

TO: BOARD OF DIRECTORS

FROM: MARIO IGLESIAS
GENERAL MANAGER



DATE: JULY 16, 2020

AGENDA ITEM

E-1

JULY 22, 2020

RECEIVE PRESENTATION FROM RATE CONSULTANT REGARDING PROPOSED WATER RATE ADJUSTMENT

ITEM

Review Tuckfield and Associates ("Consultant") water rate presentation and direct staff to work with Consultant to prepare the administrative record in support of the proposed water rate adjustment scheduled for January 2021 [RECOMMEND REVIEW AND DISCUSS RATE PRESENTATION AND DIRECT STAFF]

DISCUSSION

At your April 22, 2020 Board Meeting, your Board directed staff to draft a water rate study, with the aid of our Consultant, that would take into consideration and provide rate relief from the upcoming 14.7% rate adjustment scheduled to take effect December 2020. Additionally, the Consultant was to build a rate structure that would address the financial needs of the Water Enterprise as it moved through Fiscal Year 2025-26. At that time, Nipomo Community Services District ("District") is obligated to take or pay for 1,667 acre feet of water (AFY), the District's portion of the 2,500 AFY to be imported from the City of Santa Maria.

The Consultant completed the draft outline of the requested 5-year proposed water rate structure which includes a 10-year financial plan. The Consultant presented his analysis to the District's Finance and Audit Committee at their July 1, 2020 meeting. The Finance and Audit Committee members received the presentation and directed staff to bring the presentation forward to the District's Board of Directors for review and discussion.

Included in the Consultant's report are two rate structure methodologies for Board consideration. Both rate structures comply with regulatory requirements for rate development and justification. One methodology continues the District's current uniform pricing policy where each unit of water sold is priced uniformly. The other methodology looks at meeting developing regulations focused on allocating interior and exterior water consumption to a tiered rate structure. Although the District moved away from tiered rates after the San Juan Capistrano ruling narrowed its applicability several years ago, developing regulations along with additional guidance from the State warrants a revisiting of the tiered rate methodology.

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 financial impact on the District's water rate payers. The cost of hiring the Consultant to define the impact, as well as staff time to work with the consultant and draft the staff report is included in this year's 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 your Board receive the Consultant's analysis, review information provided in this staff report, take public comment, discuss and provide direction to staff.

