

TO: FINANCE AND AUDIT COMMITTEE

REVIEWED: MARIO IGLESIAS
GENERAL MANAGER

FROM: LISA BOGNUDA
FINANCE DIRECTOR

DATE: FEBRUARY 28, 2017

AGENDA ITEM

2

MARCH 6, 2017

REVIEW DRAFT FINANCIAL PLAN FOR WATER RATE STUDY

ITEM

Review draft Financial Plan for water rate study. [RECOMMEND REVIEW AND DIRECT STAFF]

BACKGROUND

On October 26, 2016, the Board of Directors approved a contract with Tuckfield and Associates to prepare a water rate study. On November 1, 2015, the final water rate adjustment of a five-year rate plan approved in 2011 for Fund #125 (Water Fund) went into effect. The final adjustment for Fund #126 (Supplemental Water) of a three-year plan adopted in 2014, will go into effect on July 1, 2017.

As evidenced above, the Water Fund #125 and the Supplemental Water Fund #126 are on two different rate adjustment schedules. Historically, this schedule has required a water rate modification on customer bills twice each year. The Supplemental Water Fund #126 adjustment is tied to the City of Santa Maria's rate adjustment, so the pass-through costs associated with this rate adjustment are seen on water consumed starting July 1 of each year. The Water Fund #125 adjustment has historically been implemented in the winter months of November through January. By providing customers with rate adjustments in winter months, consumers have the opportunity to modify their water consumption behavior, tailoring their water usage with full knowledge of cost implications.

In order to move forward with the water rate study, Mr. Tuckfield is asking that the Finance and Audit Committee review the information presented and provide direction. Mr. Tuckfield will be available via teleconference to answer questions and receive input.

In order to facilitate the discussion, the presentation has been broken into 5 categories for consideration.

Considerations #1 and #2 speak to the timing and number of adjustments per year. The pros and cons of maintaining the current schedule for adjusting these funds are discussed in greater detail below along with combining these funds to reduce adjustments to once a year. As the City of Santa Maria has set the rate adjustment schedule in an agreement with the Nipomo Community Services District ("District"), any effort to shift this rate adjustment schedule would take greater effort as the agreement would need to be modified.

Consideration #3 evaluates the combined estimated impact on water rates over a 9 year period, while Consideration #4 provides a clear view of annual adjustments in percentage format over the same time period. Consideration #5 lays-out the time-line for Proposition 218 compliance leading to a rate adoption date.

Consideration #1

Prior to moving forward on the Financial Plan, the Finance and Audit Committee will need to make a determination if the water rates for Fund #125 and Fund #126 should continue to be maintained separately or combine them into one fund and have one set of water rates.

One benefit of combining the funds is simplifying the customer's utility bill. After adding supplemental water in July 2015, the water portion of the utility bill went from two lines of charges to four lines of charges as follows:

1. Water service (Fund #125)
2. Water use (Fund #125)
3. Supplemental Water Fixed Charge (Fund #126)
4. Supplemental Water Volume Charge (Fund #126)

If the funds are combined, the utility bill will revert back to two lines of water rate charges.

If it is determined that the funds should be maintained separately, a cash reserve policy will need to be established for Fund #126. The District currently has a cash reserve policy for Fund #125. The financial plan addresses this issue and suggests that three months of Fund #126 Operations and Maintenance ("O&M") costs be collected and set aside in anticipation of Board action to create a cash reserve policy for the fund. Both financial plan options presented in this analysis assume that Funds #125 and #126 remain separate and each have a reserve policy – 12 months of O&M in Fund #125 and 3 months of O&M in Fund #126.

If it is determined that the funds should be combined, it is recommended that the cash reserve policy currently in place for Fund #125 be sufficient to meet the needs of Fund #125 and Fund #126. The District's current reserve policy for Fund #125 is conservative – 100% of the annual O&M costs. The calculated reserves for 3 months of O&M in Fund #126 is approximately 8% of the cash reserves retained in Fund #125. The District's reserve policy would maintain a strong financial position should the Board choose this methodology.

Consideration #2

The first step in preparing a Financial Plan is to review, edit and approve the rate study assumptions. The assumptions are then put into the model in order to project revenue requirements in future years. The assumptions for Fund #125 and Fund #126 are attached.

It should be noted that it is assumed that the last of the three Supplemental Water (Fund #126) rate increases previously approved will go into effect on July 1, 2017. It is further assumed that a new rate increase will be proposed to go into effect on October or November 1, 2017. Additionally, it is assumed that all subsequent rate increases will go into effect July 1, beginning July 1, 2018, to coincide with the rate increases by the City of Santa Maria.

Consideration #3

The financial plans (Combined Fund #125 and #126) Option 1 and Option 2 have been prepared based on the assumptions above.

Consideration #4

The revenue adjustments (presented in % format) required each year to meet the financial needs of the water enterprise is reflected in the two Financial Plan Options attached. Option 1 is the most accurate cost reflective schedule as it adjusts revenue needs to meet each year's condition. In Option 1, the larger percentage adjustment in FY 20-21 is due to contractual requirements to increase the purchase of supplemental water from 800 acre feet to 1,000 acre feet.

Option 2 looks to normalize rate adjustments. It anticipates the shift in cost for increased purchased water requirements in Fiscal Year 2020-21. The rate adjustment percentages can be smoothed by collecting revenue in the earlier years to help offset the purchased water impact demonstrated in Option 1, FY 2020-21.

Consideration #5

Attached is the proposed time-line for the completion of the water rate study and Prop 218 proceedings. The schedule may need to be modified to reflect the desires of the Board of Directors related to timing and quantity of public workshops.

After the Committee provides direction to staff, Mr. Tuckfield will proceed with the next step in the process which is to present the draft financial plan and review rate schedule options with the Board of Directors. Based on the time line presented, this presentation will be scheduled for April 12, 2017.

RECOMMENDATION

It is recommended that the Committee review/approve/edit the following and direct staff:

- Consideration 1 - Combine Fund 125 and 126 together or maintain them separately
- Consideration 2 - Assumptions
- Consideration 3 - Revenue Requirements (Option 1 or Option 2)
- Consideration 4 - Proposed Revenue Increase (%) (Option 1 or Option 2)
- Consideration 5 – Time-line for Prop 218 and adoption

ATTACHMENT

- A. Assumptions
- B. Financial Plan (2) Tables, Option 1 Table and Option 2 Table
- C. Revenue Requirements (Proposed Revenue Increases in % format)
- D. 2017 Rate Setting Schedule: Time-line for Prop. 218 and Adoption

FINANCE & AUDIT COMMITTEE

March 6, 2017

ITEM 2

ATTACHMENT A

NCS D Water Rate Study Assumptions – 10-yr Financial Plan 2-28-2017

Fund 125 – Water Fund

- a. Assumes no customer growth for 3 years; then SFR and MFR increases at 0.5% annually
- b. Consumption projection uses FY 15-16 use/customer and increases with customer growth
- c. Revenue is projected using Consultant's estimates
- d. Increases in Revenue occurs on **October 1, 2017 and each July thereafter**
- e. O&M Inflation Factors
 - a. Salaries – 5%, Benefits – 5%, Power – 3%, Chemicals – 2%, SM Tier 1 Water – 5%, Other – 3%, Capital – 2%
- f. Personnel Added: 1 New Field Crew in FY 17-18; 1 new Customer Service Rep in FY 18-19; 1 new Office Clerk in FY19-20
- g. Annual interest earnings rate is 0.65%
- h. Debt Coverage includes appropriate revenue from all funds as defined in bond covenants
- i. Ending Cash Reserve is built to Target Reserve Level (12 months) **over 10 years**; see Table 6

Fund 126 – Supplemental Water Fund

- a. Increases in Revenue occurs on **July 1, 2017 and each July 1 thereafter**
- b. Supplemental Water purchases increase from 800 AF to 1,000 AF in FY 2020-21
- c. SM Tier 1 rate increases at 5% annually
- d. CPI Energy Services Index increases by 3% annually
- e. Replacement contribution increases with construction of Phase 2B and 3
- f. Replacement is transferred to Fund 915 and accumulates
- g. NSWP O&M cost increases per inflation factors above
- h. Ending Cash Balance increases to match assumed Target Reserve of 90 days of SW O&M
 - a. No adopted reserve policy regarding this Fund. Since revenue is based on consumption, and consumption dropped by 25%, consider a reserve policy.

FINANCE & AUDIT COMMITTEE

March 6, 2017

ITEM 2

ATTACHMENT B

Financial Plan - Option 1

OPTION 1
Water Financial Plan (Combined Fund 125 and 126)

