

TO: FINANCE AND AUDIT COMMITTEE

REVIEWED: MARIO IGLESIAS
GENERAL MANAGER

MI

FROM: LISA BOGNUDA
FINANCE DIRECTOR

LSB

DATE: FEBRUARY 28, 2020

AGENDA ITEM

2

MARCH 5, 2020

SUPPLEMENTAL WATER PURCHASE – A FINANCIAL IMPACT REVIEW AND RATE PROJECTION

ITEM

Review and discuss Nipomo Community Services District pass-through adjustment procedures and evaluate the financial impact that purchasing 1,667 acre feet (66.67% of 2,500 acre feet) of supplemental water from the City of Santa Maria beginning July 1, 2025 may have on water rates. [RECOMMEND REVIEW, DISCUSS, AND DIRECT STAFF]

DISCUSSION

The Nipomo Community Services District (“District”) purchases water from the City of Santa Maria (“City”) under the Wholesale Water Purchase Agreement (“Agreement”). The cost and amount of water the District is obligated to take or pay for is defined in the Agreement. Currently, the District is obligated to take or pay for a minimum of 533 acre-feet annually (“AFY”) while Golden State Water Company (“GSWC”) and Woodlands Mutual Water Company (“WMWC”) are obligated to take or pay the balance of 800 AFY. Under the Agreement, the minimum take or pay amount of water will increase to 1,000 AFY in July 2020 and 2,500 AFY in July 2025 – each water purveyor to pay for the amount of water defined in an October 16, 2015 Supplemental Water Management and Groundwater Replenishment Agreement.

The cost of import water and the impact it has on the District’s rate payers will increase and become more significant as the full obligation of the Agreement is realized. Tuckfield and Associates (“Consultant”) was commissioned by the District to (1) determine the pass-through adjustment necessary, if any, to adjust the current water rates and (2) develop a financial model that estimates the economic impact on rate payers with the increasing import water obligations through Fiscal Year 2029 (“FY-29”). The current rates are a result of the 2017 Rate Study (“2017 Study”) adopted that same year by the District’s Board of Directors. The last rate adjustment in the 2017 Study becomes effective December 1, 2021.

PASS THROUGH ADJUSTMENT

Resolution 2017-1460, Section 2, states the following:

Increases or decreases in wholesale water costs that the City of Santa Maria charges to the District, including but not limited to any surcharges, supplemental charges, changes to the Base Rate, or changes in energy costs, as provided for in the Wholesale Water Supply Agreement dated May 7, 2013, will be passed through to customers in accordance with Government Code section 53756.

A pass-through adjustment is a cost that is not subject to a Proposition 218 Majority Protest Vote. It is meant to recover costs imposed on the District by the City that were not included in the District’s approved rate structure. The District and the City conduct rate studies on different time

intervals: a 5 year cycle for the District and a 4 year cycle for the City. The District consults with the City and includes in the District's rate study, the anticipated rate increases from the City. If the City's rates are higher or lower than originally contemplated, then the District may need to adjust its rates. If additional funding is required to meet higher City water rates, those costs are included in a process aimed at recovering sufficient funding to pay for the added cost of water the District is obligated to purchase from the City. The District has a Water Enterprise Stabilization Fund that can help manage these variations when appropriate.

The District recently reached an agreement with the City to shift the cost pass-through period from July to January. Therefore, the City has agreed to wait to impose any water rate adjustments on the District in January 2021 instead of July 2020. There is no pass-through rate adjustment necessary at this time. Staff will revisit the issue in September and bring the matter before the Finance and Audit committee, if necessary.

FINANCIAL IMPACT OF 1,667 AFY

Included in the 2017 Study is the financial impact on rate payers for the July 2020 increase in import water costs. The District's take or pay obligation increases from 533 AFY to the 667 AFY in July 2020 and results in a 14.7% rate increase beginning December 2020.

A significant percentage of the July 2020 rate increase is directly related to the purchase of import water from the City. In Fiscal Year 2025-26 ("FY-26") import water purchase under the obligations of the Agreement will increase 150%. The financial impact to water rates that District rate payers will see in July 2020 represents a 20% increase in purchased water, for an additional 133 AFY. With the knowledge of the 150% increase in water purchase looming, District staff was compelled to research and define potential impacts that rate payers could see with the 1,667 AFY obligation set for FY-26.

The Consultant's findings estimate a water rate adjustment ranging from 70% to 80% in FY-26 over current water costs. The Consultant created an estimated adjustment range using two growth scenarios. Under a no growth model – establishing a worst case scenario – the higher rate adjustment of 80% over current rates could be expected. Under this scenario, a Hundred Cubic Feet ("HCF") of water, the amount of water equal to a billing unit (Unit) is estimated to cost \$12.57. With this estimate, the average single family residential ("SFR") customer using 22 Units of water would see a \$145.69 increase in their water bill. The current bi-monthly cost of \$182.49 is estimated to increase to \$328.18.

When a 0.5% annual growth in water customers is factored into the calculations, the estimated water rate adjustment drops from 79.8% with zero growth to 70.6%. In this scenario the average SFR customer using 22 Units of water will see their water bill raise \$128.78 every two months. The cost per Unit is estimated to be \$12.09, bringing the average two month water bill in FY-26 to \$311.27 from the current \$182.49.

BALANCING RATE ADJUSTMENTS

The 2017 Study looks at the financial needs of the Water Enterprise up to year 2022 with the last approved rate adjustment of 4.5% put into effect on December 1, 2021. The District would consider engaging a rate consultant in March of 2022 in order to prepare a rate study for Board and public review and adoption in time for a December 2022 rate adjustment if necessary.

Table 1 Water Financial Plan, listed below, shows the actual 2017 Study and projected rate adjustments necessary to maintain financial stability through FY-29 with the 0.5% growth projection. The 2017 Study put the Water Enterprise in a position such that rates in the three subsequent years following the 2017 Study, FY-23 to FY-25, did not need to be adjusted. However, when the District reaches FY-26, the first year that the District must take or pay for 1,667 AFY, it is estimated that a significant rate adjustment will be necessary. With no growth in the District, it is anticipated that a 54.7% rate adjustment will be required. At best, with 0.5% growth, a 46.8% rate adjustment will be necessary to meet the financial obligation to take or pay for the full obligation identified in the Agreement.

