

Water Rate and Capacity Charge Study

Nipomo Community Services District

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Nipomo, CA 93444



September 2014

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EXECUTIVE SUMMARY

INTRODUCTION

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

The major objectives of the study included the following.

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

BACKGROUND

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

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

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

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

WATER FINANCIAL PLAN

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

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

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

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

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

PROPOSED SUPPLEMENTAL WATER CHARGES

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

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

Purveyor Supplemental Water Project Cost Reimbursement

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

Purveyor Supplemental Water Charges

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

Table ES-1
Summary of Supplemental Water Rates and Charges

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

^[1] From Table 11 and Table 12.

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

^[3] From Table 13.

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

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

District Customer Supplemental Water Charges

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

Residential Water Bill Impacts

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

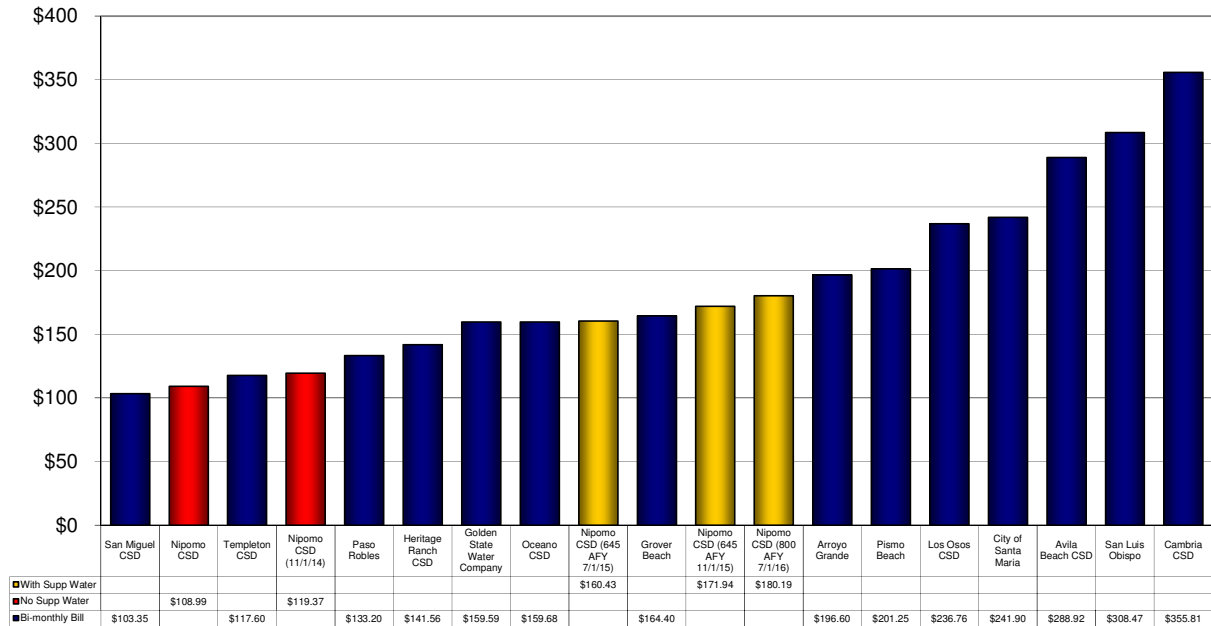
Table ES-2
Single-family Residential Bi-monthly Water Bills
With Supplemental Water Fixed^[1] and Volume Charges

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

^[1] For 1 inch meter size.

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

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



[1] For rates in effect July 2014.

WATER CAPACITY CHARGES

The District’s water capacity charges include two separate charges consisting of the Water Capacity Charge and the Supplemental Water Capacity Charge. The former charge is related to the existing water distribution system while the latter is related to delivery of SW from SM and a future water desalinization project. The Water Capacity Charges are shown below in Table ES-3 while the Supplemental Water Capacity Charges are shown in Table ES-4. Detailed calculations of the Capacity Charges are provided in Section 4.0 of this Report.

Table ES-3
Proposed Water Capacity Charges

Line No.	Meter Size	Meter Capacity Ratio ^[1]	Water Capacity Charge	
			Existing Charge	Proposed Charge
1	Up to 1 inch	1.0	\$3,385	\$2,921
2	1 1/2 inch	3.0	10,155	8,764
3	2 inch	4.8	16,247	14,022
4	3 inch	9.0	30,463	26,291
5	4 inch	15.0	50,772	43,819
6	6 inch	30.0	\$101,544	\$87,638

^[1] Meter capacity ratios developed in the 2008 capacity charge study.

Table ES-4
Proposed Supplemental Water Capacity Charges

Line No.	Meter Size	Meter Capacity Ratio ^[1]	Supplemental Water Capacity Charge	
			Existing Charge	Proposed Charge
1	Up to 1 inch	1.0	\$15,015	\$7,570
2	1 1/2 inch	3.0	45,045	22,710
3	2 inch	4.8	72,072	36,336
4	3 inch	9.0	135,135	68,130
5	4 inch	15.0	225,225	113,550
6	6 inch	30.0	\$450,450	\$227,100

^[1] Meter capacity ratios developed in the 2008 capacity charge study.

1.0 INTRODUCTION

The Nipomo Community Services District (District) engaged Tuckfield & Associates in October of 2013 to conduct a comprehensive Water Rate and Capacity Charge Study. This study includes development of a pro forma statement of revenues and expenses of the District's water enterprise fund, design of new charges related to the delivery of SW from the SM, and an update to the District's Water Capacity Charges and Supplemental Water Capacity Charges.

The pro forma statements allow the review of the adequacy of existing revenue to meet annual fund obligations, and provide the basis for rate adjustments. The new Supplemental Water charges are created to recover all of the District's annual operating and capital costs associated with the Supplemental Water Project (Water Project). The capacity charges ensure appropriate capital cost recovery allowed under section 66013 of the California Government Code.

1.1 BACKGROUND

The Nipomo Community Services District was formed in 1965 and covers an area of approximately 4,650 acres. The District is located in the central coastal region of the state of California in San Luis Obispo County, north of Los Angeles by approximately 175 miles. The District has a population of over 16,700 and provides water service inside and outside the District's service area. Water service is accounted for in an enterprise fund of the District and relies upon user charges to meet all financial obligations.

Currently, the District obtains its water supply from eight active wells with an additional five wells on standby or out of service. The eight wells have a capacity of 3,920 gpm and extract water primarily from the Nipomo Mesa Management Area (NMMA) of the Santa Maria Groundwater Basin (Basin).

In addition to the groundwater wells, the water system includes five above ground storage reservoirs (tanks) and approximately 85 miles of distribution mains. The tanks have a storage capacity of 4 million gallons while the distribution system consists of piping ranging in size from 6 inch to 16 inches, valves, fire hydrants, and over 4,000 service connections.

In June of 2005, the District was a party to litigation related to groundwater rights of the Basin. The result of the litigation was a physical solution for the NMMA where SW would be imported from SM to augment groundwater supply. The percentage rights to the Supplemental Water and to the groundwater of the Basin were established in litigation in Santa Maria Valley Water Conservation District vs. City of Santa Maria, known as the Stipulation Agreement.

The Stipulation Agreement created the NMMA Technical Group to manage the groundwater pumped by the District and other water purveyors. The NMMA Technical Group is expecting that groundwater resources may need to be restricted in the near future based on criteria established by the group to manage the Basin. As a result, the District prepared a Water Shortage Response and Management Plan (WSRMP) in the spring of 2014 to protect the groundwater basin.

1.2 PURPOSE

The purpose of this study is to (1) review the current and future financial status of the Water Fund, (2) make any adjustments to the revenue being received to ensure that the District is meeting its financial obligations and policies, including adequate reserves and debt service coverage, and (3) design rates including new Supplemental Water charges that generate the required revenue while providing rates that are fair and equitable for its water customers.

1.3 SCOPE OF WORK

This study includes the results of analyzing the Water Fund of the District and other sources of information regarding the Water Project. Historical trends were analyzed from data supplied by the District showing the number of customers, water consumption volumes, revenue, and revenue requirements. Annual system growth is reflected in the revenue projections by customer classification.

Revenue requirements include operation and maintenance expense, debt service, routine capital outlays, replacement, transfers, and additions to operating reserves. Changing conditions such as additional facilities, system growth, and non-recurring maintenance expenditures are recognized. Inflation for ongoing expenditures is included to reflect cost escalation.

The financial plan and rates developed herein are based on the funding of the capital improvement plan as stated as well as estimates of operation and maintenance expenses developed from information provided by the District. Deviation from the financial plans, construction cost estimates and funding requirements, major operating changes, or other financial policy changes that were not foreseen, may result in the need for lower or higher revenue than anticipated. It is suggested that the District conduct an update to the rate study at least every three years for prudent rate planning.

2.0 WATER UTILITY FINANCIAL PLANNING

Financial planning of the Water Fund includes identifying and projecting revenues and revenue requirements of the fund for a five-year planning period. Estimates of revenue from various sources, including projected water sales revenue, are compared with the projected revenue requirements of the fund. This comparison allows the determination of impacts to the fund from (1) financing decisions of the future capital improvements, (2) estimates of future operation and maintenance expense, and (3) any new obligation of the fund. The pro forma financial plan allows the development of future water service rates to meet the projected revenue requirements, which may allow the rates to be phased-in over several years.

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

2.1 CAPITAL IMPROVEMENT PROGRAM AND FINANCING

The District has identified annual capital improvements for the water distribution system in addition to the Water Project. The improvements include a new tanks site, water system master plan, and waterline and distribution replacements. The expenditures total over \$4.5 million for the five-year period excluding the Water Project.

The District plans to complete Phase 1 of the Water Project within FY 2014-15. Additional phases including Phase 2 and 3 are planned in the next few years to expand the capacity of the waterline to provide delivery capacity of up to 3,000 AFY.

The annual capital improvements excluding the Water Project are planned to be financed from District reserves in the Water Replacement Fund and Water Capacity Fund. Costs of Phase 1 of the Water Project will be met from 2013 debt proceeds, anticipated Water Project cost reimbursement from water Purveyors identified in the Stipulation Agreement, and funds available in the Supplemental Water Capacity Fund. Because the improvements are financed from these sources, there is no financial impact to the Water Fund from construction of these improvements including the Water Project.

2.2 Revenue

Water sales revenue is the primary source of revenue received by the Water Fund. Other sources of revenue include water service installations, water service fees, and interest income. Water sales revenue is estimated through projections of customer growth and water sales volume as discussed below.

2.2.1 Customer Growth and Water Sales Volume.

The District's 2010 Urban Water Management Plan (UWMP) developed future estimates of population growth and daily per capita water use and determined an annual growth rate of 1.2 percent for all District customers. Analyses of the District's billing information for the last five years indicate that the

average annual customer growth rate has been about 0.75 percent. For this study, a customer growth rate of 0.75 percent is used for projection of future District water system customers and is presented in Table 1. For some customer classifications the customer counts do not increase due to rounding.