Description	Projected									
	FY 16-17	FY 17-18	FY 18-19	FY 19-20	FY 20-21	FY 21-22	FY 22-23	FY 23-24	FY 24-25	FY 25-26
Proposed Revenue Increase (October 1)										
Proposed Revenue Increase (July 1)		7.8%	7.2%	7.9%	14.2%	6.5%	3.9%	3.2%	3.2%	3.3%
Revenue										
Revenues from Existing Water Rates [1]	\$3,205,332	\$3,205,332	\$3,205,332	\$3,218,326	\$3,231,316	\$3,244,314	\$3,257,306	\$3,270,299	\$3,283,291	\$3,296,943
Supplemental Water Rate Revenues [1]	1,113,293	1,113,293	1,113,293	1,117,893	1,122,492	1,127,093	1,131,691	1,136,291	1,140,890	1,145,701
Total Additional Supp Water Sales Revenue [2]	0	219,386	673,037	1,069,978	1,846,790	2,261,559	2,532,702	2,766,731	3,011,280	3,267,666
Transfer in from Fund #125	200,786									
Miscellaneous Income	127,700	141,200	141,200	141,200	141,200	141,200	141,200	141,200	141,200	141,200
Interest Income [3]	8,914	6,501	5,055	4,965	5,667	10,618	15,531	20,221	24,705	29,195
Total Revenue	\$4,656,025	\$4,685,712	\$5,137,917	\$5,552,362	\$6,347,465	\$6,784,784	\$7,078,430	\$7,334,742	\$7,601,366	\$7,880,705
Revenue Requirements										
O&M and Capital Outlay	\$2,993,347	\$3,231,135	\$3,437,139	\$3,598,072	\$3,660,125	\$3,825,025	\$3,958,129	\$4,110,721	\$4,307,090	\$4,454,698
Replacement Transfer to Fund 805	566,000	580,000	595,000	610,000	625,000	641,000	657,000	673,000	690,000	707,000
Transfer out to Cover Deficit in Fund 126	200,786	0	0	0	0	0	0	0	0	0
Supplemental Water Purchases	850,303	895,112	940,988	989,531	1,300,260	1,366,940	1,436,954	1,509,635	1,585,650	1,667,000
Supplemental Water O&M	71,881	74,073	76,341	78,677	94,085	96,933	99,873	102,907	106,041	109,282
Supplemental Water Overhead	10,781	11,320	11,866	12,480	16,380	17,199	18,059	18,962	19,910	20,906
Supplemental Water Replacement	149,439	149,439	150,729	157,680	163,043	168,316	211,429	211,429	211,429	211,429
Fund Difference Prop Taxes and Debt Service	81,100	0	0	0	0	0	0	0	0	0
Total Revenue Requirements	\$4,923,637	\$4,941,079	\$5,212,083	\$5,446,440	\$5,858,893	\$6,115,413	\$6,381,444	\$6,626,654	\$6,920,120	\$7,170,315
Net Funds Available	(\$267,612)	(\$255,367)	(\$74,166)	\$105,922	\$488,572	\$669,371	\$696,986	\$708,088	\$681,246	\$710,390
Available Reserves										
Beginning available reserves [4]	\$1,505,111	\$1,237,499	\$982,132	\$907,966	\$1,013,888	\$1,502,460	\$2,171,831	\$2,868,817	\$3,576,905	\$4,258,151
Additions (reductions)	(267,612)	(255,367)	(74,166)	105,922	488,572	669,371	696,986	708,088	681,246	710,390
Ending available reserves	\$1,237,499	\$982,132	\$907,966	\$1,013,888	\$1,502,460	\$2,171,831	\$2,868,817	\$3,576,905	\$4,258,151	\$4,968,541
Target Reserves [5]	\$3,226,000	\$3,476,000	\$3,694,000	\$3,868,000	\$4,013,000	\$4,195,000	\$4,347,000	\$4,519,000	\$4,735,000	\$4,904,000
Above (below) Target	(\$1,988,501)	(\$2,493,868)	(\$2,786,034)	(\$2,854,112)	(\$2,510,540)	(\$2,023,169)	(\$1,478,183)	(\$942,095)	(\$476,849)	\$64,541

[1] Projected using the existing rates.

[2] Additional revenue from proposed rate adjustments.

[3] Interest earnings on the average fund balance calculated at 0.65%.

[4] The available beginning FY 16-17 cash balance provided by District.

[5] Build reserve to an assumed Target Reserve level equal to 12 months (Fund #125) and 3 months (Fund #126) of operation and maintenance expense.

Financial Plan - Option 2

OPTION 2
Water Financial Plan (Combined Fund 125 and 126)

Description	Projected									
	FY 16-17	FY 17-18	FY 18-19	FY 19-20	FY 20-21	FY 21-22	FY 22-23	FY 23-24	FY 24-25	FY 25-26
Proposed Revenue Increase (October 1)		8.7%	8.7%	8.7%	8.7%	8.7%	8.7%	8.7%	8.7%	8.7%
Proposed Revenue Increase (July 1)		8.7%	8.7%	8.7%	8.7%	8.7%	8.7%	8.7%	8.7%	8.7%
Revenue										
Revenues from Existing Water Rates [1]	\$3,205,332	\$3,205,332	\$3,205,332	\$3,218,326	\$3,231,316	\$3,244,314	\$3,257,306	\$3,270,299	\$3,283,291	\$3,296,943
Supplemental Water Rate Revenues [1]	1,113,293	1,113,293	1,113,293	1,117,893	1,122,492	1,127,093	1,131,691	1,136,291	1,140,890	1,145,701
Total Additional Supp Water Sales Revenue [2]	0	219,170	784,128	1,233,071	1,724,566	2,262,493	2,504,720	2,757,004	3,019,738	3,293,963
Transfer in from Fund #125	200,786									
Miscellaneous Income	127,700	141,200	141,200	141,200	141,200	141,200	141,200	141,200	141,200	141,200
Interest Income [3]	8,914	6,501	5,175	6,053	7,996	11,230	16,557	20,977	25,461	30,071
Total Revenue	\$4,656,025	\$4,685,496	\$5,249,128	\$5,716,543	\$6,227,570	\$6,786,330	\$7,051,474	\$7,325,771	\$7,610,580	\$7,907,878
Revenue Requirements										
O&M and Capital Outlay	\$2,993,347	\$3,231,135	\$3,437,139	\$3,598,072	\$3,660,125	\$3,825,025	\$3,958,129	\$4,110,721	\$4,307,090	\$4,454,698
Replacement Transfer to Fund 805	566,000	580,000	595,000	610,000	625,000	641,000	657,000	673,000	690,000	707,000
Transfer out to Cover Deficit in Fund 126	200,786	0	0	0	0	0	0	0	0	0
Supplemental Water Purchases	850,303	895,112	940,988	989,531	1,300,260	1,366,940	1,436,954	1,509,635	1,585,650	1,667,000
Supplemental Water O&M	71,881	74,073	76,341	78,677	94,085	96,933	99,873	102,907	106,041	109,282
Supplemental Water Overhead	10,781	11,320	11,886	12,480	16,380	17,199	18,059	18,962	19,910	20,906
Supplemental Water Replacement	149,439	149,439	150,729	157,680	163,043	168,316	211,429	211,429	211,429	211,429
Fund Difference Prop Taxes and Debt Service	81,100	0	0	0	0	0	0	0	0	0
Total Revenue Requirements	\$4,923,637	\$4,941,079	\$5,212,083	\$5,446,440	\$5,858,893	\$6,115,413	\$6,381,444	\$6,626,654	\$6,920,120	\$7,170,315
Net Funds Available	(\$267,612)	(\$255,583)	\$37,045	\$270,103	\$368,677	\$670,917	\$670,030	\$699,117	\$690,460	\$737,563
Available Reserves										
Beginning available reserves [4]	\$1,505,111	\$1,237,499	\$981,916	\$1,018,961	\$1,289,064	\$1,657,741	\$2,328,658	\$2,998,688	\$3,697,805	\$4,388,265
Additions (reductions)	(267,612)	(255,583)	37,045	270,103	368,677	670,917	670,030	699,117	690,460	737,563
Ending available reserves	\$1,237,499	\$981,916	\$1,018,961	\$1,289,064	\$1,657,741	\$2,328,658	\$2,998,688	\$3,697,805	\$4,388,265	\$5,125,828
Target Reserves [5]	\$3,226,000	\$3,476,000	\$3,694,000	\$3,868,000	\$4,013,000	\$4,195,000	\$4,347,000	\$4,519,000	\$4,735,000	\$4,904,000
Above (below) Target	(\$1,988,501)	(\$2,494,084)	(\$2,675,039)	(\$2,578,936)	(\$2,355,259)	(\$1,866,342)	(\$1,348,312)	(\$821,195)	(\$346,735)	\$221,828

[1] Projected using the existing rates.
 [2] Additional revenue from proposed rate adjustments.
 [3] Interest earnings on the average fund balance calculated at 0.65%.
 [4] The available beginning FY 16-17 cash balance provided by Distinct.
 [5] Build reserve to an assumed Target Reserve level equal to 12 months (Fund #125) and 3 months (Fund #126) of operation and maintenance expense.

FINANCE & AUDIT COMMITTEE

March 6, 2017

ITEM 2

ATTACHMENT C

Water Financial Plan - Option 1

Proposed Revenue Increase				
Fiscal Year	Month of Increase	Fund 125	Fund 126	Combined Funds
FY 16-17	July 1	0.0%	0.0%	0.0%
FY 17-18	October 1	8.9%	4.8%	7.8%
FY 18-19	July 1	8.9%	2.1%	7.2%
FY 19-20	July 1	8.9%	4.6%	7.9%
FY 20-21	July 1	8.9%	32.0%	14.2%
FY 21-22	July 1	8.9%	0.1%	6.5%
FY 22-23	July 1	3.0%	6.7%	3.9%
FY 23-24	July 1	3.0%	3.9%	3.2%
FY 24-25	July 1	3.0%	3.9%	3.2%
FY 25-26	July 1	3.0%	4.0%	3.3%

Note: October 1 increase applies to Fund 125. The increase for Fund 126 is July 1.

Water Financial Plan - Option 2

Proposed Revenue Increase				
Fiscal Year	Month of Increase	Fund 125	Fund 126	Combined Funds
FY 16-17	July 1	0.0%	0.0%	0.0%
FY 17-18	October 1	8.9%	4.8%	8.7%
FY 18-19	July 1	10.9%	2.1%	8.7%
FY 19-20	July 1	10.0%	4.6%	8.7%
FY 20-21	July 1	2.0%	32.0%	8.7%
FY 21-22	July 1	11.9%	0.1%	8.7%
FY 22-23	July 1	2.4%	6.7%	3.5%
FY 23-24	July 1	3.4%	3.9%	3.5%
FY 24-25	July 1	3.3%	3.9%	3.5%
FY 25-26	July 1	3.3%	4.0%	3.5%

Note: October 1 increase applies to Fund 125. The increase for Fund 126 is July 1.

FINANCE & AUDIT COMMITTEE

March 6, 2017

ITEM 2

ATTACHMENT D

2017 Rate Setting Schedule: Time-line for Prop 218 and Adoption

Mar. 6, 2017 Committee	F&A Committee Meeting: Review NCSD Water Fund Financial Plan
April 12, 2017 Board	Board Meeting: Presentation of Financial Plan and Discuss Rate Schedule Options (Fixed vs Variable, Uniformed vs Tiered, Combine Funds for Annual Adjustments vs Separate Funds for Biannual Adjustments)
May 11, 2017 Community	1 st Community Workshop (Optional) Discuss Options with Community
May 24, 2017 Board	Board Meeting: Rate Schedule Presentation
June 6, 2017 Community	2 nd Community Workshop (Optional) Present Board's Plan to Community
June 14, 2017 Board	Board Meeting: Accept Report Adopt Rate schedule (218 Process Starts)
June 21, 2017 218 Notice	Mail 45 day Notice
July 1, 2017	Pass-through City of Santa Maria Rate adjustment.
Aug. 9, 2017 Board	Board Meeting: Adopt Rates
Oct. 1, 2017	Rate becomes effective. Combined with City of Santa Maria Pass-through Costs
Nov. 1, 2017	Fall-back position – Rate becomes effective.