Table 1. Water Financial Plan

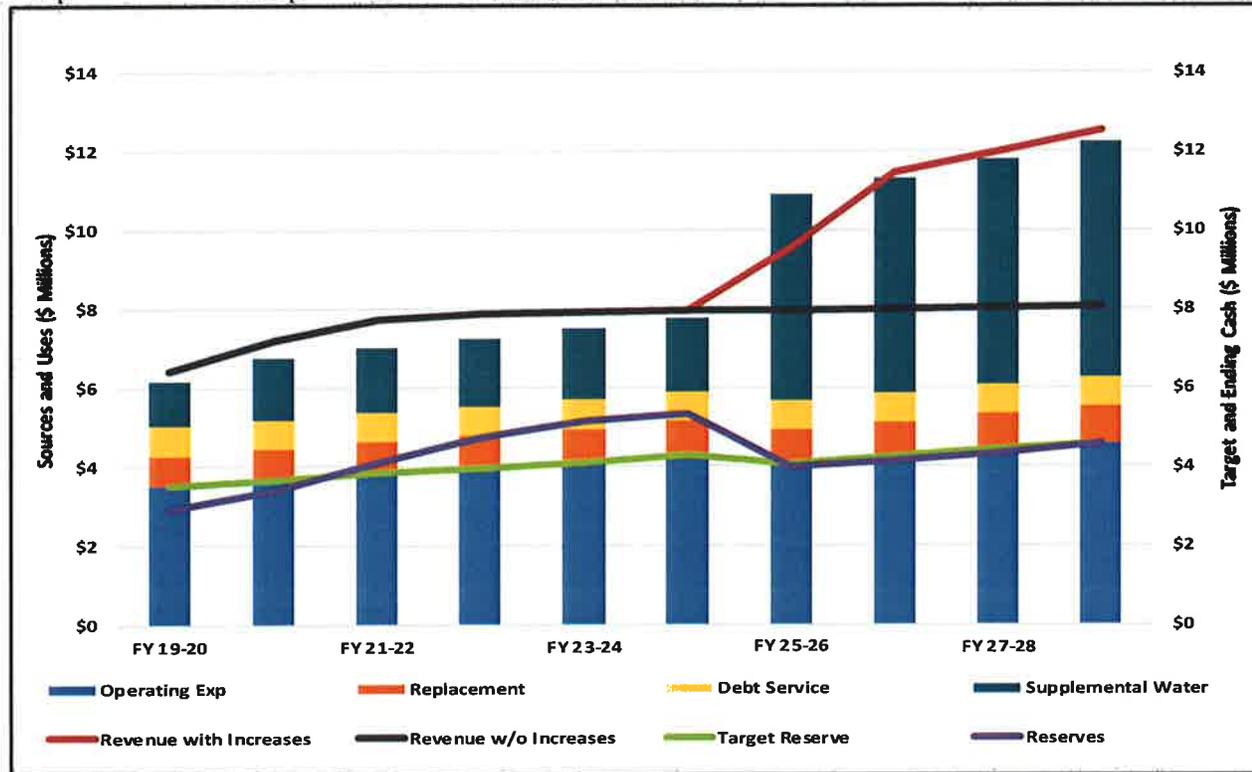
	December 1 of Fiscal Year	No Growth	0.5% Annual Growth
2017 Study	2017-18		9.2%
	2018-19		9.2%
	2019-20		9.2%
	2020-21		14.7%
	2021-22		4.5%
Projected Rates	2022-23	0.0%	0.0%
	2023-24	0.0%	0.0%
	2024-25	0.0%	0.0%
	2025-26	54.7%	46.8%
	2026-27	4.5%	4.5%
	2027-28	4.5%	4.5%
	2028-29	4.5%	4.5%

Staff recommends evaluating an approach to meeting the Water Enterprise funding requirements that is less severe than expressed in Table 1, above and depicted in Graph 1 Water Enterprise 10 Year Financial Position, below. There are opportunities within the schedule of rate adjustments to reduce the FY-26 increase of 45% to a percentage more accepting to the rate payers by placing some of the increase in FY-23, FY-24, and FY-25. It may be more appealing to rate payers and less confrontational in a Proposition 218 Majority Protest Vote to evaluate this option for reaching the necessary funding levels to sustain the financial integrity of the Water Enterprise.

In so far as rebalancing an effective path to financial stability, an evaluation could include all years where rates have yet to be adjusted, starting with the December 1, 2021 rate adjustment. It may be beneficial to rate payers to conduct a five year rate study before 2022. A rate study may be warranted now that there is a newly developed understanding of the long-range financial impact that anticipated water consumption and customer growth rates are much lower than anticipated in the early planning stages of the Supplemental Water Project.

The graphical depiction below shows the Water Enterprise financial position with 0.5% customer growth over the 10 year study period, FY-20 to FY-29. While it is estimated that by the end of the study period the resulting rate estimate of \$12.09/Unit may be necessary, reshaping the path leading to this estimated rate adjustment could provide the District with a more manageable rate adjustment schedule.

Graph 1. Water Enterprise 10 Year Financial Position



FISCAL IMPACT

The fiscal impact to the Water Enterprise when purchased supplemental water reaches the minimum take or pay amount of 1,667 AFY is significant. It is inevitable that this cost will have a significant impact on the District's water rate payers. The cost of hiring a consultant to define the impact, as well as staff time to work with the consultant and draft the staff report is in the budget.

STRATEGIC PLAN

Strategic Plan Goal 6. – Governance and Administration. Periodically review, update and reaffirm District policies and procedures.

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

- A.3 Develop a Near-, Mid-, and Long-Term Plan to Pay for Take-or-Pay Water. Evaluate potential and options for ramping rates over time compared to making rate jumps as the water becomes available.

RECOMMENDATION

It is recommended that the Committee receive the Consultant's presentation, review information provided in this staff report, take public comment, discuss and provide direction to staff.

ATTACHMENTS

- Tuckfield and Associates, 2020 Power Point Presentation

MARCH 5, 2020

ITEM 2

ATTACHMENT A

Water Financial Plan and Pass-Through Adjustment

Presentation of Results

Nipomo Community Services District

Presented By: Clayton Tuckfield, PE MBA
Tuckfield & Associates
March 5, 2020



Presentation Topics

- Impact of 2,500 AFY (1,667 AFY District Share) of Supplemental Water on Water Rates
 - Two Scenarios
 - No customer growth
 - Half percent annual residential customer growth
- Supplemental Water Pass-Through Rate Adjustment
 - Date changes related to Santa Maria rate increases

Water Financial Plan

with 2,500 AFY (1,667 AFY District Share) of Supplemental Water in FY 25-26

December 1 of Fiscal Year	No Customer Growth	0.5% Annual Residential Customer Growth
2020-21	14.7% [1]	14.7% [1]
2021-22	4.5% [1]	4.5% [1]
2022-23	0.0%	0.0%
2023-24	0.0%	0.0%
2024-25	0.0%	0.0%
2025-26	54.7%	46.8%
2026-27	4.5%	4.5%
2027-28	4.5%	4.5%
2028-29	4.5%	4.5%

[1] Rate changes already adopted in last Proposition 218 public hearing.

Estimated Future Water Rates

0.5%
Annual
Residential
Growth

No Growth

Bi-Monthly Fixed Charges

	Current Rate	December 1, FY 20-21	December 1, FY 21-22	January 1, FY 25-26	January 1, FY 25-26
Meter Size		Fixed Charge (\$ per bi-month)			[1]
5/8 thru 1 inch	\$51.59	\$58.26	\$60.15	\$51.64	\$46.83
1-1/2 inch	\$60.87	\$67.97	\$69.74	\$55.68	\$50.53
2 inch	\$78.43	\$87.05	\$88.97	\$66.25	\$60.18
3 inch	\$178.85	\$200.11	\$204.56	\$142.23	\$129.34
4 inch	\$228.44	\$253.78	\$258.52	\$171.20	\$155.76
6 inch	\$372.90	\$406.41	\$410.27	\$240.72	\$219.28
8 inch	\$538.01	\$580.83	\$583.68	\$320.18	\$291.87

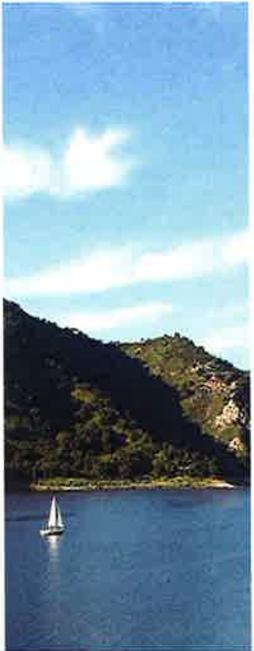
Bi-monthly Variable Rates

Classification	Current Rate	December 1, FY 20-21	December 1, FY 21-22	January 1, FY 25-26	January 1, FY 25-26
		Variable Charge (\$ per HCF)			[1]
All Consumption	\$5.95	\$6.92	\$7.17	\$12.57	\$12.09

[1] Rates are based on previous cost allocations in July 2017 rate study.

