

TO: BOARD OF DIRECTORS

FROM: MICHAEL S. LEBRUN
GENERAL MANAGER

DATE: NOVEMBER 18, 2014

**AGENDA ITEM
ITEM 2
NOVEMBER 21, 2014**

**CONDUCT PROTEST HEARING, DETERMINE PROTEST STATUS,
AND IF THERE IS NOT A MAJORITY PROTEST CONSIDER
ADOPTION OF RESOLUTION APPROVING A SUPPLEMENTAL
WATER CHARGE AND THEREBY INCREASING DISTRICT
WATER USER FEES**

ITEM

CONDUCT PROTEST HEARING, DETERMINE PROTEST STATUS, AND IF THERE IS NOT A MAJORITY PROTEST CONSIDER ADOPTION OF RESOLUTION APPROVING A SUPPLEMENTAL WATER CHARGE AND THEREBY INCREASING DISTRICT WATER USER FEES [RECOMMEND, IF THERE IS NO MAJORITY PROTEST, BY MOTION AND ROLL CALL VOTE, ADOPT RESOLUTION APPROVING SUPPLEMENTAL WATER RATE]

BACKGROUND

Last fall, your Board awarded a contract to Tuckfield & Associates to conduct a water rate study. During the past year, fifteen public meetings and workshops focused on the study have been conducted. Additionally, four newsletters covering the Rate Study and announcing meetings and workshops were distributed to customers and the community.

The Rate Study reviewed the following elements related to the District's cost of delivering water:

- A review of current District water rates;
- An analysis of Supplemental Water charges needed to pay for supplemental water once deliveries begin;
- A review and update of water capacity (connection) charges;
- A review of water shortage (drought) rates; and
- A review and update of miscellaneous charges related to providing water service.

On September 24, 2014 your Board approved the Rate study. The executive summary of the Study is Attachment A.

The approved Rate Study recommends current District water rate schedule remains unchanged.

The Study proposes new rates and charges to pay for augmenting District groundwater supply with a new Supplemental water supply. If approved, Supplemental Water rates will become effective on January 1, 2015 and will be applied to customer bills once delivery of supplemental water to the District commences. These charges will be in addition to the District's current water rates. Supplemental Water pipeline construction is proceeding on schedule and delivery of Supplemental Water is scheduled for July 2015.

Public Hearing for Rate Adoption

Adoption of new rates and charges requires a public hearing process in compliance with Proposition 218. Following your Board's September 24, 2014 approval of the Rate Study, a

Public Notice was mailed to all owners of record and customers of record impacted by the proposed new Supplemental Water charge (Attachment C). The District serves water to approximately 4,285 parcels. By State law, a successful majority protest vote requires 50%+1 of the parcel owners to file a valid written protest.

As of the preparation of this staff report 455 written protests have been received. The protests will be inspected for validity following the close of the hearing, if required.

The schedule to rate adoption is as follows:

<i>September 24, 2014</i>	<i>Board approved Water Rate and Capacity Charge Study and directed Staff to initiate Prop 218 compliant notice</i>
<i>October 3, 2014</i>	<i>Prop 218 Notice was mailed (45 day notice period begins)</i>
<i>November 17, 2014</i>	<i>45 days since mailing Notice</i>
<i>November 21, 2014</i>	<i>Public Hearing and planned rate adoption</i>

PROPOSED SUPPLEMENTAL WATER RATE

A new fund will be created to account for all revenue and expenses related to supplemental water purchase and delivery. Other area water suppliers will purchase approximately 30% of the water the District purchases. The remainder of the costs will be paid by District customers and collected via the proposed rate. Supplemental water rates will apply to all District water customers and all classes. The Rate will include two components, a fixed charge and a volume charge. The fixed charge recovers fixed costs associated with delivery facilities and the volume charge recovers the cost of the water and operation of delivery facilities.

The proposed fixed charge increases relative to customer meter size. A standard residential meter (1-inch or less) would pay a fixed charge of \$6.60/month or \$13.20/billing cycle

The proposed volume charge is \$0.774 per unit of water (1 unit = 748 gallons) and will apply to each unit of water a customer purchases. The proposed volume charge equates to \$0.001 (1/10th of one penny) per gallon of water. Again, the proposed Supplemental Water charges are in addition to existing District water rates and charges.

USE OF WATER REVENUES

The supplemental water supply system will be accounted for as a separate enterprise fund. The revenues derived from the Supplemental Water Rate do not exceed the funds required to provide water service because the rates are calculated to:

- Provide sufficient funds for purchase of Supplemental Water.
- Provide sufficient funds for on-going operation and maintenance for the Supplemental Water system.
- Rehabilitate, replace and upgrade facilities needed to provide services for the Supplemental Water system.
- Establish reserves to reduce risk and prudently manage the District's delivery of Supplemental water resources.

Water revenues collected from Water Customers are deposited into designated accounts and cannot be used for any purpose other than that for which the charge is imposed as outlined above. For further discussion on the use of revenues generated by the proposed Supplemental Water charges, see Section 3.0 of the approved Water Rate and Capacity Charge Study – September 2014. This study is available on the District’s website (ncsd.ca.gov).

