

TO: BOARD OF DIRECTORS
FROM: BRUCE BUEL *BEB*
DATE: DECEMBER 5, 2008

AGENDA ITEM
E-1
DECEMBER 10, 2008

BLACKLAKE SEWER RATE INCREASE PROTEST HEARING

ITEM

Conduct Blacklake Sewer rate increase protest hearing, determine sufficiency of protest, and, if there is not a majority protest, set January 14, 2009 to consider resolution implementing the rate increase [DETERMINE SUFFICIENCY AND SET HEARING].

BACKGROUND

Your Honorable Board, on October 8, 2008, tentatively adopted the attached Financial Plan, set this hearing and directed staff to circulate the notice required by law. Attached is a copy of the notice mailed to each property owner and eligible tenant. Thus far, NCSD has received thirteen protests. There are currently 556 parcels in the Blacklake Sewer Division. 278 valid protests would constitute a majority protest.

FISCAL IMPACT

Processing of the protests has involved approximately \$300 of mailing costs and the usage of budgeted staff time.

RECOMMENDATION

Staff recommends that the Board open the Protest Hearing, receive any new protests, close the protest hearing, and direct staff to tabulate the total number of valid protests. Should the number of valid protests be less than 278, then staff recommends that the Board set January 14, 2009 to consider adoption of a resolution implementing the rate increase, the surcharge and repayment of the loan. Should the number of valid protests be 278 or greater, then staff recommends that the Board set January 14, 2009 as the date to discuss next steps.

ATTACHMENTS

- Financial Plan
- Notice

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Nipomo Community Services District
BLACKLAKE SEWER SYSTEM
FINANCIAL PLAN AND
USER RATES
FINAL REPORT

September 30, 2008



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 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. Recommendations pertaining to the Blacklake sewer system were completed in August 2007. However, for a variety of reasons recommendations were not implemented. This report presents an updated financial plan and sewer rate recommendations for the Blacklake Division.

The District owns, operates, and maintains a sewer collection, treatment, and disposal system for the Blacklake development. The sewer rates paid by customers of the sewer system are generally intended to cover the costs of the sewer system. The District's Town and Blacklake sewer systems are operated as independent systems.

The remainder of this Executive Summary presents primary findings and recommendations related to the (1) Blacklake sewer system financial plan, and (2) sewer rates for the system. Section II provides details on the financial plan. Section III presents sewer rate calculations.

Blacklake Sewer System Financial Plan

The financial plan for the Blacklake sewer system was developed to cover a five-year planning period from FY 08-09 through FY 12-13. The financial plan includes estimated operating and maintenance costs, anticipated debt service obligations, and capital program needs.

The financial plan model was used to identify annual sewer 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 sewer rate increases, while still meeting financial obligations. The financial plan and sewer rate recommendations presented herein reflect discussion by the Board of Directors of five separate financial strategies¹.

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 sewer 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.

- Planned expenditures and capital program transfers exceed current revenues. At the end of FY 07-08 the Blacklake Sewer Operating Fund had a balance of only about \$15,000, while the target minimum was about \$57,000. The Operating Fund will have a negative

¹ The five financial strategies were presented and discussed during the September 8, 2008 Board of Directors meeting. Alternatives were developed with the assistance of input from members of the Blacklake community.

balance in FY 08-09 unless there is a significant increase in the sewer rates AND a short-term interfund loan to correct this critical financial situation.

- The Blacklake Funded Replacement Fund had a *negative* balance of \$143,000 at the beginning of FY 08-09, with planned expenditures of \$59,400 in the current fiscal year.
- The District recently completed a water and sewer *Replacement Study*² to identify the level of funding necessary for ongoing replacement and rehabilitation of the water and sewer systems. Based on the Service Life Savings Program (Model 2), the Blacklake sewer system should be saving (transferring to the Funded Replacement Fund) about \$159,000 annually to meet current and future rehabilitation needs. This amount was recommended to grow slightly annually.
- The District previously adopted a Blacklake sewer rate increase for January 2009 of 4 percent. However a much more significant increase in the sewer rate will be required to meet financial obligations and to maintain a positive Operating Fund balance. Rate recommendations presented in this report would supersede the previously approved sewer rates.

Five potential financial strategies and rate plans for the Blacklake sewer system were considered by the District, each with differing rate recommendations. The specific elements of the financial strategy preferred by the Board of Directors include:

- The Blacklake Sewer Operating Fund should obtain a \$275,000 inter-fund loan in order to provide the money needed to correct the financial deficit in the Blacklake sewer enterprise. The loan should be repaid, with interest, over a five- or ten-year period.
- As directed by the Board of Directors, the loan should be repaid through a special surcharge to be applied to each customer's utility bill. Customers should be allowed to prepay the amount owed with a lump sum payment (thereby avoiding interest costs), or repay the loan over a 5-year or 10-year period.
- The annual transfer from the Operating Fund to the Funded Replacement Fund should be increased from \$40,000 in FY 07-08 to \$203,000 in FY 08-09³, and then ramped up to be consistent with the Replacement Study recommendations by FY 11-12. The three-year transition to full replacement funding enables a more gradual increase in sewer rates.
- As a result of the transition to full replacement funding, nearly \$370,000 in planned capital improvements will need to be deferred until after FY 12-13. Deferred projects include the next pond liner replacement, the Woodgreen List Station Access project, and the Golf Course Trunk Line project.
- The Operating Reserve should be maintained at 25 percent of annual operating and maintenance costs (excluding the transfer to the Funded Replacement Fund and fixed asset purchases).
- Sewer rates for the Blacklake sewer system should be increased as shown below under each of the financial plan alternatives. The rate increases are relative to the current sewer

² 2007 *Water and Sewer Replacement Study*, Nipomo Community Services District, prepared by Boyle Engineering, April 2008.

³ This transfer is necessary to eliminate the current negative balance in the Funded Replacement Fund and provide sufficient funds for planned projects in FY 08-09.

rates, and would supersede the previously approved increase of 4 percent for 2009. The rate increase for January 2009 will differ for each customer class (as discussed below).

January 2009	40%
January 2010	11%
January 2011	11%
January 2012	5%
January 2013	5%

Proposed Sewer Rate Schedules and Loan Surcharge

This study included developing specific sewer rate recommendations for the next two to four years. Proposed sewer rate schedules for financial strategy alternatives "A", "B", and "C" are presented in Exhibits I-1, I-2, and I-3, respectively. Proposed rates are intended to generate the revenues reflected in the financial plan. It is recommended that the Board of Directors adopt the entire multi-year rate plan, for whichever financial strategy alternative is chosen.

Exhibit I-1
Nipomo Community Services District
Current and Proposed Blacklake Sewer Rates

	Current (1)	Jan. 2009	Jan. 2010	Jan. 2011	Jan. 2012	Jan. 2013
Bi-Monthly Residential Service Charges (2)						
Single Family	\$ 80.65	\$ 107.12	\$ 118.90	\$ 131.98	\$ 138.58	\$ 145.51
Multi-Family	\$ 43.22	\$ 69.99	\$ 77.69	\$ 86.24	\$ 90.55	\$ 95.08
Bi-Monthly Non-Residential Service Charges (3)						
Up to 1"	\$ 36.86	\$ 48.23	\$ 53.54	\$ 59.43	\$ 62.40	\$ 65.52
1 1/2"	\$ 106.01	\$ 137.29	\$ 152.39	\$ 169.16	\$ 177.62	\$ 186.50
2"	\$ 168.34	\$ 217.45	\$ 241.36	\$ 267.91	\$ 281.31	\$ 295.38
3"	\$ 313.89	\$ 404.47	\$ 448.96	\$ 498.35	\$ 523.26	\$ 549.43
4"	\$ 521.77	\$ 671.65	\$ 745.53	\$ 827.54	\$ 868.91	\$ 912.36
6"	\$ 1,041.00	\$ 1,339.59	\$ 1,486.94	\$ 1,650.51	\$ 1,733.03	\$ 1,819.68
8"	\$ 1,664.33	\$ 2,141.12	\$ 2,376.64	\$ 2,638.07	\$ 2,769.98	\$ 2,908.48
Non-Residential Usage Rates (\$/HCF)						
Low Strength	\$ 1.55	\$ 2.62	\$ 2.91	\$ 3.23	\$ 3.39	\$ 3.56
Medium Strength	\$ 2.11	\$ 3.53	\$ 3.92	\$ 4.35	\$ 4.57	\$ 4.80
High Strength	\$ 3.37	\$ 5.59	\$ 6.20	\$ 6.89	\$ 7.23	\$ 7.59

Notes:

- (1) Effective January 1, 2008 as adopted with Ordinance 2005-103.
- (2) Per dwelling unit.
- (3) Non-residential includes commercial.