ATTACHMENTS

- A. 2020 Rate Evaluation Presentation, Dated July 22, 2020

JULY 22, 2020

ITEM E-1

ATTACHMENT A

WATER RATE STRUCTURE ALTERNATIVES

Nipomo Community Services District

Presented By:
Clayton Tuckfield PE
Tuckfield & Associates
July 22, 2020



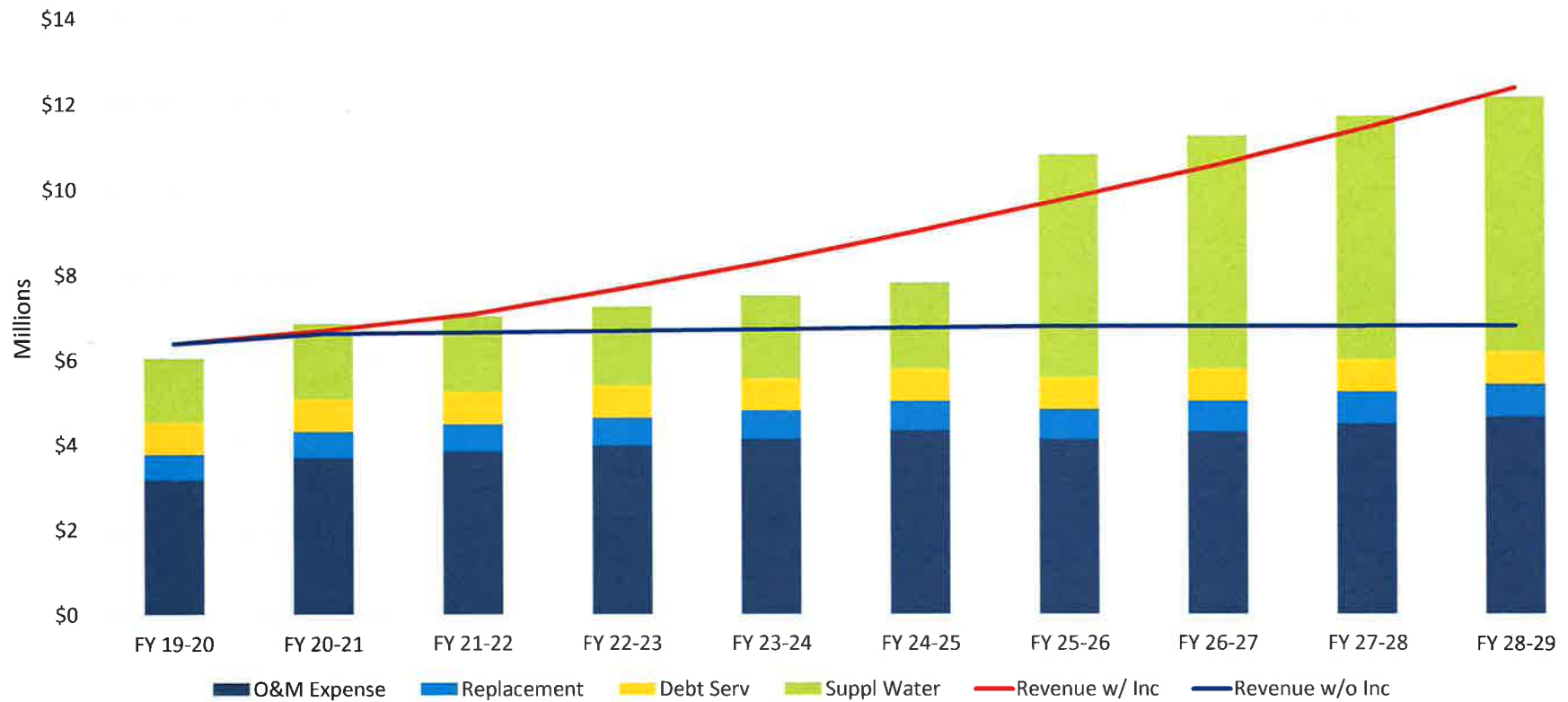
Water Financial Plan

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

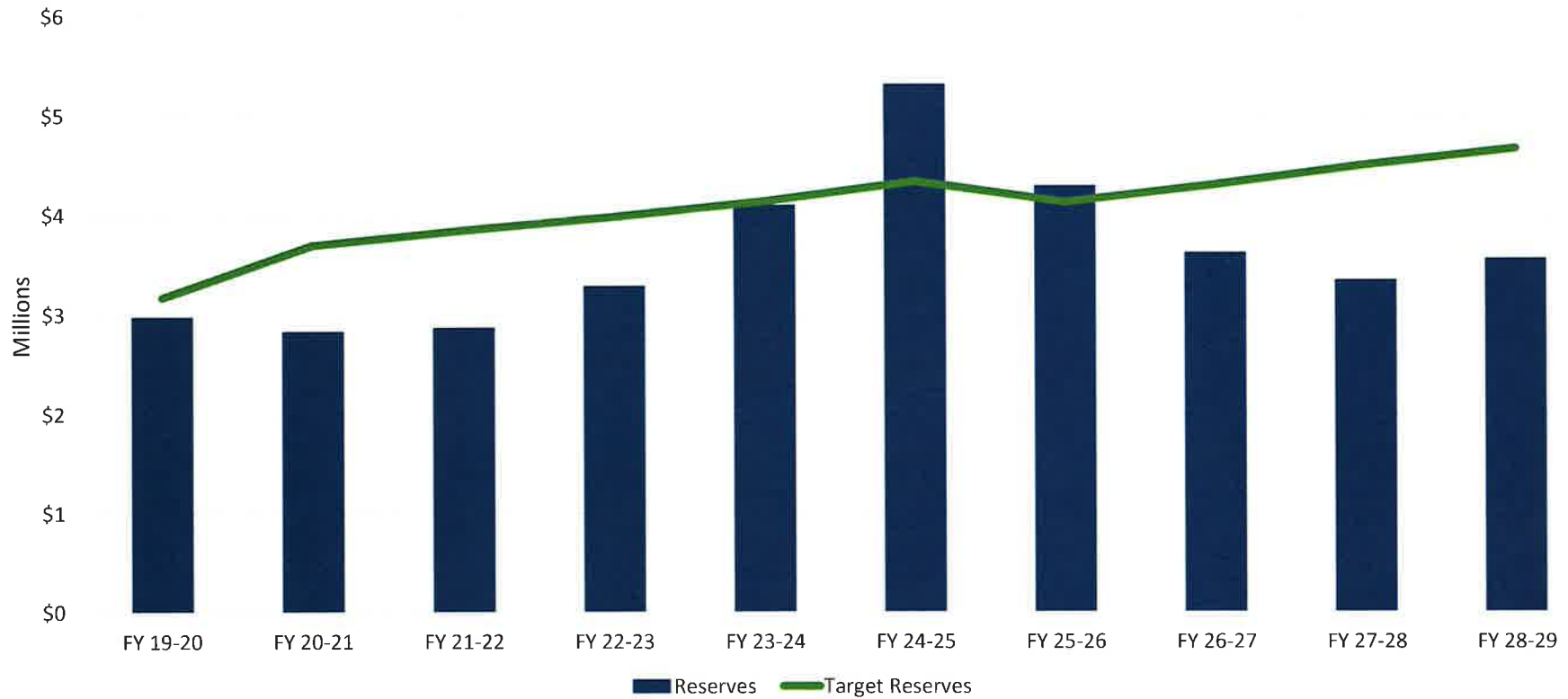
January 1 of Fiscal Year	0.5% Annual Residential Customer Growth
2020-21	4.5%
2021-22	8.9%
2022-23	8.9%
2023-24	8.9%
2024-25	8.9%
2025-26	8.9%
2026-27	8.9%
2027-28	8.9%
2028-29	8.9%