STRATEGIC PLAN

Goal 1. WATER SUPPLIES. Actively plan to provide reliable water supply of sufficient quality and quantity to serve both current customers and those in the long-term future.

- 1.1 Complete Phase 1 of Supplemental Supply Projects.

Goal 4. FINANCE. Maintain conservative, long-term financial management to minimize rate impacts on customers while meeting program financial needs.

- 4.1 Ensure that purveyors and others pay their fair share of financing water supply, supplemental water, conservation, and sustainability of the regional water supply. Purveyors should pay their share up front before getting water in order to help finance next phases of supplemental water program.

FISCAL IMPACT

In year one of supplemental water delivery, the District is under contract to purchase a minimum of 645 acre-feet of water at a total cost of approximately \$1.1 million. In the second through fifth year of the contract, the minimum purchase amount is 800 acre-feet and annual cost for purchasing the water will be on the order of \$1.5 million.

Establishing a stand-alone fund and charge for supplemental water facilitates project accounting and assignment of charges to area purveyors in accordance with the groundwater court judgment.

RECOMMENDATION

Staff recommends as follows:

1. Conduct Public Hearing\receive Public Comment & receive Written Protest
2. Close Public Hearing
3. Establish number of valid Written Protests that have been submitted per Proposition 218\Article XIII D of the California Constitution.
4. If there is no majority protest, by motion and roll call vote, adopt Resolution 2014–XXXX Supplemental Water Rates; or
5. If there is a Majority Protest, direct staff to develop alternatives.

ATTACHMENTS

- A. Executive Summary Water Rate and Capacity Charge Study – September 2014
- B. Resolution 2014-XXXX
- C. Proposition 218 Notice to owners of record and customers of record

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November 21, 2014

ITEM 2

ATTACHMENT A

EXECUTIVE SUMMARY

INTRODUCTION

The Nipomo Community Services District (District) engaged Tuckfield & Associates in October of 2013 to conduct a Water Rate and Capacity Charge Study. The study included meetings and teleconferences with District staff and presentations to the Finance and Audit Committee and Board of Directors to present results and solicit their views and comment. This Report documents the analyses, findings, and recommendations of the study conducted for the District.

The major objectives of the study included the following.

1. Evaluate the revenue, operation and maintenance expense, and capital needs of the Water Fund and ensure that revenue is sufficient to meet long-term obligations.
2. Develop five-year financial plans for the Water Fund that stabilizes rate adjustments to avoid rate spikes while meeting financial planning criteria for the fund.
3. Create schedules of water rates and charges, including Supplemental Water (SW) rates, that are fair and equitable, provide predictable sources of revenue, and meet Proposition 218 requirements for rates and charges.

BACKGROUND

In 2010, Tuckfield & Associates conducted a water rate study that developed a five-year financial plan and water rates for the District. The 2010 rate study did not include the operating and capital costs associated with the Supplemental Water Project (Water Project) that will deliver SW from the City of Santa Maria (SM) to the District. However, water rates were presented to the Board of Directors exclusive of the Water Project which were later adopted through the Proposition 218 process.

The water rate structure adopted in 2010 consists of bi-monthly fixed charges and volume charges for water consumption. The fixed charges are established by meter size and are applicable to all customers. The volume charges consist of block rates with varying number of blocks specific to customer classifications.

For residential customers, a four-block commodity rate structure is implemented that is applicable to all residential classifications and meter sizes. For Commercial and Irrigation customers, a two block rate structure is implemented. The amount of water that is allowed in the first block for Commercial and Irrigation customers increases with larger meter sizes. For example, the Commercial 1 inch meter size allows 55 hundred cubic feet (Ccf) in the first block while the 1 ½ inch meter size allows 290 Ccf. Commodity rates for Agriculture and all other water uses are charged as a uniform volume charge for all water consumed. Tables 4 and 5 provide the current water rates of the District.

Since the 2010 study, the District has successfully secured financing for the Water Project and construction of the SW pipeline is underway. In October 2013, the District retained Tuckfield & Associates to update the water system financial plan and design water rates and charges that include the Water Project's operating and capital costs.

WATER FINANCIAL PLAN

The District has identified needed water system improvements for construction over the next five years. Other than the Water Project, the improvements are replacement related and consist of annual replacement of waterlines, valves, and hydrants. Future costs of the improvements are expected to be met from reserves in the various water funds of the District and therefore will have no impact on the Water Fund or current rates.

The number of water accounts of the District is projected to increase at a 0.75 percent growth rate. Future water consumption is projected by applying the water use per account from the FY 2013-14 water billing information to the projected number of accounts, while also recognizing the effect of customer responses to higher water rates related to the District's adopted rate increases scheduled for November 1, 2014 and November 1, 2015.

Annual costs of the water system include operation and maintenance expense (O&M), fixed asset purchases, an annual capital replacement transfer, and a one-time Transfer to the Property Tax Fund. O&M expenses include the District's FY 2013-14 Budget expenses for the first year then projecting future years' expenses through application of inflation factors and recognizing employee additions and other operational changes. Table 7 presents the historical and projected O&M expenses of the water utility.