In addition to the proposed sewer rates presented above, the District should adopt the Blacklake sewer loan surcharges shown in Exhibit I-2. In order to adequately fund the Blacklake sewer capital improvement plan, a \$275,000 inter-loan is proposed. The loan could be repaid through bi-monthly loan surcharges applied to customer's utility bills for either a five- or ten-year period⁴. The loan would be fully repaid with interest at 3.5 percent. Customers should be given the opportunity

⁴ The time period of repayment could be determined by the Board of Directors, or left as an option to the customer.

to prepay their share of the loan, as shown in Exhibit I-2, and thereby avoid interest costs and a bi-monthly surcharge. Prepayments would effectively reduce the amount of the inter-fund loan.

**Exhibit I-2
Nipomo Community Services District
Blacklake Sewer Loan Surcharge**

Lump Sum Prepayment			
Residential Accounts (per DU)			
Single Family	\$	489	
Multi-Family	\$	489	
Non-Residential Accounts			
1" meter	\$	489	
1 1/2" meter	\$	1,468	
2" meter	\$	2,350	
Bi-Monthly Loan Surcharge			
		5-years	10-years
Residential Accounts (per DU)			
Single Family	\$	17.83	\$ 9.69
Multi-Family (per DU)	\$	17.83	\$ 9.69
Non-Residential Accounts			
1" meter	\$	17.83	\$ 9.69
1 1/2" meter	\$	53.50	\$ 29.08
2" meter	\$	85.60	\$ 46.52

Customer Bill Impacts of Proposed Rates

The specific changes to residential rates in January 2009 reflect recent analyses of water usage by both single family and multi-family customers (each as a group). Details of the analyses are discussed in Section III of this report. As a result of this analyses, the dollar increase in proposed rates for multi-family customers are similar to the dollar increase for single family. However, the percentage changes to the multi-family rates are higher than the changes for single family. **Exhibit I-3** summarizes the proposed changes in single family and multi-family sewer rates over the next four years. Non-residential sewer bill changes will depend on each customers meter size, sewer strength classification, and water usage.

**Exhibit I-3
Nipomo Community Services District
Bill Impact of Proposed Residential Sewer Rates for FY 08-09**

	Amount *	\$ Change	% Change
Single Family			
Current	\$ 80.65		
Jan. 2009	\$ 107.12	\$ 26.47	33%
Jan. 2010	\$ 118.90	\$ 11.78	11%
Jan. 2011	\$ 131.98	\$ 13.08	11%
Jan. 2012	\$ 138.58	\$ 6.60	5%
Jan. 2013	\$ 145.51	\$ 6.93	5%
Multi-Family			
Current	\$ 43.22		
Jan. 2009	\$ 69.99	\$ 26.77	62%
Jan. 2010	\$ 77.69	\$ 7.70	11%
Jan. 2011	\$ 86.24	\$ 8.55	11%
Jan. 2012	\$ 90.55	\$ 4.31	5%
Jan. 2013	\$ 95.08	\$ 4.53	5%

* Excludes bi-monthly loan surcharge, which may begin in January 2009.

II. Five-Year Financial Plan

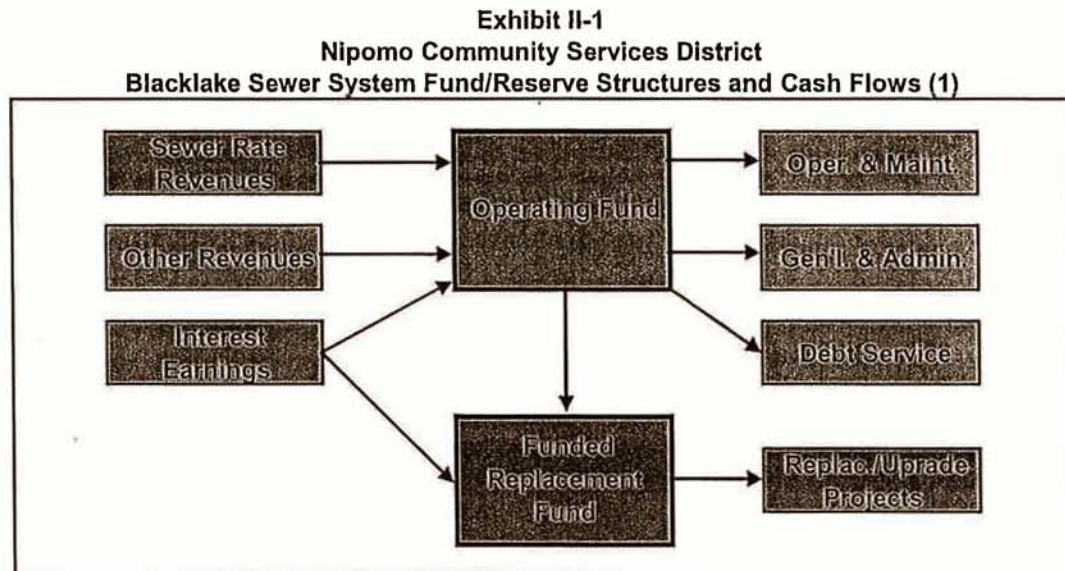
This section of the report describes the Blacklake sewer system five-year financial plan prepared for the Nipomo Community Services District. This section includes a description of fund and reserve structures and cash flows, financial plan assumptions including the capital improvement program and financing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

The financial plan is used to determine annual sewer 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, 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 sewer 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. Unlike the Town Sewer System, the Blacklake System does not include a Capital Improvement Fund, or capacity charge revenues, since there is no new development within Blacklake.



An understanding of the fund/reserve structure is helpful in understanding the financial plan worksheets that model annual cash flows through the sewer 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 sewer utility. Most of the sewer system's revenues, including rate revenues, flow into the Operating Fund and all operating and maintenance costs, including capital outlay items, are paid out of this fund. Funds are also transferred from the Operating Fund to the Funded Replacement Fund to fund 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 25 percent of annual operating and maintenance costs for the sewer system (exclusive of the transfer to the Funded Replacement Fund and fixed asset purchases). The purpose of the Operating Reserve is to provide working capital and funds for unplanned operating and maintenance expenditures. The balance in the sewer system Operating Fund is currently well below 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 attempts to reduce any Uncommitted Fund Balance. A negative amount shown for the Uncommitted Fund Balance indicates the amount by which the Operating Fund is below the target operating reserve.
- **Funded Replacement Fund** – The Funded Replacement Fund is used to account for capital projects intended to rehabilitate or upgrade the Blacklake sewer system. The primary source of money for the Funded Replacement Fund is a transfer from the Operating Fund. The District recently completed a Replacement Study that identifies the amount that should be annually transferred to the Funded Replacement Fund to support ongoing replacement, rehabilitation, and upgrade of the Blacklake sewer system. At present, the Funded Replacement Fund for the Blacklake sewer system has a significant negative balance.

Financial Plan Assumptions

The financial plan was created to reflect the FY 08-09 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 inflation and interest rates, anticipated capital improvement needs, and other information. No new growth is anticipated for the Blacklake sewer system. The data and assumptions used in developing the financial plans were reviewed with staff. It is important to recognize that the District does not have formal estimates of future operating and maintenance costs, and capital improvement needs are defined at a planning level based on the recent Master Plan Update. 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.

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

<i>Interest, Inflation, and Growth Rates</i>								
Interest Earnings	3.5%							
General Inflation Rate	3.0%							
Construction Inflation Rate	5.0%							
Operating Reserve - BL Sewer	25% of operating expenditures							
Customer Growth Rate Blacklake Division	0.0% per year							
		FY 06-07	FY 07-08	FY 08-09	FY 09-10	FY 10-11	FY 11-12	FY 12-13
<i>No. of Accounts</i>								
Blacklake - Sewer		558	558	558	558	558	558	558
No. of Equiv. Customers		562	562	562	562	562	562	562
<i>Sewer Loan From Town (Fund 810) to Blacklake (Fund 150) in FY 08-09</i>								
Amount of Loan	\$ 275,000							
Interest Rate	3.5%							
				<i>Blacklake Sewer Loan Surcharge</i>				
				\$ 489	Lump Sum Payment			
Bi-Monthly Payment (5-yrs)	\$ 10,019			\$ 17.83	Bi-Monthly Surch. (5-yrs)			
Bi-Monthly Payment (10-yrs)	\$ 5,445			\$ 9.69	Bi-Monthly Surch. (10-yrs)			

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. Construction costs are inflated at an annual rate of 5.0 percent.
- 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 3.5 percent per year estimated on the beginning-of-year balances. Recent interest earnings on funds deposited with LAIF have been above 4 percent, however, the interest rate has dipped to slightly above 3 percent in the most recent quarter. The assumption reflected herein is believed to be somewhat conservative over the planning period.
- Growth Projections* – Because the Blacklake subdivision is essentially built out the financial plan and rate analysis assume no new growth or service connections to the Blacklake sewer system.
- 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 Section III of this report. Water use data was used to determine residential and non-residential sewer rates. Details of the water use analyses are presented in Section III of this report.

