

TO: BOARD OF DIRECTORS

FROM: DON SPAGNOLO
GENERAL MANAGER

DATE: AUGUST 4, 2010

**AGENDA ITEM
E-1**

AUGUST 11, 2010

DRAFT WATER FUND FINANCIAL ANALYSIS/RATE STUDY

ITEM

Consider approval of the Draft Water Fund Financial Analysis/Rate Study [RECOMMEND APPROVAL].

• **BACKGROUND**

- On April 28, 2010, the Board of Directors approved the following motion:
 - *Upon motion of Director Winn and seconded by Director Eby, the Board agreed to extend the contract for the old rate study to Tuckfield to update the backgrounds using 2008-2009 data, keep the same assumptions for replacement costs and also one at 50%, present a version that includes supplemental water and one that doesn't. Vote 4-1, with Director Harrison dissenting.*
- Staff provided Mr. Tuckfield with current financial data and directed him to prepare an updated study with four options:

Option 1 – Waterline Intertie Project (Project) Assessment Financing with 100% Model 2: Service Life Savings Replacement

Option 2 – Waterline Intertie Project (Project) Assessment Financing with 50% of Model 2: Service Life Savings Replacement

Option 3 – No Project with 100% Model 2: Service Life Savings Replacement

Option 4 – No Project with 50% of Model 2: Service Life Savings Replacement

Mr. Tuckfield will present the draft report and ask for Board direction on which Option (above) to use to design the water rate structure. The following is the tentative schedule:

August 25 –Draft final report with water rate structure options presented to the Board of Directors based on the Option selected at the August 8 Board Meeting

September 8 – Draft final report with draft water rates presented to the Board of Directors based on water rate structure selected on August 25

September 22 – Final Report approved and initiate Prop 218 proceedings

September 30 – Prop 218 Notices mailed

November 17 – Prop 218 Hearing

FISCAL IMPACT

The last water rate increase went into effect on January 1, 2009. The 2010-2011 Fiscal Year Budget for the Water Fund has a deficit and Reserves are used to balance the budget. A rate increase is necessary to balance the budget.

RECOMMENDATION

Staff recommends that your Honorable Board approve the Draft Water Fund Financial Analysis/Rate Study and direct Staff to final study based on the Board's review and provide direction on which option to use to design the water rate structure.

ATTACHMENTS

- Water Fund Financial Analysis/Rate Study prepared by Tuckfield & Associates

August 4, 2010

Mr. Don Spagnolo
General Manager
Nipomo Community Services District
148 South Wilson Street
Nipomo, CA 93444

Dear Mr. Spagnolo:

On May 12, 2010 the Board of Directors of the Nipomo Community Services District (District) approved Tuckfield & Associates proposal to update previous work related to establishing water rates for the District. The scope of work of the proposal included tasks to identify the revenue increases necessary to meet the annual obligations of the District's Water Fund under four new options, and to ultimately design water rates for the selected option. This report presents the findings and results of the revenue increases required under those four options.

The analysis presented herein has been conducted for fiscal years (FY) 2010-11 through 2014-15 and includes a discussion of the assumptions of the study, projections of revenue and expense, proposed water system capital improvements (CIP), funding of CIP, and the preferred Water Fund financial plan. A matrix is presented for the four options of the financial plan, showing the impact of the Waterline Intertie Project on the revenue increase, as well as the impact of the annual replacement capital related to the Model 2 Service Life Savings Replacement identified in the 2007 Water and Sewer Replacement Study (Replacement Study). The four options analyzed include the following.

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

Option 2 is the preferred alternative and will be used for presentation and discussion in this report.

Assumptions

Several assumptions were used in the projection of revenue and revenue requirements of the Water Fund. These assumptions relate to a variety of aspects that are incorporated into the financial plan and are discussed below.

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Customer Growth. The District's Water and Sewer Master Plan (master plan) indicate that customer growth for the service area follows the San Luis Obispo County Growth Management Ordinance. The master plan assumed an average annual population growth rate of 2.3 percent. However, based on recent discussions with District staff and review of the economy within San Luis Obispo County, it is assumed that there will be no customer growth throughout the study period and that current customers will be remain connected to the system.

Use per Customer. The NCSO Waterline Intertie Final EIR stated that the San Luis Obispo Local Agency Formation Commission (LAFCO) required that prior to any annexation to the District, that a water conservation program be implemented with the goal of reducing consumption by 15 percent. In addition, the State of California adopted the 20x2020 Water Conservation Plan in February 2010, calling for a state-wide 20 percent reduction in per capita water consumption by the year 2020. The District has implemented a water conservation program, and the water sales projections include an assumed reduction in use per customer of 1 percent annually for residential classifications. Projected annual water sales volume is determined by multiplying the customer growth assumptions by the assumed use per customer.

