


TO: BOARD OF DIRECTORS
FROM: BRUCE BUEL 
DATE: SEPT. 21, 2007



ACCEPT COMBINED WATER FUND FINANCIAL PLAN

ITEM

Accept Combined Water Fund (Town & Blacklake) Financial Plan and determine need for rate increase [RECOMMEND ADOPTION].

BACKGROUND

At the July 25, 2007 Meeting, your Honorable Board reviewed a draft Combined Water Fund Financial Plan; at the August 15, 2007 meeting, your Honorable Board reviewed alternative rate structures; and at the August 29, 2007 meeting your Honorable Board revised the cost for development of the Supplemental Water Project. Based on the policy direction provided at these three meetings, the District's Rate Consultant, Bob Reed, has submitted the attached revised draft Combined Water Fund Financial Plan. As detailed in this Draft Plan, Mr. Reed recommends that the Board not further increase the previously approved Town rates at this time. Mr. Reed is also recommending that the Board not apply a two-tier inclining block rate structure to non single-family residential customers. Mr. Reed is recommending that the District approve an equity buy-in for Blacklake customers if they wish to merge with the Town Water Fund.

Staff and Bob Reed are scheduled to conduct a briefing of Blacklake Water and Sewer customers on Tuesday, September 25, 2007. As detailed in the attached notice, Blacklake customers have a choice between remaining as a stand-alone fund or merging with the Town Fund to become part of the combined fund. Staff should have feedback from the briefing to share with the District Board at this meeting.

Staff requests that the Board address at least the following issues at this meeting or at a subsequent meeting:

1. Should the Blacklake and Town Funds be merged into a Combined Water Fund?
2. If there is a merger, what should Blacklake customers pay as an equity surcharge?
3. Should NCSD wait until the cost of the Supplemental Water Project is known before revising water charges?
4. If there is going to be some water charge revision, should NCSD adopt an inclining block rate structure for non-single family customers?
5. If there is going to be some water charge revisions and if the two funds are merged, should NCSD adopt the two-tiered single family rate structure set forth in attached Draft Combined Water Fund Financial Plan?

RECOMMENDATION

In regards to the five policy issues set forth above, staff recommends:

1. Should the Blacklake and Town Funds be merged into a Combined Water Fund?

Staff believes that the merger is good for both funds, however, if the Blacklake customers wish to keep a separate fund the Board should agree (see attached Town Water Fund Financial Plan). Staff recommends that the Board request the Blacklake

Association Council to advise on behalf of all Blacklake customers no later than October 10, 2007, so that your Honorable Board can act at your October 24, 2007 Meeting.

2. If there is a merger, what should Blacklake customers pay as an equity surcharge?

If there is a merger, staff recommends that the Board process the equity surcharge as set forth in the draft Reed report. Staff respectfully requests authorization to process a 45-day notice for an adoption hearing to be held on January 23, 2008.

3. Should NCSD wait until the cost of the Supplemental Water Project is known before revising water charges?

Staff agrees with Bob Reed that the Board should defer a rate change until the cost of the Supplemental Water Project are known and the Supplemental Water Capacity Charge can be revised at the same time. Staff believes that rate restructuring changes now would be confusing to the customers.

4. If there is going to be some water charge revision, should NCSD adopt an inclining block rate structure for Non-Single Family Customers?

Staff believes that some rate restructuring should be done when there is a rate increase. Staff recommends that the Board discuss Mr. Reed's objections and agree in concept that some of the Non-Single Family rates will be converted to an inclining rate block structure when the rates are increased.

5. If there is going to be some water charge revisions and if the two funds are merged, should NCSD adopt the two-tiered single family rate structure set forth in attached Draft Combined Water Fund Financial Plan?

Staff still favors a three or four-tier rate structure since these options encourage water conservation, however, staff recommends that this issue be deferred until the Board has debated the Water Conservation Plan.

ATTACHMENTS

- Draft Combined Water System Financial Plan
- Notice to Blacklake customers regarding Water and Sewer Briefing
- Draft Town Water System Financial Plan

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Nipomo Community Services District
COMBINED WATER SYSTEM
FINANCIAL PLAN AND
USER RATES
FINAL REPORT

Sept 14, 2007



THE REED GROUP, INC.

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I. Executive Summary

Introduction

In 2005, The Reed Group, Inc. assisted the Nipomo Community Services District with the development of five-year financial plans for the District's water and sewer utilities. In the spring of 2007 the Nipomo Community Services District retained The Reed Group, Inc. to update financial plans and water and sewer rate recommendations for the District's Town and Blacklake Divisions. The District is considering merging the two water divisions together. This report presents analyses related to combined merging the Town and Blacklake water systems and presents a combined financial plan and water rate recommendations for the combined water systems, as well as recommends an equity surcharge for customers of the Blacklake Division that would make their investment in the water system equivalent to that already made by customers of the Town Division. Finally, this report also presents an analysis of alternative water rate structures intended to help the District meet water conservation and other objectives through refinements to the rate structure. Financial plans and sewer rate recommendations for the Town and Blacklake sewer systems are presented in separate reports.

The District is committed to securing supplemental water to mitigate the impacts groundwater usage has on the underlying groundwater basin. In September 2004, the District signed a Memorandum of Understanding (MOU) with the City of Santa Maria to acquire up to 3,000 acre-feet (AF) of water per year. In order to use water from the City of Santa Maria the District will need to construct transmission facilities to convey water to the District's service area. Plans for the most cost-effective means of conveying supplemental water are still in development. However, the financial plan presented herein includes the District's best current estimates for the cost of the project and the manner in which it may be financed. Water system buy-in and supplemental water capacity charges are not updated in this report. However, the District should consider updating these charges once plans for the supplemental water project are firmed up.

It is anticipated that a portion of the supplemental water project will need to be financed. However, the amount appears to be relatively small (less than \$1 million). As a result, the financial plan presented herein assumes that an internal loan (from the Water Funded Replacement Fund to the Supplemental Water Fund) would be utilized. The loan would be repaid from future supplemental water capacity charges. In addition to ensuring that each of the combined water system is covering appropriate operating costs and capital program needs, the financial analysis also addresses the need to meet debt service obligations, including debt service coverage.

During workshops held with the Board of Directors, we were asked to explore various rate structure alternatives. This report describes rate structure analyses performed. However, as described below, no changes to the rate structure are being made at this time. Instead, it is recommended that the District implement previously adopted water rates for 2008 and 2009. This will provide the District more time to more fully explore rate structure alternatives (for new rates that will need to be adopted in 2010 and beyond).

The remainder of this Executive Summary presents findings and recommendations related to the (1) Blacklake equity surcharge, (2) combined water system financial plan, and (3) water rates for both the combined water system. Section II provides details on the financial plans. Section III presents water rate calculations, including the equity surcharge, and discussion of alternative water rate structures.

Equity Surcharge

Existing customers of the Town and Blacklake water systems have each contributed to the construction, operation, and maintenance of their respective water systems based on the requirements of each system. In considering the merger of the two water systems, the District's Board of Directors requested an analysis of the relative investment made, per customer¹, in both the Town and Blacklake water systems. The objective is to require whichever customers have a lesser investment in the water systems to make an additional contribution to establish equity and parity for all customers of the combined system. To achieve this, the book value of water system assets, as well as financial reserves, based the last audited financial statements (as of June 30, 2006) were expressed on a per customer basis. Then, an equity surcharge was calculated based on the difference between the relative investments within each water system.

Customers of the Town water system have a current investment of about \$4,272 per equivalent meter, whereas customers of the Blacklake water system have a current investment of about \$2,600. Therefore, to establish equity between customers in a combined water system an equity surcharge of \$1,672 per 1" equivalent meter paid by Blacklake customers is appropriate. The equity surcharge includes both investments in water system facilities, as well as cash reserves. About 20 percent of the equity surcharge reflects differences in capital investments and 80 percent is associated with differences in cash reserves.

Exhibit I-1 summarizes the results of this calculation. The proposed equity surcharge is presented either as a lump sum amount or as a bi-monthly payment that would be imposed for a one-, two-, five-, or ten-year period. A five percent interest rate is included on any equity surcharge payments to be made over time. Details of the Blacklake equity surcharge are included in Section III of this report.

**Exhibit I-1
Nipomo Community Services District
Proposed Blacklake Equity Surcharges**

	Meter Size		
	Up to 1"	1 1/2"	2"
Lump Sum Payment	\$ 1,672	\$ 5,015	\$ 8,025
Alternative Bi-Monthly Payments			
For 1-Year	\$ 286.82	\$ 860.45	\$ 1,376.72
For 2-Years	\$ 146.98	\$ 440.93	\$ 705.49
For 5-Years	\$ 63.21	\$ 189.64	\$ 303.42
For 10-Years	\$ 35.52	\$ 106.56	\$ 170.50

Combined Water System Financial Plan

The financial plan for the combined water system was developed to cover a five-year planning period from FY 07-08 through FY 11-12. The financial plan includes estimated operating and

¹ The number of customers is expressed in terms of the number of equivalent 1" meters, which takes into account the higher relative demands that can be placed on the water system by customers with large meters.

maintenance costs, anticipated debt service obligations, and capital program needs, including requirements for implementing the supplemental water project.

The financial plan model was used to identify annual water rate revenue requirements for each year of the planning period. The revenue requirement is the amount needed to cover operating costs, debt obligations, and capital program needs with consideration of other revenues and financial reserves. Annual rate increases are based on the estimates of current and future costs provided by the District. Analyses sought to develop a financial strategy that would help to minimize the magnitude of annual water rate increases, while still meeting financial obligations.

The financial plan model is intended to serve a planning and management tool to assist the District in evaluating the current and future needs of the water utility. Underlying assumptions, financial objectives, and the proposed financial strategies are described in Section II of this report. Significant findings and recommendations resulting from the financial planning efforts are presented below.

- Current revenues exceed current expenditures and capital program transfers, which results in an increasing Operating Fund balance. However, this situation will change with the implementation of the supplemental water project.
- The beginning-of-year (FY 07-08) Operating Fund balance is about \$1,570,000 with a target Operating Reserve of \$1,160,000.
- The District continues to annually transfer an amount equal to depreciation into the Funded Replacement Fund. The fund has adequate cash for planned replacement and upgrade projects for the five-year planning period, and can also fund a loan in support of the financing of the supplemental water project.
- Previously adopted water rates for 2008 and 2009 appear adequate to meet the combined water system's financial needs for the next two years. Additional rate increases will be needed in 2010.
- Two remaining installment payments under the Memorandum of Understanding with the City of Santa Maria for supplemental water totaling \$525,000 will likely to become due in FY 10-11.
- The cost of supplemental water will increase operating costs and water rates when it becomes available in 2011. Increased costs will be associated with supplemental water purchases, pumping, and treatment. These increased costs are reflected in the financial plan beginning in 2011.

The proposed financial strategy for the combined water system reflects the following changes:

- The proposed Blacklake equity charge is assumed to be paid by existing customers of Blacklake through bi-monthly service charges paid over a ten-year period. Revenues from the equity surcharge accrue to the Funded Replacement Fund.
- The supplemental water project is assumed to have a total cost of \$7.5 million. It is also assumed that other water purveyors will contribute one-third (about \$2.5 million) the cost of the project. It is recommended that the remaining \$5 million in costs be funded as follows:

- o \$4.25 million from Supplemental Water Fund reserves
 - o \$0.75 million from a loan from the Funded Replacement Fund
- Supplemental water capacity charge revenue should be sufficient to cover annual debt service payments. However, the District should update the supplemental water capacity charges once a project is sufficiently defined and costs have been updated. Annual debt service is estimated to be about \$97,000 per year for ten years based on the supplemental water project assumptions contained herein.
- Water rates for the combined water system should be increased as shown below. Required water rates for 2008 and 2009 are the same as those previously adopted for the Town water system. With the merger of the two water systems, the Town water rates would also apply to customers in Blacklake. The rates for 2008 and 2009 are lower than the water rates previously adopted for Blacklake. As a result, the only rate action related to the combined water system required for the next two years is the adoption of the Blacklake equity surcharge. Because the water rates in Blacklake would effectively be reduced (relative to previously approved water rates for both 2008 and 2009), this will offset the effects of the Blacklake equity surcharge. The litigation charges should not change, but should continue until resolution of groundwater litigation issues.

January 2008	10%
January 2009	8%
January 2010	11%
January 2011	11%
January 2012	12%

Proposed Water Rate Schedules

This study included exploring specific water rate structure changes for the combined water system. However, because no rate increases over previously approved water rates are required for the next two years, and because rate structure analyses have not resulted in consensus on appropriate new rate structures, no rate structure changes are recommended at this time. Previously adopted rate schedules for 2008 and 2009, and well as potential future water rate schedules covering the three-year period from 2010 through 2012 without a rate structure change, are presented in **Exhibit I-2** for information purposes. The rates are estimated to generate the revenues reflected in financial plan analyses. In addition, it is recommended that the District continue to explore water rate structures changes over the next two years, and that any change be implemented beginning in 2010.

Details of the water rate structure analyses developed as part of this study are described in Section III of this report.

