

TO: BOARD OF DIRECTORS
FROM: BRUCE BUEL *BB*
DATE: MARCH 7, 2008

**AGENDA ITEM
E-1
MAR 12, 2008**

MERGER OF TOWN AND BLACKLAKE WATER FUNDS

ITEM

Review/edit draft ordinance merging Town Water Fund with Blacklake Water Fund and set schedule [RECOMMEND APPROVAL].

BACKGROUND

Your Honorable Board, at your February 13, 2008 Meeting, agreed to use existing Blacklake water rates to pay off the merger equity buy-in over time and directed staff to recalculate the equity buy-in, to refine the pay-back analysis, and to prepare a draft ordinance effecting the merger at this meeting.

The Board directed staff to recalculate the equity buy-in by subtracting the 2006 depreciated book value of the Olde Towne Lateral Grant from the Town Asset total. Attached is a printout of Town Capacity Charge Assets, which includes the Olde Towne Lateral Grant in Groups #5 (\$22,160) and #27 (\$57,205) as well as the pre-2007 depreciation of \$1,034 and \$2,669 respectively. The resultant deduction from the Town Asset Total is thus \$75,662. As detailed in the attached spread sheet deducting the \$75,662 from the Town Asset Total reduces the equity buy-in from \$1,063,392 to \$1,050,036.

In addition, the Board directed staff to refine the pay-back analysis, based on the differential between 2009 Blacklake Water Rates and 2009 Town Water Rates. Attached is a spread sheet projecting that Blacklake Water Customers will generate approximately \$78,279 per year in income based on the differential between the two rates.

With a loan of \$1,050,036; an interest rate of 5%; and an annual payment of \$78,279, Blacklake should be able to retire the loan in 23 years (See chart at the bottom of the summary sheet – Amortization schedules for each year displayed are available for review at the office).

Also attached is a draft ordinance, drafted by District Legal Counsel to merge the two funds. Staff is presenting a draft at this meeting so your Honorable Board can edit it prior to first reading.

RECOMMENDATION

Staff recommends that your Honorable Board review the calculations described above, review and edit the attached draft ordinance and set the first reading of the Ordinance for you March 26, 2008 Board Meeting.

ATTACHMENTS

- Town Water Capacity Charge Printout (Partial)
- Revised Summary Sheet
- Comparison of Blacklake 2009 Water Rates with Town Water Rates
- Draft Ordinance