An analysis was performed that compared the Water Fund's projected revenue using the District's previously approved water rates with revenue requirements (costs) of the fund. The District's currently approved water rate increases of 9.5 percent for both November 1 of 2014 and November 1, 2015 are included in the revenue projections. The analysis indicated that the level of revenue with these increases is sufficient to meet existing and future obligations of the fund for the five-year study period.

No adjustment to the currently adopted water rates for the Water Fund is proposed in this study. The water financial plan is presented in Table 8.

PROPOSED SUPPLEMENTAL WATER CHARGES

This study proposes the creation of a new Supplemental Water Fund for the purpose of capturing the revenue and expenses associated with the Water Project. Revenue into the fund will be derived from charges to Woodlands Mutual Water Company, Rural Water Company, and Golden State Water Company (Purveyors) as well as the District's own water customers.

Expenses of the new fund include the cost of water supply from SM, the District's O&M costs related the operation of the Water Project, annual replacement related to the Water Project, a portion of the 2013 COPs debt service, and a contribution to a fund reserve by District customers only.

Purveyor Supplemental Water Project Cost Reimbursement

Purveyor customers are responsible for their court ordered share of the cost of the Water Project. The District has spent its own funds toward developing and constructing the Water Project and therefore plans to recover from the Purveyors their appropriate share of the sunk costs, interest on sunk costs, and cash contributions paid by the District. Table 9 provides the cash amount required from each Purveyor to reimburse the District for their fair share of the Water Project cost.

Purveyor Supplemental Water Charges

In addition to reimbursement of fair share capital costs to the District, the Purveyors will be charged monthly for SW delivery. Table ES-1 summarizes the monthly Supplemental Water Charge to the three Purveyors for the first year of delivery estimated to begin July 1, 2015. Purveyor monthly charges consist of pass-through SW volume costs, meaning that as these costs are increased to the District from SM, they are automatically increased and passed-through to the Purveyors without a Proposition 218 public hearing. The SW volume cost per AF is multiplied by the each Purveyor's minimum water allocation stated monthly in AF such that a fixed charge is created from the pass-through volume costs.

**Table ES-1
Summary of Supplemental Water Rates and Charges**

Line No.	Description	July 1, 2015	July 1, 2016	July 1, 2017
Purveyor Charges				
Monthly Minimum Fixed Charge ^[1]				
1	Woodlands Mutual Water Co.	\$27,134	\$31,888	\$32,844
2	Rural Water Co.	\$13,568	\$15,945	\$16,423
3	Golden State Water Co.	\$13,568	\$15,945	\$16,423
4	Monthly Volume Charge (\$/AF) ^[2]	\$1,810.36	\$1,887.62	\$1,973.69
District Customer Charges ^[3]				
5	1" Meter Bi-monthly Fixed Charge	\$13.20	\$13.20	\$13.20
6	Volume Charge (\$/Ccf)	\$0.774	\$1.003	\$1.041

^[1] From Table 11 and Table 12.

^[2] For all Purveyor water consumed beyond the minimum allocation. Source: Table 10.

^[3] From Table 13.

Purveyor charges also include a fixed charge for recovery of certain Water Project related fixed costs that are not proposed to change from month to month. The sum of the fixed charge related to SM water volume and the fixed charge for certain Water Project fixed costs is the monthly minimum charge to each Purveyor shown on lines 1 through 3 of Table ES-1. Further detail of these charges is found in Table 11. If additional SW is available from SM and can be delivered by the District, the Purveyors may take more than their minimum allocation. The additional SW which will be charged at the SW volume rates in effect at the time. These rates are projected on line 4 of Table ES-1 with further detail provided in Table 10.

It is expected that the actual costs related to SW delivery are not exactly the same from month to month or year to year. It may be necessary for the District to perform an annual reconciliation of the actual costs with the revenue received. Moneys received that were greater than the actual costs are returned to the Purveyors while any shortfall will be remitted by the Purveyors to the District.

District Customer Supplemental Water Charges

Table ES-1 also presents the proposed charges to District customers. Line 5 is a bi-monthly fixed charge for a 1 inch meter and line 6 is a volume charge per Ccf for SW. The fixed charge includes recovery of the District’s share of Water Project replacement, a small portion of Water Project related debt service, and a bi-monthly contribution to fund reserves. The fixed charge is based on 1 inch equivalent meters, and therefore the fixed charge increases with larger meter sizes as shown in Table 14. The volume charge includes the pass-through cost for SW from SM and the District’s O&M to operate and maintain the Water Project.

Residential Water Bill Impacts

Table ES-2 presents the impacts to residential bills for the proposed July 1, 2015 SW rates. The table is prepared for the 1 inch meter size which is the same charge for meter sizes of 5/8 inch through 1 inch. The table shows that for the average single-family residential customer with a 1 inch meter and a bi-monthly consumption of 36 Ccf, the bill will increase from \$119.37 to \$160.43, an increase of \$41.06, or 34.4 percent.