January

S	M	T	W	T	F	S
1	2	3	4	5	6	7
8	9	10	11	12	13	14
15	16	17	18	19	20	21
22	23	24	25	26	27	28
29	30	31				

February

S	M	T	W	T	F	S
			1	2	3	4
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12	13	14	15	16	17	18
19	20	21	22	23	24	25
26	27	28				

March

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4	5	6	7	8	9	10
11	12	13	14	15	16	17
18	19	20	21	22	23	24
25	26	27	28	29	30	31

April

S	M	T	W	T	F	S
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16	17	18	19	20	21	22
23	24	25	26	27	28	29
30						

May

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14	15	16	17	18	19	20
21	22	23	24	25	26	27
28	29	30	31			

June

S	M	T	W	T	F	S
					1	2
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10	11	12	13	14	15	16
17	18	19	20	21	22	23
24	25	26	27	28	29	30

July

S	M	T	W	T	F	S
						1
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23	24	25	26	27	28	29
30	31					

August

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27	28	29	30	31		

September

S	M	T	W	T	F	S
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23	24	25	26	27	28	29
30						

October

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22	23	24	25	26	27	28
29	30	31				

November

S	M	T	W	T	F	S
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9	10	11	12	13	14	15
16	17	18	19	20	21	22
23	24	25	26	27	28	29
30						

December

S	M	T	W	T	F	S
						1
2	3	4	5	6	7	8
9	10	11	12	13	14	15
16	17	18	19	20	21	22
23	24	25	26	27	28	29
30	31					

TO: FINANCE AND AUDIT COMMITTEE

REVIEWED: MARIO IGLESIAS
GENERAL MANAGER

FROM: LISA BOGNUDA
FINANCE DIRECTOR

DATE: MARCH 2, 2017

AGENDA ITEM

3

MARCH 6, 2017

REVIEW DEBT MANAGEMENT POLICY AND CASH RESERVE POLICY

ITEM

Reserve Debt Management Policy and Cash Reserve Policy

BACKGROUND

On January 11, 2017, the Board of Directors performed their annual review of the Debt Management Policy and the Cash Reserve Policy. The Board of Directors directed the Finance and Audit Committee to meet, review the policies and report back.

On February 3, 2017, the Finance and Audit Committee met and discussed both policies. Maryann Goodkind, Bond Counsel for Norton Rose Fulbright and Curt de Crinis, Managing Director of CM de Crinis & Co. were available via phone conference to answer questions from the Finance and Audit Committee.

The Committee directed staff to make proposed edits. The edits have been reviewed and approved by Ms. Goodkind and Mr. de Crinis. Attached are the red-lined versions of each policy for review.

RECOMMENDATION

It is recommended that the Committee review the red-lined versions of each policy and direct staff to place the proposed amendments on the next regular Board Meeting.

ATTACHMENT

- A. Red-lined Debt Management Policy
- B. Red-lined Cash Reserve Policy

FINANCE & AUDIT COMMITTEE

March 6, 2017

ITEM 3

ATTACHMENT A

**NIPOMO COMMUNITY SERVICES DISTRICT
BOARD OF DIRECTORS
2013 AMENDMENT TO THE
DEBT MANAGEMENT POLICY
EXHIBIT "A"**

Overview

The District utilizes a comprehensive planning process to determine its long-term capital needs. The District evaluates each capital project in relation to established levels of reserves, current rate structure, expected asset life/replacement timeline and available revenue sources to ensure that adequate financial resources are available to support the District's financial obligations.

The District's Debt Management Policy is integrated into the decision-making framework utilized in the budgeting and capital improvement planning process. As such the following policies outline the District's approach to debt management.

I. GENERAL MANAGEMENT POLICIES

The District will provide for a periodic review of its financial performance, and review its performance relative to the financial policies outlined herein. These financial policies will be taken into account during the capital planning, budgeting and ratesetting process.

- The District will adopt revised rates, fees and charges in compliance with the applicable law, including the Proposition 218 Omnibus Implementation Act, and will consider recommendations and input from the public as it relates to such proposed changes.
- All District funds will be invested according to the Investment Policy of the District.
- Necessary appropriations for annual debt service requirements will be routinely included in the District's annual budget.

II. FINANCIAL MANAGEMENT POLICIES

- The District will evaluate financing for each capital project on a case-by-case basis. The District will seek to pay for all capital projects from current revenues and available reserves prior to or in combination with the use of debt.
- The District will seek to issue debt only in the case where there is an identified source of repayment. Bonds will be issued to the extent that (i) projected fixed revenues are sufficient to pay for the proposed debt service together with all existing debt service covered by such fixed revenues, or (ii) additional projected revenues have been identified as a source of repayment in an amount sufficient to pay for the proposed debt.

NIPOMO COMMUNITY SERVICES DISTRICT
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- User Fees and Rates will be set at adequate levels to generate sufficient revenues to pay all operating and maintenance costs, to maintain sufficient operating reserves, and to pay debt service costs, if necessary.

III. DEBT AND CAPITAL MANAGEMENT POLICIES

The following policies formally establish parameters for evaluating, issuing, and managing the District's debt. The policies outlined below are not intended to serve as a list of rules to be applied to the District's debt issuance process, but rather to serve as a set of guidelines to promote sound financial management.

In issuing debt, the District objectives are:

- Ensure ratepayer security
- Maintain high credit ratings and access to credit enhancement
- Preserve financial flexibility

A. Standards for Use of Debt Financing

When appropriate, the District will use long-term debt financing to achieve an equitable allocation of costs/charges between current and future system users; to provide more manageable rates in the near and medium term; and to minimize rate volatility.

- ~~• For growth-related projects, debt financing will be utilized, as needed, to better match the cost of anticipated facility needs with timing of expected new connections to the system.~~
- Debt financing will be utilized as needed to finance (1) system expansion projects related to demand growth, and (2) major projects necessary to comply with regulatory requirements.
- Capital projects financed through debt issuance should not be financed for a term longer than the expected useful life of the project.
- Lease Agreements and Installment Sale Agreements shall be considered as an alternative to long-term debt. Although these forms of alternative financing are subject to annual appropriation, they shall be considered as long-term fixed rate debt until maturity.

B. Financing Criteria

The District will evaluate alternative debt structures (and timing considerations) to ensure cost-efficient financing under prevailing market conditions.

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Credit Enhancement - The District will consider the use of credit enhancement on a case-by-case basis. Only when clearly demonstrable savings can be realized shall credit enhancement be utilized.

Cash-Funded Reserve/Surety - The District may purchase a surety policy or replace an existing cash-funded Debt Service Reserve Fund when deemed prudent and advantageous.

Call Provisions - In general, the District's securities should include optional call provisions. The District will avoid the sale of non-callable long-term fixed rate bonds, absent careful evaluation of the value of the call option.

Additional Bonds Test/Rate Covenants - The amount and timing of debt will be planned to comply with the additional bonds tests and rate covenants outlined in the appropriate legal and financing documents, and these policies.

Short-Term Debt - The District may utilize short-term borrowing to serve as a bridge for anticipated revenues, construction financing, or future bonding capacity.

Term - 10 to 30 years is standard, but up to 35 years may be acceptable, depending on cash flow assumptions, construction timeline, and remaining useful life of the asset being financed.

Maximum Yield - Case by case, as recommended by Financial Advisor and as governed by State law.

Maximum Premium - Case by case, as recommended by Financial Advisor and as governed by State law.

Maximum Discount - Case by case, as recommended by Financial Advisor and as governed by State law.

Payment Dates - After considering cash flow needs, the General Manager will determine the occurrence of all new debt service payments.

Structure of the Debt - Prefer level debt service, but shall be determined on a case-by-case basis, as recommended by of the General Manager and Financial Advisor.

Use of Variable Rate Debt - The District will not issue variable interest rate debt unless the proposed debt is converted to a fixed rate or hedged.

Investment of Bond Proceeds - Bond proceeds will be invested in accordance with the permitted investment language outlined in the bond documents for each transaction. The District will seek to maximize investment earnings within the investment parameters set forth in each respective bond indenture. The reinvestment of bond proceeds will be incorporated into the evaluation of each financing decision; specifically addressing

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arbitrage/rebate position, and evaluating alternative debt structures and refunding savings on a "net" debt service basis, where appropriate.

Reimbursement Resolution - Must be adopted by the Board if the project capital costs are advanced by the District prior to the expenditure and/or commitment of funds, and bond sale.

C. Types of Long-Term Funding

The District shall consider several methods of financing capital projects. This policy will set forth guidelines for these decisions by indentifying parameters within each funding source that are considered appropriate. These parameters are defined below.

Certificates of Participation/Lease Revenue Bonds - Certificates of Participation (COP's) and Lease Revenue Bonds (LRB) can finance water, wastewater and electrical utilities, or other public facilities and are almost identical in structure and security. They are used to finance capital projects that either 1) have an identified budgetary system for repayment; 2) generate enterprise revenue; 3) rely on a broader pledge of General Fund revenues; or 4) finance the purchase of real property and the acquisition and installation of equipment for the District's general government or enterprise purposes. COP's and LRB's are secured by a lease-back or installment sale arrangement between the District and another public entity. The general operating revenues of the District or an enterprise and/or a designated special fund are used to pay the lease or installment payments, which are, in turn, used to pay debt service on the COP's or LRB's. Bond covenants provide that revenues generated by enterprise funds must be sufficient to maintain required debt coverage levels, or the rates of the enterprise have to be raised to maintain the coverage and operations of the facility. For General Fund pledges, bond covenants include an annual appropriation covenant. COP's and LRB's do not constitute indebtedness under the state constitution and are not subject to voter approval.

Because COP's are not created by statute, but rather are used to securitize an underlying contract, they can be adapted to a number of financing situations. They are commonly used for both lease revenue and enterprise revenue financings where no workable statutory framework is available or a joint powers financing authority is not available.