| Num | Loc | Property Desc. | Acquired | Sp | Mth | CL | Life | SV / Bus% | ITC | Cost | Exp/AFD | Prior Dep. | Cur Dep. | End. Dep. |
|---|-----|------------------|----------|----|-----|----|---------|-----------|-----|------------------|-----------|----------------|---------------|----------------|
| Group # 1 - TRANSMISSION #1525 | | | | | | | | | | | | | | |
| 1 | 1 | DANA/PRICE/MALLA | 2/05/97 | SL | | N | 50.0000 | 0 | | 261,672 | 0 | 49,278 | 5,233 | 54,511 |
| 2 | 1 | CREEK CROSSING-O | 12/30/98 | SL | | N | 50.0000 | 0 | | 212,014 | 0 | 31,800 | 4,240 | 36,040 |
| 3 | 1 | THOMPSON/TEFFT L | 12/17/99 | SL | | N | 50.0000 | 0 | | 529,202 | 0 | 68,796 | 10,584 | 79,380 |
| 4 | 1 | TEFFT WATERLINE- | 3/15/04 | SL | | N | 50.0000 | 0 | | 780,324 | 0 | 36,430 | 15,606 | 52,036 |
| 5 | 1 | AVE DE SOCIOS WA | 1/19/06 | SL | | N | 50.0000 | 0 | | 18,832 | 0 | 157 | 377 | 534 |
| 6 | 1 | HETRICK WATER LI | 3/14/07 | SL | | N | 50.0000 | 0 | | 189,840 | 0c | 0 | 1,266 | 1,266 |
| Group Totals | | | | | | | | | | <u>1,991,884</u> | <u>0c</u> | <u>186,461</u> | <u>37,306</u> | <u>223,767</u> |
| Group # 2 - LAND #1560 | | | | | | | | | | | | | | |
| 1 | 1 | SUNDALE WELL LAN | 3/25/98 | F | | N | 0.0000 | 124,402 | | 124,402 | 0 | 0 | 0 | 0 |
| 2 | 1 | EASEMENT-SLO COU | 8/01/04 | F | | N | 0.0000 | 30,866 | | 30,866 | 0 | 0 | 0 | 0 |
| Group Totals | | | | | | | | | | <u>155,268</u> | <u>0c</u> | <u>0</u> | <u>0</u> | <u>0</u> |
| Group # 3 - PUMPING #1520 | | | | | | | | | | | | | | |
| 1 | 1 | *SUNDALE WELL DR | 5/06/98 | SL | | N | 20.0000 | 0 | | 83,770 | 0 | 34,210 | 4,189 | 38,399 |
| 2 | 1 | *SUNDALE WELL GA | 5/07/99 | SL | | N | 20.0000 | 0 | | 239,679 | 0 | 85,885 | 11,984 | 97,869 |
| 3 | 1 | 1 MG TANK-DATA F | 12/17/99 | SL | | N | 50.0000 | 0 | | 432,983 | 0 | 57,095 | 8,660 | 65,755 |
| 4 | 1 | FENCE-MANDI/CHEY | 7/30/05 | SL | | N | 20.0000 | 0 | | 17,214 | 0 | 789 | 861 | 1,650 |
| Group Totals | | | | | | | | | | <u>773,646</u> | <u>0c</u> | <u>177,979</u> | <u>25,694</u> | <u>203,673</u> |
| Group # 4 - LAND AND LAND RIGHTS | | | | | | | | | | | | | | |
| 1 | 1 | DANA TANK EASEME | 6/30/00 | F | | N | 0.0000 | 80,471 | | 80,471 | 0 | 0 | 0 | 0 |
| Group Totals | | | | | | | | | | <u>80,471</u> | <u>0c</u> | <u>0</u> | <u>0</u> | <u>0</u> |
| Group # 5 - DISTRIBUTION #1530 | | | | | | | | | | | | | | |
| 1 | 1 | WATER LATERALS-O | 3/15/04 | SL | | N | 50.0000 | 0 | | 22,160 | 0 | 1,034 | 443 | 1,477 |
| Group Totals | | | | | | | | | | <u>22,160</u> | <u>0c</u> | <u>1,034</u> | <u>443</u> | <u>1,477</u> |
| Group # 27 - WATER-GRANTS | | | | | | | | | | | | | | |
| 1 | 1 | SLO COUNTY-OLD T | 3/15/04 | SL | | N | 50.0000 | 0 | | 57,205 | 0 | 2,669 | 1,144 | 3,813 |
| Group Totals | | | | | | | | | | <u>57,205</u> | <u>0c</u> | <u>2,669</u> | <u>1,144</u> | <u>3,813</u> |
| Group # 28 - WATER-TRANS CONTRIB | | | | | | | | | | | | | | |
| 1 | 1 | TEFFT WATERLINE- | 3/15/04 | SL | | N | 50.0000 | 0 | | 186,000 | 0 | 8,664 | 3,720 | 12,384 |
| Group Totals | | | | | | | | | | <u>186,000</u> | <u>0c</u> | <u>8,664</u> | <u>3,720</u> | <u>12,384</u> |
| FUND #700-TOWN WATER CAPACITY Totals | | | | | | | | | | <u>3,266,634</u> | <u>0c</u> | <u>376,807</u> | <u>68,307</u> | <u>445,114</u> |
| Grand Totals | | | | | | | | | | <u>3,266,634</u> | <u>0c</u> | <u>376,807</u> | <u>68,307</u> | <u>445,114</u> |