O&M Cost Inflation Factors. Review of the District's FY 2010-11 Budget by line item indicated that several inflation factors could be used to refine the projection of future operation and maintenance expense. The assumptions for future cost escalation include the following inflation factors.

Electricity – The Consumer Price Index for West B/C size cities indicates that the average cost per kWh of electricity has increased an annual average rate of 5.5 percent. It is assumed that future increases in the District's electric power cost per hundred cubic feet (Ccf) will increase similarly at 5 percent annually.

Chemicals – Chemical costs are a small part of the total operation and maintenance expense of the District's Budget. While total chemical costs have increased from \$2,900 in FY 2004-05 to a budgeted \$9,000 in FY 2010-11, future increases in unit chemical cost are projected at 3.0 percent annually.

Wages – The District's FY 2010-11 Budget does not contain any across-the-board CPI increase for salaries and wages over the previous year. Additionally, no other personnel are expected to be hired during the study period. For this study, inflation in wages is estimated to increase at 1 percent in FY 2011-12, 2 percent in FY 2012-13, and 3 percent annually thereafter, reflecting an effort by the District to control costs.

Benefits – Analysis of the Benefits expense on a Full-Time Equivalent (FTE) basis indicates that benefit costs have increased by approximately 7.2 percent annually, exclusive of Other Post Employee Benefits. The Bureau of Labor Statistics Employment Cost Index for Total Benefits for State and Local Governments indicates an average change in benefit costs of 5.3 percent annually from over the last five

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years. Future cost escalations in employee benefits are assumed at 6.0 percent annually.

All Other – All other expenses not discussed above are projected to increase by 3.0 percent annually to reflect the Consumer Price Index (CPI) for all items for San Francisco/Oakland/San Jose and CPI for all items for Los Angeles /Anaheim/ Riverside. Such indices showed an average annual increase ranging between 2.5 and 2.9 percent over the last five years.

Fixed Asset Purchases. Historical expenditures for minor fixed assets have been somewhat sporadic, ranging from a low of \$16,000 in FY 2005-06 to \$204,000 in FY 2009-10 with 75,900 budgeted in FY 2010-11. For this study, future expenditures in FY 2011-12 are estimated at \$65,000 annually and are inflated at 3.0 percent per year thereafter.

Transfers. The District's FY 2010-11 Budget includes an annual Transfer to the Replacement Fund of \$700,000. Future transfers are assumed to follow the four options that are presented in this report.

Interest Earnings Rate. The District invests available funds in the Local Agency Investment Fund (LAIF). Current interest earnings paid by LAIF on invested funds are approximately 0.5 percent and will be used in this study for interest income calculations.

Capacity Charges. Water and Supplemental Capacity Charges are projected to increase from current levels at 3.0 percent annually reflecting the CPI and District policy.

Water Fund Operating Reserve. The amount to be maintained as an operating reserve varies among cities and districts, however, is generally expressed as a percentage, or the number of days of operation and maintenance expense (O&M) of the enterprise. From the District's FY 2010-11 Budget, the Water Fund has an estimated 82 percent of O&M as a reserve. From District policy, the amount of the reserve to be maintained is established at 180 days of operation and maintenance expense (50 percent).

Beginning Water Fund Balance. The beginning fund balance for financial planning purposes of the Water Fund reflect the estimated amount shown in the District's adopted FY 2010-11 Budget of \$2,500,000.

Capital Improvement Program

The District has developed a capital improvement program (CIP) for the water utility that is presented in Table 1. The table includes the Waterline Intertie Project, Misty Glen to Hetrick and Hetrick to Sandydale waterlines (Willow Phase I and II), a new water storage tank, and other replacement projects. Estimates of improvement costs shown on line 18 include inflation and total over \$27,800,000 during the study period.

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Table 1
Nipomo Community Services District
Water Utility
Proposed Capital Improvement Program