Operating and Maintenance Costs

Annual operating and maintenance costs are based on the FY 08-09 budget. All operating and maintenance costs are increased for inflation each year. No other additional operating and maintenance costs are included in the financial plan presented herein.

Capital Improvement Program

The District recently completed a *Water and Sewer Master Plan Update*⁵ for the both the Town and Blacklake Divisions. For purposes of this study, a five-year capital improvement plan for the Blacklake sewer system consists of the capital improvement projects included in the FY 08-09 budget, as well as new projects identified in the *Master Plan Update* report. Financial plan exhibits contained in Appendix A list various projects, estimated cost, and year of construction. All capital improvement projects of the Blacklake sewer system costs are funded from the Funded Replacement Fund.

The District replaced the liner for one of three wastewater treatment ponds during FY 07-08. The cost of this project was about \$180,000. Replacement of another liner was planned in FY 11-12 at a cost of \$232,000. However, in an effort to provide for more gradual increases in sewer rates, the next liner replacement project, as well as the Woodgreen Lift Station Access project and the Golf Course Trunk Line project have been deferred until after FY 12-13.

In order to undertake future capital improvement projects, and maintain and extend the life of the Blacklake sewer system, it will be necessary to increase the annual transfer from the Operating Fund to the Funded Replacement Fund. The recent *Replacement Study* recommended initial replacement funding of \$159,000 annually with subsequent increases. However, the financial strategy presented herein calls for transitioning to the full annual replacement transfer over three years (full funding begins in FY 11-12). At that time the transfer to the Funded Replacement Fund is consistent with recommendations in the *Replacement Study* for the service life savings program (Model 2).

Financial Plan Findings, Conclusions, and Alternatives

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

Currently the Blacklake sewer system has:

- Budgeted expenditures and transfers that exceed current revenues, which results in a declining Operating Fund balance. As of the end of FY 07-08 the Operating Fund was significantly below the minimum operating reserve target level. Without an infusion of cash and a significant rate increase, the Operating Fund will reach a negative fund balance sometime in FY 08-09.
- The Blacklake sewer Funded Replacement Fund currently has a negative balance, and the District can only undertake planned capital improvements with an interfund loan from outside the Blacklake sewer utility.

⁵ *Water and Sewer Master Plan Update*, Nipomo Community Services District, prepared by Cannon Associates, December 2007.

Sewer 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 sewer rates and other revenues do not meet this requirement. A significant rate increase is needed immediately to correct the poor financial condition of the Blacklake sewer system. Subsequent rate increases are required to sustain revenues at the level of costs and to maintain prudent financial reserves, consistent with current District policies.

Five financial plan and rate strategies were developed for the District's consideration. The alternatives involved various combinations of meeting financial policies and increasing sewer rates over the next several years. In all cases, an inter-fund loan in the amount of \$275,000 in FY 08-09 is needed to correct the overall negative balance within the Blacklake sewer utility.

The five financial plan and rate strategies developed for the District's consideration included:

- **Alternative "A"** – Meet all financial objectives throughout the planning period. These include: (1) covering all operating and maintenance costs, (2) maintaining the 25% operating reserve, (3) annually transferring an amount from the Operating Fund to the Funded Replacement Fund consistent with recommendation contained in the Replacement Study for the Service Life Savings Program (Model 2).
- **Alternative "B"** – Same as Alternative "A" except that the annual transfers to the Funded Replacement Fund are phased in over three years. This lower funding, however, does not impact the ability to implement the capital improvement program as scheduled during the planning period.
- **Alternative "C"** – Same as Alternative "B" except that the Operating Reserve is not fully funded until FY 12-13 (the last year of the planning period). During the interim period the Operating Fund would continue to be financially stressed.
- **Alternative "D"** – Same as Alternative "B", except nearly \$370,000 in planned capital upgrades would be deferred and the transfers to the Funded Replacement Fund would be reduced to enable more gradual rate increases to sewer rates. Funds would be available, however, such that deferred projects (the next pond liner replacement, the Woodgreen Lift Station Access, and the Golf Course Trunk Line) could be completed in FY 13-14.
- **Alternative "E"** – Same as Alternative "D", except required rate increases are spread over 5 years rather than four.

The proposed overall average annual sewer rate increases needed to meet estimated financial obligations of the Blacklake sewer system are shown below. The actual percentage change in sewer rates for each customer in January 2009 would vary with each customer class (as described in Section III) due to a recent examination of water usage characteristics and estimated sewer flows from each type of customer.

	<u>Alt. "A"</u>	<u>Alt. "B"</u>	<u>Alt. "C"</u>	<u>Alt. "D"</u>	<u>Alt. "E"</u>
January 2009	50%	50%	35%	40%	40%
January 2010	50%	25%	25%	12%	11%
January 2011	0%	10%	20%	10%	11%
January 2012	0%	0%	10%	8%	5%
January 2013	0%	0%	0%	0%	5%

Following discussions with members of the Blacklake community, the Board of Directors identified Alternative "E" as the preferred financial strategy and rate plan.

At present, Blacklake sewer rates generate about \$245,000 annually. With the requirements for ongoing operations and maintenance, as well as the requirements of the planned capital improvement plan, annual costs will exceed \$500,000 per year. The Blacklake sewer system can not sustain current operations and prudent capital improvements without the recommended rate increases.

The inter-fund loan to the Blacklake Operating Fund of \$275,000 should be repaid through a surcharge applied to Blacklake customer's utility bills. The surcharge is calculated in the next section of this report. In order to avoid the surcharge, as well as the interest costs associated with the loan, Blacklake customers should be provided the opportunity to prepay their portion of the loan amount. This would effectively reduce the loan amount, and prepayments would be added directly to the Blacklake Sewer Operating Fund.

III. Sewer Rates

This section of the report describes proposed sewer rates for the Blacklake Division of the Nipomo Community Services District. Three alternative multi-year rate plans are presented, consistent with the financial strategies presented in Section II. This section also includes information on the current sewer rates, customer account and water usage data, and the impact of proposed rates on typical sewer bills.

Current Sewer Rates

The current sewer rates of the Blacklake sewer system are summarized below in Exhibit III-1. Residential sewer customers are charged a flat amount for sewer service based on the number of dwelling units. Commercial sewer customers are charged a fixed bi-monthly service charge based on the size of the water meter and a commodity charge based on water use and strength classification. There are only 2 non-residential sewer accounts in Blacklake.

**Exhibit III-1
Nipomo Community Services District
Current Blacklake Division Sewer Rates (1)**

Blacklake Division	
<i>Bi-Monthly Residential Service Charges (2)</i>	
Single Family	\$ 80.65
Multi-Family	\$ 43.22
<i>Bi-Monthly Non-Residential Service Charges (3)</i>	
Up to 1"	\$ 36.86
1 1/2"	\$ 106.01
2"	\$ 168.34
3"	\$ 313.89
4"	\$ 521.77
6"	\$ 1,041.00
8"	\$ 1,664.33
<i>Non-Residential Usage Rates (\$/HCF)</i>	
Low Strength	\$ 1.55
Medium Strength	\$ 2.11
High Strength	\$ 3.37

Notes:

- (1) Effective January 1, 2008 as adopted with Ordinance 2005-103.
- (2) Per dwelling unit.
- (3) Non-residential includes commercial.

Sewer Rate Calculations

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

Sewer rates differ from water rates in that costs are allocated not only on flow, but also on the strength characteristics of sewer flows, which affect the cost of treatment. The amount of biochemical oxygen demand (BOD) and suspended solids (SS) are used in addition to sewer flow to calculate sewer rates. Restaurants, for example, generate a high strength waste that is more costly to treat than waste from a retail store or office building. In developing sewer rates for the District non-residential customers have been categorized into low, medium, and high strength categories.

The Blacklake sewer system provides sewer service to 487 single family residences, 69 multi-family dwellings, and 2 commercial accounts. Sewer rate calculations are intended to recover costs from each customer in proportion to the cost of providing service.

Annual Sewer Rate Revenue Requirement

The annual sewer rate revenue requirements were determined for each fiscal year of the five-year financial planning model, using Alternative "E" as the preferred financial strategy. Because sewer rates are adjusted annually at the beginning of each calendar year, the fiscal year revenue requirement must be adjusted to a calendar year revenue requirement. This rate study included developing specific rate schedules for the next five years. The current annual sewer rate revenues and calendar year annual revenue requirements under the preferred financial strategy for the next five years is summarized below.

	<u>Rate Rev. Reqmt.</u> <u>Alternative "E"</u>	<u>Percent</u> <u>Change</u>
2008	\$248,000	
2009	\$348,000	40%
2010	\$387,000	11%
2011	\$430,000	11%
2012	\$452,000	5%
2012	\$475,000	5%

The sewer rate schedules developed herein are intended to generate the amount of revenue listed above.