Table 1
Projection of Number of Customers and Dwelling Units

Line No.	Description	Fiscal Year Ending June 30					
		Actual	Projected				
		2013-14 [1]	2014-15	2015-16	2016-17	2017-18	2018-19
Number of Customers^[2]							
1	Single Family	3,754	3,782	3,810	3,838	3,867	3,896
2	Multifamily	543	547	551	555	559	563
3	Commercial	100	101	102	103	104	105
4	Irrigation	97	98	99	100	101	102
5	Agriculture	1	1	1	1	1	1
6	NCSD	5	5	5	5	5	5
7	Private Fire Lines	43	43	43	43	43	43
8	Total	4,543	4,577	4,611	4,645	4,680	4,715
Number of Dwelling Units^[2]							
9	Single Family	3,754	3,782	3,810	3,838	3,867	3,896
10	Multifamily	975	982	989	996	1,003	1,011
11	Total	4,729	4,764	4,799	4,834	4,870	4,907

^[1] From District billing system information.

^[2] Assumes 0.75% growth rate for all customers except fire protection.

Table 2 presents the projected water sales volumes for District customers. The UWMP indicated that future reductions in use per capita are not necessary because the current daily per capita water use will meet the 2015 and 2020 targets. For this study, future water consumption projections include assumed volume reductions as a response to higher water rates that will occur from water rate increases approved in the last Proposition 218 public hearing and from the introduction of new Supplemental Water charges.

Table 2
Projection of Water Sales Volume

Line No.	Description	Fiscal Year Ending June 30					
		Actual	Projected				
		2013-14 [1]	2014-15	2015-16	2016-17	2017-18	2018-19
Water Sales Volume							
		Ccf	Ccf	Ccf	Ccf	Ccf	Ccf
1	Single Family	814,455	806,484	764,058	762,897	767,651	772,252
2	Multifamily	73,034	72,393	68,623	68,485	68,945	69,308
3	Commercial	43,083	43,007	41,817	41,952	42,308	42,665
4	Irrigation	133,087	131,255	121,438	121,153	122,204	123,221
5	Agriculture	7,488	7,429	7,187	7,151	7,148	7,145
6	NCSD	2,824	2,773	2,683	2,670	2,669	2,668
7	Total	1,073,971	1,063,341	1,005,805	1,004,308	1,010,924	1,017,259

^[1] From District billing system information.

The projections of future water consumption use price elasticity of demand factors to estimate the change in water consumption from higher water prices. For example, a price elasticity factor of -.10 indicates that a 1 percent increase in price results in a 0.1 percent decrease in demand. Table 3 presents the price elasticity factors used in this study for each customer classification.

Table 3
Price Elasticity Demand Factors

Classification	Fiscal Year Ending June 30				
	2014-15	2015-16	2016-17	2017-18	2018-19
Price Elasticity Factors					
Residential ^[1]					
Tier 1	-0.10	-0.10	-0.10	-0.10	-0.10
Tier 2	-0.20	-0.20	-0.20	-0.20	-0.20
Tier 3	-0.30	-0.30	-0.30	-0.25	-0.25
Tier 4	-0.40	-0.40	-0.40	-0.30	-0.30
Commercial					
Tier 1	-0.10	-0.10	-0.10	-0.05	-0.05
Tier 2	-0.15	-0.15	-0.15	-0.10	-0.08
Irrigation					
Tier 1	-0.20	-0.20	-0.20	-0.15	-0.10
Tier 2	-0.40	-0.40	-0.40	-0.30	-0.20
Agriculture	-0.10	-0.10	-0.10	-0.05	-0.05

^[1] Includes single family and multifamily residential.

2.2.2 Revenue from Water Rates.

The Districts current water rate structure consists of fixed charges by meter size and volume charges by rate block which varies among the customer classes. Table 4 summarizes the bi-monthly fixed charges including litigation charges and private fire protection charges.

Table 5 summarizes the District’s current volume charges. The volume charges include a four-block conservation rate structure for residential customers and a two-block rate structure for Commercial and Irrigation customers. The residential rate block applies to all customers and all meter sizes. The Commercial two-block rate structure is specific to the meter size and allows more water to be consumed in the first block as the meter size increases. All other customers, such as Agriculture, are charged a uniform volume charge.

Table 4
Existing Bi-Monthly Water Fixed Charges^[1]

Meter Size	Bi-Monthly Fixed Charge	Bi-Monthly Litigation Charge	Bi-Monthly Fire Service Charge
5/8" thru 1"	\$ 32.19	\$ 6.32	\$ -
1 1/2"	\$ 91.39	\$ 14.36	\$ -
2"	\$ 144.75	\$ 19.92	\$ -
3"	\$ 269.35	\$ 27.92	\$ -
4"	\$ 447.29	\$ 36.00	\$ 13.13
6"	\$ 891.78	\$ 59.58	\$ 15.76
8"	\$ 1,425.35	\$ 68.08	\$ 23.63
10"	\$ -	\$ -	\$ 32.83
12"	\$ -	\$ -	\$ 39.39

^[1] Effective November 1, 2013

Table 5
Existing Bi-Monthly Water Service Volume Rates^[1]

		Volume Charge ^[2]					
		Single Family		Multifamily		All Other	
Tier	Rate (\$/Ccf)	All Meter Sizes				Tier	Rate (\$/Ccf)
		Ccf	Ccf			All Ccf	
Tier 1	\$1.97	0 to 24	0 to 8			\$2.84	
Tier 2	\$2.46	24 to 40	8 to 12				
Tier 3	\$3.45	40 to 100	12 to 25				
Tier 4	\$5.91	Over 100	Over 25				
Commercial							
Tier	Rate (\$/Ccf)	5/8"	3/4"	5/8" thru 1"	1 1/2"	2"	3"
		Ccf	Ccf	Ccf	Ccf	Ccf	Ccf
Tier 1	\$2.46	0 to 35	0 to 50	0 to 55	0 to 290	0 to 165	0 to 82
Tier 2	\$3.45	Over 35	Over 50	Over 55	Over 290	Over 165	Over 82
Irrigation							
Tier	Rate (\$/Ccf)	5/8"	3/4"	5/8" thru 1"	1 1/2"	2"	3" and 4"
		Ccf	Ccf	Ccf	Ccf	Ccf	Ccf
Tier 1	\$2.46	0 to 50		0 to 75	0 to 350	0 to 350	0 to 3000
Tier 2	\$3.45	Over 50		Over 75	Over 350	Over 350	Over 3000

^[1] Effective November 1, 2013

^[2] Charge per hundred cubic feet (Ccf) of water consumed.

Fixed charge revenue accounts for about 25 percent of the total revenue from user charges. Current Best Management Practices (BMPs) of the California Urban Water Conservation Council (CUWCC) states

that revenue from fixed charges should be no more than 30 percent of total user charge revenue. Therefore, the District’s current rates meet this best management practice. Table 6 presents the projected revenue from water rates from application of the current rates to projections of the number of customers and water sales volumes.

Table 6
Projection of Water Sales Revenue Using November 1, 2013 Rates

Line No.	Description	Fiscal Year Ending June 30					
		Actual 2013-14 [1]	2014-15	2015-16	2016-17	2017-18	2018-19
Water Sales Revenue [2]							
1	Single Family	\$2,843,600	\$2,726,100	\$2,727,100	\$2,744,900	\$2,762,100	
2	Multifamily	304,300	294,500	294,800	296,700	298,400	
3	Commercial	168,300	165,000	165,500	166,700	167,900	
4	Irrigation	392,700	364,900	364,200	367,600	370,500	
5	Agriculture	22,000	21,300	21,200	21,200	21,200	
6	NCS D	8,800	8,600	8,500	8,500	8,500	
7	Private Fire Lines	5,600	5,600	5,600	5,600	5,600	
8	Total	\$3,647,000	\$3,745,300	\$3,586,000	\$3,586,900	\$3,611,200	\$3,634,200

[1] From FY 2014-15 Budget.

[2] Revenue projected using water rates effective November 1, 2013. Does not include Litigation Charge revenue which is shown in Table 8.

2.2.3 Other Revenue.

The District generates other revenue from meter installations, water service charges, miscellaneous sources, and interest income. For projection purposes, meter installation revenue follows customer additions while other revenue is expected to remain at their current levels in future years.

2.2.4 Interest Income.

The District invests available funds in the Local Agency Investment Fund (LAIF). The District’s recent income earnings rate averages about 0.35 percent and will be used in this study for interest income calculations.

2.3 Revenue Requirements

Revenue requirements of the District’s Water Fund include operation and maintenance (O&M) expense, annual fixed asset purchases (minor capital), and Transfers to other funds. The revenue requirement projections presented herein reflect the District’s FY 2014-15 Budget for the first year, and then are escalated into the future based on known conditions regarding proposed operating and capital improvement plans, and expected changes to system operations.

2.3.1 O&M Expense.

O&M expense includes the cost of personnel, utilities, chemicals, and miscellaneous materials and supplies needed to operate the water system on an annual basis. Projections are based upon an analysis of historical expenses and take into account anticipated future system growth and cost increases in labor, contractual services, electric power, chemicals, and all other expenses.

Several inflation factors by expense category were used to refine the projection of future operation and maintenance expense. The assumptions for future cost escalation include separate inflation factors for salaries, benefits, electric power, chemicals, and all other expenses as described below and included in the historical and projected O&M expenses presented in Table 6.

- Salaries – Salaries and wages expense was analyzed using Full-Time Equivalent’s (FTE) related to the water system, meaning that these expenses were correlated with the percentage of personnel expenses allocated to the Water Fund. The analysis showed that historical salaries and wages per FTE increased at a rate of about 1.7 percent annually between FY 2009-10 and FY 2013-14. However, this included several personnel changes and reallocations during that time. Going forward, the District hired two new employees in FY 2013-14 and plans to hire another two employees in FY 2014-15 with partial allocations to the Water Fund. The employee additions are reflected in the District’s Budget. Inflation in future salaries and wages is estimated to increase at 3 percent annually per FTE.
- Benefits – Analysis of Benefits expense on a Full-Time Equivalent (FTE) basis indicates that historical benefits expense per FTE also increased at the rate of about 3 percent annually from FY 2009-10 through FY 2013-14. The Bureau of Labor Statistics Employment Cost Index for Benefits for State and Local Government Workers indicates an average change in benefit costs of 2.95 percent annually from June 2009 through June 2014. Future cost escalations in employee benefits of 3 percent annually are assumed, matching the escalations in Salaries and Wages annual increases.
- Electricity – The unit cost of electricity in terms of dollars per hundred cubic feet (Ccf) of water pumped shows an average annual increase of approximately 1.0 percent from FY 2009-10 to FY 2013-14 while actual total electricity expense increased by about 1.4 percent over the same time period. While the unit cost of electricity is projected to increase at the rate of 3 percent annually, the overall electricity expense is planned to decrease following delivery of Supplemental Water beginning around May/June 2015.
- Chemicals – Calculated in a similar manner as for electricity unit cost, historical unit chemical cost shows an average annual increase of approximately 22 percent over the last 4 years, however is not a significant total expense. Future increases in unit chemical cost are projected at 3 percent annually with total chemicals expense decreasing when the delivery of Supplemental Water begins around May 2015.

