

TO: FINANCE AND AUDIT COMMITTEE

REVIEWED: RAY DIENZO, P.E. *R.D.*
GENERAL MANAGER

FROM: JANA ETTEDDGUE *J.E.*
FINANCE DIRECTOR

DATE: APRIL 29, 2024

AGENDA ITEM
2
MAY 1, 2024

REVIEW THE DRAFT 2024-2025 FISCAL YEAR BUDGET FOR NIPOMO SUPPLEMENTAL WATER PROJECT (NSWP)

ITEM

Review the draft 2024-2025 fiscal year budget for Nipomo Supplemental Water Project ("NSWP") [RECOMMEND REVIEW REPORT AND DIRECT STAFF].

BACKGROUND

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. GSWC purchased RWC in 2015 and therefore is referenced below as GSWC/RWC. The Judgement (through the Stipulation) requires the District and the purveyor partners together ("Parties") 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	ACRE FEET/YEAR (AFY)
NCSD	66.68	1,667.00
WMWC	16.66	416.50
GSWC/RWC	16.66	416.50
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	FISCAL YEAR ENDING	MINIMUM DELIVERY VOLUME (AFY)
1	July 1, 2015 to June 30, 2016	645
2-5	July 1, 2016 to June 30, 2020	800
6-10	July 1, 2020 to June 30, 2025	1,000
11- Term	July 1, 2025 to June 30, 2035	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/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 WMWC 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 and continue to make quarterly payments to the District.

Attached is the draft Budget based on the purchase of 1,050 acre feet of supplemental water (1,000 acre feet per contract plus 50 acre feet operational buffer). The City adopted a new rate structure commencing January 1, 2024. The Base Energy Cost CPI will be adjusted based on the July index; however, the City has agreed to implement the energy adjustment to coincide with the January 1 rate increases. The Operations and Maintenance (“O&M”) Budget has been estimated based on current fiscal year expenditures plus an average of 6% inflation, with the exception of increases in electricity for 20% and Insurance for 11%. The administrative fee is set at 15% of O&M costs.

STRATEGIC PLAN

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

- B.1 Evaluate, plan for and maintain finances that are adequate for all needs, stable, and reliable over the long-term.

FISCAL IMPACT

The cost of drafting and reviewing annual budget was included in this year’s budget.

RECOMMENDATION

It is recommended the Finance and Audit Committee provide direction to Staff.

ATTACHMENTS

- A. Draft Budget

MAY 1, 2024

ITEM 2

ATTACHMENT A

**NIPOMO COMMUNITY SERVICES DISTRICT
NIPOMO SUPPLEMENTAL WATER PROJECT (NSWP)
BUDGET FOR FISCAL YEAR 2024-25**

	Acre Feet Purchase (A)	Cost per Acre Foot (AF)	Total Cost	
Water Purchase Fiscal Year 2024-2025 (see page 2)	1050	see page 2	\$2,732,127	
NCSO Water O & M Cost per AF ** (see page 3)	1050	\$238.78	\$250,714	
NCSO Admin Fee per AF (15% of O & M per AF) ** (see page 3)	1050	\$35.82	\$37,607	
		\$274.59	\$3,020,448	
**To be adjusted annually based on actual costs				
	TOTAL	NCSO	WMWC	GSWC
1 Phase 1 Supplemental Water Annual Allocation (AF)	1000	666.68	166.66	166.66
2 Phase 1 Supplemental Water Delivery Percentages	100.00%	66.68%	16.66%	16.66%
3 Pass-Through Supplemental Water Cost	\$2,732,127	\$1,821,782	\$455,172	\$455,172
4 Supplemental Water O & M Cost	\$250,714	\$167,176	\$41,769	\$41,769
5 Supplemental Water NCSO Admin Fee	\$37,607	\$25,076	\$6,265	\$6,265
6 Total Annual Supplemental Water Volume Cost	\$3,020,448	\$2,014,035	\$503,207	\$503,207

