

TO: BOARD OF DIRECTORS

REVIEWED: MARIO IGLESIAS
GENERAL MANAGER

FROM: LISA BOGNUDA
FINANCE DIRECTOR

AGENDA ITEM
E-1 (B)
MAY 11, 2016

DATE: MAY 6, 2016

REVIEW THE DRAFT 2016-2017 FISCAL YEAR BUDGET FOR NIPOMO SUPPLEMENTAL WATER PROJECT (NSWP)

ITEM

Review the draft 2016-2017 fiscal year budget for Nipomo Supplemental Water Project (NSWP)
[RECOMMEND CONSIDER DRAFT BUDGET AND SCHEDULE FOR ADOPTION ON JUNE 8, 2016]

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 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 1st 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 draft 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 only been in operation for 9 months, unanticipated expenditures may arise throughout the year as operations become more refined. The administrative fee is set at 15% of O & M costs.

The NSWP Budget was provided to WMWC and GSWC on April 28, 2016. The Purveyor Managers will meet later this month to review and comment on the draft NSWP budget.

RECOMMENDATION

It is recommended your Honorable Board provide direction to Staff and set Wednesday, June 8, 2016, 9:00 a.m. as the date and time for a Public Hearing to consider adoption of the Fiscal Year 2016-2017 NSWP Budget.

ATTACHMENTS

- A. Draft NSWP Budget

May 11, 2016

ITEM E-1 (B)

ATTACHMENT A

**NIPOMO COMMUNITY SERVICES DISTRICT
NIPOMO SUPPLEMENTAL WATER PROJECT (NSWP)
DRAFT 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
6 Total Annual Supplemental Water Volume Cost	\$1,399,168	\$932,966	\$233,101	\$233,101

	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
12 Total Annual Fixed Supplemental Charges	\$635,811	\$149,439	\$260,099	\$226,273

Total Volume and Annual Fixed Charges for Fiscal Year 2016-2017				
13 (Line 6 + Line 12)	\$2,034,979	\$1,082,405	\$493,200	\$459,374

14 Electrical Pumping Credit (\$100.57 per acre foot)	(\$26,808)	\$0	(\$13,404)	(\$13,404)
15 SUPPLEMENTAL WATER BUDGET FISCAL YEAR 2016-2017	\$2,008,171	\$1,082,405	\$479,796	\$445,970

(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

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

CPI Index - Energy Services - Los Angeles-Riverside-Orange County, CA		
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 Current Period	Change in Net Costs of En Water Rate	Minimum Invoice Amt
2015/16	645	\$1,496	\$204	\$23	\$1,519
2016/17	800	\$1,571	\$204	\$23	\$1,594
2017/18	800	\$1,649	\$204	\$23	\$1,672

FY 2015/16 Rate - Tier 1 (Current)	
\$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
FY 2016/17 Rate - Tier 1 (Proposed)	
\$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
FY 2017/18 Rate - Tier 1 (Proposed)	
\$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)
DRAFT 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
TOTAL OPERATIONS AND MAINTENANCE	68,300	107,800
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)
DRAFT 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	
GSC	28,713	
		206,865

Estimated interest income FY 2015-2016 90

Estimated Ending Balance, June 30, 2016 (after collections of June 30, 2016 Invoice) 206,955

Collections FY 2016-17

NCS	149,439	
WMWC	28,713	
GSC	28,713	
		206,865

Estimated interest income FY 2016-17 550

Estimated Ending Balance, June 30, 2017 (after collections of June 30, 2017 Invoice) 414,370

Funded Replacement Reserve Requirement - Pursuant to Section XVIII (J)

CPI Adjustment as of June 30, 2016 (See pages 5-7)

CPI - 2015 Annual	244.632
CPI - 2014 Annual	(242.434)
	2.198
Divide by previous period CPI ÷	242.434
	0.009
X	100.000
Percent Change	0.907

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 3,027,210

Note: Funds held in separate savings account at Rabobank

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Data extracted on: April 26, 2016 (4:27:20 PM)

Consumer Price Index - All Urban Consumers**Series Id:** CUURA421SA0

Not Seasonally Adjusted

Area: Los Angeles-Riverside-Orange County, CA**Item:** All items**Base Period:** 1982-84=100**Download:** [xlsx](#)

Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Annual	HALF1	HALF2
2006	206.0	207.5	208.5	210.5	212.4	211.1	211.4	211.9	212.9	211.4	211.1	210.6	210.4	209.3	211.6
2007	212.584	214.760	216.500	217.845	218.596	217.273	217.454	217.330	217.697	218.696	219.943	219.373	217.338	216.260	218.416
2008	220.918	221.431	223.606	224.625	226.651	229.033	229.886	228.484	227.449	226.159	222.229	219.620	225.008	224.377	225.638
2009	220.719	221.439	221.376	221.693	222.522	223.906	224.010	224.507	225.226	225.264	224.317	223.643	223.219	221.943	224.495
2010	224.610	224.620	225.483	225.916	226.438	225.877	225.991	226.373	226.048	226.794	225.941	226.639	225.894	225.491	226.298
2011	228.652	229.729	232.241	233.319	233.367	232.328	231.303	231.833	233.022	233.049	232.731	231.567	231.928	231.606	232.251
2012	233.441	234.537	236.941	236.866	237.032	236.025	235.776	237.222	238.104	240.111	237.675	236.042	236.648	235.807	237.488
2013	238.015	239.753	239.995	239.043	239.346	239.223	238.920	239.219	239.611	239.940	238.677	238.742	239.207	239.229	239.185
2014	239.857	241.059	242.491	242.437	243.362	243.528	243.727	243.556	243.623	243.341	241.753	240.475	242.434	242.122	242.746
2015	239.724	241.297	243.738	243.569	246.093	245.459	247.066	246.328	245.431	245.812	245.711	245.357	244.632	243.313	245.951
2016	247.155	247.113	247.873												

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BLS Information

Frequently Asked Questions (FAQs)

Question: How do I use the Consumer Price Index (CPI) for escalating contracts?

