

TO: BOARD OF DIRECTORS

FROM: RAY DIENZO *RMD*
GENERAL MANAGER

DATE: DECEMBER 4, 2025

AGENDA ITEM

E-2

DECEMBER 10, 2025

CONDUCT PROTEST HEARING ON PROPOSED WATER RATES, DETERMINE PROTEST STATUS, AND IF THERE IS NOT A MAJORITY PROTEST, CONSIDER ADOPTION OF RESOLUTION WITH RESPONSES TO TIMELY FILED WRITTEN OBJECTIONS TO THE PROPOSED WATER RATES AND APPROVING INCREASED DISTRICT WATER RATES AND SEPARATE VARIABLE WATER RATES FOR CUSTOMERS THAT ANNEX INTO THE DISTRICT AS OF NOVEMBER OF 2024, TO BE EFFECTIVE FEBRUARY 1, 2026, JANUARY 1, 2027, AND JANUARY 1, 2028 [RECOMMEND CONDUCT PUBLIC HEARING AND IF THERE IS NO MAJORITY PROTEST, ADOPT RESOLUTION]

ITEM

Conduct protest hearing on proposed water rates, determine protest status, and if there is not a majority protest, consider adoption of resolution with responses to timely filed written objections to the proposed water rates and approving increased district water rates and separate variable water rates for customers that annex into the district as of November of 2024, to be effective February 1, 2026, January 1, 2027, and January 1, 2028 [RECOMMEND CONDUCT PUBLIC HEARING AND IF THERE IS NO MAJORITY PROTEST, ADOPT RESOLUTION].

INTRODUCTION

The information provided in this staff report for your Board's review is sectioned under the following headings. A brief description of each heading is provided for clarity.

- Background – A brief history of prior Board actions
- Public Hearing for Rate Adoption and Rate Schedule
- Exhaustion of Administrative Remedies Procedure
- Use of Water Revenue – Definition of how water revenue is to be applied
- Strategic Plan – How the item adheres to the District mission and vision.
- Fiscal Impact – Defines the purpose of proposing the item
- Recommendation – Staff's recommendation for the item
- Attachments – Supporting documentation needed to better understand item

In general, the item before your Board discusses the need to adjust water rates and charges and adopt annexation water rates and charges. This public hearing is the final step in the process required by State law before adopting new rates and charges for water services. The proposed rate schedule covers rate adjustments over 3 years, starting on February 1, 2026, with the last increase scheduled for January 1, 2028.

Table 1 Proposed Rate Schedule

	Current Rate	February 1, 2026	January 1, 2027	January 1, 2028
Meter Size		Fixed Charge (\$ per month)		
5/8 thru 1 inch	\$41.56	\$47.23	\$65.70	\$81.17
1-1/2 inch	\$57.19	\$64.48	\$89.73	\$111.02
2 inch	\$79.45	\$89.95	\$125.17	\$155.01
3 inch	\$167.87	\$197.40	\$274.70	\$340.35
4 inch	\$232.94	\$271.48	\$377.82	\$468.35
6 inch	\$459.73	\$523.83	\$729.15	\$904.67
8 inch	\$718.92	\$812.23	\$1,130.67	\$1,403.32
		Variable Charge (\$ per HCF)		
District Rate (\$/HCF)	\$8.45	\$9.09	\$10.07	\$10.94
Annex Rate (\$/HCF)	n/a	\$10.46	\$11.54	\$12.41

Table 1. Proposed Rate Schedule, provides an overview of the proposed water rates through January 1, 2028. The September 2025 Water Rate Study, Attachment A, provides the methodology and details on how these rates were constructed and serves as a part of the District's administrative record in support of the rate decision. The Rate Study has been available in the District Office for public review.

BACKGROUND

The Nipomo Community Services District Water Enterprise is solely funded by rates and charges collected from users who are connected to and benefit from the use of the Water System ("System"). Funds collected from users are applied to the operations and maintenance of the System. The cost to operate and maintain the System increases over time due to inflation and system improvements/replacements. To continue a program that ensures uninterrupted operations, compliance with state regulations, and cost recovery and fiscally prudent reserves to sustain the System, and is fair and equitable to all System users, the cost of service is evaluated and determined in the Rate Study.

The last Water Rate Study and rate adjustment were completed in August 2020. It is typical and prudent to conduct rate studies on a regular basis to ensure proper and adequate funding of the enterprise. Evaluating the cost of service in a regularly scheduled rate study and adjusting rates to match an average inflationary factor provides for minimal adjustments on an annual basis. This method of rate management provides a responsible approach in meeting the financial needs of the enterprise, while keeping in mind the financial concerns of users.

At the February 26, 2025 Board Meeting, your Board directed staff to complete a water rate study with the aid of our consultant Tuckfield and Associates ("Consultant"). The water rate study would inform the proposed water rates for current District rate payers as of January 2026, as well as the water rates to be paid by customers in annexation areas annexed to the District as of November 2024 and later. The District's Annexation Policy requires that customers on annexed properties can be served only by Supplemental Water, which is imported at a higher cost, justifying a different rate. Additionally, the Consultant was tasked to build a rate structure that would address the financial needs of the Water Enterprise as it moved through Fiscal Year 2029-2030.

The Study includes a review and analysis of the Water enterprise funds, user classifications, and current rate structure. Mr. Clayton Tuckfield presented the Water Cost of Service and

Rates to the Finance and Audit Committee ("Committee") on August 14, 2025. The major drivers for the need to increase rates were: the District's court-imposed and contractual obligation to take an increased volume of supplemental water at significantly higher cost than groundwater; increased operating costs; increased costs for scheduled capital improvement projects; and maintaining healthy financial reserves to mitigate risks. The Committee received and considered Mr. Tuckfield's presentation and directed him to advance his efforts to draft the Rate Study for Board consideration.

On September 10, 2025, the Consultant presented a Draft Water Rate Study to the District's Board for review and comment. At that meeting the Board received the report, asked questions, and directed the Consultant to prepare a final draft of the Rate Study for the September 24, 2025 Board Meeting.

At your Board's September 24, 2025 Board Meeting, your Board took the following actions:

1. Approved the September 2025 Water Rate Study.
2. Approved the Water Rate Adoption Schedule.
3. Approved the Proposition 218 Rate Notice and directed staff to initiate Proposition 218 proceedings by mailing notices to property owners and District customers.
4. Set 5:00 pm Monday, December 1, 2025, as the deadline to submit written objections for the exhaustion of administrative remedies.
5. Set 9:00 AM Wednesday December 10, 2025, your Board's regularly scheduled Board Meeting, as the date and time for the public hearing on the proposed water rates.

PUBLIC HEARING FOR RATE ADOPTION

Adoption of new rates and charges requires a public hearing process in compliance with Proposition 218. Following your Board's September 24, 2025, approval of the Rate Study, a Public Notice was mailed to all owners of record and customers of record impacted by the proposed new fees. The water enterprise serves approximately 4,671 parcels. By State law, a successful majority protest vote requires 50%+1 or 2,337 of the parcel owners to file a valid written protest. The District will accept written protests from property owners or customers prior to the close of the public hearing, on a one protest per parcel basis.

At the conclusion of the public hearing, the Secretary to the Board of Directors will complete the tabulation of all written protests received from record property owners receiving water service from the District and District water customers, including those received during the public hearing. Only one protest will be counted per parcel in determining the existence of a majority protest. The Secretary to the Board will report the results of the tabulation to the Board of Directors. As of the date of this staff report, 274 written protests have been received. Written protests will be accepted until the close of the public hearing. A majority protest against the proposed water rates would require 2,337 written protests.

If, according to the final tabulation, the written protests submitted represent more than 50% of all the parcels in the District receiving water service, a majority protest exists, and the Board of Directors shall not impose the water rate increases. If the final tabulation of written protests represents less than 50% of all the parcels in the District receiving water service, the Board of Directors may consider adopting Resolution No. 2025-XX approving the proposed water rate increases effective February 1, 2026, January 1, 2027, and January 1, 2028. This Resolution

also authorizes pass-throughs for increases in the District's cost to purchase supplemental water from the City of Santa Maria for the period February 1, 2026 through January 1, 2030, as allowed by California Government Code Section 53756 and discussed in the Rate Study.

Exhaustion of Administrative Remedies Procedure:

Effective January 1, 2025, the California Legislature enacted Assembly Bill 2257 (Exhaustion of Administrative Remedies Procedure) ("AB 2577"), which assists the District by providing an opportunity to address written objections before making a final decision to increase the water rates. AB 2257 added Sections 53759.1 and 53759.2 to the California Government Code and establishes a formal written objection procedure requiring ratepayers to timely submit a written objection alleging that the proposed water rates do not comply with Proposition 218 or be barred from filing a lawsuit alleging noncompliance of the proposed water rates with Proposition 218.

As set forth in the notice of the public hearing, the Board of Directors set December 1, 2025, as the deadline for submitting written objections, which date is at least 45 days after the notice was mailed as required by AB 2257. The notice included the substantive and procedural requirements for submitting written objections to the proposed water rates in accordance with the requirements of AB 2257.

The General Manager received 36 timely submitted written objections pursuant to AB 2577. Copies of the written objections are on file in the office of the Secretary to the Board. Pursuant to AB 2257, the Board of Directors must respond in writing to timely submitted written objections for the exhaustion of administrative remedies procedure to apply. Many of the written objections submitted to the District were not objections to any legal issue that would require a response. Instead, many of the written objections were protests and have been counted as such. These stated policy or economic reasons why the rates should not be adopted. A summary of the timely submitted written objections and the District's written responses to each timely submitted written objection are set forth in Exhibit A of Resolution No. 2025-17XX. Because so many objections were repeated, the objections have been summarized in Exhibit A. In accordance with AB 2257, the written responses in Exhibit A include the grounds for which a challenge is not resulting in changes to the proposed water rates and explain the substantive basis for retaining the proposed water rates in response to each objection. In considering the responses during this public hearing, the Board of Directors must determine the following: (1) whether the objections and the responses warrant clarifications to the proposed water rates; (2) whether to reduce the proposed water rates; (3) whether to review further before making a determination on whether clarification or reduction is needed; and (4) whether to proceed with the public hearing. Staff's recommended determinations for the Board of Directors are set forth in Resolution No. 2025-17XX.

The schedule the District has followed in this rate adoption process is as follows:

Date	Rate Adjustment Implementation Schedule
August 14, 2025	F&A Committee Meeting: Review Financial Needs Report
September 10, 2025	Board Meeting: Receives Rate Study Presentation
September 24, 2025	Board Meeting: Approves Rate Study, Initiate Prop. 218 Process
October 17, 2025	Last day to Mail 45-Day Prop 218 Notice (anticipated to be mailed earlier)
November 13, 2025	Conducted Town Hall Meeting – Provided information to the public and answered questions
December 1, 2025	Last date to submit written objections to exhaust administrative remedies by 5:00 pm at the District Office
December 10, 2025	Board Meeting: Public Hearing, last day to submit rate protest, Board considers proposed rates
February 1, 2026	Rates Become Effective

USE OF WATER REVENUES

The District's water system is operated as a separate enterprise from all other services it provides to the community. This means that there is no "general fund" or other revenue source that helps to pay for water service in the District. The Rate Study shows that revenues derived from the water rate increase do not exceed the funds required to provide water service because the rates are calculated to:

- Provide sufficient funds for on-going operation and maintenance for the District Water System.
- Rehabilitate, replace and upgrade facilities needed to provide services for the District Water System. The water rates will not fund capital projects like the Dana Reserve.
- Establish reserves to reduce risk and prudently manage the District's delivery of water services.

Water revenues collected from customers are deposited into designated accounts and cannot be used for any purpose other than that for which the charge is imposed as outlined above. For further information on the use of water revenues, please see the attached September 2025 Water Rate Study. Some commenters have cited the recent approval of the Dana Reserve Project and its annexation into the District as either 1) a driver of increased District costs, or 2) a reason that water rates should not increase at the rates proposed. Both contentions are incorrect. As the Board is aware, the District's projections of rate revenue from the Dana Reserve project are based on full buildout of the Project, which has been delayed by litigation and other causes, so significant revenue impacts are not expected during the three years of proposed rate adjustments. Further, as the District has repeatedly stated, the Dana Reserve Project is required to pay all the costs of providing water service to the Project, and the District's ratepayers will not bear any of those capital or service costs.

STRATEGIC PLAN

The District is committed to operating all enterprise funds to be balanced and financially sound. Specific to reaching this outcome, the District focuses on maintaining reserves that cover unforeseen emergencies, anticipate cash flow variations, and sustain its debt service coverage ratios as required. In order to accomplish this, the rates and charges must reflect the cost of providing services, including the cost of replacing and/or rehabilitating aging facilities, daily operations and maintenance, and financial obligations of the District.

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

FISCAL IMPACT

Historically, the District conducts rate studies every 5 years to look forward and determine if water rates and charges will meet the cost of service. The September 2025 Water Rate Study demonstrates the need to adjust rates to maintain a fiscally sound water enterprise. If there is no majority protest vote, then the proposed rates will become effective starting February 1, 2026 and then January 1 of the subsequent 2 years (2027 through 2028).

Without increased rates as proposed, revenues will not meet expenditure demands, reserve levels will not meet District policy levels, and debt coverage requirements will fall below defined bond covenant levels.

RECOMMENDATION

Staff recommends as follows:

1. Conduct Public Hearing, receive public comment, and consider the District's responses to timely-submitted written objections, and written protests received.
2. Close Public Hearing.
3. Establish the number of valid written protests that have been timely submitted to the District per Prop 218 Article XIII D of the California Constitution.
4. If a majority protest does not exist, adopt Resolution 2025-XXXX approving the proposed water rates to be effective February 1, 2026, January 1, 2027, and January 1, 2028; or
5. If there is a Majority Protest, provide direct staff to develop alternatives.

ATTACHMENTS

- A. Report on Water Rate Study, September 2025
- B. Resolution 2025-XXXX, Setting Monthly Water Rates and Charges and Annexation Water Rates and Charges
- C. Proposition 218 Notice to Owners of Record and Customers of Record

DECEMBER 10, 2025

ITEM E-2

ATTACHMENT A

Report On

Water Rate Study

September 2025

For:

Nipomo Community Services District

148 S Wilson Street
Nipomo, CA 93444
(805) 929-1133

Submitted By:

Tuckfield & Associates

Contact: Clayton Tuckfield
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September 24, 2025

Mr. Raymond Dienzo
General Manager
Nipomo Community Services District
148 South Wilson Street
Nipomo, CA 93444

Dear Mr. Dienzo:

Tuckfield & Associates is pleased to provide this Water Rate Study (Study) report to the Nipomo Community Services District (District). The water rates presented in this report have been developed based on cost of service principles and industry methods that result in fair and equitable rates in compliance with Proposition 218 for the users of the water system.