NIPOMO COMMUNITY SERVICES DISTRICT
SUMMARY OF WATER SYSTEM ASSETS AND FINANCIAL RESERVES AS OF JUNE 30, 2006

| | TOWN DIVISION | | | | BLACKLAKE DIVISION | | |
|--|--------------------------------------|---------------------------|---|----------------------|---------------------------------------|--|---------------------------|
| | Water Operating Fund Town (Fund 120) | Water Capacity (Fund 700) | Funded Depreciation Town Water (Fund 800) | Town Division Totals | Water Operating Blacklake (Fund 140) | Funded Depreciation Blacklake (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 | | | 0 |
| 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 | | | 0 |
| 1545 - Machinery & Equipment | 82,129 | | | 82,129 | 9,800 | 30,645 | 40,445 |
| 1550 - Computer Equipment | 65,759 | | 126,822 | 192,581 | 7,442 | | 7,442 |
| 1555 - Office Furniture & Fixtures | 9,310 | | | 9,310 | | | 0 |
| 1560 - Land & Land Rights | 43,500 | 235,739 | | 279,239 | | | 0 |
| 1570 - Vehicles | 102,507 | | | 102,507 | 15,687 | | 15,687 |
| 1590 - Work in Process | | 30,125 | | 30,125 | | | 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 | 1,079,846 | 82,553 | 1,162,399 |
| Removal of Old Town Laterals | | (75,662) | | (75,662) | | | |
| | | <u>1,910,773</u> | | <u>7,654,017</u> | | | |
| 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 | | | 0 |
| 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) | | | 0 |
| 2120 - Construction Meter Deposit | (11,500) | | | (11,500) | | | 0 |
| 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 | | | | 0 | (24,170) | | (24,170) |
| 2510 - Revenue Bonds - Current Portion | (9,000) | | | (9,000) | | | 0 |
| 2610 - Revenue Bonds Payable | (129,000) | | | (129,000) | | | 0 |
| 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 | 1,075,260 | 577,516 | 1,652,776 |
| Removal of Old Town Laterals | | (75,662) | | (75,662) | | | |
| | | <u>6,612,206</u> | | <u>15,215,058</u> | | | |
| No. of Equivalent Meters | | | | 3579 | | | 636 |
| | | | | | Recomputed removing Old Town Laterals | | |
| Water System Assets per Equivalent Meter | | | | 2160 | 2,139 | | 1828 |
| Financial Reserves per Equivalent Meter | | | | 2112 | 2,112 | | 772 |
| | | | | 4272 | 4,251 | | 2600 |

| | | | | | |
|---|-----------------|----------------------|-----------------|-----------|--|
| | | | | | Difference (Lump Sum per Reed Report less Recomputed removing Old Town Laterals) |
| Blacklake Equity Surcharge (\$/Eq. Meter) | (4,272 - 2,600) | 1,672 | (4,251 - 2,600) | 1,651 | 21 |
| Revenue Requirement | (1,672 * 636) | 1,063,392 | (1,651 * 636) | 1,050,036 | 13,356 |
| Principal Balance | 1,050,036 | (1,063,392 - 13,356) | | | |
| Interest Rate | 5% | | | | |

| | Principal & Interest | Annual Per Meter Equivalent | Bi-Monthly charge per Meter Equivalent |
|----------|----------------------|-----------------------------|--|
| 10 Years | 135,984.47 | 213.81 | 35.64 |
| 11 Years | 126,412.67 | 198.76 | 33.13 |
| 12 Years | 118,470.74 | 186.27 | 31.05 |
| 13 Years | 111,782.39 | 175.76 | 29.29 |
| 14 Years | 106,078.80 | 166.79 | 27.80 |
| 15 Years | 101,162.87 | 159.06 | 26.51 |
| 16 Years | 96,886.73 | 152.34 | 25.39 |
| 17 Years | 93,137.29 | 146.44 | 24.41 |
| 18 Years | 89,826.61 | 141.24 | 23.54 |
| 19 Years | 86,885.24 | 136.61 | 22.77 |
| 20 Years | 84,257.61 | 132.48 | 22.08 |
| 21 Years | 81,898.72 | 128.77 | 21.46 |
| 22 Years | 79,771.77 | 125.43 | 20.90 |
| 23 Years | 77,846.33 | 122.40 | 20.40 |