Cost of Service Analysis

Once the annual revenue requirement has been determined, sewer rates are calculated following cost of service and rate design principles. Cost of service analysis includes the allocation of costs (the revenue requirement) to the categories described below. The cost allocation was performed at the line-item level of detail in the budget.

- *Customer Costs* – Customer costs such as 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 fixed costs associated with maintaining and rehabilitating the sewer system. These costs include maintenance costs as well as the annual transfer to the Funded Replacement Fund. Capacity costs tend to vary in relation to the total capacity of the collection system. Customers who have the ability to place a greater or lesser demand on the sewer system (as indicated by the size of the water meter) should bear a greater or lesser share of fixed capacity costs, respectively. The sewer system is sized to meet peak demands. Therefore, fixed capacity costs are allocated to sewer connections in proportion to the capacity provided by various sized meters. They are included in the service charge portion of the sewer rates.
- *Collection System Costs* – Collection system costs are variable costs associated with the operation and maintenance of the underground pipelines and lift stations prior to the treatment plant. As there are no treatment costs associated with conveying sewer flows to the treatment plant, collection system costs are assigned to each customer in relation to estimated sewer flows from each customer. Collection system costs are recovered through the commodity rate portion of the sewer rates.
- *Treatment Costs* – The costs of providing sewer treatment and disposal are considered variable costs. However, treatment costs are assigned to customers based not only on sewer flows, but also BOD and SS. For purposes of rate analyses presented herein, treatment costs are allocated 34 percent to flow, 33 percent to BOD, and 33 percent to SS.
- *Shared (Indirect) Costs* – Some cost items are not directly allocated to any of the four components identified above. Instead these costs are first allocated as shared (indirect) costs, and subsequently reallocated to each of the four components based on the percentage of costs that were directly allocated to these components.

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, collection, or treatment components, although some are categorized as shared costs then reallocated indirectly. Using the FY 08-09 revenue requirement as the basis for cost allocations, costs were allocated as follows:

Customer Costs	4%
Capacity Costs	43%
Collection Costs	24%
Treatment Costs	<u>29%</u>
Total	100%

The allocation of costs to sewer customers is more complex than water rate allocations because the allocations are based on estimated sewer flows (rather than water usage), and because treatment costs must be allocated on multiple bases – flow, BOD, and SS. Exhibits on the following pages provide details for Blacklake sewer rate cost allocations using the revenue requirement for 2009. The cost of service and sewer rate calculation exhibits include:

- Exhibits III-2 Step 1 – Identification of Users and Pollutant Levels
- Exhibits III-3 Step 2 – Determination of Unit Costs
- Exhibits III-4 Step 2A – Sewer Service Charge Calculation
- Exhibits III-5 Step 3 – Sewer Rate Calculation by Cost Component
- Exhibits III-6 Step 4 – Final Sewer Rate Determination

Exhibit III-2
Nipomo Community Services District
Sewer Rate Calculation for the Blacklake Division
Step 1 -- Identification of Users and Pollutant Levels

No. of Accounts	No. of Dwelling Units	User Group	FLOW:				BOD:		SS:		
			Year/Winter Water Consumption Per User Class (HCF)	Rate of Return	Adjust for Rate of Return (HCF)	Annual Capacity (MG)	Total Annual Flow (MGD)	BOD Per User (mg/l)	Annual Capacity (lbs)	SS: Per User (mg/l)	Annual Capacity (lbs)
487	487	RESIDENTIAL:									
69	69	Single Family	59,172	Applied	59,172	44.3	0.12	200	73,824	200	73,824
		Multi-Family	3,098	Applied	3,098	2.3	0.01	200	3,865	200	3,865
556	556	Subtotal- Residential	62,270		62,270	46.6	0.13		77,689		77,689
		NON-RESIDENTIAL:									
1		Low	24	90%	22	0.0	0.00	200	27	200	27
-		Medium	1	90%	1	0.0	0.00	400	2	400	2
1		High	762	90%	686	0.5	0.00	1000	4,278	700	2,995
2		Subtotal Non-Resid.	787		708	0.5	0.00		4,307		3,024
558		TOTAL	63,057		62,978	47.1	0.1291		81,997		80,713

Exhibit III-3
Nipomo Community Services District
Sewer Rate Calculation for the Blacklake Division
Step 2 – Determination of Unit Costs

Cost Category	Parameter Allocation Percentages	Annual Cost Allocated To Each Parameter	Total Quantities	Unit Cost For Each Parameter
Fixed O,M,&R Costs (Customer and Capacity) Less Other Revenues Per Fixed Cost Billing Unit	100%	\$ 162,500	562	\$ 289.40
Variable O&M Costs for Collection (Semi-Variable & Variable) Flow (MG)	\$84,800 100%	\$ 84,800	47.108	\$ 1,800.13
Variable O&M Costs for Treatment (Semi-Variable & Variable) Flow (MG)	\$100,600 34%	\$ 34,204	47.108	\$ 726.08
BOD (LBS.)	33%	\$ 33,198	81,997	\$ 0.4049
SS (LBS.)	33%	\$ 33,198	80,713	\$ 0.4113

Exhibit III-4
Nipomo Community Services District
Sewer Rate Calculations for the Blacklake Division
Step 2A -- Sewer Service Charge Calculation

Customer Class	1" or Less	1 1/2"	2"	3"	4"	6"	8"	Total
Number of Accounts								
Single Family (DUs)	487							487
Multi-Family (DUs)	69							69
Non-Residential - Low	1							1
Non-Residential - Medium								0
Non-Residential - High			1					1
Total	557	0	1	0	0	0	0	558
Hydraulic Cap. Factor	1.0	3.0	4.8	9.0	15.0	30.0	48.0	
Number of Equivalent Meters								
Single Family (DUs)	487							487
Multi-Family (DUs)	69							69
Non-Residential - Low	1	0	0	0	0	0	0	1
Non-Residential - Medium	0	0	0	0	0	0	0	0
Non-Residential - High	0	0	5	0	0	0	0	5
Total	557	0	5	0	0	0	0	562
Bi-Monthly Service Charge								
Customer Costs	\$3.70	\$3.70	\$3.70	\$3.70	\$3.70	\$3.70	\$3.70	
Capacity Costs	\$44.53	\$133.59	\$213.74	\$400.77	\$667.94	\$1,335.88	\$2,137.42	
Total Monthly	\$48.23	\$137.29	\$217.45	\$404.47	\$671.65	\$1,339.59	\$2,141.12	
Customer Equiv. Factor	1.00	2.85	4.51	8.39	13.92	27.77	44.39	
Summary of Fixed Costs								
Customer Costs	\$12,400							
Capacity Costs	\$150,100							
	\$162,500							
Number of Equivalent Customers								
Single Family (DUs)	487							487
Multi-Family (DUs)	69							69
Non-Residential - Low	1	0	0	0	0	0	0	1
Non-Residential - Medium	0	0	0	0	0	0	0	0
Non-Residential - High	0	0	5	0	0	0	0	5
Total	557	0	5	0	0	0	0	562

Exhibit III-5
Nipomo Community Services District
Sewer Rate Calculation for the Blacklake Division
Step 3 -- Sewer Rate Calculation By Cost Component

No. of Users	User Group	Fixed O, M, & R Costs		Variable O, M, & R Costs				Total Annual Revenue Required
		Number of Units	Fixed Cost	Collection System	Sewer Treatment			
				Flow	Flow	BOD	SS	
Unit Cost = \$ 289.40 (\$/Eq. Cust.)	Unit Cost = \$ 1,800.13 (\$/MG)	Unit Cost = \$ 726.08 (\$/MG)	Unit Cost = \$0.4049 (\$/lb)	Unit Cost = \$0.4113 (\$/lb)				
487	RESIDENTIAL							
69	Single Family	487	\$140,937	\$79,675	\$32,137	\$29,889	\$30,365	\$313,003
	Multi-Family	69	\$19,969	\$4,171	\$1,683	\$1,565	\$1,590	\$28,977
556	Subtotal- Residential	556	\$160,906	\$83,846	\$33,819	\$31,454	\$31,954	\$341,980
	NON-RESIDENTIAL							
1	Low	1	\$289	\$29	\$12	\$11	\$11	\$352
0	Medium	0	\$0	\$1	\$0	\$1	\$1	\$4
1	High	5	\$1,305	\$923	\$372	\$1,732	\$1,232	\$5,564
2	Subtotal-Non-Resid.	6	\$1,594	\$954	\$385	\$1,744	\$1,244	\$5,920
558	Total	562	\$ 162,500	\$ 84,800	\$ 34,204	\$ 33,198	\$ 33,198	\$ 347,900
							Check Total-->	\$ 348,000

Exhibit III-6
Nipomo Community Services District
Sewer Rate Calculation for the Blacklake Division
Step 4 -- Final Sewer Rate Determination