Revenue Bonds - Revenue Bonds also finance water, wastewater utilities, or other public facilities. They are payable by the revenues generated by the enterprise. This type of debt is considered self-liquidating. Revenue Bonds are payable solely from the enterprise funds and are not secured by any pledge of General Fund revenues of the District. Bond covenants provide that revenues generated by these enterprise funds must be sufficient to maintain required debt coverage levels, or the rates of the enterprise have to be raised to maintain the coverage and operations of the facility. A bond election may be required to issue Revenue Bonds.

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Assessment Bonds - The District may issue assessment bonds under the 1911 and 1915 Improvement Acts through the formation of a special benefit assessment district under the 1911 or 1913 Acts. The bonds may be issued to finance facilities or provide services and are secured by assessments levied on parcels within a defined area that are proportionate to the special benefit conferred upon a parcel, as determined by a qualified assessment engineer. Assessments are subject to majority protest hearing and notice ballot requirements. Assessment Bonds, although repaid through additional assessments levied on a discrete group of property owners, constitute overlapping indebtedness of the District and have an impact on the overall level of debt affordability. Assessment Bonds are not obligations of the District's General Fund.

Mello-Roos Bonds - The Mello-Roos Act of 1982 allows the District to establish a Mello-Roos Community Facilities District (CFD) which allows for financing of public improvements and services. These CFD special taxes must be approved by a two thirds vote of registered voters within the special district (unless there are fewer than 12 registered voters, in which case the vote is by landowners), and are secured solely by a special tax on the real property within the special district. CFD Bonds, although repaid through additional special taxes levied on a discrete group of taxpayers, also constitute overlapping indebtedness of the District and have an impact on the overall level of debt affordability. CFD Bonds are not obligations of the District's General Fund.

Capital Lease Debt - A lease purchase obligation placed with a lender without the issuance of securities may be used to finance certain vehicle and equipment purchases will be evaluated on a case-by-case basis.

D. Limitations on Amount of Debt Issuance

(1) Pursuant to Section 61126 of Government Code of the State of California, the District may incur general obligation bonded indebtedness in an amount not to exceed 15% of the total assessed valuation of all real and personal property in the District.

Review of recent credit rating agency guidelines indicate that debt service of more than 10% of available revenues or expenditures is considered above average or high. The District shall strive to maintain its non-enterprise backed debt service as a percentage of available revenue below 10%.

Long-term obligations payable solely from specific pledged sources, in general, are not subject to a debt limitation. Examples of such long-term obligations include those which achieve the financing or refinancing of projects provided by the issuance of debt instruments that are payable from restricted revenues or user fees (enterprise funds) and revenues generated from a project. In determining the affordability of

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proposed enterprise obligations, the District will perform an analysis comparing projected annual net revenues (after payment of operating and maintenance expense) to estimated annual debt service. Generally, legal covenants requiring a minimum coverage ratio are set forth in the bond documents, and are based on the level of security provided to the bondholders (of the senior or subordinate debt obligations). The District's enterprise obligations shall include a coverage ratio requirement of at least 125% for senior bonds and a coverage ratio requirement of at least 105% for senior and subordinate debt combined. Per the rating agency guidelines, the District shall strive to maintain a coverage ratio of 115% using historical and/or projected net revenues to cover annual debt service for bonds issued on a subordinate basis which have a 105% coverage ratio requirement. The District will require a rate increase to cover both operations and debt service costs, and create debt service reserve funds to maintain the required coverage ratios.

(2) Limitations on Debt Financing for Additional Phases of the Supplemental Water Project - With respect to Phases 2 and/or 3 of the Supplemental Water Project, the Board affirms its policy of "pay as you go". ~~h~~However, ~~because~~ the Board of Directors cannot anticipate the future needs of the District, including whether (1) the timing of construction of these phases of the Project will need to be moved forward in time due to a court, or regulatory agency with authority over water use in the Nipomo Basin, issuing an order requiring the District to build additional delivery capacity and import water by a time certain or face fines or further litigation or (2) if the Nipomo Mesa Management Area (NMMA) Technical Group issues a finding that the ground water basin is in a severe water shortage condition causing a Mandatory Action Trigger point as defined in Section VI D 2 of the Stipulated Judgment in the Santa Maria Groundwater adjudication case # CV 770214. In any of these cases, and only in one of these cases, ~~the~~ the Board shall consider whether to finance any portion(s) of Phases 2 or 3, for the reason(s) set forth above, at two Board meetings at which members of the public may comment; ~~the~~ The first meeting will be noticed on the District's Agenda notice, and will include a staff report addressing the reasons for considering financing. The second meeting shall be held at least 14 days after the first meeting. A public notice shall be published once at least 10 days before second/action meeting. At the second meeting, after the public comment, if any, the Board may determine, by a majority vote, whether to finance all, or a portion of, one or both phases before the District has accumulated sufficient funds for "pay as you go." In such case, the District would first use the funds accumulated for the phase(s) and finance the remaining amount(s).

This requirement shall stay in place for 7 years, after which time the Board may, after notice in compliance with §6061, at least 10 days prior to the meeting at which the change will be considered, amend this policy as the Board, in its discretion, determines may be appropriate.

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E. Method of Issuance

The District will determine, on a case-by-case basis, whether to sell its bonds competitively or through negotiation. Public offerings can be executed through either a competitive sale or a negotiated sale. It shall be the policy of the District to issue debt through a competitive sale whenever feasible subject to advice of the District Financial Advisor.

Competitive Sale - In a competitive sale, the District's bonds shall be awarded to the lowest responsible bidder providing the lowest true interest cost ("TIC"), as long as the bid adheres to requirements set forth in the official notice of sale.

Negotiated Sale - District recognizes that some securities are best sold through negotiation. In consideration of a negotiated sale, the District shall assess the following circumstances in determining the advisability such a sale:

- Issuance of variable rate or taxable bonds
- Complex structure or credit considerations (such as non-rated bonds), which requires a strong pre-marketing effort
- Significant par value, which may limit the number of potential bidders
- Unique proprietary financing mechanism (such as a financing pool), or specialized knowledge of financing mechanism or process
- Market volatility, such that the District would be better served by flexibility in the timing of its sale in a changing interest rate environment
- When an Underwriter has identified new financing opportunities or presented alternative structures that financially benefit the District that could not be achieved through a competitive bid.
- As a result of an Underwriter's familiarity with the project/financing, which enables the District to take advantage of efficiency and timing considerations.
- Other considerations and advantages as presented by District Consultants and Staff

Private Placement – From time to time the District may elect to issue debt on a private placement basis. Such method shall only be considered if it is demonstrated to result in cost savings or provide other advantages relative to other methods of debt issuance, or

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if it is determined that access to the public market is unavailable and timing considerations require that a financing be completed.

F. Service Provider Selection

All financial advisors, bond counsel, disclosure counsel, trustees, and underwriters will be selected pursuant to District's Purchase Policy relating to hiring consultants.

G. Market Communication and Reporting Requirements

Rating Agencies and Investors - The General Manager shall be responsible for maintaining the District's relationships with one or more national rating agencies.

Continuing Disclosure - The District shall use its best efforts to be in compliance with Rule 15c2-12 by filing its annual financial statements and other financial and operating data for the benefit of its bondholders.

IV. POST ISSUANCE COMPLIANCE POLICY

A. In General

The Board of Directors of the District recognizes its responsibility to ensure compliance with all Federal laws and regulations ("Federal Requirements") applicable to the District's bonds and other obligations the interest on which is excluded from gross income for federal income tax purposes or are otherwise tax advantaged ("Tax-Exempt Bonds"). This policy and guidelines relate to requirements that must be met subsequent to the issuance of Tax-Exempt Bonds in order to maintain that exclusion or receive a federal tax credit payment including, without limitation, requirements relating to use of proceeds, arbitrage, private business use, and record retention. This policy and guideline supersede any post-issuance compliance policy previously adopted by the District but do not supersede, limit or contravene any representations, statements or covenants of the District contained in the bond documents (the "Bond Documents") for its Tax-Exempt Bonds. The purpose of this policy is to provide guidelines and establish procedures for compliance with Federal Requirements in connection with the issuance of Tax-Exempt Bonds.

B. Policy

It is the policy of the District to adhere to all applicable tax requirements with respect to its Tax-Exempt Bonds as set forth in the Bond Documents including, but not limited to, requirements relating to the use of proceeds of Tax-Exempt Bonds and facilities financed and refinanced with Tax-Exempt Bonds (the "Bond-Financed Facilities"), arbitrage yield restrictions and rebate, timely return filings, and other general tax requirements set forth in the Bond Documents.

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C. Compliance Monitoring

Consistent with the covenants of the District contained in the Bond Documents, the District will monitor compliance with the federal tax requirements applicable to its Tax-Exempt Bonds. The following officers or employees of the District are responsible for monitoring compliance with those requirements: General Manager with assistance from Bond and Tax Counsel and Financial Advisor. The General Manager shall report to the Board of Directors in conjunction with the annual Debt Policy review that compliance with federal tax requirements applicable to its Tax-Exempt Bonds have been reviewed and met. .

D. Record Retention

In accordance with Internal Revenue Service ("IRS") requirements, the District will retain the following records with respect to its Tax-Exempt Bonds:

- Bond transcripts;
- Documentation showing the expenditure of proceeds of the Tax-Exempt Bonds for one or more Bond-Financed Facility;
- Documentation showing the use of the Bond-Financed Facilities;
- Documentation showing the sources of payment and security for the Tax-Exempt Bonds;
- Documentation related to the investment of proceeds of the Tax-Exempt Bonds, including the purchase and sale of securities, investment income received, yield calculations, and rebate calculations;
- All returns filed with the IRS for the Tax-Exempt Bonds (including, as applicable, IRS Forms 8038-G *Information Return for Tax-Exempt Governmental Obligations*, 8038-T *Arbitrage Rebate, Yield Reduction and Penalty in Lieu of Arbitrage Rebate*, and 8038-R *Request for Recovery of Overpayments under Arbitrage Rebate Provisions*), together with sufficient records to show that those returns are correct; and
- Any other documentation that is material to the exclusion of interest on the Tax-Exempt Bonds from gross income for federal income tax purposes.