	TOTAL	NCSO	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 6/30/2015 (1)	\$109,792	\$0	\$45,612	\$64,180
10 Yearly Capital Recovery Charge-Interest 6/30/2015 (1)	\$276,627	\$0	\$143,247	\$133,380
11 Yearly Capital Recovery Charge-Principal 6/30/2016 (2)	\$9,287	\$0	\$4,315	\$4,972
12 Yearly Capital Recovery Charge-Interest 6/30/2016 (2)	\$23,885	\$0	\$13,552	\$10,333
13 Yearly Capital Recovery Charge-Principal 6/30/2017 (3)	\$16,556	\$0	\$7,679	\$8,877
14 Yearly Capital Recovery Charge-Interest 6/30/2017 (3)	\$42,564	\$0	\$24,115	\$18,449
14 Yearly Capital Recovery Charge-Principal 6/30/2018 (4)	\$1,155	\$0	\$535	\$620
15 Yearly Capital Recovery Charge-Interest 6/30/2018 (4)	\$2,966	\$0	\$1,678	\$1,288
16 Yearly Capital Recovery Charge-Principal 6/30/2019 (5)	\$1,417	\$0	\$655	\$762
17 Yearly Capital Recovery Charge-Interest 6/30/2019 (5)	\$3,638	\$0	\$2,055	\$1,583
18 Yearly Capital Recovery Charge-Principal 6/30/2020 (6)	\$18,167	\$0	\$8,377	\$9,790
19 Yearly Capital Recovery Charge-Interest 6/30/2020 (6)	\$46,655	\$0	\$26,310	\$20,345
20 Yearly Capital Recovery Charge-Principal 6/30/2021 (7)	\$4,648	\$0	\$2,139	\$2,509
21 Yearly Capital Recovery Charge-Interest 6/30/2021 (7)	\$11,930	\$0	\$6,716	\$5,214
22 Yearly Capital Recovery Charge-Principal 6/30/2022 (8)	\$3,441	\$0	\$1,580	\$1,861
23 Yearly Capital Recovery Charge-Interest 6/30/2022 (8)	\$8,832	\$0	\$4,964	\$3,868
25 Yearly Capital Recovery Charge-Principal 6/30/2023 (9)	\$114	\$0	\$52	\$62
26 Yearly Capital Recovery Charge-Interest 6/30/2023 (9)	\$290	\$0	\$163	\$127
24 Supplemental Water Project Yearly Replacement (10)	\$206,865	\$149,439	\$28,713	\$28,713
25 Total Annual Fixed Supplemental Charges	\$788,829	\$149,439	\$322,457	\$316,933

Total Volume and Annual Fixed Charges for Fiscal Year 2024-2025 (Line 6 + Line 25)				
26	\$3,809,277	\$2,163,474	\$825,664	\$820,140

25 Electrical Pumping Credit (\$317.52 per acre foot-estimated)	(\$105,798)	\$0	(\$52,899)	(\$52,899)
26 SUPPLEMENTAL WATER BUDGET FISCAL YEAR 2024-2025	\$3,703,479	\$2,163,474	\$772,765	\$767,241

- (1) Per applicable amortization schedule as of 6/30/15-Schedule 1
 - (2) Per applicable amortization schedule as of 6/30/16-Schedule 2
 - (3) Per applicable amortization schedule as of 6/30/17-Schedule 3
 - (4) Per applicable amortization schedule as of 6/30/18-Schedule 4
 - (5) Per applicable amortization schedule as of 6/30/19-Schedule 5
 - (6) Per applicable amortization schedule as of 6/30/20-Schedule 6
 - (7) Per applicable amortization schedule as of 6/30/21-Schedule 7
 - (8) Per applicable amortization schedule as of 6/30/22-Schedule 8
 - (9) Per applicable amortization schedule as of 6/30/23-Schedule 9
 - (10) Annual 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
- (A) 1000 ACRE FEET PER CONTRACT
PLUS 50 ACRE FEET FOR OPERATIONAL BUFFER
- NCSO = Nipomo Community Services District
WMWC = Woodlands Mutual Water Company
GSWC = Golden State Water Company

**NIPOMO COMMUNITY SERVICES DISTRICT
NIPOMO SUPPLEMENTAL WATER PROJECT (NSWP) - COST OF WATER PURCHASED FROM CITY OF SANTA MARIA (SM)
BUDGET FOR FISCAL YEAR 2024-25**