**Table ES-2
Single-family Residential Bi-monthly Water Bills
With Supplemental Water Fixed^[1] and Volume Charges**

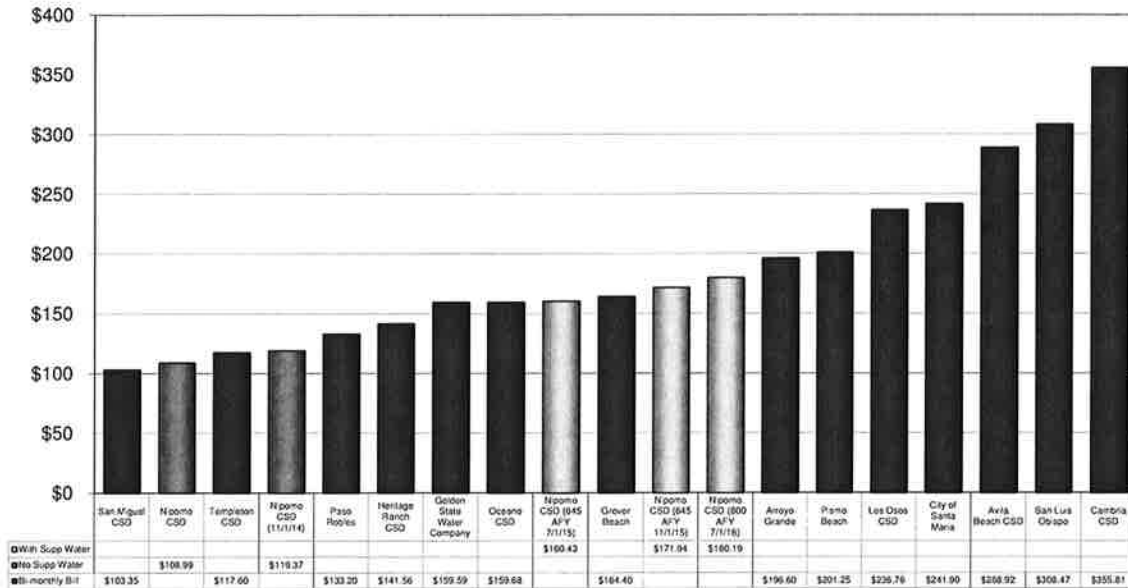
Description	Use	With Water	With Suppl.	Increase from	
		Rate Increase Nov 1, 2014	Water Rates July 1, 2015	Nov 1, 2014 Water Rates	Percent Increase
Very Low	10	\$56.85	\$77.79	\$20.94	36.8%
Low	20	\$78.45	\$107.13	\$28.68	36.6%
Median	22	\$82.77	\$113.00	\$30.23	36.5%
Average	36	\$119.37	\$160.43	\$41.06	34.4%
High	80	\$281.33	\$356.45	\$75.12	26.7%
Very High	120	\$486.33	\$592.41	\$106.08	21.8%

^[1] For 1 inch meter size.

**Water Rate Study
Nipomo Community Services District**

Chart ES-1 has been prepared to compare the District's average water bill with water bills of other communities at the same consumption. The chart indicates that with the July 1, 2015 SW rates, a single-family residential customer with a 1 inch meter and a bi-monthly consumption of 36 Ccf will experience a bill that is in the middle of the communities listed.

**Chart ES-1
Selected Local Water Agencies
Comparison of Single-family Residential Bi-monthly Water Bills [1]
at 36 Ccf Bi-monthly**



[1] For rates in effect July 2014.

November 21, 2014

ITEM 2

ATTACHMENT B

**NIPOMO COMMUNITY SERVICES DISTRICT
RESOLUTION NO. 2014-XXXX**

**A RESOLUTION OF THE BOARD OF DIRECTORS
OF THE NIPOMO COMMUNITY SERVICES DISTRICT
AMENDING SECTION 3.03.180 AND ADDING
APPENDIX C AND D TO CHAPTER 3.03 OF THE
NIPOMO COMMUNITY SERVICES DISTRICT CODE TO
ESTABLISH SUPPLEMENTAL WATER RATES**

WHEREAS, it is a major responsibility of the Nipomo Community Services District ("District") to maintain adequate levels of revenue, equitably collected to meet the District's financial commitments for the operation and maintenance for water facilities and the replacement of existing facilities in the future which benefit the customer or property being charged; and

WHEREAS, the District retained Tuckfield & Associates to evaluate supplemental water rates and charges and to develop a financial plan to meet the financial needs of the project. The Financial Plan includes estimated operating and maintenance costs, anticipated debt service obligations, and capital program needs covering a period from FY 15-16 through FY 17-18. The Report on Water Rate Study dated September 2014 (Water Rate Study) was approved by the District Board of Directors on September 24, 2014; and is incorporated herein by this reference; and

WHEREAS, Government Code §61115 authorizes the District to adopt rates and charges by Resolution; and

WHEREAS, on November 21, 2014, the District conducted a duly noticed public hearing wherein the Board of Directors considered public comment in support and in opposition to the proposed rate increase and whether or not a majority protest to the proposed rate increase exists pursuant to Section 6 of Article XIII D of the California Constitution. At the conclusion of the public hearing, the Board found that approximately XXX written protests were received and that a majority protest did not exist.