No. of Equiv. Cust.	User Group	Annual/ Winter Water Consumption Per User Class (HCF)	Rate of Return	Adjust For Rate of Return (HCF)	BOD Per User (MG/L)	SS Per User (MG/L)	Bi-Monthly Service Charge (1* Mtr.)	Commodity Rate (\$/HCF)	Annual Fixed Fee Revenue	Annual Variable Revenue	Bi-Monthly Flat Rate per DU
487	RESIDENTIAL:										
69	Single Family	59,172	Applied	59,172	200	200	\$48.23	\$2.91	\$ 140,937	\$ 172,065	\$107.12
	Multi-Family	3,098	Applied	3,098	200	200	\$48.23	\$2.91	\$ 19,969	\$ 9,009	\$69.99
556	Subtotal- Residential	62,270		62,270					\$ 160,906	\$ 181,074	
	NON RESIDENTIAL:										
1	Low	24	90%	22	200	200	\$48.23	\$2.62	\$ 289	\$ 63	
-	Medium	1	90%	1	400	400	\$48.23	\$3.53	\$ -	\$ 4	
5	High	762	90%	686	1000	700	\$48.23	\$5.59	\$ 1,305	\$ 4,260	
6	Subtotal Non-Resid.	787		708					\$ 1,594	\$ 4,326	
562	TOTAL ALL USERS:	63,057		62,978					\$ 162,500	\$ 185,400	\$347,900

Sewer Rate Structure Design

The final step in the sewer rate setting process is to design sewer rates for each customer class. The proposed sewer rates include a fixed bi-monthly service charge and a commodity rate. Proposed sewer rates maintain the current basic structure, which includes fixed bi-monthly service charges for residential customers and a combination of service charge and commodity charge for non-residential customers. The fixed bi-monthly charge for residential customers is based on estimated sewer flows contributed to the sewer system from both single family and multi-family residential dwellings.

Residential Sewer Rates

Residential flat rates include a fixed service charge and a commodity charge. The service charge is based on meter size up to 1", which is standard for single family customers. Multi-family customers are also assigned a service charge on a per-dwelling-unit basis. Service charges recover the fixed customer and capacity costs assigned to the residential class.

The commodity charge for single family residential customers was determined based on the estimated volume of water entering the sewer system. This sewer flow estimate was determined as the median within the single family group of customers of minimum bi-monthly water usage for each single family account. Most water used during winter months is assumed to end up in the sewer system, and is further assumed to produce a comparable sewer flow throughout the year. Using a median (rather than an average) is a way to remove the impact caused by a minority of single family customers that may be irrigating landscapes throughout the winter season. The result is an estimated single family sewer flow of 249 gallons per day (gpd) per dwelling unit.

Multi-family dwellings generally use less water and generate less sewer flow than single family customers. Water service connections serving multi-family dwellings within Blacklake do not include any irrigation (there are separate irrigation meters). Therefore, it is reasonable to assume that all water used within multi-family dwellings effectively ends up in the sewer system. Based on actual water use data multi-family sewer flows have been estimated to be 92 gpd per dwelling unit.

Based on costs and revenue needs for FY 08-09, the proposed residential flat rates for 2009 are:

	<u>Current</u>	<u>Proposed</u>
Single Family	\$ 80.65	\$ 107.12
Multi-family (per DU)	\$ 43.22	\$ 69.99

Non-Residential Sewer Rates

Sewer rates for non-residential customers include a bi-monthly service charge based on the size of the water meter and a uniform commodity rate that varies depending on the strength category for each customer. Basing service charges on the size of the water meter enables rates to reflect the cost of providing sewer service capacity to customers in relation to the potential demand that they can place on the system.

Variable treatment and collection costs are recovered through the commodity rates. The rates vary for each strength category to reflect the added costs associated with treating BOD and SS. It is recommended that the District charge non-residential users on the basis of bi-monthly water use. Unlike residential sewer flows that are based on adjusted minimum winter water use, non-residential demands can vary based on a variety of factors that can not be easily simplified into a unit usage value. For purposes of rate analyses, 90 percent of non-residential water usage is assumed to become sewer flows.

The strength categories – low, medium, and high – are proposed for the non-residential sewer rates. Examples of types of customers that would fit into each of these categories include:

- *Low Strength* – Retail, office, beauty shop, Laundromat, car wash, schools, bar without food, storage

- *Medium Strength* – Hotel, service station, auto dealer, commercial/industrial laundry, manufacturing (various types), mixed use (e.g., retail/restaurant)
- *High Strength* – Restaurant, bar with food, grocery with food grinder or bakery, bakery, mortuary, manufacturing (various types)

Appendix B, at the end of this report, includes a compilation of data on the strength characteristics of various types of establishments. This information should be used by the District as a guideline for assigning each non-residential sewer customer to a strength category.

In determining the strength-based commodity rates all variable collection costs are allocated based on flow alone and make up an equal amount to each of the commodity rates. Treatment costs are allocated to the three strength rates based on an allocation of 34 percent to flow, 33 percent based on BOD and 33 percent based on SS. The average composite loading factors used in rate calculations are:

	<u>BOD (mg/l)</u>	<u>SS (mg/l)</u>
Residential	250	250
Low strength	250	250
Medium strength	400	400
High strength	1,000	700

Proposed Sewer Rates Schedules

Exhibit III-7 presents the proposed sewer rate schedules for the preferred financial strategy (Alternative "E") for the Blacklake sewer system. The proposed rates are intended to meet the annual revenue needs of the sewer utility, as estimated in the financial plan described in Section II. An analysis of the impact of the proposed rates on residential customers is included in the Executive Summary of this report.

Proposed Blacklake Loan Surcharge

The Blacklake sewer system has inadequate cash reserves to fully fund the planned 5-year capital improvement plan, even with the proposed sewer rate increases. To fund the capital program and re-establish a prudent operating reserve, a \$275,000 inter-fund loan to the Blacklake sewer system has been proposed. This loan would be repaid over either a five- or ten-year period with interest at 3.5 percent. During a public workshop with the Board of Directors in 2007, it was decided that the loan should be reflected in a special surcharge added to the utility bill during the repayment period. It was also suggested that some customers may prefer to prepay their proportionate share of the loan amount with a lump sum prepayment, and thereby avoid the interest costs. In effect, any lump sum payments received from customers would reduce the amount to be borrowed.

Exhibit III-8 summarizes the amount of either the lump sum prepayment or the bi-monthly loan surcharge to be placed on the utility bill for five- or ten-years. It is recommended that the District notify customers of the financial needs of the capital improvement plan, and provide customers with the option of either making a lump sum payment, by a date certain, or be subject to the appropriate loan surcharge. A due date of December 31, 2008 may be convenient, with the bi-monthly loan surcharge being imposed beginning in January 2009 and continuing through January 2014 or January 2019.

Exhibit III-7
Nipomo Community Services District
Current and Proposed Blacklake Sewer Rates

	Current (1)	Jan. 2009	Jan. 2010	Jan. 2011	Jan. 2012	Jan. 2013
Bi-Monthly Residential Service Charges (2)						
Single Family	\$ 80.65	\$ 107.12	\$ 118.90	\$ 131.98	\$ 138.58	\$ 145.51
Multi-Family	\$ 43.22	\$ 69.99	\$ 77.69	\$ 86.24	\$ 90.55	\$ 95.08
Bi-Monthly Non-Residential Service Charges (3)						
Up to 1"	\$ 36.86	\$ 48.23	\$ 53.54	\$ 59.43	\$ 62.40	\$ 65.52
1 1/2"	\$ 106.01	\$ 137.29	\$ 152.39	\$ 169.16	\$ 177.62	\$ 186.50
2"	\$ 168.34	\$ 217.45	\$ 241.36	\$ 267.91	\$ 281.31	\$ 295.38
3"	\$ 313.89	\$ 404.47	\$ 448.96	\$ 498.35	\$ 523.26	\$ 549.43
4"	\$ 521.77	\$ 671.65	\$ 745.53	\$ 827.54	\$ 868.91	\$ 912.36
6"	\$ 1,041.00	\$ 1,339.59	\$ 1,486.94	\$ 1,650.51	\$ 1,733.03	\$ 1,819.68
8"	\$ 1,664.33	\$ 2,141.12	\$ 2,376.64	\$ 2,638.07	\$ 2,769.98	\$ 2,908.48
Non-Residential Usage Rates (\$/HCF)						
Low Strength	\$ 1.55	\$ 2.62	\$ 2.91	\$ 3.23	\$ 3.39	\$ 3.56
Medium Strength	\$ 2.11	\$ 3.53	\$ 3.92	\$ 4.35	\$ 4.57	\$ 4.80
High Strength	\$ 3.37	\$ 5.59	\$ 6.20	\$ 6.89	\$ 7.23	\$ 7.59

Notes:

- (1) Effective January 1, 2008 as adopted with Ordinance 2005-103.
- (2) Per dwelling unit.
- (3) Non-residential includes commercial.