NIPOMO COMMUNITY SERVICES DISTRICT
 COMPARISON OF 2009 BLACKLAKE RATES VERSUS 2009 TOWN RATES
 FOR BLACKLAKE DIVISION

| <u>METER SIZE</u> | <u># OF METERS</u> | <u>2009 RATES - TOWN</u> | <u>BILLINGS PER YEAR</u> | <u>AVAILABILITY CHARGE REVENUE</u> |
|-------------------|--------------------|--------------------------|--------------------------|------------------------------------|
| 1 INCH OR LESS | 571 | \$30.84 | 6 | \$105,657.84 |
| 1.5 INCH | 12 | \$83.97 | 6 | \$6,045.84 |
| 2 INCH | 5 | \$124.61 | 6 | \$3,738.30 |
| | <u>588</u> | | | <u>\$115,441.98</u> |

| <u>METER SIZE</u> | <u># OF METERS</u> | <u>2009 RATES - BLACKLAKE</u> | <u>BILLINGS PER YEAR</u> | <u>AVAILABILITY CHARGE REVENUE</u> |
|-------------------|--------------------|-------------------------------|--------------------------|------------------------------------|
| 1 INCH OR LESS | 571 | \$37.07 | 6 | \$127,001.82 |
| 1.5 INCH | 12 | \$99.42 | 6 | \$7,158.24 |
| 2 INCH | 5 | \$148.37 | 6 | \$4,451.10 |
| | <u>588</u> | | | <u>\$138,611.16</u> |

DIFFERENCE IN AVAILABILITY CHARGE \$23,169.18

| <u>USAGE RATES</u> | <u># OF CUSTOMERS</u> | <u>ESTIMATED WATER USAGE</u> | <u>BILLINGS PER YEAR</u> | <u>WATER USAGE -2009 TOWN RATES</u> |
|--------------------|-----------------------|------------------------------|--------------------------|-------------------------------------|
| RESIDENTIAL | 486 | 40 | 6 | 191,289.60 |
| MFD | 68 | 6 | 6 | 5,042.88 |
| IRRIGATION | 31 | 215 | 6 | 82,379.40 |
| COMMERCIAL | 3 | 95 | 6 | 3,522.60 |
| | <u>588</u> | | | <u>282,234.48</u> |

| <u>USAGE RATES</u> | <u># OF CUSTOMERS</u> | <u>ESTIMATED WATER USAGE</u> | <u>BILLINGS PER YEAR</u> | <u>WATER USAGE -2009 BLACKLAKE RATES</u> |
|--------------------|-----------------------|------------------------------|--------------------------|--|
| RESIDENTIAL | 486 | 40 | 6 | 230,947.20 |
| MFD | 68 | 6 | 6 | 5,899.68 |
| IRRIGATION | 31 | 215 | 6 | 96,375.90 |
| COMMERCIAL | 3 | 95 | 6 | 4,121.10 |
| | <u>588</u> | | | <u>337,343.88</u> |

DIFFERENCE IN WATER USAGE CHARGES \$55,109.40

BLACKLAKE DIVISION WOULD PAY APPROXIMATELY \$78,278 MORE
 IN WATER RATES AND CHARGES IN 2009 COMPARED TO TOWN WATER
 RATES AND CHARGES IN 2009 \$78,278.58