Exhibit I-2
Nipomo Community Services District
Current and Estimated Future Water Rates

	Current Rates (1)		Prev. Adopt. Rates (2)		Est. Future Water Rates (3)			Litigation Charge (4)
	Town	Blacklake	Jan. 2008	Jan. 2009	Jan. 2010	Jan. 2011	Jan. 2012	
Bi-Monthly Service Charges								
Up to 1"	\$ 20.64	\$ 22.08	\$ 22.71	\$ 24.52	\$ 27.22	\$ 30.21	\$ 33.84	\$ 6.32
1 1/2"	\$ 58.60	\$ 61.09	\$ 64.46	\$ 69.61	\$ 77.27	\$ 85.77	\$ 96.06	\$ 14.36
2"	\$ 92.81	\$ 96.24	\$ 102.09	\$ 110.25	\$ 122.38	\$ 135.84	\$ 152.14	\$ 19.92
3"	\$ 172.68	\$ 178.33	\$ 189.95	\$ 205.15	\$ 227.72	\$ 252.77	\$ 283.10	\$ 27.92
4"	\$ 286.77	\$ 295.58	\$ 315.45	\$ 340.68	\$ 378.15	\$ 419.75	\$ 470.12	\$ 36.00
6"	\$ 571.73	\$ 588.42	\$ 628.91	\$ 679.22	\$ 753.93	\$ 836.86	\$ 937.28	\$ 59.58
8"	\$ 913.83	\$ 939.98	\$ 1,005.21	\$ 1,085.63	\$ 1,205.05	\$ 1,337.61	\$ 1,498.12	\$ 68.08
Water Usage Rates (\$/HCF)								
Single Family Residential								
Tier 1 (0-40 HCF)	\$ 1.38	\$ 1.42	\$ 1.52	\$ 1.64	\$ 1.82	\$ 2.02	\$ 2.26	
Tier 2 (>40 HCF)	\$ 2.35	\$ 2.49	\$ 2.59	\$ 2.80	\$ 3.11	\$ 3.45	\$ 3.86	
Non-Residential (5)								
All Usage	\$ 1.74	\$ 1.73	\$ 1.91	\$ 2.06	\$ 2.29	\$ 2.54	\$ 2.84	

Notes:

- (1) Effective January 1, 2007 as adopted with Ordinance 2005-103.
- (2) Previously adopted with Ordinance 2005-103. No change is required at this time. Would also apply within Blacklake with merger.
- (3) Estimated future water rates to meet revenue needs. These rates assume no change in the rate structure.
- (4) No changes are proposed for the litigation charge, which applies to all water connections until resolution of groundwater litigation.
- (5) Includes multi-family, commercial, irrigation, agricultural, industrial, and construction.

Customer Bills Impacts of Proposed Rates

With the exception of the new equity surcharge for customers of Blacklake, no changes to previously adopted water rates are recommended at this time. **Exhibit I-3** shows the change in typical single family water bills for various levels of water use in 2008. The bill calculations assume merger of the two water systems, application of previously approved Town water rates for 2008 to the combined service area, and implementation of the Blacklake equity surcharge to Blacklake customers.

While Blacklake customers will be offered the opportunity to pay the equity surcharge with a lump sum payment of \$1,672, the table below assumes the alternative \$35.52 bi-monthly surcharge would apply. It should be noted that analyses of water rates in Blacklake, without the merger of the two water divisions, would be higher than the water rates with the merger (including the equity surcharge) by 2009.

Exhibit I-3
Nipomo Community Services District
Typical Single Family Water Bill Changes with 2008 Water Rates

	Bi-Monthly Water Bills					
	Current		Proposed for 2008			
	Town	Blacklake	Town	Blacklake (1)	Change for Town	Change for Blacklake
Low Use (24 HCF)	\$ 60.08	\$ 62.48	\$ 65.51	\$ 101.03	\$ 5.43	\$ 38.55
Median Use (34 HCF)	\$ 73.88	\$ 76.68	\$ 80.71	\$ 116.23	\$ 6.83	\$ 39.55
High Use (64 HCF)	\$ 176.16	\$ 184.80	\$ 193.43	\$ 228.95	\$ 17.27	\$ 44.15
Very High Use (120 HCF)	\$ 270.16	\$ 284.40	\$ 297.03	\$ 332.55	\$ 26.87	\$ 48.15

Notes:

(1) Includes bi-monthly equity surcharge of \$35.52.

II. Five-Year Financial Plan

This section of the report describes the combined water system five-year financial plan prepared for the Nipomo Community Services District. This section includes a description of fund and reserve structures and cash flows, financial plan assumptions including the capital improvement program and debt financing assumptions for capital projects, and a summary of the financial plan. Detailed exhibits of combined water system financial plan model are included in **Appendix A**, at the end of this report.

The financial plan is used to determine annual water rate revenue requirements. The annual rate revenue requirement is the amount of revenue needed from user rates to cover planned operating, maintenance, debt service, and capital program costs with consideration of other revenues, including capacity charges, as well as financial reserves.

Fund and Reserve Structures and Cash Flows

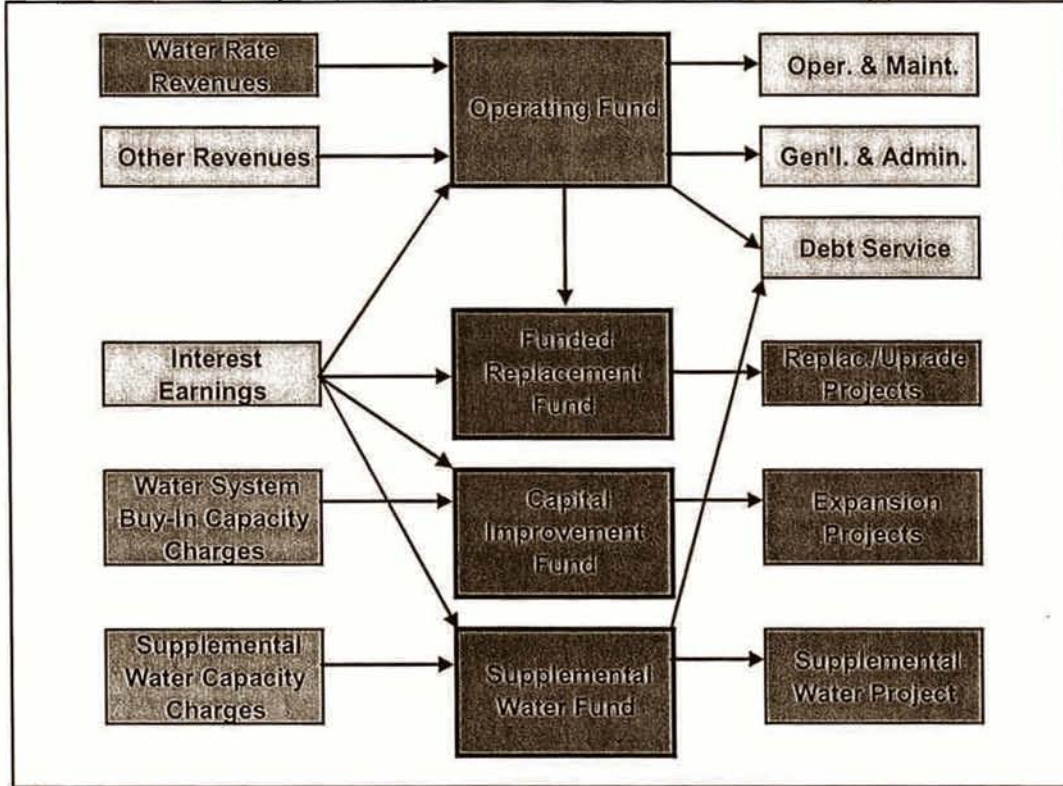
The financial plan is an annual cash flow model. As a cash flow model, it differs from standard accounting income statements and balance sheets. The financial plan models sources and uses of funds into, out of, and between the various funds and reserves of the water utility.

The financial plan model is based on the fund, reserve, and account structures currently used by the District. **Exhibit II-1** is a schematic diagram of the funds/reserves and major cash flows associated with the financial plan model.

An understanding of the fund/reserve structure is helpful in understanding the financial plan worksheets that model annual cash flows through the water utility from one year to the next. The fund/reserve structure is comprised of:

- **Operating Fund** – The Operating Fund is the primary fund within the water utility. Most of the water system's revenues, including rate revenues, flow into the Operating Fund and all operating and maintenance costs, including capital outlay items and debt service payments, are paid out of this fund. Funds are also transferred from the Operating Fund to the Funded Replacement Fund to help pay for capital projects intended to rehabilitate and upgrade facilities.
 - **Operating Reserve** – The District currently has a policy goal to maintain Operating Reserves within the Operating Fund equal to 50 percent of annual operating and maintenance costs for the water system. The purpose of the Operating Reserve is to provide working capital and funds for unplanned operating and maintenance expenditures. The balance in the combined water system Operating Fund is currently above the minimum target Operating Reserve.
 - **Uncommitted Fund Balance** – The balance in the Operating Fund in excess of the target amount for the Operating Reserve is shown in the financial plan exhibits (see Appendix A) as Uncommitted Fund Balance. After all other obligations are met the Uncommitted Fund Balance is available to offset rate increases, and the financial plan model generally seeks to reduce any Uncommitted Fund Balance over time.

Exhibit II-1
Nipomo Community Services District
Water System Fund/Reserve Structures and Cash Flows (1)



Notes:

(1) Excludes funds related to the 2003 COP proceeds and property taxes.

- **Funded Replacement Fund** – The Funded Replacement Fund is used to account for capital projects intended to rehabilitate or upgrade the water system. The primary source of money for the Funded Replacement Fund is a transfer from the Operating Fund. The District currently transfers an amount equal to annual depreciation into the Funded Replacement Fund.
- **Capital Improvement Fund** – The Capital Improvement Fund is used to account for revenues and expense related to the water system buy-in capacity charges. Capital projects funded from the Capital Improvement Fund are those needed for system expansion and to accommodate the needs of new development.
- **Supplemental Water Project Fund** – A separate fund was created by the District to account for supplemental water capacity charges and expenditures related to implementing the supplemental water supply. Proceeds from the anticipated COPs to be issued for the supplemental water pipeline project will be deposited into this fund. Supplemental water capacity charges will be applied against project costs and related debt service.
- **Property Tax and 2003 COP Funds** – The District also maintains funds to account for proceeds from the issuance of Certificates of Participation (COPs) in 2003 and also to

account for property tax revenues. Property taxes have been pledged for payment of debt service related to the 2003 COPs. While property taxes and the 2003 COPs were considered in financial analyses, they are independent of general operations and are not reflected in the exhibits contained in Appendix A.

Financial Plan Assumptions

The financial plan was created to reflect the proposed FY 07-08 budget and financial condition as of the beginning of the fiscal year. The financial plan also reflects planned capital improvement program expenditures, as identified by staff for the five-year planning period.

The process used to develop the financial plan involved estimating future revenues and expenditures based on growth projections, inflation and interest rates, anticipated capital improvement needs, and other information. The District does not have formal estimates of future operating and maintenance costs, and capital improvement needs are defined at a planning level. The financial plan is based on the best available information and assumptions are believed to be reasonable; however, no assurance can be provided as to the accuracy and completeness of the estimates.

Basic Assumptions

Exhibit II-2 summarizes the basic assumptions reflected in the financial plan model, as described below.

- *Inflation Rates* – Operating costs are inflated largely based on a factor for general inflation. An annual inflation rate of 3.0 percent was used for operational costs.
- *Interest Rates* – The District earns interest on its fund and reserve balances. Most of the District's available cash is invested in the Local Agency Investment Fund (LAIF). An annual return on fund and reserve balances is assumed to be 4.5 percent per year estimated on the beginning-of-year balances. The current interest earnings on funds deposited with LAIF is about 5.2 percent, however, the 4.5 percent assumption is more consistent with long-term averages. The assumption reflected herein is therefore somewhat conservative. The District also pays interest on debt obligations within the water utility. Interest rates and payments on existing obligations are those contained in existing contracts and repayment schedules.
- *Growth Projections* – For purposes of financial planning, a conservative annual customer growth rate of 1.0 percent is assumed for the Town Division and zero percent for the Blacklake Division. Actual growth is expected to be about 2.3 percent. However, because financial performance (in particular capacity charge revenue) is sensitive to the growth assumption, a lower assumption was used herein.
- *Water Conservation* – Average water use per account is assumed to decrease by 0.5 percent each year of the planning period. That is, customers will use, on average, slightly less water each year. Reduced water usage is expected to result from increased water conservation efforts (public education and outreach) as well as increased costs associated with water and sewer services.