Table 7
Historical and Projected Operation and Maintenance Expense and Capital Outlay

Line No.	Description	Fiscal Year Ending June 30									
		Historical (Actual)					Budget	Projected			
		2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19
Operation and Maintenance Expense^[1]											
Operation and Maintenance											
1	Salaries & Wages	\$290,427	\$287,752	\$248,992	\$244,037	\$339,500	\$501,400	\$516,500	\$531,900	\$547,800	\$564,300
2	Benefits	154,606	180,774	149,854	148,695	191,100	279,300	287,700	296,400	305,100	314,400
3	Power	420,488	353,606	440,880	411,021	450,000	450,000	392,200	389,100	404,700	420,800
4	Chemicals	9,259	18,311	17,171	17,984	26,500	27,000	23,500	23,300	24,300	25,200
5	Operating Supplies	75,714	70,934	35,437	19,985	30,000	30,000	30,900	31,800	32,800	33,800
6	Outside Services	36,137	41,820	51,549	75,260	90,000	120,000	123,600	127,300	131,100	135,000
7	Repairs and Maintenance	112,930	162,920	96,816	137,999	105,000	110,000	113,300	116,700	120,200	123,800
8	Engineering	12,286	28,526	15,936	19,868	20,000	17,000	17,500	18,000	18,500	19,100
9	Meters	13,885	62,633	40,833	18,460	50,000	50,000	51,500	53,000	54,600	56,200
10	Other	111,020	106,054	96,474	97,558	126,500	151,500	156,200	160,900	165,700	170,600
11	Total Operation and Maintenance	\$1,236,752	\$1,313,330	\$1,193,942	\$1,190,867	\$1,428,600	\$1,736,200	\$1,712,900	\$1,748,400	\$1,804,800	\$1,863,200
General and Administration											
12	Salaries & Wages	\$231,835	\$232,640	\$217,943	\$293,806	\$205,000	\$250,500	\$258,000	\$265,800	\$273,700	\$281,900
13	Benefits	172,000	170,397	172,568	214,819	171,440	195,400	201,200	207,300	213,500	220,100
14	Legal General & Special Counsel	46,384	31,221	23,290	32,105	35,000	45,000	46,400	47,800	49,200	50,700
15	Legal - Water Counsel	43,383	32,366	3,630	34,879	6,000	169,000	48,200	49,600	51,100	52,600
16	Professional Services	163,484	164,425	109,721	70,895	175,000	165,000	141,400	145,600	150,000	154,500
17	Operating Transfer Out - Admin	269,785	270,016	278,442	241,932	0	291,397	300,100	309,100	318,400	328,000
18	Other	154,427	157,532	157,507	161,848	186,380	217,040	204,600	216,800	217,100	229,700
19	Total General and Administration	\$1,081,298	\$1,058,597	\$963,101	\$1,050,284	\$778,820	\$1,333,337	\$1,199,900	\$1,242,000	\$1,273,000	\$1,317,500
20	Total Operation and Maintenance Expense	\$2,318,050	\$2,371,927	\$2,157,043	\$2,241,151	\$2,207,420	\$3,069,537	\$2,912,800	\$2,990,400	\$3,077,800	\$3,180,700
Capital Outlay^[1]											
21	Operating Transfer Out - Replacement	\$700,000	\$700,000	\$566,000	\$566,000	\$276,000	\$566,000	\$566,000	\$566,000	\$566,000	\$566,000
22	Fixed Asset Purchases Operation and Maintenance	443,355	89,168	57,619	516,779	0	23,100	276,700	285,000	318,600	302,400
23	Fixed Asset Purchases Gen & Admin	63,117	21,621	34,805	0	0	69,000	39,800	41,000	42,200	43,500
24	Total Capital Outlay	\$1,206,472	\$810,789	\$658,424	\$1,082,779	\$276,000	\$658,100	\$882,500	\$892,000	\$926,800	\$911,900
25	Total O&M and Capital Outlay	\$3,524,522	\$3,182,716	\$2,815,467	\$3,323,930	\$2,483,420	\$3,727,637	\$3,795,300	\$3,882,400	\$4,004,600	\$4,092,600

^[1] Operation and Maintenance expenses are inflated at the following annual rates: Salaries - 3.0%; Benefits - 3%; Chemicals (per Ccf) - 3%, and Electricity (per Ccf) - 3%. All other expenses are inflated at 3% annually.

All Other – All other expenses not discussed above are projected to increase by 3 percent annually to reflect the future Consumer Price Index (CPI). Historically, the CPI for all items for San Francisco/Oakland/San Jose and CPI and for Los Angeles/Anaheim/Riverside indicated an annual average increase from June 2009 to June 2014 ranging between 2.4 and 1.7 percent respectively. However, the most recent year-over-year annual inflation rate of the San Francisco CPI index was 3.0 percent.

2.3.2 Fixed Asset Purchases (Minor Capital Outlay).

Minor (routine) annual capital outlays, which are financed from annual system revenues, include estimates for relatively small additions of fixed asset purchases, utility vehicles, office/technical equipment, and other assets. The amount included reflects budgeted capital in FY 2014-15 of \$92,100 increasing to an estimated \$316,500 in FY 2015-16, which reflects the average annual expenditures over the last five years. Expenditures increase at the rate of 3 percent annually through the study period.

2.3.3 Transfers.

There are three transfers from the Water Fund during the study period. These include a Transfer to the Replacement Fund, a Transfer to the Property Tax Fund, and a Transfer to the Supplemental Water Capacity Fund.

The District's FY 2014-15 Budget includes a Transfer to the Replacement Fund of \$566,000 which reflects the District's preference and historical policy. This transfer amount is included in the projections for future years of the Water Fund.

In FY 2014-15, the Water Fund will make a one-time transfer \$250,000 to the Property Tax Fund. This transfer is necessary because the Property Tax revenue that is received by the District is insufficient to pay the total annual debt service related to the 2013 and 2013A COPs. Future deficiencies will be made from new SW charges received into a new Supplemental Water Fund created by the District discussed in a later section of this Report.

Also in the District's 2014-15 Budget, a one-time transfer is made to the Supplemental Water Capacity Fund in the amount of \$500,000.

2.4 Water Fund Analysis

A pro forma flow of funds statement has been prepared for the Water Fund that includes all revenues and all revenue requirements that were identified for the fund. Additionally, the statement incorporates specific financial planning criteria for the Water Fund to provide guidance to maintain the health of the fund on an on-going basis. The criteria includes maintaining a Water Fund operating reserve balance equal to 360 days (of 360 days, or 100 percent) of O&M expense, making the appropriate transfers described above, and maintaining required debt service coverage ratios required in the Series 2013 and Series 2013A Certificates of Participation (COPs) debt covenants.

2.5.1 Water Fund Operating Reserve.

The target amount to be maintained as an operating reserve varies among publicly-owned utilities, however, is generally expressed as a percentage, or as the number of days of operation and maintenance expense (O&M) of the enterprise. The District’s historical policy has been to maintain an operating reserve of about 180 days of O&M or 50 percent (of O&M expense) in the Water Fund.

For this study, the operating reserve target is being increased to 360 days to reflect that the District may be requested to significantly reduce groundwater basin pumping, and additionally because of the near-term startup of the Supplemental Water Project, both of which present revenue stability challenges in the near future. The increase in the reserve target provides conservative financial planning.

2.5.2 Revenue Adjustments.

The pro forma statement for the Water Fund is presented in Table 8. Lines 2 and 3 of the table show the adopted revenue increases from the District’s last Proposition 218 public hearing. These revenue increases of 9.5 percent will occur annually on November 1 of 2014 and 2015. The impact of these increases on the Water Fund indicates that they are sufficient to maintain the health of fund for the next five years. No other adjustments in water rates for normal conditions need to be made at this time.

A graphical depiction of the Water Fund is presented in Figure 1 below. The figure shows that the Water Fund balance is initially below the revised target reserve level however reaches the target level in FY 2017-18. The fund meets the planning criteria by the end of the study period assuming the proposed increases shown on lines 2 and 3 of Table 8 are implemented.

