred to as the Parties, and

**WHEREAS**, the purpose of the Agreement is to enable the Parties to meet their respective obligations under the Judgment based on the percentage allocations presented in Section I.K regarding the NSWP. In particular, the Parties intend this Agreement to provide for: (1) payment to NCSD for each Party's allocation of Costs and (2) distribution and use of Nipomo Supplemental Water, and

**WHEREAS**, pursuant to the Agreement, each fiscal year NCSD shall prepare a NSWP Enterprise Fund Budget for all revenues and expenditures related to the NSWP Enterprise Fund. The Budget shall include a summary of projected Nipomo Supplemental Water deliveries and the Costs associated with those deliveries. A draft of the Budget shall be available to each Party for review by May 1<sup>st</sup> of each year. NCSD shall make every reasonable effort to adopt the final Budget during June of each year at a regularly scheduled NCSD board meeting. The Advisory Committee shall determine the most effective content, format and reporting frequency for financial and budget reports for the NSWP Enterprise Fund.

**NOW, THEREFORE, BE IT RESOLVED, DETERMINED, AND ORDERED** by the Board of Directors of the Nipomo Community Services District, San Luis Obispo County, California, as follows:

1. The 2016-2017 Nipomo Supplemental Water Project Budget is hereby approved and adopted.
2. The budget be administered in accordance with generally accepted accounting principles and the past policies and practices established by the District and pursuant to the Agreement.
3. The above Recitals are true and correct and incorporated herein by this reference.

Upon motion of Director \_\_\_\_, seconded by Director \_\_\_\_, and on the following roll call vote, to wit:

**AYES:**  
**NOES:**  
**ABSENT:**  
**ABSTAIN:**

the foregoing Resolution is hereby adopted this 8<sup>th</sup> day of June 2016.

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**CRAIG ARMSTRONG**  
President of the Board

ATTEST:

APPROVED AS TO FORM:

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**MARIO IGLESIAS**  
Secretary to the Board

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**MICHAEL W. SEITZ**  
District Legal Counsel

June 8, 2016

ITEM E-5(B)

ATTACHMENT B

**NIPOMO COMMUNITY SERVICES DISTRICT  
NIPOMO SUPPLEMENTAL WATER PROJECT (NSWP)  
BUDGET FOR FISCAL YEAR 2016-2017**

	Acre Feet Purchase	Cost per Acre Foot (FY 16-17)	Total Cost
Water Purchase Fiscal Year 2016-2017 (see page 2)	800	\$1,594.00	\$1,275,200.00
NCSD Water O & M Cost per AF ** (see page 3)	800	\$134.75	\$107,800.00
NCSD Admin Fee per AF (15% of O & M per AF) ** (see page 3)	800	\$20.21	\$16,168.00
		<u>\$1,748.96</u>	<u>\$1,399,168.00</u>

\*\*To be adjusted annually based on actual costs

	TOTAL	NCSD	WMWC	GSWC
1 Phase 1 Supplemental Water Annual Allocation (AF)	800	533.44	133.28	133.28
2 Phase 1 Supplemental Water Delivery Percentages	100.00%	66.68%	16.66%	16.66%
3 Pass-Through Supplemental Water Cost	\$1,275,200	\$850,304	\$212,448	\$212,448
4 Supplemental Water O & M Cost	\$107,800	\$71,882	\$17,959	\$17,959
5 Supplemental Water NCSD Admin Fee	\$16,168	\$10,780	\$2,694	\$2,694
<b>6 Total Annual Supplemental Water Volume Cost</b>	<b>\$1,399,168</b>	<b>\$932,966</b>	<b>\$233,101</b>	<b>\$233,101</b>

	TOTAL	NCSD	WMWC	GSWC
7 Allocated Project Capacity (AF)	3,000.00	2,167.00	416.50	416.50
8 Percentage of Fixed Capital Cost Allocation	100.00%	72.24%	13.88%	13.88%
9 Yearly Capital Recovery Charge-Principal (1) (2)	\$74,343	\$0	\$32,524	\$41,819
10 Yearly Capital Recovery Charge-Interest (1) (2)	\$354,603	\$0	\$198,862	\$155,741
11 Supplemental Water Project Yearly Replacement(3)	\$206,865	\$149,439	\$28,713	\$28,713
<b>12 Total Annual Fixed Supplemental Charges</b>	<b>\$635,811</b>	<b>\$149,439</b>	<b>\$260,099</b>	<b>\$226,273</b>

<b>13 Total Volume and Annual Fixed Charges for Fiscal Year 2016-2017 (Line 6 + Line 12)</b>	<b>\$2,034,979</b>	<b>\$1,082,405</b>	<b>\$493,200</b>	<b>\$459,374</b>
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14 Electrical Pumping Credit (\$100.57 per acre foot)	(\$26,808)	\$0	(\$13,404)	(\$13,404)
<b>15 SUPPLEMENTAL WATER BUDGET FISCAL YEAR 2016-2017</b>	<b>\$2,008,171</b>	<b>\$1,082,405</b>	<b>\$479,796</b>	<b>\$445,970</b>

(1)	Per applicable amortization schedule as of June 30, 2016
(2)	To be re-amortized as of June 30, 2016 for project costs incurred between July 1, 2015 and June 30, 2016. New Amortization schedules will be issued with September 30, 2017 invoice.
(3)	Monthly replacement contribution of total Supplemental Water Project cost of \$20,686,509 assuming a 100 year project life = \$206,865 per year not to exceed \$3,000,000 adjusted annually for CPI per agreement

NCSD = Nipomo Community Services District  
WMWC = Woodlands Mutual Water Company  
GSWC = Golden State Water Company