This study included review and analysis of the water enterprise revenue and revenue requirements, number of customers, volumes, and current rate structure. The Study develops a five-year financial plan that determines the revenue needs annually for the Study period and designs water rates based on cost of service analyses. The water rates follow industry trade guidelines of the American Water Works Association as well as state legislation.

The report documents the approach, methodology, and findings for the financial plan and rates for the District's water enterprise. Tables and figures throughout the report are provided to demonstrate the calculations and to support the defense of the water rates.

It has been a pleasure to work with District staff during the performance of this study. If there are any questions, please contact me at (949) 760-9454.

Very Truly Yours,

TUCKFIELD & ASSOCIATES

A handwritten signature in black ink, appearing to read "G. Clayton Tuckfield".

G. Clayton Tuckfield
Principal Consultant

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Water Rate Study

Nipomo Community Services District

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Water Rate Study

Nipomo Community Services District

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Water Rate Study

Nipomo Community Services District

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Water Rate Study

Nipomo Community Services District

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Executive Summary

The Nipomo Community Services District (District) engaged Tuckfield & Associates in March 2025 to conduct a Water Rate Study (Study) for its water enterprise. The purpose of this Study is to evaluate the sufficiency of water revenues being received to meet the operating expenses, capital improvement spending, and reserve policy on an annual basis and design new water rates for implementation to meet future financial needs.

This Study includes development of a financial plan of revenues and revenue requirements of the District's water system and supplemental water system (together the "System"), determining the costs of providing water service to its customers, and designing proposed water rates and charges.

Financial Plan

The revenue and revenue requirements of the System were identified and projected to create a forward-looking financial plan for the water enterprise. Annual costs of the System include operation and maintenance (O&M) expenses, supplemental water purchases, debt service, and annual capital improvement spending.

The District's FY 2025-26 budget expenses are included in the financial plan and future expenses were projected through application of inflation factors to the budgeted expenses to complete a five-year plan. Supplemental water system expenses are included and are take-or-pay expenses, dependent upon the City of Santa Maria Tier 1 water rate. Debt service payments of the 2024 Certificates of Participation (COPs) are also included in the financial plan, however, are offset by property tax revenue received by the District.

The District has prepared a Capital Improvement Program (CIP) for FY 2025-26 through FY 2029-30. Costs related to water system replacement in this five-year period total about \$8.9 million. Costs for the replacement projects are met through a combination of reserves, revenue from rates, and a proposed \$6.3 million debt issue in FY 2026-27. Certain other capital improvements have been identified as capacity related and these projects are funded by reserves and capacity fee revenue from the Water Capacity Fund (700) and Supplemental Water Capacity Fund (Fund 500).

The financial plan combines all of the District water related funds to evaluate the sufficiency of revenue being generated by the current water rates to meet the projected revenue requirements (costs) of the System. The analyses indicated that the current revenue being received is not sufficient to meet the System's costs and that 13.8 percent annual revenue increases are necessary for the next three years. The increases are necessary to meet the projected O&M expenses, projected take-or-pay Supplemental Water expenses, capital improvement spending needs, while also meeting Target reserve levels and debt service coverage requirements for the System. The annual revenue Increases of 13.8 percent begin February 1, 2026 and continue for January 1, 2027 and January 1, 2028. The financial plan is presented in Table 13.

Current Water Rates

The current water rates for the District's customers consist of fixed and variable charges. Current fixed charges consist of monthly charges by meter size and are applicable to all customers. Variable charges include a uniform

volume charge where all water consumed by the District's customers are charged at the same rate. The current water rates are summarized in Table 3 and below in Table ES-1.

Proposed Water Rate Structure and Rates

The proposed water rate structure is the same structure as is currently used by the District. However, variable rates now consist of separate rates for current District customers and new annexation customers.

The fixed charges consist of monthly fixed charges based on the meter size installed at the customer's premises. Details of the design of the fixed charges can be found in the section of this Water Rate Study Report (Report) titled Proposed Fixed Charges on page 25. The proposed fixed charges generate about 26 percent of the revenue received from water rates initially, then increases to 35 percent in FY 2027-28.

The proposed variable rates include a uniform volume rate charged separately to District customers and to annexation customers at different prices. Water supplied to annexation customers is entirely from supplemental water whereas District customers are supplied by a blend of supplemental water and less expensive groundwater. The result is a lower variable rate for District customers. Details regarding the calculation of the variable rates may be found beginning on page 27. Table ES-1 presents the proposed rate structure and fixed and variable charges for the System.

Table ES-1
Proposed Monthly Fixed and Variable Charges

	Current Rate	February 1, 2026	January 1, 2027	January 1, 2028
Meter Size		Fixed Charge (\$ per month)		
5/8 thru 1 inch	\$41.56	\$47.23	\$65.70	\$81.17
1-1/2 inch	\$57.19	\$64.48	\$89.73	\$111.02
2 inch	\$79.45	\$89.95	\$125.17	\$155.01
3 inch	\$167.87	\$197.40	\$274.70	\$340.35
4 inch	\$232.94	\$271.48	\$377.82	\$468.35
6 inch	\$459.73	\$523.83	\$729.15	\$904.67
8 inch	\$718.92	\$812.23	\$1,130.67	\$1,403.32
Fireline Size		Fixed Charge (\$ per month)		
2 inch	\$2.30	\$2.08	\$2.89	\$3.62
3 inch	\$6.69	\$5.54	\$7.71	\$9.66
4 inch	\$14.26	\$11.76	\$16.39	\$20.53
6 inch	\$41.43	\$34.60	\$48.20	\$60.37
8 inch	\$88.28	\$73.70	\$102.67	\$128.59
10 inch	\$158.77	\$132.52	\$184.61	\$231.22
		Variable Charge (\$ per HCF)		
District Rate (\$/HCF)	\$8.45	\$9.09	\$10.07	\$10.94
Annex Rate (\$/HCF)	n/a	\$10.46	\$11.54	\$12.41

Single-family Residential Bill Impacts

Table ES-2 presents the impacts to District single-family residential bills from the proposed water rates using the February 1, 2026 rates. The table shows that the water bill of an average single-family residential customer with a 1-inch or smaller water meter using 12 hundred cubic feet (HCF) monthly will increase from \$142.96 to \$156.31, an increase of \$13.35, or 9.3 percent. The increase of 9.3 percent is different from the overall increase of 13.8 percent stated in the water financial plan because of the differences in the level of water consumed and the costs recovered in different sizes of the water meter.

Table ES-2
Comparison of Current District Single-family Residential Monthly Bill with a 1-inch or Smaller Meter Size
with Proposed Monthly Bill Using February 2026 Rates

Description	Use (HCF)	Current Bill			Proposed February 1, 2026 Rates				
		Service Charge	Volume Charge	Current Bill	Service Charge	Volume Charge	January 1, 2026 Bill	Dollar Difference	Percent Change
	0	\$41.56	\$0.00	\$41.56	\$47.23	\$0.00	\$47.23	\$5.67	13.6%
Very Low	5	\$41.56	\$42.25	\$83.81	\$47.23	\$45.45	\$92.68	\$8.87	10.6%
Low	8	\$41.56	\$67.60	\$109.16	\$47.23	\$72.72	\$119.95	\$10.79	9.9%
Median	11	\$41.56	\$92.95	\$134.51	\$47.23	\$99.99	\$147.22	\$12.71	9.4%
Average	12	\$41.56	\$101.40	\$142.96	\$47.23	\$109.08	\$156.31	\$13.35	9.3%
High	30	\$41.56	\$253.50	\$295.06	\$47.23	\$272.70	\$319.93	\$24.87	8.4%
Very High	50	\$41.56	\$422.50	\$464.06	\$47.23	\$454.50	\$501.73	\$37.67	8.1%

Water Rate Survey

Chart ES-1 compares the District's single-family residential water bill with the water bills of other communities. The chart indicates that a District single-family residential customer with a 1-inch or smaller meter size with a monthly consumption of 12 hundred cubic feet (HCF) will experience a bill that is in the upper range of the communities listed.

Chart ES-1
Survey of Single-family Residential Monthly Water Bills Using 12 HCF
For Rates in Effect July 2025



Note: Above table uses a ¾-inch meter and water rates in effect July 2025. District February 2026 bill is based on the rate structure and rates in Tables ES-1.

Introduction

The Nipomo Community Services District (District) engaged Tuckfield & Associates in March 2025 to conduct a Water Rate Study (Study) for its water enterprise. This Study includes development of a financial plan that includes revenues and revenue requirements of the water enterprise System, various analyses to determine the cost of providing water service, and new water rates and charges for implementation.

Background

The Nipomo Community Services District was formed in 1965 and covers an area of approximately 3,917 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 serves a population of 13,771 (from 2020 Decennial Census) and provides water service within the District's service area. Water service is accounted for in several enterprise funds of the District and relies upon user charges to meet all O&M expenses and capital improvement needs.

Currently, the District obtains its water supply from four active wells and from supplemental water supply from the City of Santa Maria. The four wells have a capacity of 2,100 gallons per minute (gpm) and extract water primarily from the Nipomo Mesa Management Area (NMMA) of the Santa Maria Groundwater Basin (Basin).

The District has an agreement with the City of Santa Maria to receive water that is supplemental to the District's groundwater supply (Supplemental Water). The agreement states that the District must take-or-pay 2,500 acre-feet per year (AFY) of Supplemental Water beginning in FY 2025-26 and beyond. The District's share of the Supplemental Water is 66.67 percent, or 1,667 AFY, of the annual volume and associated costs.

In addition to water supply facilities, 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 inches to 24 inches, valves, fire hydrants, and over 4,000 service connections.

Purpose

The purpose of this Study is to (1) review the current and future financial status of the District's water enterprise including supplemental water expenses, (2) determine new revenue increases required to meet current and future revenue requirements, (3) provide for adequate reserves and debt service coverage, and (4) design water rates that generate the required revenue while being fair and equitable for its customers and meeting the requirements of Proposition 218.

Scope of the Study

This Study includes the findings and recommendations of analyzing the water enterprise financial status and related CIP of the System. Historical trends were analyzed from data supplied by the District showing the number of customers, water consumption volumes, revenue, and revenue requirements.

Revenue requirements of the System include operation and maintenance expenses, supplemental water purchases, capital improvements and routine capital outlays, debt service, and additions to reserves. Changing conditions such

as additional facilities, system growth, employee additions, 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 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 operational 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 to five years for prudent rate planning.

Assumptions

Several assumptions were used to conduct the Study for the period FY 2025-26 to FY 2029-30. The assumptions included growth rates in customer accounts, interest earnings on fund reserves, and expense inflation factors. The assumptions for financial planning are provided in Table 1.

Table 1
Assumptions and Planning Factors

Description	Value
Annual Account & Demand growth [1]	
Single-family Residential	0.5%
All Other	0.0%
Interest earnings on fund reserves (annual)	4.0%
Cost Escalation	
Purchased Water	5.0%
Personnel Services [2]	5.0%
Benefits	8.0%
Electrical Power	10.0%
All Other Operations & Maintenance	3.0%
Chemicals	5.0%
Capital	3.5%

[1] Annualized growth in water accounts is based on historical information provided by staff.

[2] Personnel Services growth in promotions and inflation is 5.0% annually.

Water Funds and Reserve Policy

The District has a written water system reserve policy provided in Resolution No. 2018-1489 (Reserve Policy). The Reserve Policy provides a basis to deal with unanticipated loss in revenues, changes in the costs of providing services, spending on fixed asset repair and replacement, natural disaster recovery, and other issues. It also provides guidelines

to maintain the financial health and stability of the enterprise funds. The District's water system funds, reserve types, and the amount of the reserves are discussed below.

Water Fund #125 Operating Reserve – The purpose of this reserve is to ensure sufficient cash resources are available to fund daily administration, operations, and maintenance of providing water service. The target balance to be maintained, including Water Fund #128 Rate Stabilization Reserves, is equal to or greater than 12 months (360 days) of annual budgeted operation and maintenance expense, not including funded replacement.

Water Fund #128 Rate Stabilization Reserve – The rate stabilization reserve is intended to serve as a buffer to water rates during any period where there are unexpected increases in operating costs or decreases in revenue. This reserve is also intended to absorb revenue losses due to severe drought or heavy rainfall. The reserve may be drawn into Fund 125 to stabilize water rates and may provide level increases to water rates. The minimum target reserve is established at \$400,000.

Supplemental Water Fund #500 – Revenue generated from Supplemental Water Capacity Charges are accumulated into this fund and their use is restricted to projects, programs, and expenditures that reduce the District's reliance on groundwater. No minimum target reserve level has been established.

Water Capacity Charges Fund #700 – Revenue generated from Water Capacity Charges are accumulated into this fund and is used to offset development related capital improvement as outlined by the District's Capital Improvement plan. No minimum target reserve level has been established.

Water Replacement Fund #805 Reserve – The Water Replacement Reserve is used to fund current and future replacement of capital assets as they reach the end of their useful lives. This fund also helps to normalize the impact of capital asset replacements on future water rates. No minimum target is established by District Policy, however, a goal of reserving an amount equal to depreciation expense is included in this Study.

Beginning Balances and Reserve Targets

The District's goal is to maintain operating and capital reserves as discussed above. As of June 30, 2025, the District's beginning water system reserve balances are listed in Table 2 below. The reserve balances are used in the development of the financial plans for the System with the intent to meet the Target Reserves established in Resolution 2018-1489 during or by the end of a 10-year planning period.

Table 2
Reserve Balances and Targets As of June 30, 2025

Reserve Type	Reserve Balance	Reserve Target
Fund 125 Water Operating Reserve	\$4,200,000	\$5,651,000
Fund 128 Rate Stabilization	\$476,000	\$400,000
Fund 500 SWP Capital Project	\$3,000,000	n/a
Fund 700 Water Capacity Fund	\$2,000,000	n/a
Fund 805 Water Replacement Fund	\$3,500,000	\$1,320,000
Total	\$13,176,000	\$7,371,000

Financial Planning

Financial planning for the System includes identifying and projecting revenues and revenue requirements for a five-year planning period. Estimates of revenue from various sources are compared with the projected revenue requirements of the System. This comparison allows the review of the adequacy of revenue from current rates to meet annual System obligations and provide the basis for any rate adjustments. New water rates and charges are created to recover the District's annual operating expenses, capital spending, and reserve policy associated with the System.

Current Water Rates

The current water rates consist of fixed and variable charges to residential and non-residential customers of the System. All customers are charged monthly fixed charges by meter size with the 5/8-inch, 3/4-inch, and 1-inch meters exhibiting the same charge. Private fire protection service is charged by fire line size to those customers receiving the private fire protection benefit.

Variable rates include a uniform volume charge where all customers are charged at the same rate for water consumption. The uniform volume charge includes both groundwater and Supplemental Water. Current monthly fixed and variable charges of the District are provided in Table 3.