Exhibit III-8
Nipomo Community Services District
Blacklake Sewer Loan Surcharge

Lump Sum Prepayment			
Residential Accounts (per DU)			
Single Family	\$	489	
Multi-Family	\$	489	
Non-Residential Accounts			
1" meter	\$	489	
1 1/2" meter	\$	1,468	
2" meter	\$	2,350	
Bi-Monthly Loan Surcharge			
		5-years	10-years
Residential Accounts (per DU)			
Single Family	\$	17.83	\$ 9.69
Multi-Family (per DU)	\$	17.83	\$ 9.69
Non-Residential Accounts			
1" meter	\$	17.83	\$ 9.69
1 1/2" meter	\$	53.50	\$ 29.08
2" meter	\$	85.60	\$ 46.52

Appendix A – Financial Plan Exhibits

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

Appendix A
Nipomo Community Services District
Blacklake Sewer Division Financial Plan

	FY 06-07	FY 07-08	FY 08-09	FY 09-10	FY 10-11	FY 11-12	FY 12-13
	Actual	Estimate	Budget				
<i>Proposed CY Rate Increases --></i>			40%	11%	11%	5%	5%
BLACKLAKE SEWER OPERATING FUND (FUND 150)							
<i>Beginning Balance</i>	36,248	45,813	15,000	75,906	126,966	190,536	131,416
Revenues							
Sewer Rate Revenues	237,798	244,500	298,000	367,500	408,500	441,000	463,500
Plan Check & Insp. Fees	-	-	-	-	-	-	-
Loan from Fund Fund 710	-	-	275,000	-	-	-	-
Interest Earnings	-	1,400	900	2,700	4,400	6,700	4,600
Total Revenues	237,798	245,900	573,900	370,200	412,900	447,700	468,100
Expenditures							
<i>Operations & Maintenance</i>							
Wages	34,239	38,500	45,015	46,400	47,800	49,200	50,700
Wages - Overtime	6,231	5,500	4,960	5,100	5,300	5,500	5,700
Payroll Taxes	715	900	1,010	1,040	1,070	1,100	1,130
Retirement	9,599	11,000	14,335	14,800	15,200	15,700	16,200
Medical and Dental	9,414	11,000	13,200	13,600	14,000	14,400	14,800
Workers Comp Insur.	2,309	2,900	3,320	3,400	3,500	3,600	3,700
Electricity - Pumping	24,932	24,000	25,000	25,800	26,600	27,400	28,200
Chemicals	21,435	18,500	20,000	20,600	21,200	21,800	22,500
Lab Tests and Sampling	13,913	10,000	12,000	12,400	12,800	13,200	13,600
Operating Supplies	7,359	7,100	10,000	10,300	10,600	10,900	11,200
Outside Services	-	250	1,460	1,500	1,550	1,600	1,650
Permits & Operating Fees	3,290	2,800	2,800	2,900	3,000	3,100	3,200
Repairs & Maintenance	15,847	18,000	25,000	25,800	26,600	27,400	28,200
Repairs & Maint - Vehicles	772	800	1,080	1,110	1,140	1,170	1,210
Engineering	-	3,000	500	520	540	560	580
Fuel	2,258	2,800	3,600	3,700	3,800	3,900	4,000
Paging and Cellular Service	464	500	650	670	690	710	730
Uniforms	456	575	660	680	700	720	740
Oper. Transfer Out - Replac.	23,000	40,000	203,000	-	20,000	168,000	168,000
Total Oper. & Maint.	176,233	198,125	387,590	190,320	216,090	369,960	376,040
<i>General & Administrative</i>							
Wages	9,901	14,000	14,400	14,800	15,200	15,700	16,200
Payroll Taxes	191	250	260	270	280	290	300
Retirement	2,706	4,000	4,390	4,500	4,600	4,700	4,800
Medical and Dental	1,783	2,600	2,795	2,900	3,000	3,100	3,200
Workers Comp Insur.	90	120	140	140	140	140	140
Audit	338	640	680	700	720	740	760
Computer Expense	2,223	2,200	3,760	3,900	4,000	4,100	4,200
Director Fees	1,520	1,575	2,015	2,100	2,200	2,300	2,400
Dues & Subscriptions	844	1,300	960	990	1,020	1,050	1,080
Education & Training	471	850	2,800	2,900	3,000	3,100	3,200
Elections	334	-	400	-	500	-	600
Insurance - Liability	2,428	2,800	3,160	3,300	3,400	3,500	3,600
Landscape and Janitorial	569	800	1,040	1,070	1,100	1,130	1,160
Legal - Gen. & Spec. Counsel	1,469	2,000	2,000	2,100	2,200	2,300	2,400
Professional Services	3,902	6,000	20,400	21,000	21,600	22,200	22,900
Miscellaneous	-	200	500	520	540	560	580
Newsletter and Mailers	-	200	880	910	940	970	1,000

Appendix A -- Continued
Nipomo Community Services District
Blacklake Sewer Division Financial Plan

	FY 06-07 Actual	FY 07-08 Estimate	FY 08-09 Budget	FY 09-10	FY 10-11	FY 11-12	FY 12-13
Office Supplies	1,372	1,200	1,500	1,550	1,600	1,650	1,700
Outside Services	247	800	1,960	2,000	2,100	2,200	2,300
Postage	1,188	1,600	1,760	1,800	1,900	2,000	2,100
Public Notices	-	500	1,000	1,030	1,060	1,090	1,120
Repairs & Maint. - Office Equip	109	500	570	590	610	630	650
Property Taxes	-	-	-	-	-	-	-
Telephone	700	800	975	1,000	1,030	1,060	1,090
Travel & Mileage	719	800	1,600	1,650	1,700	1,750	1,800
Oper. Transfer Out - Admin.	18,896	23,853	42,739	44,000	45,300	46,700	48,100
Total Gen'l & Admin.	52,000	69,588	112,684	115,720	119,740	122,960	127,380
Other Expenditures							
Fixed Asset Purchases	-	9,000	12,720	13,100	13,500	13,900	14,300
Total Other Expenditures	-	9,000	12,720	13,100	13,500	13,900	14,300
Total Expenditures	228,233	276,713	512,994	319,140	349,330	506,820	517,720
Ending Balance	45,813	15,000	75,906	126,966	190,536	131,416	81,796
Oper. Resrv. (25% of Expend.)	51,000	57,000	74,000	77,000	79,000	81,000	84,000
Uncommitted Fund Balance	(5,187)	(42,000)	1,906	49,966	111,536	50,416	(2,204)
BLACKLAKE SEWER FUNDED REPLACEMENT (FUND 830)							
Beginning Balance	(61,000)	(38,000)	(143,000)	15,600	16,100	7,300	175,600
Revenues and Transfers							
Interest Earnings	-	-	-	500	600	300	6,100
Operating Transfers In	23,000	40,000	203,000	-	20,000	168,000	168,000
Total Revs. and Trans.	23,000	40,000	203,000	500	20,600	168,300	174,100
Expenditures							
Previous Expenditures	-	145,000	-	-	-	-	-
Security Upgrades	-	-	9,000	-	-	-	-
SCADA Upgrades	-	-	4,500	-	-	-	-
GIS Upgrades	-	-	900	-	-	-	-
Woodgreen Lift Station Access (1)	-	-	-	-	-	-	-
Salt Management Program	-	-	7,500	-	-	-	-
Bio-Solids Disposal	-	-	7,500	-	-	-	-
SSO Program	-	-	15,000	-	-	-	-
Golf Course Trunk Line (2)	-	-	-	-	-	-	-
Hazard, Security, Safety Upgr.	-	-	-	-	28,000	-	-
Liner Replacement (3)	-	-	-	-	-	-	-
Contingency (5%)	-	-	-	-	1,400	-	-
Total Expenditures	-	145,000	44,400	-	29,400	-	-
Ending Balance	(38,000)	(143,000)	15,600	16,100	7,300	175,600	349,700

Notes:

- (1) Woodgreen Lift Station Access project of \$15,000 deferred until FY 13-14.
- (2) Golf Course Trunk Line project of \$105,000, plus 5% contingency deferred until FY 13-14.
- (3) Liner Replacement project of \$232,000, plus 5% contingency deferred until FY 13-14.

Appendix B – Sewer User Strength Classifications

The following exhibit provides information on sewer strength characteristics for various types of establishments from published information. This information should be used as a guideline for establishing the appropriate sewer classification for the District's non-residential customers.

