



Report on

Water Rate Study

for

Nipomo Community Services District

August 2011

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EXECUTIVE SUMMARY

This report has been prepared for the Nipomo Community Services District (District) by Tuckfield & Associates to document the findings and results of the District's 2010-11 Water Rate Study. The objectives of the study include the following.

- Analyze the Water Fund's historical revenue and revenue requirements, and project future revenue and revenue requirements recognizing the existing water service rates and future water system operations.
- Develop a reliable 5-year financial plan for the Water Fund that identifies adjustments to revenue to meet future Water Fund obligations.
- Create a schedule of water service rates that is fair and equitable, that provides predictable sources of revenue as described in the financial plan, and that meets Proposition 218 requirements for water service rates.

This study does not include operating and capital costs associated with the Supplemental Water Project for delivery of supplemental water from the City of Santa Maria. While efforts related to this project are on-going, the District has decided to move forward with this study to address current operating conditions, recognizing that this study will need to be updated when the costs, timing, and financing methods of the Supplemental Water Project have been further defined.

Water System Summary of Findings

- Capital improvements planned for the water system consist of the Desalination study and project, Misty Glen to Hetrick and Hetrick to Sandydale waterlines (Willow Phase I and II), a new water storage tank, and other projects. The improvements are estimated to cost over \$7,642,000 including inflation and will be financed entirely from District reserves and do not impact water rates.
- Analysis of the Water Fund's revenue and revenue requirements indicated that the fund will be deficient in meeting its future obligations. This is due to an existing operating deficiency and future inflation in operation and maintenance (O&M) expenses. Revenue from water service rates are proposed to increase by 9.5 percent on each November 1 of 2011 through 2015.
- Table ES-1 presents the proposed water fixed charges for implementation by the District. The fixed charges related to water system revenues are established by meter size and increase

annually with the proposed revenue increases. Fixed charges related to litigation expenses remain constant by meter size over the study period.

Table ES-1
Nipomo Community Services District
Water Utility
Proposed Bi-monthly Water Fixed Charges

Meter Size/ Litigation Charge	Nov 1, 2011-12	Nov 1, 2012-13	Nov 1, 2013-14	Nov 1, 2014-15	Nov 1, 2015-16
1 inch and less Litigation Charge	\$26.85 \$6.32	\$29.40 \$6.32	\$32.19 \$6.32	\$35.25 \$6.32	\$38.60 \$6.32
1 1/2 inch Litigation Charge	\$76.22 \$14.36	\$83.46 \$14.36	\$91.39 \$14.36	\$100.07 \$14.36	\$109.58 \$14.36
2 inch Litigation Charge	\$120.72 \$19.92	\$132.19 \$19.92	\$144.75 \$19.92	\$158.50 \$19.92	\$173.56 \$19.92
3 inch Litigation Charge	\$224.64 \$27.92	\$245.98 \$27.92	\$269.35 \$27.92	\$294.94 \$27.92	\$322.96 \$27.92
4 inch Litigation Charge	\$373.04 \$36.00	\$408.48 \$36.00	\$447.29 \$36.00	\$489.78 \$36.00	\$536.31 \$36.00
6 inch Litigation Charge	\$743.75 \$59.58	\$814.41 \$59.58	\$891.78 \$59.58	\$976.50 \$59.58	\$1,069.27 \$59.58
8 inch Litigation Charge	\$1,188.76 \$68.08	\$1,301.69 \$68.08	\$1,425.35 \$68.08	\$1,560.76 \$68.08	\$1,709.03 \$68.08

- Table ES-2 presents the proposed residential volume rates, designed in this study as a four-block rate structure. The rate structure applies to single-family and multi-family customers. The rate structure for multi-family customers has been designed to be applicable to each dwelling unit. For multi-family customers that have one meter serving multiple dwelling units, it is necessary to multiply the number of dwelling units on the meter by the block rate break points, then applying the usage through the blocks to appropriately apply the rate structure.
- Table 8 in the report presents the proposed non-residential volume rates, designed as a two-block rate structure for Commercial and Irrigation Customers. The rate structure applies to individual meter size, recognizing average consumption of each meter size as the first block break point. All other non-residential customers are charged a uniform rate.
- Table ES-3 presents example bi-monthly water bills at various levels of consumption for a single-family residential 1 inch meter and smaller. The table indicates that for the November 1, 2011 rate increase, the bi-monthly water bill for the average single-family customer consuming 40 Ccf bi-monthly will increase from \$90.12 to \$99.01 (exclusive of Litigation Charges), a \$8.89 increase, or 9.9 percent.

Table ES-2
 Nipomo Community Services District
 Water Utility
 Proposed Residential Water Consumption Rates^[1]

Customer Classification	Rate Block	Nov 1, 2011-12	Nov 1, 2012-13	Nov 1, 2013-14	Nov 1, 2014-15	Nov 1, 2015-16
Single-family						
<u>Proposed 4 Block Structure</u>						
	0 to 24 Ccf	\$1.64	\$1.80	\$1.97	\$2.16	\$2.37
	25 to 40 Ccf	\$2.05	\$2.25	\$2.46	\$2.69	\$2.95
	41 to 100 Ccf	\$2.88	\$3.15	\$3.45	\$3.78	\$4.14
	Over 100 Ccf	\$4.93	\$5.40	\$5.91	\$6.47	\$7.08
Multi-family						
<u>Proposed 4 Block Structure (per dwelling unit)</u>						
	0 to 8 Ccf	\$1.64	\$1.80	\$1.97	\$2.16	\$2.37
	9 to 12 Ccf	\$2.05	\$2.25	\$2.46	\$2.69	\$2.95
	13 to 25 Ccf	\$2.88	\$3.15	\$3.45	\$3.78	\$4.14
	Over 25 Ccf	\$4.93	\$5.40	\$5.91	\$6.47	\$7.08

^[1] Does not include fixed charges.

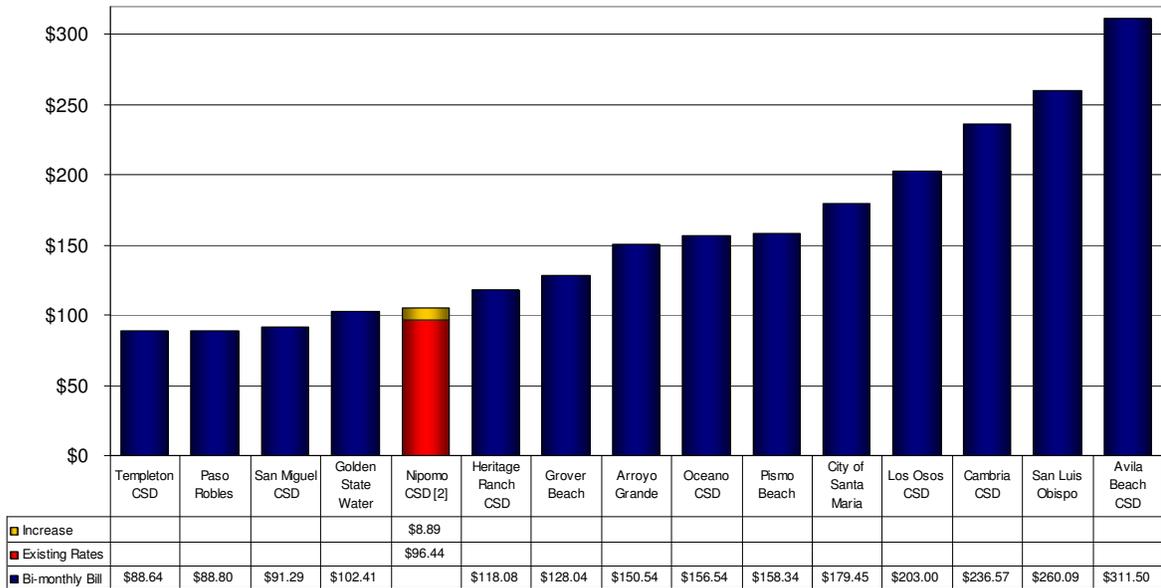
Table ES-3
 Nipomo Community Services District
 Water Utility
 Example Single-family Residential Bi-monthly Water Bills^[1]
 For Rates in Effect Nov 1, 2011

Customer Classification	Consumption Ccf	Existing Rates	Proposed 4 Block Rates	Difference	Percent Difference
Single-family	0	\$24.52	\$26.85	\$2.33	9.5%
1" meter	5	\$32.72	\$35.05	\$2.33	7.1%
and smaller	10	\$40.92	\$43.25	\$2.33	5.7%
	20	\$57.32	\$59.65	\$2.33	4.1%
	30	\$73.72	\$78.51	\$4.79	6.5%
	40	\$90.12	\$99.01	\$8.89	9.9%
	50	\$118.12	\$127.81	\$9.69	8.2%
	60	\$146.12	\$156.61	\$10.49	7.2%
	70	\$174.12	\$185.41	\$11.29	6.5%
	80	\$202.12	\$214.21	\$12.09	6.0%
	90	\$230.12	\$243.01	\$12.89	5.6%
	100	\$258.12	\$271.81	\$13.69	5.3%
	110	\$286.12	\$321.11	\$34.99	12.2%
	120	\$314.12	\$370.41	\$56.29	17.9%
	130	\$342.12	\$419.71	\$77.59	22.7%
	140	\$370.12	\$469.01	\$98.89	26.7%
	150	\$398.12	\$518.31	\$120.19	30.2%
	200	\$538.12	\$764.81	\$226.69	42.1%

^[1] Includes both fixed and consumption (variable) charges.