Table 3
Current Monthly Fixed and Variable Charges

Meter Size	Fixed Charge (\$/mo)	Fireline Charge (\$/mo)
5/8, 3/4, 1-inch	\$33.86	\$0.37
1-1/2 inch	\$47.03	\$1.08
2 inch	\$65.60	\$2.30
3 inch	\$138.20	\$6.69
4 inch	\$192.58	\$14.26
6 inch	\$383.17	\$41.43
8 inch	\$601.00	\$88.28

Classification	Variable Rate (\$/HCF)
All Customers	\$8.45

Water User Classifications

Number of Customers

The District currently classifies customers as Single-family Residential (SFR), Multifamily Residential (MFR), Commercial, Irrigation, Agriculture, and Construction Hydrant. SFR customers account for about 85 percent of the

total customers served by the System in FY 2025–26. Growth in the District customer base is projected only in SFR accounts at the rate of 0.50 percent annually or about 20 accounts added each year, following the assumptions in Table 1. Table 4 provides the historical and projected number of customers by classification.

Dana Reserve Customer Additions

This Study assumes that the recently annexed Dana Reserve residential and commercial development will begin to connect to the System starting July 1, 2027. The type of customer and the rate at which the connections occur in Table 4 below are from the Final Dana Reserve Phasing Study Report dated March 5, 2024, although the date when customers first begin to connect has been delayed to FY 2027–28.

Table 4
Historical and Projected Number of Water Customers by Classification

Customer Class	Historical		Projected			
	FY 24-25	FY 25-26	FY 26-27	FY 27-28	FY 28-29	FY 29-30
District						
Single-family Residential [1]	3,835	3,854	3,873	3,892	3,911	3,931
Multifamily Residential	467	469	471	473	475	477
Commercial	117	117	117	117	117	117
Irrigation	108	108	108	108	108	108
Agriculture	1	1	1	1	1	1
Construction/Hydrant	8	8	8	8	8	8
Dana Reserve						
Single-family Residential				83	202	367
Multifamily Residential				36	198	248
Commercial				3	6	24
Total Number of Accounts	4,536	4,557	4,578	4,721	5,026	5,281
Fire Protection						
Public Fire Protection Hydrants	721	721	721	721	721	721
Private Fire Protection Firelines	75	75	75	75	75	75
Total Fire Protection Hydrants	796	796	796	796	796	796
Number of Dwelling Units						
Single-family Residential [1]	3,835	3,854	3,873	3,892	3,911	3,931
Multifamily Residential	841	845	849	853	857	861

[1] Residential accounts are forecast to increase based on the assumed growth rate of 0.5% annually.

Number of Water Meters

Nearly all SFR and MFR residential customers have either 5/8-inch, 3/4-inch, or 1-inch meters installed at the service location. Currently, SFR has one 1.5-inch and two 2-inch meter sizes installed. MFR has two 1.5-inch, three 2-inch, two 3-inch, and four 4-inch meter sizes installed. For new construction, the minimum size for installation of a SFR

dwelling unit is a 1-inch meter size and the projected growth in SFR customers is this meter size. Commercial and Irrigation customers have a range of meters sizes from 5/8-inch to 4-inch. Table 5 provides a summary of the number of current and projected meters by size.

Table 5
Historical and Projected Number of Water Meters By Size

Description	Historical	Projected				
	FY 24-25	FY 25-26	FY 26-27	FY 27-28	FY 28-29	FY 29-30
Number of Meters [1]						
5/8 & 3/4 inch	3,177	3,177	3,177	3,177	3,177	3,177
1 inch	1,275	1,296	1,317	1,460	1,765	2,020
1-1/2 inch	41	41	41	41	41	41
2 inch	32	32	32	32	32	32
3 inch	6	6	6	6	6	6
4 inch	5	5	5	5	5	5
Total Meters	4,536	4,557	4,578	4,721	5,026	5,281

[1] Historical water meters for FY 24-25 were provided through District billing records.

Water Sales Volumes

Table 6 provides the historical and projected water sales volume by customer classification. Water sales volumes were projected by recognizing the growth in the number of accounts and the FY 2024-25 use per customer. Dana Reserve consumption is from estimates provided by the Final Dana Reserve Phasing Study Report.

Table 6
Historical and Projected Water Sales Volume (in HCF)

Description	Historical	Projected				
	FY 24-25	FY 25-26	FY 26-27	FY 27-28	FY 28-29	FY 29-30
District						
Single-family Residential	541,877	544,562	547,246	549,931	552,616	555,442
Multifamily Residential	53,561	53,816	54,070	54,325	54,580	54,835
Commercial	49,345	49,345	49,345	49,345	49,345	49,345
Irrigation	99,548	99,548	99,548	99,548	99,548	99,548
Agriculture	5,417	5,417	5,417	5,417	5,417	5,417
Construction/Hydrant	2,600	2,600	2,600	2,600	2,600	2,600
Dana Reserve						
Single-family Residential	-	-	-	11,718	28,488	51,793
Multifamily Residential	-	-	-	2,309	12,589	15,769
Commercial	-	-	-	1,176	2,352	10,193
Total Water Sales Volume	752,348	755,288	758,226	776,369	807,535	844,942

Top Ten Water Users

Table 7 provides the list of the District's top ten water consumers of the System for FY 2024-25. The Table indicates that largest user consumes about 3.3 percent of the total water consumption for the same year.

Table 7
FY 2024-25 Top Ten Water Users

Rank	Customer Name	FY 24-25 Consumption HCF
1	Lucia Mar School District	24,881
2	San Luis Bay Apts	20,404
3	SLO County Regional Park	16,107
4	Black Lake Management	6,288
5	Crown Pointe Owners Association	5,819
6	750 Grande Associates	5,810
7	Brassica Nursery	5,417
8	Fairways Blacklake	3,751
9	La Placita Plaza	4,181
10	Cider Village Associates	3,870

Water Financial Plan

The financial plan provides the means of analyzing the revenue and revenue requirements of the System. The analysis determines the ability to fund on-going operation and maintenance expense, capital infrastructure requirements, debt service payments, and the impact on reserves. The financial plan includes the projection of revenue, operation and maintenance expenses, Supplemental Water expenses, capital improvement needs of the System and its financing, debt service requirements, and revenue adjustments needed to maintain a sustainable water enterprise.

Revenues

The District receives operating and capital revenue from several sources. Operating revenue is received from rates and charges for water service. Table 8 presents the projected fixed and variable charge revenue from current water rates of the System. The revenue is projected by applying the current water rates to the projected number of accounts and consumption volume.

Table 8
Projected Rate-based Revenue Using Current Rates

Description	Projected				
	FY 25-26	FY 26-27	FY 27-28	FY 28-29	FY 29-30
Water Service Revenues					
Fixed Charges ^[1]	\$2,205,926	\$2,325,957	\$2,397,274	\$2,549,384	\$2,676,557
Variable Charges ^[2]	6,136,716	6,407,010	6,560,320	6,823,670	7,139,760
Subtotal Revenues From Current Rates	\$8,342,642	\$8,732,967	\$8,957,594	\$9,373,054	\$9,816,317
Private Fire Protection Revenues	30,692	40,114	40,114	40,114	40,114
Total Revenues From Current Rates	\$8,373,334	\$8,773,081	\$8,997,708	\$9,413,168	\$9,856,431

[1] FY 25-26 and forecast revenue calculated by multiplying current water service rate by the number of projected meters.

[2] FY 25-26 and forecast revenue calculated by multiplying projected water sales by the current variable rates.

Additionally, miscellaneous revenue is received that includes penalties/late fees, meter connection fees, water turn on fees, plan check and inspection fees, and miscellaneous other sources. Capital revenue from capacity charges is received directly into the appropriate capital funds. Table 9 provides the projected miscellaneous revenue for the Study period. Interest income is included in the financial plan and is not shown in Table 9.

Table 9
Projected Miscellaneous Revenue

Description	Budget	Projected			
	FY 25-26	FY 26-27	FY 27-28	FY 28-29	FY 29-30
Miscellaneous Revenue					
Fees and Penalties	\$129,000	\$120,000	\$120,000	\$120,000	\$120,000
Meter and Connection Fees	20,000	20,000	20,000	20,000	20,000
Plan Check and Inspection Fees	1,000	1,000	1,000	1,000	1,000
Miscellaneous Income	55,000	55,000	55,000	55,000	55,000
Total Miscellaneous Revenues	\$205,000	\$196,000	\$196,000	\$196,000	\$196,000

Revenue Requirements

Revenue requirements of the System include operation and maintenance expense, Supplemental Water expenses, capital replacement, and existing debt service payments. Each of these items are discussed below.

Operation and Maintenance Expense

Operation and maintenance expenses (O&M) are an on-going obligation of the water system and such costs are normally met from water service revenue. O&M includes the cost to operate and maintain the water supply, reservoirs, and distribution system facilities. Costs also include technical services and other general and administrative expenses. Table 10 provides a summary of the O&M expenses for the Study period.

Table 10
Projected Operation and Maintenance Expenses

Description	Budget	Projected			
	FY 25-26	FY 26-27	FY 27-28	FY 28-29	FY 29-30
Operation and Maintenance Expense					
Personal Services	\$1,507,935	\$1,700,672	\$1,806,366	\$1,918,998	\$2,039,046
Electricity - Pumping	315,000	346,500	381,150	419,265	535,628
Chemicals	78,500	21,901	22,996	24,146	29,446
Lab Tests and Sampling	62,000	63,860	65,776	67,749	69,781
Operating Supplies	273,000	281,190	289,626	298,315	307,264
Repairs and Maintenance	182,000	187,460	193,084	198,877	204,843
Engineering	70,000	72,100	74,263	76,491	78,786
Meter Replacement Program	491,460	506,204	521,390	537,032	553,143
Water Conservation/Recycle Program	47,000	48,410	49,862	51,358	52,899
Fixed Asset Purchases	0	50,000	51,500	53,045	54,636
All Other	324,510	222,446	189,119	164,793	149,737
Subtotal	\$3,351,405	\$3,500,743	\$3,645,132	\$3,810,069	\$4,075,209
General and Administrative					
Personal Services	\$711,832	\$754,792	\$800,489	\$849,107	\$900,844
Computer Expense	180,940	186,368	191,959	197,718	203,650
Insurance - Liability	249,531	257,017	264,728	272,670	280,850
Legal Services	93,000	95,790	98,664	101,624	104,673
Professional Services	174,960	180,209	185,615	191,183	196,918
Operating Transfer Out - Admin	495,962	510,841	526,166	541,951	558,210
Fixed Asset Purchases	198,000	203,940	210,058	216,360	222,851
All Other	195,640	204,566	204,522	216,659	216,979
Subtotal	\$2,299,865	\$2,393,523	\$2,482,201	\$2,587,272	\$2,684,975
Total Water System O&M Expense	\$5,651,270	\$5,894,266	\$6,127,333	\$6,397,341	\$6,760,184

O&M has been projected recognizing the major expense categories of personnel services, electric power expense, chemicals, all other expenses, and capital outlay. Personnel costs consist of salaries and benefits expense of those personnel directly involved with providing water service. O&M expenses increase in future years following the inflation factors provided in Table 1.

Supplemental Water Expense

This District purchases Supplemental Water from the City of Santa Maria and must take-or-pay 1,667 AFY beginning in FY 2025-26. The expenses include purchased water, electricity, chemicals, overhead, and other expenses. Purchased water expense increases with the Santa Maria Tier 1 water rate and the volume purchased. Electricity and chemicals expenses increase with inflation and the volume purchased. Overhead is charged at 15 percent of the total of the electricity, chemicals, and other expenses. Overall, the Supplemental Water O&M expense increases between 4 and 5 percent annually, generally following the rate increases in Santa Maria's Tier 1 water rates. Table 11 provides a summary of the Supplemental Water purchased water expenses for the Study period.

Table 11
Projected Supplemental Water Expenses

Description	Estimated	Projected			
	FY 25-26	FY 26-27	FY 27-28	FY 28-29	FY 29-30
Supplemental Water Purchases Expense	\$4,571,964	\$4,752,767	\$5,000,667	\$5,265,853	\$5,540,224
Subtotal Supplemental Water O&M Expense	264,119	277,325	291,191	305,751	321,039
Supplemental Water Overhead @ 15%	39,618	41,599	43,679	45,863	48,156
Supplemental Water Replacement	\$149,439	\$149,439	\$149,439	\$149,439	\$149,439

Capital Replacement

The District plans for annual water line replacements in its capital planning and these replacements occur from time to time during the fiscal year. An annual amount is transferred from the operating fund (Fund 125) to the Water Replacement Fund (Fund 805) to aid in funding these replacements. An annual amount of \$566,000 was established from the Board of Directors policy from a replacement study performed for the District in 2007 (2007 Replacement Study). The transfer amount inflates annually, and the replacement transfer is about \$700,000 in FY 2025-26 though the District has chosen not to make this transfer this year. The transfer increases at the rate of 3 percent annually during the Study period.

An annual amount for capital replacement for the supplemental water facilities has also been established. This amount changes with capital additions to the Supplemental Water Project and is currently calculated as the value of the facilities divided by a 100-year life multiplied by the District's capacity share of 72.24 percent. The current amount is \$149,400 annually as shown in Table 11.

Debt Service

The District has one outstanding debt issue consisting of the 2024 Certificates of Participation (COPs) which refunded the 2013 COPs and the 2013A Revenue Refunding Bond (Bonds) obligations. The 2013 COPs partially financed the Supplemental Water Project while the 2013A Bonds refinanced a prior debt issue related to the water system. The 2024 COPs have annual debt service payments of about \$899,000 and will be retired in 2054.

New Debt is proposed in the amounts of \$2.6 million in FY 2026-27 and \$3.7 million in FY 2027-28 to finance Fund 805 capital improvements in those years. The new debt is estimated to have annual payments of \$224,100 and \$382,200 respectively, for a total payment of \$606,300, both with interest rates of 5.5 percent and a 20 year term, debt service reserve funds, and issuance costs.

Water Capital Improvement Program

The District has developed a CIP that lists capital expenditures for Fund 805, Fund 500, and Fund 700 for FY 2025-26 through FY 2029-30. Over this period the District projects that it will spend approximately \$21.9 million from all funds, with about \$8.9 million from Fund 805 (replacement fund). Fund 805 improvements include Eureka well, Foothill Tank Rehabilitation, water line replacements, blow-off and air-vac valve repair/replacements, fire hydrant repair/replacements, and other replacements. Fund 805 improvements are met from reserves and water rate revenue. Capital expenditures of Fund 500 and Fund 700 are met from capital reserves and capital revenue. Table 12 presents the capital improvements of the System and include Fund 500 and 700 for completeness of the CIP.