WHEREAS, based on facts and analysis presented in the Water Rate Study, written protests received prior to the close of the November 21, 2014, public hearing, the Staff Report, Staff Presentation and public testimony received, the Board of Directors finds:

A. The District identified the parcels upon which the new rates and charges will be imposed, calculated the amount of the rates, and mailed notices to all Owners of Record and Customers of Record of properties responsible for the water rates and charges, which notices provided information on the proposed rates and charges, the basis for the calculation, the reason for the rates and charges, and the date, time, and location for a public hearing which was not less than 45 days after the date of mailing.

B. The public hearing adopting this Resolution has been properly noticed pursuant to Government Code §54954.2 (The Brown Act).

C. The rates and charges adopted by this Resolution:

1. Are for the purposes of meeting operation, maintenance, and capital replacement expenses for providing supplemental water for District customers.
2. Will be applied to customer water bills following the delivery of supplemental water into the District's water system.

NIPOMO COMMUNITY SERVICES DISTRICT
RESOLUTION NO. 2014-XXXX

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ESTABLISH SUPPLEMENTAL WATER RATES

3. Do not exceed the funds required to provide supplemental water to District customers.
4. Do not exceed the proportional cost of services attributable to those parcels receiving water service.

D. The revenues derived from the supplemental water rates and charges will not be used for any purpose other than that for which the charge is imposed.

NOW, THEREFORE, BE IT RESOLVED, DETERMINED AND ORDERED, by the Board of Directors of the District as follows:

Section 1. Incorporation of Recitals

The Recitals are true and correct and incorporated herein by this reference. The Recitals and referenced reports and studies contained therein constitute and support the findings of the District in support of this Resolution.

Section 2. Water Rates

Section 3.03.180 – District Rates and Charges is hereby repealed in its entirety and replaced as follows:

~~A. Water rate shall be charged as follows:~~

- ~~1. Minimum Charges. A minimum monthly charge shall be paid by each customer for each bi-monthly billing period during which a service connection exists. Such charge for any billing period in which such connection has existed for less than the whole of such period shall be prorated. Minimum monthly charges vary with the size of the meter. The minimum monthly charge for service shall be set forth in Appendix A set out at the end of this chapter.~~
- ~~2. Water Rates. The meter rate for water sold supplied, distributed or transported to customers is set forth in Appendix B set out at the end of this chapter.~~

~~B. Sewer rates shall be charged as follows:~~

- ~~1. Monthly sewer charges shall commence on the date the water meter is set.~~
- ~~2. District sewer charges are set forth in Appendix A of Chapter 4.12 of the District Code.~~

Section 3.03.180 - District Rates and Charges is hereby adopted as follows:

A. Water rate shall be charged as follows:

1. Minimum Charges. A minimum monthly charge shall be paid by each customer for each bi-monthly billing period during which a service connection exists even if meter is locked. Such charge for any billing period in which such connection has existed for less than the whole of such period shall be prorated. Minimum monthly charges vary

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RESOLUTION NO. 2014-XXXX

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NIPOMO COMMUNITY SERVICES DISTRICT CODE TO
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with the size of the meter. The minimum monthly charge for service shall be set forth in Appendix A set out at the end of this chapter.

2. Water Rates. The meter rate for water sold supplied, distributed or transported to customers is set forth in Appendix B set out at the end of this chapter.

B. Supplemental Water Rates

1. Fixed Charge: The minimum bi-monthly fixed charge for supplemental water shall be set forth in Appendix C set out at the end of this chapter. Bi-monthly fixed charges for supplemental water will be added to customer water bills once supplemental water deliveries into the District's water system begin.
2. Volume Charge: The volume charge for supplemental water shall be applied to each unit of water metered, sold, supplied, distributed or transported to customers shall be set forth in Appendix D set out at the end of this chapter. The volume rate for supplemental water will be added to customer bills once supplemental water deliveries into the District's water system begin.

C. Sewer rates shall be charged as follows:

- 1 Monthly sewer charges shall commence on the date the water meter is set.
- 2 District sewer charges are set forth in Appendix A of Chapter 4.12 of the District Code.

Section 3. Repeal of Prior Ordinances and Resolutions

All Ordinances, Resolutions and sections of Ordinances and Resolutions that are inconsistent with this Resolution are hereby repealed.

Section 4. Effect of Repeal on Past Actions and Obligations

This Resolution does not affect prosecutions for violations committed prior to the effective date of this Resolution, does not waive any fee or penalty due and unpaid on the effective date of this Resolution, and does not affect the validity of any bond or cash deposit posted, filed or deposited pursuant to the requirements of any prior Resolution or Ordinance.

Section 5. CEQA Findings

The Board of Directors of the District finds that the rates and charges adopted by this Resolution exempt from the California Environmental Quality Act pursuant to Public Resources Code § 21080(b)(8) and CEQA Guidelines Section 15273. The District General Manager is directed to prepare and file appropriate notices.