Answer: The CPI measures the average change in the prices paid for a market basket of goods and services. These items are purchased for consumption by the two groups covered by the index: All Urban Consumers (CPI-U) and Urban Wage Earners and Clerical Workers, (CPI-W).

Escalation agreements often use the CPI—the most widely used measure of price change—to adjust payments for changes in prices. The most frequently used escalation applications are in private sector collective bargaining agreements, rental contracts, insurance policies with automatic inflation protection, and alimony and child support payments.

The following are general guidelines to consider when developing an escalation agreement using the CPI:

DEFINE clearly the base payment (rent, wage rate, alimony, child support, or other value) that is subject to escalation.

IDENTIFY precisely which CPI index series will be used to escalate the base payment. This should include: The population coverage (CPI-U or CPI-W), area coverage (U.S. City Average, West Region, Chicago, etc.), series title (all items, rent of primary residence, etc.), and index base period (1982-84=100).

SPECIFY a reference period from which changes in the CPI will be measured. This is usually a single month (the CPI does not correspond to a specific day or week of the month) or an annual average. There is about a 2-week lag from the reference month to the date on which the index is released (e.g., the CPI for May is released in mid-June). The CPI's for most metropolitan areas are not published as frequently as are the data for the U.S. City Average and the 4 regions. Indexes for the U.S. City Average, the 4 regions, 3 city-size classes, 10 region-by-size classes, and 3 major metropolitan areas (Chicago, Los Angeles, and New York) are published monthly. Indexes for the remaining 23 published metropolitan areas are available only on a bimonthly or semiannual basis. Contact the BLS address at the end of this fact sheet for information on the frequency of publication for the 26 metropolitan areas.

STATE the frequency of adjustment. Adjustments are usually made at fixed time intervals, such as quarterly, semiannually, or, most often, annually.

DETERMINE the formula for the adjustment calculation. Usually the change in payments is directly proportional to the percent change in the CPI index between two specified time periods. Consider whether to make an allowance for a "cap" that places an upper limit to the increase in wages, rents, etc., or a "floor" that promises a minimum increase regardless of the percent change (up or down) in the CPI.

PROVIDE a built-in method for handling situations that may arise because of major CPI revisions or changes in the CPI index base period. The Bureau always provides timely notification of upcoming revisions or changes in the index base.

The CPI and escalation: Some points to consider

The CPI is calculated for two population groups: All Urban Consumers (CPI-U) and Urban Wage Earners and Clerical Workers (CPI-W). The CPI-U represents about 87 percent of the total U.S. population and is based on the expenditures of *all* families living in urban areas. The CPI-W is a subset of the CPI-U and is based on the expenditures of families living in urban areas who meet additional requirements related to employment: more than one-half of the family's income has to be earned from clerical or hourly-wage occupations. The CPI-W represents about 32 percent of the total U.S. population.

There can be small differences in movement of the two indexes over short periods of time because differences in the spending habits of the two population groups result in slightly different weighting. The long-term movements in the indexes are similar. CPI-U and CPI-W indexes are calculated using measurement of price changes for goods and services with the same specifications and from the same retail outlets. The CPI-W is used for escalation primarily in

blue-collar cost-of-living adjustments (COLA's). Because the CPI-U population coverage is more comprehensive, it is used in most other escalation agreements.

The 26 metropolitan areas for which BLS publishes separate index series are by-products of the U.S. City Average index. Metropolitan area indexes have a relatively small sample size and, therefore, are subject to substantially larger sampling errors. Metropolitan area and other sub-components of the national indexes (regions, size-classes) often exhibit greater volatility than the national index. BLS strongly recommends that users adopt the U.S. City Average CPI for use in escalator clauses.

The U.S. City Average CPI's are published on a seasonally adjusted basis as well as on an unadjusted basis. The purpose of seasonal adjustment is to remove the estimated effect of price changes that normally occur at the same time and in about the same magnitude every year (e.g., price movements due to the change in weather patterns, model change-overs, holidays, end-of-season sales, etc.). The primary use of seasonally adjusted data is for current economic analysis. In addition, the factors that are used to seasonally adjust the data are updated annually. Also, seasonally adjusted data that have been published earlier are subject to revision for up to 5 years after their original release. For these reasons, the use of seasonally adjusted data in escalation agreements is inappropriate.

Escalation agreements using the CPI usually involve changing the base payment by the percent change in the level of the CPI between the reference period and a subsequent time period. This is calculated by first determining the index point change between the two periods and then the percent change. The following example illustrates the computation of percent change:

CPI for current period	136.0
Less CPI for previous period	129.9
Equals index point change	6.1
Divided by previous period CPI	129.9
Equals	0.047
Result multiplied by 100	0.047×100
Equals percent change	4.7

The Bureau of Labor Statistics neither encourages nor discourages the use of price adjustment measures in contractual agreements. Also, while BLS can provide technical and statistical assistance to parties developing escalation agreements, we can neither develop specific wording for contracts nor mediate legal or interpretive disputes which might arise between the parties to the agreement.

For any additional information about the CPI, please call (202) 691-7000, or write to:

Bureau of Labor Statistics
Office of Prices and Living Conditions
2 Massachusetts Avenue, NE., Room 3615
Washington, DC 20212-0001

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NIPOMO SUPPLEMENTAL WATER PROJECT (NSWP) FLOW OF FUNDS