Table 12
Water Capital Improvement Program

Description	Budget	Projected			
	FY 25-26	FY 26-27	FY 27-28	FY 28-29	FY 29-30
Current Capital Improvement Projects (CIP) [1]					
Fund 805 Replacement					
Mallagh Street Waterline Replacement	\$250,000	\$0	\$0	\$0	\$0
Eureka Well	-	-	2,999,400	-	-
Chlorine Analyzer Replacement	100,000	103,500	107,100	-	-
Blow-Off Replacement	20,000	21,300	22,700	24,200	25,800
Air Vac Replacement	20,000	21,300	22,700	24,200	25,800
Fire Hydrant Replacement	50,000	53,300	56,800	60,600	64,600
Valve Replacement	100,000	106,600	113,600	121,200	129,200
Well Refurbishment	100,000	106,600	113,600	121,200	129,200
Large Meter Replacement Program	50,000	53,300	56,800	60,600	64,600
Foothill Tank Rehabilitation	100,000	1,552,500	-	-	-
Tefft Street Nipomo Creek Utility Crossings	25,000	258,800	-	-	-
SCADA System Improvements	100,000	103,500	-	110,900	-
Service Line Replacement	100,000	106,600	113,600	121,200	129,200
Angle Stop Replacement	100,000	106,600	113,600	121,200	129,200
Fund 500 Supplemental Water Capacity Fund					
Supplemental Water Project Interconnects-carryover	120,000	-	-	-	-
Pomeroy Water Line -carryover	200,000	-	-	-	-
Summit Station Booster Pump Station	-	207,000	1,928,200	-	-
Fund 700 Water Capacity Fund					
Third Connection to Blacklake Pressure Zone-carryover	20,000	-	-	-	-
New Foothill Water Storage Tank	500,000	3,105,000	1,071,200	-	-
Dana Reserve Water Project 1 - Oak Glen Watermain	800,000	3,560,400	-	-	-
Dana Reserve Water Project 2 - HWY 101 Crossing	280,000	1,252,400	-	-	-
Total Water CIP	\$3,035,000	\$10,718,700	\$6,719,300	\$765,300	\$697,600

[1] CIP Source: FY 25-26 District Capital Improvement Plan.

Water Financial Plan

A financial plan has been prepared for the System that includes all water funds. The combined financial plan is presented in Table 13. Using the financial plan, a revenue sufficiency analysis was performed to identify if any revenue adjustments to water rates are needed.

The sufficiency analysis incorporates specific planning criteria or goals to provide guidance to maintain the financial health of the System on an on-going basis. The criteria included the following.

- Generate positive levels of income in each year of the Study period
- Maintain the operating and capital reserves at or greater than target levels
- Maintain debt service coverage ratios at or greater than the minimum required
- Meet annual capital replacement spending from annual revenue and capital reserves

Proposed Revenue Adjustments

The revenue sufficiency analysis indicated that the current level of revenue being received should be increased to meet future obligations of the System during the Study period. The recommended revenue increases include 13.8 percent increases for the next three years beginning February 1, 2026 and on January 1, 2027 and January 1, 2028.

Table 13
Water Financial Plan

Description	Projected				
	FY 25-26	FY 26-27	FY 27-28	FY 28-29	FY 29-30
Proposed Revenue Increase (February 1)	13.8%				
Proposed Revenue Increase (January 1)		13.8%	13.8%	0.0%	0.0%
GROSS REVENUES					
Charges for Services [1]	\$8,373,334	\$8,773,081	\$8,997,708	\$9,413,168	\$9,856,431
Total Additional Water Sales Revenue [2]	385,173	1,784,752	3,324,735	4,459,583	4,669,583
Pledge of Property Tax Revenue (Fund 600)	899,075	898,450	897,075	894,950	896,950
Water Capacity Charge Revenue (Fund 700)	1,080,000	4,650,000	-	-	-
WM and GS P&I Cap Recovery Payments (Fund 500)	421,917	427,017	474,717	474,717	474,717
WM and GS Replacement Charge (Fund 915)	57,426	57,426	56,852	51,498	51,498
Miscellaneous	205,000	196,000	196,000	196,000	196,000
Interest Income [3]	504,150	313,126	302,607	419,806	481,301
Total Gross Revenues	\$11,926,075	\$17,099,852	\$14,249,694	\$15,909,722	\$16,626,480
OPERATING EXPENSES					
O&M and Capital Outlay	\$5,651,270	\$5,894,266	\$6,127,333	\$6,397,341	\$6,760,184
Replacement Transfer to Fund 805	-	707,000	725,000	743,000	762,000
Supplemental Water Purchases	4,571,964	4,752,767	5,000,667	5,265,853	5,540,224
Supplemental Water O&M	264,119	277,325	291,191	305,751	321,039
Supplemental Water Overhead	39,618	41,599	43,679	45,863	48,156
Supplemental Water Replacement	149,439	149,439	149,439	149,439	149,439
Total Operating Expenses	\$10,676,410	\$11,822,396	\$12,337,309	\$12,907,247	\$13,581,042
CAPITAL IMPROVEMENT PROJECT EXPENDITURES					
Replacement Transfer from Fund 805	\$0	(\$707,000)	(\$725,000)	(\$743,000)	(\$697,600)
Bond Proceeds from Refinance	(500,000)	(3,000,000)	(930,898)	-	-
New Bond Proceeds	-	(2,593,900)	(3,719,900)	-	-
Fund 500 Supplemental Water Capacity CIP	320,000	207,000	1,928,200	-	-
Fund 700 Water Capacity CIP	1,600,000	7,917,800	1,071,200	-	-
Fund 805 Replacement CIP	\$1,115,000	2,593,900	3,719,900	765,300	697,600
Total Capital Improvement Expenditures [4]	\$2,535,000	\$4,417,800	\$1,343,502	\$22,300	\$0
Total Net Funds Available for Debt Service	(\$1,285,335)	\$859,656	\$568,883	\$2,980,175	\$3,045,438
DEBT SERVICE					
2024 COPs Debt Service	\$899,075	\$898,450	\$897,075	\$894,950	\$896,950
Bond Administration	4,000	4,000	4,000	4,000	4,000
New Bond Debt Service [4]	-	249,100	606,300	606,300	606,300
Total Debt Service Costs	\$903,075	\$1,151,550	\$1,507,375	\$1,505,250	\$1,507,250
Total Net Funds Available After Debt Service	(\$2,188,410)	(\$291,894)	(\$938,492)	\$1,474,925	\$1,538,188
Debt Service Coverage	139%	587%	213%	335%	340%
BEGINNING FUND BALANCES [5]	\$8,176,000	\$5,655,628	\$5,198,693	\$5,627,247	\$6,400,710
ENDING FUND BALANCES	\$5,655,628	\$5,198,693	\$5,627,247	\$6,400,710	\$7,273,261
Reserve Target	\$7,371,000	\$7,700,000	\$8,160,000	\$8,754,000	\$9,151,000

[1] Projected using the current rates from Table 3.

[2] Additional revenue from proposed rate adjustments.

[3] Includes interest on Funds 125, 128, 500, 700, and 805. Interest earnings calculated on the average fund balance at 4.0%.

[4] Both debt issues assume an interest of 5.5% and a 20 year term. Includes debt reserve fund and issuance costs.

[5] FY 25-26 beginning balances from District FY 25-26 Budget. Includes Funds 125, 128, and 805 only.

A graphical depiction of the revenue and revenue requirements from Table 13 are presented in Figure 1, however, has been extended for a 10-year period. Revenue using the current rates is shown as the black line while revenue with revenue adjustments is shown as the red line. Water system O&M expenses, supplemental water costs, capital spending including replacement spending, and debt service are shown as columns in the figure.

Figure 1
Water Financial Plan
Comparison of Revenue with Revenue Requirements

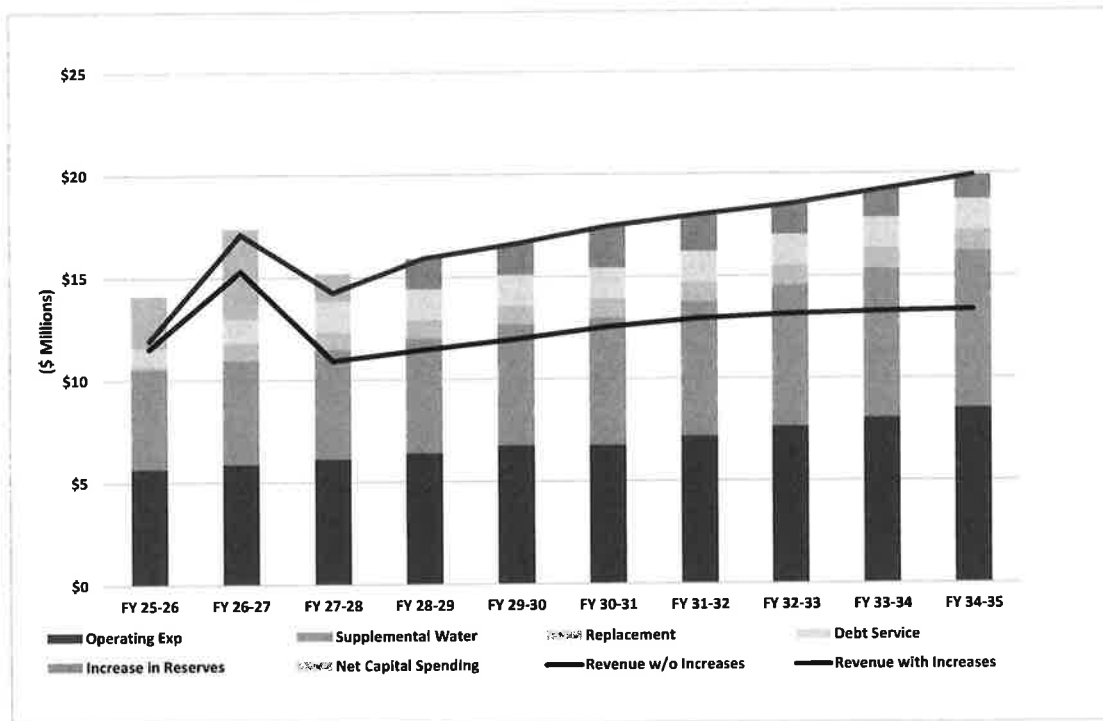
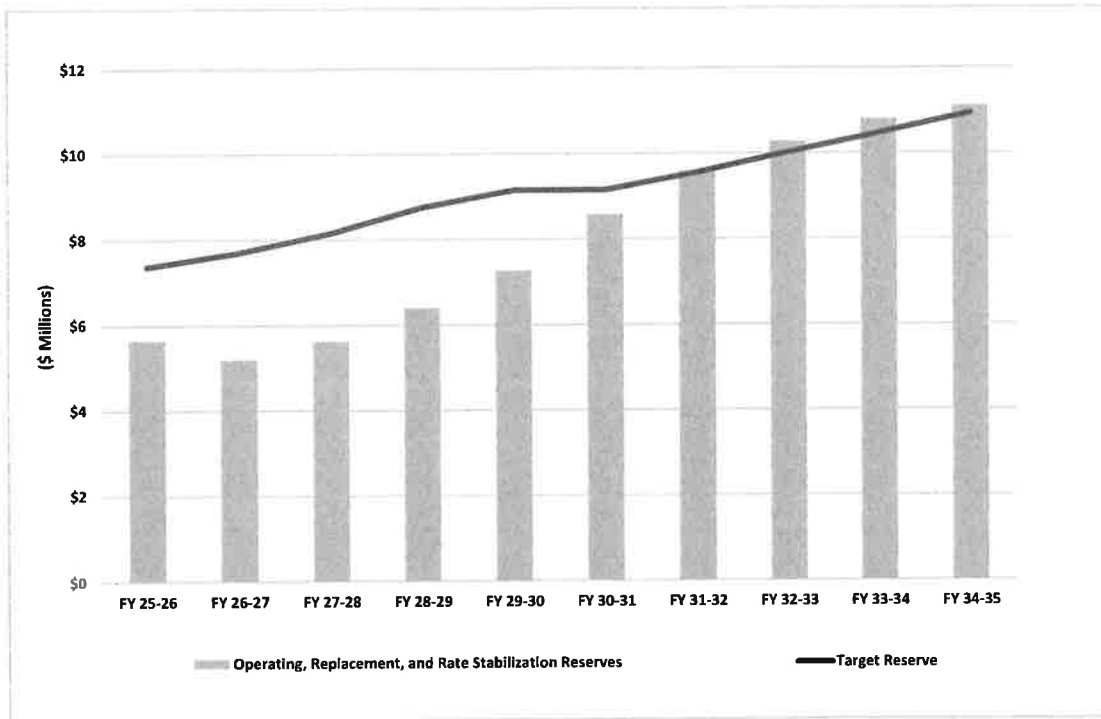


Figure 1 shows that the revenue received from the current rates (black line) is not sufficient to meet annual expenses and fund the CIP program and would thereby decrease System reserves. The revenue increases from Table 13 of 13.8 percent annually for three years, shown as the red line in Figure 1, will provide sufficient revenue to meet the O&M expenses, Supplemental Water expenses, capital spending, and increase reserves during the Study period. For years after FY 29-30, Figure 1 assumes future additional revenue increases of 3.5 percent beginning in FY 2032-33.

Figure 2 provides the end of year level of reserves compared with the Target reserves established for the System for the expanded 10-year financial plan. The purple line represents the Target reserve level for the operating, capital, and rate stabilization reserves, while the green column indicates the annual cash reserve level at the end of year. The figure shows that the reserve balance (green column) declines in the early years of the Study but returns to meet the Target reserve (purple line) by the seventh year of the plan.

Figure 2
Water Reserves vs. Target Reserves



Cost of Service

Establishing rates in California requires that the agency responsible for imposing property-related fees create a nexus, or connection, between the cost of providing service and the rates to be imposed. The connection is created through employing industry methodology with application to the District's unique water system characteristics.

Industry Methodology

This Study uses methodologies from the American Water Works Association (AWWA) to determine costs of service for the System. AWWA is an industry trade organization that provides guidance on operations and management of water utilities. Through their Manual M1, general guidelines and principles are provided to assist agencies with the design of water rates such that the rates may be consistent with local requirements while also recognizing state laws and legal framework. The guidelines and principles in the AWWA Manual M1 have been used to conduct this Study and to design the District's water rates while also following Proposition 218.

The annual costs of providing water service from the financial plan are allocated to cost components according to industry standards provided in the AWWA Manual M1 in an effort to provide a defensible cost allocation. The methodology provides the basis to design fixed and variable rates and charges to recover the costs under the

methodology such that adequate revenue is generated to meet the estimated annual revenue requirements from the financial plan.

Costs of Service to be Allocated

The annual cost of service consists of O&M expenses and capital costs of the System. O&M expenses include costs related to water distribution, maintenance of the facilities, and general and administrative costs. Capital costs include annual capital spending and debt service discussed in the financial plan.

The System costs first need to be allocated to cost components based on the operating characteristics and design of the System facilities. Cost allocations consider the average quantity of water consumed as well as the peak rate at which water is consumed. The System is designed to serve average and peak demands, and costs that are related to serving average and peak demands are allocated in a manner such that they may be recovered appropriately.

For this Study, the cost components include Supplemental Water, Groundwater, Delivery, Peaking (capacity), Meters and Services, Customer, Direct Fire Protection, and Conservation. Supplemental Water costs include the purchased water cost and O&M expenses from the City of Santa Maria. Groundwater costs include electricity and chemicals cost associated with pumping groundwater.