Exhibit B-1
Nipomo Community Services District
Compilation of Published Data on Sewer User Strength Classifications

User Classification Description	Proposed Strength (mg/l)			Percent of Single Family	Data Source
	BOD	SS	Weighted Average		
Strength Weighting Factor	50%	50%			
Residential Single Family	250	250	250	100%	SWRCB
LOW STRENGTH CLASSIFICATION					
Low I Strength:					
Soft Water Service	3	55	29	12%	SWRCB
Office With Public Access	80	80	80	32%	SWRCB
Car Wash	20	150	85	34%	SWRCB
Veterinarian	130	80	105	42%	Los Angeles
Business Equipment Rental	130	80	105	42%	Los Angeles
Business Services -- Other	130	80	105	42%	Los Angeles
Office (Finance, Insurance, etc.)	130	80	105	42%	Los Angeles
Office (No Public Access)	130	80	105	42%	SWRCB
Office (Medical Services)	130	80	105	42%	Los Angeles
Personal Services (Other)	130	80	105	42%	Los Angeles
Photo & Portrait Studios	130	80	105	42%	Los Angeles
Manufacturing - Textile Mill Products	115	115	115	46%	Metcalf & Eddy
Schools	130	100	115	46%	SWRCB
Low II Strength:					
Laundromat-Public	150	110	130	52%	SWRCB
Landscaping Services	150	150	150	60%	Los Angeles
Amusement & Recreation: Indoor & Out	150	150	150	60%	Los Angeles
Auto Parking	150	150	150	60%	Los Angeles
Barber Shop	150	150	150	60%	Los Angeles
Beauty Shop	150	150	150	60%	Los Angeles
Church (No Kitchen)	150	150	150	60%	Los Angeles
Community Center (No Kitchen)	150	150	150	60%	Los Angeles
Grocery Market (No Butcher or Baker)	150	150	150	60%	Los Angeles
Health Spa	150	150	150	60%	Los Angeles
Kennel	150	150	150	60%	Los Angeles
Malls/Dept. Stores (No Food Svcs)	150	150	150	60%	SWRCB
Manufacturing (Other)	150	150	150	60%	Los Angeles
Manufacturing (Apparel & Other Textiles)	150	150	150	60%	Los Angeles
Manufacturing (Furniture)	150	150	150	60%	Los Angeles
Membership Organizations	150	150	150	60%	Los Angeles
Museum/Art Gallery	150	150	150	60%	Los Angeles
Nursery/Greenhouse	150	150	150	60%	Los Angeles
Office (Construction)	150	150	150	60%	Los Angeles
Massage Parlor	150	150	150	60%	Los Angeles
Retail Apparel and Accessory Store	150	150	150	60%	Los Angeles
Retail Bldg. (Materials & Gardening)	150	150	150	60%	Los Angeles
Retail (Packaged) Food (No Sewer Disposal)	150	150	150	60%	Los Angeles
Retail Furniture & Home Furnishings	150	150	150	60%	LACSD
General Merchandise -- Retail/Wholesale	150	150	150	60%	SWRCB
Retail Trade -- Misc. (Except Food/Drink)	150	150	150	60%	SWRCB
Storage, Warehouse & Outdoor	150	150	150	60%	Los Angeles
Studio/Recording Sound Stage	150	150	150	60%	Los Angeles
Theater/Auditorium (No Food)	150	150	150	60%	Los Angeles

Exhibit B-1 -- Continued
Nipomo Community Services District
Compilation of Published Data on Sewer User Strength Classifications

User Classification Description	Proposed Strength (mg/l)			Percent of Single Family	Data Source
	BOD	SS	Weighted Average		
Low III (Residential) Strength:					
Convalescent Homes	250	100	175	70%	SWRCB
Hospital	250	100	175	70%	SWRCB
Other Health Services	250	100	175	70%	SWRCB
Transp. & Utilities (SIC 400 through 489)	200	150	175	70%	Metcalf & Eddy
Agricultural Production	150	250	200	80%	Metcalf & Eddy
Agricultural Services - Other	250	150	200	80%	Metcalf & Eddy
Bar Without Restaurant	200	200	200	80%	SWRCB
Restaurant -- Preprocessed Only	200	200	200	80%	Los Angeles
Social Services	200	200	200	80%	SWRCB
MEDIUM STRENGTH CLASSIFICATION					
Medium I Strength:					
Hotel (No Restaurant)	310	120	215	86%	SWRCB
Prison With Food Service	310	120	215	86%	Los Angeles
Auto Repair (No Steam Cleaning)	180	280	230	92%	SWRCB
Auto Service Station (No Steam Cleaning)	180	280	230	92%	SWRCB
Agricultural Services -- Animal	350	150	250	100%	Metcalf & Eddy
Auto/Vehicle Sales	300	200	250	100%	Metcalf & Eddy
Repair Services -- Misc.	250	250	250	100%	Metcalf & Eddy
Manufacturing -- Rubber/Plastic Products	200	350	275	110%	Metcalf & Eddy
Medium II Strength:					
Manufacturing -- Electric/Electronic Equipment	300	350	325	130%	Metcalf & Eddy
Manufacturing - Instruments	300	350	325	130%	Metcalf & Eddy
Manufacturing -- Fabricated Metal Products	300	350	325	130%	Metcalf & Eddy
Manufacturing -- Transport Equipment	400	250	325	130%	Metcalf & Eddy
Laundromat, Commercial	450	240	345	138%	SWRCB
Transportation -- Bus/Air Terminal	350	350	350	140%	Metcalf & Eddy
Medium III Strength:					
Malls/Shopping (Including Food Sales)	400	400	400	160%	Los Angeles
Manufacturing -- Machine Shops	290	550	420	168%	Los Angeles
Manufacturing -- Metal Industry	290	550	420	168%	Los Angeles
Manufacturing -- Lumber & Wood Products	431	431	431	172%	Los Angeles
Manufacturing -- Stone, Clay, Glass Products	200	700	450	180%	Metcalf & Eddy
Reproduction/Mailing Service	500	400	450	180%	Metcalf & Eddy
Hotel (With Restaurant)	500	600	550	220%	SWRCB
Manufacturing -- Paper/Containers	700	500	600	240%	Metcalf & Eddy
Manufacturing -- Printing & Publishing	700	500	600	240%	Metcalf & Eddy
Laundry (Industrial)	670	680	675	338%	SWRCB
HIGH STRENGTH CLASSIFICATION					
High I Strength:					
Agricultural Production - Livestock	1,200	350	775	310%	Metcalf & Eddy
Mortuary	800	800	800	320%	SWRCB
Grocery (W/Butcher or Baker)	800	800	800	320%	SWRCB
Manufacturing -- Baked Foods	1,000	600	800	320%	SWRCB
Restaurant/Bar (W/Food Preparation)	1,000	600	800	320%	SWRCB
Manufacturing -- Beverages	1,500	300	900	360%	Metcalf & Eddy
Manufacturing -- Paint	1,300	1,100	1,200	480%	Metcalf & Eddy
Manufacturing -- Other Chemical Products	1,300	1,100	1,200	480%	Metcalf & Eddy
High II Strength:					
Manufacturing -- Dairy Products	2,369	922	1,646	658%	Los Angeles
Steam Cleaning -- Auto	1,150	2,150	1,650	660%	SWRCB
Manufacturing -- Other Food Products	2,213	1,453	1,833	733%	Los Angeles
High III Strength:					
Septage	5,400	12,000	8,700	3480%	SWRCB

BLACKLAKE PROPERTY OWNERS AND TENANTS
NIPOMO COMMUNITY SERVICES DISTRICT
NOTICE OF PUBLIC HEARING
SEWER RATE INCREASE
BLACKLAKE SEWER DIVISION

Dear Property Owners and Tenants:

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

NOTICE OF PUBLIC HEARING

A Public Hearing for the Proposed Rate Increases within the Blacklake Sewer Division will be held on:

Date: December 10, 2008

Time: 9:00 am

**Place: Nipomo Community Services District Board Room, 148 South Wilson Street,
Nipomo, CA 93444**

At the Public Hearing the Nipomo Community Services District Board of Directors will consider all public comments in support and in opposition of the Proposed Rate Increase and whether or not a Majority Protest exists pursuant to the California Constitution (below). If approved, the Proposed Rate Increase would become effective January 1, 2009.

MAJORITY PROTEST:

Pursuant to Section 6 of Article XIII D of the California Constitution, tenants and owners of property receiving sewer service within the Blacklake Sewer Division may submit a written protest against the Proposed Rate Increase to the District's Secretary before the close of the Public Hearing referenced above. A valid written protest must contain a statement that you protest the increase in sewer rates, the address and Assessor's Parcel Number (APN) of the parcel or parcels which receive sewer service and must be signed by either the owner or the tenant of the parcel or parcels. If the person signing the protest is not shown on the last equalized assessment roll as the owner of the parcel(s), then the protest must contain or be accompanied by written evidence that such person signing the protest is either the owner or a tenant of the parcel receiving sewer service. One written protest per parcel shall be counted in calculating a majority protest to the proposed sewer rate increase subject to the requirements of Section 6 of Article XIII D of the California Constitution. Written protests will not be accepted by email or by facsimile. Verbal protests will not be counted in determining the existence of a majority protest. To be valid, a protest must be in writing with original signature and received by the District Secretary before the close of the Public Hearing referenced above.