- Chart ES-1 has been prepared showing bi-monthly bills of water purveyors in San Luis Obispo County and other local communities. The comparison was prepared by applying the District’s average single-family residential water consumption of 40 Ccf to each of the purveyor’s single-family water rates for rates in effect July 1, 2010. The chart indicates that the District’s water bill, including the November 1, 2011 increase and the Litigation Charge, is in the lower half of the communities shown.

Chart ES-1
Selected Local Water Agencies
Comparison of Single-family Residential Bi-monthly Water Bills ^[1]
at 40 Ccf Bi-monthly



[1] For rates in effect July 2010.
 [2] Total bi-monthly bill is \$105.33.

1.0 INTRODUCTION

This report has been prepared for the Nipomo Community Services District (District) by Tuckfield & Associates and presents the findings and results of the 2010-11 Water Rate Study. The report includes development of a pro forma statement of revenues and expenses of the District's water enterprise fund and proposes adjustments to water rates for users of the system.

1.1 BACKGROUND

The Nipomo Community Services District was formed in 1965 and covers an area of approximately 4,650 acres. The District is located in the central coastal region of the state of California in San Luis Obispo County, north of Los Angeles by approximately 175 miles. The District has a population of over 12,100 and provides water service inside the District limits. Water service is accounted for in an enterprise fund of the District and relies upon user charges to meet all financial obligations.

The District obtains its water supply from eight active wells with an additional five wells on standby or out of service. The eight wells have a capacity of 3,920 gpm and extract water primarily from the Nipomo Mesa Management Area (NMMA) of the Santa Maria Groundwater Basin encompassing nearly 27.5 square miles. In addition to the groundwater wells, the water system includes six above ground storage reservoirs (tanks) and approximately 85 miles of distribution mains. The tanks have a storage capacity of 4.4 million gallons while the distribution system consists of piping ranging in size from 6 inch to 16 inches, valves, fire hydrants, and over 4,000 service connections.

1.2 SCOPE OF WORK

This study includes the results of the review and analysis of the District's Water Fund. Historical trends were analyzed from data provided by the District showing the number of customers, water consumption, revenue, and revenue requirements. Annual growth projections are reflected in the revenue projections by customer classification.

Revenue requirements include operation and maintenance expense, routine capital outlays, replacement, existing and proposed debt requirements, transfers, and additions to reserves. Changing conditions such as additional facilities, recognition of growth, and non-recurring maintenance expenditures are also recognized. Inflation for ongoing operation and maintenance expenses and other revenue requirements are included to reflect cost escalation.

From the Memorandum of Understanding (MOU) between the City of Santa Maria and the District, supplemental water is to be purchased from the City of Santa Maria and transmitted to the NMMA by the District. Under the MOU, the District is to receive an initial delivery of 2,000 ac-ft annually, thereby reducing groundwater pumping by the District. **However, the operating and capital costs associated with the Supplemental Water Project for delivery of supplemental water from the City of Santa Maria are not included in this study.** The timing of the project, its associated costs, and the amounts related to an assessment on parcels remain uncertain at

this time. It is anticipated that this study will need to be updated at a future date once the costs, timing, and financing methods of the Supplemental Water Project have been further defined.

Additionally, it should be noted that the financial plan and rates developed herein are based on the funding of the capital improvement plan as presented as well as estimates of operation and maintenance expenses. Any significant deviation from the construction cost estimates and funding requirements, major operating changes, or other financial policy changes that were not foreseen, may result in the need for lower or higher revenue than anticipated. It is suggested that the District conduct an update to the rate study at least every three years for prudent rate planning.

2.0 WATER UTILITY FINANCIAL PLANNING

Financial planning includes identifying and projecting revenues and revenue requirements for the Water Fund for a five-year planning period. A pro forma financial plan is prepared that compares revenue from projected water sales and other sources, with the projected revenue requirements of the fund. From this comparison, the pro forma statement is analyzed to determine the impacts from capital improvement financing decisions, from future estimates of operation and maintenance expense, and from any new obligation of the fund. The pro forma financial plan is then used to develop water service rates to meet the projected revenue requirements in such a manner that they may be phased-in to avoid rate spikes in any one particular year.

The remainder of this section discusses the capital improvement expenditures, the financing of those expenditures, and the revenue and revenue requirements identified for the Water Fund.

2.1 CAPITAL IMPROVEMENT PROGRAM

The District has developed a capital improvement program (CIP) for the water utility, presented in Table 1. The largest improvements include the Desalination study and project, a new water storage tank, and Misty Glen to Hetrick and Hetrick to Sandydale waterlines (Willow Phase I and II). Other improvement projects are also shown in the table. The cost of the improvements total over \$7,642,000, shown on line 17 of Table 1, and includes inflation.

Table 1
Nipomo Community Services District
Water Utility
Proposed Capital Improvement Program

Line No.	Project Description	Fiscal Year Ending June 30					Total	
		2010-11	2011-12	2012-13	2013-14	2014-15		2015-16
1	Desalination	\$0	\$0	\$0	\$300,000	\$500,000	\$500,000	\$1,300,000
2	Water Storage Tank	20,000	400,000	1,200,000	400,000	0	0	2,020,000
3	Misty Glen to Hetrick (Willow Phase 1)	150,000	300,000	0	0	0	0	450,000
4	Hetrick to Sandydale (Willow Phase 2)	315,000	200,000	0	0	0	0	515,000
5	SCADA Upgrades - Water Fund Share	30,000	140,000	20,000	20,000	20,000	20,000	250,000
6	Urban Water Management Plan Update	52,500	0	0	0	0	0	52,500
7	Shop Equipment Storage Building	108,000	16,500	0	0	0	0	124,500
8	Standpipe Mixing	0	200,000	0	0	0	0	200,000
9	Fire Hydrants	0	72,600	72,600	72,600	72,600	72,600	363,000
10	Valves	0	184,000	184,000	184,000	184,000	184,000	920,000
11	Air/Vac's	0	16,500	16,500	16,500	16,500	16,500	82,500
12	Well Refurbishment	100,000	100,000	100,000	100,000	100,000	100,000	600,000
13	Cathodic Protection	0	0	0	0	0	0	0
14	Well Buildings	14,000	0	0	0	0	0	14,000
15	Tank Coating and Repairs	162,000	0	0	0	0	0	162,000
16	Total Capital Improvements (Uninflated)	\$951,500	\$1,629,600	\$1,593,100	\$1,093,100	\$893,100	\$893,100	\$7,053,500
17	Total Capital Improvements (Inflated)^[1]	\$951,500	\$1,686,600	\$1,706,600	\$1,212,000	\$1,024,900	\$1,060,700	\$7,642,300

^[1] Projects inflated at 3.5% per year based on 5-year average annual increase in the historical ENR Index.

2.2 CAPITAL IMPROVEMENT PROGRAM FINANCING PLAN

Table 2 shows the sources of funds used to finance the improvements listed in Table 1. The sources of funding used to complete the CIP improvements generally follow the District’s adopted FY 2010-11 Budget.

The Desalination study and project will be financed from reserves from the Supplemental Water Fund. Reserves from the Water Capacity Fund are planned to pay for the water storage tank, waterlines, SCADA upgrades, Urban Water Management Plan, equipment storage building, and standpipe mixing. Reserves from the Water Replacement Fund are available for the remaining replacement improvements.

Table 2
 Nipomo Community Services District
 Water Utility
 Water Capital Improvement Financing

Line No.	Description	Fiscal Year Ending June 30					
		2010-11	2011-12	2012-13	2013-14	2014-15	2015-16
Source of Funds							
1	Funds on Hand at Beginning of Year	\$0	\$0	\$0	\$0	\$0	\$0
2	Supplemental Water Fund	0	0	0	332,600	573,800	593,800
3	Water Capacity Fund	675,500	1,300,500	1,306,900	465,700	23,000	23,800
4	Water Replacement Fund	276,000	386,100	399,700	413,700	428,100	443,100
5	Total Sources of Funds	951,500	1,686,600	1,706,600	1,212,000	1,024,900	1,060,700
Use of Funds							
6	Major Capital Improvements ^[1]	951,500	1,686,600	1,706,600	1,212,000	1,024,900	1,060,700
7	Total Use of Funds	951,500	1,686,600	1,706,600	1,212,000	1,024,900	1,060,700
8	Funds on Hand at End of Year	\$0	\$0	\$0	\$0	\$0	\$0

^[1] From Table 1.