Except as otherwise set forth in the Bond Documents, the District will retain the records described above in hard and/or electronic copy format for so long as the applicable Tax-Exempt Bonds remain outstanding and for a period of three years after final redemption of the applicable Tax-Exempt Bonds. With respect to Tax-Exempt

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Bonds that are refunding bonds, the District will retain the above-described records for the refunding and refunded bonds (and any earlier issue in the case of a series of refundings).

The following officers or employees of the District are responsible for retaining the records relating to the Issuer's Tax-Exempt Bonds: General Manager and Secretary.

E. Arbitrage Compliance

It is the policy of the District to maintain a system of record keeping and reporting to meet the arbitrage rebate compliance requirements of the federal tax code. Unless otherwise instructed by bond counsel, at closing the District will execute documentation covenanting to comply with Federal rebate and arbitrage requirements. Unless otherwise instructed by bond counsel, annually the District will engage a consultant to assist in the monitoring of the investment of bond proceeds, perform the required calculations to determine arbitrage rebate and yield restriction compliance, and file the required federal forms. Unless otherwise instructed by bond counsel, every five years the District will file (if arbitrage rebate is owed) with the Internal Revenue Service the appropriate required documentation demonstrating arbitrage rebate liability and provide payment of at least 90% to the US Treasury for arbitrage rebate liability, if any.

F. Remedial Action

If the District in complying with the terms and provisions the policies or guidelines set forth herein or determines that the requirements of these policies and guidelines or the tax covenants or representations in the Bond Documents may have been violated, the District will make final determinations, if necessary with the assistance of its Bond and Tax Counsel and Financial Advisors, and take appropriate actions related to such noncompliance including, if appropriate, any remedial action described under applicable Treasury Regulations or through the Tax Exempt Bonds Voluntary Closing Agreement Program.

G. Coordination With Bond Documents

In the event of any conflict between these Procedures and Guidelines and the Bond Documents, the Bond Documents shall govern.

FINANCE & AUDIT COMMITTEE

March 6, 2017

ITEM 3

ATTACHMENT B

NIPOMO COMMUNITY SERVICES DISTRICT
CASH RESERVE POLICY
EXHIBIT "A"

PURPOSE

A key element of prudent financial planning is to ensure that sufficient funding is available for current operating, capital and debt service needs. Additionally, fiscal responsibility requires anticipating the likelihood of, and preparing for, unforeseen events. Nipomo Community Services District (District) will strive at all times to have sufficient funding available to meet its operating, capital and debt service obligations as well as to protect its creditworthiness. The District is committed to maintaining a financial structure that provides adequate and predictable revenues at the lowest possible cost to meet forecasted needs and operational objectives.

It should be noted that the District has a Debt Management Policy that establishes parameters for evaluating, issuing and managing the District's debt. The District's Debt Management Policy should be considered prior to committing to any new financial obligations.

The adequacy of the targeted cash reserve year-end balance ranges and/or annual contributions to each fund will be reviewed annually during the budgeting process or when a major change in conditions threatens the reserve levels established within this policy.

OPERATING FUNDS

WATER FUND (FUND #125)

Purpose: To ensure sufficient cash resources are available to fund daily administration, operations and maintenance of providing water services. (Funded from rates and charges)

Target Criteria: To meet the District's cash flow needs and unbudgeted expenses, the Water Fund cash reserves, including the Water Rate Stabilization Fund #128, should be equal to or greater than twelve months (360 days) of annual budgeted operating expenses (not including Funded Replacement).

After adoption of the budget and within 90 days after the end of the fiscal year, the Board of Directors shall review the cash reserves, and if there is excess above the reserve requirement based on the cash reserve balance as of the fiscal year just completed, the Directors may approve a transfer of the excess balance from Water Fund #125 to the Funded Replacement Water Fund #805.

TOWN SEWER FUND (FUND #130)

Purpose: To ensure sufficient cash resources are available to fund daily administration, operations and maintenance of providing waste water services. (Funded from rates and charges)

Target Criteria: To meet the District's cash flow needs and unbudgeted expenses, the Town Sewer Fund cash reserves, including the Town Sewer Rate Stabilization Fund #135, should be equal to or greater than six months (180 days) of annual budgeted operating expenses (not including Funded Replacement).

NIPOMO COMMUNITY SERVICES DISTRICT
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After adoption of the budget and within 90 days after the end of the fiscal year, the Board of Directors shall review the cash reserves, and if there is excess above the reserve requirement based on the cash reserve balance as of the fiscal year just completed, the Directors may Approve a transfer of the excess balance from the Town Sewer Fund #130 to the Funded Replacement Town Sewer Fund #810.

BLACKLAKE SEWER FUND (FUND #150)

Purpose: To ensure sufficient cash resources are available to fund daily administration, operations and maintenance of providing waste water services. (Funded from rates and charges)

Target Criteria: To meet the District's cash flow needs and unbudgeted expenses, the Blacklake Sewer Fund cash reserves, including the Blacklake Sewer Rate Stabilization Fund #155, should be equal to or greater than six months (180 days) of annual budgeted operating expenses (not including Funded Replacement).

After adoption of the budget and within 90 days after the end of the fiscal year, the Board of Directors shall review the cash reserves, and if there is excess above the reserve requirement based on the cash reserve balance as of the fiscal year just completed, the Directors may approve a transfer of the excess balance from the Blacklake Sewer fund #150 to the Funded Replacement Blacklake Sewer Fund #830.

WATER RATE STABILIZATION FUND (FUND #128)

Purpose: To serve as a buffer to water rates during any period where there are unexpected increases in operating costs or decreases in revenues. In addition, in a severe drought or extremely wet conditions, it is reasonable to expect that water sales could fluctuate significantly. As such, this fund will absorb these types of fluctuations in operations and help stabilize rates and enable smooth or level increases to rates despite uneven increases in underlying costs or variations in annual revenues received. This fund should not be used to artificially suppress rates (i.e. to sustain rates at levels below the costs of service). (Funded by rates and charges)

Target Criteria: Minimum reserve requirement of \$400,000.

TOWN SEWER RATE STABILIZATION FUND (FUND #135)

Purpose: To serve as a buffer to sewer rates during any period where there are unexpected increases in operating costs or decreases in revenues. This fund should be used to enable smooth or level increases to rates despite uneven increases in underlying costs or variations in annual revenues received. This fund should not be used to artificially suppress rates (i.e. to sustain rates at levels below the costs of service). (Funded by rates and charges)

Target Criteria: Minimum reserve requirement of \$300,000 set by Bond Indenture Agreement for the Revenue of Certificates of Participation Series 2012.

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BLACKLAKE SEWER RATE STABILIZATION FUND (FUND #155)

Purpose: To serve as a buffer to sewer rates during any period where there are unexpected increases in operating costs or decreases in revenues. This fund should be used to enable smooth or level increases to rates despite uneven increases in underlying costs or variations in annual revenues received. This fund should not be used to artificially suppress rates (i.e. to sustain rates at levels below the costs of service). (Funded by rates and charges)

Target Criteria: Minimum reserve requirement of \$50,000.

BLACKLAKE STREET LIGHTING (FUND #200)

Purpose: To ensure sufficient cash resources are available to fund administration, operations and maintenance of providing street lighting services for Blacklake Village. (Funded by annual assessment to property owners in Blacklake Village)

Target Criteria: Minimum reserve requirement of \$30,000.

LANDSCAPE MAINTENANCE DISTRICT (FUND #250)

Purpose: To ensure sufficient cash resources are available to fund administration, operations and maintenance of providing landscape maintenance to the property owners of Tract 2409. (Funded by annual assessment to property owners in Tract 2409 aka Vista Verde Estates)

Target Criteria: Minimum reserve requirement of \$20,000.

SOLID WASTE (FUND #300)

Purpose: To ensure sufficient cash resources are available to fund solid waste programs, rate stabilization and to cover operating costs in the event that the District may find itself operating solid waste collection, disposal and recycling functions should its business partner now franchised to do these functions be unable to continue to provide these services due to an unforeseen event. This reserve provides assurance that solid waste services remain uninterrupted during an extended disruption to service provider. (Funded by Franchise Fees)

Target Criteria: Minimum reserve requirement of \$115,000.

DRAINAGE (FUND #400)

Purpose: To ensure sufficient cash resources are available to operate and maintain the Nipomo Drainage Maintenance District 76-02 (storm water conveyance system and basin serving Folkert Oaks Mobile Home Park and adjacent properties on Juniper Street). (Funded by a 1% ad valorem property tax rate)

Target Criteria: Minimum reserve requirement of \$50,000.

NIPOMO COMMUNITY SERVICES DISTRICT
CASH RESERVE POLICY
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FUNDED REPLACEMENT- WATER (FUND #805)

Purpose: The reserves can be used for both short-term and long-term purposes. The objective of the Funded Replacement Fund is to provide monies for the current and future replacement of existing capital assets as they reach the end of their useful lives. The District recognizes that the Funded Replacement fund may only be sufficient to pay a portion of the full cost of future capital asset replacements and other sources of replacement funding may be needed, such as a bond issuance. This fund will also help normalize the impact of the capital asset replacements on future water rates. (Funded by water rates and charges and interest earnings)

Target Criteria: Based on 2007 or current Replacement Study

FUNDED REPLACEMENT- TOWN SEWER (FUND #810)

Purpose: The reserves can be used for both short-term and long-term purposes. The objective of the Funded Replacement Fund is to provide monies for the current and future replacement of existing capital assets as they reach the end of their useful lives. The District recognizes that the Funded Replacement fund may only be sufficient to pay a portion of the full cost of future capital asset replacements and other sources of replacement funding may be needed, such as a bond issuance. This fund will also help normalize the impact of the capital asset replacements on future town sewer rates. (Funded by Town sewer rates and charges and interest earnings)

Target Criteria: Based on 2007 or current Replacement Study.

FUNDED REPLACEMENT- BLACKLAKE SEWER (FUND #830)

Purpose: The reserves can be used for both short-term and long-term purposes. The objective of the Funded Replacement Fund is to provide monies for the current and future replacement of existing capital assets as they reach the end of their useful lives. The District recognizes that the Funded Replacement fund may only be sufficient to pay a portion of the full cost of future capital asset replacements and other sources of replacement funding may be needed, such as a bond issuance. This fund will also help normalize the impact of the capital asset replacements on future Blacklake sewer rates. (Funded by Blacklake sewer rates and charges and interest earnings)

Target Criteria: Based on 2007 or current Replacement Study.