The Delivery component includes District costs related to facilities that meet average-day water demand and includes certain labor, materials, and supplies including some electric power and chemicals expense. The Peaking component includes District costs related to facilities that meet peak demands. The Meters and Services component includes District costs related to maintaining meters and service lines. The Customer component included District costs related to serving the customer and include billing, collecting, and meter reading costs. The Fire Protection component includes direct District costs to operate and maintain fire hydrants. The Conservation component includes District costs related to its water conservation program.

Operating and capital costs from each year of the financial plan are assigned to each of these parameters resulting in total annual costs of service by cost component. A summary of the total cost to be recovered from the users of the water system by cost component for FY 2025-26 through FY 2027-28 are presented in Table 14. A detailed allocation for FY 2025-26 is provided in Appendix A Table A-1. The costs of service for each future year of the financial plan are allocated in the same manner as shown in Table 14.

Table 14
Summary of Allocated Costs of Service

Year	Total Revenue Requirement	Suppl Water	Groundwater	Delivery	Peaking	Customer		Direct Fire Protection	Conservation
						Meters/Serv	Customer		
FY 25-26	\$9,528,854	\$5,025,140	\$299,000	\$1,753,189	\$1,410,751	\$603,207	\$364,822	\$30,048	\$42,697
FY 26-27	11,361,526	5,221,130	264,451	2,450,023	1,971,476	842,961	509,826	41,990	59,668
FY 27-28	\$13,260,463	\$5,484,976	\$289,801	\$3,121,217	\$2,511,571	\$1,073,894	\$649,495	\$53,494	\$76,014

Rate Design

The cost of service allocations described in the previous section provides the basis for water rate design. The goal of the design of rates is to achieve equity and fairness and ensure that each customer class reasonably pays its fair share of costs. Rates should be simple to administer, easy to understand, and comply with regulatory requirements.

Proposed Fixed Charges

The proposed fixed charges are designed to recover certain costs identified in Table 14. The fixed charges include Customer, Meters and Services, and a portion of Peaking and Delivery costs of service. Peaking costs included in the fixed charges are 75 percent of the peaking costs identified in Table 14 and are recovered based on equivalent meter capacity defined by AWWA. Meters and Services costs are recovered based on equivalent meter and services defined by AWWA. Both of these capacity ratios are provided by AWWA in their Manual M1. Customer costs include Customer costs, 30 percent of Delivery costs, and public fire protection costs including a portion of capacity costs developed in Appendix A-4. Customer costs are recovered based on the number of bills issued.

Tables 15 below presents the design of the proposed monthly fixed charges for FY 2025-26 through FY 2027-28. The current fixed charges generate about 25 percent of revenue from water rates; however, the proposed fixed charges generate approximately 35 percent of revenue from water rates by FY 2027-28.

Table 15
Design of Fixed Charges

Customer Service Cost	FY 25-26	FY 26-27	FY 27-28
Customer	\$364,822	\$509,826	\$649,495
30% of Delivery Costs	525,957	735,007	936,365
Public Fire Protection	329,364	459,049	575,778
Customer Cost	\$1,220,143	\$1,703,882	\$2,161,639
Number of Bills	54,684	54,936	56,652
Customer Cost per Unit	\$22.31	\$31.02	\$38.15
Meters and Services Cost	FY 25-26	FY 26-27	FY 27-28
Meters and Services	\$603,207	\$842,961	\$1,073,894
Number of Equivalent Meters & Services	56,270	56,522	58,238
Meters and Services Cost per Unit	\$10.72	\$14.91	\$18.44
Peaking Cost	FY 25-26	FY 26-27	FY 27-28
75% of Peaking Costs Less Pub Fire Protect	\$808,487	\$1,130,855	\$1,448,187
0% of Conservation Costs	0	0	0
Peaking Costs	\$808,487	\$1,130,855	\$1,448,187
Number of Equivalent Meters	56,950	57,202	58,918
Peaking Cost per Unit	\$14.20	\$19.77	\$24.58
Monthly Base Fixed Charge -1" and smaller	\$47.23	\$65.70	\$81.17

Fixed charges for meter sizes greater than 1-inch are increased as shown below in Table 16 for FY 2025-26. The total fixed monthly charges by meter size reflect increases in the Meter and Services and Peaking charges from application of the appropriate meter and service and capacity ratios to the base fixed charge for 1-inch and smaller meter sizes. Fixed charges for futures years were calculated in a similar manner.

Table 16
Design of FY 2025-26 Fixed Charges by Meter Size

Meter Size	Meter & Service Ratio	Meters & Services Charge	Meter Capacity Ratio	Peaking Charge	Public Fire Protection Charge	Delivery Charge	Customer Charge	Total Monthly Charge
inches								
5/8 thru 1 inch	1.00	\$10.72	1.00	\$14.20	\$6.02	\$9.62	\$6.67	\$47.23
1-1/2 inch	1.29	\$13.78	2.00	\$28.39	\$6.02	\$9.62	\$6.67	\$64.48
2 inch	2.07	\$22.21	3.20	\$45.43	\$6.02	\$9.62	\$6.67	\$89.95
3 inch	7.86	\$84.23	6.40	\$90.86	\$6.02	\$9.62	\$6.67	\$197.40
4 inch	10.00	\$107.20	10.00	\$141.97	\$6.02	\$9.62	\$6.67	\$271.48
6 inch	15.00	\$160.80	24.00	\$340.72	\$6.02	\$9.62	\$6.67	\$523.83
8 inch	20.71	\$222.06	40.00	\$567.86	\$6.02	\$9.62	\$6.67	\$812.23

Private Fire Protection Fixed Charges

Annual costs allocated to the Fire Protection cost component are separated into Public and Private Fire Protection costs. Fire Protection costs were determined from Table 14 and allocated as shown in Appendix A-4 for FY 2025-26. Allocations for future years are performed in a similar manner.

Public fire protection costs are included in the monthly service charges as shown in Tables 15 and 16. Private Fire Protection costs are recovered from those customers that receive the direct private fire protection benefit. The monthly cost by equivalent fireline size is provided in Table 17.

Table 17
Design of Private Fire Protection Charges

Fire Protection Cost	FY 25-26	FY 26-27	FY 27-28
Private Fire Protection	\$33,452	\$46,611	\$58,371
Private Fire Protection Eq. Fireline	967	967	967
Private Fire Protection	\$34.60	\$48.20	\$60.37

The monthly private fire protection charges from Table 17 are increased with fireline size based on fireline ratios provided by AWWA. The proposed private fire protection fixed charges are shown in Table 18.

Table 18
Proposed Monthly Private Fire Protection Charges

Fireline Size	Fireline Ratio	February 1, 2026	January 1, 2027	January 1, 2028
inches				
2 inch	0.06	\$2.08	\$2.89	\$3.62
3 inch	0.16	\$5.54	\$7.71	\$9.66
4 inch	0.34	\$11.76	\$16.39	\$20.53
6 inch	1.00	\$34.60	\$48.20	\$60.37
8 inch	2.13	\$73.70	\$102.67	\$128.59
10 inch	3.83	\$132.52	\$184.61	\$231.22

Proposed Variable Rates

District Variable Rate Structure

The variable rate for District customers is designed to recover the District customers' share of Supplemental Water costs, Groundwater costs, and costs common to both District and Annexed customers. The District's share of Supplemental Water plus the groundwater costs are divided by the consumption to determine a blended water rate of the two water supply sources. The common costs include 70 percent of Delivery costs, 25 percent of Peaking costs, and Conservation costs divided by the water consumption. The sum of the blended water supply rate and the common costs rate is the rate charged to District customers and is shown in Table 19 for each projected year of the financial plan. The proposed variable rate in Table 19 applies only to District customers of the System.

Table 19
Design of District Uniform Variable Charges

District Volume Charge	FY 25-26	FY 26-27	FY 27-28
District Customers			
District Supplemental Cost	\$5,025,140	\$5,221,130	\$5,350,002
District Groundwater Cost	299,000	264,451	289,801
Total Water Supply Cost	\$5,324,140	\$5,485,581	\$5,639,803
Units of Service (HCF)	755,288	758,226	761,166
Blended Water Rate (\$/HCF)	\$7.05	\$7.23	\$7.41
Common to All Customers			
70% of Delivery Costs	1,227,233	1,715,016	2,184,852
25% of Peaking Less Pub Fire Protection	269,496	376,952	482,729
100% of Conservation Costs	42,697	59,668	76,014
Total Variable Cost	\$1,539,425	\$2,151,635	\$2,743,595
Units of Service (HCF)	755,288	758,226	776,369
Common to All Volume Charge (\$/HCF)	\$2.04	\$2.84	\$3.53
District Customer Rate (\$/HCF)	\$9.09	\$10.07	\$10.94

Annexed Variable Rate Structure

The variable rate for Annexed customers is designed to use Supplemental Water as the only source of water supply. In addition, costs common to both District and Annexed customers are added into the Annexed variable rate and include 70 percent of Delivery costs, 25 percent of Peaking costs, and Conservation costs and is shown in Table 20. The proposed variable rate is designed to apply only to Annexed customers of the District. The variable rate is shown in Table 20 for each projected year of the financial plan.

Table 20
Design of Annexed Uniform Variable Charges

Annexed Volume Charge	FY 25-26	FY 26-27	FY 27-28
Annexed Customers Only			
Supplemental Water Cost	\$5,025,140	\$5,221,130	\$5,484,976
Supplemental Water Consumption (HCF) [1]	596,730	599,668	617,811
Supplemental Water Cost (\$/HCF)	\$8.42	\$8.71	\$8.88
Common to All Customers			
70% of Delivery Costs	\$1,227,233	\$1,715,016	\$2,184,852
25% of Peaking Less Pub Fire Protection	269,496	376,952	482,729
100% of Conservation Costs	42,697	59,668	76,014
Total All Other Variable Cost	\$1,539,425	\$2,151,635	\$2,743,595
Units of Service (HCF)	755,288	758,226	776,369
Common to All Volume Charge (\$/HCF)	\$2.04	\$2.84	\$3.53
Annexed Rate (\$/HCF)	\$10.46	\$11.54	\$12.41

[1] Projected total demand from Table 6, increased for 9 percent system losses, less minimum groundwater pumping of 400 AFY (174,240 HCF), then reduced for 9 percent system losses.

Proposed Rates

Table 21 presents the proposed fixed and variable charges for the System for the next five years. Table 21 includes both the current charges and the proposed future charges. The proposed fixed and variable charges will be effective on the dates shown beginning February 1, 2026 and on January 1, 2027 and January 1, 2027.

Table 21
Proposed Monthly Fixed and Variable Charges

	Current Rate	February 1, 2026	January 1, 2027	January 1, 2028
Meter Size	Fixed Charge (\$ per month)			
5/8 thru 1 inch	\$41.56	\$47.23	\$65.70	\$81.17
1-1/2 inch	\$57.19	\$64.48	\$89.73	\$111.02
2 inch	\$79.45	\$89.95	\$125.17	\$155.01
3 inch	\$167.87	\$197.40	\$274.70	\$340.35
4 inch	\$232.94	\$271.48	\$377.82	\$468.35
6 inch	\$459.73	\$523.83	\$729.15	\$904.67
8 inch	\$718.92	\$812.23	\$1,130.67	\$1,403.32
Fireline Size	Fixed Charge (\$ per month)			
2 inch	\$2.30	\$2.08	\$2.89	\$3.62
3 inch	\$6.69	\$5.54	\$7.71	\$9.66
4 inch	\$14.26	\$11.76	\$16.39	\$20.53
6 inch	\$41.43	\$34.60	\$48.20	\$60.37
8 inch	\$88.28	\$73.70	\$102.67	\$128.59
10 inch	\$158.77	\$132.52	\$184.61	\$231.22
	Variable Charge (\$ per HCF)			
District Rate (\$/HCF)	\$8.45	\$9.09	\$10.07	\$10.94
Annex Rate (\$/HCF)	n/a	\$10.46	\$11.54	\$12.41

Customer Bill Impacts

A bill impact analysis was performed to evaluate the change in the District's SFR customer bills that would occur from the implementation of the proposed rates for February 1, 2026. For a District single-family customer with a 1-inch or smaller meter using 12 hundred cubic feet (HCF) monthly, the bill will increase from \$142.96 to \$156.31, an increase of \$13.35 or 9.3 percent. The bill impacts are provided in Table 22 below for various water use.

Table 22
**Comparison of Current District Single-family Residential Monthly Bill with a 1-inch or Smaller
Meter Size With Proposed Monthly Bill Using February 2026 Rates**

Description	Use (HCF)	Current Bill			Proposed February 1, 2026 Rates				
		Service Charge	Volume Charge	Current Bill	Service Charge	Volume Charge	January 1, 2026 Bill	Dollar Difference	Percent Change
	0	\$41.56	\$0.00	\$41.56	\$47.23	\$0.00	\$47.23	\$5.67	13.6%
Very Low	5	\$41.56	\$42.25	\$83.81	\$47.23	\$45.45	\$92.68	\$8.87	10.6%
Low	8	\$41.56	\$67.60	\$109.16	\$47.23	\$72.72	\$119.95	\$10.79	9.9%
Median	11	\$41.56	\$92.95	\$134.51	\$47.23	\$99.99	\$147.22	\$12.71	9.4%
Average	12	\$41.56	\$101.40	\$142.96	\$47.23	\$109.08	\$156.31	\$13.35	9.3%
High	30	\$41.56	\$253.50	\$295.06	\$47.23	\$272.70	\$319.93	\$24.87	8.4%
Very High	50	\$41.56	\$422.50	\$464.06	\$47.23	\$454.50	\$501.73	\$37.67	8.1%

Water Rate Survey

A water rate survey was conducted for neighboring communities to the District for rate schedules in effect July 2025. Chart 1 includes water bills for the District using the current rates and the proposed February 1, 2026 rates from Table 21. The chart indicates that a District single-family residential customer with a 1-inch or smaller meter and a monthly consumption of 12 hundred cubic feet (HCF) will experience a bill that is in the upper range of the communities listed.

Chart 1
Survey of Single-family Residential Monthly Water Bills Using 12 HCF
For Rates in Effect July 2025



Note: Above table uses a ¾-inch meter and water rates in effect July 2025. District February 2026 bill is based on the rate structure and rates in Table 21.

Pass-Through Provision

Though the variable charges designed in this Study reflect projected costs, this Study proposes a Pass-Through Adjustment for the costs of purchased Supplemental Water. Under a Pass-Through Adjustment, the District may pass-through any increase in the cost of purchased Supplemental Water at any time that such costs are increased to the District during the five-year period from February 1, 2026 to January 1, 2030.

The pass-through of costs are allowed under section 53756 of the California Government Code. For each change in purchased Supplemental Water supply rates and costs to the District, the District may calculate a revised variable charge and pass this change through to the customer's bill. The District will provide 30-day notice of any pass-through charge.