Figure 1 - Water Fund Summary

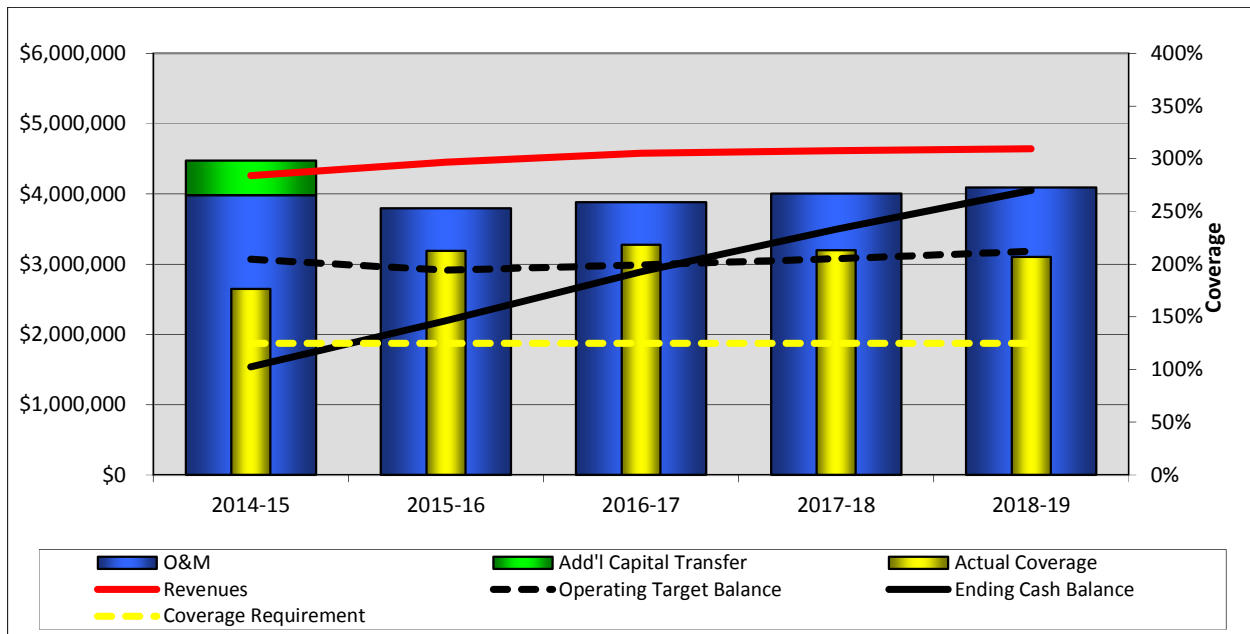


Table 8
Water Fund (Fund 125) Flow of Funds Statement

Line No.	Description	Fiscal Year Ending June 30					
		Budget 2014-15	2015-16	2016-17	2017-18	2018-19	
Revenue							
1	Water Sales Revenue Under Existing Rates ^[1]	\$3,745,300	\$3,586,000	\$3,586,900	\$3,611,200	\$3,634,200	
	Additional Water Sales Revenue						
	Annualized						
	Revenue Increase						
	Date of Increase						
	Fiscal Year						
	Annual Revenue Increase						
2	9.5% Nov 1, 2014-15	6.3%	237,200	340,700	340,800	343,100	345,200
3	9.5% Nov 1, 2015-16	6.3%		248,700	373,100	375,700	378,000
4	Total Additional Water Sales Revenue		237,200	589,400	713,900	718,800	723,200
5	Total Water Sales Revenue		\$3,982,500	\$4,175,400	\$4,300,800	\$4,330,000	\$4,357,400
6	Water Litigation Charges		\$178,400	\$178,400	\$179,700	\$181,100	\$182,400
7	Miscellaneous Income ^[2]		94,700	90,900	91,100	91,700	92,200
8	Interest Income ^[3]		5,800	6,500	8,900	11,200	13,200
9	Total Revenue		\$4,261,400	\$4,451,200	\$4,580,500	\$4,614,000	\$4,645,200
Revenue Requirements							
10	Operation and Maintenance Expense ^{[2][4]}		\$3,069,500	\$2,912,800	\$2,990,400	\$3,077,800	\$3,180,700
11	Fixed Asset Purchases ^{[2][4]}		92,100	316,500	326,000	360,800	345,900
12	Transfer to Replacement Fund ^[5]		566,000	566,000	566,000	566,000	566,000
13	Transfer to Property Tax Fund ^[6]		250,000	0	0	0	0
14	Transfer to Supplemental Water Capacity Fund ^[6]		500,000	0	0	0	0
15	Total Revenue Requirements		\$4,477,600	\$3,795,300	\$3,882,400	\$4,004,600	\$4,092,600
16	Net Funds Available		(\$216,200)	\$655,900	\$698,100	\$609,400	\$552,600
17	Beginning Water Fund Balance		1,753,000	1,536,800	2,192,700	2,890,800	3,500,200
18	Cumulative Water Fund Balance		\$1,536,800	\$2,192,700	\$2,890,800	\$3,500,200	\$4,052,800
19	Target Operating Reserve Balance ^[7]		\$3,069,500	\$2,912,800	\$2,990,400	\$3,077,800	\$3,180,700
Annual Debt Service Coverage							
	Gross Revenue ^[8]						
20	Water Fund Gross Revenue		\$4,261,400	\$4,451,200	\$4,580,500	\$4,614,000	\$4,645,200
21	Water Capacity Charge Revenue		156,000	126,600	25,400	109,400	29,900
22	Supplemental Water Capacity Charge Revenue		370,000	561,600	112,600	255,200	69,800
23	Fund 128, 500, 600, 700, and 805 Interest Income		26,500	25,700	27,000	26,100	28,600
24	Property Tax Fund Revenue		500,000	505,000	510,100	515,200	520,400
25	Total Gross Revenue ^[8]		\$5,313,900	\$5,670,100	\$5,255,600	\$5,519,900	\$5,293,900
26	Water Fund O&M		3,069,500	2,912,800	2,990,400	3,077,800	3,180,700
27	Total Net Revenue with Capacity Charges		\$2,244,400	\$2,757,300	\$2,265,200	\$2,442,100	\$2,113,200
28	Total Net Revenue without Capacity Charges		\$1,718,400	\$2,069,100	\$2,127,200	\$2,077,500	\$2,013,500
29	Series 2013 Certificates Max Annual Debt Service		\$747,500	\$747,500	\$747,500	\$747,500	\$747,500
30	Series 2013A Bonds Max Annual Debt Service		226,200	226,200	226,200	226,200	226,200
31	Maximum Annual Debt Service		\$973,700	\$973,700	\$973,700	\$973,700	\$973,700
32	Debt Service Coverage with Capacity Charges ^[9]		231%	283%	233%	251%	217%
	Minimum Coverage		125%	125%	125%	125%	125%
33	Debt Service Coverage without Capacity Charges		176%	212%	218%	213%	207%
	Minimum Coverage		110%	110%	110%	110%	110%

^[1] FY 2014-15 as budgeted. Revenue for future years is projected using water rates effective November 1, 2013.

^[2] Includes meter installations, service charges, and miscellaneous income.

^[3] Assumes an interest rate of 0.35% on the average fund balance.

^[4] Operation and Maintenance expenses are inflated at the following annual rates: Salaries - 3.0%; Benefits - 3%; Chemicals (per Ccf) - 3%, and Electricity (per Ccf) - 3%. All other expenses are inflated at 3% annually.

^[5] Transfer to Replacement Fund for annual capital replacement based on District Policy.

^[6] Transfers beyond FY 2014-15 are assumed to be met from Supplemental Water charges.

^[7] Target reserve amount to be maintained, estimated at 360 days of operation and maintenance expense.

^[8] Includes all income, rents, rates, fees, charges, or other moneys derived including all Ad Valorem Tax Revenue, standby or water availability charges, development fees, connection charges, moneys received from other public or private entities, proceeds from sale, lease, or disposition of part of the Enterprise, and earnings on and income derived from investments in District Funds.

^[9] Total Net Revenue with Capacity Charges (line 27) divided by Maximum Annual Debt Service (line 31).

3.0 SUPPLEMENTAL WATER RATES

The District is moving forward with plans to augment its water supply with Supplemental Water (SW) from the City of Santa Maria (SM). SW will be delivered through the Supplemental Water Project (Water Project) currently being constructed by the District. The District plans to recover a portion of the Water Project cost from each Purveyor in the form of a cost reimbursement. The reimbursement amount for each Purveyor is determined below.

This study proposes to create a new Supplemental Water Fund for the purpose of capturing the revenue and expenses associated with operating the Water Project. Revenue will be derived from charges to Woodlands Mutual Water Company, Rural Water Company, and Golden State Water Company (Purveyors) as well as to the District’s water customers. Expenses of the new fund include the cost of water supply from SM, the District’s O&M costs related to the delivery of SW, annual capital replacement related to the Water Project, annual recovery of a portion of the 2013 COPs debt service, and a contribution to fund a reserve in the new Supplemental Water Fund.

3.1 Reimbursement of Water Project Costs

The District has invested a significant amount of out-of-pocket funds as well as staff time to develop the Water Project. The District seeks to receive cost reimbursement from each Purveyor for their share of the Water Project costs. Table 9 presents the District’s out-of-pocket contributions towards the Water Project and the allocation of those costs to each Purveyor.

Table 9
Supplemental Water Project Cash Reimbursement from Each Purveyor

Line No.	Description	Fiscal Year				
		2015-16	NCSD	WMWC	RWC	GSWC
1	Allocated Project Capacity (AF)	3,000	2,167.00	416.50	208.25	208.25
2	Percentages for Fixed Capital Cost Allocation		72.24%	13.88%	6.94%	6.94%
Allocation of Reimbursement Costs						
3	NCSD Sunk Cost Contributions ^[4]	\$5,479,200	\$3,958,175	\$760,513	\$380,256	\$380,256
4	Interest on NCSD Sunk Cost Contributions ^[5]	247,100	178,505	34,297	17,149	17,149
5	NCSD Equity Contributions (from various funds) ^[6]	6,304,000	4,554,009	874,995	437,498	437,498
6	Total Reimbursement Costs	\$12,030,300	\$8,690,689	\$1,669,805	\$834,903	\$834,903
7	Cash Reimbursement from Each Purveyor			\$1,669,805	\$834,903	\$834,903

^[4] Allocation of \$5,479,200 of NCSD equity contributions allocated to Purveyors based on line 2.
^[5] Interest on District contributions towards the Waterline Intertie Project from 6/30/2005 through 6/30/2014 at LAIF historical interest rates.
^[6] From Agenda Item 2, May 10, 2013. Allotted to Purveyors based on line 2.

3.2 Cost of Supplemental Water

The District has entered into a Wholesale Water Supply Agreement (Supply Agreement) with SM whereby the terms related to the delivery of SW and its pricing is specified. The District’s cost of SW is

based on the Tier 1 pricing of SM’s water rate schedule and also includes an electrical power cost per AF. The pricing for SW and the electrical power cost are both subject to annual increases as set forth in the Supply Agreement. An estimate of these costs is provided below in Table 10.

Table 10
Projected Cost of Supplemental Water

Line No.	Description	July 1, 2013	July 1, 2014	July 1, 2015	July 1, 2016	July 1, 2017
1	Projected Santa Maria Rate Increase			5%	5%	5%
2	Santa Maria Tier 1 water rate	\$3.11	\$3.27	\$3.43	\$3.60	\$3.78
3	Base Energy Component (\$206.85/AF as of May 7, 2013)	\$0.47	\$0.47	\$0.47	\$0.47	\$0.47
4	50% of Increase of CPI Energy Services Index for LA-Riv-OC to March 1, 2014		\$0.01	\$0.01	\$0.01	\$0.02
5	Total Cost of Supplemental Water (\$/Ccf)	\$3.58	\$3.75	\$3.91	\$4.08	\$4.27
6	Total Cost of Supplemental Water (\$/AF)	\$1,559.45	\$1,633.50	\$1,703.20	\$1,777.25	\$1,860.01
7	District Additional O&M (\$/AF)	\$101.01	\$104.04	\$107.16	\$110.37	\$113.68
8	Assumed Percentage Increase			3.0%	3.0%	3.0%
9	Total Cost of Supplemental Water (\$/Ccf) with Add'l O&M	\$3.81	\$3.99	\$4.16	\$4.33	\$4.53
10	Total Cost of Supplemental Water (\$/AF) with Add'l O&M	\$1,660.46	\$1,737.54	\$1,810.36	\$1,887.62	\$1,973.69

	FY 2013-14	FY 2014-15	FY 2015-16	FY 2016-17	FY 2017-18
CPI Energy Services LA-RV-OC July 1, 2013	264.188	264.188	264.188	264.188	264.188
CPI Energy Services LA-RV-OC May 1 in FY	270.430	272.114	280.277	288.685	297.346
Assumed Percentage Increase		3.0%	3.0%	3.0%	3.0%

3.3 Supplemental Water Charges

Supplemental Water Charges are developed for two separate customer groups. The first charge is specific to water Purveyors and the second charge is related to District customers.

3.3.1 Charges to Water Purveyors.

The charges to water Purveyors are designed to recover all of the District’s on-going costs related to supplying SW to these Purveyors. Such costs include the following.

1. Variable costs related directly to SW supply from SM including O&M
2. Purveyor share of capital recovery costs from financing the Water Project
3. Purveyor share of annual Water Project replacement

Table 11 presents the calculations of the SW fixed and volume charges to Purveyors. Line 3 of the table is a pass-through volume cost, meaning that as this cost per AF is increased to the District from SM, it is automatically passed-through to the Purveyors without a Proposition 218 public hearing. This is allowed under AB3030 when water is supplied from one agency to another agency. The price of SW in FY 2015-16 is estimated from Table 11.

If the Purveyors receive only their minimum allocation of SW as shown on line 1, the bill related to volume would be as stated on line 6 and is a minimum monthly amount. Purveyors may take more than their minimum allocation only if SM has the water available and the District has the capacity to provide it. Water deliveries to Purveyors that is greater than their minimum allocation will be charged at the SW volume cost per AF shown on line 5. Additionally, the monthly bill will increase as SM increases their price for SW to the District.

Table 11
New Supplemental Water Operating Fund
Design of Water Purveyor Minimum Monthly Charges for Supplemental Water

Line No.	Description	Fiscal Year				
		2015-16	NCS D	WMWC	RWC	GSWC
1	Phase 1 Supplemental Water Annual Allocation (AF)	645	430.09	107.46	53.73	53.73
2	Phase 1 Supplemental Water Delivery Percentages		66.68%	16.66%	8.33%	8.33%
3	Pass-Through Supplemental Water Cost (\$ per AF) ^[1]	\$1,703.20	\$1,703.20	\$1,703.20	\$1,703.20	\$1,703.20
4	Supplemental Water O&M Cost (\$ per AF)	\$107.16	\$107.16	\$107.16	\$107.16	\$107.16
5	Supplemental Water Volume Cost (\$ per AF)	\$1,810.36	\$1,810.36	\$1,810.36	\$1,810.36	\$1,810.36
6	Supplemental Water Volume Cost (\$ per month)			\$16,211	\$8,106	\$8,106
7	Allocated Project Capacity (AF)	3,000	2,167.00	416.50	208.25	208.25
8	Percentages for Fixed Capital Cost Allocation		72.24%	13.88%	6.94%	6.94%
	Monthly Fixed Supplemental Water Costs^[2]					
9	Monthly Capital Recovery Charge	\$50,700	\$36,625	\$7,037	\$3,519	\$3,519
10	Supplemental Water Project Monthly Replacement ^[3]	28,000	20,228	3,886	1,943	1,943
11	Total Monthly Fixed Supplemental Water Costs	\$78,700	\$56,853.00	\$10,923.00	\$5,462.00	\$5,462.00
12	Total Charge per Month			\$27,134	\$13,568	\$13,568

^[1] From Table 10. The Supplemental Water Costs per AF will increase to each purveyor as the costs are increased to NCS D from the City of Santa Maria.

