

May 10, 2010

Mr. Michael LeBrun
General Manager
Nipomo Community Services District
148 South Wilson Street
Nipomo, CA 93444-0326

Dear Mr. LeBrun:

Based on our recent conversations, it is my understanding that the Nipomo Community Services District (NCSD) desires to update the draft rate study that was performed by Tuckfield & Associates in the summer of 2009. For this new update, the NCSD would like to analyze four scenarios. Two of the scenarios include an assumption that the Waterline Intertie Project will proceed as planned but with two alternative replacement funding options. The remaining two scenarios assume that the Project does not proceed forward within the study timeframe, while also assuming the same two alternative replacement funding options.

The two replacement options include funding an annual replacement transfer consistent with the amounts known as the Service Life Savings Replacement method identified in the NCSD's 2007 Water and Sewer Replacement Study performed by Boyle Engineering. The second replacement option for analysis is the assumption that that the annual replacement amount for transfer is 50 percent of the amount identified in the Service Life Savings Replacement method.

For the update study, these four scenarios will be described as follows.

- **Option 1** - Waterline Intertie Project (WIP) Assessment Financing with Model 2: Service Life Savings Replacement
- **Option 2** - WIP Assessment Financing with 50 Percent of Model 2: Service Life Savings Replacement
- **Option 3** - No Waterline Intertie Project with Model 2: Service Life Savings Replacement
- **Option 4** - No Waterline Intertie Project with 50 Percent of Model 2: Service Life Savings Replacement

The update study will take a different approach than was presented in the previous study. The update study will analyze the four options listed above and determine the revenue increases required to meet the annual obligations of the Water Fund under each option. The results will be presented to the NCSD Board of Directors in a letter report format for review and further direction, or selection of an option.

Once an option has been selected, Tuckfield & Associated will then design water rates for the selected option in a similar manner as performed for the 2009 draft rate study. The new water rates will be presented to the NCSB Board of Directors in a formal draft report format, noting the analysis and methods used to determine the rates.

The update study will consist of performing essentially the same tasks as the 2009 rate study however will include the addition of the latest year's information into the study. This additional information will include recent customer additions/deletions to the water system, recent water sales volume, actual operating expenses, FY 2010-11 budget expenses and fund obligations, CIP update, and current beginning balances of the Water Fund, Replacement Fund, Water Capacity Fund, and Supplemental Water Fund.

Once the draft rate study update report is approved by NCSB Board of Directors, Tuckfield & Associates will present the results at a Public Hearing, complying with Proposition 218 requirements. Attached to this letter proposal are the detailed tasks that will be conducted in the update study. These tasks are similar to those proposed for the 2009 study.

Tuckfield & Associates believes that the update study can be performed for a cost not-to-exceed \$18,800. Should the NCSB decide to analyze additional options or scenarios, or should additional meetings be required, these will be performed on a time and materials basis at Tuckfield & Associates regular hourly billing rates.

It is a pleasure to be of service to the NCSB in this matter. If there are any questions or clarifications required, please contact me at your convenience at (949) 760-9454.

Very Truly Yours,

TUCKFIELD & ASSOCIATES

A handwritten signature in black ink that reads "G. Clayton Tuckfield". The signature is written in a cursive, flowing style.

G. Clayton Tuckfield
Principal

SCOPE OF WORK

Financial Planning

Task 1 – Submit Information request and Review Background Information

Tuckfield & Associates will submit a request for the additional information required for the update study. The request will include, but not be limited to, FY 2008-09 Audit (CAFR), actual FY 2008-09 and FY 2009-10 O&M expenses and fund obligations, FY 2010-11 Budget, District Staff FY 2011-15 projection of capital expenditures (CIP), customer accounts and billing information.

Task 2 – Revenue Requirements

This task includes the identification and development of the annual revenue requirements of the water utility. Tuckfield & Associates will identify all revenue requirements within the five-year study period including operation and maintenance expenses; future capital improvements including annual replacements, additions and improvements, and extensions to the system; outstanding debt; and any transfers to/from the water utility. Initial assumptions will be developed for use in conducting the study. Specific subtasks include the following.