Pass-Through Supplemental Water Rate Increase

- No pass-through rate adjustment necessary at this time
- District has worked out a new date for supplemental water rate increases with Santa Maria
 - Date of future rate increases will be January 1 of each FY
 - Previous date was July 1 of each FY



Discussion

Water Financial Plan and Pass-Through



Impact to SFR Water Bills

No Customer Growth

- Average SFR customer will see an increase of \$145.69 every two months, an increase of 79.8% over current bill

Description	Use (HCF)	Current Bill			Proposed FY 25-26 Bill				
		Service Charge	Volume Charge	Current Bill	Service Charge	Volume Charge	Proposed Bill	Dollar Difference	Percent Change
	0	\$51.59	\$0.00	\$51.59	\$51.64	\$0.00	\$51.64	\$0.05	0.1%
Very Low	5	\$51.59	\$29.75	\$81.34	\$51.64	\$62.85	\$114.49	\$33.15	40.8%
Low	10	\$51.59	\$59.50	\$111.09	\$51.64	\$125.70	\$177.34	\$66.25	59.6%
Median	18	\$51.59	\$107.10	\$158.69	\$51.64	\$226.26	\$277.90	\$119.21	75.1%
Average	22	\$51.59	\$130.90	\$182.49	\$51.64	\$276.54	\$328.18	\$145.69	79.8%
High	40	\$51.59	\$238.00	\$289.59	\$51.64	\$502.80	\$554.44	\$264.85	91.5%
Very High	50	\$51.59	\$297.50	\$349.09	\$51.64	\$628.50	\$680.14	\$331.05	94.8%
	75	\$51.59	\$446.25	\$497.84	\$51.64	\$942.75	\$994.39	\$496.55	99.7%
	100	\$51.59	\$595.00	\$646.59	\$51.64	\$1,257.00	\$1,308.64	\$662.05	102.4%

Impact to SFR Water Bills

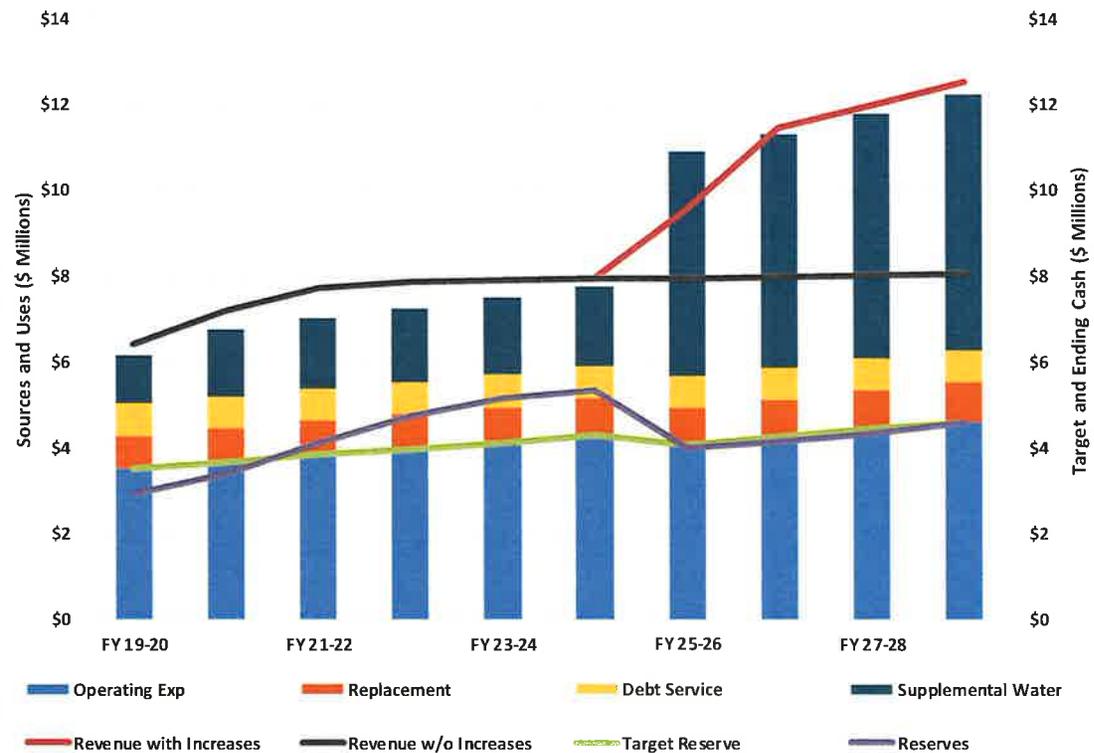
0.5% Residential Customer Growth

- Average SFR customer will see an increase of \$128.78 every two months, an increase of 70.6% over current bill

Description	Use (HCF)	Current Bill			Proposed FY 25-26 Bill				
		Service Charge	Volume Charge	Current Bill	Service Charge	Volume Charge	Proposed Bill	Dollar Difference	Percent Change
	0	\$51.59	\$0.00	\$51.59	\$46.83	\$0.00	\$46.83	(\$4.76)	-9.2%
Very Low	5	\$51.59	\$29.75	\$81.34	\$46.83	\$60.10	\$106.93	\$25.59	31.5%
Low	10	\$51.59	\$59.50	\$111.09	\$46.83	\$120.20	\$167.03	\$55.94	50.4%
Median	18	\$51.59	\$107.10	\$158.69	\$46.83	\$216.36	\$263.19	\$104.50	65.9%
Average	22	\$51.59	\$130.90	\$182.49	\$46.83	\$264.44	\$311.27	\$128.78	70.6%
High	40	\$51.59	\$238.00	\$289.59	\$46.83	\$480.80	\$527.63	\$238.04	82.2%
Very High	50	\$51.59	\$297.50	\$349.09	\$46.83	\$601.00	\$647.83	\$298.74	85.6%
	75	\$51.59	\$446.25	\$497.84	\$46.83	\$901.50	\$948.33	\$450.49	90.5%
	100	\$51.59	\$595.00	\$646.59	\$46.83	\$1,202.00	\$1,248.83	\$602.24	93.1%

Impact to SFR Water Bills

0.5% Residential Customer Growth



TO: FINANCE AND AUDIT COMMITTEE

REVIEWED: MARIO IGLESIAS
GENERAL MANAGER *MIG*

FROM: LISA BOGNUDA *LSB*
FINANCE DIRECTOR

DATE: FEBRUARY 28, 2020



REVIEW FY 2020-2021 BUDGET PREPARATION TIME LINE

ITEM

Review FY 2020-2021 Budget preparation time line

BACKGROUND

Below is a proposed schedule for the preparation of the 2020-2021 Fiscal Year Budget.

March 5	Kick off meeting with Finance Committee to hear input
Week of April 6	Staff meets with Finance Committee and receives recommendations/changes/deletions on draft Budget
Week of May 18	Staff prepares public notice of adoption for newspaper (publish on May 27 and June 3)
May 27	Review of draft Budget by Board of Directors at Regular Board Meeting
June 10	Public Hearing and adoption of 2020-2021 Budget

RECOMMENDATION

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

ATTACHMENT

None

TO: FINANCE AND AUDIT COMMITTEE

REVIEWED: MARIO IGLESIAS
GENERAL MANAGER

MIA

FROM: LISA BOGNUDA
FINANCE DIRECTOR

LSB

DATE: FEBRUARY 28, 2020



REVIEW INFORMATION FOR INCLUSION IN THE 2020-2021 FISCAL YEAR BUDGET

ITEM

Review various schedules and financial information in the 2020-2021 fiscal year budget.