^[2] Fixed costs allocated to Purveyors based on Percentages for Fixed Capital Cost Allocation (line 8).

^[3] Monthly replacement contribution of total Supplemental Water Project cost of \$33,890,270 assuming a 100 year project life.

Lines 9 and 10 of the table are fixed costs that are not proposed to change from month to month. These costs include capital recovery of the Purveyor’s proportionate share of COPs debt service and annual Water Project replacement, and are allocated based on the percentage of capacity allocated to each Purveyor, shown on line 8. Line 11 is the sum of the fixed monthly capital charges to each Purveyor for SW.

The sum of the minimum volume charge (line 6) and the fixed charge (Line 11) is the monthly minimum charge to each Purveyor shown on line 12. It is anticipated that the costs related to the actual delivery amount of SW received and the monthly capital recovery charge may not be exactly the same from month to month or year to year. Therefore, the District expects to perform an annual reconciliation of the actual costs with the revenue received for each Purveyor.

Table 12 presents the Purveyor charges for the second year of SW delivery (FY 2016-17) whereby the minimum contract delivery amount is 800 AF and will remain at this level for years 2 through 4 of the Supply Agreement. The price of SW shown on line 3 will increase as SM increases the price for SW to the District. Current estimates of SW prices for future years are shown in Table 10.

Table 12
New Supplemental Water Operating Fund
Design of Water Purveyor Minimum Monthly Charges for Supplemental Water

Line No.	Description	Fiscal Year				
		2016-17	NCSD	WMWC	RWC	GSWC
1	Phase 1 Supplemental Water Annual Allocation (AF)	800	533.44	133.28	66.64	66.64
2	Phase 1 Supplemental Water Delivery Percentages		66.68%	16.66%	8.33%	8.33%
3	Pass-Through Supplemental Water Cost (\$ per AF) ^[1]	\$1,777.25	\$1,777.25	\$1,777.25	\$1,777.25	\$1,777.25
4	Supplemental Water O&M Cost (\$ per AF)	\$110.37	\$110.37	\$110.37	\$110.37	\$110.37
5	Pass-Through Cost of Supplemental Water (\$ per AF)	\$1,887.62	\$1,887.62	\$1,887.62	\$1,887.62	\$1,887.62
6	Pass-Through Cost of Supplemental Water (\$ per month)			\$20,965	\$10,483	\$10,483
7	Allocated Project Capacity (AF)	3,000	2,167.00	416.50	208.25	208.25
8	Percentages for Fixed Capital Cost Allocation		72.24%	13.88%	6.94%	6.94%
Monthly Fixed Supplemental Water Costs^[2]						
9	Monthly Capital Recovery Charge	\$50,700	\$36,625	\$7,037	\$3,519	\$3,519
10	Supplemental Water Project Monthly Replacement ^[3]	28,000	20,228	3,886	1,943	1,943
11	Total Monthly Fixed Supplemental Water Costs	\$78,700	\$56,853.00	\$10,923.00	\$5,462.00	\$5,462.00
12	Total Charge per Month			\$31,888	\$15,945	\$15,945

^[1] From Table 10. The Supplemental Water Costs per AF will increase to each purveyor as the costs are increased to NCSD from the City of Santa Maria.

^[2] Fixed costs allocated to Purveyors based on Percentages for Fixed Capital Cost Allocation (line 8).

^[3] Monthly replacement contribution of total Supplemental Water Project cost of \$33,890,270 assuming a 100 year project life.

3.3.2 Charges to District Customers.

The charge to District customers is designed to recover similar costs as those related to the Purveyors. Charges to District customers will include the same pass-through volume cost per AF that is charged to the Purveyors for SW. Other costs include a share of the capital replacement amount related to the Water Project, a portion of Water Project related debt service, and a contribution to establishing the new Supplemental Water Fund operating reserve. Table 13 presents the proposed fixed and volume charges to District customers.

The charges to District customers use the estimated July 1 prices of SW from Table 10 and the District's minimum contract delivery amount from the Supply Agreement. The fixed charges include Water Project annual replacement, a portion of Water Project debt service, and a contribution to establishing a Supplemental Water Fund reserve.

The amount for Water Project replacement is the same as discussed for Purveyor customers except that it is recovered bi-monthly. For Water Project debt service, annual Property Tax revenue received by the District is pledged towards repayment of the 2013 COPs debt service. However, the total amount received is not currently sufficient to pay the entire annual amount of annual debt service required.

Therefore the difference is included in the charge to District customers. Additionally, the amount to be paid by District customers is reduced by the by the amount that the Purveyors contribute towards the debt service payment from their charges.

Table 13
New Supplemental Water Operating Fund
Design of District Customer Bi-Monthly Fixed and Volume Charges for Supplemental Water

Line No.	Description	July 1, 2015	July 1, 2016	July 1, 2017
Bi-Monthly Fixed Costs				
1	Supplemental Water Project Annual Replacement ^[1]	\$40,456	\$40,456	\$40,456
2	Difference Between Prop Taxes Received and Debt Service ^[2]	13,517	13,517	13,517
3	Contribution to Fund Reserve ^[3]	10,000	10,000	10,000
4	Total Bi-Monthly Fixed Costs	\$63,973	\$63,973	\$63,973
5	Estimated FY 2015-16 Equivalent Meters	4,847	4,847	4,847
6	Bi-monthly Fixed Charge per Equivalent 1 inch Meter^[4]	\$13.20	\$13.20	\$13.20
Bi-Monthly Volume Costs				
7	Santa Maria Pass-Through Supplemental Water Cost (\$ per AF) ^[5]	\$1,703.20	\$1,777.25	\$1,860.01
8	Supplemental Water O&M Cost (\$ per AF)	\$107.16	\$110.37	\$113.68
9	Supplemental Water Volume Cost (\$ per AF)	\$1,810.36	\$1,887.62	\$1,973.69
10	Minimum Annual Supplemental Water Contract Allocation (AF)	645	800	800
11	Nipomo CSD Share of Supplemental Water (AF) ^[6]	430.09	533.44	533.44
12	Total Annual Cost of Supplemental Water	\$778,610	\$1,006,932	\$1,052,845
13	Projected Annual Water Sales (Ccf)	1,005,805	1,004,308	1,010,924
14	Supplemental Water Volume Charge per Ccf^[7]	\$0.774	\$1.003	\$1.041

^[1] District share of Supplemental Water Project annual replacement contribution assuming a project cost of \$33,890,270 and a project life of 100 years.

^[2] Estimated bi-monthly difference between debt service paid and Property Tax Revenue received, less debt service included in Purveyor charges. $((\$750,000 - \$500,000) / 12 \text{ less } \$14,075) \text{ times } 2$

^[3] Equal to a reserve target of \$600,000 amortized over 10 years collected bi-monthly.

^[4] Line 4 divided by line 5.

^[5] The Supplemental Water Cost per AF will increase as the cost is increased to NCSO. From Table 10.

^[6] District's share is 66.68% of annual Supplemental Water received (line 10).

^[7] Line 12 divided by line 13.

The District plans to take only the minimum amount of SW required as defined in the Supply Agreement. Any amount of water needed to meet District customer demand beyond the District's share of the contract minimum delivery will be met from groundwater pumping.

The total bi-monthly SW charge consists of the fixed charges and the volume charges described above in Table 13. The bi-monthly fixed charge is established based on equivalent 1 inch meters. Fixed charges for other meter sizes for District customers increase based on equivalent meter capacity ratios relative to the 1 inch meter. These bi-monthly fixed charges are shown in Table 14.

Table 14
New Supplemental Water Operating Fund
Proposed District Bi-Monthly Meter Charge for Supplemental Water

Line No.	Meter Size	Meter Capacity Ratio ^[1]	Bi-monthly Fixed Charge		
			July 1, 2015 645 AFY	July 1, 2016 800 AFY	July 1, 2017 800 AFY
1	1 inch and less	1.0	\$13.20	\$13.20	\$13.20
2	1 1/2 inch	3.0	39.60	39.60	39.60
3	2 inch	4.8	63.36	63.36	63.36
4	3 inch	9.0	118.80	118.80	118.80
5	4 inch	15.0	198.00	198.00	198.00
6	6 inch	30.0	\$396.00	\$396.00	\$396.00

^[1] Meter Capacity ratios developed in the 2007 Combined Water System Financial Plan and User Rates report.

Table 15 provides a summary of the monthly charges to Purveyors and the bi-monthly charges to District customers.

3.4 Impact to Single-Family Residential Bills

Chart 1 presents a comparison of the District’s average single-family residential (SFR) bi-monthly water bill with other local water agencies in San Luis Obispo County using water rates in effect as of July 1, 2014. The comparison was prepared by applying the District’s average SFR residential water consumption of 36 Ccf to each of the water agencies rate schedules. The chart includes District bi-monthly bills using rates effective November 1, 2013 and effective November 1, 2014 as well as projected bills that include SW for 645 AF and 800 AF for July 1, 2015 and July 1, 2016, respectively in addition to water rates effective November 1, 2015.

The chart indicates that the District’s bi-monthly bill with a 1 inch meter and an average consumption of 36 Ccf is currently \$108.99, and will increase to \$119.37 with the November 1, 2014 rate increase. When SW is imported to the District, the bi-monthly bills are projected to increase to \$160.43 beginning July 1, 2015 and increase to \$180.19 on July 1, 2016. The chart indicates that the District’s total bi-monthly bill will be in the mid-range of bi-monthly bills for the agencies listed.