2.3 REVENUES

The Water Fund receives revenue from several sources. These sources include water sales revenue, miscellaneous revenue, and interest income. Revenue from water sales was projected through application of the existing January 1, 2009 water rates to projections of customer growth and water sales volume.

2.3.1 Customer Growth

The District’s Water and Sewer Master Plan (master plan) indicate that customer growth for the service area follows the San Luis Obispo County Growth Management Ordinance. The master plan assumed an

average annual population growth rate of 2.3 percent. However, based on recent discussions with District staff and review of the economy within San Luis Obispo County, it is assumed for this study that there will be no customer growth throughout the study period and that current customers will be remain connected to the system.

2.3.2 Water Sales Volume

Discussions with the District indicated that the San Luis Obispo Local Agency Formation Commission (LAFCO) required that prior to any annexation, a water conservation program should be implemented by the District with the goal of reducing consumption by 15 percent. In addition, the State of California adopted the 20x2020 Water Conservation Plan in February 2010, calling for a state-wide 20 percent reduction in per capita water consumption by the year 2020. The District has implemented a water conservation program, and the water sales projections for this study include an assumed reduction in use per customer of 1 percent annually for residential classifications. Projected annual water sales volume is determined by multiplying the customer growth assumptions by the assumed use per customer.

2.3.3 Water Sales Revenue

Revenue from water sales was determined through application of the January 1, 2009 water rates to projections of customer growth and water sales volume discussed above. Future water sales revenue using the existing water rates is projected to decline with the reduction in water consumption.

2.3.4 Miscellaneous Revenue

Miscellaneous revenue includes fees and penalties related to service turn-on, service turn-off, late fees, and interest income on reserve balances. Interest income is projected based on the average fund balance available in each of the District's funds assuming an annual interest earnings rate of 0.5 percent.

2.4 REVENUE REQUIREMENTS

Revenue requirements of the District's Water Fund include operation and maintenance expense, existing debt service, annual minor (routine) capital expenditures, and Transfers to the Replacement Fund. The revenue requirement projections presented herein reflect the District's FY 2010-11 Budget for the first year. The revenue requirements are then escalated into the future based on known conditions regarding proposed operating and capital improvement plans, expected changes to system operations, and inflation.

2.4.1 Operation and Maintenance Expense

Operation and maintenance (O&M) expense includes the cost of personnel, utilities, chemicals, and miscellaneous materials and supplies needed to operate the water system on an annual basis. Table 3 summarizes the historical and projected O&M expense for the water system, excluding debt service.

Table 3
 Nipomo Community Services District
 Water Utility
 Historical and Projected Operation and Maintenance Expense and Minor Capital

Line No.	Description	Fiscal Year Ending June 30										
		Historical (Actual)				Budget		Projected				
		2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16
	Operation and Maintenance Expense^[1]											
	Operations and Maintenance											
1	Salaries	\$204,368	\$227,082	\$211,455	\$254,549	\$282,000	\$337,030	\$337,500	\$340,800	\$347,200	\$356,800	\$366,500
2	Benefits	103,181	105,110	94,736	129,249	158,000	183,700	194,800	206,300	218,900	231,900	245,900
3	Electricity - Pumping	264,294	361,242	252,680	322,899	500,000	450,000	464,100	478,700	493,800	509,300	525,300
4	Natural Gas - Pumping	65,252	82,140	52,393	36,150	11,565	0	0	0	0	0	0
5	Chemicals	2,908	5,068	2,375	4,868	7,000	9,000	9,200	9,400	9,600	9,800	10,000
6	Repairs and Maintenance	103,791	175,330	124,512	178,995	150,000	200,000	206,000	212,200	218,600	225,200	232,000
7	Meters - New Installations	7,549	3,739	13,599	0	0	5,000	0	0	0	0	0
8	Meters - Replacement Program	5,302	22,620	14,550	15,026	45,000	48,000	49,400	50,900	52,400	54,000	55,600
9	Other	154,723	188,883	251,987	209,045	244,100	428,130	434,300	447,400	460,700	474,400	488,500
10	Subtotal	911,368	1,171,214	1,018,287	1,150,781	1,397,665	1,660,860	1,695,300	1,745,700	1,801,200	1,861,400	1,923,800
	General and Administrative											
11	Salaries	96,373	100,217	137,335	159,300	221,000	245,520	245,500	247,900	252,800	260,200	267,900
12	Benefits	46,105	44,655	64,119	154,010	169,100	180,320	191,200	202,600	214,800	227,600	158,600
13	Operating Transfer Out - Admin	129,371	142,769	177,410	226,072	320,390	297,581	306,500	315,700	325,200	335,000	345,100
14	Other	393,268	491,301	526,573	450,852	426,094	537,120	553,400	569,900	587,200	604,900	705,600
15	Subtotal	665,117	778,942	905,437	990,234	1,136,584	1,260,541	1,296,600	1,336,100	1,380,000	1,427,700	1,477,200
16	Total Operation and Maintenance Expense	\$1,576,485	\$1,950,156	\$1,923,724	\$2,141,015	\$2,534,249	\$2,921,401	\$2,991,900	\$3,081,800	\$3,181,200	\$3,289,100	\$3,401,000
	Minor Capital^[1]											
17	Fixed Asset Purchases	16,497	0	43,773	51,000	204,044	75,900	65,000	67,000	69,000	71,100	73,200
18	Total Minor Capital	\$16,497	\$0	\$43,773	\$51,000	\$204,044	\$75,900	\$65,000	\$67,000	\$69,000	\$71,100	\$73,200
19	Total O&M and Minor Capital	\$1,592,982	\$1,950,156	\$1,967,497	\$2,192,015	\$2,738,293	\$2,997,301	\$3,056,900	\$3,148,800	\$3,250,200	\$3,360,200	\$3,474,200

^[1] Expenses are inflated as follows: Salaries - 0% in FY 2011-12, 1% in FY 2012-13, 2% annually thereafter; Benefits - 6% annually; Unit Electricity Cost- 4% annually; Unit Chemical Cost - 3% annually;

As presented in Table 3, salary costs are not projected to increase in FY 2011-12, however are projected to increase by 1 percent in FY 2012-13 and increase by 2 percent annually thereafter. Benefit costs are projected to increase by 6 percent annually. Unit power costs (\$ per Ccf) are inflated by 4 percent annually and unit chemical costs (\$ per Ccf) are inflated at the rate of 3 percent annually, with total expenses of each also increasing/decreasing in proportion to production volume. All other costs are projected to increase at 3 percent annually.

2.4.2 Debt Service

The District has an outstanding debt obligation from a 1978 Safe Drinking Water Loan with annual debt service payments averaging approximately \$15,300 annually. The loan will be retired in FY 2018-19.

2.4.3 Minor Annual (Routine) Capital Outlay

Minor (routine) annual capital outlays are financed from annual system revenues and include estimates for relatively small additions of fixed asset purchases, utility vehicles, office/technical equipment, and other assets. Future projections reflect budgeted capital outlay in FY 2010-11 of \$75,900 with estimated expenditures of \$65,000 in FY 2011-12, increasing at 3 percent annually through the study period.

2.4.4 Transfers

The Water Fund makes an annual Transfer to the Water Replacement Fund to provide replacement capital for the water system. The District commissioned a Replacement Study in 2007 to study the amount that should be included annually in the District's Budget as a transfer for water system replacement. The study analyzed three replacement program funding methods of which Model 2: Service Life Savings Replacement program is the District's preference.

For FY 2010-11, the District has budgeted a Transfer to the Water Replacement Fund in the amount of \$700,000. Future transfers have been estimated to increase at 50 percent of the levels for the Model 2: Service Life Savings Replacement program identified in the Replacement Study.

2.5 WATER FUND ANALYSIS

Table 4 presents a pro forma flow of funds statement for the Water Fund. Revenue from the sources discussed above is included in the table on lines 1 through 11. Revenue requirements discussed above are included on lines 13 through 16. Analysis of the Water Fund without revenue increases indicated that the fund will be deficient in meeting its future obligations. The deficiency is due to an existing operating deficiency and inflation in O&M expenses. The statement indicates that revenue from water service rates will need to increase by 9.5 percent annually on November 1, shown on lines 2 through 6, to meet the future obligations of the fund.

The increases in the water sales revenue were determined by recognizing specific financial planning criteria for the Water Fund. The criteria included an operating reserve target of 180 days of O&M expense and a debt service coverage ratio that meets the requirements of Resolution No. 137. The operating reserve balance is allowed to deviate from the target level in some years of the financial plan so that revenue adjustments could be established as equal annual increases.