Section 6. Severance Clause

If any section, subsection, sentence, clause or phrase of this Resolution is for any reason held to be unconstitutional, ineffective or in any manner in conflict with the laws of the United States, or the State of California, such decision shall not affect the validity of the remaining portions of this

**NIPOMO COMMUNITY SERVICES DISTRICT
RESOLUTION NO. 2014-XXXX**

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ESTABLISH SUPPLEMENTAL WATER RATES**

Resolution. The Governing Board of the District hereby declares that it would have adopted this Resolution and each section, subsection, sentence, clause and phrase thereof, irrespective of the fact that any one or more sections, subsections, sentences, clauses or phrases be declared unconstitutional, ineffective, or in any manner in conflict with the laws of the United States or the State of California.

Section 7. Effective Date

This Resolution shall take effect immediately. The rates and charges adopted by this Resolution shall take effect January 1, 2015.

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

AYES:
NOES:
ABSENT:
CONFLICTS:

the foregoing resolution is hereby adopted this 21st day November, 2014.

Craig Armstrong, President
Nipomo Community Services District
Board of Directors

ATTEST:

APPROVED AS TO FORM:

Michael S. LeBrun
General Manager and Secretary to the Board

Michael W. Seitz
District Legal Counsel

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**NIPOMO COMMUNITY SERVICES DISTRICT
RESOLUTION NO. 2014-XXXX**

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APPENDIX C OF CHAPTER 3.03

BI-MONTHLY SUPPLEMENTAL FIXED WATER CHARGES

<u>METER SIZE</u>	<u>January 1, 2015</u>	<u>July 1, 2016</u>	<u>July 1, 2017</u>
1 inch and less	\$13.20	\$13.20	\$13.20
1 1/2 inch	\$39.60	\$39.60	\$39.60
2 inch	\$63.36	\$63.36	\$63.36
3 inch	\$118.80	\$118.80	\$118.80
4 inch	\$198.00	\$198.00	\$198.00
6 inch	\$396.00	\$396.00	\$396.00

APPENDIX D OF CHAPTER 3.03

**Supplemental Water Volume Charges
For all customer classifications**

	<u>January 1, 2015</u>	<u>July 1, 2016</u>	<u>July 1, 2017</u>
Volume Charge (\$/Unit (Ccf))	\$0.774	\$1.003	\$1.041

Ccf = Hundred Cubic Feet

November 21, 2014

ITEM 2

ATTACHMENT C



OCTOBER 2014

Nipomo Community Services District

NOTICE OF PUBLIC HEARING - RATE INCREASE FOR SUPPLEMENTAL WATER

This is a notice to explain proposed increases in water rates for the Nipomo Community Services District (“NCS D” or the “District”) and the majority protest procedures. The proposed rate increases will be recommended for adoption by NCS D’s Board of Directors at the Public Hearing described in this Notice. See the back page of this Notice for Public Hearing date.

Dear Owners of Record and Customers of Record,

Nipomo’s water supply is in trouble. Population growth and one of the most severe droughts in recent history have caused groundwater demand to exceed dependable supply. The District has been actively addressing water supply issues to ensure a sustainable water supply now and in the long-term.

We are bringing in a new supplemental water source.

After years of engineering, environmental studies and public debate, an agreement is in place to buy water from Santa Maria. Construction is underway and delivery of the supplemental water is scheduled to begin in summer 2015.

Over the past year the District has carried out a public process to evaluate its water rates.

Since January 2014, the District has held more than a dozen public meetings including four Town Hall discussions. Additionally, the District has mailed four newsletters covering the topic.

Once supplemental water deliveries begin, we will need to add a supplemental water charge to our customers’ bills.

The District’s water rates are currently among the lowest in the region since we now rely only on low-cost groundwater. We must supplement our supply and this new water source requires an additional charge to pay for it.

Cost of Supplemental Water to Be Shared. The cost of the supplemental water pipeline as well as the water purchased from Santa Maria will be shared with our three neighboring water agencies.

See Inside for Details on the Proposed Charge. The additional charge for supplemental water is proposed to include two amounts—a fixed charge to build the facilities required to bring the water to Nipomo and a volume charge to pay for purchasing water and operating the delivery facilities.

PLEASE CONTACT US IF YOU HAVE QUESTIONS OR COMMENTS ABOUT THE PROPOSED RATE INCREASE

(805) 929-1133 | info@ncsd.ca.gov | P.O. Box 326, Nipomo, CA 93444

ABOUT THE PROPOSED RATES

The proposed rate change does not affect the District's current water rates. Current water rate schedules can be found on the District's website (www.ncsd.ca.gov).

The proposed new Supplemental Water charge consists of bi-monthly Fixed and Volume charges and will be in addition to existing District charges for water.

Basis of Fixed charge. The proposed fixed charge is intended to recover NCSD customer's share for building the facilities required to bring the water to Nipomo.

Basis of Volume charge. The proposed volume charge recovers the cost of the District's share of supplemental water purchased from the City of Santa Maria and NCSD's operation and maintenance costs to deliver the supplemental water.

MORE DETAILS ON PROPOSED SUPPLEMENTAL WATER CHARGE BEGINNING JULY 2015

The proposed Supplemental Water charge will be applicable to all NCSD customer classifications and will consist of a bi-monthly Fixed charge and a Volume charge.