NON-OPERATING FUNDS

SUPPLEMENTAL WATER FUND (#500)

Purpose: The revenue generated from the Supplemental Water Capacity Charge accumulates in this fund and its use is restricted to projects, programs and expenditures that reduce the District's reliance on groundwater as its sole water supply. (Funded by development capacity charges and interest earnings)

Target Criteria: No minimum target is maintained.

NIPOMO COMMUNITY SERVICES DISTRICT
CASH RESERVE POLICY
EXHIBIT"A"

PROPERTY TAX (FUND #600)

Purpose: District's share of the 1% ad valorem tax on real property collected by the County of San Luis Obispo and distributed to the District pursuant to Article XIII A of the California Constitution. (Funded by property taxes and interest earnings)

Target Criteria: No minimum target is maintained, however, a portion of the annual property tax revenue stream is pledged to pay the annual debt service for the ~~2003 Certificates of Participation Revenue Bond~~ 2013 Certificates of Participation and the 2013 Refunding Revenue Bonds.

WATER CAPACITY CHARGES (FUND #700)

Purpose: The revenue generated from the Water Capacity Charge accumulates in this fund and is used to offset new development related capital improvements as outlined by the District's Capital Improvement Plan. (Funded by development capacity charges and interest)

Target Criteria: No minimum target is maintained.

TOWN SEWER CAPACITY CHARGES (FUND #710)

Purpose: The revenue generated from the Town Capacity Charge accumulates in this fund and is used to offset new development related capital improvements as outlined by the District's Capital Improvement Plan. (Funded by development capacity charges and interest earnings)

Target Criteria: No minimum target is maintained.

SINKING FUND- TOWN SEWER (FUND #880)

Purpose: The reserves may be used to pay annual debt service payments for the Revenue Certificates of Participation (Southland Wastewater Project) Series 2012. (Funded by Town sewer rates and charges in years 2008- 2012 in anticipation of the Southland Wastewater Treatment Facility Upgrade)

Target Criteria: No minimum target is maintained. Once the reserves in this fund are depleted, the fund will be terminated.

TO: FINANCE AND AUDIT COMMITTEE

REVIEWED: MARIO IGLESIAS
GENERAL MANAGER

FROM: LISA BOGNUDA
FINANCE DIRECTOR

DATE: MARCH 2, 2017

AGENDA ITEM
4
MARCH 6, 2017

REVIEW FY 17-18 BUDGET PREPARATION TIME LINE

ITEM

Review budget preparation time line

BACKGROUND

Below is a proposed schedule for the preparation of the 2017-2018 Fiscal Year Budget.

February 26	Capital Improvement Projects Budget and District Engineer submittals to Lisa
Week of March 6	Kick off meeting with Finance and Audit Committee to hear input
Week of April 10	Staff circulates Draft Budget to Finance and Audit Committee
Week of April 24	Staff meets with Finance and Audit Committee and receives recommendations/changes/deletions on Draft Budget
May 24	Review of Draft Budget by Board of Directors at Regular Board meeting
Week of June 5	Staff circulates Final Budget based on recommendations received by Board of Directors
June 14	Public Hearing and Adoption of Budget

RECOMMENDATION

It is recommended that the Committee review the proposed schedule and provide direction to Staff.

ATTACHMENT

None

TO: FINANCE AND AUDIT COMMITTEE

REVIEWED: MARIO IGLESIAS
GENERAL MANAGER

FROM: LISA BOGNUDA
FINANCE DIRECTOR

DATE: MARCH 2, 2017

AGENDA ITEM

5

MARCH 6, 2017

REVIEW INFORMATION FOR INCLUSION IN THE 2017-2018 FISCAL YEAR BUDGET

ITEM

Review various schedules and financial information in the 2017-2018 fiscal year budget.

BACKGROUND

The following information is provided for the Committee's review:

- Attachment A - PROPOSED FIXED ASSET PURCHASES
- Attachment B - PROPOSED FUNDED REPLACEMENT PROJECTS
- Attachment C - PROPOSED CAPITAL IMPROVEMENT PROJECTS
- Attachment D - PROPOSED FIVE YEAR CAPITAL IMPROVEMENT PLAN
- Attachment E - PROPOSED FLEET SCHEDULE
- Attachment F - PROPOSED DISTRICT PERSONNEL

RECOMMENDATION

It is recommended that the Committee provide direction to Staff. Staff will incorporate the Committee's comments and recommendations into the draft 2017-2018 budget.

ATTACHMENTS

- See above

FINANCE & AUDIT COMMITTEE

March 6, 2017

ITEM 5

ATTACHMENT A

NIPOMO COMMUNITY SERVICES DISTRICT
 FIXED ASSET PURCHASES
 2017-2018

<u>BUDGET ITEMS FOR 2017-2018</u>	<u>#110</u> ADMIN	<u>#125</u> WATER	<u>#130</u> TOWN SEWER	<u>#150</u> BL SEWER	<u>TOTAL</u>
Shop Server replacement	0	6,600	2,200	1,200	10,000
SCADA Server replacement	0	33,000	11,000	6,000	50,000
Asset Management Software	0	42,900	14,300	7,800	65,000
Replacement truck	0	19,800	6,600	3,600	30,000
New truck	0	19,800	6,600	3,600	30,000
	0	122,100	40,700	22,200	185,000

FINANCE & AUDIT COMMITTEE

March 6, 2017

ITEM 5

ATTACHMENT B

NIPOMO COMMUNITY SERVICES DISTRICT
FUNDED REPLACEMENT PROJECTS
2017-2018

<u>BUDGET ITEMS FOR 2017-2018</u>	#805 FUNDED REPLACEMENT <u>WATER</u>	#810 FUNDED REPLACEMENT <u>TOWN SEWER</u>	#830 FUNDED REPLACEMENT <u>BLACKLAKE SEWER</u>	<u>TOTAL</u>
--	---	--	---	--------------

Branch Street Water Line Replacement (1)	650,000	0	0	650,000
Quad Tank Disinfection System (2)	300,000	0	0	300,000
Water System Blow-Off Repair (2)	50,000	0	0	50,000
Air Vac Replacement (3)	20,000	0	0	20,000
Fire Hydrant Replacement (3)	70,000	0	0	70,000
Valve Replacement (3)	180,000	0	0	180,000
Well Refurbishment (3)	100,000	0	0	100,000
Eureka Well Replacement (4)	1,000,000	0	0	1,000,000
Manhole Rehabilitation (3)	0	100,000	0	100,000
Lift Station Rehabilitation (5)	0	800,000		800,000
Blacklake WWRF Headworks (6) carryover-In Process	0	0	150,000	150,000
Lift Station Rehabilitation (7)	0	0	610,000	610,000
Blacklake Sludge Removal (8)	0	0	400,000	400,000
	2,370,000	900,000	1,160,000	4,430,000

- (1) Existing 6 inch diameter water line is failing
- (2) Necessary for integration of Supplemental Water
- (3) Water and Town Sewer Master Plan Projects
- (4) Redrill and equip replacement well
- (5) Nipomo Palms Lift Station complete replacement
- (6) Blacklake WWRF Headworks repair carryover from FY 16-17 - Work In Process
- (7) Woodgreent Lift Station complete replacement
- (8) Removal, dewatering and disposal of accumulated sludge

Blacklake does not have enough funds to complete both of these projects

FINANCE & AUDIT COMMITTEE

March 6, 2017

ITEM 5

ATTACHMENT C

NIPOMO COMMUNITY SERVICES DISTRICT
 CAPITAL PROJECTS
 PROJECT COST SUMMARY
 2017-2018

BUDGET ITEMS FOR 2017-2018	#700 WATER CAPACITY CHARGES	#710 TOWN SEWER CAPACITY CHARGES	#500 SUPPLEMENTAL WATER CHARGES	TOTAL
Supplemental Water Project interconnects	0	0	500,000	500,000
Pressure zone connection	150,000	0	0	150,000
Water Master Plan	200,000	0	0	200,000
Southland WWTF - carryover Work In Process	0	150,000	0	150,000
	<u>350,000</u>	<u>150,000</u>	<u>500,000</u>	<u>1,000,000</u>

Supplemental Water Projects (Fund #500)

Supplemental Water Project Interconnects - Design and construct GSWC Primavera and WMWC Via Concha interconnects.

Water Projects (Fund #700)

Pressure zone connection - Design and construct pressure zone connection contingent upon completion by developer of Tract 2650.

Water Master Plan - Develop RFP, issue RFP, review proposals, award contract and develop plan.

Town Sewer Projects (Fund #710)

Southland WWTF - Construct storage building -carryover Work In Process.

FINANCE & AUDIT COMMITTEE

March 6, 2017

ITEM 5

ATTACHMENT D

NIPOMO COMMUNITY SERVICES DISTRICT
FIVE YEAR CAPITAL IMPROVEMENT PLAN

WATER DIVISION

SUPPLEMENTAL WATER - FUND #500

	FY 17-18
Supplemental Water Project Interconnects (1)	500,000
Supplemental Water Project Phase 3 (2)	0
TOTAL	500,000

FOR PLANNING PURPOSES ONLY

FY 18-19	FY 19-20	FY 20-21	FY 21-22	Total
0	0	0	0	500,000
0	150,000	250,000	3,800,000	4,200,000
0	150,000	250,000	3,800,000	4,700,000

(1) GSWC interconnect at Orchard and Primavera and WMWC interconnect at Camino Caballo and Via Concha.

(2) Phase 3 includes 3 new pumps at Joshua Road Pump Station and 12,000 linear feet of 12 inch diameter water line from Orchard to Oak Glen.