BACKGROUND

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

- Attachment A PROPOSED CAPITAL IMPROVEMENT PLAN AND FUNDED REPLACEMENT PLAN AND CASH FLOW PROJECTIONS
- Attachment B PROPOSED FIXED ASSET PURCHASES
- Attachment C PROPOSED DISTRICT PERSONNEL
- Attachment D PROPOSED FLEET SCHEDULE

RECOMMENDATION

It is recommended that the Committee provide direction to Staff. Staff will incorporate the Committee's comments and recommendations into the draft 2020-2021 budget.

ATTACHMENTS

- See above

MARCH 5, 2020

ITEM 4

ATTACHMENT A

NIPOMO COMMUNITY SERVICES DISTRICT
CAPITAL IMPROVEMENTS
PROJECT COST SUMMARY
2020-2021

<u>BUDGET ITEMS FOR 2020-2021</u>	#500 SUPPLEMENTAL WATER CHARGES	#700 WATER CAPACITY CHARGES	#710 TOWN SEWER CAPACITY CHARGES	TOTAL
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Orchard/Southland to Tefft/Oakglen Water line-work in process	2,600,000	0	0	2,600,000
Supplemental Water Project Interconnects-carryover	700,000	0	0	700,000
Supplemental Water Project Pump Station-carryover	900,000	0	0	900,000
Third connection to Blacklake Pressure Zone-carryover	0	190,000	0	190,000
Water Master Plan-carryover	0	220,000	0	220,000
Southland Sewer Collection Master Plan			160,000	160,000
Southland WWTF Blower			300,000	300,000
	4,200,000	410,000	460,000	5,070,000

Supplemental Water Projects (Fund #500)

Orchard/Southland to Tefft/Oakglen Water Line - Construction of 12,000 linear feet of 12 inch diameter waterline began February 2020. Estimated completion December 2020.

Supplemental Water Project Interconnects - Bid, award contract, and construct GSWC Primavera, WMWC Via Concha and GSWC Lyn interconnects.

Supplemental Water Project Pump Station - Construct 4 new 800 gpm pumps at Joshua Road Pump Station.

Water Projects (Fund #700)

Third connection to Blacklake Pressure Zone - Bid, award contract, and construct connection.

Water Master Plan - Bid, award and commission Water Master Plan.

Town Sewer Projects (Fund #710)

Southland Sewer Collection Master Plan - Bid, award and commission Sewer Collection Master Plan.

Southland WWTF Blower - Bid, award contract and purchase additional blower and VFD.

NIPOMO COMMUNITY SERVICES DISTRICT
 CAPITAL FUNDING PLAN
 SUPPLEMENTAL WATER
 FUND #500

CAPITAL IMPROVEMENT PLAN

Line #	SUPPLEMENTAL WATER - FUND #500	FY 20-21
1	Orchard/Southland to Tefft/Oakglen Water Line (1)	2,600,000
2	Interconnects (2)	700,000
3	Pump Station Improvements (3)	900,000
4	Pomeroy Water Line from Augusta to Aden Way (4)	0
TOTAL		4,200,000

FOR PLANNING PURPOSES ONLY				
FY 21-22	FY 22-23	FY 23-24	FY 24-25	FY 25-26
0	0	0	0	0
0	0	0	0	0
0	0	0	0	0
0	200,000	1,400,000	0	0
0	200,000	1,400,000	0	0

- (1) 12,000 linear feet of 12 inch diameter waterline (construction began February 2020)
 (2) Golden State interconnect at Orchard and Primavera; Woodlands interconnect at Camino Caballo and Via Concha; Golden State interconnect on Lyn Road
 (3) Includes 4 new 800 gpm pumps at Joshua Road Pump Station
 (4) 4,600 linear feet of 12 inch diameter waterline. Design in FY 22-23 and construct in FY 23-24.

CASH FLOW PROJECTION

		FY 20-21
Sources of Funds		
5	Funds on Hand at Beginning of Year-projected	2,400,000
6	Interest Income (5)	60,000
7	Principal and Interest Payments from WMW & GSW	525,359
8	Capacity Charges (6)	0
9	Transfer in from Prop Tax Fund #600 for Debt Service	478,325
10	Transfer in from Water Funded Replacement #805	1,300,000
11	Total Sources of Funds	4,763,684
Uses of Funds		
12	Capital Project	4,200,000
13	Debt Service Payments 2013 COP	532,413
14	Bond Administration	4,000
15	Total Uses of Funds	4,736,413
16	Funds on Hand at End of Year-projected	27,271

FY 21-22	FY 22-23	FY 23-24	FY 24-25	FY 25-26
27,271	517,628	848,863	(2,279)	530,969
682	12,941	21,222	0	13,274
560,000	560,000	560,000	560,000	560,000
0	0	0	0	0
486,700	495,395	499,536	504,248	514,407
0	0	0	0	0
1,074,653	1,585,963	1,929,621	1,061,969	1,618,650
0	200,000	1,400,000	0	0
553,025	533,100	527,900	527,000	530,200
4,000	4,000	4,000	4,000	4,000
557,025	737,100	1,931,900	531,000	534,200
517,628	848,863	(2,279)	530,969	1,084,450

(5) Assumes an interest rate of 2.5%

(6) Assumes no new connections

NIPOMO COMMUNITY SERVICES DISTRICT
 CAPITAL FUNDING PLAN
 WATER DIVISION
 FUND #700

CAPITAL IMPROVEMENT PLAN

Line #	WATER CAPACITY - FUND #700	FY 20-21
1	Third Connection to Blacklake Pressure Zone-carryover	190,000
2	Water Master Plan-carryover	220,000
3	New Water Storage Tank	0
		410,000

CASH FLOW PROJECTION

	FY 20-21	
Sources of Funds		
4	Funds on Hand at Beginning of Year-projected	1,918,000
5	Interest Income (1)	47,950
6	Capacity Charges (2)	0
7	Total Sources of Funds	1,965,950
Uses of Funds		
8	Capital Project	410,000
9	Total Uses of Funds	410,000
10	Funds on Hand at End of Year-projected	1,555,950

(1) Assumes an interest rate of 2.5%
 (2) Assumes no new connections

<u>FOR PLANNING PURPOSES ONLY</u>				
FY 21-22	FY 22-23	FY 23-24	FY 24-25	FY 25-26
0	0	0	0	0
0	0	0	0	0
0	0	330,000	2,600,000	0
0 0 330,000 2,600,000 0				
FY 21-22	FY 22-23	FY 23-24	FY 24-25	FY 25-26
1,555,950	1,594,849	1,634,720	1,345,588	(1,220,772)
38,899	39,871	40,868	33,640	0
0	0	0	0	0
1,594,849	1,634,720	1,675,588	1,379,228	(1,220,772)
0 0 330,000 2,600,000 0				
0 0 330,000 2,600,000 0				
1,594,849	1,634,720	1,345,588	(1,220,772)	(1,220,772)

NIPOMO COMMUNITY SERVICES DISTRICT
 CAPITAL FUNDING PLAN
 SEWER - TOWN DIVISION
 FUND #710

CAPITAL IMPROVEMENT PLAN

Line #	TOWN SEWER CAPACITY - FUND #710	FY 20-21
1	Southland Sewer Collection Master Plan	160,000
2	Southland WWTF Blower	300,000
		460,000