Table 15
Summary of Supplemental Water Rates and Charges

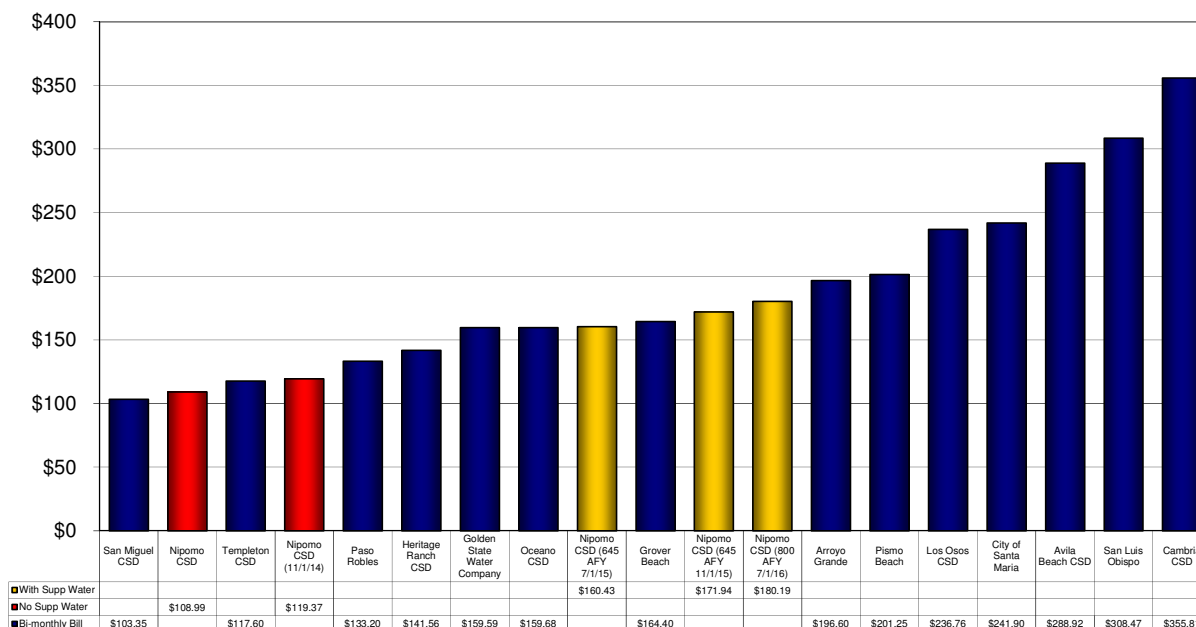
Line No.	Description	July 1, 2015	July 1, 2016	July 1, 2017
Purveyor Charges				
Monthly Minimum Fixed Charge ^[1]				
1	Woodlands Mutual Water Co.	\$27,134	\$31,888	\$32,844
2	Rural Water Co.	\$13,568	\$15,945	\$16,423
3	Golden State Water Co.	\$13,568	\$15,945	\$16,423
4	Monthly Volume Charge (\$/AF)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

^[1] From Table 11 and Table 12.

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

^[3] From Table 13.

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



[1] For rates in effect July 2014.

4.0 WATER CAPACITY CHARGES

The District's water capacity charges include two separate charges consisting of the Water Capacity Charge and the Supplemental Water Capacity Charge. The former charge is related to the existing water distribution system while the latter is related to delivery of SW from the SM and a future water desalinization project. The capacity charges were last updated in 2008.

It is appropriate to update the charges about every 5 years to recognize that (1) water distribution system capital improvements have been made to the water system, (2) refinements in the cost estimates of future capital improvements may have occurred, and (3) financing cost may now be known for certain facilities that can be included in the charges.

Since the charges were last updated, the District has made additions to fixed assets and has refined cost estimates of facilities related to the Water Project. Additionally, the District issued COPS in 2013 to partially finance the Phase 1 of the Water Project. The update to both the Water Capacity Charge and the Supplemental Water Capacity Charge will recognize these changes and will also adjust them for other known elements in the calculations.

Therefore, the purpose of this update to the water capacity charges is to address the following.

- Account for recent additions of capital improvements to the water facilities
- Update the cost estimates of facilities related to delivery of SW
- Make appropriate adjustments to water system value including those related to financing of certain facilities
- Establish charges to new development that are reasonable, easy to understand, and simple to implement.

The Water Capacity Charge and Supplemental Water Capacity Charge are updated as described below.

4.1 Water Capacity Charges

4.1.1 Method

The methodology to determine the water capacity charge is based on the premise that new development should pay its fair share of the investment in water facilities from which it receives a benefit. The benefit that new development receives is the use of the existing water distribution system.

New development will share in the existing facilities by paying a "buy-in" fee, which is the basis for the water capacity charge. The buy-in component is designed to derive from the new customer an amount per connection equal to the "equity" in the system contributed by existing customers. The equity in the existing system is determined by first establishing the value of the water system assets and making

appropriate adjustments. The District has fixed asset data readily available to determine the value of the existing water system facilities.

4.1.2 Water System Fixed Asset Value

Table 16 summarizes the determination of the value of the existing water system assets. The current value of the facilities is based on replacement cost less depreciation, developed from information and records provided by the District. The replacement cost of the existing water facilities was determined by trending the original cost of facilities from their acquisition date to June 30, 2014 using the Engineering News Record (ENR) Construction Cost Index (CCI) for this same month. This replacement cost was then depreciated recognizing the remaining service life of each asset.

Table 16
Distribution System Buy-in Capacity Charge

Line No.	Description	Original		Replacement	
		Cost	OCLD ^[1]	Cost	RCLD ^[2]
Water System Assets					
1	Land (1560)	\$310,800	\$310,800	\$506,500	\$506,500
2	Pumping (1520)	1,874,700	693,200	3,282,700	975,700
3	Wells (1520)	1,144,100	394,000	1,915,000	489,700
4	Transmission (1525)	4,982,700	3,850,200	8,005,800	5,370,200
5	Distribution (1530)	746,400	433,400	1,515,300	577,300
6	Buildings (1540) [1]	493,700	396,500	611,700	474,600
7	Subtotal Water System Assets ^[1]	\$9,552,400	\$6,078,100	\$15,837,000	\$8,394,000
8	Less COP Financed Facilities ^[3]	(1,460,050)	(1,172,258)	(2,073,401)	(1,652,097)
9	Total Water System Assets ^[1]	\$8,092,350	\$4,905,842	\$13,763,599	\$6,741,903
Adjustments to Valuation					
11	Add Water Replacement Fund (Fund 805)				\$5,130,000
12	Add Water Capacity Fund (Fund 700)				1,750,000
13	Add Interest on 1978 Bonds Long-Term Debt				332,950
14	Total Water System Value				\$13,954,853
15	FY 2013-14 Equivalent 1" Meters				4,777
16	Water System Buy-in Capacity Charge (1" meter and less)				\$2,921

^[1] Original cost less depreciation as of June 30, 2014.

^[2] Replacement cost less depreciation.

^[3] Related to 2003 COPs.

4.1.3 Adjustments

Several adjustments are made to the value of the water system assets for capacity charge purposes. These adjustments are similar to those that were used in the current charges. The calculation excludes value for short-lived assets, contributions, and facilities financed from past debt issues. Additions to

value include the Water Replacement Fund and Water Capacity Fund capital fund balances and interest costs related to debt financing of certain facilities.

4.1.4 Calculation

The proposed Water Capacity Charge is calculated using the water system value with adjustments as discussed above, divided by the current number of equivalent 1 inch meters. Table 16 shows the District’s total water system value (line 14) divided by the current number of equivalent 1 inch meters (line 15). The result is a Water Capacity Charge of \$2,921 as shown on line 16 of the table.

The Water Capacity Charge for the 1 inch meter forms the basis for capacity charges by meter size. As shown in Table 17, the charge for the 1 inch meter is escalated by meter capacity ratios developed in the 2008 study to determine the “buy-in” Water Capacity Charge for each meter size.

Table 17
Proposed Water Capacity Charges

Line No.	Meter Size	Meter Capacity Ratio ^[1]	Water Capacity Charge	
			Existing Charge	Proposed Charge
1	Up to 1 inch	1.0	\$3,385	\$2,921
2	1 1/2 inch	3.0	10,155	8,764
3	2 inch	4.8	16,247	14,022
4	3 inch	9.0	30,463	26,291
5	4 inch	15.0	50,772	43,819
6	6 inch	30.0	\$101,544	\$87,638

^[1] Meter capacity ratios developed in the 2008 capacity charge study.

4.2 SUPPLEMENTAL WATER CAPACITY CHARGES

The Supplemental Water Capacity Charge developed in the 2008 study consisted of three capital cost components related to delivery of SW. These included capital costs related to the City of Santa Maria Memorandum of Understanding (MOU), the Water Project, and future water supply from desalinization. The cost estimates of each of these three components have been revised as discussed below to update the Supplemental Water Capacity Charge.

4.2.1 Santa Maria MOU

The 2008 study calculated a capital component from the SW rate stated in the MOU to be included as part of the Supplemental Water Capacity Charge. The calculation of the capital component followed the District's plans for financing the Water Project at that time.

The District's current plans are to pass-through the entire amount of the SW rate which includes both O&M and capital components. Therefore, the capacity charge that was previously related to the MOU is no longer a part of the Supplemental Water Capacity Charges to be collected from new users of the water system.

4.2.2 Supplemental Water Project

Table 18 summarizes the current cost estimate for the Water Project. The water pipeline project is under construction and current plans include possible delivery of SW beginning in May/June of 2015. The Phase 1 Water Project costs listed on line 12 of the table were presented before the Board of Directors in Agenda Item 2 on May 10, 2013. The total cost of Phase 1 also includes all District costs and equity contributions in the form of District funds on hand that were used since July 2004 to bring about the development of the Water Project which is shown on line 17.

In June of 2013, the District issued \$9,660,000 in Series 2013 COPs that provided \$9,000,000 in net proceeds to partially fund the Water Project. The proceeds, together with District funds on hand, fully fund Phase 1 of this Water Project.

The annual debt service related to the 2013 COPs and additional debt service of the 2013A COPs will be partially paid by Property Tax revenue received by the District. The Property Tax revenue stream is pledged towards the payment of the debt service along with the revenue of the Water Fund.

However, about \$250,000 annually is not covered by annual Property Tax revenue, and this amount will be funded through new SW rates and charges. This dollar amount represents about 33.4 percent of the total annual debt service payment of the two debt issues. Because most of the 2013A COPs debt issue was related to prior capital expenditures other than SW, 33.4 percent of the interest cost of only the series 2013 COPs is added to the Water Project cost as an adjustment to value, or a cost of financing the Water Project.

Similarly, the outstanding principal that is deducted from the Water Project cost is only that portion related to 33.4 percent of the 2013 COPs principal payments. The outstanding principal is deducted from Water Project cost (and therefore the capacity charge) because it will be paid through water rates and charges by future users of the water system.

The cost estimate for Phase 2 of the Water Project has been updated from previous estimates and a new Phase 3 is now included in the total Water Project cost estimate shown in Table 18. Phase 2 and 3 costs estimates are based on current District plans and include construction management and contingency.

Table 18
Waterline Intertie Pipeline Cost Estimates

Line No.	Description	Pipeline Cost
Phase 1 - Western River Crossing (800 AFY)		
1	Santa Maria River Crossing	\$7,197,140
2	Blosser Road Waterline and Flow Meter	2,575,710
3	Joshua Street Pump Station and Wellhead Chloramination	4,344,710
4	Subtotal	\$14,117,560
5	Contingency (5%)	\$706,000
6	Subtotal Construction Cost	\$14,823,560
7	ROW Acquisition	250,000
8	Design Engineering	450,000
9	Construction Management	1,736,000
10	Subtotal Non-Construction Cost	\$2,436,000
11	Non-Construction Contingency (10%)	244,440
12	Subtotal Project Cost	\$17,504,000
13	Other Costs ^[1]	6,386,270
14	Total Phase 1 Cost	\$23,890,270
15	Add Interest on 2013 COPS [2]	2,963,600
16	Less Outstanding Principal on 2013 COPS [2]	(3,226,400)
17	Total Phase 1 Cost with Adjustments	\$23,627,470
Phase 2 - 1,600 AFY		
18	Project Cost ^[3]	\$3,131,000
19	Subtotal Phase 2 Cost	\$3,131,000
20	Adjustment for Construction Cost Inflation ^[4]	177,100
21	Adjusted Subtotal	\$3,308,100
22	Engineering & Construction Management (12%)	397,000
23	Contingency (15%)	496,200
24	Total Phase 2 Cost	\$4,201,300
Phase 3 - 3,000 AFY		
25	Project Cost ^[3]	\$3,027,000
26	Subtotal Phase 3 Cost	\$3,027,000
27	Adjustment for Construction Cost Inflation ^[4]	171,300
28	Adjusted Subtotal	\$3,198,300
29	Engineering & Construction Management (12%)	383,800
30	Contingency (15%)	479,700
31	Total Phase 3 Cost	\$4,061,800
Water Master Plan Projects to Accommodate New Supply		
32	Near-term Improvement at Thompson & Mehlschau	\$5,500,000
33	Interim-term Improvements at Willow & Highway 1	1,770,000
34	Subtotal	\$7,270,000
35	Adjustment for Construction Cost Inflation	411,300
36	Total Master Plan Projects to Accommodate New Supply	\$7,681,300
37	Total Waterline Intertie Project Cost	\$39,571,870

^[1] Information provided by NCSD.