Table 4
 Nipomo Community Services District
 Water Utility
 Water Fund Flow of Funds Statement

Line No.	Description	Fiscal Year Ending June 30						
		2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	
Revenue								
1	Water Sales Revenue Under Existing Rates ^[1]	\$2,761,000	\$2,743,900	\$2,727,000	\$2,710,300	\$2,693,600	\$2,677,200	
	Additional Water Sales Revenue Required: Annualized							
		Fiscal Year	Revenue Increase	Effective Date				
2		2011-12	9.5%	Nov 1, 2011	108,600	259,100	257,500	255,900
3		2012-13	9.5%	Nov 1, 2012		118,200	281,900	280,200
4		2013-14	9.5%	Nov 1, 2013			128,600	306,800
5		2014-15	9.5%	Nov 1, 2014				140,000
6		2015-16	9.5%	Nov 1, 2015				152,400
7	Total Additional Water Sales Revenue	0	108,600	377,300	668,000	982,900	1,324,100	
8	Litigation Charge Revenue	169,900	169,900	169,900	169,900	169,900	169,900	
9	Total Water Sales Revenue	2,930,900	3,022,400	3,274,200	3,548,200	3,846,400	4,171,200	
10	Other Revenue ^[2]	70,800	70,800	70,800	70,800	70,800	70,800	
11	Interest Income From Operations ^[3]	10,700	7,700	5,400	3,900	3,300	3,700	
12	Total Revenue	\$3,012,400	\$3,100,900	\$3,350,400	\$3,622,900	\$3,920,500	\$4,245,700	
Revenue Requirements								
13	Operation and Maintenance Expense ^[4]	\$2,921,400	\$2,991,900	\$3,081,800	\$3,181,200	\$3,289,100	\$3,401,000	
14	1978 Water Revenue Bonds ^[5]	15,300	14,800	15,200	15,700	15,100	15,400	
15	Minor Capital Expenditures	75,900	65,000	67,000	69,000	71,100	73,200	
16	Transfers to Water Replacement Fund ^{[4][6]}	700,000	566,000	566,000	566,000	571,000	571,000	
17	Total Revenue Requirements	3,712,600	3,637,700	3,730,000	3,831,900	3,946,300	4,060,600	
18	Net Funds Available	(\$700,200)	(\$536,800)	(\$379,600)	(\$209,000)	(\$25,800)	\$185,100	
19	Beginning Water Fund Balance	2,500,000	1,799,800	1,263,000	883,400	674,400	648,600	
20	Cumulative Water Fund Balance	\$1,799,800	\$1,263,000	\$883,400	\$674,400	\$648,600	\$833,700	
21	Minimum Desired Balance ^[7]	\$830,400	\$847,700	\$872,900	\$900,600	\$930,700	\$961,900	
Annual Debt Service Coverage								
22	Net Revenue ^[8]	\$136,600	\$157,500	\$315,700	\$485,100	\$673,000	\$884,300	
23	Existing Debt Service Payments ^[9]	15,300	14,800	15,200	15,700	15,100	15,400	
24	Coverage	893%	1064%	2077%	3090%	4457%	5742%	

^[1] Estimated revenue based on number of customers and projected water sales volume.
^[2] Includes penalties and miscellaneous income.
^[3] Assumes an interest rate of 0.5% on the average fund balance.
^[4] Projected expense from Table 3.
^[5] Existing 1978 Revenue Bonds debt service.
^[6] As budgeted for FY 2010-11. Future years assume amount is 50 percent of Model 2: Service Life Savings Replacement.
^[7] Estimated at 180 days of operation and maintenance expense.
^[8] As defined in Resolution No. 137. Includes all charges and all other income including interest income of the Enterprise.
^[9] Debt service from line 14 above.

3.0 WATER UTILITY RATE DESIGN

3.1 EXISTING WATER SERVICE RATES

The existing water service rates were implemented on January 1, 2009 and are presented in Table 5. The structure consists of a bi-monthly fixed charge by meter size and a consumption charge consisting of a two-block volume charge for residential customers and a uniform volume charge for non-residential customers. Residential rate blocks were established recognizing the average bi-monthly consumption.

Table 5
Nipomo Community Services District
Water Utility
Schedule of Existing Water Service Rates

Bi-monthly Fixed Charge^[1]							
	Meter Size						
	1" and less	1 1/2"	2"	3"	4"	6"	8"
All Customers	\$24.52	\$69.61	\$110.25	\$340.68	\$340.68	\$679.22	\$1,085.63
Litigation Charge	\$6.32	\$14.36	\$19.92	\$27.92	\$36.00	\$59.58	\$68.08

Volume Charge^{[1][2]}			
	Block (in Ccf)		
	0 to 40	Over 40	All Water
Residential	\$1.64	\$2.80	
Irrigation			\$2.06
All Other			\$2.06

^[1] Rates became effective January 1, 2009.
^[2] Charge per Ccf of bi-monthly water consumption.

3.2 PROPOSED WATER RATE STRUCTURES AND RATES

The overall water system was evaluated to determine a methodology for which to design rates. The District has less than 4,500 accounts with non-residential customers making up about 4 percent of those accounts lending support to using a commodity-demand method of cost allocation.

In the commodity-demand method, revenue requirements are assigned as commodity costs, demand (capacity) costs, and customer costs. Commodity costs are characterized by those costs that vary with

the quantity of water produced, such as pumping power, chemicals, purchased water, and other costs. Demand costs are generally those costs associated with providing facilities to meet peak rates of use. Such costs may include all transmission and distribution system pumping and all treatment, transmission, and distribution mains and storage facilities that are sized to meet peak demands. Customer costs include those incurred to serve the customer, regardless of the amount of water consumed. These costs include meter and service maintenance, meter reading, billing, collecting, and accounting costs. The cost of service analysis resulted in an allocation of 25 to 30 percent of costs to be recovered from fixed charges with the remaining 70-75 percent of costs recovered from commodity rates. This result is similar to the existing rate structure.

3.2.1 Fixed Charge Component

A review and analysis was conducted of the current fixed charges of the District. Revenue generated from the fixed charges is approximately equal to 30 percent of the total water sales revenue, including the Litigation Charge revenue, and equals about 25 percent when excluding the Litigation Charge revenue. In addition, the existing fixed charges are established recognizing meter capacity ratios. Because the fixed charges reflect industry practice, it is proposed that future charges be established by increasing the current fixed charges by the annual percentages determined in the financial plan in Table 4. Increasing the fixed charges in this manner will maintain fixed charge revenue that follows averages for the state of California and follow guidelines of the California Urban Water Conservation Council (CUWCC) for fixed charges. Table 6 presents the proposed fixed charges for the each year of the study period. Fire protection fixed charges are presented in Appendix C.

Table 6
Nipomo Community Services District
Water Utility
Proposed Bi-monthly Water Fixed Charges

Meter Size/ Litigation Charge	Nov 1, 2011-12	Nov 1, 2012-13	Nov 1, 2013-14	Nov 1, 2014-15	Nov 1, 2015-16
1 inch and less Litigation Charge	\$26.85 \$6.32	\$29.40 \$6.32	\$32.19 \$6.32	\$35.25 \$6.32	\$38.60 \$6.32
1 1/2 inch Litigation Charge	\$76.22 \$14.36	\$83.46 \$14.36	\$91.39 \$14.36	\$100.07 \$14.36	\$109.58 \$14.36
2 inch Litigation Charge	\$120.72 \$19.92	\$132.19 \$19.92	\$144.75 \$19.92	\$158.50 \$19.92	\$173.56 \$19.92
3 inch Litigation Charge	\$224.64 \$27.92	\$245.98 \$27.92	\$269.35 \$27.92	\$294.94 \$27.92	\$322.96 \$27.92
4 inch Litigation Charge	\$373.04 \$36.00	\$408.48 \$36.00	\$447.29 \$36.00	\$489.78 \$36.00	\$536.31 \$36.00
6 inch Litigation Charge	\$743.75 \$59.58	\$814.41 \$59.58	\$891.78 \$59.58	\$976.50 \$59.58	\$1,069.27 \$59.58
8 inch Litigation Charge	\$1,188.76 \$68.08	\$1,301.69 \$68.08	\$1,425.35 \$68.08	\$1,560.76 \$68.08	\$1,709.03 \$68.08

3.2.2 Variable Rate Component

Water service rates are typically composed of a fixed charge and a volume charge (variable rate). All costs not recovered in the fixed charge are recovered in the volume charge. The volume charge may be a uniform charge per unit of consumption, or established as a series of block rates, where a block of water is a defined amount of water consumption, such as zero to 500 cubic feet (0 to 5 Ccf).

Rate blocks are designed based on an analysis of the bills rendered by customer classification for various levels of consumption. This analysis includes tabulating the number of bills and their consumption, then developing cumulative consumption of bills rendered for each consumption level.