**NIPOMO COMMUNITY SERVICES DISTRICT
ORDINANCE NO. 2008-_____**

**AN ORDINANCE OF THE BOARD OF DIRECTORS
OF THE NIPOMO COMMUNITY SERVICES DISTRICT
ADDING CHAPTER 3.40 TO THE DISTRICT CODE MERGING
TOWN DIVISION AND BLACKLAKE WATER DIVISION**

WHEREAS, it is a major responsibility of the Nipomo Community Services District (“District”) to:

- A. Operate and maintain its water production and distribution facilities so as to provide adequate fire protection and water service to District water customers;
- B. Maintain adequate levels of revenue, equitably collected from District water customers, to meet the District’s financial commitments including operation, maintenance, replacement and administrative costs of District’s water production and distribution facilities; and

WHEREAS, the District operates two (2) water divisions, commonly known as the Town Division and the Blacklake Water Division. Each division shares prorata in certain common costs related to District operations including water, sewer and solid waste services; and

WHEREAS, the Town Water System, by design, uses water tanks and a gravity water system to provide water pressure for potable water and fire protection; and

WHEREAS, the Blacklake Water System, by design, uses a hydro-pneumatic pump station that includes tanks and variable speed pumps (collectively “Booster Station”) to provide water pressure for potable water and fire protection; and

WHEREAS, on or about June 8, 2005, the District adopted Ordinance 2005-03 that adopted rates and charges for the operation and maintenance of the two water systems. The Differential Rates and Charges are identified in Appendix “A” to Chapter 3.03 of the District Code. Appendix “A” is attached hereto as Exhibit “1” and incorporated herein by this reference; and

WHEREAS, the Booster Pump Station requires major reconstruction as reported to the District Board of Directors on October 25, 2006, “all three pumps are worn out, the hydro-pneumatic tank is unreliable and the plumbing is ineffective”; and

WHEREAS, to address the immediate need to provide Blacklake residents with potable water and fire protection, the District constructed a second and larger intertie between the Town Division and the Blacklake Division in July of 2006; and

WHEREAS, the Blacklake Water Pump Station has been inactive since July, 2006, with Blacklake water customers being supplied with water service and fire protection through the newly constructed intertie; and

WHEREAS, on February 12, 2007, the District received a Memorandum from Boyle Engineering titled Comparative Analysis of Blacklake Supply Options that included three (3) alternatives as follows:

1. Stand Alone System – rehabilitate and upgrade the major components of the Blacklake Water System; or
2. Merge – merge the two Water Systems; or
3. Hybrid System – reconstruct portions of the Blacklake Water System to meet average daily flows with peak flows and fire flows being met by the

interconnection; and

WHEREAS, the February 12, 2007, Boyle Comparative Analysis made the following findings and recommendations:

1. That the Town Division could reliably supply fire flows and domestic service to the Blacklake Division; and
2. That the systems be merged on the basis of costs savings related to reconstructing the Blacklake Water Facilities; and

WHEREAS, on September 7, 2007, at the District's request, the Reed Group, Inc. provided the District with a report titled Nipomo Community Services District Combined Water Rates System Financial Plan and User Rates (herein the "Report"). The Report concluded, based on an analysis of the difference in value of the two (2) water system assets and financial resources that a Blacklake Equity Surcharge (buy-in) at 1.06 million dollars (lump sum) should be paid for permanently connecting the Blacklake to the Town Division Water Facility; and

WHEREAS, the District Board of Directors reduced the 1.06 million dollar buy-in in recognition that the Town Division Fund includes approximately seventy-five thousand six hundred sixty-seven dollars (\$75,667) in grants for the Tefft Street Project. Therefore, adjusting the fund calculation for the Town Division, the lump sum equity buy-in is set at 1.05 million dollars; and

WHEREAS, the Board of Directors has considered several methods of amortizing the 1.05 million dollar lump sum equity buy-in over time and finds that using the Rate Differential of existing and future rates as adopted by District Ordinance 2005-03 provides an equitable formula for the payment of the buy-in amount over; and

WHEREAS, based upon facts and analysis presented by the Technical Reports, the Study, the Staff Report, and public testimony received, the Board of Directors finds:

- A. The public meetings adopting this Ordinance have been properly noticed pursuant to Government Code Section 54954.2 (The Brown Act);
- B. The adoption of this Ordinance does not increase water rates.
- C. Using the differential rates as established by Ordinance 2005-03, until such time as the buy-in charge is paid in full, establishes an equitable means of spreading the buy-in costs among the Blacklake water customers.