Fixed charge. The proposed charge is based on meter size as shown in the table to the right.

Volume charge. The proposed volume charge will be based on the amount of water used as shown in the table to the right.

Pass-Through: The District will purchase supplemental water from Santa Maria. Santa Maria may increase its water charges to the District. These increased charges, if any, will be passed through to customers beginning July 1, 2015, and annually thereafter through July 1, 2020. The proposed volume charge includes a 5% annual escalation in the cost of Santa Maria water.

Notice of the amount of an annual adjustment for any pass-through charge will be given not less than 30 days prior to the effective date of the adjustment. Future increases beyond the five-year period, if any, will be established in future rate proceedings.

Proposed Bi-Monthly Meter Charge for Supplemental Water for all Customer Classifications			
Bi-monthly Fixed Charge			
Meter Size	July 1, 2015	July 1, 2016	July 1, 2017
1 inch and less	\$13.20	\$13.20	\$13.20
1 1/2 inch	39.60	39.60	39.60
2 inch	63.36	63.36	63.36
3 inch	118.80	118.80	118.80
4 inch	198.00	198.00	198.00
6 inch	\$396.00	\$396.00	\$396.00

Proposed Supplemental Water Volume Charge for All Customer Classifications			
Volume Charge			
	July 1, 2015	July 1, 2016	July 1, 2017
Volume Charge (\$/Unit (Ccf))	\$0.774	\$1.003	\$1.041

AVAILABILITY OF STUDIES, REPORTS, AND INFORMATION

Additional information on the proposed water rates is available in the *Water Rate and Capacity Charge Study - September 2014* and the *Staff Report*. These reports are available for review at the District's administrative offices located at 148 South Wilson Street, Nipomo and on the District's website at www.ncsd.ca.gov. In addition, customers may contact the General Manager at (805) 929-1133 for further information about the proposed rates.

EXAMPLE WATER BILLS INCLUDING PROPOSED SUPPLEMENTAL WATER CHARGES

The table below provides examples of bi-monthly bills that are expected as a result of implementing the proposed new Supplemental Water Charge. The proposed new charge is in addition to existing water rates including the water rate increases for November 1, 2014 and for November 1, 2015 that were approved through the last Proposition 218 process and public rate hearing (October 12, 2011). The bills shown in the table below include the previously approved water rate increases and the proposed increases in customer bills due to the new Supplemental Water Charge.

Example Single-family Residential Bi-Monthly Bills						
Description	Ccf Used	Previously Approved	Proposed Increase	Previously Approved	Proposed Increase	Proposed Increase
		Nov 1, 2014	July 1, 2015	Nov 1, 2015	July 1, 2016	July 1, 2017
Very Low	10	\$56.85	\$77.79	\$83.24	\$85.53	\$85.91
Low	20	\$78.45	\$107.13	\$114.68	\$119.26	\$120.02
Median	22	\$82.77	\$113.00	\$120.97	\$126.01	\$126.84
Average	36	\$119.37	\$160.43	\$171.94	\$180.19	\$181.56
High	80	\$281.33	\$356.45	\$383.40	\$401.72	\$404.76
Very High	120	\$486.33	\$592.41	\$638.76	\$666.24	\$670.80

Example calculation for Median (22 Ccf) use shown above at November 1, 2014 approved rate:
 $\$35.25$ (1" meter fixed charge) + $\$47.52$ (22 units x $\$2.16$ /unit) = $\$82.77$

Example calculation for Median use shown above when proposed rate is applied on July 1, 2015:
 $\$82.77$ (as of Nov 1, 2014) + $\$13.20$ (proposed 1" meter fixed charge) + $\$17.03$ (proposed volume charge x 22 units) = $\$113.00$