The result of this tabulation is the determination of the percentage of the total water volume that is consumed in each block, allowing consumption curves to be drawn to illustrate usage patterns. Such curves allow pricing to be established for various rate blocks and the determination of revenue impacts from such pricing.

A bill tabulation and analysis was performed for the District's customer classifications using 5 year's of historical information from billing system records. From the tabulation, charts showing the distribution of bills by their consumption level can be developed. These are presented in Appendix A for the single-family and multi-family classifications. Additionally, several findings can be drawn from the bill tabulation and analysis that include the following.

- Approximately 82 percent of the water consumed is related to residential customers (single-family, multi-family).
- The average bi-monthly consumption of a single-family residential customer is 40 Ccf.
- The average bi-monthly consumption of a multi-family dwelling unit is 12 Ccf.
- The average bi-monthly water consumption of the commercial classification is 60 Ccf.
- Commercial accounts consist of less than 3 percent of the total accounts.
- Irrigation sales volume represents approximately 13 percent of total water sales volume.

Also from the tabulation, customer classification usage patterns were drawn and evaluated and are presented in Appendix B. Figure B-1 shows consumption patterns of the various customer classifications of the District. Review of all the curves indicates that it is appropriate to recognize these as separate classes, because of the wide separation of the curves from one another.

The curve for single-family customers exhibits a typical consumption pattern for this classification. The multi-family curve has been determined on an individual dwelling unit basis and displays a more uniform use per unit than single-family. These conclusions are also supported by the charts in Appendix A.

3.2.3 Residential Rate Structures

The current two-block residential rate structure is designed such that the first block is set at the average water use of single-family customers. The findings of the bill tabulation analysis confirmed that 40 Ccf is the average for single-family while the analysis determined that 12 Ccf is the average for multi-family. The price differential from the first to the second block is 170 percent. While a two-block rate structure is adequate for water conservation, it does not necessarily address excess use that may occur in the top of the consumption curve.

The proposed four-block residential structure is established with a first block that corresponds to average winter water consumption, to provide a signal of when an average residential customer may be starting to use water for outdoor uses. The average winter water use consumption was determined using water billing information from the months of December through March.

The second block is designed such that the block break point is set at the average water consumption for each of the residential classifications. The third block captures use between the second and fourth block. The fourth block is established to capture slightly less than 10 percent of the highest water usage. Prices for the four-block rate structure have been set to increase by 125 percent, 175 percent, and 300 percent of the first block price. The third block price reflects the estimated cost for the District to obtain supplemental water from the City of Santa Maria of \$1,500 per ac-ft in FY 2013-14. Table 7 presents the proposed residential water rate structure and proposed future residential consumption rates for each year of the study period. The proposed consumption rates increase at the percentages identified in the financial plan in Table 4, beginning with FY 2011-12.

The multi-family rate structure has been established on an individual dwelling unit basis to develop rates that places multi-family customers on a similar basis as single-family customers. For multi-family customers that have one meter serving multiple units, it is necessary to multiply the number of dwelling units on the meter by the block rate break points, then applying the usage through the blocks. This effectively charges each dwelling unit the average use per unit of the water consumed through the meter. The District may need to program the billing system to perform this task.

3.2.4 Non-Residential Rate Structures

The proposed rate structures for non-residential water service were established by analyzing the non-residential classifications individually. These classifications include Commercial, Irrigation, Agriculture, and All Other non-residential customers.

3.2.4.1 Commercial Classification. Block rate structures are generally not appropriate for Commercial customers because of the disparity of use within this classification. Exploring this type of structure for the District's Commercial class included an analysis of the commercial use by meter size. Figure B-2 in Appendix B shows this wide range of the use, illustrated by the consumption patterns. For example, if a block rate structure were designed that applied to all Commercial customers with a block break point set at the average use of 60 Ccf, from Figure B-2, those with a 1½

inch meter would have nearly 80 percent of their use over 60 Ccf and would be unfairly penalized. Customers with a ¾ inch meter would have consumed nearly 90 percent of their use by the block break point, and would seldom be over the first block.

Table 7
 Nipomo Community Services District
 Water Utility
 Proposed Residential Water Consumption Rates ^[1]

Customer Classification	Rate Block	Nov 1, 2011-12	Nov 1, 2012-13	Nov 1, 2013-14	Nov 1, 2014-15	Nov 1, 2015-16
Single-family						
<u>Proposed 4 Block Structure</u>						
	0 to 24 Ccf	\$1.64	\$1.80	\$1.97	\$2.16	\$2.37
	25 to 40 Ccf	\$2.05	\$2.25	\$2.46	\$2.69	\$2.95
	41 to 100 Ccf	\$2.88	\$3.15	\$3.45	\$3.78	\$4.14
	Over 100 Ccf	\$4.93	\$5.40	\$5.91	\$6.47	\$7.08
Multi-family						
<u>Proposed 4 Block Structure (per dwelling unit)</u>						
	0 to 8 Ccf	\$1.64	\$1.80	\$1.97	\$2.16	\$2.37
	9 to 12 Ccf	\$2.05	\$2.25	\$2.46	\$2.69	\$2.95
	13 to 25 Ccf	\$2.88	\$3.15	\$3.45	\$3.78	\$4.14
	Over 25 Ccf	\$4.93	\$5.40	\$5.91	\$6.47	\$7.08

^[1] Does not include fixed charges.

However, at the District’s request, to design an equitable Commercial block rate structure requires the use of individual block rates for each Commercial meter size. This analysis has been completed and a two-block rate structure has been designed that is equated to the residential classifications. The first block is set at the average consumption for that individual meter size, with a second block that captures all remaining use. The Commercial rate structure and pricing is presented in Table 8.

3.2.4.2 Irrigation Classification. The Irrigation class is generally recognized by the relatively high demands it places on the water system, from landscape systems, parks, and other uses. Following a similar exercise that was performed for the Commercial classification, Figure B-3 shows the consumption patterns of the Irrigation classification by meter size. The consumption patterns indicate a similar wide separation among the meter sizes as was found in the Commercial classification.

Inspection of Figure B-3 also indicates that several of the meter sizes could be grouped because of the similarities in the consumption patterns. From Figure B-3, the 5/8 inch and 1 inch meter sizes exhibit similar use patterns, as does the 1 ½ inch and 2 inch meter sizes, and similarly between the 3 inch and 4 inch meters. At the request of the District, an Irrigation two-block rate structure is designed by grouping the larger meter sizes and by establishing the first block at the average consumption of the meters. The Irrigation rate structure and pricing is presented in Table 8.

Table 8 also presents the proposed future non-residential consumption rates for each year of the study period for all non-residential classifications. The proposed consumption rates increase at the percentages identified in the financial plan in Table 4, beginning with FY 2012-13.

Customer Classification	Meter Size	Rate Block	Nov 1, 2011-12	Nov 1, 2012-13	Nov 1, 2013-14	Nov 1, 2014-15	Nov 1, 2015-16
Commercial							
5/8" Meter	0 to 35		\$2.05	\$2.25	\$2.46	\$2.69	\$2.95
	Over 35		\$2.88	\$3.15	\$3.45	\$3.78	\$4.14
3/4" Meter	0 to 50		\$2.05	\$2.25	\$2.46	\$2.69	\$2.95
	Over 50		\$2.88	\$3.15	\$3.45	\$3.78	\$4.14
1" Meter	0 to 55		\$2.05	\$2.25	\$2.46	\$2.69	\$2.95
	Over 55		\$2.88	\$3.15	\$3.45	\$3.78	\$4.14
1 1/2" Meter	0 to 290		\$2.05	\$2.25	\$2.46	\$2.69	\$2.95
	Over 290		\$2.88	\$3.15	\$3.45	\$3.78	\$4.14
2" Meter	0 to 165		\$2.05	\$2.25	\$2.46	\$2.69	\$2.95
	Over 165		\$2.88	\$3.15	\$3.45	\$3.78	\$4.14
3" Meter	0 to 82		\$2.05	\$2.25	\$2.46	\$2.69	\$2.95
	Over 82		\$2.88	\$3.15	\$3.45	\$3.78	\$4.14
Irrigation							
5/8" Meter	0 to 50		\$2.05	\$2.25	\$2.46	\$2.69	\$2.95
	Over 50		\$2.88	\$3.15	\$3.45	\$3.78	\$4.14
1" Meter	0 to 75		\$2.05	\$2.25	\$2.46	\$2.69	\$2.95
	Over 75		\$2.88	\$3.15	\$3.45	\$3.78	\$4.14
1 1/2" Meter	0 to 350		\$2.05	\$2.25	\$2.46	\$2.69	\$2.95
	Over 350		\$2.88	\$3.15	\$3.45	\$3.78	\$4.14
2" Meter	0 to 350		\$2.05	\$2.25	\$2.46	\$2.69	\$2.95
	Over 350		\$2.88	\$3.15	\$3.45	\$3.78	\$4.14
3" Meter	0 to 3000		\$2.05	\$2.25	\$2.46	\$2.69	\$2.95
	Over 3000		\$2.88	\$3.15	\$3.45	\$3.78	\$4.14
4" Meter	0 to 3000		\$2.05	\$2.25	\$2.46	\$2.69	\$2.95
	Over 3000		\$2.88	\$3.15	\$3.45	\$3.78	\$4.14
Agriculture			\$2.37	\$2.59	\$2.84	\$3.11	\$3.41
All Other			\$2.37	\$2.59	\$2.84	\$3.11	\$3.41

[1] Does not include fixed charges.