FISCAL YEAR	CITY OF SM RATE INCR EFF DATE	(a)	(b)	(c)	(d)	(a)*(d)	
		ACRE FEET PURCHASED	CITY OF SM BASE Cost PER ACRE FOOT	CITY OF SM CHANGE IN ENERGY	(b)+(c) COST PER ACRE FOOT	TOTAL COST	
FY 15-16	July 1, 2015 to June 30, 2016	1/7/2015	660	\$1,495.85	\$ 23.00	\$1,518.85	\$1,001,760
FY 16-17	July 1, 2016 to June 30, 2017	7/1/2016	860	\$1,570.77	\$ 17.00	\$1,587.77	\$1,365,482
FY 17-18	July 1, 2017 to June 30, 2018	7/1/2017	945	\$1,649.18	\$ -	\$1,649.18	\$1,558,475
FY 18-19	July 1, 2018 to June 30, 2019	7/1/2018	950	\$1,649.18	\$ 52.00	\$1,701.18	\$1,616,121
FY 19-20	July 1, 2019 to December 31, 2019	7/1/2019	487	\$1,649.18	\$ 45.92	\$1,695.10	\$825,514
FY 19-20	January 1, 2020 to June 30, 2020	1/1/2020	463	\$2,077.81	\$ 45.92	\$2,123.73	\$983,287
FY 20-21	July 1, 2020 to December 31, 2020	1/1/2020	555	\$2,077.81	\$ 45.92	\$2,123.73	\$1,178,670
FY 20-21	January 1, 2021 to June 30, 2021	1/1/2021	498	\$2,160.58	\$ 43.19	\$2,203.77	\$1,097,477
FY 21-22	July 1, 2021 to December 31, 2021	1/1/2021	539	\$2,160.58	\$ 43.19	\$2,203.77	\$1,187,832
FY 21-22	January 1, 2022 to June 30, 2022	1/1/2022	531	\$2,247.70	\$ 28.14	\$2,275.84	\$1,208,471
FY 22-23	July 1, 2022 to December 31, 2022	1/1/2022	582	\$2,247.70	\$ 28.14	\$2,275.84	\$1,324,539
FY 22-23	January 1, 2023 to June 30, 2023	1/1/2023	468	\$2,339.17	\$ 149.31	\$2,488.48	\$1,164,609
FY 23-24	July 1, 2023 to December 31, 2023	1/1/2023	525	\$2,339.17	\$ 149.31	\$2,488.48	\$1,306,452
FY 23-24	January 1, 2024 to June 30, 2024	1/1/2024	525	\$2,452.43	\$ 92.97	\$2,545.40	\$1,336,334
FY 24-25	July 1, 2024 to December 31, 2024	1/1/2024	525	\$2,452.43	\$ 92.97	\$2,545.40	\$1,336,334
FY 24-25	January 1, 2025 to June 30, 2025	1/1/2025	525	\$2,565.68	\$ 92.97	\$2,658.65	\$1,395,793

2,732,127

City of Santa Maria Adopted Rate Increases

Effective Date of City of SM Rate Increase	(e)	(f)	(e)*(f)
	Base Cost Per Unit (hcf)	Units per Acre Foot	Base Cost per Acre Foot
1/7/2015	\$3.43	435.6	\$1,495.85
7/1/2016	\$3.61	435.6	\$1,570.77
7/1/2017	\$3.79	435.6	\$1,649.18
7/1/2018	\$3.79	435.6	\$1,649.18
7/1/2019	\$3.79	435.6	\$1,649.18
1/1/2020	\$4.77	435.6	\$2,077.81
1/1/2021	\$4.96	435.6	\$2,160.58
1/1/2022	\$5.16	435.6	\$2,247.70
1/1/2023	\$5.37	435.6	\$2,339.17
1/1/2024	\$5.63	435.6	\$2,452.43
1/1/2025	\$5.89	435.6	\$2,565.68

CITY OF SANTA MARIA - BASE ENERGY COST ADJUSTMENT (A)

	FY 15-16	FY 16-17	FY 17-18	FY 18-19	FY 19-20	FY 20-21	FY 21-22	FY 22-23	FY 23-24
(1) Current CPI (July)	258.017	264.979	261.037	281.402	289.173	307.536	343.597	390.049	418.879
(2) Base Period CPI (May 2013)	264.188	264.188	264.188	264.188	264.188	264.188	264.188	264.188	264.188
(3) Index Point Change (1)-(2)	-6.171	0.791	-3.151	17.214	24.985	43.348	79.409	125.861	154.691
(4) Divided by prior period (3) + (2)	-0.023358366	0.00299408	-0.011927113	0.065158145	0.094572804	0.164080125	0.300577819	0.476406953	0.585533787
(5) Multiply by 100 for percent change (4) x 100	-2.335836601	0.299407997	-1.192711251	6.515814496	9.457280422	16.40801248	30.0577819	47.64069526	58.55337865
(6) Adjusted to 50% per agreement (5) x 50%	-1.167918301	0.149703999	-0.596355626	3.257907248	4.728640211	8.204006238	15.02888095	23.82034763	29.27688933
(7) Base Cost of Energy (Per Agreement)	206.85	206.85	206.85	206.85	206.85	206.85	206.85	206.85	206.85
(8) Energy Adjustment (7) x (6) + 100	-2.42	0.31	-1.23	6.74	9.78	16.97	31.09	49.27	60.56
(9) Adjusted Base Cost of Energy (7) + (8)	204.43	207.16	205.62	213.59	216.63	223.82	237.94	256.12	267.41
(10) CCWA BUDGET (Per published document)	\$227.27	\$223.71	\$191.77	\$265.90	\$262.54	\$267.02	\$266.08	\$405.43	\$360.38
(11) Change in Cost of Energy (10) - (9), not less than 0	\$23	\$17	\$0	\$52	\$46	\$43	\$28	\$149.31	\$92.97