The date of these rate changes is January 1 of each fiscal year, and this has been included into the rates proposed in this Study. The only expected pass-through cost in the District's water rates is the change in Supplemental Water energy cost from what is projected in this Study versus the actual cost experienced.

Impact of Water Sales Volume Reduction

An analysis was performed to determine the impact to revenue if the District were to experience a reduction in water consumption. The analysis indicates that if the District experienced a twenty (20) percent reduction in water consumption, the result would be a loss of about \$1,300,000 in revenue for FY 25-26. The District has operating and rate stabilization reserves that total about \$4.6 million as shown in Table 2 and will be able to absorb this revenue loss for one year.

Appendix A

Technical Appendix

Appendix A-1
Allocation of Revenue Requirement to Cost Component FY 2025-26

Description	Total FY 25-26	Supplemental Water		Groundwater	Delivery	Peaking	Customer		Direct Fire Protection	Conservation
		Variable	Fixed				Meters/Serv	Customer		
Operation and Maintenance Expense										
Maintenance Personnel Services	\$1,507,935	\$0	\$0	\$0	\$670,992	\$553,525	\$150,794	\$120,635	\$11,999	\$0
Maintenance	1,449,970	0	0	0	439,827	362,824	491,460	101,000	7,859	47,000
Electricity - Pumping	315,000	0	0	220,500	55,588	38,912	0	0	0	0
Chemicals	78,500	0	0	78,500	0	0	0	0	0	0
Maintenance Capital Outlay	0	0	0	0	0	0	0	0	0	0
Total Maintenance	\$3,351,405	\$0	\$0	\$299,000	\$1,166,407	\$955,261	\$642,254	\$221,635	\$19,848	\$47,000
General and Administrative										
Admin Personnel Services	\$711,832	\$0	\$0	\$0	\$240,495	\$165,392	\$115,921	\$177,959	\$3,582	\$9,483
Admin Maintenance	1,390,033	0	0	0	553,282	445,653	209,881	156,206	9,652	15,359
Admin Capital Outlay	198,000	0	0	0	67,975	46,748	32,765	49,500	1,013	0
Total General and Administration	\$2,299,865	\$0	\$0	\$0	\$861,752	\$657,792	\$358,566	\$383,665	\$14,247	\$23,842
Supplemental Water										
Supplemental Water Purchases Expense	\$4,571,964	\$4,571,964	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Supplemental Water O&M	264,119	264,119	0	0	0	0	0	0	0	0
Supplemental Water Overhead @ 15%	39,618	39,618	0	0	0	0	0	0	0	0
Total Supplemental Water Costs	\$4,875,701	\$4,875,701	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Total Operation and Maintenance Expense	\$10,526,971	\$4,875,701	\$0	\$299,000	\$2,028,159	\$1,613,053	\$1,000,820	\$605,300	\$34,095	\$70,842
Capital Costs										
Replacement Transfer to Fund 805	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Supplemental Water Replacement	149,439	149,439	0	0	0	0	0	0	0	0
Replacement Transfer from Fund 805	0	0	0	0	0	0	0	0	0	0
Bond Proceeds from Refinance	(500,000)	0	0	0	(271,326)	(223,826)	0	0	(4,848)	0
New Bond Proceeds	0	0	0	0	0	0	0	0	0	0
Fund 500 Supplemental Water Capacity CIP	320,000	0	0	0	173,649	143,249	0	0	3,103	0
Fund 700 Water Capacity CIP	1,800,000	0	0	0	868,244	716,243	0	0	15,513	0
Fund 805 Replacement CIP	1,115,000	0	0	0	605,058	499,132	0	0	10,811	0
2024 COPs Debt Service	899,075	0	899,075	0	0	0	0	0	0	0
Bond Administration	4,000	0	0	0	2,171	1,791	0	0	39	0
New Bond Debt Service [4]	0	0	0	0	0	0	0	0	0	0
Total Capital Costs	\$3,567,514	\$149,439	\$899,075	\$0	\$1,377,795	\$1,136,587	\$0	\$0	\$24,617	\$0
Adjustments										
Revenue Offsets	(\$3,167,568)	\$0	(\$899,075)	\$0	(\$1,108,995)	(\$914,632)	(\$134,382)	(\$81,275)	(\$19,897)	(\$9,512)
Adjustments for Annual Cash Balance	(2,188,410)	0	0	0	(829,263)	(659,538)	(409,210)	(247,492)	(13,941)	(28,966)
Adjustments to Annualize Rate Increase [1]	770,347	0	0	0	285,483	235,280	145,979	88,289	4,973	10,333
Total Adjustments	(\$4,585,631)	\$0	(\$899,075)	\$0	(\$1,652,765)	(\$1,338,890)	(\$397,613)	(\$240,478)	(\$28,665)	(\$28,145)
Total Costs to be Recovered	\$9,528,854	\$5,025,140	\$0	\$299,000	\$1,753,189	\$1,410,751	\$603,207	\$364,822	\$30,048	\$42,697

Appendix A-2
Units of Service FY 2025-26

Customer Class	FY 25-26 Annual Use	Average Daily Use	Capacity Factor	Total Capacity	Meter Capacity	Meters & Services	Customer	Direct Fire Protection	Conservation
	HCF	HCF		HCF/day	Eq. Mtr	Eq. Mtr/Srv	Bills	Eq. Hyd	HCF
Single-family Residential	544,562	1,492	123%	1,836	46,313	46,277	46,248		544,562
Multifamily Residential	53,816	147	104%	154	6,293	6,270	5,628		53,816
Commercial	49,345	135	113%	153	2,069	1,844	1,404		49,345
Irrigation	99,548	273	153%	418	1,930	1,655	1,296		99,548
Agriculture	5,417	15	128%	19	38	25	12		5,417
Construction/Hydrant	2,600	7	276%	20	307	199	96		2,600
Fire Protection									
Public Fire Protection Hydrants				722				8,652	
Private Fire Protection Firelines				81					
Total System	755,288	2,069		3,403	56,950	56,270	54,684	8,652	755,288

Appendix A-3
Unit Costs of Service FY 2025-26

Description	FY 25-26	Supplemental		Delivery	Peaking	Customer		Fire	
	Total Costs	Water	Groundwater			Meters/Serv	Customer	Protection	Conservation
Total Costs of Service	\$9,528,854	\$5,025,140	\$299,000	\$1,753,189	\$1,410,751	\$603,207	\$364,822	\$30,048	\$42,697
Units of Service		596,730	158,558	755,288	3,403	56,270	54,684	8,652	755,288
Unit Costs of Service		\$8.42	\$1.89	\$2.32	\$414.61	\$10.72	\$6.67	\$3.47	\$0.06
Units of Measure		HCF	HCF	HCF	HCF/day	Eq. Mtr/Srv	Bills	Eq. Hyd	HCF

Appendix A-4
Distribution of Costs to Public and Private Fire Protection FY 2025-26

Description	Allocated	Supplemental		Delivery	Peaking	Customer		Direct Fire	
	Total Cost	Water	Groundwater			Meters/Serv	Customer	Protection	Conservation
Unit Costs of Service		\$8.42	\$1.89	\$2.32	\$414.61	\$10.72	\$6.67	\$3.47	\$0.06
Units of Measure		HCF	HCF	HCF	HCF/day	Eq. Mtr/Srv	Bills	Eq. Hyd	HCF
Public Fire Protection Hydrants									
Units of Service					722	0	0	8,652	0
Allocated Cost of Service	\$329,364	\$0	\$0	\$0	\$299,316	\$0	\$0	\$30,048	\$0
Private Fire Protection									
Units of Service					81	0	0	0	0
Allocated Cost of Service	\$33,452	\$0	\$0	\$0	\$33,452	\$0	\$0	\$0	\$0

DECEMBER 10, 2025

ITEM E-2

ATTACHMENT B

**NIPOMO COMMUNITY SERVICES DISTRICT
RESOLUTION NO. 2025-xxxx**

**RESOLUTION RESPONDING TO TIMELY FILED WRITTEN OBJECTIONS TO THE
PROPOSED WATER RATES AND INCREASING DISTRICT WATER RATES AND
ESTABLISHING SEPARATE VARIABLE WATER RATES FOR CUSTOMERS THAT
ANNEX INTO THE DISTRICT AS OF NOVEMBER OF 2024**

WHEREAS, it is a major responsibility of the Nipomo Community Services District ("District") to maintain adequate levels of revenue, equitably and proportionately collected, to meet the District's financial commitments for the operation and maintenance for water facilities and the replacement of existing facilities in the future; and

WHEREAS, the District retained Tuckfield & Associates to evaluate water rates and charges (rates) and to develop a five year financial plan. The financial plan includes estimated operating and maintenance costs, supplemental water purchases, target reserve levels, anticipated debt service obligations, and capital replacement program needs covering a period from FY 25-26 through FY 28-29. The Report on Water Rate Study, dated September 2025, (Water Rate Study) was prepared according to applicable law, approved by the District Board of Directors on September 24, 2025, been made available for public review and comment, and is incorporated herein by this reference; and

WHEREAS, on September 25, 2024, Governor Newsom approved State Assembly Bill 2257 ("AB 2257"), effective January 1, 2025, which added §§53759.1 and 53759.2 to the Government Code; and

WHEREAS, AB 2257 creates an exhaustion of administrative remedies requirement that, if implemented by the Board of Directors, requires persons and entities to submit a written objection that specifies the grounds for alleging noncompliance of the proposed water rates with Proposition 218 (which added Article XIII D to the California Constitution) prior to the deadline established by the Board for the submittal of written objections, or be barred from any right to challenge the proposed water rates through a legal proceeding; and

WHEREAS, the District complied with the provisions set forth in AB 2257 for establishing an exhaustion of remedies requirement in connection with the proposed water rates, including by providing not less than 45 days from the date of the mailing of the notice of the public hearing referenced below for persons and entities to submit a written objection to the proposed water rates; and

WHEREAS, as of the deadline of 5:00 p.m. on December 1, 2025 established by the District for submitting written objections to the proposed water rates, the District received written objections from 36 persons, which objections are on file in the office of the District Secretary and available for public review (Objections); and

WHEREAS, a summary of the Objections and the District's responses to the Objections are set forth in Exhibit A, attached hereto and incorporated herein by reference (Responses); and

WHEREAS, each Response includes the grounds for which a challenge is not resulting in amendments to the proposed water rates and an explanation of the substantive basis for retaining the proposed water rates in response to the Objection; and

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ESTABLISHING SEPARATE VARIABLE WATER RATES FOR CUSTOMERS THAT
ANNEX INTO THE DISTRICT AS OF NOVEMBER OF 2024**

WHEREAS, Government Code §61115 authorizes the District to adopt rates and charges by resolution; and

WHEREAS, on December 10, 2025, the District conducted a duly noticed public hearing wherein the Board of Directors took public comment and other evidence in support of, and in opposition to, the proposed water rates, which include rate increases and the establishment of separate variable water rates for customers that annex into the District as of November of 2024, and considered whether a majority protest to the proposed water rates exists pursuant to Section 6 of Article XIII D of the California Constitution. A total of 4,671 parcels would be subject to the proposed water rates; therefore, 2,337 protests would be needed to constitute a majority protest, with only one written protest per parcel counted in determining the existence of a majority protest. At the conclusion of the public hearing the General Manager reported, and the Board found, that xxx written protests were received, and not withdrawn, and that a majority protest did not exist; and

WHEREAS, based on facts and analysis presented in and relied on by the Water Rate Study, written protests received prior to the close of the December 10, 2025 public hearing, the Objections and Responses, the Staff Report, Staff Presentation and public testimony received, the Board of Directors hereby finds:

A. The District identified the parcels upon which the proposed water rates will be imposed, calculated the amount of the rates, and mailed notices to all Owners of Record of properties that receive water service and Customers of Record responsible for the water rates, which notices provided information on the proposed rates, including, among other information, the basis for the calculation, the reason for the rates, the means by which a protest could be filed, the means by which a written objection could be filed, and the date, time, and location for a public hearing which was not less than 45 days after the date of mailing.

B. The public hearing was properly noticed pursuant to Section 6 of Article XIII D of the California Constitution, Government Code §53759.1, the Proposition 218 Omnibus Implementation Act (Government Code §53750, et. seq.), and the Brown Act (Government Code §54950, et seq.).

C. The water rates adopted by this Resolution:

1. Are for the purposes of meeting expenses for providing water service to District customers, including operation, maintenance, capital replacement supplemental water purchases, and reserve requirements.
2. Do not exceed the funds required to provide water service to District customers.
3. Do not exceed the proportional cost of services attributable to those

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parcels receiving water service.

- D. The revenues derived from the water rates will not be used for any purpose other than that for which the rates are imposed.

NOW, THEREFORE, BE IT RESOLVED, DETERMINED, AND ORDERED, by the Board of Directors of the District as follows:

Section 1. Incorporation of Recitals

The foregoing Recitals are true and correct and incorporated herein by this reference. The Recitals and referenced reports and studies contained therein, as well as the records of the public hearing, constitute and support the findings of the District in support of this Resolution.

Section 2. Responses

The Board of Directors adopts the Responses set forth in Exhibit A, attached hereto and incorporated by reference. In considering the Responses, the Board determined (1) whether the Objections and the Responses warrant clarifications to the proposed water rates; (2) whether to reduce the proposed water rates; (3) whether to undertake further review before making a determination on whether clarification or reduction is needed; and (4) whether to proceed with the public hearing required under Section 6 of Article XIII D.

Section 3. Water Rates

The Monthly Water Rates referred to in Chapter 2.04 of the District Code, as the same may be amended in the future, and as set forth in Exhibit B, attached hereto and incorporated herein by reference, are hereby adopted, to be effective February 1, 2026. The District is purchasing supplemental water from the City of Santa Maria. The City of Santa Maria may increase its water charges to the District. The District may pass-through any additional increase at any time that such costs are increased to the District during the five-year period from February 1, 2026 to January 1, 2030, as allowed under Government Code §53756.

Section 4. Repeal of Prior Resolutions

All prior resolutions and sections of resolutions that are inconsistent with this Resolution are hereby repealed, subject to the effective date identified in Section 3 above. Any existing rates and charges not specifically amended by this Resolution shall remain in full force and effect.

Section 5. Effect of Repeal on Past Actions and Obligations

This Resolution does not affect prosecutions for violations committed prior to the effective date of this Resolution, does not waive any fee or penalty due and unpaid on the effective date of this Resolution, and does not affect the validity of any bond or cash

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deposit posted, filed or deposited pursuant to the requirements of any prior resolution or ordinance.

Section 6. Challenges to Rates.

Any action to challenge the rates adopted herein must be brought within the 120-day period following adoption pursuant to Government Code §53759.

Section 7. CEQA Findings

The Board of Directors finds that to the best of its knowledge the rates adopted by this Resolution are exempt from the California Environmental Quality Act pursuant to Public Resources Code §21080(b)(8) and CEQA Guidelines §15273. The District General Manager is directed to prepare and file appropriate notices.