Line No.	Project Description	Fiscal Year Ending June 30					Total
		2010-11	2011-12	2012-13	2013-14	2014-15	
1	Waterline Intertie Project	\$11,597,300	\$6,940,200	\$0	\$0	\$0	\$18,537,500
2	Desalination	0	0	300,000	500,000	500,000	1,300,000
3	Water Storage Tank	315,000	1,280,000	0	0	0	1,595,000
4	Misty Glen to Hetrick (Willow Phase 1)	1,050,000	0	0	0	0	1,050,000
5	Hetrick to Sandydale (Willow Phase 2)	315,000	1,050,000	0	0	0	1,365,000
6	SCADA Upgrades - Water Fund Share	147,000	20,000	20,000	20,000	20,000	227,000
7	Urban Water Management Plan Update	52,500	0	0	0	0	52,500
8	Shop Equipment Storage Building	73,500	0	0	0	0	73,500
9	Standpipe Mixing	157,500	0	0	0	0	157,500
10	Fire Hydrants	72,600	72,600	72,600	72,600	72,600	363,000
11	Valves	184,000	184,000	184,000	184,000	184,000	920,000
12	Air/Vac's	16,500	16,500	16,500	16,500	16,500	82,500
13	Well Refurbishment	200,000	100,000	100,000	100,000	100,000	600,000
14	Cathodic Protection	5,000	0	0	0	0	5,000
15	Well Buildings	30,000	0	0	0	0	30,000
16	Tank Coating and Repairs	325,000	175,000	300,000	0	0	800,000
17	Total Capital Improvements (Uninflated)	\$14,540,900	\$9,838,300	\$993,100	\$893,100	\$893,100	\$27,158,500
18	Total Capital Improvements (Inflated)⁽¹⁾	\$14,540,900	\$10,182,600	\$1,063,900	\$990,300	\$1,024,900	\$27,802,600

⁽¹⁾ Projects inflated at 3.5% per year based on 5-year average annual increase in the historical ENR Index.

Capital Improvement Program Financing

Table 2 shows the sources of funds to finance the CIP listed in Table 1. Several sources of funding are used to complete the CIP improvements that generally follow the District's adopted FY 2010-11 Budget. The Waterline Intertie Project is financed from an assessment debt issue providing proceeds of \$12,200,000 and from District reserves of \$6,000,000 earmarked for this project.

Transfers from the Water Replacement Fund, Water Capacity Fund, and Supplemental Water Fund follow the adopted Budget with the exception of the Water Capacity Fund. The Water Capacity Fund is depleted by the end of FY 2011-12. It is proposed that the Water Replacement Fund will loan sufficient amounts as necessary to the Water Capacity Fund to complete the CIP identified for that fund. The Water Capacity Fund will repay the borrowed amount back to the Water Replacement Fund when such funds become available.

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Table 2 **With Assessment Financing**
Nipomo Community Services District
Water Utility
Water Capital Improvement Financing

Line No.	Description	Fiscal Year Ending June 30				
		2010-11	2011-12	2012-13	2013-14	2014-15
Source of Funds						
1	Funds on Hand at Beginning of Year	\$0	\$6,602,700	\$0	\$0	\$0
2	Water Replacement Fund	833,100	567,200	721,100	413,700	428,100
3	Water Capacity Fund	2,110,500	2,432,300	21,400	22,200	23,000
4	Supplemental Water Fund	0	580,400	321,400	554,400	573,800
5	Reserves	6,000,000	0	0	0	0
6	Assessment District Debt Issue ^[1]	12,200,000	0	0	0	0
7	Total Sources of Funds	21,143,600	10,182,600	1,063,900	990,300	1,024,900
Use of Funds						
8	Major Capital Improvements ^[2]	14,540,900	10,182,600	1,063,900	990,300	1,024,900
9	Total Use of Funds	14,540,900	10,182,600	1,063,900	990,300	1,024,900
10	Funds on Hand at End of Year	\$6,602,700	\$0	\$0	\$0	\$0

^[1] Assumes Waterline Intertie Project is financed with an Assessment District.

^[2] From Table 1.

Revenue

The Water Fund receives revenue from several sources. These sources include water sales revenue, miscellaneous revenue, and interest income. Revenue from water sales was projected through application of the January 1, 2009 water rates to projections of customer growth and water sales volume. Projections of customer growth and water sales volume follow the discussion under the assumptions above.

Miscellaneous revenue includes fees and penalties related to service turn-on, service turn-off, late fees, and interest income on reserve balances. Interest income is projected based on the average fund balance available in each of the District's funds assuming an annual interest earnings rate of 0.5 percent.

Revenue Requirements

Revenue requirements of the District's Water Fund include operation and maintenance expense, existing debt service, annual minor (routine) capital expenditures, and Transfers to the Replacement Fund. The

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revenue requirement projections presented herein reflect the District's FY 2010-11 Budget for the first year. The revenue requirements are then escalated into the future based on known conditions regarding proposed operating and capital improvement plans, expected changes to system operations, and inflation.

Operation and Maintenance Expense

Operation and maintenance (O&M) expense includes the cost of personnel, utilities, chemicals, and miscellaneous materials and supplies needed to operate the water system on an annual basis. Table 3 summarizes the historical and projected O&M expense for the water system, excluding debt service. Annual minor (routine) capital is stated separately. The expenses for FY 2010-11 are shown as budgeted, then are escalated into the future based upon the assumed inflation factors presented above.