**CITY OF SANTA MARIA & NIPOMO COMMUNITY SERVICES DISTRICT  
Calculations based on May 2013 Wholesale Supply Agreement**

<b>Assumptions:</b>	
Year 1 Demand (AF):	645
Years 2-5 Demand (AF):	800
Base Costs of Delivery (AF):	\$206.85
CPI Escalator Energy:	-1.20%

<b>CPI Index - Energy Services - Los Angeles-Riverside-Orange County, CA</b>		
Current	258.017	15-Jul
Base	264.188	May 2013 - date of signed agreement

Year	Minimum Demand	Base Water Rate (Tier 1)	Base Energy Cos Adj by Energy CI	Current Period Costs of Energy	Change in Costs of En	Net Water Rate	Minimum Invoice Amt
2015/16	645	\$1,496	\$204	\$227	\$23	\$1,519	\$979,553
2016/17	800	\$1,571	\$204	\$227	\$23	\$1,594	\$1,274,888
2017/18	800	\$1,649	\$204	\$227	\$23	\$1,672	\$1,337,614

<b>FY 2015/16 Rate - Tier 1 (Current)</b>	
\$3.43	SM Tier 1 Water Rate (Base) per HCF
435.60	100 CF units per Acre-Foot
\$1,495.85	Water Rate per AF
<b>FY 2016/17 Rate - Tier 1 (Proposed)</b>	
\$3.61	SM Tier 1 Water Rate (Base) per HCF
435.60	100 CF units per Acre-Foot
\$1,570.77	Water Rate per AF
<b>FY 2017/18 Rate - Tier 1 (Proposed)</b>	
\$3.79	SM Tier 1 Water Rate (Base) per HCF
435.60	100 CF units per Acre-Foot
\$1,649.18	Water Rate per AF

**Notes:**

- 1 Base Water Rate (Tier One) to be adjusted quarterly based on rate approved by City Council at beginning of Quarter (Item 6 in Wholesale Supply Agreement)
- 2 Base Energy Cost adjusted by CPI Index (Item 7 in Wholesale Supply Agreement)  
CPI based on table found at: <http://www.bls.gov/data/#>  
CPI adjusted annually based on July index  
Base Energy Cost to be adjusted annually at beginning of FY (July 1)
- 3 Invoices to be generated quarterly (Item 8 in Wholesale Supply Agreement)  
Qtr 1, 2, and 3 to be based on actual demand  
Qtr 4 to include true-up to minimum demand if actual demand is less than minimum

**NIPOMO COMMUNITY SERVICES DISTRICT  
NIPOMO SUPPLEMENTAL WATER PROJECT (NSWP)  
BUDGET FOR FISCAL YEAR 2016-2017**

**OPERATIONS AND MAINTENANCE BUDGET**

OPERATIONS AND MAINTENANCE	2015-16 EST ACTUAL	2016-17 PROPOSED
Electricity (1)	27,000	50,000
Labor (fully weighted)	11,000	12,000
Water	550	700
Chemicals	18,000	20,000
Lab Tests	0	2,000
Operating Supplies	5,000	6,000
Permits and Operating Fees	1,700	2,000
Insurance	2,550	5,100
Repairs and Maintenance	2,500	10,000
<b>TOTAL OPERATIONS AND MAINTENANCE</b>	<b>68,300</b>	<b>107,800</b>
Cost per acre foot @ 645 acre feet	105.89	
Cost per acre foot @ 800 acre feet		134.75
Overhead allocation 15% of O and M	15.88	20.21

(1) Starting July 1, 2016, both pumps will be running a portion of every day

**Note:**

On April 20, 2016, Nipomo Community Services District issued a Notice to Proceed for construction of the Joshua Road Pump Station Reservoir - Phase 2A. The estimated completion date is January 2017. The budget for this project is \$3.4M. Capital costs incurred during each fiscal year will be accumulated and at June 30 of each year, the amortization schedules will be adjusted to reflect each entities' share of the capital costs.



**NIPOMO COMMUNITY SERVICES DISTRICT  
NIPOMO SUPPLEMENTAL WATER PROJECT (NSWP)  
BUDGET FOR FISCAL YEAR 2016-2017**

**FUNDED REPLACEMENT RESERVES**

Beginning Balance, July 1, 2015		0
Collections FY 2015-16		
NCS	149,439	
WMWC	28,713	
GSWC	<u>28,713</u>	
		206,865
Estimated interest income FY 2015-2016		<u>90</u>
Estimated Ending Balance, June 30, 2016 (after collections of June 30, 2016 Invoice)		<u><u>206,955</u></u>
Collections FY 2016-17		
NCS	149,439	
WMWC	28,713	
GSWC	<u>28,713</u>	
		206,865
Estimated interest income FY 2016-17		<u>550</u>
Estimated Ending Balance, June 30, 2017 (after collections of June 30, 2017 Invoice)		<u><u>414,370</u></u>

<b>Funded Replacement Reserve Requirement - Pursuant to Section XVIII (J)</b>		
CPI Adjustment as of June 30, 2016 (See pages 5-7)		
CPI - 2015 Annual	244.632	
CPI - 2014 Annual	<u>(242.434)</u>	
	2.198	
Divide by previous period CPI ÷	<u>242.434</u>	
	0.009	
	X <u>100.000</u>	
Percent Change		<u><u>0.907</u></u>
Maximum Balance (to be adjusted annually)		3,000,000
Adjusted by CPI June 30, 2016 (\$3,000,000 x .907%)		27,210
Maximum Balance adjusted as of June 30, 2016		<u><u>3,027,210</u></u>

Note: Funds held in separate savings account at Rabobank