- Board of Directors selected this revenue increase plan April 22, 2020
- Intent is to normalize annual revenue increases
- Current scheduled increase for Jan 1, 2021 is 14.5%

Water Financial Plan



Water Enterprise Reserves



Includes Operating and Rate Stabilization reserves.

Recent Water Legislation

- Water Conservation Act of 2009 (SB X7-7)
 - Mandated State achieve 20% reduction in urban per capita water use by 2020
- AB 1668 and SB 606 (2018)
 - Provides road map for all Californians to ensure enough water now and in future
 - Applies to DWR, SWRCB, and water suppliers. No standards for individual use.
- DWR/SWRCB: “Making Conservation a California Way of Life”
 - Handbook outlines timeline/responsibilities of State agencies and water suppliers
 - DWR/SWRCB to develop standards for Indoor/Outdoor residential use and Comm/Ind/Inst (CII) water use for landscape irrigation with dedicated meters
 - Goal is efficient water use statewide
 - Better prepare for longer and more severe droughts

Water Supplier Requirements

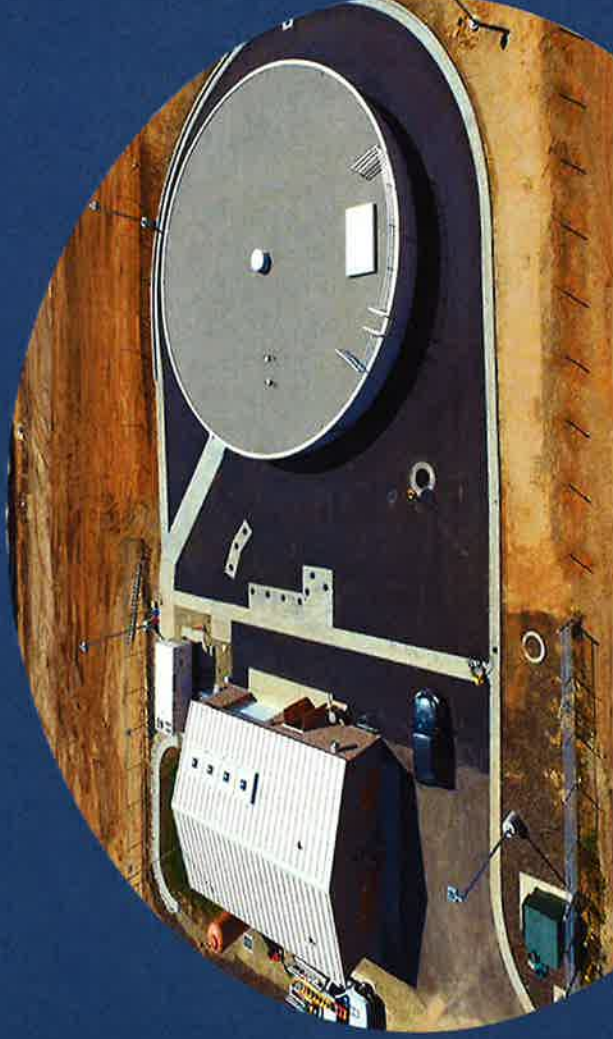
- SWRCB to adopt standards no later than June 30, 2022
- Each retail water agency, beginning November 2023, will calculate its “objective” based on water needed in its service area
 - Efficient Indoor and Outdoor water use
 - Com/Ind/Inst (CII) landscape irrigation water use using dedicated meters
 - Reasonable water loss with consideration for unique local water uses
 - Bonus or credits for potable water reuse
- Agencies must meet water use objective or face enforcement
- Indoor use standard is 55 gpcd until January 2025
 - Indoor use aggregated over service area, not individual home