Exhibit II-2
Nipomo Community Services District
Summary of Financial Plan Assumptions

Interest Earnings	4.5%					
General Inflation Rate	3.0%					
Operating Reserve - Water	50% of operating expenditures					
Customer Growth Rate						
Town Division	1.0% per year					
Blacklake Division	0.0% per year					
Water Conservation Factor	0.5% per year					
	FY 06-07	FY 07-08	FY 08-09	FY 09-10	FY 10-11	FY 11-12
No. of Accounts						
Town - Water	3,428	3,462	3,497	3,532	3,567	3,603
Blacklake - Water	589	589	589	589	589	589
Water System - Combined	4,017	4,051	4,086	4,121	4,156	4,192
Equivalent Meters	4,215	4,257	4,300	4,343	4,386	4,430
Water Sales						
Combined Water Sales (HCF)	1,137,593	1,143,000	1,149,000	1,155,000	1,161,000	1,167,000
Combined Water Sales (AF)	2,612	2,624	2,638	2,652	2,665	2,679
Sales per Acct. (AF)	0.65	0.65	0.65	0.64	0.64	0.64
Water Production by Source (AF)						
Mesa Groundwater	2,902	2,916	2,931	2,946	2,298	1,310
Supplemental Water	-	-	-	-	663	1,667
Total Water Production	2,902	2,916	2,931	2,946	2,961	2,977
Production per Acct.						
Unaccounted for Losses	10%	10%	10%	10%	10%	10%
Variable Water Supply Costs (\$/AF)						
Groundwater Pumping	\$ 175	\$ 180	\$ 185	\$ 191	\$ 197	\$ 203
Supplemental Water					\$ 1,200	\$ 1,200
Supplemental Water Pumping					\$ 96	\$ 99
Supplemental Water Treatment					\$ 13	\$ 13
Capacity Charges						
Water Buy-In	\$ 2,599	\$ 2,713	\$ 2,794	\$ 2,878	\$ 2,965	\$ 3,054
Supplemental Water	\$ 11,556	\$ 12,062	\$ 12,424	\$ 12,797	\$ 13,180	\$ 13,576
Supplemental Water Project Loan from Replacement Fund (FY 08-09)						
Amount of Debt		750,000				
Interest Rate		5.0%				
Term		10	years			
Annual Payment		97,128				

- *Customer Account and Water Use Data* – In developing the financial plan model, detailed customer account and water use data were obtained for the period from June 2006 through May 2007. Additional information on the current number and type of customers is provided in Sections III of this report.
- *Water Production* – Water sales are based on past sales and growth and conservation assumptions described above. Water production is greater than water sales due to unaccounted for system losses, which is typically in the range of 6 to 12 percent. While losses may vary, a loss rate of 10 percent has been assumed in the financial plan models. Currently groundwater comprises 100 percent of water supplies of the District's water supplies. The District is working to obtain supplemental water from the City of Santa Maria in order to mitigate impacts of groundwater withdrawals on the groundwater basin. The financial plan model reflects an assumption that by January 2011 about 56 percent of the District's water supplies will come from supplemental water, with 44 percent from the existing groundwater basin.

- *Capacity Charge Revenues* – Capacity charge revenues reflected in the financial plans are based on the current capacity charge schedules, as well as customer growth and annual inflationary fee increases. The District annually increases capacity charges by the average change to the Consumer Price Indices for the San Francisco bay area and the Los Angeles area. Inflationary increases of 3.0 percent per year for capacity charges are included in this study.
- *Loan for Supplemental Water Project* – As described in greater detail below, a \$750,000 loan from the Funded Replacement Fund to the Supplemental Water Fund is assumed to provide adequate funds for the supplemental water project. This loan is assumed to have a 10-year term and interest rate of 5.0 percent. It would be repaid from future supplemental water capacity charges.

Water Supplies

Currently the District obtains 100 percent of its water supply from groundwater from the Nipomo hydrologic sub-area of the greater Santa Maria groundwater basin. However, the District's use of groundwater is limited to having no impact on the basin's water supplies. As a result of recent legal actions to adjudicate the groundwater basin, the District has initiated steps to acquire supplemental water to mitigate the effects of groundwater withdrawals.

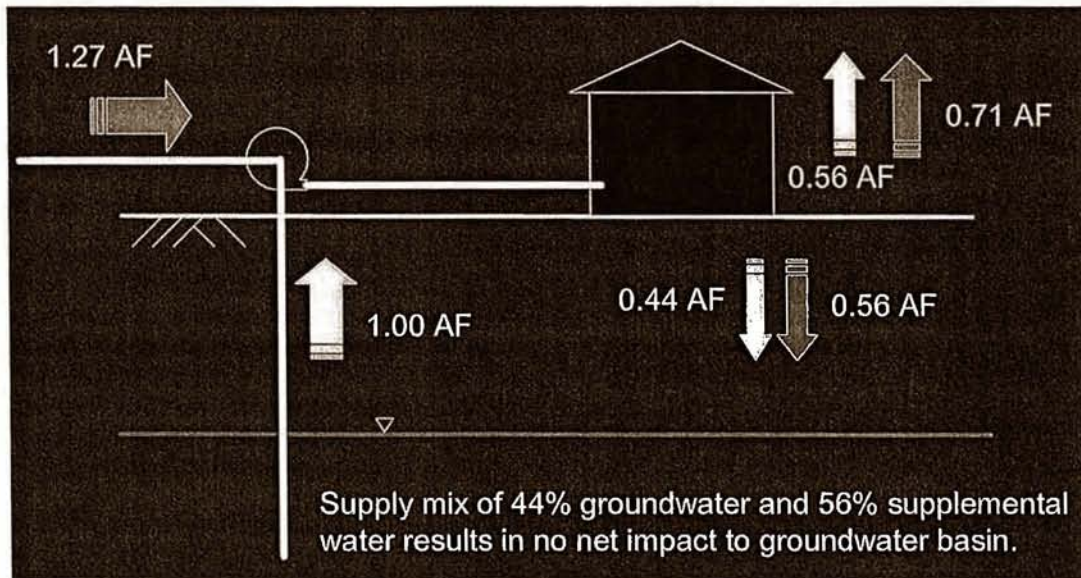
In September 2004, the District and City of Santa Maria entered into a Memorandum of Understanding (MOU) to establish terms and conditions for a contract for up to 3,000 AF per year of supplemental water from the City. Under the terms of the MOU the District must pay a \$750,000 reservation fee in installments as presented below.

<u>Installment</u>	<u>Amount</u>	<u>Est. Date</u>
MOU Date	\$37,500	Sept. 2004
Contract Date (after CEQA)	\$187,500	Fall 2005
Construction Complete	\$225,000	Fall 2010
First 300 AF Delivered	\$300,000	Spring 2011

Water delivered under the agreement will cost \$1,250 per AF, although the reservation fee will be credited back at \$50 per AF over the first 15,000 AF delivered. The District needs to construct a transmission pipeline to convey water from the City to the District's service area.

In order to mitigate any impacts on the groundwater basin the District estimates that it will need a water supply mix of 44 percent groundwater and 56 percent supplemental water. As shown graphically in **Exhibit II-3**, for each AF of groundwater extracted from the basin an estimated 44 percent returns to the basin while 56 percent is consumed or otherwise leaves the basin. Each AF of imported supplemental water will add 44 percent to the basin, while 56 percent is consumed. The financial analyses presented herein assume that the District will utilize a 44 percent groundwater and 56 percent supplemental water supply mix beginning in January 2011.

Exhibit II-3
Nipomo Community Services District
Groundwater and Supplemental Water Supply Strategy



Capital Improvement Program

At present, the District is nearing completion of a 20-year water system master plan and details for implementing the supplemental water project. For purposes of this study, District staff prepared a five-year capital improvement plan for the combined water system. Financial plan exhibits contain in Appendix A list each project, estimated cost, year of construction, and fund from which each project will be funded. Replacement/upgrade project costs are assigned to the Funded Replacement Fund, expansion costs are assigned to the Capital Improvement Fund, and supplemental water project costs are reflected in the Supplemental Water Fund.

Supplemental Water Project Costs

As described above, the District is currently working to obtain 3,000 AF per year of supplemental water through a contract with the City of Santa Maria. A Memorandum of Understanding (MOU) calls for payments totaling \$750,000 in several installments to solidify the contractual arrangement. In addition, the District has estimated that it may cost about \$7.5 million to construct needed transmission facilities to convey supplemental water from the City to the District's service area. Water under the contract with Santa Maria would cost the District \$1,250 per AF. This cost of water will be reduced by \$50 per AF for the first 15,000 AF of water delivered as reimbursement of initial installment payments. Supplemental water pumping and treatment costs are estimated to add about \$109/AF to the cost of supplemental water when deliveries begin in 2011.

In 2005 the District adopted a supplemental water capacity charge to provide funds for the supplemental water project. As of the beginning of FY 07-08 the Supplemental Water Fund has about \$2.3 million. Annual supplemental water capacity charge and interest revenue is estimated to exceed \$500,000 per year.

While the District is still developing plans for constructing needed facilities to convey supplemental water to the District's service area, the financial plan presented herein assumes a \$7.5 million project cost, which will be financed as follows:

- \$2.5 million paid by other water purveyors for 1,000 AF of the 3,000 AF capacity in the supplemental water pipeline
- \$4.25 million from current Supplemental Water Fund reserves and anticipated future revenues
- \$0.75 million from a loan of available reserves in the water system Funded Replacement Fund.

After construction of the supplemental water project future supplemental water capacity charge revenues are to be applied towards supplemental water loan repayment, and to offset a portion of the cost of supplemental water purchases.

While not included within the scope of this project, the District should update the supplemental water capacity charge calculation once the supplemental water project is more clearly defined and more accurate cost estimates obtained. Current capacity charges are based on a project cost of about \$6 million, with no debt financing.

As with the previous financial plan, the financial strategy herein assumes that the District will make 1,000 AF/year of conveyance capacity in the planned transmission facilities available to other purveyors, and that the purveyor(s) would pay a proportionate share of transmission facility costs. Details of any arrangement with other purveyors are unknown at this time and beyond the scope of this study.

Financial Plan Findings and Conclusions

The preceding portion of this section describes the basic framework and assumptions underlying financial analyses. Specific findings and conclusions pertaining to the combined water system is presented below, beginning with a description of the current situation.

Proposed increases to water rates are the same as those previously adopted for the Town Division water system. The current financial condition of the combined water utility is stronger than previously estimated at this point in time with the previous financial plan. This is largely due to the fact that the prior financial plan had assumed that the supplemental water project would be completed by now, with supplemental water deliveries beginning in FY 07-08.

Currently, the combined water system has:

- Budgeted expenditures and transfers that exceed current revenues, which results in a slightly growing Operating Fund balance.
- A beginning-of-year (FY 07-08) Operating Fund balance of about \$1,570,000, with a target Operating Reserve of \$1,160,000.
- The combined water system Funded Replacement Fund has adequate cash for planned replacement and upgrade projects for the five-year planning period, and can also provide \$0.75 million in a loan to help finance the supplemental water project.

Water rates and other Operating Fund revenues should normally cover all operating and maintenance costs, plus providing ongoing support for capital replacement and upgrade needs through annual transfers to the Funded Replacement Fund. Current water rates and other revenues meet this requirement. However, once the District begins receiving supplemental water from the City of Santa Maria annual operating costs will increase significantly. In addition, the District will need to maintain water rates and other revenues at levels sufficient to meet debt service requirements. As a result, continued annual water rate increases are needed and recommended.

The proposed overall average annual rate increases needed to meet estimated financial obligations are shown below. The increases for 2008 and 2009 are the same as those previously approved by the District (with rates already adopted). The increases for 2010 through 2012 are estimates.

	<u>Overall Average Rate Increase</u>
January 2008	10%
January 2009	8%
January 2010	11%
January 2011	11%
January 2012	12%

At present, water rates generate about \$2.6 million annually. Future supplemental water costs including pumping and treatment will total about \$2.2 million annually, representing a potential increase in the annual water rate revenue requirement approaching 100 percent. However, the proposed supplemental water capacity charge (see Section V) should reduce the net cost of supplemental water to about \$200,000 to \$300,000 per year (after paying related supplemental water debt service), and groundwater pumping costs will be reduced more than \$300,000 annually with reduced groundwater pumping. Therefore, the proposed rate increases should be sufficient to cover the added cost of supplemental water through the planning period.

III. Water Rates

This section of the report describes proposed water rates for the combined water system. A five-year rate plan is presented. This section also includes information on the current water rates, customer account and water use data, the proposed Blacklake equity surcharge, evaluation of potential rate structure changes, and the impact of proposed rates on typical water bills.

Current Water Rates

Exhibit III-1 summarizes the current water rates of both the District's Town and Blacklake Divisions. Water rates include a fixed bi-monthly service charge based on the size of the water meter. Single family residential customers are subject to a two-tier commodity rate structure, while other customer classes are subject to a uniform commodity rate. In addition, the District maintains a litigation charge applicable to all water customers to help defray the costs of litigation regarding the adjudication of the groundwater basin. Current water rates became effective in January 2007.

**Exhibit III-1
Nipomo Community Services District
Current (2007) Water Rates**

	Town Division	Blacklake Division	Litigation Charge (2)
Bi-Monthly Service Charges			
Up to 1"	\$ 20.64	\$ 22.08	\$ 6.32
1 1/2"	\$ 58.60	\$ 61.09	\$ 14.36
2"	\$ 92.81	\$ 96.24	\$ 19.92
3"	\$ 172.68	\$ 178.33	\$ 27.92
4"	\$ 286.77	\$ 295.58	\$ 36.00
6"	\$ 571.73	\$ 588.42	\$ 59.58
8"	\$ 913.83	\$ 939.98	\$ 68.08
Water Usage Rates (\$/HCF)			
Single Family Residential			
Tier 1 (0-40 HCF)	\$ 1.38	\$ 1.42	
Tier 2 (>40 HCF)	\$ 2.35	\$ 2.49	
Non-Residential (3)			
All Usage	\$ 1.74	\$ 1.73	

Notes:

- (1) Effective January 1, 2007 as adopted with Ordinance 2005-103.
- (2) Applies to all water connections in both the Town and Blacklake Divisions.
- (3) Includes multi-family, commercial, irrigation, agricultural, industrial, and construction

Average bi-monthly water use for single family customers is 46 HCF² and median usage is 34 HCF. A typical water bill (with median usage) for single family customer within the Town with a meter size 1" or less is currently \$73.88, including the litigation charge. A single family customer using the same amount of water in Blacklake would pay \$76.68 under current water rates.