3.3 EXAMPLE BI-MONTHLY BILLS UNDER PROPOSED RATES

Tables 9 and 10 present example bi-monthly bills of the residential and the non-residential water rate structures, respectively, for the November 1, 2011 increase. Table 9 indicates that for the November 1, 2011 increase, the bi-monthly water bill for the average single-family customer consuming 40 Ccf bi-monthly will increase from \$90.12 to \$99.01 (exclusive of Litigation Charges), an increase of \$8.89 increase, or 9.9 percent.

Table 9
 Nipomo Community Services District
 Water Utility
 Example Residential Bi-monthly Water Bills ^[1]
 For Rates in Effect Nov 1, 2011

Customer Classification	Consumption Ccf	Existing Rates	Proposed 4 Block Rates	Difference	Percent Difference
Single-family	0	\$24.52	\$26.85	\$2.33	9.5%
1" meter and smaller	5	\$32.72	\$35.05	\$2.33	7.1%
	10	\$40.92	\$43.25	\$2.33	5.7%
	20	\$57.32	\$59.65	\$2.33	4.1%
	30	\$73.72	\$78.51	\$4.79	6.5%
	40	\$90.12	\$99.01	\$8.89	9.9%
	50	\$118.12	\$127.81	\$9.69	8.2%
	60	\$146.12	\$156.61	\$10.49	7.2%
	70	\$174.12	\$185.41	\$11.29	6.5%
	80	\$202.12	\$214.21	\$12.09	6.0%
	90	\$230.12	\$243.01	\$12.89	5.6%
	100	\$258.12	\$271.81	\$13.69	5.3%
	110	\$286.12	\$321.11	\$34.99	12.2%
	120	\$314.12	\$370.41	\$56.29	17.9%
	130	\$342.12	\$419.71	\$77.59	22.7%
	140	\$370.12	\$469.01	\$98.89	26.7%
	150	\$398.12	\$518.31	\$120.19	30.2%
	200	\$538.12	\$764.81	\$226.69	42.1%
Multi-family ^[2]	0	\$24.52	\$26.85	\$2.33	9.5%
1" meter and smaller	20	\$65.72	\$59.65	(\$6.07)	-9.2%
	48	\$123.40	\$112.13	(\$11.27)	-9.1%
4 Units	60	\$148.12	\$146.69	(\$1.43)	-1.0%
	80	\$189.32	\$204.29	\$14.97	7.9%
	100	\$230.52	\$261.89	\$31.37	13.6%
	150	\$333.52	\$518.25	\$184.73	55.4%

^[1] Includes both fixed and consumption (variable) charges.

^[2] Applies to Multi-family customers that do not have separate irrigation meters.

Table 10
 Nipomo Community Services District
 Water Utility
Example Non-residential Bi-monthly Water Bills^[1]
 For Rates in Effect Nov 1, 2011

Customer Classification	Consump Ccf	Existing Rates	Commercial 2 Block	Irrigation 2 Block	All Other	Difference
Commercial 1" Meter	0	\$24.52	\$26.85			\$2.33
	20	\$65.72	\$67.85			\$2.13
	48	\$123.40	\$125.25			\$1.85
	60	\$148.12	\$154.00			\$5.88
	80	\$189.32	\$211.60			\$22.28
	100	\$230.52	\$269.20			\$38.68
	150	\$333.52	\$413.20			\$79.68
	200	\$436.52	\$557.20			\$120.68
	250	\$539.52	\$701.20			\$161.68
	300	\$642.52	\$845.20			\$202.68
	350	\$745.52	\$989.20			\$243.68
400	\$848.52	\$1,133.20			\$284.68	
500	\$1,054.52	\$1,421.20			\$366.68	
Irrigation 1 1/2" Meter	0	\$69.61		\$76.22		\$6.61
	100	\$275.61		\$281.22		\$5.61
	200	\$481.61		\$486.22		\$4.61
	300	\$687.61		\$691.22		\$3.61
	350	\$790.61		\$793.72		\$3.11
	400	\$893.61		\$937.72		\$44.11
	500	\$1,099.61		\$1,225.72		\$126.11
	600	\$1,305.61		\$1,513.72		\$208.11
	700	\$1,511.61		\$1,801.72		\$290.11
	800	\$1,717.61		\$2,089.72		\$372.11
900	\$1,923.61		\$2,377.72		\$454.11	
All Other Non-residential 1" Meter	0	\$24.52			\$26.85	\$2.33
	100	\$230.52			\$263.85	\$33.33
	200	\$436.52			\$500.85	\$64.33
	300	\$642.52			\$737.85	\$95.33
	400	\$848.52			\$974.85	\$126.33
	500	\$1,054.52			\$1,211.85	\$157.33

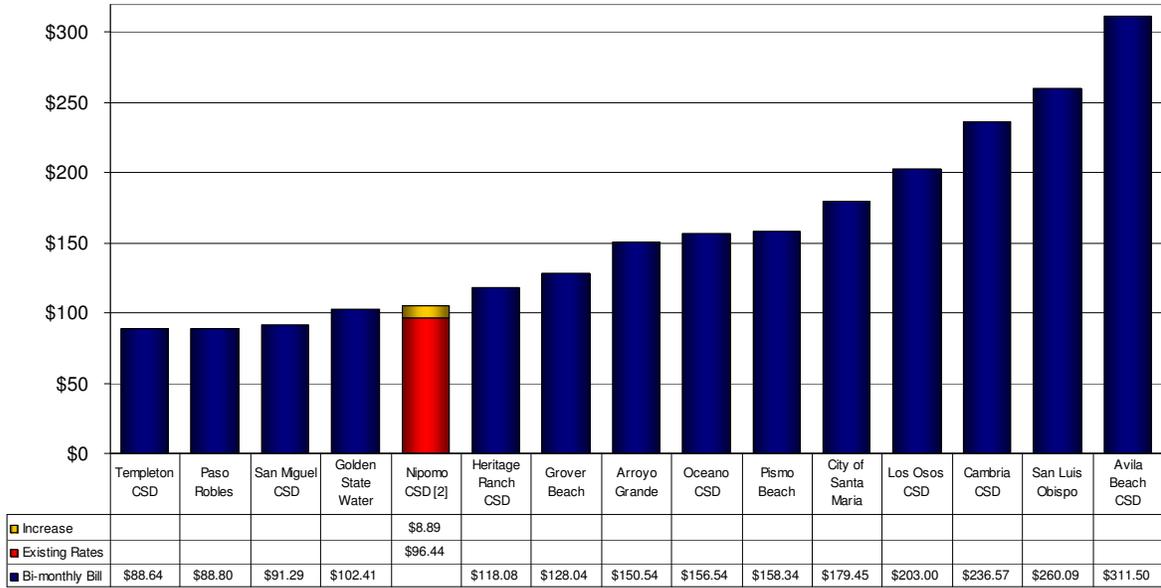
^[1] Includes both fixed and consumption (variable) charges.

3.4 SINGLE-FAMILY BILL COMPARISON WITH OTHER LOCAL AGENCIES

A bi-monthly bill comparison has been prepared showing bi-monthly bills of water purveyors in San Luis Obispo County and other local communities. The comparison shown in Chart 1 was prepared by applying the District’s average single-family water consumption of 40 Ccf to each of the water purveyor’s single-family water rate schedules for water rates in effect as of July 1, 2010. The chart

indicates that the District’s bi-monthly bill at 40 Ccf, with the proposed increase and including Litigation Charges, is in the lower half of the agencies listed.

Chart 1
Selected Local Water Agencies
Comparison of Single-family Residential Bi-monthly Water Bills ^[1]
at 40 Ccf Bi-monthly



[1] For rates in effect July 2010.
 [2] Total bi-monthly bill is \$105.33.