Water Supplier Requirements (cont.)

- Outdoor use standard based on land cover, climate, and other
 - SWRCB to adopt standard by June 2022
- CII “performance measures” defined by DWR/SWRCB by October 2021, then adopted by June 2022
- Water loss standard set by SWRCB by July 2020 (SB 555)
- Agriculture users required to develop annual water budget
 - Budget to specify their water supply vs. water use, improve delivery and loss
 - Determine how water supplies will be stretched during long term and multi-year drought

WATER RATE STRUCTURE ALTERNATIVES

Uniform Volume Rate Structure and Tiered Rate Structure



Water Rate Structure Alternatives

- Uniform Volume Rate Structure
 - All volume charged at same rate - \$ per hundred cubic feet (\$/HCF)
 - Variable charge produces 75% of revenue; fixed charges generate 25%
 - Current rate structure for NCSD
- Tiered Rate Structure
 - Single-family Residential
 - Tier 1 – Indoor water use = $3.08 \text{ PPH} \times 55 \text{ gpcd} \times 365 \text{ days/yr} \div 748 \text{ gal/HCF} \div 6 \text{ bills/yr} = 14 \text{ HCF}$
 - Tier 2 – Outdoor water use = class average summer peak demand = 32 HCF
 - Tier 3 – water use over Tier 2
 - Com/Ind/Inst: uniform volume charge including landscape irrigation meters
 - Variable charge produces 75% of revenue; fixed charges generate 25%

Fixed Bi-monthly Charges

	Current Rate	January 1, 2021	January 1, 2022	January 1, 2023	January 1, 2024	January 1, 2025
Meter Size	Fixed Charge (\$ per bi-month)					
5/8 thru 1 inch	\$51.59	\$53.70	\$60.71	\$67.72	\$75.25	\$83.12
1-1/2 inch	\$60.87	\$75.76	\$84.83	\$94.06	\$103.96	\$114.40
2 inch	\$78.43	\$106.42	\$118.64	\$131.20	\$144.66	\$158.90
3 inch	\$178.85	\$223.04	\$249.30	\$276.41	\$305.27	\$335.76
4 inch	\$228.44	\$312.99	\$348.37	\$385.15	\$424.37	\$465.90
6 inch	\$372.90	\$631.28	\$697.11	\$766.38	\$840.49	\$919.48

Notes:

- [1] The fixed charges are the same for the Uniform Volume and Tiered rate structures.
- [2] Fixed charges generate about 25% of revenue from rates.
- [3] There are no 6" meters currently.