(A) City of Santa Maria has agreed to implement the Base Energy Adjustment to coincide with the January 1 rate increases.

**NIPOMO COMMUNITY SERVICES DISTRICT
NIPOMO SUPPLEMENTAL WATER PROJECT (NSWP)
BUDGET FOR FISCAL YEAR 2024-25**

OPERATIONS AND MAINTENANCE BUDGET

	1000 AFY 2022-23	1000 AFY 2023-24	1000 AFY 2023-24	1,000 AFY 2024-25
OPERATIONS AND MAINTENANCE	ACTUAL	BUDGET	EST ACTUAL	PROPOSED
Electricity	103,637	120,000	104,500	125,000
Labor (fully weighted)	85,837	60,000	60,000	60,000
Water	399	650	450	475
Chemicals	9,145	9,500	9,200	9,700
Outside Services	1,159	5,400	5,150	5,300
Permits and Operating Fees	1,259	1,250	1,200	1,300
Insurance (1)	20,545	24,654	26,113	29,000
Repairs and Maintenance	4,996	8,000	7,000	8,000
TOTAL OPERATIONS AND MAINTENANCE	226,977	229,454	213,613	238,775
Cost per acre foot @ 1,000 acre feet	226.98	229.45	213.61	238.78
Overhead allocation 15% of O and M	34.05	34.42	32.04	35.82

(1) SDRMA Insurance provider provided estimate for FY 24-25

**NIPOMO COMMUNITY SERVICES DISTRICT
NIPOMO SUPPLEMENTAL WATER PROJECT (NSWP)
BUDGET FOR FISCAL YEAR 2024-25**

FUNDED REPLACEMENT RESERVES

	<u>FY 23-24</u>	<u>FY 24-25</u>
	<u>EST ACTUAL</u>	<u>PROPOSED</u>
Beginning Balance, July 1	1,682,669	1,949,534
Collections during fiscal year		
NCSD	149,439	149,439
WMWC	28,713	28,713
GSWC	28,713	28,713
	<u>206,865</u>	<u>206,865</u>
Replacement of Analyzers	<u>0</u>	<u>(25,000)</u>
Estimated interest income	<u>60,000</u>	<u>60,000</u>
Estimated Ending Balance, June 30	<u>1,949,534</u>	<u>2,191,399</u>

Note: Funds held in separate savings account at Five Star Bank

Funded Replacement Reserve Requirement - Pursuant to Section VIII (J)		
CPI Adjustment as of June 30, 2024		
CPI - 2023 Annual	321.583	
CPI - 2022 Annual	<u>(310.782)</u>	
	10.801	
Divide by previous period CPI ÷	<u>310.782</u>	
	0.0348	
	X 100.000	
Percent Change	<u>3.48</u>	
Maximum Balance computed as of June 30, 2023		3,845,589
Adjusted by CPI June 30, 2023 (\$3,845,589* 3.48%)		133,826
Maximum Balance adjusted as of June 30, 2024		<u>3,979,415</u>

CPI = Consumer Price Index
 NCSD = Nipomo Community Services District
 WMWC = Woodlands Mutual Water Company
 GSWC = Golden State Water Company

	CPI		RUNNING
	INDEX	ADJ	BALANCE
			3,000,000
6/30/2016	0.907	27,210	3,027,210
6/30/2017	1.89	57,214	3,084,424
6/30/2018	2.79	86,055	3,170,479
6/30/2019	3.81	120,478	3,290,957
6/30/2020	3.07	101,032	3,391,989
6/30/2021	1.62	54,950	3,446,939
6/30/2022	3.83	132,018	3,578,957
6/30/2023	7.45	266,632	3,845,589
6/30/2024	3.48	133,826	3,979,415