CASH FLOW PROJECTION

FY 20-21

Sources of Funds		
3	Funds on Hand at Beginning of Year-projected	500,000
4	Interest Income (1)	12,500
5	Capacity Charges (2)	0
6	Total Sources of Funds	512,500
Uses of Funds		
7	Debt Service Payment	42,180
8	Capital Project	460,000
9	Total Uses of Funds	502,180
10	Funds on Hand at End of Year-projected	10,320

- (1) Assumes an interest rate of 2.5%
- (2) Assumes no new connections

FOR PLANNING PURPOSES ONLY

FY 21-22	FY 22-23	FY 23-24	FY 24-25	FY 25-26
0	0	0	0	0
0	0	0	0	0
0	0	0	0	0
FY 21-22	FY 22-23	FY 23-24	FY 24-25	FY 25-26
10,320	10,578	10,842	11,114	11,391
258	264	271	278	285
0	0	0	0	0
10,578	10,842	11,114	11,391	11,676
0	0	0	0	0
0	0	0	0	0
10,578	10,842	11,114	11,391	11,676

NIPOMO COMMUNITY SERVICES DISTRICT
PROPERTY TAX
FUND #600

Line #	PROPERTY TAX - FUND #600	FY 20-21
1	None	0
		<u>0</u>

<u>CASH FLOW PROJECTION</u>		FY 20-21
Sources of Funds		
2	Funds on Hand at Beginning of Year-projected	450,000
3	Interest Income (1)	11,250
4	Property Taxes(2)	700,000
5	Total Sources of Funds	1,161,250
Uses of Funds		
6	Capital Project	0
7	Debt Service-Revenue Bonds Series 2013A Refunding (3)	221,675
8	Transfer to Supplemental Water Fund #500 for Debt Service Certificate of Participation 2013 B (4)	478,325
9	Bond Administration	4,000
10	Total Uses of Funds	704,000
11	Funds on Hand at End of Year-projected	457,250

<u>FOR PLANNING PURPOSES ONLY</u>					
FY 21-22	FY 22-23	FY 23-24	FY 24-25	FY 25-26	
0	0	0	0	0	0
0	0	0	0	0	0
FY 21-22					
457,250	464,681	472,298	480,106	488,108	
11,431	11,617	11,807	12,003	12,203	
707,000	714,070	721,211	728,423	735,707	
1,175,681	1,190,368	1,205,316	1,220,531	1,236,018	
FY 21-22					
0	0	0	0	0	0
220,300	218,675	221,675	224,175	221,300	
486,700	495,395	499,536	504,248	514,407	
4,000	4,000	4,000	4,000	4,000	
711,000	718,070	725,211	732,423	739,707	
FY 21-22					
464,681	472,298	480,106	488,108	496,311	

- (1) Assumes interest rate of 2.5%
- (2) Assume 1% growth in Property Tax Revenue - Pledged to debt service payments
- (3) Debt service on Revenue Bonds secured by ad valorem property taxes (Per Bond Indenture, irrevocably pledged as first source of payment)
- (4) Debt service on Certificates of Participation 2013B secured first by ad valorem property taxes and then by water revenues
(Difference between Property Tax Collections and debt service for Revenue Bonds Series 2013 A Refunding)

FUNDED REPLACEMENT PROJECTS
2020-2021

<u>BUDGET ITEMS FOR 2020-2021</u>	#805 FUNDED REPLACEMENT WATER	#810 FUNDED REPLACEMENT TOWN SEWER	#830 FUNDED REPLACEMENT BLACKLAKE SEWER	TOTAL
Branch Street Waterline Replacement (1)	650,000	0	0	650,000
Eureka Well Replacement (2)	1,000,000	0	0	1,000,000
Blow-Off Repair (3)	20,000	0	0	20,000
Air Vac Replacement (3)	20,000	0	0	20,000
Fire Hydrant Replacement (3)	50,000	0	0	50,000
Valve Replacement (3)	50,000	0	0	50,000
Well Refurbishments (3)	100,000	0	0	100,000
Manhole Rehabilitation (3)	0	150,000	0	150,000
Southland WWTF Biosolids Dewatering (4)	0	1,000,000	0	1,000,000
Southland Sewer Collection system replacement (5)	0	200,000	0	200,000
Lift station pump replacements (6)	0	40,000	0	40,000
Lift Station Rehabilitation (7)	0	820,000	683,000	1,503,000
Southland WWTF Landscaping (8)	0	300,000	0	300,000
TOTAL	1,890,000	2,510,000	683,000	5,083,000

- (1) Existing 6 inch diameter water line is failing
- (2) Redrill and equip replacement well
- (3) Water and Town Sewer Master Plan Projects
- (4) Screw press for biosolids dewatering during wet weather
- (5) Sewer main upgrade and replace S. Frontage/Division to N. Frontage/Mary
- (6) Replacement pumps for lift stations
- (7) Nipomo Palms Lift Station and Woodgreen Lift Station complete replacement
- (8) Landscape design and plant along Highway 101

NIPOMO COMMUNITY SERVICES DISTRICT
 CAPITAL FUNDING PLAN
 FUNDED REPLACEMENT-WATER
 FUND #805

FUNDED REPLACEMENT PLAN

Line #	WATER - FUND #805	FY 20-21
1	Branch Street Waterline Replacement	\$ 650,000
2	Eureka Well Replacement	\$ 1,000,000
3	Blow-Off Replacement	\$ 20,000
4	Air Vac Replacement	\$ 20,000
5	Fire Hydrant Replacement	\$ 50,000
6	Valve Replacement	\$ 50,000
7	Well Refurbishment	\$ 100,000
8	Quad Tank Disinfection System	\$ -
		1,890,000

CASH FLOW PROJECTION

FY 20-21

Sources of Funds

9	Funds on Hand at Beginning of Year-projected	4,700,000
10	Interest Income (1)	117,500
11	Transfer from Water for funded replacement	610,000
12	Total Sources of Funds	5,427,500

Uses of Funds

13	Funded Replacement Projects	1,890,000
14	Transfer to Supplemental Water Project Fund #500	1,300,000
15	Total Uses of Funds	3,190,000

16	Funds on Hand at End of Year-projected	2,237,500
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FOR PLANNING PURPOSES ONLY

FY 21-22	FY 22-23	FY 23-24	FY 24-25	FY 25-26
0	0	0	0	0
0	0	0	0	0
20,600	21,218	21,855	22,510	23,185
20,600	21,218	21,855	22,510	23,185
51,500	53,045	54,636	56,275	57,964
103,000	106,090	109,273	112,551	115,927
103,000	106,090	109,273	112,551	115,927
0	0	0	300,000	0
298,700	307,661	316,891	626,398	336,189

FY 21-22	FY 22-23	FY 23-24	FY 24-25	FY 25-26
2,237,500	2,619,738	3,018,570	3,418,143	3,518,199
55,938	65,493	75,464	85,454	87,955
625,000	641,000	641,000	641,000	641,000
2,918,438	3,326,231	3,735,034	4,144,597	4,247,154
298,700	307,661	316,891	626,398	336,189
0	0	0	0	0
298,700	307,661	316,891	626,398	336,189
2,619,738	3,018,570	3,418,143	3,518,199	3,910,965