Uniform Volume vs. Tiered Rate Structure

Uniform Volume Rate Structure

	Current Rate	January 1, 2021	January 1, 2022	January 1, 2023	January 1, 2024	January 1, 2025
	Variable Charge (\$ per HCF)					
All Consumption	\$5.95	\$6.21	\$6.68	\$7.21	\$7.80	\$8.45

Tiered Rate Structure

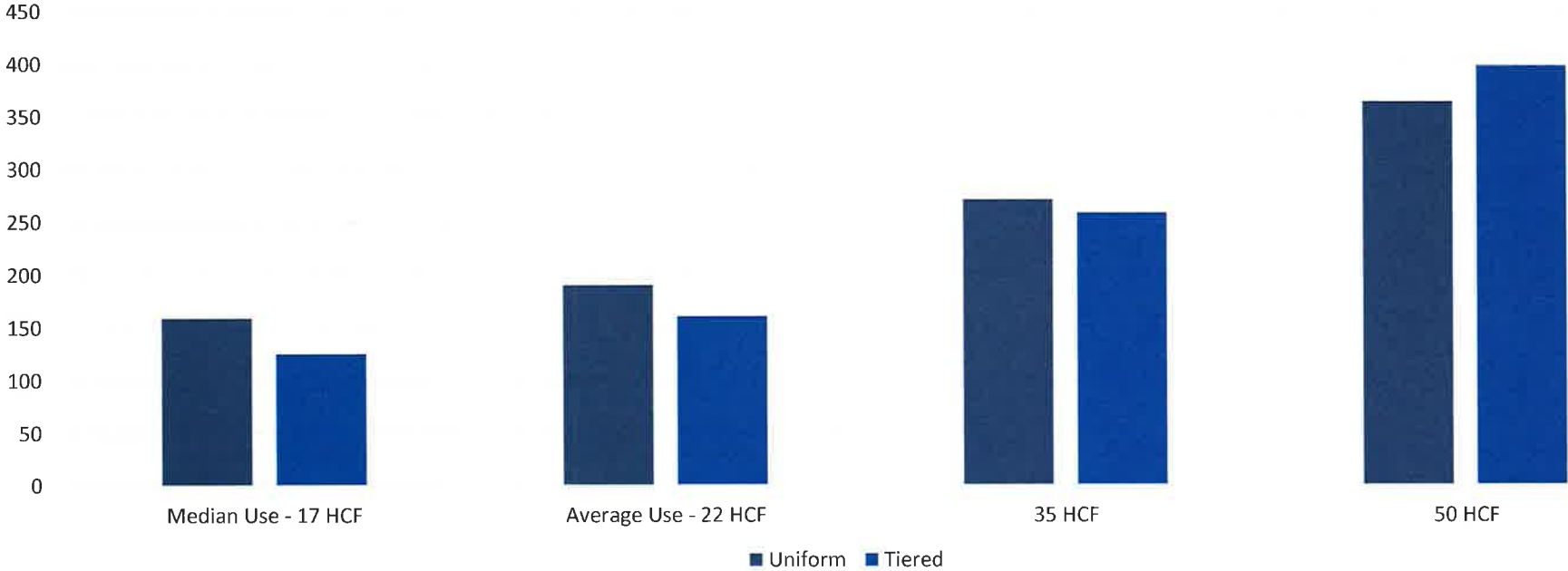
Classification/Tier	Current Rate	January 1, 2021	January 1, 2022	January 1, 2023	January 1, 2024	January 1, 2025
	Variable Charge (\$ per HCF)					
Single-family Residential						
Tier 1 - 0 to 14 units	\$5.95	\$3.64	\$4.01	\$4.40	\$4.82	\$5.28
Tier 2 - 14 to 32 units	\$5.95	\$7.01	\$7.45	\$7.99	\$8.58	\$9.24
Tier 3 - Over 32 units	\$5.95	\$9.29	\$9.99	\$10.77	\$11.64	\$12.60
Multifamily Residential	\$5.95	\$5.79	\$6.21	\$6.71	\$7.26	\$7.86
Commercial	\$5.95	\$7.06	\$7.51	\$8.08	\$8.70	\$9.38
Agriculture	\$5.95	\$8.06	\$8.57	\$9.20	\$9.90	\$10.67
Construction/Hydrant	\$5.95	\$7.79	\$8.40	\$9.08	\$9.84	\$10.67
Irrigation	\$5.95	\$8.10	\$8.65	\$9.30	\$10.03	\$10.82

Customer classes recognize their class specific peaking cost in their individual variable rate



Bill Comparison

Single-family Residential



CONCLUSIONS

Uniform Volume Rate Structure



1. Easy to explain, administer, and implement
2. Current District operations use the more expensive supplemental water first, then groundwater, which favors a uniform volume rate structure.
3. District has take-or-pay contract for supplemental water and will be facing a requirement to take 2,500 AFY in FY 25-26, which may favor a uniform volume rate structure versus a tiered rate structure to avoid discouraging water use.