WATER CAPACITY - FUND #700

	FY 17-18
Pressure zone connection	150,000
Water Master Plan	200,000
New Water Storage Tank	0
TOTAL	350,000

FY 18-19	FY 19-20	FY 20-21	FY 21-22	Total
0	0	0	0	150,000
0	0	0	0	200,000
0	0	300,000	2,300,000	2,600,000
0	0	300,000	2,300,000	2,950,000

WATER CAPACITY - FUND #700

	FY 17-18
Branch Street Waterline Replacement	650,000
Eureka Well Replacement	1,000,000
Quad Tank Disinfection System	300,000
Blow-Off Replacement	50,000
Air Vac Replacement	20,000
Fire Hydrant Replacement	70,000
Valve Replacement	180,000
Well refurbishment	100,000
TOTAL	2,370,000

FY 18-19	FY 19-20	FY 20-21	FY 21-22	Total
0	0	0	0	650,000
0	0	0	0	1,000,000
0	0	0	0	300,000
50,000	50,000	50,000	50,000	250,000
20,000	20,000	20,000	20,000	100,000
70,000	70,000	70,000	70,000	350,000
180,000	180,000	180,000	180,000	900,000
100,000	100,000	100,000	100,000	500,000
420,000	420,000	420,000	420,000	4,050,000

TOWN SEWER DIVISION

TOWN SEWER CAPACITY - FUND #710

	FY 17-18
Southland WWTF	150,000
Sewer Collection System Master Plan	0
TOTAL	150,000

FOR PLANNING PURPOSES ONLY

FY 18-19	FY 19-20	FY 20-21	FY 21-22	Total
0	0	0	0	150,000
150,000	0	0	2,000,000	2,150,000
150,000	0	0	2,000,000	2,300,000

BLACKLAKE SEWER DIVISION

BLACKLAKE SEWER

	FY 17-18
To be determined upon completion of Master Plan that is currently in progress	0
TOTAL	0

FOR PLANNING PURPOSES ONLY

FY 18-19	FY 19-20	FY 20-21	FY 21-22	Total
0	0	0	0	0
0	0	0	0	0

FINANCE & AUDIT COMMITTEE

March 6, 2017

ITEM 5

ATTACHMENT E

NIPOMO COMMUNITY SERVICES DISTRICT
FLEET SCHEDULE
2017-2018

	OPERATIONS VEHICLES	YEAR	DATE PURCHASED	FISCAL YR PURCHASED	MILEAGE (Feb 2017)
1	FORD F250 4x4	2007	8/25/06	2007	94,060
2	FORD F150 (1)	2008	1/28/08	2008	81,708
3	FORD F150 4x4	2009	12/29/08	2009	90,140
4	FORD F150	2009	1/6/09	2009	77,938
5	FORD RANGER	2010	11/7/09	2010	20,292
6	FORD F250 4X4	2010	1/15/10	2010	44,331
7	FORD F150	2013	1/23/13	2013	47,535
8	FORD F150	2013	9/26/13	2014	30,058
9	FORD F250	2015	11/7/14	2015	9,606
10	FORD F250	2016	4/5/16	2016	8,061

(1) SURPLUS FY 17-18

	ADMIN VEHICLES	YEAR	DATE PURCHASED	FISCAL YR PURCHASED	MILEAGE (Feb 2017)
11	FORD ESCAPE	2007	12/1/06	2007	26,091

	OTHER OPERATIONS EQUIPMENT	DATE PURCHASED	MILEAGE/ HOURS (Feb 2017)
12	FORD DUMP TRUCK	6/25/06	22,699
13	JOHN DEERE LOADER/BACKHOE JD110	1/2/08	466.5
14	JOHN DEERE BACKHOE JD310	9/3/09	362.4
15	VAC CON	2/10/10	14,560
16	FORD F550 SERVICE TRUCK	04/16/13	6,842
17	JOHN DEERE GATOR	4/18/14	607.6

FINANCE & AUDIT COMMITTEE

March 6, 2017

ITEM 5

ATTACHMENT F

NIPOMO COMMUNITY SERVICES DISTRICT
DISTRICT PERSONNEL
2017-2018

ADMINISTRATION	Budgeted FY 16-17	Budgeted FY 16-17 but unfilled	TOTAL BUDGET FY 16-17	Proposed Additions FY 17-18	Proposed Totals for FY 17-18
General Manager	1	0	1	0	1
Assist General Manager/Finance Director	1	0	1	0	1
Billing Clerk	1	0	1	0	1
Secretary/Clerk	1	0	1	0	1
Public Information Director/Clerk	1	0	1	0	1
Customer Service Specialist	<u>0</u>	<u>0</u>	<u>0</u>	<u>1</u>	<u>1</u>
ADMINISTRATION SUBTOTAL	<u>5</u>	<u>0</u>	<u>5</u>	<u>1</u>	<u>6</u>

OPERATIONS	Budgeted FY 16-17	Budgeted FY 16-17 but unfilled	TOTAL BUDGET FY 16-17	Proposed Additions for FY 17-18	Proposed Totals for FY 17-18
Director of Engineering and Operations	1	0	1	0	1
Assistant Engineer	1	0	1	0	1
Water Supervisor	1	0	1	0	1
Wastewater Supervisor	1	0	1	0	1
Utility Operator	4	0	4	0	4
Utility Worker	3	1	4	0	4
Maintenance/Customer Service Worker	1	0	1	0	1
Utility Office Assistant	<u>0.5</u>	<u>0</u>	<u>0.5</u>	<u>0</u>	<u>0.5</u>
OPERATIONS SUBTOTAL	<u>12.5</u>	<u>1</u>	<u>13.5</u>	<u>0</u>	<u>13.5</u>

TOTAL	<u>17.5</u>	<u>1</u>	<u>18.5</u>	<u>1</u>	<u>19.5</u>
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NIPOMO COMMUNITY SERVICES DISTRICT
DISTRICT PERSONNEL
2017-2018

ADMINISTRATION	Budgeted FY 16-17	Budgeted FY 16-17 but unfilled	TOTAL BUDGET FY 16-17	Proposed Additions/ Modifications for FY 17-18	Proposed Totals for FY 17-18
General Manager	1	0	1	0	1
Assist General Manager/Finance Director	1	0	1	0	1
Billing Clerk	1	0	1	0	1
Secretary/Clerk	1	0	1	0	1
Public Information Director/Clerk	1	0	1	0	1
Customer Service Specialist	<u>0</u>	<u>0</u>	<u>0</u>	<u>1</u>	<u>1</u>
ADMINISTRATION SUBTOTAL	<u>5</u>	<u>0</u>	<u>5</u>	<u>1</u>	<u>6</u>

OPERATIONS	Budgeted FY 16-17	Budgeted FY 16-17 but unfilled	TOTAL BUDGET FY 16-17	Proposed Additions/ Modifications for FY 17-18	Proposed Totals for FY 17-18
Director of Engineering and Operations	1	0	1	0	1
Assistant Engineer	1	0	1	0	1
Water Supervisor	1	0	1	0	1
Wastewater Supervisor	1	0	1	0	1
Wastewater Operator III	0	0	0	0	0
Wastewater Operator II	0	0	0	1	1
Wastewater Operator I	0	0	0	4	4
Water Operator III	0	0	0	0	0
Water Operator II	0	0	0	1	1
Water Operator I	0	0	0	3	3
Utility Operator	4	0	4	(4)	0
Utility Worker	3	1	4	(4)	0
Maintenance/Customer Service Worker	1	0	1	(1)	0
Utility Office Assistant	<u>0.5</u>	<u>0</u>	<u>0.5</u>	<u>0</u>	<u>0.5</u>
OPERATIONS SUBTOTAL	<u>12.5</u>	<u>1</u>	<u>13.5</u>	<u>0</u>	<u>13.5</u>

TOTAL	<u>17.5</u>	<u>1</u>	<u>18.5</u>	<u>1</u>	<u>19.5</u>
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TO: FINANCE AND AUDIT COMMITTEE

REVIEWED: MARIO IGLESIAS
GENERAL MANAGER *MIG*

FROM: LISA BOGNUDA *LSB*
FINANCE DIRECTOR

DATE: MARCH 2, 2017

AGENDA ITEM
6
MARCH 6, 2017

REVIEW EMPLOYEE COST OF LIVING ADJUSTMENT (COLA)

ITEM

Review employee Cost of Living Adjustment (COLA)

BACKGROUND

The NCSD Employee Handbook, Section 3000(D) states the following:

Cost of Living Adjustments – Annually, the Board may consider a Cost of Living Adjustment (COLA). If the COLA is approved, District Salary Schedule will be adjusted accordingly, thus keeping the schedule current. Therefore, an employee may receive both a Cost of Living Adjustment and an increase in compensation pursuant to subdivision C above in any given year until the employee reaches Step 5. Upon reaching Step 5, the only salary adjustments an employee will receive will be Board-approved COLA, unless the employee is eligible for longevity pay.

On December 13, 2006, the Board of Directors approved Resolution 2006-1000 which included:

Approve the use of the Consumer Price Index-Urban Wage Earners and Clerical Workers (Average of annual increase for the Los Angeles-Riverside-Orange County and San Francisco-Oakland-San Jose) for all future Cost of Living Adjustments (COLA).

Staff computed the average of annual increase for the Consumer Price Index of Los Angeles-Riverside-Orange County and San Francisco-Oakland-San Jose to be 2.1%. (Attachment D)

Since the adoption of Resolution 2006-1000, the Board approved COLA adjustments have been as follows:

Fiscal year	COLA Computation	Board Approved	Difference
7/1/16	1.400%	1.400%	0.00%
7/1/15	1.900%	1.900%	0.00%
7/1/14	1.625%	1.625%	0.00%
7/1/13	2.480%	2.480%	0.00%
7/1/12	3.020%	1.500%	(1.52%)
7/1/11	1.650%	0.000%	(1.65%)
7/1/10	0.000%	0.000%	0.00%
7/1/09	3.610%	3.610%	0.00%
7/1/08	3.220%	3.220%	0.00%
7/1/07	3.530%	3.530%	0.00%

STRATEGIC PLAN

Strategic Plan Goal 3 – Maintain a qualified, long-term and productive workforce to assure an effective organization.

RECOMMENDATION

It is recommended that the Committee review the COLA and direct Staff for budget preparation purposes.