Current Customer Accounts and Water Use Data

The District currently provides water service to about 4,000 customers. **Exhibit III-2** summarizes the current number of customer accounts by meter size for both divisions. The Town Division includes about 3,400 customers and the Blacklake Division includes about 600 customers.

Exhibit III-2
Nipomo Community Services District
Summary of Combined Water System Accounts

	5/8"	3/4"	1"	1 1/2"	2"	3"	4"	Total
Combined Water System								
Single Family	2,341	13	1,090	1	3	-	-	3,448
Multi-Family	240	1	147	-	-	1	2	391
Commercial	32	2	32	13	10	1	-	90
Irrigation	4	-	51	19	7	1	-	82
Agricultural	-	1	-	-	1	-	-	2
Outside	1	3	-	-	-	-	-	4
Total	2,618	20	1,320	33	21	3	2	4,017
Equiv. Mtrs.	2,618	20	1,320	99	101	27	30	4,215
Hydr. Cap. Factor	1.0	1.0	1.0	3.0	4.8	9.0	15.0	

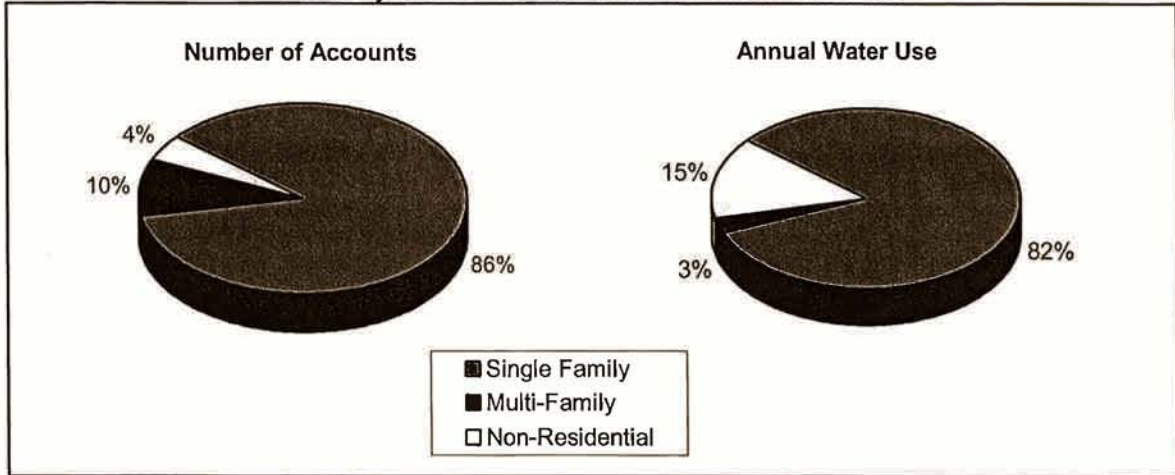
Exhibit III-3 graphically summarizes the number of customer accounts and annual water use by customer class.

Critical to the analysis of any tiered rate structure is the analysis of water use characteristics. The amount of revenue generated from each tier is related to each customer's bi-monthly water usage. Therefore, tier rate analysis required obtaining detailed water use information for each customer account.

The District's current water rates include tiers for single family residential customers because this customer class exhibits fairly homogeneous water use characteristics. Other customer classes exhibit diverse water use patterns and tiered rate structures are less effective as a conservation tool in such cases. Tiered rates can be developed for multi-family residential customers on a per-dwelling-unit basis, and a growing number of utilities are using water budget-based tier structures for irrigation accounts. Water budget-based rates, however, require determining a water budget based on irrigated area, evapotranspiration data, and potentially plant types. The additional administrative complexity of such structures must be weighed with other considerations when considering tier structures for non-single family customer classes.

² 1 HCF = 100 cubic feet = 748 gallons.

Exhibit III-3
Nipomo Community Services District
Summary of Customer Accounts and Annual Water Use



Single family water use varies throughout the year based on seasonal irrigation demands. Water use also varies for other reasons as well including number of people per household, landscape characteristics, parcel size, personal habits, and other factors. Even with this variation, single family water usage characteristics are more homogeneous than other customer classes.

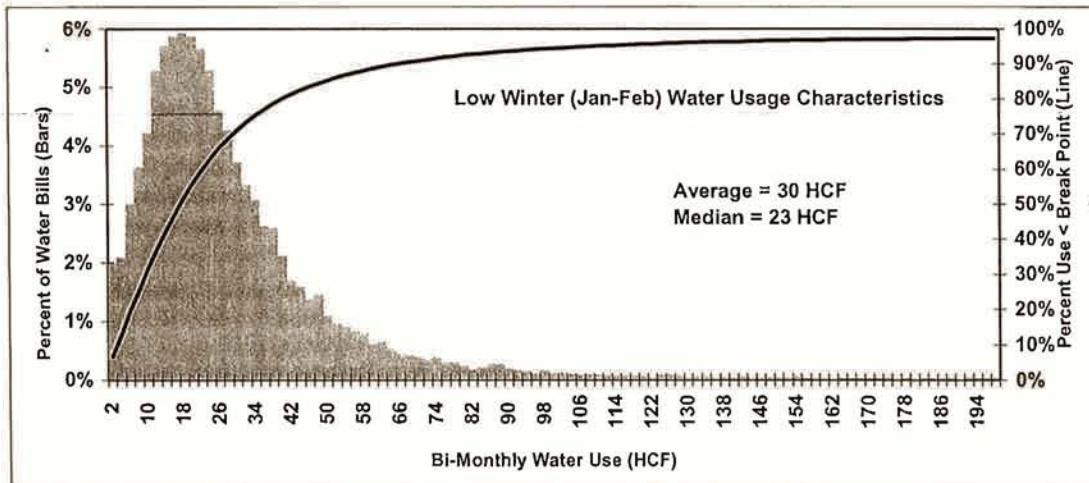
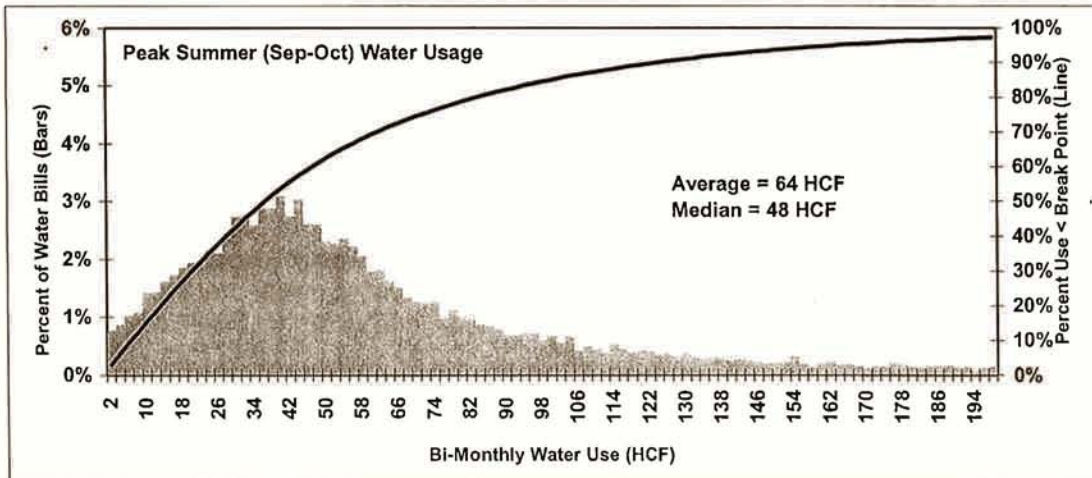
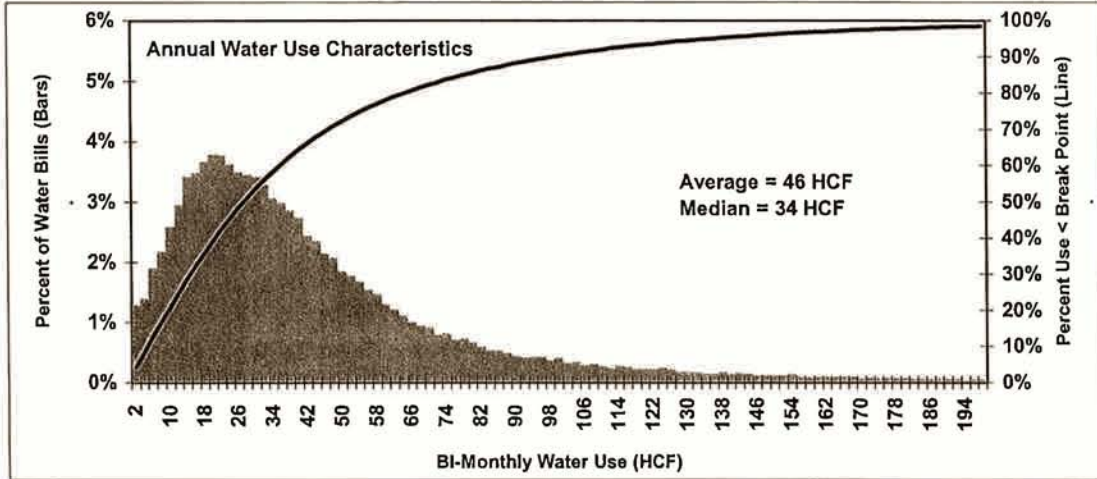
Exhibit III-4 provides water use frequency distributions for single family customers in the combined water system. Individual graphs summarize bi-monthly water use on an annual basis, during the peak summer billing period (September-October) and during the low use winter billing period (January-February). Average and median use is shown for each graph. The bell-shaped shaded region of each graph provides a histogram showing the number of customer bills with various levels of water usage. The curved line indicates the percentage of water use below a specified level of use. The line in the top (annual) graph is critical to tier rate design in that it indicates that amount of water that would be sold within any tier once tier break points are established. This information is used later in this section in the development of the proposed tiered water rates for single family customers.

The data presented in Exhibit III-4 reflects water use characteristics for the past 5 years.

Blacklake Equity Surcharge

As the District is considering the merger of the water systems for the Town and Blacklake Divisions, one unresolved issue is the relative difference in the investment made into the respective water systems by existing customers of the two systems. Customers of each system have contributed to the construction and investments made into each water system, but the relative investments in each system vary. This study included evaluating the value of water system assets within each water system, as well as financial reserves, as reflected in audited financial statements and expressing this information on a per-account basis. The difference in the value of water system assets and financial resources between the two water systems would be the basis for an equity surcharge to be paid by the customers than have made a lesser relative investment.

Exhibit III-4
Nipomo Community Services District
Water Use Characteristics for Single Family Residential Customers



Financial information used in preparing the District's audited financial statements ending June 30, 2006 was used for the equity analysis. Exhibit III-5 presents asset and financial resource information and the resulting calculation of a proposed equity surcharge.

Exhibit III-5
Nipomo Community Services District
Summary of Water System Assets and Financial Reserves as of June 30, 2006

	Town Division				Blacklake Division		
	Water Operating Town (Fund 120)	Water Capacity (Fund 700)	Funded Depreciation Town Water (Fund 800)	Town Division Totals	Water Operating Blacklake (Fund 140)	Funded Depreciation Blacklake Water (Fund 820)	Blacklake Division Totals
Water System Assets							
1520 Water - Pumping	\$ 1,598,264	\$ 774,742	\$ 192,373	\$ 2,565,379	\$ 1,576,268	\$ 39,670	\$ 1,615,938
1525 Water - Transmission	\$ 1,157,964	\$ 1,238,291		\$ 2,396,255			\$ -
1530 Water - Distribution	\$ 475,714	\$ 79,365	\$ 116,603	\$ 671,682	\$ 68,047	\$ 2,749	\$ 70,796
1535 Water - Contributed	\$ 6,147,216			\$ 6,147,216	\$ 505,732		\$ 505,732
1540 Buildings	\$ 55,188			\$ 55,188			\$ -
1545 Machinery & Equipment	\$ 82,129		\$ 126,822	\$ 208,951	\$ 9,800	\$ 30,645	\$ 40,445
1550 Computer Equipment	\$ 65,759			\$ 65,759	\$ 7,442		\$ 7,442
1555 Office Furniture & Fixtures	\$ 9,310			\$ 9,310			\$ -
1560 Land and Land Rights	\$ 43,500	\$ 235,739		\$ 279,239			\$ -
1570 Vehicles	\$ 102,507			\$ 102,507	\$ 15,667		\$ 15,667
1590 Work in Progress		\$ 30,125		\$ 30,125		\$ 13,593	\$ 13,593
1595 Accumulated Depreciation	\$ (4,396,254)	\$ (371,827)	\$ (33,851)	\$ (4,801,932)	\$ (1,103,130)	\$ (4,104)	\$ (1,107,234)
Book Value of Water System Assets	\$ 5,341,297	\$ 1,986,435	\$ 401,947	\$ 7,729,679	\$ 1,079,826	\$ 82,553	\$ 1,162,379
Financial Reserves							
1099 Cash Balance	\$ 899,909	\$ 4,654,295	\$ 1,776,215	\$ 7,330,419	\$ (25,287)	\$ 491,609	\$ 466,322
1210 A/R - Utility Billing	\$ 36,852			\$ 36,852	\$ 30,479		\$ 30,479
1220 Unbilled A/R - Utility Billing	\$ 331,000			\$ 331,000	\$ 29,000		\$ 29,000
1240 Receivable - Other	\$ 9,902			\$ 9,902			\$ -
2135 Accrued Interest Receivable	\$ 10,750	\$ 51,732	\$ 19,919	\$ 82,401	\$ 90	\$ 5,514	\$ 5,604
2100 Accounts Payable	\$ (47,143)	\$ (4,594)		\$ (51,737)	\$ (11,333)	\$ (2,160)	\$ (13,493)
2110 Refunds Payable - MQ	\$ (939)			\$ (939)			\$ -
2120 Construction Meter Deposits	\$ (11,500)			\$ (11,500)			\$ -
2130 Compensated Absences Payable	\$ (23,005)			\$ (23,005)	\$ (2,397)		\$ (2,397)
2320 Accrued Wages	\$ (4,352)			\$ (4,352)	\$ (968)		\$ (968)
2450 Deposit - Pomeroy Water Line				\$ -	\$ (24,170)		\$ (24,170)
2510 Revenue Bonds - Current Portion	\$ (9,000)			\$ (9,000)			\$ -
2610 Revenue Bonds Payable	\$ (129,000)			\$ (129,000)			\$ -
Financial Reserves	\$ 1,063,474	\$ 4,701,433	\$ 1,796,134	\$ 7,561,041	\$ (4,586)	\$ 494,963	\$ 490,377
Total of Assets and Reserves	\$ 6,404,771	\$ 6,687,868	\$ 2,198,081	\$ 15,290,720	\$ 1,075,240	\$ 577,516	\$ 1,652,756
No. of Equivalent Meters				3,579			636
Water System Assets per Equivalent Meter				\$ 2,160			\$ 1,829
Financial Reserves per Equivalent Meter				\$ 2,112			\$ 772
Total Assets and Reserves per Equivalent Meter				\$ 4,272			\$ 2,600
Alternative Bi-Monthly Payments Over:							
	Lump Sum	1 Year	2 Years	5 Years	10 Years	Interest	
Blacklake Equity Surcharge (\$/ Eq. Mtr.)	\$ 1,672	\$ 286.82	\$ 146.98	\$ 63.21	\$ 35.52	5.0%	
Annual Revenue from Each Alternative	\$ 1,062,594	\$ 1,093,801	\$ 560,514	\$ 241,069	\$ 135,462		