Section 8. Severance Clause

If any section, subsection, sentence, clause or phrase of this Resolution is for any reason held to be unconstitutional, ineffective or in any manner in conflict with the laws of the United States, or the State of California, such decision shall not affect the validity of the remaining portions of this Resolution. The Board of Directors hereby declares that it would have adopted this Resolution and each section, subsection, sentence, clause and phrase thereof, irrespective of the fact that any one or more sections, subsections, sentences, clauses or phrases be declared unconstitutional, ineffective, or in any manner in conflict with the laws of the United States or the State of California.

Upon the motion of Director _____, seconded by Director _____, and on the following roll call vote, to wit:

AYES:

NOES:

ABSENT:

CONFLICTS:

the foregoing resolution is hereby adopted this 10th day of December 2025.

ED EBY, President
Nipomo Community Services District
Board of Directors

ATTEST:

APPROVED AS TO FORM

**NIPOMO COMMUNITY SERVICES DISTRICT
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**RESOLUTION RESPONDING TO TIMELY FILED WRITTEN OBJECTIONS TO THE
PROPOSED WATER RATES AND INCREASING DISTRICT WATER RATES AND
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AND LEGAL EFFECT:

RAY DIENZO
General Manager and
Secretary to the Board

CRAIG A. STEELE
District Legal Counsel

EXHIBIT A

RESPONSES TO WRITTEN OBJECTIONS

(Duplicate or repeat objections combined and summarized)

Objection 1

1. Comment/Question:

We received a flyer from the District indicating that if there were no protest to the addition of the Dana Reserve project that there would be no increase in water rates due to the increased customer base. What happened to that?

Response:

The above question does not allege noncompliance of the proposed water rates with Proposition 218, but instead raises a public information issue that many commenters have raised. The record shows that the proposed increases in water rates are due to several reasons. First, the Water Rate Study, dated September 2025, prepared by the District's consultant, Tuckfield & Associates (the "Water Rate Study"), includes \$4.4 million more of capital replacement spending over the next 10 years than the last rate study. Second, there is a current budget deficit in the Water fund of about \$2 million due to increased costs of supplemental water and the increased quantity of supplemental water the District is required to import. The deficit must be cured. Third, the District reserves have decreased and are projected to continue to decrease at current rates, and the rate increases are needed to restore reserves to District policy levels. Fourth, the rate increases are necessary to meet the District's operation and maintenance expenses, which continue to increase as most costs are increasing in everyday life.

Lastly, the proposed rate increases are necessary to pay for the cost of supplemental water. As required by the Stipulation and Judgment in the Santa Maria Valley groundwater adjudication, the District purchases supplemental water from the City of Santa Maria, and the District's agreement with the City requires the District to take-or-pay supplemental water at 1,667 acre-feet per year commencing in fiscal year (FY) 2025-26. This is an increase in water costs of approximately \$2.7 million over the prior year water supply cost. The recently annexed Dana Reserve residential and commercial development must be served with supplemental water pursuant to the District's Annexation Policy. Prior documents prepared for consideration of the Dana Reserve project consideration contemplated that the development would connect to the District's water system commencing in FY 2025-26, and benefits for rate payers would be achieved at Project buildout, which was the best information available at the time. However, the development has been delayed due to litigation and other reasons, and the Water Rate Study assumes that the development will begin to connect starting July 1, 2027. Therefore, all of the additional supplemental water costs must currently be borne by the District's existing customers.

2. Comment/Question:

How much of your proposed capital projects are associated with the Dana Reserve project and why would you be passing the cost on to us instead of the Dana Reserve developers?

Several other people also submitted letters which asked a similar question or commented that the cost of capital improvements needed to support the Dana Reserve project should be borne by the developer and not be passed to existing residents.

Response:

While the above question/comment does not allege noncompliance of the proposed water rates with Proposition 218, the District notes that the District's agreement with the Dana Reserve developer is that the District will not construct projects related to the Dana Reserve project without funding from the developer. Therefore, there is no capital cost impact to District rate payers associated with the Dana Reserve project, and none of the rate increases are attributable to the costs of the Dana Reserve project.

3. Comment/Question:

We question the need for a new well in the face of the "take-or-pay" water coming from Santa Maria.

Response:

While the above question does not allege noncompliance of the proposed water rates with Proposition 218, the District notes that it currently obtains its water supply from four active wells and from supplemental water supplied by the City of Santa Maria. The four wells have a capacity of 2,100 gallons per minute and extract water primarily from the Nipomo Mesa Management Area of the Santa Maria Groundwater Basin. The District needs an additional well for supply redundancy.

Objection 2

1. Comment/Question:

The proposed increase in water rates is excessive, burdensome, and quite frankly unacceptable for households in our community.

Several other people also submitted letters which commented that the proposed rates are excessive and will create an undue financial hardship on their household or on residents who have fixed or limited incomes and/or that they do not believe that the Water Rate Study adequately explains the necessity for the large proposed increase or the timing of the increase.

Response:

The above statements regarding the excessive or burdensome nature of the proposed rates are opinions of the commenters and do not allege noncompliance of the proposed water rates with Proposition 218. With respect to the objections that the Water Rate Study does not adequately demonstrate the need for the proposed rate increases, Section 6 of Article XIII D of the California Constitution (Article XIII D) (which was added by Proposition 218) provides that a fee for a property-related service, such as water service, may not be imposed or increased by a local agency unless it meets certain requirements. These requirements include that revenues derived from the fee shall not exceed the funds required to provide the property-related service. The Water Rate Study includes a review and analysis of the District's current and projected revenue requirements, including operation and maintenance expenses, supplemental water purchases, debt service coverage requirements, annual capital improvement expenditures based on a Capital Improvement Program (CIP) for FY 2025-26 through FY 2029-30, and target reserve levels. The Water Rate Study incorporates specific planning criteria or goals to maintain the financial health of the water system on an on-going basis, including generating positive levels of income in each year of the study period, maintaining operating and capital reserves at not less than the target reserve levels, maintaining debt service ratios at not less the minimum required levels, and meeting annual capital replacement spending. The District's FY 2025-26 budget expenses are included in the Water Rate Study's financial plan and future expenses were projected through application of inflation factors to the budgeted expenses to complete a five-year plan. In addition, the Water Rate Study uses several assumptions to determine the District's revenue needs for FY 2025-26 through FY 2029-30, including growth rates in customer accounts and interest earnings on fund reserves. The Water Rate Study includes a detailed list of capital improvement projects for each year of the study period in Table 12 as well as an analysis of how the annual amount for capital replacement for supplemental water facilities was established. Miscellaneous non-rate revenues are taken into consideration, including penalties/late fees, meter connection fees, water turn on fees, and plan check and inspection fees. The Water Rate Study takes into account all of the District's combined water related funds to evaluate the sufficiency of revenues generated by the current water rates and documents that annual revenue increases of 13.8% are necessary for the next three years and that the current rates do not generate sufficient revenues to meet the District's projected revenue needs. The City's rate consultant used methodologies from the American Water Works Association (AWWA) to determine the District's costs of service and to design the water rates. AWWA is an industry trade organization that has established industrywide ratemaking principles and standards for cost of service studies that have been accepted by California courts. The District recognizes that the cost increases are significant. However, as documented in the Water

Rate Study, the proposed water rates all comply with Proposition 218's requirement that the rate revenues must not exceed the funds required by the District to provide water service.

Objection 3

1. Comment/Question: The structure of the proposed rates appear inequitable. Customers who use less water face a significantly higher percentage increase than those who use more. This approach discourages conservation and unfairly penalizes responsible water users. Instead, the rate structure should be designed to incentivize lower usage and hold higher users more accountable. I strongly urge the Board to consider implementing a more balanced and just tiered system that reflects this principle.

Another person submitted a letter which commented that the District does not offer any relief to those who do not waste water.

Response:

The District had a "tiered" water rate structure several years ago, before the current rate structure was in effect. Certain customers of the District complained that it was causing a hardship for those customers using water in the upper tiers. Additionally, there has been some litigation surrounding whether or not a tiered rate structure to encourage conservation can be implemented legally. One case, *Capistrano Taxpayers Association v. City of San Juan Capistrano* (2015) 235 Cal.App.4th 1493, held that the city's tiered water rates had to be justified based on the incremental costs of providing service to each tier. The District chose to eliminate the tiered rate structure because it would have resulted in some customers paying more than the actual cost of water. Rates cannot be used to penalize certain users. The proposed water rate structure is the same as the structure currently used by the District, except that variable rates are proposed to consist of separate rates for current District customers and customers that are annexed into the District as of November of 2024. The comment refers to the different percentage rate increase for different categories of water users, which is to be expected since rates are proportional, as required by law.

Article XIII D, Section 6 of the California Constitution provides that the amount of any fee imposed on any parcel or person as an incident of property ownership shall not exceed the cost of the service attributable to the parcel. The Water Rate Study demonstrates that the rates are proportional. When the District eliminated the tiered rate structure, it implemented a uniform variable (volume) rate structure whereby all water consumed is charged at the same rate. However, due to the annexation of the Dana Reserve project to the District, the Water Rate Study now includes differential variable rates for existing District customers, and higher rates for customers that annex to the District after November of 2024. The differential rates reflect that water supplied to annexation customers must be entirely from supplemental water which is

more expensive than the blend of supplemental water and groundwater supplied to existing customers and ensures that the water rates are proportional as required by Proposition 218. In addition to the variable rates, there is a fixed charge based on the meter size installed at the customer's premises which is applicable to all customers. The fixed charge will initially generate about 26% of the rate revenues and will increase to about 35% in FY 2027-28. As described in the Water Rate Study, the allocation of system costs to cost components is based on the operating characteristics and design of the system facilities and considers the average quantity of water consumed as well as the peak rate at which water is consumed. The system is designed to serve average and peak demands, and the costs that are related to serving average and peak demands are allocated in a manner such that they may be recovered appropriately. The cost of service allocations described in the Water Rate Study provide the basis for the water rate design, which ensures that each customer class reasonably pays its fair share of costs. See also the response to comment 1 of Objection no. 4.

2. Question/Comment:

I question the timing and necessity of this increase, especially in light of the 2022 water study which projected that water costs would likely decrease by 30% following the approval of the Dana Reserve development. If that projection still holds, it raises serious concerns about the justification for a significant rate hike at this time.

Several other people also submitted letters which commented that, after the District conducted several studies, a statement was made that with additional projects and developments planned in Nipomo, water rates would actually go down.

Response:

As discussed in the response to Objection no. 1, prior studies assumed that customers in the Dana Reserve development would begin to connect to the District's water system in FY 2025-26. However, connections have been delayed and the Water Rate Study assumes that customers in the development will begin to connect to the system starting July 1, 2027. Table 4 in the Water Rate Study shows the rate at which Dana Reserve customers are anticipated to connect to the system, and full buildout is not anticipated to occur until FY 2029-30. It is only after full buildout that water rates are anticipated to decrease because of the larger customer base.

Objection 4

1. Comment/Question:

Insufficient Notice and Clarity under Proposition 218: The notice fails to provide a clear, itemized explanation of the cost basis for the proposed increases. The District has not provided

detailed per-unit cost justifications, nor separated the costs attributable to annexed parcels versus in-district users as required by Article XIII D, Section 6(b)(1).

Response:

Proposition 218 requires the notice of a public hearing regarding a proposed increase to a property-related fee to include the amount of the fee proposed to be imposed on the parcels subject to the fee, the basis upon which the amount of the proposed fee was calculated, the reason for the proposed fee and the date, time and location of a public hearing on the proposed fee. The District's notice includes all of these elements and complies with Proposition 218.

With respect to the objection regarding cost justifications, Article XIII D, Section 6(b)(1) provides that revenues derived from a property-related fee shall not exceed the funds required to provide the property-related service. As indicated in the response to objection no. 2, the Water Rate Study documents that the rate revenues will not exceed the funds required by the District to provide water service. No evidence to the contrary has been provided. To elaborate, the costs of providing service and the allocation of those costs to cost component follows AWWA methodology and begins with Appendix A-1 of the Water Rate Study for FY 2025-26. The costs for each future year were allocated in a similar manner as stated in the last sentence on page 19 of the Water Rate Study. The costs for each year are summarized in Table 14 on page 19. The costs in Table 14 are included partially or wholly in the fixed charges or variable charges as shown in Tables 15, 16, 19, and 20 of the Water Rate Study. Fixed charges are designed by meter size as shown in Table 16. Variable rates are designed separately for existing District customers and for customers annexed to the District as shown in Tables 19 and 20, respectively.

2. Comment/Question:

Disproportionate Rate Structure: The proposed 'Annex Variable Rate' introduces a discriminatory and non-uniform rate scheme that appears to exceed the actual proportional cost of service in violation of Article XIII D, Section (b)(3).

Response:

As set forth in the response to objection no. 3, the differential rates for the variable (volume) rates reflect that Board policy requires that the water supply for annexed customers must be entirely from supplemental water which is more expensive than the blend of supplemental water and groundwater supplied to existing customers and ensures that the water rates are proportional as required by Proposition 218. It should also be noted that the variable rates for existing District customers (District Rate) is uniform for all existing District customers and that the variable rates for customers annexed to the District (Annex Rate) is uniform for all annexed customers.

3. Comment/Question:

Undefined Pass Through Authority: The proposed 'pass-through' clause referencing Government Code Section 53756 grants the District open-ended authority to impose future rate increases without additional notice or hearing. The delegation of the rate adjustment authority is overbroad and contrary to the notice and approval protection under Proposition 218.

Response:

The automatic pass-through for increases in wholesale charges for water is allowed under Government Code Section 53756, which is a provision of the Proposition 218 Omnibus Implementation Act, and is not contrary to Proposition 218. The pass-through adjustment is specifically tied to any additional increases in the Santa Maria Tier 1 rate charged to the District for supplemental water beyond the rates contemplated in the Water Rate Study. The term of the pass-through adjustment (five years) is not open-ended and is authorized by Section 53756 and is specifically stated in the notice.

4. Comment/Question:

Inadequate Financial Documentation: The notice does not summarize the findings of the Water Rate Study, nor provide sufficient access to underlying data for ratepayers to meaningfully evaluate or contest the financial assumptions prior to the protest deadline.

Another person also submitted a letter commenting that the rate-setting methodology and the justification for the increases were not clearly explained in the public notice.

Response:

As set forth in comment no. 1, above, the notice complies with Proposition 218. Further, the notice includes a summary of certain information in the Water Rate Study and states how to obtain additional information, how to review the Water Rate Study, and how to contact the District if someone has questions or seeks further information about the proposed water rates.