ATTACHMENTS

- A. Section 3000(D) from NCSD Employee Handbook
- B. Resolution 2006-1000
- C. Excerpt from Bureau of Labor Statistics on how to compute the CPI
- D. Consumer Price Index information and computation

FINANCE & AUDIT COMMITTEE

March 6, 2017

ITEM 6

ATTACHMENT A

CHAPTER THREE – HOURS OF WORK AND COMPENSATION

3000 - COMPENSATION

- A. New Introductory Employees:** All newly appointed introductory employees shall be paid at the first step of the salary range for the position to which the introductory employee is appointed except as provided elsewhere herein.
- B. Advanced Step Hiring:** If the General Manager finds that qualified applicants have greater experience or competencies than required at the first step of the salary range, the General Manager can extend an offer higher than the first step.
- C. Increase in compensation other than Cost of Living Adjustments (Step-Merit Increase):** After one year in a salary step (on the employee's Anniversary Date), employees may qualify for a step merit increase to the next step, provided the employee has performed satisfactorily, and provided management has determined that a step merit increase is appropriate. All decisions about step merit increases are subject to management's sole discretion; employees are not automatically entitled to or eligible for a step merit increase. A report verifying satisfactory performance of each employee recommended for advancement shall be submitted to and approved by the General Manager prior to final action on such recommendation.
- D. Cost of Living Adjustments:** Annually, the Board may consider a Cost of Living Adjustment (COLA). If the COLA is approved, the District Salary Schedule will be adjusted accordingly, thus keeping the schedule current. Therefore, an employee may receive both a Cost of Living Adjustment and an increase in compensation pursuant to subdivision C above in any given year until the employee reaches Step 5. Upon reaching Step 5, the only salary adjustments an employee will receive will be Board-approved COLA, unless the employee is eligible for longevity pay.
- E. Promotion:** Employees promoted to a position with a higher salary range shall be placed on the step of the range allocated to the new classification which would grant such employee an increase in pay no greater than five percent (5%). The increase may exceed five percent (5%) at the discretion of the General Manager, but shall not exceed the top step of the range allocated to the new classification. Employees who are promoted retain the same Anniversary Date for purposes of years of service and benefit accruals, but have a new Promotion Date for purposes of performance reviews and merit step increases.
- F. Lateral Transfer:** When an employee transfers to a different position or classification with similar responsibilities as his/her existing position (and has not been demoted), the affected employee shall be placed at a salary range within the new classification that is most consistent with the employee's existing salary range not to exceed Step 5 unless employee is eligible for longevity pay.
- G. Incentive Pay:** Operations Staff who successfully achieve Water or Wastewater Grade certificates over and above those required for the position while employed with the District will be entitled to receive a one-time incentive pay of \$500.00 for each certificate obtained. Once the employee achieves the certificate, it is their

CHAPTER THREE – HOURS OF WORK AND COMPENSATION

FINANCE & AUDIT COMMITTEE

March 6, 2017

ITEM 6

ATTACHMENT B

**NIPOMO COMMUNITY SERVICES DISTRICT
RESOLUTION NO. 2006-1000**

**A RESOLUTION OF THE BOARD OF DIRECTORS OF THE
NIPOMO COMMUNITY SERVICES DISTRICT
ADOPTING THE MONTHLY SALARY SCHEDULE, PROPOSED SALARY
RANGE PLACEMENT, AND CPI INDEX**

WHEREAS, the Nipomo Community Services District (herein "District") Board of Directors (herein "Board") is a local governmental agency formed and authorized to provide services within its jurisdiction, pursuant to Section 61000 et seq. of the California Government Code; and

WHEREAS, the Nipomo Community Services District contracted with a Koff & Associates, Inc. to perform a professional Salary and Benefits Survey; and

WHEREAS, the Board of Directors accepted and filed the final report titled "Total Compensation Study for the Nipomo Community Services District" on December 13, 2006; and

WHEREAS, Koff & Associates, Inc. recommended a new Monthly Salary Schedule and proposed Salary Range Placement in the report; and

NOW, THEREFORE, the Board of Directors of the Nipomo Community Services District does hereby resolve, declare, determine and order as follows:

1. Adopt the Monthly Salary Schedule (Exhibit "A")
2. Adopt the Proposed Salary Range Placement (Exhibit "B")

3. Approve the use of the Consumer Price Index-Urban Wage Earners and Clerical Workers (Average of annual increase for the Los Angeles-Riverside-Orange County and San Francisco-Oakland-San Jose) for all future Cost of Living Adjustments (COLA).

4. Authorize Staff to advertise for the positions of District Engineer, Utility Foreman and Water Conservation Specialist at the newly approved monthly salary schedule

On the motion of Director Trotter, seconded by Director Harrison, and on the following roll call vote, to wit:


AYES: Director Trotter, Harrison, Eby, Winn and Vierheilig
NOES: None
ABSENT: None

The foregoing resolution is hereby passed, approved and adopted by the Board of Directors of the Nipomo Community Services District this 13th day of December, 2006.



Lawrence Vierheilig, President
Nipomo Community Services District

ATTEST:



Donna K. Johnson
Secretary to the Board

APPROVED AS TO FORM:



Jon S. Seitz
General Counsel

FINANCE & AUDIT COMMITTEE

March 6, 2017

ITEM 6

ATTACHMENT C



Consumer Price Index

How to Use the Consumer Price Index for Escalation

The Consumer Price Index (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 the base payment Define clearly the base payment (rent, wage rate, alimony, child support, or other value) that is subject to escalation.

Identify which CPI series will be used 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 reference period 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 two-week lag from the reference month to the date on which the index is released (that is, 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 four regions. Indexes for the U.S. City Average, the four regions, three city-size classes, ten region-by-size classes, and three 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 BLS for information on the frequency of publication for the 26 metropolitan areas.

State frequency of adjustment Adjustments are usually made at fixed intervals, such as quarterly, semiannually, or, most often, annually

Determine adjustment formula 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 periods. Consider whether to make an allowance for a "cap" that places an upper limit on 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 for revisions 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 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 88 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 is earned from clerical or hourly-wage occupations. The CPI-W represents about 29 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 of 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 subcomponents of the national indexes (regions, size-classes) often exhibit greater volatility than the national index. BLS 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, holidays, model change-overs, 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 and seasonally adjusted data 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 period. This is calculated by first determining the index point change between the two periods and then determining the percent change. The following example illustrates the computation of a percent change:

CPI for current period	232.945
Less CPI for previous period	229.815
Equals index point change	3.130
Divided by previous period CPI	229.815
Equals	0.0136
Result multiplied by 100	0.0136 x 100
Equals percent change	1.4%

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

Last Modified Date: September 25, 2013

U.S. Bureau of Labor Statistics | Division of Consumer Prices and Price Indexes, PSB Suite 3130, 2 Massachusetts Avenue, NE
Washington, DC 20212-0001

www.bls.gov/CPI | Telephone: 1-202-691-7000 | [Contact CPI](#)

FINANCE & AUDIT COMMITTEE

March 6, 2017

ITEM 6

ATTACHMENT D



Databases, Tables & Calculators by Subject

SHARE ON: FONT SIZE:

Change Output Options: From: To:

include graphs include annual averages

[More Formatting Options](#)

Data extracted on: February 21, 2017 (11:40:37 AM)

Consumer Price Index - Urban Wage Earners and Clerical Workers

Series Id: CWURA421SA0
 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
2007	204.498	206.632	208.929	210.195	211.145	209.614	209.444	209.240	209.849	211.259	212.844	212.282	209.661	208.502	210.820
2008	213.825	214.231	216.493	217.914	219.702	222.435	223.245	221.230	220.285	218.726	214.083	211.007	217.765	217.433	218.096
2009	212.454	213.234	213.013	213.405	214.446	216.145	216.128	216.628	217.302	217.474	216.618	216.233	215.257	213.783	216.730
2010	217.290	217.090	218.157	218.475	218.787	218.222	218.367	218.752	218.427	219.339	218.694	219.619	218.435	218.004	218.866
2011	221.540	222.814	225.770	227.051	226.842	225.461	224.277	224.665	226.096	226.116	225.786	224.444	225.072	224.913	225.231
2012	226.245	227.585	230.281	230.023	230.180	228.917	228.446	230.229	231.085	233.431	230.426	228.940	229.649	228.872	230.426
2013	230.651	232.983	233.200	232.030	232.387	232.378	232.190	232.245	232.817	232.735	231.598	231.594	232.234	232.271	232.197
2014	232.578	233.886	235.500	235.717	236.647	236.880	236.963	236.504	236.451	235.921	233.896	232.330	235.273	235.201	235.344
2015	231.063	232.975	235.991	235.697	238.816	237.792	239.889	238.755	237.324	237.472	237.190	236.787	236.646	235.389	237.903
2016	238.609	238.262	239.146	239.536	240.320	240.522	240.580	240.267	240.851	241.932	240.809	240.846	240.140	239.399	240.881
2017	242.735														

Series Id: CWURA422SA0
 Not Seasonally Adjusted
Area: San Francisco-Oakland-San Jose, 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
2007		208.803		211.189		211.422		211.620		213.133		214.204	211.370	209.986	212.754
2008		214.913		217.913		221.454		221.385		221.192		213.685	218.441	217.487	219.396
2009		216.797		218.587		220.996		221.279		221.708		220.121	219.645	218.182	221.109
2010		222.049		223.821		224.185		224.195		224.352		224.152	223.624	223.012	224.236
2011		226.638		231.600		230.605		231.445		232.371		231.109	230.337	229.074	231.600
2012		234.648		236.626		236.890		238.445		240.864		236.454	237.097	235.572	238.622
2013		240.262		241.764		243.052		242.903		243.711		242.602	242.125	241.141	243.109
2014		245.148		247.932		250.085		249.877		250.508		247.680	248.326	247.097	249.555
2015		249.809		252.875		254.736		256.060		256.107		255.492	253.910	252.041	255.780
2016		257.141		259.386		261.017		262.326		264.026		263.222	260.830	258.715	262.946

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NIPOMO COMMUNITY SERVICES DISTRICT
 CONSUMER PRICE INDEX ADJUSTMENT
 PROPOSED FOR JULY 1, 2017

	<u>SF</u>	<u>LA</u>	<u>AVERAGE</u>
CPI for current period	260.830	240.140	
Less CPI for previous period	<u>(253.910)</u>	<u>(236.646)</u>	
Equals index point change	6.920	3.494	
Divide by previous period CPI	253.910	236.646	
Equals	0.0273	0.0147	
Result multiplied by 100	0.0273 x 100	0.0147 x 100	
	<u>2.730</u>	<u>1.470</u>	<u>2.1</u>