The book value (original cost less accumulated depreciation) of water system assets of the Town Division totals about \$7.73 million. The book value of water system assets of the Blacklake Division totals about \$1.16 million. Cash reserves, adjusted for short term receivables, short term payables, deposits, and outstanding long-term debt, for the Town Division totals about \$7.56 million. Adjusted cash reserves for the Blacklake Division totals about \$490,000.

The denominator used to determine the equity surcharge is the number of 1" equivalent meters. This is similar to the number of accounts, but reflects the relative capacities of different meter sizes.

The Town Division has 3,579 equivalent meters and the Blacklake Division has 636 equivalent meters.

The relative investment in water system assets and financial resources of customers in the Town and Blacklake Divisions is \$4,272 and \$2,600 per 1" equivalent meter, respectively. The difference between these two amounts is \$1,672 and represents the amount that customers of Blacklake should make to establish equity and parity in a combined water system.

Conceivably the equity surcharge could be paid by Blacklake water system customers in a single lump sum payment. However, alternative payment approaches are possible, which would allow the surcharge to be paid over time. At the request of the District, bi-monthly payments that would last for one, two, five, or ten years were developed for the Board of Director's consideration. Bi-monthly payment alternatives all assume a 5.0 percent interest rate.

If paid entirely in a lump sum, the Blacklake equity surcharge would provide about \$1.06 million for the combined water system. The District could potentially allow each customer to elect whether to pay the lump sum amount or one or more of the bi-monthly surcharge approaches. For purposes of preparing the financial plan included in Section II of this report, it was assumed that the equity surcharge would be paid over ten years by all Blacklake customers. This is the most financially conservative assumption for planning purposes. Any other payment approach would result in the District receiving equity surcharge revenues sooner. The bi-monthly equity surcharge paid over a ten year period would be \$35.52 for water meters up to 1". A complete equity surcharge schedule for different meter sizes and payment periods is included in Exhibit I-1, in the Executive Summary of this report.

Water Rate Calculations

Because the financial plan analyses presented in Section II indicate that previously adopted water rates are sufficient to meet the combined water utilities needs for the next two years, no further water rate changes are recommended at this time. However, the study did include exploring other water rate structures (which might have been adopted had previously adopted water rates been shown to be insufficient for near-term needs), and the results of those analyses are described herein.

The calculation of water rates involves a three-step process. First, the annual water rate revenue requirement must be determined. The water rate revenue requirement is that amount of revenues to be generated annually to meet operating and capital program needs with consideration of other water system revenues and reserves. Annual water rate revenue requirements were determined using the five-year financial plan model described in the previous section. The second step in the rate setting process is a cost of service analysis accomplished by the allocation of water system costs to rate components. Finally, the third step in the process is rate design and the development of water rate schedules.

Annual Water Rate Revenue Requirement

The annual water rate revenue requirements were determined for each fiscal year of the planning period using the five-year financial planning model. Because the District has adjusted water rates at the beginning of each calendar year, fiscal year revenue requirements were converted into calendar year revenue requirements. Estimated current calendar year water rate revenues as well as future water rate requirements for the next five years are summarized below. The percentage change in the rate revenue requirement differs from the percentage change in overall level of rates

due to the merger of the two divisions and rates (in 2008), growth in the customer base, and estimated increased water conservation.

	<u>Water System</u> <u>Rate Rev. Reqmt.</u>	<u>Percent</u> <u>Change</u>
2007	\$2,656,000	
2008	\$2,911,000	9.6%
2009	\$3,151,000	8.2%
2010	\$3,502,000	11.1%
2011	\$3,893,000	11.2%
2012	\$4,368,000	12.2%

Current water rates differ for the Town and Blacklake Divisions, but this study assumes they will be consolidated in 2008. The previously adopted water rate schedules for the next two years, as well as estimated rate increases for the following three years, are estimated to generate the amount of revenue listed above. Annual rate calculations also reflect assumptions for new development and increased water conservation, both of which have an impact on rate revenues separate from the rate structures themselves.

Cost of Service Analysis

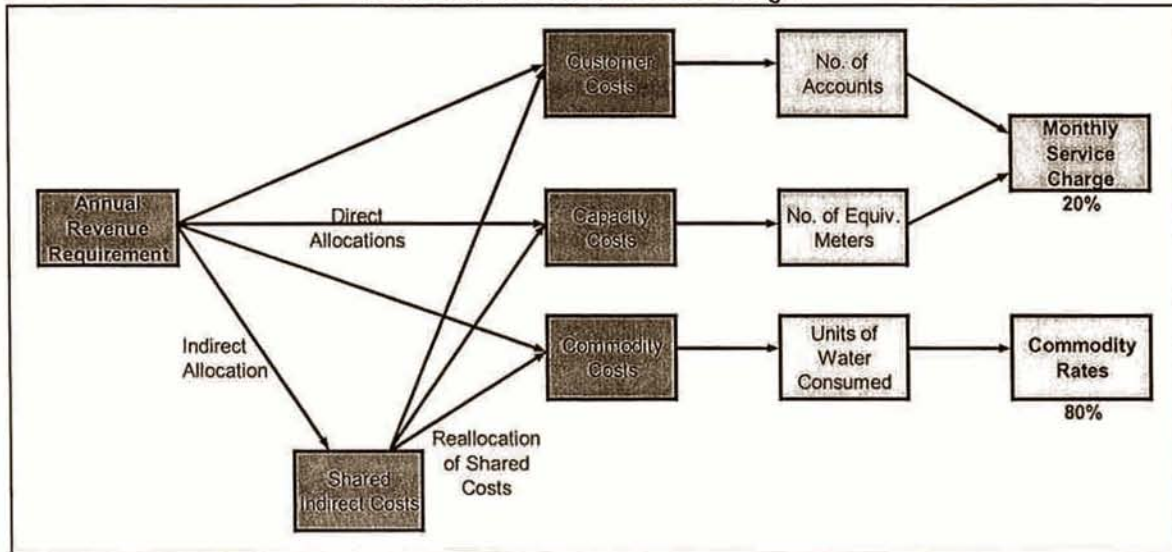
Cost allocation is the method by which the annual water rate revenue requirement is recovered from each customer class based on the cost of providing water service. The cost allocation process is shown schematically in **Exhibit III-6**. There are a number of ways to allocate costs for rate setting purposes. Some are rather complex and require detailed knowledge of water system costs, cost drivers, and customer water use characteristics (including peaking characteristics). Others are somewhat simpler to understand and administer. The approach used herein is commensurate with available data that categorizes water system costs into three specific categories. These include:

- *Customer Costs* – Customer costs such as meter reading, billing, and customer service are fixed costs that tend to vary as the function of the number of customers served. Customer costs are allocated equally to all customers based on the total number of accounts, and are included in the bi-monthly service charge.
- *Capacity Costs* – Capacity costs are also fixed costs. However, they tend to vary in relation to the capacity of the water system. Customers that can place greater or lesser demands on the water system should bear greater or lesser shares of these costs. The water system is sized to meet peak demands. The demand that each customer could potentially place on the water system is reflected in the size and capacity of the water meter. Capacity costs include fixed operating costs, water system maintenance, and debt service. Capacity costs are allocated to each customer based on the size and capacity of the water meter, and are included in the bi-monthly service charge calculation.
- *Commodity Costs* – Commodity costs include those costs that vary with the amount of actual water usage. Water treatment and pumping costs are the most significant examples. In addition, other costs that may not be truly variable are often allocated based on water usage because allocating these costs to each customer based on water usage is an equitable basis. Commodity costs are used to determine the commodity rates of the rate structure. Many utilities also place what may be considered fixed costs into the variable commodity component as a means of encouraging water conservation. It is fairly typical for commodity rates to account for 65 to 90 percent of water rate revenues, even

when a majority of costs might be considered fixed. The recently adopted water conservation best management practice regarding water conservation requires water rates to recover 70 percent of water rate revenue from commodity charges³.

- *Shared (Indirect) Costs* – Some cost items are not directly allocated to any of the three components identified above. Instead these costs are first allocated as shared (indirect) costs, and subsequently reallocated to each of the three components based on the percentage of costs that were directly allocated to these components.

**Exhibit III-6
Nipomo Community Services District
Water Rate Cost Allocation Flow Diagram**



The allocation of costs to each of the cost components occurs at the individual line-item level of detail in the District’s budget and account structure. Most costs are allocated directly to the customer, capacity, or commodity components, although some are categorized as shared costs then reallocated indirectly. As shown in Exhibit III-6, the cost allocation results in about 20 percent of costs to be recovered from service charges and 80 percent to commodity rates. This is a slightly greater allocation to commodity charges than the current rates, and is intended to help improve the water conservation incentive embodied in the water rates.

Water Rate Structure Design

Water rate design and the development of rate schedules take place after the annual water rate revenue requirement is determined and after the cost of service analysis has been performed. Based on discussions with District staff, the District seeks to increase the water conservation incentives embodied in the rate structure. After discussing a variety of alternatives with the Board during recent workshops, the Board asked that we develop water rates with the following characteristics:

³ California Urban Water Conservation Council (CUWCC) Best Management Practice (BMP) #11 – Retail Conservation Pricing, adopted in June 2007.

- A lowering of the bi-monthly service charges, with commensurate increase in commodity rates to improve the conservation incentive and mitigate impact of other rate structure changes on customer water bills.
- A two-tier single family water rate structure similar to the current two-tier structure with slight adjustments based on evaluation of water use characteristics to improve the conservation incentive.
- Change to the current uniform commodity rate for multi-family and non-residential customers to a two-tier rate structure with similar characteristics of the single family structure.

In addition, the Board asked that the rate structure evaluation be based on water use data covering a five-year period. It was believed that the most recent year (FY 06-07) included anomalous usage during winter months due to unusually dry winter conditions.

Based on this direction from the Board of Directors, the following water rates were developed. These rates, if implemented, would meet the 2008 revenue needs of the combined water system.

Service Charges

Exhibit III-7 presents the bi-monthly service charge calculations for the combined water system for 2008. The service charges recover customer and capacity costs from each customer. Customer costs are allocated equally to all customers, and capacity costs are allocated based on the hydraulic capacity associated with each meter size. The service charges, including the litigation charge (which would be unchanged), would generate about 20 percent of total annual water rate revenues.

Exhibit III-7 Nipomo Community Services District Calculation of Water Service Charges for the Town Division								
	Meter Size							Total
	1" or Less	1 1/2"	2"	3"	4"	6"	8"	
Customer Accounts								
No. of Customers	3,958	33	21	3	2	-	-	4,017
No. of Equivalent Meters	3,958	99	101	27	30	-	-	4,215
Hydraulic Capacity Factor (1)	1.0	3.0	4.8	9.0	15.0	30.0	48.0	
Bi-Monthly Service Charges								
Customer Cost	\$ 1.74	\$ 1.74	\$ 1.74	\$ 1.74	\$ 1.74	\$ 1.74	\$ 1.74	
Capacity Cost	\$ 14.99	\$ 44.96	\$ 71.94	\$ 134.88	\$ 224.80	\$ 449.56	\$ 719.32	
Total Service Charges	\$ 16.73	\$ 46.70	\$ 73.68	\$ 136.62	\$ 226.55	\$ 451.30	\$ 721.07	
Litigation Charge (2)	\$ 6.32	\$ 14.36	\$ 19.92	\$ 27.92	\$ 36.00	\$ 59.58	\$ 68.08	
Combined Service Charges	\$ 23.05	\$ 61.06	\$ 93.60	\$ 164.54	\$ 262.55	\$ 510.88	\$ 789.15	
Annual Service Charge Revenue								
Single Family	\$ 476,294	\$ 366	\$ 1,685	\$ -	\$ -	\$ -	\$ -	\$ 478,345
Multi-Family	\$ 53,659	\$ -	\$ -	\$ 987	\$ 3,151	\$ -	\$ -	\$ 57,797
Non-Residential	\$ 17,425	\$ 11,724	\$ 10,109	\$ 1,975	\$ -	\$ -	\$ -	\$ 41,233
Total Srv. Chrg. Revenue	\$ 547,379	\$ 12,091	\$ 11,794	\$ 2,962	\$ 3,151	\$ -	\$ -	\$ 577,375
Water Rate Revenue Requirement								
Customer Costs	\$	42,000	1.5%	Notes:				
Capacity Costs	\$	379,000	13.0%	(1) See text of report for discussion of capacity factors.				
Commodity Costs (3)	\$	2,332,000	80.1%	(2) Litigation charges remain unchanged.				
Litigation Charge	\$	158,000	5.4%	(3) Commodity costs recovered through commodity rates.				
Total Revenue Requirement	\$	2,911,000		See Exhibit III-8.				