Written protests regarding the sewer rate increase may be mailed to:

**Nipomo Community Services District
Attn: District Secretary
P O Box 326
Nipomo, CA 93444**

Written protests may also be personally delivered to the Board Secretary at the Nipomo Community Service District Office located at 148 S. Wilson, Nipomo, California.

If valid written protests are presented by a majority of owners and/or tenants of parcels receiving sewer service within the Blacklake Sewer Division, then District will not adjust/increase the sewer rates.

Blacklake Sewer Financial Plan

The District retained the Reed Group, Inc. to evaluate Blacklake sewer rates and charges and to present a 5 (five) year financial plan covering a period from FY08-09 through FY12-13. The initial financial plan was reviewed by a committee of Blacklake residents. The committee recommended certain changes to the initial financial plan. The committee-recommended changes were included in the Blacklake Sewer System Financial Plan and User Rates dated September 30, 2008 (Blacklake Financial Plan) that was approved by the District Board of Directors on October 8, 2008. The Blacklake Sewer Financial Plan included the following findings:

- Planned expenditures and capital program transfers exceed current revenues. At the end of FY 07-08 the Blacklake Sewer Operating Fund had a balance of only about \$15,000, while the target minimum is about \$57,000. The Operating Fund will have a negative balance in FY 08-09 unless there is a significant increase in the sewer rates AND a short-term interfund loan to correct this critical financial situation.
- The Blacklake Funded Replacement Fund had a *negative* balance of \$143,000 at the beginning of FY 08-09, with planned expenditures of \$59,400 in the current fiscal year.
- The District recently completed a water and sewer *Replacement Study* to identify the level of funding necessary for ongoing replacement and rehabilitation of the water and sewer systems. Based on the Service Life Savings Program, the Blacklake sewer system should be saving (transferring to the Funded Replacement Fund) about \$159,000 annually to meet current and future rehabilitation needs. This amount was recommended to grow slightly annually.

The specific elements of the financial strategy approved by the Board of Directors include:

- The Blacklake Sewer Operating Fund should obtain a \$275,000 inter-fund loan in order to provide the money needed to correct the financial deficit in the Blacklake sewer enterprise. The loan should be repaid, with interest, over a ten-year period. The loan should be repaid through a special surcharge to be applied to each customer's utility bill. Customers should be allowed to prepay the amount owed with a lump sum payment (thereby avoiding interest costs), or repay the loan over a 10-year period.
- The annual transfer from the Operating Fund to the Funded Replacement Fund should be increased from \$40,000 in FY 07-08 to \$203,000 in FY 08-09, and then ramped up to be consistent with the Replacement Study recommendations by FY 11-12. The three-year transition to full replacement funding enables a more gradual increase in sewer rates.
- As a result of the transition to full replacement funding, nearly \$370,000 in planned capital improvements will need to be deferred until after FY 12-13. Deferred projects include the next pond liner replacement, the Woodgreen Lift Station Access project, and the Golf Course Trunk Line project.
- The Operating Reserve should be maintained at 25 percent of annual operating and maintenance costs (excluding the transfer to the Funded Replacement Fund and fixed asset purchases).

BLACKLAKE PROPERTY OWNERS AND TENANTS
 NIPOMO COMMUNITY SERVICES DISTRICT
 NOTICE OF PUBLIC HEARING
 SEWER RATE INCREASE
 BLACKLAKE SEWER DIVISION

Proposed Sewer Rates

Calculation

The Blacklake Sewer System provides sewer service to approximately 487 single-family residents, 69 multi-family dwellings, and two commercial accounts. The bi-monthly sewer rate is intended to recover costs from each customer class in proportion to the cost of providing service. The cost of providing sewer service includes: (1) funding for ongoing operation and maintenance, (2) funding to support rehabilitation and upgrade of facilities needed to provide service, and (3) funding to establish reserves to reduce risk and prudently manage resources.

The annual sewer rate revenue requirements were determined for each fiscal year of the five-year Blacklake Financial Plan (see below chart). The rate increases (percentage of change) are relative to the current sewer rates and would supersede the previously approved increase of 4% for 2009.

	<u>Rate Revenue Requirement</u>	<u>Percent Change</u>
2008	\$248,000	
2009	\$348,000	40%
2010	\$387,000	11%
2011	\$430,000	11%
2012	\$452,000	5%
2012	\$475,000	5%

The rate increases will differ for each customer class as reflected in the Current and Proposed Blacklake Bi-Monthly Sewer Rates (see next chart).

Proposed Sewer Rate Schedules and Loan Surcharge

The following chart depicts the proposed bi-monthly sewer rate schedule that will be considered for approval at the Public Hearing.

**Nipomo Community Services District
 Current and Proposed Blacklake Bi-Monthly Sewer Rates**

	Current (1)	Jan. 2009	Jan. 2010	Jan. 2011	Jan. 2012	Jan. 2013
Bi-Monthly Residential Service Charges (2)						
Single-Family	\$ 80.65	\$ 107.12	\$ 118.90	\$ 131.98	\$ 138.58	\$ 145.51
Multi-Family	\$ 43.22	\$ 69.99	\$ 77.69	\$ 86.24	\$ 90.55	\$ 95.08
Bi-Monthly Non-Residential Service Charges (3)						
Up to 1"	\$ 36.86	\$ 48.23	\$ 53.54	\$ 59.43	\$ 62.40	\$ 65.52
1 1/2"	\$ 106.01	\$ 137.29	\$ 152.39	\$ 169.16	\$ 177.62	\$ 186.50
2"	\$ 168.34	\$ 217.45	\$ 241.36	\$ 267.91	\$ 281.31	\$ 295.38
3"	\$ 313.89	\$ 404.47	\$ 448.96	\$ 498.35	\$ 523.26	\$ 549.43
4"	\$ 521.77	\$ 671.65	\$ 745.53	\$ 827.54	\$ 868.91	\$ 912.36
6"	\$ 1,041.00	\$ 1,339.59	\$ 1,486.94	\$ 1,650.51	\$ 1,733.03	\$ 1,819.68
8"	\$ 1,664.33	\$ 2,141.12	\$ 2,376.64	\$ 2,638.07	\$ 2,769.98	\$ 2,908.48
Non-Residential Usage Rates (\$/HCF)						
Low Strength	\$ 1.55	\$ 2.62	\$ 2.91	\$ 3.23	\$ 3.39	\$ 3.56
Medium Strength	\$ 2.11	\$ 3.53	\$ 3.92	\$ 4.35	\$ 4.57	\$ 4.80
High Strength	\$ 3.37	\$ 5.59	\$ 6.20	\$ 6.89	\$ 7.23	\$ 7.59

Notes:

- (1) Effective July 1, 2008, as adopted with Ordinance 2005-103
- (2) Per dwelling unit
- (3) Non-residential, includes commercial

In addition to the proposed sewer rates presented above, the District will consider for adoption the Blacklake sewer loan surcharges shown in the chart below. As referenced above, in order to adequately fund the Blacklake sewer capital improvement plan, a \$275,000 inter-loan is proposed. The loan would be repaid through bi-monthly loan surcharges applied to customer's utility bills for a ten-year period. The loan would be fully repaid with interest at 3.5 percent. As referenced below, customers will be given the opportunity to prepay their share of the loan, as shown in the below chart, and thereby avoid interest costs and a bi-monthly surcharge. Prepayments would effectively reduce the amount of the inter-fund loan.

**Nipomo Community Services District
Blacklake Sewer Loan Surcharge**

Lump Sum Payment	
<u>Residential Accounts (per DU)</u>	
Single-Family	\$ 489.00
Multi-Family	\$ 489.00
<u>Non-Residential Accounts</u>	
1" Meter	\$ 489.00
1 ½" Meter	\$ 1,468.00
2" Meter	\$ 2,350.00
Bi-Monthly Loan	10 years
Surcharge	
<u>Residential Accounts (per DU)</u>	
Single Family	\$ 9.69
Multi-Family (per DU)	\$ 9.69
<u>Non-Residential Accounts</u>	
1" Meter	\$ 9.69
1 ½" Meter	\$ 29.08
2" Meter	\$ 46.52

Loan repayment will appear on each customer's utility bills beginning in April 2008, unless customers opt to prepay their proportionate share of the sewer loan. If the proposed sewer rates are approved, each customer will receive a separate mailing from the District regarding their choice of a lump sum or bi-monthly payment.

Additional information on the proposed sewer rates is available in the Blacklake Sewer System Financial Plan and User Rate Final Report, September 30, 2008. The Blacklake Financial Plan is available for review at the District's main office located at 148 S. Wilson St., and on the District's website at www.ncsd.ca.gov. In addition, customers may contact the District's staff at 929-1133 for further information about the proposed rates.