1. Reduces bill for low water use residential
2. Moves toward coming legislation
3. Allocates system peaking costs to customer classes that cause the peak demand
4. Conservation oriented rate structure

Tiered Rate Structure

Uniform Volume Rate Example Bills

Comparison of Bi-Monthly Water Bills Using Current Rates To Proposed Bills Using January 1, 2021 Water Rates													
Customer Classification	Meter Size inches	Service Charge			Consumption Charge				Total Bi-monthly Bill				
		Current Rates	Proposed Rates January 1, 2021	Difference	Bi-monthly Consumption HCF	Current Rates	Proposed Rates January 1, 2021	Difference	Current Rates	Proposed Rates January 1, 2021	Difference	Percent Difference	
Single-family Residential	5/8"	\$51.59	\$53.70	\$2.11	0	\$0.00	\$0.00	\$0.00	\$51.59	\$53.70	\$2.11	4.1%	
		\$51.59	\$53.70	\$2.11	5	\$29.75	\$31.05	\$1.30	\$81.34	\$84.75	\$3.41	4.2%	
		\$51.59	\$53.70	\$2.11	10	\$59.50	\$62.10	\$2.60	\$111.09	\$115.80	\$4.71	4.2%	
		Median	\$51.59	\$53.70	\$2.11	17	\$101.15	\$105.57	\$4.42	\$152.74	\$159.27	\$6.53	4.3%
		Average	\$51.59	\$53.70	\$2.11	22	\$130.90	\$136.62	\$5.72	\$182.49	\$190.32	\$7.83	4.3%
		\$51.59	\$53.70	\$2.11	25	\$148.75	\$155.25	\$6.50	\$200.34	\$208.95	\$8.61	4.3%	
		\$51.59	\$53.70	\$2.11	30	\$178.50	\$186.30	\$7.80	\$230.09	\$240.00	\$9.91	4.3%	
		\$51.59	\$53.70	\$2.11	35	\$208.25	\$217.35	\$9.10	\$259.84	\$271.05	\$11.21	4.3%	
		\$51.59	\$53.70	\$2.11	50	\$297.50	\$310.50	\$13.00	\$349.09	\$364.20	\$15.11	4.3%	
		\$51.59	\$53.70	\$2.11	60	\$357.00	\$372.60	\$15.60	\$408.59	\$426.30	\$17.71	4.3%	
		\$51.59	\$53.70	\$2.11	70	\$416.50	\$434.70	\$18.20	\$468.09	\$488.40	\$20.31	4.3%	
		\$51.59	\$53.70	\$2.11	80	\$476.00	\$496.80	\$20.80	\$527.59	\$550.50	\$22.91	4.3%	
		\$51.59	\$53.70	\$2.11	90	\$535.50	\$558.90	\$23.40	\$587.09	\$612.60	\$25.51	4.3%	
		\$51.59	\$53.70	\$2.11	100	\$595.00	\$621.00	\$26.00	\$646.59	\$674.70	\$28.11	4.3%	
		\$51.59	\$53.70	\$2.11	150	\$892.50	\$931.50	\$39.00	\$944.09	\$985.20	\$41.11	4.4%	
		\$51.59	\$53.70	\$2.11	200	\$1,190.00	\$1,242.00	\$52.00	\$1,241.59	\$1,295.70	\$54.11	4.4%	
\$51.59	\$53.70	\$2.11	250	\$1,487.50	\$1,552.50	\$65.00	\$1,539.09	\$1,606.20	\$67.11	4.4%			
\$51.59	\$53.70	\$2.11	300	\$1,785.00	\$1,863.00	\$78.00	\$1,836.59	\$1,916.70	\$80.11	4.4%			