Each meter type and size has a rated maximum flow capacity. Hydraulic capacity factors are determined by taking the ratio of the rated capacity for each meter size to that of the standard meter size (typically a 3/4" or 1" meter). Because the District treats all meters up to 1" as equivalent, the standard rated capacity was determined by calculating the weighted average capacity of all existing meters up to 1" in size. This resulted in a standard rating of 33 gpm. Capacity factors for meters larger than 1" were determined by taking the ratio of each meter size's rated capacity to the standard of 33 gpm. For example, the capacity factor of a 1 1/2" meter is 3.0 (100 gpm / 33 gpm).

The District's litigation charge associated with groundwater management issues is proposed to be continued, without change, until resolution of those issues. The litigation charge is also shown in Exhibit III-7. The charge is expected to remain through the planning period as certain legal and groundwater monitoring costs are expected to continue. However, the Board of Directors has indicated that the charge will be removed when the litigation issues are resolved and associated costs end.

Commodity Rates

Exhibit III-8 presents the commodity rate calculations for the combined water system for 2008 based on direction from the Board of Directors during the workshop held on August 15, 2007. The two tier rate structure was derived as described below, and has the following characteristics (which are both positive and negative):

Exhibit III-8
Nipomo Community Services District
Calculation of Water Commodity Rates for the Town Division

No. of Accts.	Customer Class	Ann. Water Use (HCF)	FIRST TIER		Break Point	SECOND TIER		Annual Revenue
			Rate (\$/HCF)	Revenue		Rate (\$/HCF)	Revenue	
3,448	Single Family	939,041	\$ 1.58	\$ 898,124	36	\$ 2.77	\$ 1,026,856	\$ 1,924,980
	% of Water Use -->			60.5%			39.5%	
	% of Water Bills -->			53.8%			46.2%	
391	Multi-Family	32,088	\$ 1.58	\$ 30,690	(1)	\$ 2.77	\$ 35,089	\$ 65,779
178	Non-Residential	166,464	\$ 1.58	\$ 159,211	(1)	\$ 2.77	\$ 182,031	\$ 341,242
4,017	TOTALS	1,137,593						\$ 2,332,000
Summary of Commodity Costs								
Total Commodity Costs		\$ 2,332,000	(from Exhibit III-7)					

Notes:

(1) Tier break points for multi-family and non-residential customers would vary with meter size, as shown below:

Up to 1" meter	36	CCF
1 1/2" meter	240	CCF
2" meter	340	CCF
3" and 4" meter	1,900	CCF

- The two-tier rate structure for single family customers includes a tier break point that is slightly lower than the current rate structure (36 CCF rather than 40 CCF). The first tier is intended to represent reasonable water needs for indoor water use for domestic purposes. This amount is equivalent to about 450 gallons per day, which should be ample for domestic purposes (many utilities use about 250 gpd for indoor single family needs). The

36 CCF break point represents the 75th percentile of winter water use (using five years of data). That is, 75 percent of all single family customers use less than this amount during the winter months. With this tier structure, about 60 percent of the single family water usage would be at the first tier rate and 40 percent at the second tier rate. Typically, customers would have no second tier usage during winter months and some second tier usage during summer months. During the peak summer use period, a median customer would have about 12 CCF at the second tier, while a customer at the 75th percentile would have 42 CCF at the second tier in the peak use period.

- The increase in the commodity rate from Tier 1 to Tier 2 (\$1.58/CCF to 2.77/CCF) is a 75 percent increase. It is also slightly greater than the step increase in the current rate structure.
- Three- and four-tier rate structures were considered in earlier analyses presented to the Board of Directors. Such rate structures may still have merit, however, consensus on the rationale and specific design of these structures was not obtained with the limited time spent on this topic during the study. Typically, a third (or fourth) tier is intended as an excess use rate that applies only to water use beyond a recognized "norm" for single family customers. Often the highest tier only applies to a small portion of consumption (less than 5 percent).
- Two-tier water rates were also developed for multi-family and non-residential customers (currently charged for water usage with a uniform rate). The tier structure was developed for each meter size. For multi-family and non-residential customers tier break points would be as follows:
 - Up to 1" meter 36 CCF
 - 1 ½" meter 240 CCF
 - 2" meter 340 CCF
 - 3" and 4" meters 1,900 CCF

The above tier break points would result in about 60 percent of the multi-family and non-residential water usage being priced at the first tier and about 40 percent at the second tier. This is intended to serve to maintain equity between the customer classes. The break points are based on analysis of water usage by meter size over the past five years. However, there are only 5 accounts with 3" or 4" water meters (3 multi-family, 1 commercial, and 1 irrigation). These accounts exhibit very different water usage patterns, and with the 1,900 CCF break point four of the customers would never come close to entering the second tier, while the fifth would seldom avoid it. This illustrates the problem of tier structures for customer classes with non-homogeneous water use characteristics. Similar results occur in the smaller meter sizes, although the problem is masked by the larger number of accounts in each meter size. In our opinion, this rate structure would fail to effectively achieve water conservation objectives, and could unfairly penalize some customers.

It is our recommendation, that if the District wants to develop a tier structure for multi-family and non-residential customer classes it should take a different approach for each user group. Multi-family tier structures can be effectively developed on a per-dwelling-unit basis, since water use per-dwelling-unit exhibits a homogeneous pattern (similar, though more condensed, to single family customers). Water budget tier structures could be an effective approach for landscape irrigation accounts. This would entail developing a customized rate structure for each of 82 irrigation accounts based on irrigated area. While administratively burdensome, these structures have been

effectively used to encourage water conservation in other jurisdictions throughout the state. An effective tier structure for commercial accounts may be more problematic. Water budget tier structures based on each customer's needs (based on a review of historical usage and assessment of water needs for the type/size of business) are possible, but obviously administratively burdensome. Tiers based on meter size may be possible, though the problems identified above would need to be addressed (possibly with less aggressive tier steps).

Water Rates Schedules

Because financial plan analyses indicate that water rates do not need to be raised above previously approved levels, and because the two-tier structure developed at the Board's request exhibits some problems (for multi-family and non-residential customers), it is recommended that the District simply implement the previously approved water rates for the next two years. This will allow the District more time to consider water conservation objectives, other water conservation measures, and additional rate structure alternatives. By 2010, the District will likely need to take action to adjust water rates to meet revenue needs, and at that time could implement a new water rate structure.

Exhibit III-10 presents the water rate schedules for the combined water system for 2008 through 2012. The water rates for 2009 and 2010 are the same as those previously approved, and the rates for 2010 through 2012 are simply an extension of the current rate structures to meet the revenue needs identified in the financial plan for those years. The rate schedules for these later years are provided for information purposes.

Exhibit III-10
Nipomo Community Services District
Current and Estimated Future Water Rates

	Current Rates (1)		Prev. Adopt. Rates (2)		Est. Future Water Rates (3)			Litigation Charge (4)
	Town	Blacklake	Jan. 2008	Jan. 2009	Jan. 2010	Jan. 2011	Jan. 2012	
Bi-Monthly Service Charges								
Up to 1"	\$ 20.64	\$ 22.08	\$ 22.71	\$ 24.52	\$ 27.22	\$ 30.21	\$ 33.84	\$ 6.32
1 1/2"	\$ 58.60	\$ 61.09	\$ 64.46	\$ 69.61	\$ 77.27	\$ 85.77	\$ 96.06	\$ 14.36
2"	\$ 92.81	\$ 96.24	\$ 102.09	\$ 110.25	\$ 122.38	\$ 135.84	\$ 152.14	\$ 19.92
3"	\$ 172.68	\$ 178.33	\$ 189.95	\$ 205.15	\$ 227.72	\$ 252.77	\$ 283.10	\$ 27.92
4"	\$ 286.77	\$ 295.58	\$ 315.45	\$ 340.68	\$ 378.15	\$ 419.75	\$ 470.12	\$ 36.00
6"	\$ 571.73	\$ 588.42	\$ 628.91	\$ 679.22	\$ 753.93	\$ 836.86	\$ 937.28	\$ 59.58
8"	\$ 913.83	\$ 939.98	\$ 1,005.21	\$ 1,085.63	\$ 1,205.05	\$ 1,337.61	\$ 1,498.12	\$ 68.08
Water Usage Rates (\$/HCF)								
Single Family Residential								
Tier 1 (0-40 HCF)	\$ 1.38	\$ 1.42	\$ 1.52	\$ 1.64	\$ 1.82	\$ 2.02	\$ 2.26	
Tier 2 (>40 HCF)	\$ 2.35	\$ 2.49	\$ 2.59	\$ 2.80	\$ 3.11	\$ 3.45	\$ 3.86	
Non-Residential (5)								
All Usage	\$ 1.74	\$ 1.73	\$ 1.91	\$ 2.06	\$ 2.29	\$ 2.54	\$ 2.84	

Notes:

- (1) Effective January 1, 2007 as adopted with Ordinance 2005-103.
- (2) Previously adopted with Ordinance 2005-103. No change is required at this time. Would also apply within Blacklake with merger.
- (3) Estimated future water rates to meet revenue needs. These rates assume no change in the rate structure.
- (4) No changes are proposed for the litigation charge, which applies to all water connections until resolution of groundwater litigation.
- (5) Includes multi-family, commercial, irrigation, agricultural, industrial, and construction.

Appendix A – Financial Plan Exhibits

The following exhibit summarizes the combined water system five-year financial plan developed for the District and described in Section II of this report.

Appendix A
Nipomo Community Services District
Combined Water Divisions Financial Plan

	FY 05-06 Actual	FY 06-07 Estimate	FY 07-08 Budget	FY 08-09	FY 09-10	FY 10-11	FY 11-12
	<i>Proposed CY Rate Increases --></i>			10%	8%	11%	11%
				10%	8%	11%	12%
OPERATING FUND (FUNDS 120 & 140)							
Beginning Balance	162,967	778,298	1,574,000	1,631,982	1,855,882	2,225,854	2,181,199
Revenues							
Water Availability Charges	566,648	620,000	709,000	763,000	829,000	912,000	1,008,000
Water Usage Charges	1,619,511	1,955,000	2,055,000	2,249,000	2,470,000	2,756,000	3,086,000
Fees and Penalties	49,703	40,000	42,200	42,600	43,000	43,400	43,800
Meter & Connection Fees	10,905	5,300	6,875	6,900	7,000	7,100	7,200
Plan Check & Insp. Fees	100	-	-	-	-	-	-
Miscellaneous Income	39,793	25,000	25,000	25,300	25,600	25,900	26,200
Interest Earnings	31,630	61,200	78,300	73,400	83,500	100,200	98,200
Transfer from Suppl. Wtr. Fund	-	-	-	-	37,500	43,073	577,918
Total Revenues	2,318,290	2,706,500	2,916,375	3,160,200	3,495,600	3,887,673	4,847,318
Expenditures							
<i>Operations & Maintenance</i>							
Wages	169,710	169,500	222,500	302,700	311,800	321,200	330,800
Wages - Overtime	30,130	34,500	36,025	37,100	38,200	39,300	40,500
Payroll Taxes	4,528	5,250	4,720	4,900	5,000	5,200	5,400
Retirement	48,504	41,600	60,300	62,100	64,000	65,900	67,900
Medical and Dental	38,996	40,800	60,345	62,200	64,100	66,000	68,000
Workers Comp Insur.	15,681	13,400	15,000	15,500	16,000	16,500	17,000
Electricity - Pumping	264,294	390,000	410,000	426,500	443,700	372,000	294,000
Natural Gas - Pumping	65,252	117,000	135,000	140,400	146,100	152,000	158,100
Supplemental Water	-	-	-	-	-	796,000	2,000,000
Chemicals	2,908	5,150	16,000	16,600	17,300	18,000	18,700
Lab Tests and Sampling	20,203	20,200	31,000	32,200	33,500	34,900	36,300
Operating Supplies	44,062	46,000	56,000	58,300	60,600	63,000	65,500
Outside Services	39,208	52,000	70,000	72,100	74,300	76,500	78,800
Permits & Operating Fees	5,083	8,600	9,820	10,100	10,400	10,700	11,000
Repairs & Maintenance	103,791	140,000	150,000	154,500	159,100	163,900	168,800
Repairs & Maint - Vehicles	12,594	8,100	12,600	13,000	13,400	13,800	14,200
Engineering	9,614	-	10,500	10,800	11,100	11,400	11,700
Fuel	15,582	19,760	24,480	25,500	26,500	27,600	28,700
Paging and Cellular Service	3,512	3,400	4,215	4,300	4,400	4,500	4,600
Meters - New Installations	7,549	6,000	15,000	15,500	16,000	16,500	17,000
Meters - Replac. Program	5,302	18,000	22,000	22,700	23,400	24,100	24,800
Uniforms	2,630	3,800	4,490	4,600	4,700	4,800	4,900
Wtr Conserv/Recycl Prog.	2,234	7,500	53,700	55,300	57,000	58,700	60,500
Oper. Transfer Out - Replac.	93,678	88,000	392,000	403,800	415,900	428,400	441,300
Total Oper. & Maint.	1,005,045	1,238,560	1,815,695	1,950,700	2,016,500	2,790,900	3,968,500
<i>General & Administrative</i>							
Wages	94,509	87,700	190,425	196,100	202,000	208,100	214,300
Payroll Taxes	1,864	1,900	3,390	3,500	3,600	3,700	3,800
Retirement	25,828	23,800	53,000	54,600	56,200	57,900	59,600
Medical and Dental	19,355	20,100	38,490	39,600	40,800	42,000	43,300
Workers Comp Insur.	922	900	1,735	1,800	1,900	2,000	2,100