Appendix A

Residential Bill Distribution

Figure A-1
Cumulative Billed Usage of SFR Classification
 Nipomo Community Services District

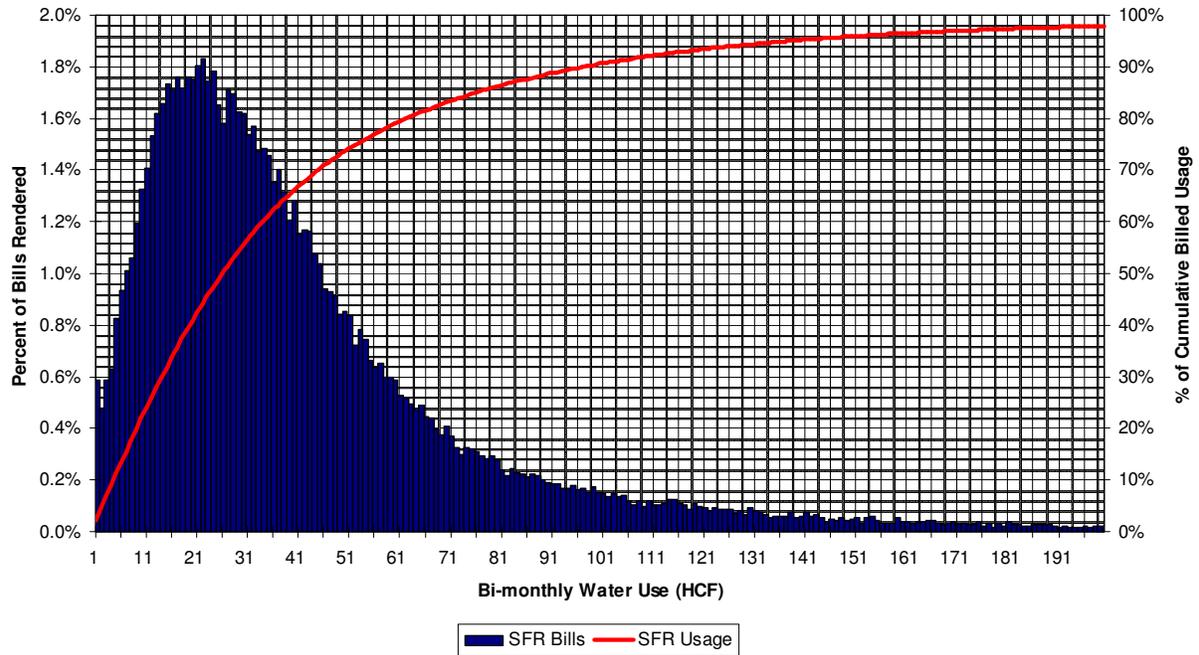
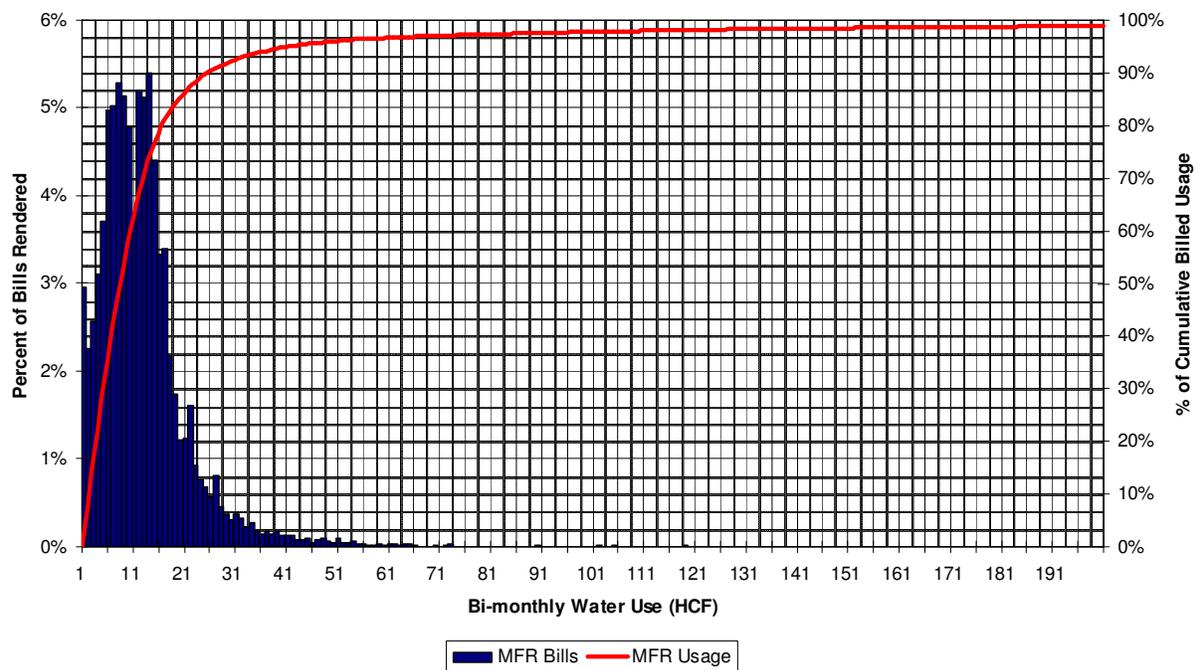


Figure A-2
Cumulative Billed Usage of MFR Classification
 Nipomo Community Services District



Appendix B

Cumulative Billed Consumption Of Customer Classifications

Figure B-1
Cumulative Billed Usage of Customer Classifications
Nipomo Community Services District
FY 2004-05 thru FY 2008-09

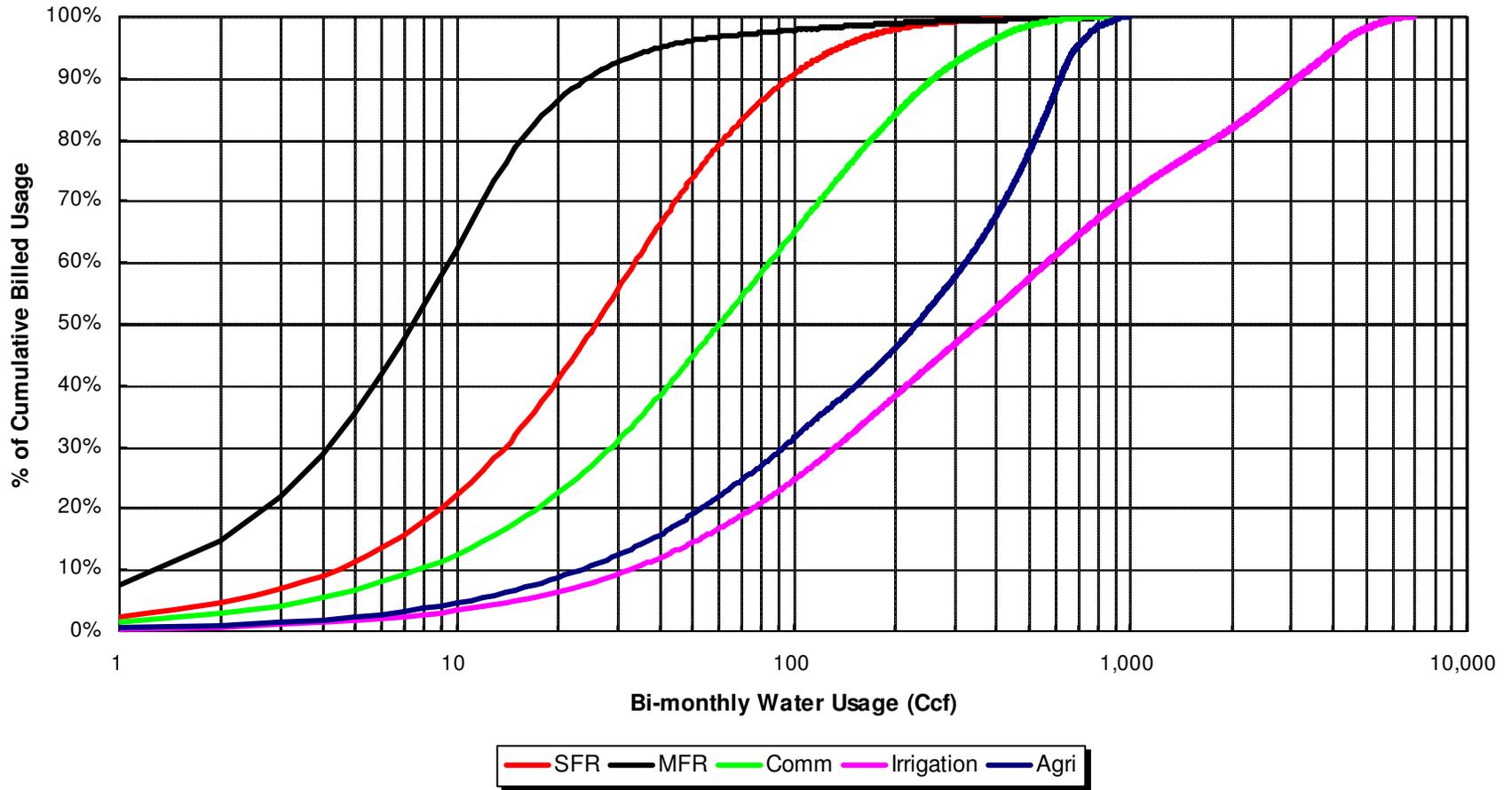


Figure B-2
Cumulative Billed Usage of Commercial Classifications
Nipomo Community Services District
FY 2004-05 thru FY 2008-09