5. Comment/Question:

Procedural Conflict with Written Objection Deadline: The requirement to submit substantive 'Written Objections' by December 1, 2025 -- nine days prior to the formal Public Hearing on December 10, 2025-- imposes an unreasonable administrative exhaustion barrier inconsistent with the due process intent of Proposition 218. The bifurcation between the 'Written Objection' and the 'Written Protest' deadlines is confusing, potentially disenfranchising affected ratepayers.**Response:**

The deadline established for the submittal of written objections (December 1, 2025) in order to exhaust administrative remedies complies with the exhaustion of administrative remedies

procedure established by Government Code Section 53759.1, and does not impose an unreasonable barrier for exhausting administrative remedies or deny anyone due process. Information regarding how to submit written objections and the deadline for the submittal of written objections was included in the notice of the public hearing on the proposed water rates and was mailed to property owners and water customers not less than 45 days prior to the December 1st deadline in compliance with Section 53759.1. The notice of public hearing also clearly explains how to protest the proposed water rates, indicates that written protests may be submitted prior to the close of the public hearing, which is scheduled to occur on December 10, 2025, explains how written protests will be counted in determining whether there is a majority protest against the proposed water rates, and explains the effect of a majority protest. The notice also explains that a written objection that complies with the requirements for a written protest will be counted as a written protest in determining whether a majority protest exists. While the District maintains that the notice is clear, it also notes that the notice includes information on how to contact the District if someone has questions.

Objection 5

1. Comment/Question:

Private fire protection requirements will see a 57% increase in their charges, in addition to their water usage but 'Private Fire Protection' is undefined.

Response:

"Fire Service" is defined in Section 1.04.020 of the District Code. As explained in the Water Rate Study, private fire protection costs are recovered from those customers that receive the direct private fire protection benefit. Private fire protection is a fire protection service provided to commercial buildings (and possibly other large buildings like schools, etc.) where a water line is connected from a water main that goes directly into the building for the purpose of fire suppression. It is a service that is not available publicly to any other customer and may or may not be metered (detector check valve). It is not a residential service and residential customers do not pay for it. Fire protection for residential customers is available through the public fire hydrants in the streets or through the larger 1-inch meter serving newer homes that provide additional capacity for fire suppression.

2. Comment/Question:

The notice does not address the increase in water usage rate for businesses.

Response:

As set forth in the response to comment no. 1 of objection no. 4, the notice of the public hearing on the proposed water rates complies with Proposition 218. It should also be noted that

the notice does address proposed water rates for businesses. The water rates consist of fixed and variable charges. The fixed charges consist of monthly charges by meter size and are applicable to all customers. Variable charges include a uniform rate charged separately to existing District customers and to customers annexed to the District. The notice sets forth the proposed rates for the fixed charges and variable charges. The notice is not required to describe customer bill impacts. However, because Table 4 of the Water Rate Study shows that about 85% of the District customers are single-family residents, the District included in the notice information regarding the impacts of the proposed rate increases on the bills for single-family residential customers. The Water Rate Study details water rates for businesses.

Objection 6

1. Comment/Question:

If you look at your own tables for a usage rate of 12 HCF, you want to increase water rates by 9%, 30%, and 49% which does not add up.

Response:

Table ES-2 and Table 22 of the Water Rate Study show that an in-District customer (i.e., an existing customer) with a 1-inch or smaller meter size using 12 HCF will experience an increase in their water bill of 9.3% the first year.

For the second year, an in-District customer with a 1-inch or smaller meter size meter using 12 HCF will experience an increase in their water bill of 19.3% (\$30.23/\$156.31).

$[(\$65.70 + 12 * \$10.07) = \$186.54 - \$156.31 = \$30.23]$.

For the third year, an in-District customer with a 1-inch or smaller meter size using 12 HCF will experience an increase in their water bill of 13.8% [\$25.91/\$186.54].

$[(\$81.17 + 12 * \$10.94) = \$212.45 - \$186.54 = \$25.91]$.

As set forth in the Water Rate Study, 13.8% annual revenue increases are necessary for the next three years to meet the District's projected revenue requirements for providing water service. The percentage rate increases are not linear across-the-board increases to the current water rates because of the differences in the level of water consumed and the costs recovered in different sizes of the water meter. Not every customer uses the same amount of water each month even though they are in the same class of customers (e.g., single family residential). Tables ES-2 and Table 22 of the Water Rate Study show that a SFR customer's percentage increase in their bill depends on how much water they consume each month, and the increase is not across-the-board. The proposed variable rates (volume charges per one hundred cubic feet (HCF) of water consumed) consist of separate uniform rates for existing District customers

(in-District customers) and annexed customers. The District's financial records are audited, and a public report is presented, each fiscal year. Prior year's audited financial statements are available on the District's website.

As demonstrated in the Water Rate Study and the foregoing responses, the District complied with the procedures in subdivision (a) of Section 6 of Article XIII D for increasing the water rates and the proposed water rates comply with the substantive requirements in subdivision (b) of Section 6 or Article XIII D, including that the revenues derived from the proposed water rates will not exceed the funds required to provide water service and the amount of the charge imposed upon any parcel or person as an incident of property ownership will not exceed the proportional cost of water service attributable to the parcel. Accordingly, the Board of Directors of the District determines that the written objections and the District's responses set forth above do not warrant any clarification to the proposed water rates, the rates do not need to be reduced or modified, further review is not required before making the foregoing determinations, and there is no need to delay the public hearing on the proposed rates.

**NIPOMO COMMUNITY SERVICES DISTRICT
RESOLUTION NO. 2025-xxxx**

**RESOLUTION RESPONDING TO TIMELY FILED WRITTEN OBJECTIONS TO THE
PROPOSED WATER RATES AND INCREASING DISTRICT WATER RATES AND
ESTABLISHING SEPARATE VARIABLE WATER RATES FOR CUSTOMERS THAT
ANNEX INTO THE DISTRICT AS OF NOVEMBER OF 2024**

EXHIBIT "B"

MONTHLY USER FEES (WATER)

	Current Rate	February 1, 2026	January 1, 2027	January 1, 2028
Meter Size	Fixed Charge (\$ per month)			
5/8 thru 1 inch	\$41.56	\$47.23	\$65.70	\$81.17
1-1/2 inch	\$57.19	\$64.48	\$89.73	\$111.02
2 inch	\$79.45	\$89.95	\$125.17	\$155.01
3 inch	\$167.87	\$197.40	\$274.70	\$340.35
4 inch	\$232.94	\$271.48	\$377.82	\$468.35
6 inch	\$459.73	\$523.83	\$729.15	\$904.67
8 inch	\$718.92	\$812.23	\$1,130.67	\$1,403.32
	Variable Charge (\$ per HCF)			
District Rate (\$/HCF)	\$8.45	\$9.09	\$10.07	\$10.94
Annex Rate (\$/HCF)	n/a	\$10.46	\$11.54	\$12.41

DECEMBER 10, 2025

ITEM E-2

ATTACHMENT C



SEPTEMBER 2025

Nipomo Community Services District

NOTICE OF PUBLIC HEARING - WATER RATE INCREASE

This is a notice to explain proposed increases in water rates for the Nipomo Community Services District ("NCSD" or the "District") and the majority protest procedures. The proposed rate increases will be recommended for adoption by NCSD's Board of Directors at the Public Hearing described in this Notice.

See the back page of this Notice for Public Hearing date and deadline and process for submitting written substantive objections.

The Nipomo Community Services District (District) is proposing to increase its water rates. The District is mailing this notice to you because you are a water customer or are the owner of record of a property that receives water service. This notice describes proposed changes to the water rates and provides information about a Public Hearing to be held to allow community discussion regarding the water rate increases.

Why Rates are Changing

The District is facing increased operating and capital expenses in its water system. The District's operating expenses continue to increase, which include electricity, maintenance, chemicals, salaries and benefits, and general and administrative costs. Additionally, the District began its first year of buying "take-or-pay" supplemental water at 1,667 acre-feet per year (AFY) from the City of Santa Maria, an increase of about \$2.7 million over the prior year water supply cost. The District is also planning to construct needed water system capital improvements as part of their five-year capital improvement plan. The projects include a new well (\$3 million), tank rehabilitation (\$1.65 million) and other water infrastructure replacements and improvements (\$4.2 million). These operating expenses and capital improvements are necessary to maintain a financially stable water enterprise supplying water to the community. The rates proposed herein include the above discussed increases in operating and capital expenses.

What Is Funded From Water Rates

The District provides water service to a mix of residential and commercial customers. Monthly revenue from water rates charged to system users (customers) is the primary source of revenue for the water system. Revenue from water rates provides funding for annual operating and maintenance costs, capital projects to improve water infrastructure, administration, and maintaining adequate fund reserves and planning for contingencies.

Why Rate Increases Are Needed

Current water rates do not provide adequate funding for long-term operation and maintenance expenses and capital projects. The District engaged a consultant to perform a written study of the District's water funds and to recommend water rates designed to meet the District's financial needs, including operating and maintenance service costs, funds for needed capital projects, and maintenance of reserves. The study identified cost increases for operation and maintenance expenses, capital infrastructure needs, maintenance of reserves, and the cost of import water from the City of Santa Maria via the Nipomo Supplemental Water Project as drivers of the necessary water rate increases.

Proposed Water Rates

The proposed rates would maintain a uniform rate per unit of water used (1 Unit = 748 gallons or One Hundred Cubic Feet "HCF") for in District customers and create an "annex variable rate" for customers that annex into the District as of November of 2024 and later, pursuant to District policy. All users will pay the same fixed charge by meter size. The proposed rates are structured to meet the increasing costs of operations, maintenance, and infrastructure, along with the costs of financial obligations for importing more water from Santa Maria. Water supplied to annexed customers will be entirely from supplemental water and they will pay the annexation variable rate. The proposed rates would go into effect February 1, 2026. The subsequent year rate increases are on the following pages.

PLEASE CONTACT US IF YOU HAVE QUESTIONS OR COMMENTS ABOUT THE PROPOSED RATE INCREASE

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Proposed Water Rates

	Current Rate	February 1, 2026	January 1, 2027	January 1, 2028
Meter Size	Fixed Charge (\$ per month)			
5/8 thru 1 inch	\$41.56	\$47.23	\$65.70	\$81.17
1-1/2 inch	\$57.19	\$64.48	\$89.73	\$111.02
2 inch	\$79.45	\$89.95	\$125.17	\$155.01
3 inch	\$167.87	\$197.40	\$274.70	\$340.35
4 inch	\$232.94	\$271.48	\$377.82	\$468.35
6 inch	\$459.73	\$523.83	\$729.15	\$904.67
8 inch	\$718.92	\$812.23	\$1,130.67	\$1,403.32
	Variable Charge (\$ per HCF)			
District Rate (\$/HCF)	\$8.45	\$9.09	\$10.07	\$10.94
Annex Rate (\$/HCF)	n/a	\$10.46	\$11.54	\$12.41

District Single-Family Residential – Comparison of Current Bill with February 1, 2026 Bill

Description	Use (HCF)	Current Bill			Proposed February 1, 2026 Rates				
		Service Charge	Volume Charge	Current Bill	Service Charge	Volume Charge	February 1, 2026 Bill	Dollar Difference	Percent Change
	0	\$41.56	\$0.00	\$41.56	\$47.23	\$0.00	\$47.23	\$5.67	13.6%
Very Low	5	\$41.56	\$42.25	\$83.81	\$47.23	\$45.45	\$92.68	\$8.87	10.6%
Low	8	\$41.56	\$67.60	\$109.16	\$47.23	\$72.72	\$119.95	\$10.79	9.9%
Median	11	\$41.56	\$92.95	\$134.51	\$47.23	\$99.99	\$147.22	\$12.71	9.4%
Average	12	\$41.56	\$101.40	\$142.96	\$47.23	\$109.08	\$156.31	\$13.35	9.3%
High	30	\$41.56	\$253.50	\$295.06	\$47.23	\$272.70	\$319.93	\$24.87	8.4%
Very High	50	\$41.56	\$422.50	\$464.06	\$47.23	\$454.50	\$501.73	\$37.67	8.1%

District Single-Family Residential – Impact to Monthly Bill Over Time

Description	Use (HCF)	Current Water Bill	Feb 2026 Water Bill	Jan 2027 Water Bill	Jan 2028 Water Bill
	0	\$41.56	\$47.23	\$65.70	\$81.17
Very Low	5	\$83.81	\$92.68	\$116.05	\$135.87
Low	8	\$109.16	\$119.95	\$146.26	\$168.69
Median	11	\$134.51	\$147.22	\$176.47	\$201.51
Average	12	\$142.96	\$156.31	\$186.54	\$212.45
High	30	\$295.06	\$319.93	\$367.80	\$409.37
Very High	50	\$464.06	\$501.73	\$569.20	\$628.17

Proposed Private Fire Protection Charges

Fireline Size inches	Current Charge	February 1, 2026	January 1, 2027	January 1, 2028
2 inch	\$2.30	\$2.08	\$2.89	\$3.62
3 inch	\$6.69	\$5.54	\$7.71	\$9.66
4 inch	\$14.26	\$11.76	\$16.39	\$20.53
6 inch	\$41.43	\$34.60	\$48.20	\$60.37
8 inch	\$88.28	\$73.70	\$102.67	\$128.59
10 inch	\$158.77	\$132.52	\$184.61	\$231.22

SINGLE FAMILY BILL COMPARISON WITH OTHER LOCAL AGENCIES

The District's water rates are determined based on the costs of the mix of low-cost groundwater and more expensive imported water from the City of Santa Maria. Annexed properties will be supplied by imported water only at different rates for those customers based on the higher cost of that imported water. The District is obligated to purchase increased amounts of imported water which will reduce the demand and cost savings of lower-cost groundwater, but also help to preserve groundwater resources.

Comparison of Single-family Residential District Monthly Water Bills at 12 HCF Monthly for 2026



This is for an average single-family, monthly water bill at 12 HCF (including Fixed and Volume charges) compared to other local water agencies.

HOW TO PROTEST THE PROPOSED WATER RATES

The following persons may submit a written protest against the Proposed Water Rate Increase to the District's Clerk before the close of the Public Hearing.

- An owner(s) of property (parcel(s)) ("owner of record") receiving water service from the NCSO Water System. If the person(s) signing the protest, as an owner, is not shown on the last equalized assessment roll as the owner of the parcel(s) then the protest must contain or be accompanied by written evidence that such person signing the protest is the owner of the parcel(s) receiving water service;
- "Customer of record" (Tenant(s)) whose name appears on the District records as the customer of record for the corresponding parcel receiving water service from the NCSO.

A valid written protest must include:

1. A statement that it is a protest against the proposed water rate increase;
2. The name of the record owner or customer of record;
3. The identity of the affected parcel by assessor's parcel number or service address;
4. An original signature (not photocopy, email, or fax copy) of the record owner or customer of record of the identified parcel; **AND**
5. The date the written protest is signed.

Pass-Through: The District is purchasing supplemental water from Santa Maria. Santa Maria may increase its water charges to the District. The District may pass-through any additional increase at any time that such costs are increased to the District during the five-year period from February 1, 2026 to January 1, 2030, as allowed under section 53756 of the California Government Code.