- 2.1 Review financial information, master plans, design reports, and other available information and reports regarding revenue requirements of the water utility.
- 2.2 Develop a listing of plan assumptions regarding customer growth, consumption per account, total consumption, total production, system losses, inflation for O&M and capital requirements, interest rates, financial planning criteria including reserve levels, and other assumptions.
- 2.3 Develop annual revenue requirements of the water utility recognizing historical data, current year's budgets, and anticipated future system service requirements. Revenue requirements will be projected on an annual basis taking into account expected operational changes, system growth, inflation, annual replacements, and capital expenditures. This task will include at least the following items:
 - Historical data and current year's budget
 - Current operation and maintenance expenses
 - Annual minor and major capital expenditures
 - Future system service requirements and system growth
 - Expected operational changes and inflation
 - Debt service on existing and any proposed new financing
 - Other cash obligations

Task 3 – Financial Plan

The objective of this task is to develop a 5-year financial plan, incorporating the revenue requirements from Task 2, and projecting the water utility revenue needs for the study period. This task requires an assessment of revenues based on the existing rates and fee schedules, the District's ability to meet projected revenue requirements, and the determination of the level of revenue adjustments and additional financing requirements. The following subtasks will be completed:

- 3.1 Estimate revenues based on current rates and fee levels while incorporating the projected number of customers and service requirements. Historical growth trends, quantity of service provided, projected new development, and patterns in customer service characteristics will be evaluated.
- 3.2 Review and project revenues from miscellaneous sources such as interest earnings, miscellaneous service fees, or other sources.
- 3.3 Develop future cash flow analyses for a five-year study period for the four options identified by the NCSD. Show application of revenue under existing rate levels to the projected revenue requirements and determine the adjustments in revenue necessary to meet the annual obligations of the water utility system. Recognize financial planning criteria developed in Task 2.2 including any operating and capital fund reserve levels, either consistent with District policy or recommended reserve levels based on consultant experience, and debt service coverage ratios.
- 3.4 Prepare and deliver a letter report presenting the results and findings of Tasks 3.1 through 3.3.
- 3.5 Meet with the NCSD Board of Directors to review the letter report. Secure the Committee's recommendation from the four options, including the level of annual replacement contributions.
- 3.6 Incorporate comments and decisions from the Board of Directors for incorporation into the draft rate study report.

Cost of Service

Task 4 – Cost of Service Analyses

In this task, projected revenue requirements will be allocated to customer classifications to determine the overall cost of providing service to each classification. Distribution of the revenue requirements will reflect cost-causative concepts in accordance with generally accepted utility practices and as recommended by the AWWA. Cost of service analyses is required to establish cost-of-service rates and to show the extent to which the existing and proposed rates produce revenue that recovers the cost by customer classification.

Rate Design

Task 5 – Rate Structure Analysis and Design

The water revenue requirements will be recovered through a rate structure designed to stand alone as a separate revenue source. Tuckfield & Associates will evaluate the rate structures and develop appropriate pricing. Evaluation criteria will include items such as the District's existing billing system capability, equitability, ease of implementation, and revenue stability. The following subtasks will be performed:

- 5.1 Analyze customer billing information and develop consumption curves and bill summaries by customer classification that will serve as the basis for selecting rate blocks for the rate structure alternatives and for establishing pricing.
- 5.2 Evaluate three alternative residential water rate structures and two non-residential rate structures in terms of equitability among users, revenue stability, and water conservation, and other criteria.
- 5.3 Develop appropriate rate blocks and pricing for the rate structure alternatives.
- 5.4 Prepare typical water bills for single-family customers under existing and proposed rates.
- 5.5 Compare the average single-family proposed water bill with neighboring cities and districts as selected by the District/Consultant.

Reports and Meetings

Task 6 – Prepare Draft and Final Reports

Tuckfield & Associates will prepare a draft report and a final report of the findings and recommendations of the Water Utility Financial Plan and Rate Study. The reports will show the projections of new rates for each of five years by rate structure and the basis of charge to achieve the projected revenue targets. Specific subtasks include the following.

- 6.1 Prepare and deliver the Water Utility Financial Plan and Rate Study Draft Report.
- 6.2 Review and discuss the Draft Report with District Staff.

- 6.3 Incorporate District Staff comment into the Draft Report and revise and deliver the report for consideration by the District Board of Directors.
- 6.4 Present the Draft Final Report to the Board of Directors for review and discussion.
- 6.5 Incorporate Board comment and revise and deliver the Draft Final Report.

Public Hearing

Task 7 – Proposition 218 Hearing

Implementing the water rates will require a presentation of the Draft Final Report to the public and Board of Directors at a Public Hearing. Tuckfield & Associates will respond to public comment as well as Board comment at the presentation and final instruction regarding the Draft Final Report will be provided by the Board. Comments received will be included into the Final Report at the direction of the Board. Specific subtasks include:

- 7.1 Present the Draft Final Report and the study results to the public and the Board of Directors at a Public Hearing. The presentation will be delivered in Microsoft PowerPoint format.
- 7.2 Incorporate any comments received into the Draft Final Report as directed by the Board of Directors. Revise and deliver a Final Report.