NOW, THEREFORE, BE IT ORDAINED, by the Board of Directors of the District as follows:

Section 1. Merger

Chapter 3.40, titled Merger of District Water Divisions, attached hereto as Exhibit "A", and incorporated herein by this reference is hereby approved, adopted and added to the District Code.

Section 2. Budget Adjustment – Second Intertie

The District Staff is directed to return to the Board with a budget adjustment, for a second intertie at Misty Glen Road that will:

- A. Assure redundancy of the connection of the two (2) systems; and

- B. Provide a means of looping of the two (2) systems.

Section 3. Accounting

For accounting purposes:

- A. Blacklake Division Water Fund Account 140 and Town Division Water Fund Account 120 will be combined into a single fund; and
- B. Blacklake Division Accounts and Town Division Accounts will be operated under a single accounting system effective July 1, 2008.

Section 4. Incorporation of Recitals

The Recitals are true and correct and incorporated herein by this reference. The Recitals and referenced reports and studies contained therein constitute and support the findings of the District in support of this Ordinance.

Section 5. Effect of Repeal on Past Actions and Obligations.

This Ordinance does not affect prosecutions for Ordinance violations committed prior to the effective date of this Ordinance, does not waive any fee or penalty due and unpaid on the effective date of this Ordinance, and does not affect the validity of any bond or cash deposit posted, filed or deposited pursuant to the requirements of any Ordinance.

Section 6. Severance Clause.

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

Section 7. Effect of Headings in Ordinance.

Title, division, part, chapter, article, and section headings contained herein do not in any manner affect the scope, meaning, or intent of the provisions of this Ordinance.

Section 8. Effective Date.

This Ordinance shall take effect and be in full force and effect thirty (30) days after its passage. Before the expiration of fifteen (15) days after passage it shall be published once in the with the names of the members of the Board of Directors voting for and against the Ordinance in the 5-Cities Times-Press Recorder and the Tribune.

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Introduced at its regular meeting of the Board of Directors held on _____, 2008 and passed and adopted by the Board of Directors of the Nipomo Community Services District on the _____ day of _____, 2008 by the following roll call vote, to wit:

AYES:

NOES:

ABSENT:

CONFLICTS:

Michael Winn, President
Nipomo Community Services District
Board of Directors

ATTEST:

APPROVED AS TO FORM:

DONNA K. JOHNSON
Secretary to the Board

JON S. SEITZ
District Legal Counsel

Nipomo Community Services District Draft Ordinance
Chapter 3.40
Merger of District Water Divisions

3.40.010 Merged Water System

- A. The District's Town Division water system and the Blacklake Division water system are hereby merged into a single water division known as the Nipomo Community Services District Water System or the District Water System.
- B. The water system intertie constructed at June, 2006, is hereby declared a permanent connection.
- C. The Blacklake projects known as the Blacklake Booster Station and the Blacklake Hydro-Pneumatic Tank are no longer required and are hereby abandoned.

3.40.20 Equitable Adjustment

- A. Definitions:
 - 1. **Differential Rates** means the difference between existing and future Blacklake and Town Division water rate structure established by District Ordinance 2005-03.
 - 2. **Equitable Buy-In Charge** means the difference between the Town Division's current investment in the District Water System and the Blacklake Division's investment in the District Water System based on the 2006 Audited Financial Report.
 - 3. **District Water System Capital Facilities** means and includes the District Water System capital facilities such as water tanks and distribution system.
- B. There is hereby established an Equitable Buy-In Charge of one million fifty thousand dollars (\$1,050,000), constituting Blacklake Water Division's buy-in for connecting to the District Water System Capital Facilities.
- C. The Equitable buy-In Charge shall be paid, with interest accumulating at five percent (5%) per annum, to the District Water System from the Differential Rates until paid in full (approximately 23 years).