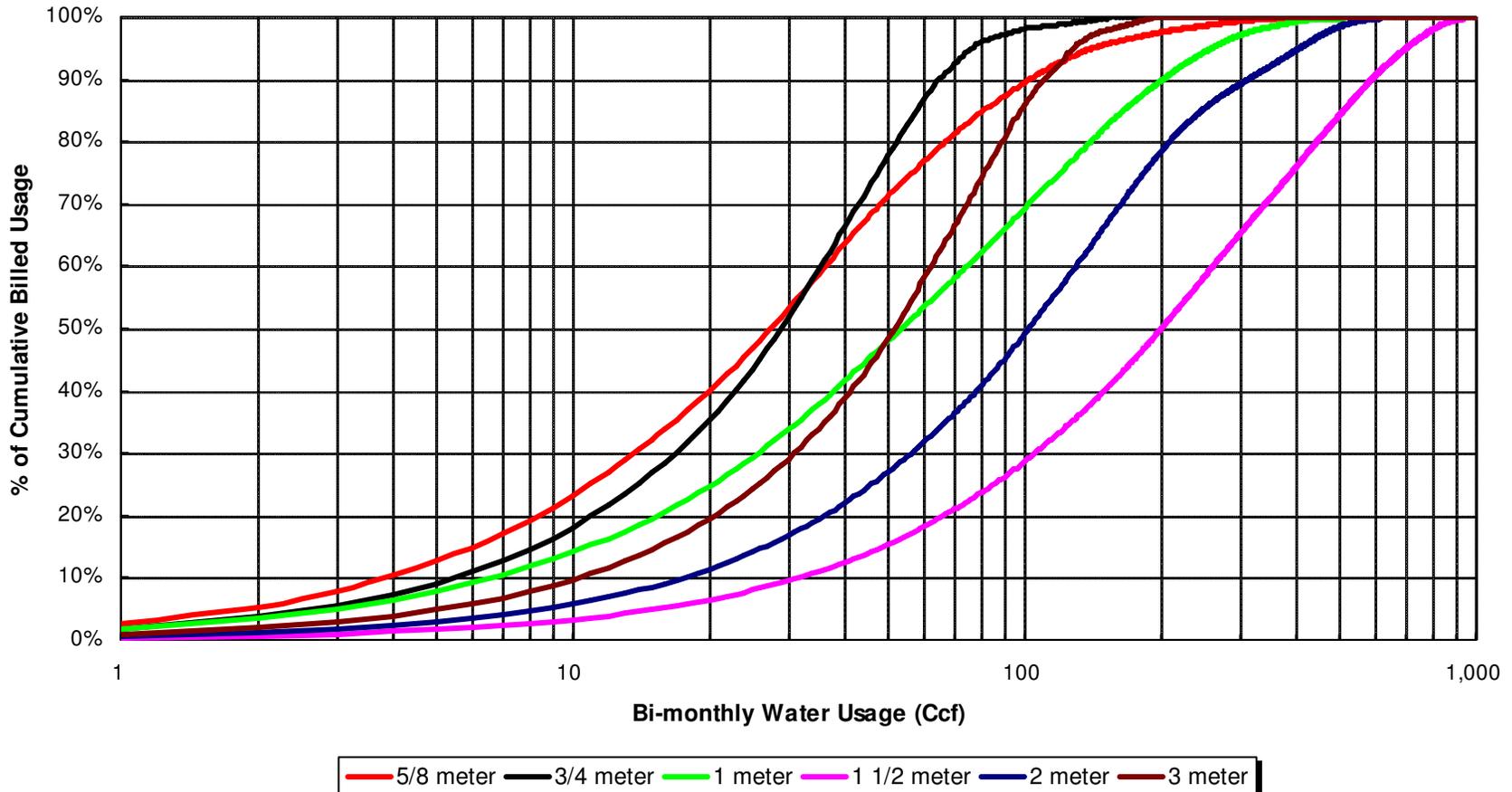
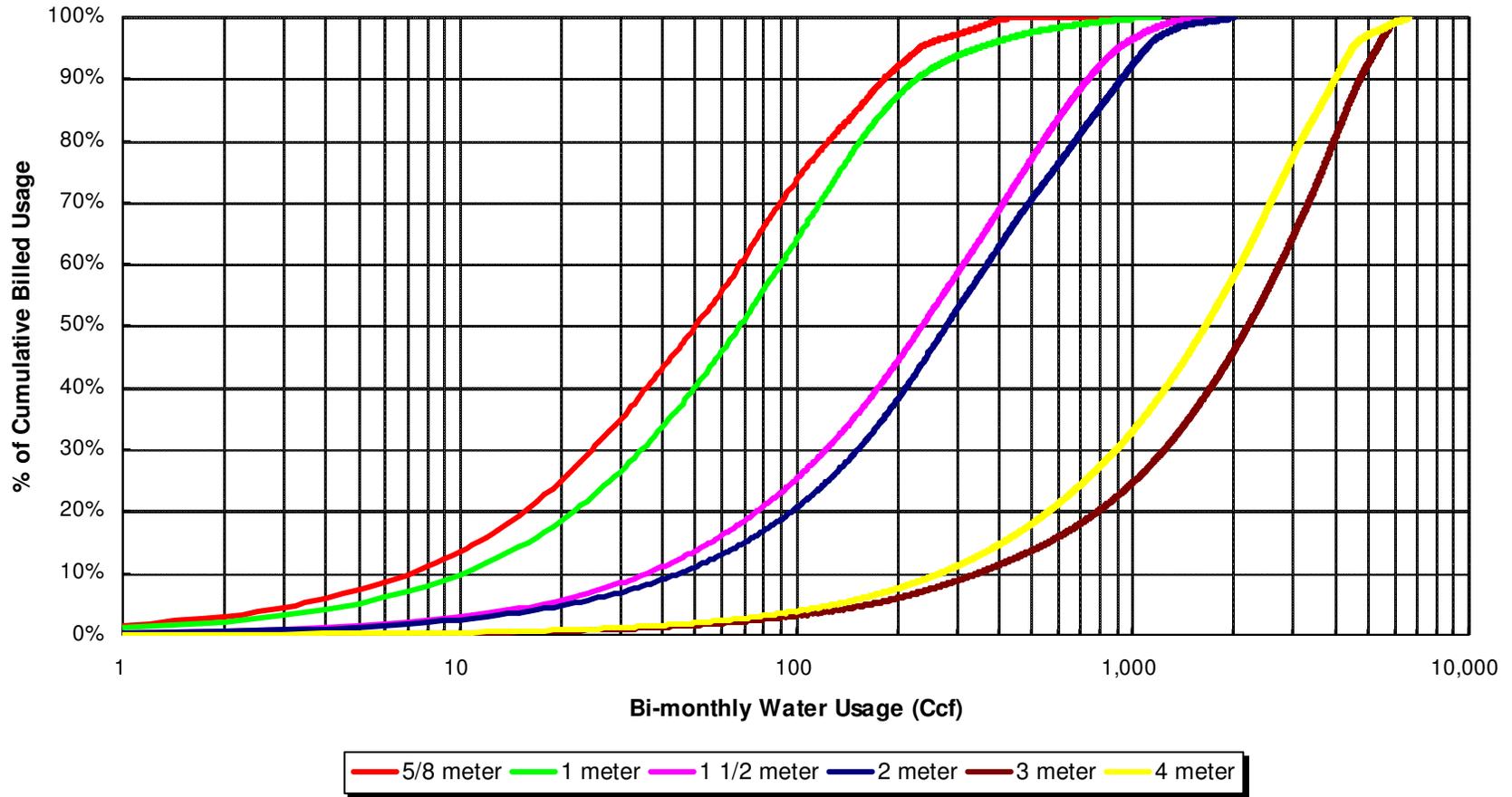


Figure B-3
Cumulative Billed Usage of Irrigation Classifications
Nipomo Community Services District
FY 2004-05 thru FY 2008-09



Appendix C

Private Fire Protection Fixed Charges

Table C-1**Nipomo Community Services District****Water Utility****Proposed Bi-monthly Private Fire Protection Charges**

Size	Nov 1, 2011-12	Nov 1, 2012-13	Nov 1, 2013-14	Nov 1, 2014-15	Nov 1, 2015-16
Inches					
3	\$10.95	\$11.99	\$13.13	\$14.38	\$15.75
4	\$13.14	\$14.39	\$15.76	\$17.26	\$18.90
6	\$19.71	\$21.58	\$23.63	\$25.87	\$28.33
8	\$27.38	\$29.98	\$32.83	\$35.95	\$39.37
10	\$32.85	\$35.97	\$39.39	\$43.13	\$47.23

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