^[2] Estimated principal and interest that is not paid by property tax revenue.

^[3] From AECOM Draft Technical Memorandum July 19, 2012.

^[4] Adjusted from July 2012 to June 30, 2014 using the ENR 20-Cities Construction Cost Index.

4.2.3 Desalinization Project

The proposed Desalinization Project is summarized in Table 19. The project cost is based on estimates provided by Boyle Engineering in 2007 which were included with the current Supplemental Water Capacity Charges developed in 2008. The desalinization cost estimates contained in Table 19 have been inflated to current dollars based on the ENR 20-Cities Construction Cost Index to June 30, 2014. The adjusted cost to develop the project is now estimated at \$101.2 million.

Table 19
Nipomo Mesa Desalination Project Cost Estimates

Line No.	Description	Growth Related
Nipomo Mesa Desalination Project^[1]		
1	Terrestrial and Freshwater Impact Studies	\$30,000
2	Phase I Marine and Impact Studies	110,000
3	Cultural Resources Studies	24,000
4	Phase I Hydrogeologic Field Study	360,000
5	Test-Scale Feasibility Study	2,320,000
6	Phase 2 Hydrogeologic Field Study	180,000
7	Preliminary Engineering	210,000
8	CEQA/NEPA	240,000
9	Public Outreach	1,310,000
10	Design and Permitting	2,870,000
11	Construction	46,090,000
12	Project Management	1,500,000
13	Subtotal Before Contingency	\$55,244,000
14	Contingency	16,573,200
15	Cost Escalation (to September 2007)	13,540,000
16	Total Desalination Project Cost Adjusted to July 1, 2008^[2]	\$85,357,200
17	Cost Escalation (from July 2008 to June 30, 2014)	15,867,500
18	Total Desalination Project Cost Adjusted to December 2013^[3]	\$101,224,700

^[1] Boyle Engineering, September 24, 2007.

^[2] Adjusted to July 2008 using the ENR 20-Cities Construction Cost Index.

^[3] Adjusted from July 2008 to June 30, 2014 using the ENR 20-Cities Construction Cost Index.

4.3 District Capacity Requirements

The capacity requirements for the District are similar to the 2008 capacity charge update. With the completion of Phase 3 of the Water Project, the District plans to utilize 2,167 AF of the 3,000 AF that the

Water Project will provide. While the Desalinization Project will provide a total capacity of 6,300 AF, the District will utilize 70 AF of this project. The District’s capacity requirements are summarized in Table 20.

Table 20
Supplemental Water Requirements (AF)

Line No.	Description	Total Capacity	NCSD	Other Purveyors
1	Existing Facilities (Wells)	3,000	3,000	0
2	NCSD Supplemental Water Project ^[1]	3,000	2,167	833
3	Desalinization Project ^[2]	6,300	70	6,230
4	Total Supplemental Water	9,300	2,237	7,063

^[1] NCSD plans to utilize 2,167 AF with 833 AF for other purveyors.
^[2] NCSD plans to use 70 AF of the Desalinization Project to meet total water needs of 3,995 AF in 2030 based on 2010 Urban Water Management Plan projections.

4.4 Supplemental Water Capacity Charge Calculation

The cost estimates of the Water Project and the Desalinization Project are brought together in Table 21 to calculate the Supplemental Water Capacity Charge. The methodology used to make the calculation is similar to the calculations developed for the current charges.

Each project cost is converted to a unit capital cost per AF using the capacity provided by each project. The unit costs are multiplied by the capacity that will be utilized by the District for each project to determine an overall cost (line 10). This cost is then divided by the total capacity utilization of 2,237 AF (line 11) to determine the cost per AF of SW. Using the basis of 0.57 AF as the water demand of a single-family residential dwelling unit, the proposed Supplemental Water Capacity Charge is \$7,570 (line 14).

The calculations in Table 21 do not include financing costs associated with the Desalinization Project. These financing costs have not been included because they are not yet known and the District has not committed to using financing for this project. If financing is used in the future, their costs should be included with these charges.

Table 22 presents the proposed Supplemental Water Capacity Charges by meter size for implementation by the District. The charges for the 1” meter are escalated at the meter capacity ratios developed in the previous capacity charge update study.

Table 21
Supplemental Water Capacity Charge Calculation

Line No.	Description	Total Cost		
Unit Cost of Intertie Pipeline Project				
1	NCS D Intertie Pipeline Capital Project ^[1]			\$39,571,870
2	Pipeline Capacity (AF)			3,000
3	Unit Cost of Intertie Pipeline Project Supply per AF			<u>\$13,191</u>
Unit Cost of Desalinization Project				
4	Desalinization Project Capital Cost ^[2]			\$101,224,700
5	Project Capacity (AF)			6,300
6	Unit Cost of Desalinization Project Cost per AF			<u>\$16,067</u>
7	NCS D Supplemental Water Capacity Charge	<u>Unit Cost</u>	<u>NCS D Capacity</u>	<u>Capacity Cost</u>
		\$/AFY	AFY	
8	Intertie Pipeline Project	\$13,191	2,167	\$28,584,897
9	Desalinization Project	\$16,067	70	<u>1,124,719</u>
10	Totals		2,237	\$29,709,616
11	NCS D Capacity (AF)			2,237
12	Supplemental Water Capacity Charge (per AF)			\$13,281
13	Water Required for Single-family residence (AF) ^[3]			0.57
14	Supplemental Capacity Charge for 1" meter			\$7,570

^[1] From Table 18.
^[2] From Table 19.
^[3] Estimated average annual production required for single-family residential customer.

Water Capacity Charges calculated in this study are lower than the current charges presented in Table 17. This is due to the number of equivalent 1" meters increasing from 3,579 in 2008 to 4,777 presently. While total water system value has increased, the increase is not sufficient to offset the additions to the number of customers. Additionally, with the removal of the capital component related to the Santa Maria MOU, the Supplemental Water Capacity Charges are also lower than the existing charges as shown in Table 22.

Table 22
Proposed Supplemental Water Capacity Charges

Line No.	Meter Size	Meter Capacity Ratio ^[1]	Supplemental Water Capacity Charge	
			Existing Charge	Proposed Charge
1	Up to 1 inch	1.0	\$15,015	\$7,570
2	1 1/2 inch	3.0	45,045	22,710
3	2 inch	4.8	72,072	36,336
4	3 inch	9.0	135,135	68,130
5	4 inch	15.0	225,225	113,550
6	6 inch	30.0	\$450,450	\$227,100

^[1] Meter capacity ratios developed in the 2008 capacity charge study.

5.0 Miscellaneous Fees

As part of this Water Rate and Capacity Charge Study, the District requested a review of their miscellaneous fees which are charged for administrative and other services. The District currently charges the following miscellaneous fees to cover the cost of time, materials, and equipment for District staff to provide the requested services.

- Account Setup Fee
- Late Payment Fee
- Returned Check Fee
- Turn-On/Off Fee
- Tampering Fee
- In-House Copy Charge
- Outside Copy Charge
- CD Copy Charge
- Will Serve Notice
- Annex Fee
- Variance Fee
- Duplicate Billing Fee
- Board Room Use
- Outside Water Sales
- Outside Sewer Sales
- District Hydrant Access
- Water Meter Calibration Check
- Fire Hydrant Meter

5.1 Survey of Miscellaneous Fees

A survey of published fees for other water agencies in San Luis Obispo County was performed to obtain a summary of the various fees charged by each agency and the amount of the fee. The agencies surveyed are listed below and their fee descriptions and amounts are summarized in Appendix A.

Local Water Districts

- Avila Beach CSD
- Cambria CSD
- Heritage Ranch CSD
- Los Osos CSD
- Oceano CSD
- Templeton CSD

Surrounding Cities

- Arroyo Grande
- Grover Beach
- Paso Robles
- Pismo Beach
- Santa Maria
- San Luis Obispo

The miscellaneous fees were researched for the above agencies through websites or through direct contact. In some cases limited information was available or not provided. Each agency’s miscellaneous fees are similar in nature to the District’s current fees with some agencies charging for more services than provided by the District while other agencies are charging for fewer services.

5.2 Recommendations

From review of the miscellaneous fees provided in Appendix A, certain fees of the District are below the fee amount charged by the other agencies. The fees noted include the following.

- ✓ Account Setup Fee
- ✓ Late Payment Fee
- ✓ Returned Check Fee
- ✓ Tampering Fee
- ✓ Fire Hydrant Meter

These fees were reviewed and the amount of the fee was modified based on estimates of District labor, materials, and equipment used to perform the service to ensure that the District is charging the appropriate fee for the costs incurred. The amount was determined using recent District information including current salaries for specific personnel, current material costs where such material is needed to complete the service provided, and costs of equipment used in the course of providing the service such as vehicle use for on-site work. The proposed charges for these fees are provided in Table 23 and include 10 percent overhead. A comparison to the current fee charged by the District is also provided.

An agency’s fees generally should reflect its organizational structure and local demographics. Discussions with District staff regarding the survey of miscellaneous fees noted that additional fees may be charged for the services being provided. It is recommended that the District consider adding new miscellaneous fees that would recover District costs where services are being provided but are not currently being charged. These new fees include the following.

- 1. Shut-Off Notice
- 2. Turn-On/Off After Hours
- 3. Meter Remove and Replace
- 4. Repair Authorization
- 5. Meter Read Surcharge
- 6. Fire Flow Letter for CDF
- 7. Water/Sewer Lateral Inspection
- 8. Backflow Administration Fee
- 9. Fire Hydrant Relocation Charge
- 10. Fire Hydrant Flow Test
- 11. In-house Copies, Color

A description of the new fee, its purpose, and the amount of each new fee is provided in Table 24 below.