3.40.030 Rates and Charges

- A. Upon the full reimbursement of the Equitable Buy-In Charge the Differential Rates shall terminate and the District Water System shall be operated under a single combined rate structure.
- B. District Water System rates and charges shall be adjusted from time to time pursuant to the provisions of Article XIII D of the California Constitution (commonly known as Proposition 218).

EXHIBIT "A"

APPENDIX A TO CHAPTER 3.03

WATER RATES AND CHARGES

BI-MONTHLY MINIMUM CHARGES

(The bi-monthly minimum charge shall take effect August 1, 2005 and future increases shall take effect on January 1 of each succeeding year.)

TOWN DIVISION*

| SIZE OF METER | AUGUST 1, 2005 | JANUARY 1, 2006 | JANUARY 1, 2007 | JANUARY 1, 2008 | JANUARY 1, 2009 |
|-------------------|----------------|-----------------|-----------------|-----------------|-----------------|
| 1 Inch or Less | \$16.76 | \$18.77 | \$20.27 | \$21.48 | \$22.34 |
| Litigation Charge | \$6.32 | \$6.32 | \$6.32 | \$6.32 | \$6.32 |
| 1 ½ Inch | \$47.56 | \$53.27 | \$57.53 | \$60.98 | \$63.42 |
| Litigation Charge | \$14.36 | \$14.36 | \$14.36 | \$14.36 | \$14.36 |
| 2 Inch | \$75.33 | \$84.37 | \$91.12 | \$96.59 | \$100.45 |
| Litigation Charge | \$19.92 | \$19.92 | \$19.92 | \$19.92 | \$14.36 |
| 3 Inch | \$140.17 | \$156.99 | \$169.54 | \$179.72 | \$186.91 |
| Litigation Charge | \$27.92 | \$27.92 | \$27.92 | \$27.92 | \$27.92 |
| 4 Inch | \$232.77 | \$260.70 | \$281.56 | \$298.45 | \$310.39 |
| Litigation Charge | \$36.00 | \$36.00 | \$36.00 | \$36.00 | \$36.00 |
| 6 Inch | \$464.07 | \$519.76 | \$561.34 | \$595.02 | \$618.82 |
| Litigation Charge | \$59.58 | \$59.58 | \$59.58 | \$59.58 | \$59.58 |
| 8 Inch | \$741.74 | \$830.75 | \$897.21 | \$951.04 | \$989.09 |
| Litigation Charge | \$68.08 | \$68.08 | \$68.08 | \$68.08 | \$68.08 |

*The above bi-monthly minimum charge reflects the adjusted rate established by Ordinance 2003-95 to meet the District's financial obligations relating to the lawsuit entitled Santa Maria Valley Water Conservation District vs the City of Santa Maria, the Nipomo Community Services District, et al. When the District's financial obligation regarding this lawsuit have been satisfied, the above litigation charge will be removed.