(1) Assumes interest rate of 2.5%

NIPOMO COMMUNITY SERVICES DISTRICT
 CAPITAL FUNDING PLAN
 FUNDED REPLACEMENT-TOWN SEWER
 FUND #810

TOWN SEWER
FUNDED REPLACEMENT PLAN

Line #	TOWN SEWER - FUND #810	FY 20-21
1	Southland WWTF Biosolids Dewatering	1,000,000
2	Manhole Rehabilitation	150,000
3	Southland Sewer Collection System Replacement	200,000
4	Lift Station Pump Replacements	40,000
5	Lift Station Rehabilitation	820,000
6	Southland WWTF Landscaping	300,000
		2,510,000

CASH FLOW PROJECTION

FY 20-21

Sources of Funds

7	Funds on Hand at Beginning of Year-projected	4,680,000
8	Interest Income (1)	117,000
9	Transfer from Town Sewer for funded replacement	395,000
10	Total Sources of Funds	5,192,000

Uses of Funds

11	Funded Replacement Projects	2,510,000
12	Total Uses of Funds	2,510,000
13	Funds on Hand at End of Year-projected	2,682,000

FOR PLANNING PURPOSES ONLY

FY 21-22	FY 22-23	FY 23-24	FY 24-25	FY 25-26
0	0	0	0	0
154,500	159,135	163,909	168,826	173,891
1,600,000	0	0	0	0
41,200	42,436	43,709	45,020	46,371
0	869,938	0	922,917	0
0	0	0	0	0
1,795,700	1,071,509	207,618	1,136,764	220,262
FY 21-22	FY 22-23	FY 23-24	FY 24-25	FY 25-26
2,682,000	1,348,350	705,550	910,570	191,571
67,050	33,709	17,639	22,764	4,789
395,000	395,000	395,000	395,000	395,000
3,144,050	1,777,059	1,118,188	1,328,335	591,360
1,795,700	1,071,509	207,618	1,136,764	220,262
1,795,700	1,071,509	207,618	1,136,764	220,262
1,348,350	705,550	910,570	191,571	371,098

(1) Assumes interest rate of 2.5%

NIPOMO COMMUNITY SERVICES DISTRICT
 CAPITAL FUNDING PLAN
 FUNDED REPLACEMENT-BLACKLAKE SEWER
 FUND #830

NOTE: Assessment District vote will be May 13, 2020. If assessment district vote passes, the this capital funding plan will be replaced with assessment district funding schedule.

**BLACKLAKE SEWER
 FUNDED REPLACEMENT PLAN**

Line #	Project Identification (1)	BLACKLAKE FUNDED REPLACEMENT - FUND #830	FY 20-21
1	CS-CIP-1	Lift Station Rehabilitation - Woodgreen	683,000
2	WRF-CIP-2	Blacklake Sludge Removal	0
3	CS-CIP-4	Golf Course Trunk Main Replacement	0
4	CS-CIP-5	Tourney Hill Sewer Main Replacement	0
5	WRF-CIP-1	WRF Treatment Plant Pond Rehabilitation - Pond 1	0
6	CS-CIP-2	Lift Station Rehabilitation - The Oaks	0
7	WRF-CIP-3	WRF Chlorine Contact Chamber Rehabilitation	0
8	CS-CIP-6	Oakmont Sewer Main Replacement	0
9	WRF-CIP-4	WRF Site Improvements	0
10	CS-CIP-5	Lift Station Rehabilitation - Misty Glen	0
11	CS-CIP-3	Augusta Sewer Main Replacement	0
12	CS-CIP-7	WRF Electrical Improvements	0
13	WRF-CIP-5	Repair Off-set Joints - Sewer Main	0
14	CS-CIP-8	Repair Off-set Joints - Sewer Main	0

683,000

CASH FLOW PROJECTION

FY 20-21

Sources of Funds

15	Funds on Hand at Beginning of Year-projected	887,000
16	Interest Income (2)	22,175
17	Transfer from BL Sewer for funded replacement	173,000
18	Proceeds from new debt issuance (3)	0
19	Total Sources of Funds	1,082,175

Uses of Funds

20	Funded Replacement Projects	683,000
21	Debt service payments from new debt issuance (3)	0
22	Total Uses of Funds	683,000

23	Funds on Hand at End of Year-projected	399,175
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FOR PLANNING PURPOSES ONLY

FY 21-22	FY 22-23	FY 23-24	FY 24-25	FY 25-26
0	0	0	0	0
179,000	0	0	0	0
560,700	0	0	0	0
319,700	0	0	0	0
0	384,600	0	0	0
0	0	102,500	0	0
0	0	392,400	0	0
0	0	196,200	0	0
0	0	0	258,100	0
0	0	0	97,800	0
0	0	0	0	61,442
0	0	0	0	499,647
0	0	0	0	30,141
0	0	0	0	0
1,059,400	384,600	691,100	355,900	591,230

FY 21-22 FY 22-23 FY 23-24 FY 24-25 FY 25-26

399,175	1,327,754	1,015,348	393,632	91,573
9,979	33,194	25,384	9,841	2,289
178,000	183,000	188,000	188,000	188,000
1,800,000	0	0	0	0
2,387,154	1,543,948	1,228,732	591,473	281,862

1,059,400	384,600	691,100	355,900	591,230
0	144,000	144,000	144,000	144,000
1,059,400	528,600	835,100	499,900	735,230

1,327,754	1,015,348	393,632	91,573	(453,368)
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(1) Project identification reference found in Blacklake Sewer Master Plan

(2) Assumes interest rate of 2.5%

(3) Blacklake Sewer Rate Study dated November 14, 2018 (Section 3.1.3, Page 10) anticipates borrowing \$1.8 M to fund capital replacement projects - assuming unsuccessful assessment district vote

MARCH 5, 2020

ITEM 4

ATTACHMENT B

NIPOMO COMMUNITY SERVICES DISTRICT
FIXED ASSET PURCHASES
2020-2021

<u>BUDGET ITEMS FOR 2020-2021</u>	#110 ADMIN	#125 WATER	#130 TOWN SEWER	#150 BL SEWER	TOTAL
Office copy machine-replace 2009 machine	10,000	0	0	0	10,000
Phone system-replace 1997 system	17,000				17,000
Surveillance Camera Video Retention Equipment-carryover (waiting on State Legislation)	10,000	0	0	0	10,000
Water laboratory management software-carryover	0	25,000	0	0	25,000
Sensus FlexNet Leak Detection System-carryover	0	165,000	0	0	165,000
Waterline locator	0	9,000	0	0	9,000
iPad replacements	0	9,000	0	0	9,000
Plotter/Scanner-replacement	0	8,000	0	0	8,000
Water Truck	0	100,000	0	0	100,000
Replacement Pick Up Truck	0	29,700	9,900	5,400	45,000
New Pick Up Truck	0	29,700	9,900	5,400	45,000
	<u>37,000</u>	<u>375,400</u>	<u>19,800</u>	<u>10,800</u>	<u>443,000</u>

Fixed assets will be purchased from the Enterprise Funds

MARCH 5, 2020

ITEM 4

ATTACHMENT C

NIPOMO COMMUNITY SERVICES DISTRICT
DISTRICT PERSONNEL
2020-2021

ADMINISTRATION	MONTHLY SALARY STEP/RANGE (PAGE 11)	Budgeted FY 19-20	Additions 20-21	Budgeted 20-21
General Manager	Contract	1	0	1
Assist General Manager/Finance Director	44	1	0	1
Administrative Supervisor	31	1	0	1
Customer Service Specialist	21	1	<u>0</u>	1
Billing Clerk	17	2	0	2
Secretary/Clerk	5	1	0	1
ADMINISTRATION SUBTOTAL		<u>7</u>	<u>0</u>	<u>7</u>