Appendix A -- Continued
Nipomo Community Services District
Combined Water Divisions Financial Plan

	FY 05-06 Actual	FY 06-07 Estimate	FY 07-08 Budget	FY 08-09	FY 09-10	FY 10-11	FY 11-12
Audit	-	2,412	4,560	4,700	4,800	4,900	5,000
Bank Charges & Fees	429	500	660	700	700	700	700
Computer Expense	18,625	11,400	18,240	18,800	19,400	20,000	20,600
Director Fees	8,721	10,820	13,680	14,100	14,500	14,900	15,300
Dues & Subscriptions	3,854	6,000	5,530	5,700	5,900	6,100	6,300
Education & Training	1,692	1,800	3,135	3,200	3,300	3,400	3,500
Elections	-	2,378	-	2,500	-	2,500	-
Insurance - Liability	17,293	18,200	19,095	19,700	20,300	20,900	21,500
Landscape and Janitorial	4,977	5,200	5,550	5,700	5,900	6,100	6,300
Legal - Gen. & Spec. Counsel	42,194	76,200	100,000	103,000	106,100	109,300	112,600
Legal - Water Counsel	267,312	135,000	100,000	103,000	106,100	109,300	112,600
Professional Services	-	49,000	111,040	114,400	117,800	121,300	124,900
Miscellaneous	10	1,500	2,000	2,100	2,200	2,300	2,400
Newsletter and Mailers	-	-	1,740	1,800	1,900	2,000	2,100
Office Supplies	7,098	10,600	8,265	8,500	8,800	9,100	9,400
Outside Services	3,380	2,150	5,510	5,700	5,900	6,100	6,300
Postage	9,338	9,000	15,070	15,700	16,300	17,000	17,700
Public Notices	489	-	3,400	3,500	3,600	3,700	3,800
Repairs & Maint. - Office Equip	958	800	2,280	2,300	2,400	2,500	2,600
Property Taxes	663	815	830	900	900	900	900
Telephone	2,411	2,900	2,985	3,100	3,200	3,300	3,400
Travel & Mileage	3,824	5,100	5,700	5,900	6,100	6,300	6,500
Oper. Transfer Out - Admin.	129,371	152,483	178,299	183,600	189,100	194,800	200,600
Total Gen'l & Admin.	665,117	638,658	894,609	924,200	949,700	981,100	1,008,100
<i>Other Expenditures</i>							
Wtr Rev Bond DS - Interest	7,300	6,900	6,775	6,000	5,500	5,000	4,500
Wtr Rev Bond DS - Principal	9,000	9,000	9,000	10,000	10,000	10,000	11,000
Suppl Wtr Debt Service - Int.					37,500	34,519	31,388
Suppl Wtr Debt Service - Prin.					59,628	62,610	65,740
Fixed Asset Purchases	16,497	17,680	132,314	45,400	46,800	48,200	49,600
Total Other Expenditures	32,797	33,580	148,089	61,400	159,428	160,328	162,228
Total Expenditures	1,702,959	1,910,798	2,858,393	2,936,300	3,125,628	3,932,328	5,138,828
Ending Balance	778,298	1,574,000	1,631,982	1,855,882	2,225,854	2,181,199	1,889,689
Oper. Reserv. (50% of Expend.)	788,000	895,000	1,159,000	1,236,000	1,275,000	1,672,000	2,268,000
Uncommitted Fund Balance	(9,702)	679,000	472,982	619,882	950,854	509,199	(378,311)
DS Coverage (Min. 1.15 w/ CCs) -->					19.21	14.13	7.42
DS Coverage (Min. 1.00 w/o CCs) -->					13.28	8.00	1.13
FUNDED REPLACEMENT - COMBINED WATER (FUNDS 800 & 820)							
<i>Beginning Balance</i>	2,256,277	2,259,000	2,361,000	2,255,500	2,089,800	2,678,700	3,306,600
<i>Revenues and Transfers</i>							
Interest Earnings	87,005	114,000	106,500	101,500	94,000	120,500	148,800
Blacklake Equity Surcharge	-	-	60,000	121,000	121,000	121,000	121,000
Operating Transfers In	93,678	88,000	392,000	403,800	415,900	428,400	441,300
Total Revs. and Trans.	180,683	202,000	558,500	626,300	630,900	669,900	711,100
<i>Expenditures</i>							
Previous Expenditures	177,960	100,000					
Fire Hydrant Replac.			50,000	-	-	-	-
Well Refurbishment			45,000	-	-	-	-
Quad Tank Coating & Maint.			75,000	-	-	-	-
BL Shop Construction			68,000	-	-	-	-
BL Bstr Sta Rebuild or Merge			112,000	-	-	-	-
BL Well #3 Casing Rehab.			20,000	-	-	-	-
GIS Upgrades			15,000	15,000	15,000	15,000	15,000
SCADA Upgrades			15,000	15,000	15,000	15,000	15,000
Reset Mains - Drainage			100,000	-	-	-	-
Reset Mains - Roads			50,000	10,000	10,000	10,000	10,000
Security			100,000	-	-	-	50,000
Contingency (5%)			14,000	2,000	2,000	2,000	4,500
Loan to Suppl. Wtr. Fund			-	750,000	-	-	-
Total Expenditures	177,960	100,000	664,000	792,000	42,000	42,000	94,500
Ending Balance	2,259,000	2,361,000	2,255,500	2,089,800	2,678,700	3,306,600	3,923,200

Appendix A -- Continued
Nipomo Community Services District
Combined Water Divisions Financial Plan

	FY 05-06 Actual	FY 06-07 Estimate	FY 07-08 Budget	FY 08-09	FY 09-10	FY 10-11	FY 11-12
SUPPLEMENTAL WATER FUND (FUND 500)							
<i>Beginning Balance</i>			2,300,000	2,268,500	5,140,144	6,688	-
<i>Revenues and Transfers</i>							
Suppl. Wtr. Capac. Charges			465,000	528,877	544,744	561,086	577,918
Interest Earnings			103,500	102,100	231,300	300	-
Loan from Replac. Fund			-	750,000	-	-	-
Purveyor Contributions			-	2,490,667	-	-	-
Total Revs. and Trans.			568,500	3,871,644	776,044	561,386	577,918
<i>Expenditures</i>							
Suppl. Water Project Planning			600,000	1,000,000	400,000	-	-
Suppl. Water Project Constr.			-	-	5,472,000	-	-
MOU Installment Payments			-	-	-	525,000	-
Trans. for COP DS & Credit			-	-	37,500	43,073	577,918
Total Expenditures			600,000	1,000,000	5,909,500	568,073	577,918
<i>Ending Balance</i>			2,268,500	5,140,144	6,688	-	-
COMBINED WATER CAPITAL FUND (FUND 710)							
<i>Beginning Balance</i>			4,750,000	2,904,310	3,153,966	3,418,390	2,753,390
<i>Revenues and Transfers</i>							
Capacity Charges			103,960	118,956	122,524	126,200	129,986
Interest Earnings			237,500	130,700	141,900	153,800	123,900
Other Funding Source - TBD			-	-	-	-	-
Total Revs. and Trans.			341,460	249,656	264,424	280,000	253,886
<i>Expenditures</i>							
W&S Master Plan			25,000	-	-	50,000	50,000
Shop Upgrade			308,000	-	-	-	-
Mains - West Side			500,000	-	-	500,000	500,000
Mains - East Side			250,000	-	-	250,000	250,000
Storage			950,000	-	-	-	-
Looping			50,000	-	-	100,000	100,000
Contingency (5%)			104,150	-	-	45,000	45,000
Total Expenditures			2,187,150	-	-	945,000	945,000
<i>Ending Balance</i>			2,904,310	3,153,966	3,418,390	2,753,390	2,062,276

NIPOMO COMMUNITY

BOARD MEMBERS

MICHAEL WINN, PRESIDENT
LARRY VIERHEILIG, VICE PRESIDENT
JIM HARRISON, DIRECTOR
CLIFFORD TROTTER, DIRECTOR
ED EBY, DIRECTOR



SERVICES DISTRICT

STAFF

BRUCE BUEL, GENERAL MANAGER
LISA BOGNUDA, ASSISTANT ADMINISTRATOR
JON SEITZ, GENERAL COUNSEL

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September 13, 2007

TO: NCSD's BLACKLAKE WATER AND SEWER CUSTOMERS

SUBJECT: SEPTEMBER 25, 2007 BRIEFING INVITATION

You are cordially invited to a briefing regarding proposed increases to your water and sewer rates at 2pm on Tuesday September 25, 2007 at the Blacklake Golf Course Clubhouse. The District's Rate Consultant, Bob Reed, and I will provide an overview of the proposed changes and we will then respond to any questions from the audience.

In regards to NCSD's Blacklake Water System, the District in September 2006 determined that the booster station was no longer functional and that it could not furnish an adequate supply of treated water or adequate fire flows to the Blacklake Community. NCSD took action, on an interim basis, to connect the Blacklake Water System to the Town Water System through an Intertie valve on Willow Road. In April 2007, NCSD received a letter from the Blacklake Management Association indicating, by unanimous vote of the Association's Board of Directors that Blacklake, with NCSD, explore the proposed merging of the Blacklake and the Town Water Systems. To that end, NCSD commissioned Mr. Reed to study the various financial ramifications of such a merger.

In regards to your water rates, Mr. Reed has evaluated the revenue requirements if NCSD's Blacklake Water System remained independent from NCSD's Town System and the revenue requirements if the two systems were merged. For the Blacklake System to remain independent, Mr. Reed assumed that NCSD would loan \$800,000 over a ten year term at 5% interest so that funding would be available to drill a new well, to rehabilitate the 400,000 gallon storage tank and to completely rebuild the booster station. Given this assumption, Mr. Reed determined that Blacklake Water Rates would need to increase by 30% in 2008; 30% in 2009; and 30% in 2010. Thus, the average Blacklake Water Customer would pay \$109.02 every two months in 2008; \$139.64 every two months in 2009; and \$179.63 every two months in 2010.

Mr. Reed also evaluated the costs to Blacklake Water Customers assuming that the Blacklake Water System is merged with NCSD's Town Water System (Combined Water System). This draft Financial Plan assumes that every two months over the next ten years the average Blacklake Water Customer would pay an equity surcharge of \$35.52. In addition to the surcharge, the average single family residence in Blacklake would pay water charges of \$89.83 every two months in 2008; \$96.44 every two months in 2009; and \$106.35 every two months in 2010.

Thus, Blacklake Water Customers would pay more in the Combined Scenario in 2008 than in the Independent Scenario, but less every year thereafter. In either scenario, additional charges may be necessary to pay for the development of supplemental water. Copies of Mr. Reed's Financial Plan are available at the NCSD Office and also on NCSD's website WWW.NCS.D.CA.GOV

BLACKLAKE WATER CUSTOMER COST COMPARISON

STAND ALONE SYSTEM COST (Bi-Monthly Charges)

YEAR	BASE	USAGE**	LITIGATION	TOTAL
2007	\$22.08	\$56.80	\$6.32	\$85.20
2008	\$28.70	\$74.00	\$6.32	\$109.02
2009	\$37.32	\$96.00	\$6.32	\$139.64
2010	\$48.51	\$124.80	\$6.32	\$179.63

COMBINED WITH TOWN SYSTEM (Bi-Monthly Charges)

YEAR	BASE	USAGE**	LITIGATION	SUBTOTAL	SURCHARGE	TOTAL
2007	\$20.64	\$55.20	\$6.32	\$82.16	\$0.00	\$82.16
2008	\$22.71	\$60.80	\$6.32	\$89.83	\$35.52	\$125.35
2009	\$24.52	\$65.60	\$6.32	\$96.44	\$35.52	\$131.96
2010	\$26.48	\$73.55	\$6.32	\$106.35	\$35.52	\$141.87

**Assumes 40 units used per two month billing period

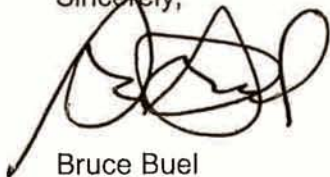
In regards to your sewer rates, Mr. Reed has prepared a draft Blacklake Sewer System Financial Plan projecting a 50% rate increase that would be effective on April 1, 2008 (from \$77.55 every two months for a single family residence to \$115.96 every two months for a single family residence), followed by an 8% increase on January 1, 2009 (from \$115.96 every two months to \$125.24 every two months) and a 3% increase on January 1, 2010 (from \$125.24 every two months to \$128.99 every two months). The draft Financial Plan also calls for a bi-monthly surcharge of \$13.46 for five years to repay the loan NCSD made to the Blacklake Sewer Fund to pay for the 2007 replacement of the pond #3 liner at the Blacklake Wastewater Treatment Facility. Copies of this Plan are available at the NCSD Office and also on NCSD's website WWW.NCSD.CA.GOV

PROJECTED BLACKLAKE SEWER CHARGES

YEAR	BI-MONTHLY CHARGE	SURCHARGE	TOTAL
2007	\$77.55	\$0.00	\$77.55
2008	\$115.96	\$13.46	\$129.42
2009	\$125.24	\$13.46	\$138.70
2010	\$128.99	\$13.46	\$142.45

In addition to the September 25, 2007 Briefing described above, Mr. Reed will also present these draft Financial Plans to the District Board at 9am on Wednesday September 26, 2007 at the District Office, 148 South Wilson Street, Nipomo. You are welcome to attend this session as well as the briefing.