Tiered Rate Example Bills

Comparison of Bi-Monthly Water Bills Using Current Rates To Proposed Bills Using January 1, 2021 Water Rates												
Customer Classification	Meter Size inches	Service Charge			Bi-monthly Consumption HCF	Consumption Charge			Total Bi-monthly Bill			
		Current Rates	Proposed Rates January 1, 2021	Difference		Current Rates	Proposed Rates January 1, 2021	Difference	Current Rates	Proposed Rates January 1, 2021	Difference	Percent Difference
Single-family Resident	5/8"	\$51.59	\$53.70	\$2.11	0	\$0.00	\$0.00	\$0.00	\$51.59	\$53.70	\$2.11	4.1%
		\$51.59	\$53.70	\$2.11	5	\$29.75	\$18.20	(\$11.55)	\$81.34	\$71.90	(\$9.44)	-11.6%
		\$51.59	\$53.70	\$2.11	10	\$59.50	\$36.40	(\$23.10)	\$111.09	\$90.10	(\$20.99)	-18.9%
	Median	\$51.59	\$53.70	\$2.11	17	\$101.15	\$71.99	(\$29.16)	\$152.74	\$125.69	(\$27.05)	-17.7%
	Average	\$51.59	\$53.70	\$2.11	22	\$130.90	\$107.04	(\$23.86)	\$182.49	\$160.74	(\$21.75)	-11.9%
		\$51.59	\$53.70	\$2.11	25	\$148.75	\$128.07	(\$20.68)	\$200.34	\$181.77	(\$18.57)	-9.3%
		\$51.59	\$53.70	\$2.11	30	\$178.50	\$163.12	(\$15.38)	\$230.09	\$216.82	(\$13.27)	-5.8%
		\$51.59	\$53.70	\$2.11	35	\$208.25	\$205.01	(\$3.24)	\$259.84	\$258.71	(\$1.13)	-0.4%
		\$51.59	\$53.70	\$2.11	50	\$297.50	\$344.36	\$46.86	\$349.09	\$398.06	\$48.97	14.0%
		\$51.59	\$53.70	\$2.11	60	\$357.00	\$437.26	\$80.26	\$408.59	\$490.96	\$82.37	20.2%
		\$51.59	\$53.70	\$2.11	70	\$416.50	\$530.16	\$113.66	\$468.09	\$583.86	\$115.77	24.7%
		\$51.59	\$53.70	\$2.11	80	\$476.00	\$623.06	\$147.06	\$527.59	\$676.76	\$149.17	28.3%
		\$51.59	\$53.70	\$2.11	90	\$535.50	\$715.96	\$180.46	\$587.09	\$769.66	\$182.57	31.1%
		\$51.59	\$53.70	\$2.11	100	\$595.00	\$808.86	\$213.86	\$646.59	\$862.56	\$215.97	33.4%
		\$51.59	\$53.70	\$2.11	150	\$892.50	\$1,273.36	\$380.86	\$944.09	\$1,327.06	\$382.97	40.6%
		\$51.59	\$53.70	\$2.11	200	\$1,190.00	\$1,737.86	\$547.86	\$1,241.59	\$1,791.56	\$549.97	44.3%
	\$51.59	\$53.70	\$2.11	250	\$1,487.50	\$2,202.36	\$714.86	\$1,539.09	\$2,256.06	\$716.97	46.6%	
	\$51.59	\$53.70	\$2.11	300	\$1,785.00	\$2,666.86	\$881.86	\$1,836.59	\$2,720.56	\$883.97	48.1%	

Impact of a Reduction in Consumption

- If NCSD is impacted by 20 percent reduction in consumption
 - Projected one-year revenue loss is about \$937,000
 - Current operating and rate stabilization reserves are about \$2,980,000
 - Target reserve is \$3,180,000
 - Other capital reserves
 - Fund 500 SWP Capital Project Fund - \$2,700,000
 - Fund 700 Water Capacity Fund - \$1,800,000
 - Fund 805 Water Replacement Fund - \$4,220,000
 - Fund 915 SWP Replacement - \$ 790,000
 - Total Capital Funds - \$9,510,000



QUESTIONS?



CTUCKFIELD@TUCKFIELDASSOCIATES.COM

Clayton Tuckfield PE

Tuckfield & Associates