Table 23
Miscellaneous Fees Summary

Line No.	Miscellaneous Fee	Charge Method	Current Fee	Proposed ^[1]
1	Account Set Up Fee		\$ 10.00	\$ 42.00
2	Late Fee	Lesser of \$5 or 10% of charge.	Lesser of \$5 or 10%	Greater of \$10 or 10%
3	Returned Check	per occurrence	\$ 15.00	\$ 28.00
4	Turn On/Off (non payment)	per occurrence	\$ 50.00	\$ 50.00
5	Tampering Fee (cut lock)	per occurrence	\$ 25.00	\$137
6	In-House Copy Charge	\$1.50 for first page	\$ 1.50	\$ 1.50
7	(Black & White Copies)	\$0.20 each page thereafter	\$ 0.20	\$ 0.20
8	Outside Copy Charge	Actual cost of copies plus admin charge	\$ 25.00	\$25 plus Actual Cost
9	CD Copy Charge	per request	\$ 15.00	\$ 15.00
10	Verification of Water and/or Sewer Service	per request	\$ 50.00	\$ 50.00
11	Annex Fee	\$500.00 per acre, or parcel if less than one acre	\$ 500.00	\$ 500.00
12	Variance Fee	Currently deposit of \$900	\$ 900.00	Actual Cost with \$900 deposit
13	Duplicate Billing	per bill	\$ 1.50	\$ 1.50
14	Board Room Use	per use	Restricted to Resolution No. 2007-1035	Restricted to Resolution No. 2007-1035
15	Outside Water Sales	per use	double inside	double inside
16	Outside Sewer Fees	per hookup	130% of inside rate	double inside
17	District Hydrant Access	per month (1 Mo. Min)	\$39 plus cost of water	\$39 plus Account Set Up fee plus cost of water
18	Water Meter Calibration Check	per customer request	cost of independent calibration	\$118 plus cost of calibration
19	Fire Hydrant Meter	per use	\$500 deposit; \$10 first day rental, \$1 per day thereafter; plus \$25/month Admin Charge plus cost of water	\$2,000 deposit, \$30/month equip rental fee with one month min; \$39 month flat charge plus cost of water

^[1] Includes Overhead @ 10%.

Table 24
Suggested New Miscellaneous Fees

Line No.	Fee Description	Charge Method	Purpose	Proposed Fee ^[1]
1	Shut Off Notice (Door Hanger)	per occurrence	Delinquent payment subject to shut-off	\$ 20.00
2	Turn On/Off After Hrs	per occurrence	Turn on/off service after business hours	\$ 147.00
3	Meter Remove and Replace	per request	At customer request	Actual cost plus \$118 minimum plus capacity charge if applicable
4	Repair Authorization	Min charge or actual cost (time and materials) of repairs	Repair damage caused by Owner or Owner's Agents	Actual Cost w/ \$75 min
5	Meter Read Surcharge	Per occurrence, 1st encounter no charge	Additional effort due to Owner's restrictions	\$ 36.00
6	Fire Flow Letter for CDF	per request		\$ 50.00
7	Water/Sewer Lateral Inspection	per request	NCS D effort to inspect installation	\$ 115.00
8	Backflow Admin	Charge per month	Administration of program	\$ 1.00
9	Fire Hydrant Relocation Charge	per move	Move hydrant meter to new location	\$ 150.00
10	Fire Hydrant Flow Test	per request	flow test of hydrant meter	\$175/hour with 1.5 hour minimum
11	In-house copies, color	per page	cover cost of color copies	\$ 0.40

^[1] Includes Overhead @ 10%.

Appendix A

Appendix A
Survey of Water System Miscellaneous Fees

As of July 2014

Line No.	Fee Description	Arroyo Grande	Avila Beach ^[1]	Cambria	Grover Beach	Heritage Ranch	Los Osos ^[1]	Nipomo	Oceano	Paso Robles	Pismo Beach	Santa Maria	San Luis Obispo	Templeton
Administration Related														
1	New Account (Set up Fee)	\$30.00		\$38.50	\$89.00	\$25.00	\$50.00	\$10.00	\$30.00	\$43.00	\$45.00	\$44.70	\$60.00	\$10.00
2	Account Set Up Same Day												\$179.00	
3	Account Set Up After Hours												\$255.00	
4	Account Set Up Unlimited												\$1,017.00	
5	Account Name/Data Change				\$30.00									
6	New Account Deposit	\$180.00		\$100.00	\$215.00					\$94.00	\$180.00		\$90 if no SSN provided	
7	Online Credit Card Convenience Fee				\$3.50		\$2.95							
8	Late Fee (Delinquent)	10%	10%	Higher of 10% or \$10	Higher of 10% or \$10	10%		Lesser of 5% or \$5		10%	10% + 8% annual rate	\$46.90	Greater of \$15 or 1.5%	10% + 1% per mo
9	Second Notice Fee (Turn off)								\$5.00					
10	Door Hanger (Notice) e.g. shut-off			\$29.50	\$20.00				\$25.00	\$33.00				
11	Special Door Hanger									\$43.00				
12	Returned Check	\$25.00		\$25.00	\$25.00	\$20.00		\$15.00	\$30.00	\$21.00	\$25.00	\$25.00	\$25.00	\$30.00
13	Returned Check - 2nd Occurrence			\$35.00	\$35.00	\$35.00					\$35.00			
14	Meter Re-read ^[1]								\$50.00	\$38.00				
15	Connect/Disconnect/Reconn - Business Hours	\$45.00	\$20.00	\$70.00	\$74.00	\$40.00		\$50.00	\$30.00	\$94.00	\$30.00		\$97.00	\$50.00
16	After Hours Connection			\$155.00	\$269.00	\$120.00				\$375.00	\$132.00	\$95.00		
17	Unauthorized Reconnection	\$65.00												
18	Illegal Service Connection per incident								\$100.00					
19	Retire Service (2" meters and less)												\$494.00	
20	Courtesy Bill (different address per bill)							\$1.50	\$2.40					
21	Board Room Use							Per Res No. 2007-1035						
22	Outside Water Sales							2 times inside rate	2 times inside rate					
23	Outside Sewer Sales							inside rate	2 times inside rate					
24	Collection Agency - Reactivation					40%								
25	Collection Fee - County Auditor (each occur)													\$36.00
26	Promissory Note									\$33.00				
27	After Hours Call-Outs for Customer Leaks ^[2]			No charge 1st call; then actual cost w/2 hr min overtime					2 hr min at time and half					
28	Administration Fee - Backflow Program													\$1 per month
29	Agenda Mailing Service									\$36.00				
30	Agenda Subscription (by email)			\$36.00										
31	Agenda Subscription (by postal mail including postage)			\$54.00										

Appendix A
Survey of Water System Miscellaneous Fees

As of July 2014

Line No.	Fee Description	Arroyo Grande	Avila Beach ^[1]	Cambria	Grover Beach	Heritage Ranch	Los Osos ^[1]	Nipomo	Oceano	Paso Robles	Pismo Beach	Santa Maria	San Luis Obispo	Templeton
32	Certify/Notarize Document (per request)										\$5.00	\$12.80		
33	Certify/Notarize Document (per signature)										\$10.00	\$10.00		
34	Certificate of Public Convenience											\$142.10		
35	Map Copies			Actual cost, min \$2 per page										
36	First Page											\$64.40		
37	Each Additional Page											\$22.20		
38	Mailing (1 to 4 pages)											\$1.40		
39	Mailing (5 and over pages)											\$2.40		
	Document Reproduction													
40	6 pages or more (per page, if <5, no charge)										\$0.25			
41	FPPC Copies (per page state law)										\$0.10			
42	Color copies (per page)										\$0.32			
43	per black & white page			\$0.20 + pass-thru costs			\$0.10							
44	Standard or Legal												\$0.40	
45	11 x 17												\$0.70	
46	Copy of Budget				\$40.00									
47	Copy of Audit				\$30.00									
48	.pdf documents												\$4.00	
49	Copy CD/DVD			Actual Cost + 10% OH			\$15.00				\$10.00	\$14.90	\$7.00	
50	Copy Tape			Actual Cost + 10% OH								\$14.90	\$14.00	
51	Video Copy DVD												\$28.00	
52	Copy Charge - In House						\$1.50 1st page, then \$0.20 per page					\$0.25 each page		\$0.10 per page
53	Copy Charge - Out Source						Actual Cost plus \$25 Admin Fee							
54	Photographs												\$5.40	
55	Transcription											Empl. Rate plus 25%		

Appendix A
Survey of Water System Miscellaneous Fees

As of July 2014

Line No.	Fee Description	Arroyo Grande	Avila Beach ^[1]	Cambria	Grover Beach	Heritage Ranch	Los Osos ^[1]	Nipomo	Oceano	Paso Robles	Pismo Beach	Santa Maria	San Luis Obispo	Templeton
Meter Related														
56	Pulled Meter				\$90.00									
57	Pull & Test Meter Fee ^[1]				\$176.00									
58	Data Logging of Utility Meter				\$90.00									
59	Meter Bench/Calibration Test ^[1]			Actual Cost + 10% OH; \$125 deposit			Actual Cost	\$40.00	\$187.00	\$233.00				
60	Meter/Position Relocation			Actual Cost + 10% OH; \$100 deposit				Actual Cost + admin and OH						
61	Water Meter Set/Box Inspection (per insp)										\$89.00			
62	Lock Cut Replacement Fee or Broken Lock	\$10.00			\$42.00									
63	Repair Authorization for Broken Meter/Angle Stop/Meter Box							Actual Cost						
64	Tampering Fee			\$50 + actual cost			\$25.00							
65	Temp Service - Home Inspection				\$51.00									
66	Hydrant Meter Setup Fee				\$106.00									
67	Hydrant Access						\$39 plus cost of water							
68	Temp Meter Rental						\$10 1st day, \$1 each day, \$25 admin fee, plus water	\$60.00		\$68.00				plus monthly use charges
69	Temp Meter Rental Deposit						\$500.00	\$500.00		\$1,086.00				\$750.00
70	Hydrant Meter Relocation									\$144.00				
71	Fire flow test (per test)			\$175 + Actual Cost over 1.5 hrs						\$35.00	\$81.30			

Appendix A
Survey of Water System Miscellaneous Fees

As of July 2014

Line No.	Fee Description	Arroyo Grande	Avila Beach ^[1]	Cambria	Grover Beach	Heritage Ranch	Los Osos ^[1]	Nipomo	Oceano	Paso Robles	Pismo Beach	Santa Maria	San Luis Obispo	Templeton
Will Serve, Construction, and Annexation														
72	Wait List Admin Fee			\$88 + 10% OH										
73	Intent to Serve Letter			Actual Cost				\$50.00						\$20.00
74	Intent to Serve Letter Deposit			\$900.00										
75	Renewal of Intent to Serve Letter			Actual Cost				\$50.00						\$20.00
76	Single Permit (deposit)			\$200.00										
77	Permits for 3 or more EDU's (deposit)			\$400.00										
78	Annexation Fee (per acre)							\$500.00						
79	New Construction Application Fee			\$55.00										
80	New Construction Plan Review			\$110 + actual costs over 2 hrs + 10% OH										
81	Remodel Application Review with Water Fixtures (\$250 Deposit)			Actual Cost + 10% OH										
82	Remodel Application Review without Water Fixtures (\$100 Deposit)			Actual Cost + 10% OH										
83	Engineering Plan Check			\$206 + actual costs over 2 hrs + 10% OH										
84	Water Conservation Fixture Inspection			\$99.50 inspection; \$49.75 reinspect. + actual costs										
85	Waterline Installation Inspection Charge													
86	Plan Check and Inspection							per PCI Agreement						5% of improvement cost
87	Variance Fee													\$931.00
88	Variance Fee (deposit)							\$900.00						

^[1] Limited information available.

^[2] If meter has been determined to have been mis-read or reading inaccurately, no fee will be imposed.