BLACKLAKE DIVISION*

| SIZE OF METER | AUGUST 1, 2005 | JANUARY 1, 2006 | JANUARY 1, 2007 | JANUARY 1, 2008 | JANUARY 1, 2009 |
|-------------------|----------------|-----------------|-----------------|-----------------|-----------------|
| 1 Inch or Less | \$15.11 | \$18.89 | \$22.67 | \$26.07 | \$27.63 |
| Litigation Charge | \$6.32 | \$6.32 | \$6.32 | \$6.32 | \$6.32 |
| 1 ½ Inch | \$41.80 | \$52.25 | \$62.71 | \$72.11 | \$76.44 |
| Litigation Charge | \$14.36 | \$14.36 | \$14.36 | \$14.36 | \$14.36 |
| 2 Inch | \$65.86 | \$82.33 | \$98.80 | \$113.61 | \$120.43 |
| Litigation Charge | \$19.92 | \$19.92 | \$19.92 | \$19.92 | \$14.36 |
| 3 Inch | \$122.04 | \$152.55 | \$183.06 | \$210.52 | \$223.16 |
| Litigation Charge | \$27.92 | \$27.92 | \$27.92 | \$27.92 | \$27.92 |
| 4 Inch | \$202.28 | \$252.85 | \$303.42 | \$348.94 | \$369.87 |
| Litigation Charge | \$36.00 | \$36.00 | \$36.00 | \$36.00 | \$36.00 |
| 6 Inch | \$402.70 | \$503.38 | \$604.05 | \$694.66 | \$736.34 |
| Litigation Charge | \$59.58 | \$59.58 | \$59.58 | \$59.58 | \$59.58 |
| 8 Inch | \$643.30 | \$804.12 | \$964.95 | \$1,109.69 | \$1,176.27 |
| Litigation Charge | \$68.08 | \$68.08 | \$68.08 | \$68.08 | \$68.08 |

*The above bi-monthly minimum charge reflects the adjusted rate established by Ordinance 2003-95 to meet the District's financial obligations relating to the lawsuit entitled Santa Maria Valley Water Conservation

EXHIBIT "A" (Continued)

APPENDIX B TO CHAPTER 3.03

WATER RATES AND CHARGES

(The bi-monthly commodity rates shall take effect August 1, 2005 and future rate increases shall take effect on January 1 of each succeeding year.)

TOWN DIVISION

RESIDENTIAL COMMODITY RATES

| | AUGUST 1, 2005 | JANUARY 1, 2006 | JANUARY 1, 2007 | JANUARY 1, 2008 | JANUARY 1, 2009 |
|---------------------|-------------------|--------------------|--------------------|--------------------|--------------------|
| Tier 1 (0-40 Units) | \$1.16 | \$1.30 | \$1.40 | \$1.49 | \$1.55 |
| Tier 2 (> 40 Units) | \$1.94 | \$2.17 | \$2.35 | \$2.49 | \$2.59 |

TOWN DIVISION

NON-RESIDENTIAL COMMODITY RATES

(Multi-family, Commercial, Irrigation, Agriculture, Industry and Construction)

| | AUGUST 1, 2005 | JANUARY 1, 2006 | JANUARY 1, 2007 | JANUARY 1, 2008 | JANUARY 1, 2009 |
|---------------|-------------------|--------------------|--------------------|--------------------|--------------------|
| All Water Use | \$1.44 | \$1.61 | \$1.74 | \$1.85 | \$1.92 |

BLACKLAKE DIVISION

RESIDENTIAL COMMODITY RATES

| | AUGUST 1, 2005 | JANUARY 1, 2006 | JANUARY 1, 2007 | JANUARY 1, 2008 | JANUARY 1, 2009 |
|---------------------|-------------------|--------------------|--------------------|--------------------|--------------------|
| Tier 1 (0-40 Units) | \$0.99 | \$1.24 | \$1.49 | \$1.71 | \$1.81 |
| Tier 2 (> 40 Units) | \$1.66 | \$2.08 | \$2.49 | \$2.86 | \$3.04 |

BLACKLAKE DIVISION

NON-RESIDENTIAL COMMODITY RATES

(Multi-family, Commercial, Irrigation, Agriculture, Industry and Construction)

| | AUGUST 1, 2005 | JANUARY 1, 2006 | JANUARY 1, 2007 | JANUARY 1, 2008 | JANUARY 1, 2009 |
|---------------|-------------------|--------------------|--------------------|--------------------|--------------------|
| All Water Use | \$1.18 | \$1.48 | \$1.77 | \$2.04 | \$2.16 |