OPERATIONS				
Director of Engineering and Operations	60	1	0	1
Assistant Engineer	29	1	0	1
Water Supervisor	32	1	0	1
Wastewater Supervisor	38	1	0	1
Wastewater Operator III	24	0	0	0
Wastewater Operator II	20	3	0	3
Wastewater Operator I	16	2	0	2
Water Operator III	17	0	0	0
Water Operator II	13	1	0	1
Water Operator I	9	4	0	4
Utility Office Assistant	Contract	<u>0.5</u>	<u>0</u>	<u>0.5</u>
OPERATIONS SUBTOTAL		<u>14.5</u>	<u>0</u>	<u>14.5</u>

TOTAL		<u>21.5</u>	<u>0</u>	<u>21.5</u>
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MARCH 5, 2020

ITEM 4

ATTACHMENT D

NIPOMO COMMUNITY SERVICES DISTRICT
FLEET SCHEDULE
2020-2021

SCHEDULE 1 - VEHICLES USED ON A DAILY BASIS

	OPERATIONS VEHICLES	YEAR	DATE PURCHASED	FISCAL YEAR PURCHASED	LICENSE NUMBER	MILEAGE (FEB 2019)
1	FORD F250 4x4	2007	8/25/06	2007	1219144	124,348
2	FORD ESCAPE	2007	12/1/06	2007	1235435	28,278
3	FORD F150 (1)	2009	1/6/09	2009	1323212	100,699
4	FORD F150	2013	1/23/13	2013	1391079	75,758
5	FORD F150	2013	9/26/13	2014	1393314	60,924
6	FORD F250	2015	11/7/14	2015	1393572	35,285
7	FORD F250	2016	4/5/16	2016	1447211	29,665
8	FORD F250	2017	4/13/18	2018	1543016	17,812
9	FORD F250	2017	4/13/18	2018	1543021	15,130
10	FORD F350	2019	6/24/19	2019	1568418	4,006
11	FORD F250	2019	7/25/19	2020	1572031	2,634

(1) Scheduled for replacement

	ADMIN VEHICLES	YEAR	DATE PURCHASED	FISCAL YR PURCHASED	LICENSE NUMBER	MILEAGE (FEB 2019)
1	FORD RANGER	2010	11/7/09	2010	1339324	23,515

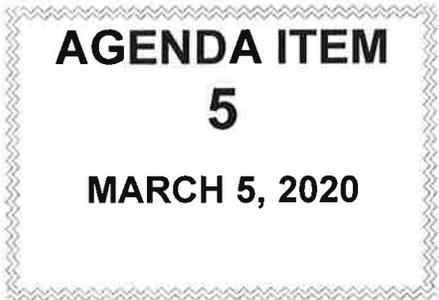
SCHEDULE 2 - SPECIALIZED VEHICLES USED FOR SPECIFIC R&M DUTIES

	OPERATIONS VEHICLES	YEAR	DATE PURCHASED	FISCAL YEAR PURCHASED	LICENSE NUMBER	MILEAGE (FEB 2019)
1	FORD F350 DUMP TRUCK	2006	6/25/06	2006	1219118	32,476
2	INTERNATIONAL-VACON	2009	2/10/10	2010	1343702	18,904
3	FORD F550 WITH CRANE	2013	4/16/13	2013	1415661	11,347

SCHEDULE 3 - SPECIALIZED EQUIPMENT USED FOR SPECIFIC R&M DUTIES

	OTHER OPERATIONS EQUIPMENT	YEAR	DATE PURCHASED	FISCAL YR PURCHASED	HOURS (FEB 2019)
1	JOHN DEERE BACKHOE JD310	2009	9/3/09	2008	510.8
2	JOHN DEERE GATOR CART	2014	4/18/14	2014	1,509.0
3	CAT 914 LOADER	2015	10/30/15	2015	532.00
4	CAT 279D SKID STEER	2017	8/9/17	2018	726.00
5	JOHN DEERE TRACTOR 5075E	2020	8/19/19	2020	14.6

TO: FINANCE AND AUDIT COMMITTEE
REVIEWED: MARIO IGLESIAS *MI*
GENERAL MANAGER
FROM: LISA BOGNUDA *LSB*
FINANCE DIRECTOR
DATE: FEBRUARY 28, 2020



REVIEW EMPLOYEE COST OF LIVING ADJUSTMENT (COLA)

ITEM

Review employee Cost of Living Adjustment (COLA)

BACKGROUND

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

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

On April 12, 2017, the Board of Directors approved Resolution 2017-1440 which included:

Cost of Living Adjustments shall use the Consumer Price Index for the California Consumer Price Index All Items for Urban Wage Earners and Clerical Workers.

Staff computed the Consumer Price Index for California All Items for Urban Wage Earners and Clerical Workers to be 2.95%. (Attachment D)

The six previous years COLA computation and Board approval has been as follows:

Fiscal year	Methodology Used	COLA Computation	Board Approved	Difference
7/1/19	California CPI	3.87%	3.87%	0.00%
7/1/18	California CPI	2.87%	2.87%	0.00%
7/1/17	California CPI	1.88%	1.88%	0.00%
7/1/16	Avg of LA/SF (1)	1.40%	1.40%	0.00%
7/1/15	Avg of LA/SF (1)	1.90%	1.90%	0.00%

(1) Average of Urban Wage Earners and Clerical Workers for the Los Angeles-Riverside-Orange County and San Francisco-Oakland-San Jose

RECOMMENDATION

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

ATTACHMENTS

- Section 3000(D) from NCSD Employee Handbook
- Resolution 2017-1440
- Excerpt from Bureau of Labor Statistics on how to compute the CPI
- Consumer Price Index information and computation

MARCH 5, 2020

ITEM 5

ATTACHMENT A

CHAPTER THREE – HOURS OF WORK AND COMPENSATION

3000 - COMPENSATION

- A. New Introductory Employees:** All newly appointed introductory employees shall be paid at the first step of the salary range for the position to which the introductory employee is appointed except as provided elsewhere herein.
- B. Advanced Step Hiring:** If the General Manager finds that qualified applicants have greater experience or competencies than required at the first step of the salary range, the General Manager can extend an offer higher than the first step.
- C. Increase in compensation other than Cost of Living Adjustments (Step-Merit Increase):** After one year in a salary step (on the employee's Anniversary Date), employees may qualify for a step merit increase to the next step, provided the employee has performed satisfactorily, and provided management has determined that a step merit increase is appropriate. All decisions about step merit increases are subject to management's sole discretion; employees are not automatically entitled to or eligible for a step merit increase. A performance evaluation verifying satisfactory performance and a Personnel Action Form for each employee recommended for advancement shall be submitted to and approved by the General Manager prior to final action on such recommendation.
- D. Temporary Assignment:** A temporary assignment occurs when the following conditions are met: (1) an employee is assigned by the affected department directors to perform duties outside of their current job classification; (2) the assignment is for a defined period of ten (10) consecutive working days or more, with a specified end date; and (3) the employee is expected to return to their most recently-assigned position at the end of the temporary assignment. A temporary assignment may be made to the same, lower, or higher level of classification of work. When an employee has served more than ten (10) consecutive working days filling the role of a higher job classification, on the eleventh day and any consecutive days thereafter, the employee will be compensated 5% above their current wage. An employee temporarily assigned to fill the role of an equal or lower job classification, that employee will be compensated at their current wage.
- E. Cost of Living Adjustments:** Annually, the Board may consider a Cost of Living Adjustment (COLA). If the COLA is approved, the District Salary Schedule will be adjusted accordingly, thus keeping the schedule current. Therefore, an employee may receive both a Cost of Living Adjustment and an increase in compensation pursuant to subdivision C above in any given year until the employee reaches Step 5. Upon reaching Step 5, the only salary adjustments an employee will receive will be Board-approved COLA, unless the employee is eligible for longevity pay.
- F. Promotion:** Employees promoted to a position with a higher salary range shall be placed on the step of the range allocated to the new classification which would grant such employee an increase in pay no greater than five percent (5%). The increase may exceed five percent (5%) at the discretion of the General Manager, but shall not exceed the top step of the range allocated to the new classification. Employees who are promoted retain the same Hire Date for purposes of years of