Sincerely,



Bruce Buel
 NCSD General Manager

CC: NCSD Board of Directors

**Nipomo Community Services District
Town Water Division Financial Plan -- NO MERGER**

	FY 05-06 Actual	FY 06-07 Estimate	FY 07-08 Budget	FY 08-09	FY 09-10	FY 10-11	FY 11-12
<i>Proposed CY Rate Increases --></i>			10%	8%	12%	12%	12%
OPERATING FUND (FUND 120)							
Beginning Balance	220,533	801,157	1,535,000	1,602,812	1,810,012	2,156,906	2,175,976
Revenues							
Water Availability Charges	483,406	528,000	600,000	648,000	707,000	783,000	869,000
Water Usage Charges	1,417,899	1,700,000	1,777,000	1,949,000	2,149,000	2,419,000	2,722,000
Fees and Penalties	47,613	38,000	40,000	40,400	40,800	41,200	41,600
Meter & Connection Fees	10,905	5,300	6,875	6,900	7,000	7,100	7,200
Plan Check & Insp. Fees	100	-	-	-	-	-	-
Miscellaneous Income	39,793	25,000	25,000	25,300	25,600	25,900	26,200
Interest Earnings	31,403	61,000	78,000	72,100	81,500	97,100	97,900
Transfer from Suppl. Wtr. Fund			-	-	32,140	48,633	577,918
Total Revenues	2,031,119	2,357,300	2,526,875	2,741,700	3,043,040	3,421,933	4,341,818
Expenditures							
<i>Operations & Maintenance</i>							
Wages	129,097	131,500	171,000	249,600	257,100	264,800	272,700
Wages - Overtime	23,463	26,500	26,400	27,200	28,000	28,800	29,700
Payroll Taxes	3,647	4,300	3,610	3,700	3,800	3,900	4,000
Retirement	36,883	30,600	46,050	47,400	48,800	50,300	51,800
Medical and Dental	28,288	29,400	45,245	46,600	48,000	49,400	50,900
Workers Comp Insur.	11,992	10,300	11,500	11,800	12,200	12,600	13,000
Electricity - Pumping	205,971	302,000	320,000	332,900	346,300	298,000	230,000
Natural Gas - Pumping	65,252	117,000	135,000	140,400	146,100	152,000	158,100
Supplemental Water	-	-	-	-	-	683,000	1,719,000
Chemicals	1,454	2,550	12,000	12,500	13,000	13,500	14,000
Lab Tests and Sampling	16,255	16,000	25,000	26,000	27,000	28,100	29,200
Operating Supplies	36,777	41,000	40,000	41,600	43,300	45,000	46,800
Outside Services	37,119	40,000	50,000	51,500	53,000	54,600	56,200
Permits & Operating Fees	3,980	6,600	7,720	8,000	8,200	8,400	8,700
Repairs & Maintenance	89,976	125,000	118,000	121,500	125,100	128,900	132,800
Repairs & Maint - Vehicles	10,908	7,000	10,000	10,300	10,600	10,900	11,200
Engineering	8,918	-	10,000	10,300	10,600	10,900	11,200
Fuel	13,749	18,000	21,600	22,500	23,400	24,300	25,300
Paging and Cellular Service	3,099	3,000	3,720	3,800	3,900	4,000	4,100
Meters - New Installations	6,754	6,000	15,000	15,500	16,000	16,500	17,000
Meters - Replac. Program	4,763	12,000	16,000	16,500	17,000	17,500	18,000
Uniforms	2,324	3,400	3,960	4,100	4,200	4,300	4,400
Wtr Conserv/Recycl Prog.	1,848	5,000	45,645	47,000	48,400	49,900	51,400
Oper. Transfer Out - Replac.	93,678	88,000	392,000	403,800	415,900	428,400	441,300
Total Oper. & Maint.	836,195	1,025,150	1,529,450	1,654,500	1,709,900	2,388,000	3,400,800
<i>General & Administrative</i>							
Wages	84,865	77,200	174,250	179,500	184,900	190,400	196,100
Payroll Taxes	1,662	1,700	3,110	3,200	3,300	3,400	3,500
Retirement	23,224	21,000	48,300	49,700	51,200	52,700	54,300
Medical and Dental	17,547	18,000	35,100	36,200	37,300	38,400	39,600
Workers Comp Insur.	828	800	1,585	1,600	1,600	1,600	1,600
Audit	-	2,112	4,000	4,100	4,200	4,300	4,400
Bank Charges & Fees	429	500	600	600	600	600	600
Computer Expense	16,338	10,000	16,000	16,500	17,000	17,500	18,000
Director Fees	7,650	9,500	12,000	12,400	12,800	13,200	13,600
Dues & Subscriptions	3,364	5,000	4,850	5,000	5,200	5,400	5,600
Education & Training	1,471	1,500	2,750	2,800	2,900	3,000	3,100
Elections	-	2,086	-	2,500	-	2,500	-
Insurance - Liability	15,169	16,000	16,750	17,300	17,800	18,300	18,800
Landscape and Janitorial	3,611	3,600	3,800	3,900	4,000	4,100	4,200
Legal - Gen. & Spec. Counsel	42,194	75,000	95,000	97,900	100,800	103,800	106,900
Legal - Water Counsel	224,542	115,000	85,000	87,600	90,200	92,900	95,700
Professional Services	-	45,000	95,550	98,400	101,400	104,400	107,500

**Nipomo Community Services District
Town Water Division Financial Plan -- NO MERGER**

	FY 05-06	FY 06-07	FY 07-08	FY 08-09	FY 09-10	FY 10-11	FY 11-12
	Actual	Estimate	Budget				
Miscellaneous	10	1,000	1,500	1,500	1,500	1,500	1,500
Newsletter and Mailers	-	-	1,500	1,500	1,500	1,500	1,500
Office Supplies	6,220	9,300	7,250	7,500	7,700	7,900	8,100
Outside Services	2,932	1,750	4,750	4,900	5,000	5,200	5,400
Postage	8,234	8,000	13,285	13,800	14,400	15,000	15,600
Public Notices	449	-	3,000	3,100	3,200	3,300	3,400
Repairs & Maint. - Office Equip	840	700	2,000	2,100	2,200	2,300	2,400
Property Taxes	663	815	830	900	900	900	900
Telephone	1,804	2,200	2,250	2,300	2,400	2,500	2,600
Travel & Mileage	3,306	4,500	5,000	5,200	5,400	5,600	5,800
Oper. Transfer Out - Admin.	114,151	134,544	157,323	162,000	166,900	171,900	177,100
Total Gen'l & Admin.	581,503	566,807	797,333	824,000	846,300	874,100	897,800
<i>Other Expenditures</i>							
Wtr Rev Bond DS - Interest	7,300	6,900	6,775	6,000	5,500	5,000	4,500
Wtr Rev Bond DS - Principal	9,000	9,000	9,000	10,000	10,000	10,000	11,000
Suppl Wtr Debt Service - Int.					32,140	29,627	26,978
Suppl Wtr Debt Service - Prin.					51,106	53,737	56,503
Fixed Asset Purchases	16,497	15,600	116,505	40,000	41,200	42,400	43,700
Total Other Expenditures	32,797	31,500	132,280	56,000	139,946	140,764	142,681
Total Expenditures	1,450,495	1,623,457	2,459,063	2,534,500	2,696,146	3,402,864	4,441,281
Ending Balance	801,157	1,535,000	1,602,812	1,810,012	2,156,906	2,175,976	2,076,513
Oper. Resrv. (50% of Expend.)	662,000	752,000	967,000	1,037,000	1,070,000	1,417,000	1,929,000
Uncommitted Fund Balance	139,157	783,000	635,812	773,012	1,086,906	758,976	147,513
DS Coverage (Min. 1.15 w/ CCs) -->					19.72	14.60	8.22
DS Coverage (Min. 1.00 w/o CCs) -->					12.97	7.61	1.07
FUNDED REPLACEMENT - TOWN WATER (FUND 800)							
Beginning Balance	1,790,882	1,802,000	1,931,000	1,150,500	814,100	1,224,600	1,666,100
<i>Revenues and Transfers</i>							
Interest Earnings	67,762	91,000	91,500	51,800	36,600	55,100	75,000
Blacklake Equity Surcharge	-	-	-	-	-	-	-
Operating Transfers In	93,678	88,000	392,000	403,800	415,900	428,400	441,300
Total Revs. and Trans.	161,440	179,000	483,500	455,600	452,500	483,500	516,300
<i>Expenditures</i>							
Previous Expenditures	150,322	50,000					
Fire Hydrant Replac.			50,000	-	-	-	-
Well Refurbishment			45,000	-	-	-	-
Quad Tank Coating & Maint.			75,000	-	-	-	-
GIS Upgrades			15,000	15,000	15,000	15,000	15,000
SCADA Upgrades			15,000	15,000	15,000	15,000	15,000
Reset Mains - Drainage			100,000				
Reset Mains - Roads			50,000	10,000	10,000	10,000	10,000
Security			100,000	-	-	-	50,000
Contingency (5%)			14,000	2,000	2,000	2,000	4,500
Loan to Blacklake Water			800,000				
Loan to Suppl. Wtr. Fund			-	750,000	-	-	-
Total Expenditures	150,322	50,000	1,264,000	792,000	42,000	42,000	94,500
Ending Balance	1,802,000	1,931,000	1,150,500	814,100	1,224,600	1,666,100	2,087,900

**Nipomo Community Services District
Current and Estimated Town Water Rates -- NO MERGER**

	Current Rates (1)		Proposed Town Water Rates					Litigation Charge (2)
	Town	Blacklake	Jan. 2008	Jan. 2009	Jan. 2010	Jan. 2011	Jan. 2012	
BI-Monthly Service Charges								
Up to 1"	\$ 20.64	\$ 22.08	\$ 22.71	\$ 24.52	\$ 27.46	\$ 30.76	\$ 34.45	\$ 6.32
1 1/2"	\$ 58.60	\$ 61.09	\$ 64.46	\$ 69.61	\$ 77.96	\$ 87.32	\$ 97.80	\$ 14.36
2"	\$ 92.81	\$ 96.24	\$ 102.09	\$ 110.25	\$ 123.48	\$ 138.30	\$ 154.89	\$ 19.92
3"	\$ 172.68	\$ 178.33	\$ 189.95	\$ 205.15	\$ 229.77	\$ 257.34	\$ 288.22	\$ 27.92
4"	\$ 286.77	\$ 295.58	\$ 315.45	\$ 340.68	\$ 381.56	\$ 427.35	\$ 478.63	\$ 36.00
6"	\$ 571.73	\$ 588.42	\$ 628.91	\$ 679.22	\$ 760.73	\$ 852.01	\$ 954.26	\$ 59.58
8"	\$ 913.83	\$ 939.98	\$ 1,005.21	\$ 1,085.63	\$ 1,215.91	\$ 1,361.81	\$ 1,525.23	\$ 68.08
Water Usage Rates (\$/HCF)								
Single Family Residential								
Tier 1 (0-40 HCF)	\$ 1.38	\$ 1.42	\$ 1.52	\$ 1.64	\$ 1.84	\$ 2.06	\$ 2.30	
Tier 2 (>40 HCF)	\$ 2.35	\$ 2.49	\$ 2.59	\$ 2.80	\$ 3.14	\$ 3.51	\$ 3.93	
Non-Residential (3)								
All Usage	\$ 1.74	\$ 1.73	\$ 1.91	\$ 2.06	\$ 2.31	\$ 2.58	\$ 2.89	

Notes:

- (1) Effective January 1, 2007 as adopted with Ordinance 2005-103.
- (2) No changes are proposed for the litigation charge, which applies to all water connections until resolution of groundwater litigation.
- (3) Includes multi-family, commercial, irrigation, agricultural, industrial, and construction.

10% 8% 12% 12% 12%

**Nipomo Community Services District
Typical BI-Monthly Single Family Water Bills in Town Division (1)**

	w/ Merger	w/o Merger
Current	\$ 82.16	\$ 82.16
2008	\$ 89.83	\$ 89.83
2009	\$ 96.44	\$ 96.44
2010	\$ 106.35	\$ 107.25
2011	\$ 117.36	\$ 119.37
2012	\$ 130.68	\$ 132.93

Notes:

- (1) Assumes 1" meter and 40 CCF of water use.