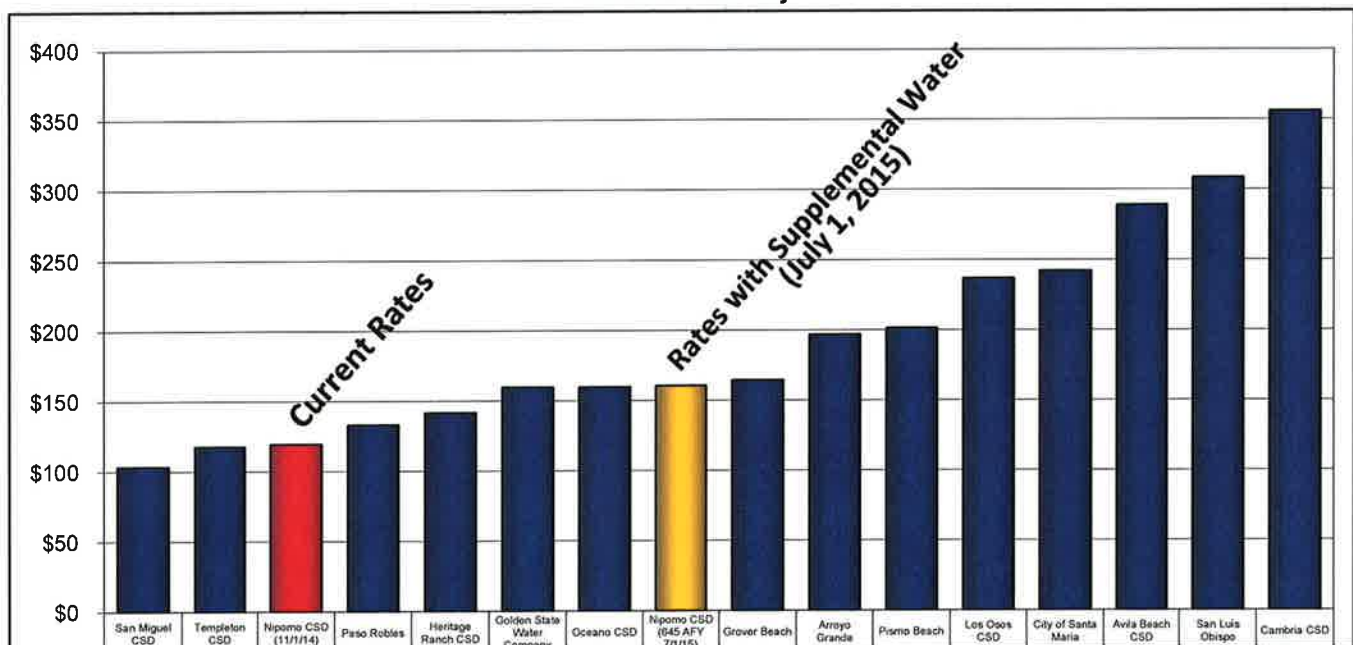
These examples apply to single family residential customers with 1" or smaller meters. Customers with larger meter or different classes can refer to their current bill or existing District rates to estimate the impact of the proposed supplemental charge.

The proposed new charge applies to all customer classifications.

SINGLE FAMILY BILL COMPARISON WITH OTHER LOCAL AGENCIES

The District's water rates are among the lowest in the region due to our use of low-cost groundwater. However, our groundwater is being depleted and threatened. The District is bringing in supplemental water resources and this new water source requires an additional charge to pay for it.

Comparison of Single-family Residential Bi-monthly Water Bills at 36 Ccf Bi-monthly



This is for an average single-family, bi-monthly water bill at 36 Ccf bi-monthly (including Fixed and Volume charges) compared to other local water agencies.

NOTICE OF WATER RATE INCREASE FOR SUPPLEMENTAL WATER



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(805) 929-1133
www.ncsd.ca.gov

Presort First Class
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93401

GENERAL MANAGER
Michael S. LeBrun

HOW TO PROTEST

The following persons may submit a written protest against the Proposed Water Rate Increase to the District's Clerk before the close of the Public Hearing.

- An owner(s) of property (parcel(s)) ("owner of record") receiving water service from the NCSD Water System. If the person(s) signing the protest, as an owner, is not shown on the last equalized assessment roll as the owner of the parcel(s) then the protest must contain or be accompanied by written evidence that such person signing the protest is the owner of the parcel(s) receiving water service;
- "Customer of record" (Tenant(s)) whose name appears on the District records as the customer of record for the corresponding parcel receiving water service from the NCSD.

A valid written protest must contain a statement that you protest the increase in water rates, the address and Assessor's Parcel Number (APN) of the parcel or parcels which receive water service and must be signed and dated, with original signature, by the owner of record, the customer of record, or a representative of an owner of record or a customer of record, for the parcel or parcels receiving water service. One written protest per parcel shall be counted in calculating a majority protest. Written protests will not be accepted by email or by facsimile. Verbal protests will not be counted in determining the existence of a majority protest.

Written protests regarding the water rate increase may be personally delivered to the NCSD Office located at 148 South Wilson Street, Nipomo during regular office hours (8a.m. - 4:30 p.m. Monday - Friday, excluding holidays) or mailed to:

Nipomo Community Services District
Attn: District Clerk
P.O. Box 326, Nipomo, CA 93444-0326

PUBLIC HEARING

A Public Hearing for the Proposed Water Rate Increase will be held on:

November 21, 2014 at 2 PM
Jon S. Seitz Board Room
Nipomo CSD
148 South Wilson Street, Nipomo

At the public hearing the Nipomo Community Services District Board of Directors will consider all public comment in support and in opposition of the Water Rate Increase and whether or not a Majority Protest exists. If approved, the Water Rate Increase would become effective January 1, 2015, and be applied to customer water bills once supplemental water deliveries commence approximately July 2015.

To be counted, the written protest must be received by the close of the Public Hearing, including those mailed to the District. No postmarks will be accepted; therefore, any written protest not actually received by the close of the Public Hearing, whether or not mailed prior to the Public Hearing, will not be counted.

A representative may sign the written protest on behalf of an owner of record or a customer of record provided the representative attaches to the written protest, written documentation/authorization, with original signature, to act in such capacity.

If valid written protests are presented by a majority of owners of record and/or customers of record of parcels receiving water service within the NCSD's Water System, then the NCSD will not adjust/increase the water rates. Only one protest per parcel will be counted in determining whether or not a majority protest exists.