MARCH 5, 2020

ITEM 5

ATTACHMENT B

**NIPOMO COMMUNITY SERVICES DISTRICT
RESOLUTION NO. 2017-1440**

**A RESOLUTION OF THE BOARD OF DIRECTORS OF THE NIPOMO
COMMUNITY SERVICES DISTRICT ESTABLISHING THE
METHODOLOGY FOR COMPUTING EMPLOYEE COST OF LIVING
ADJUSTMENTS (COLA)**

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

WHEREAS, the Board annually reviews the employee Cost of Living Adjustment (COLA) based on the policy and procedures adopted in Resolution 2006-1000 and amended by Resolution 2017-1437, which repealed Section 3 of Resolution 2006-1000 that had approved the use of the Consumer Price Index-Urban Wage Earners and Clerical Workers using the average of annual increases for the Los Angeles-Riverside-Orange County and San Francisco-Oakland-San Jose; and

WHEREAS, the Board believes the California Consumer Price Index is more reflective of the economy of the Central Coast; and

WHEREAS, the Board wishes to establish that the employee COLA computation shall use the Consumer Price Index for the California Consumer Price Index All Items for Urban Wage Earners and Clerical Workers, and

NOW, THEREFORE, BE IT RESOLVED by the Board of Directors of the Nipomo Community Services District:

Section 1. The above recitals are true and correct.

Section 2. All future Cost of Living Adjustments shall use the Consumer Price Index for the California Consumer Price Index All Items for Urban Wage Earners and Clerical Workers.

Section 3. This resolution shall take effect immediately.

Upon a motion by Director Armstrong, seconded by Director Eby, on the following roll call vote, to wit:

AYES: Directors Armstrong, Eby, Blair, Woodson, and Gaddis
NOES: None
ABSTAIN: None
ABSENT: None

**NIPOMO COMMUNITY SERVICES DISTRICT
RESOLUTION NO. 2017-1440**

**A RESOLUTION OF THE BOARD OF DIRECTORS OF THE NIPOMO COMMUNITY
SERVICES DISTRICT ESTABLISHING THE METHODOLOGY OF COMPUTING
EMPLOYEE COST OF LIVING ADJUSTMENTS (COLA)**

the foregoing resolution is hereby passed and adopted on this 12th day of April, 2017.



DAN A. GADDIS
President of the Board

ATTEST:

APPROVED AS TO FORM AND
LEGAL EFFECT:



MARIO IGLESIAS
General Manager and Secretary to the Board



WHITNEY G. McDONALD
District Legal Counsel

MARCH 5, 2020

ITEM 5

ATTACHMENT C

Consumer Price Index

Search Consumer Price

[Bureau of Labor Statistics](#) > [Consumer Price Index](#) > Publications > Factsheets

WE NEED YOUR HELP!

Help us improve our data products by completing a brief survey.

[START SURVEY](#)

How to Use the Consumer Price Index for Escalation

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

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

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

Define the base payment

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

Identify which CPI series will be used

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

Specify reference period

Specify a reference period from which changes in the CPI will be measured. This is usually a single month (the CPI does not correspond to a specific day or week of the month), or an annual average. There is about a two-week lag from the reference month to the date on which the index is released (that is, the CPI for May is released in mid-June). The CPIs for most metropolitan areas are not published as frequently as are the data for the U.S. City Average and the four regions. Indexes for the U.S. City Average, the four regions, nine divisions, two city-size classes, eight region-by-size classes, and three major metropolitan areas (Chicago, Los Angeles, and New York) are published monthly. Indexes for the remaining 20 published metropolitan areas are available only on a bimonthly basis. Contact BLS for information on the frequency of publication for the 23 metropolitan areas.

State frequency of adjustment

Adjustments are usually made at fixed intervals, such as quarterly, semiannually, or, most often, annually.

Determine adjustment formula

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

Provide for revisions

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

The CPI and escalation: Some points to consider

The CPI is calculated for two population groups: All Urban Consumers (CPI-U) and Urban Wage Earners and Clerical Workers (CPI-W). The CPI-U represents about 93 percent of the total U.S. population and is based on the expenditures of all families living in urban areas. The CPI-W is a subset of the CPI-U and is based on the expenditures of families living in urban areas who meet additional requirements related to employment: more than one-half of the family's income is earned from clerical or hourly-wage occupations. The CPI-W represents about 29 percent of the total U.S. population.

There can be small differences in movement of the two indexes over short periods of time because differences in the spending habits of the two population groups result in slightly different weighting. The long-term movements in the indexes are similar. CPI-U and CPI-W indexes are calculated using measurement of price changes of goods and services with the same specifications and from the same retail outlets. The CPI-W is used for escalation primarily in blue-collar cost-of-living adjustments (COLAs). Because the CPI-U population coverage is more comprehensive, it is used in most other escalation agreements.

The 23 metropolitan areas for which BLS publishes separate index series are by-products of the U.S. City Average index. Metropolitan area indexes have a relatively small sample size and, therefore, are subject to substantially larger sampling errors. Metropolitan area and other subcomponents of the national indexes (regions, size-classes) often exhibit greater volatility than the national index. BLS recommends that users adopt the U.S. City Average CPI for use in escalator clauses.

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

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

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

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

Additional information may be obtained from the Consumer Price Index Information Office at cpi_info@bls.gov or 202-691-7000. Information on the CPI's overall methodology can be found in [the BLS Handbook of Methods](#).

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MARCH 5, 2020

ITEM 5

ATTACHMENT D

CALIFORNIA CONSUMER PRICE INDEX (1955-2019)

ALL ITEMS (1982 - 1984 = 100)

Year	Month	All Urban Consumers	Urban Wage Earners and Clerical Workers
2019	Annual	280.638	270.813
2019	December	282.594	272.901
2019	October	283.901	274.640
2019	August	281.247	271.221
2019	June	280.956	270.988
2019	April	280.275	270.470
2019	February	276.655	266.682
2018	Annual	272.510	263.048
2018	December	274.922	
2018	October	275.686	
2018	August	273.844	
2018	June	272.462	
2018	April	271.210	
2018	February	269.247	
2017	Annual	262.802	
2017	December	265.652	
2017	October	265.472	
2017	August	263.473	
2017	June	262.286	
2017	April	261.850	
2017	February	260.111	
2016	Annual	255.303	
2016	December	256.953	
2016	October	257.836	
2016	August	R/256.097	
2016	June	R/255.576	
2016	April	254.134	
2016	February	252.649	
2015	Annual	249.666	241.635
2015	December	250.711	242.222
2015	October	251.255	242.884
2015	August	251.253	243.753
2015	June	250.404	242.680
2015	April	248.637	240.661
2015	February	246.218	237.836
2014	Annual	246.055	238.960
2014	December	244.812	236.733
2014	October	247.481	240.082

$270.813 \times$
 $263.048 \div$
 $7.765 =$
 $0.02951932727 \times$
 $262.802 \times$
 $100 \div$
 2.951932727