The projected O&M expenses include additional costs related to the Waterline Intertie Project in FY 2012-13 shown on lines 5 and 6. The Project will deliver 2,000 ac-ft of water to the District at an estimated cost of \$1,250 per ac-ft. Of this amount, it is assumed that Golden State Water Company, Woodlands, and Rural Water Company will sign contracts to take 320 ac-ft, 170 ac-ft, and 170 ac-ft of water respectively, leaving a net delivery of 1,340 ac-ft of water to the District at a cost of \$1,675,000.

Approximately 31 percent of this amount, or \$519,300, will be included into the District's water operation and maintenance expense while the remaining annual costs will be recovered through the assessment. The District will also incur additional expenses for chemicals, labor, and energy related to the Project, estimated as annual expense of 9 percent of the cost of the 1,340 ac-ft of supplemental water delivery. Additionally in FY 2012-13, electricity and chemical costs related to water pumped from the District's wells will decrease, as future operational plans include using all of the allocation of the supplemental water first, then pumping well water as needed to meet demand.

Debt Service

The District has an outstanding debt obligation from a 1978 Safe Drinking Water Loan. Annual debt service payments on this loan average approximately \$15,300 annually. The loan will be retired in FY 2018-19.

Minor Annual (Routine) Capital Outlay

Minor (routine) annual capital outlays are financed from annual system revenues and include estimates for relatively small additions of fixed asset purchases, utility vehicles, office/technical equipment, and other assets. Future projections reflect budgeted capital outlay in FY 2010-11 of \$75,900 with estimated expenditures of \$65,000 in FY 2012-13, increasing at 3 percent annually through the study period.

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Table 3 **With Assessment Financing**
 Nipomo Community Services District
 Water Utility
 Historical and Projected Operation and Maintenance Expense and Minor Capital

Line No.	Description	Fiscal Year Ending June 30									
		Historical (Actual)				Budget		Projected			
		2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15
	Operation and Maintenance Expense ^[1]										
	Operations and Maintenance										
1	Salaries	\$204,368	\$227,082	\$211,455	\$240,500	\$282,000	\$337,030	\$340,700	\$347,500	\$357,400	\$367,600
2	Benefits	103,181	105,110	94,736	157,000	158,000	183,700	194,800	206,300	218,900	231,900
3	Electricity - Pumping	264,294	361,242	252,680	405,000	500,000	565,000	588,400	283,900	292,800	302,000
4	Natural Gas - Pumping	65,252	82,140	52,393	36,100	11,565	0	0	0	0	0
5	Supplemental Water	0	0	0	0	0	0	0	519,300	534,800	550,900
6	Supplemental Water Other	0	0	0	0	0	0	0	150,800	155,300	159,900
7	Chemicals	2,908	5,068	2,375	6,000	7,000	9,000	9,200	4,400	4,400	4,500
8	Repairs and Maintenance	103,791	175,330	124,512	180,000	150,000	200,000	206,000	212,200	218,600	225,200
9	Meters - New Installations	7,549	3,739	13,599	0	0	5,000	0	0	0	0
10	Meters - Replacement Program	5,302	22,620	14,550	20,000	45,000	48,000	49,400	50,900	52,400	54,000
11	Other	154,723	188,883	251,987	271,500	244,100	428,130	434,300	447,400	460,700	474,400
12	Subtotal	911,368	1,171,214	1,018,287	1,316,100	1,397,665	1,775,860	1,822,800	2,222,700	2,295,300	2,370,400
	General and Administrative										
13	Salaries	96,373	100,217	137,335	159,300	221,000	245,520	248,000	252,900	260,400	268,100
14	Benefits	46,105	44,655	64,119	154,010	169,100	180,320	191,200	202,600	214,800	227,600
15	Operating Transfer Out - Admin	129,371	142,769	177,410	226,072	320,390	297,581	306,500	315,700	325,200	335,000
16	Other	393,268	491,301	526,573	450,852	426,094	537,120	553,400	569,900	587,200	604,900
17	Subtotal	665,117	778,942	905,437	990,234	1,136,584	1,260,541	1,299,100	1,341,100	1,387,600	1,435,600
18	Total Operation and Maintenance Expense	\$1,576,485	\$1,950,156	\$1,923,724	\$2,306,334	\$2,534,249	\$3,036,401	\$3,121,900	\$3,563,800	\$3,682,900	\$3,806,000
	Minor Capital ^[1]										
19	Fixed Asset Purchases	16,497	0	43,773	51,000	204,044	75,900	65,000	67,000	69,000	71,100
20	Total Minor Capital	\$16,497	\$0	\$43,773	\$51,000	\$204,044	\$75,900	\$65,000	\$67,000	\$69,000	\$71,100
21	Total O&M and Minor Capital	\$1,592,982	\$1,950,156	\$1,967,497	\$2,357,334	\$2,738,293	\$3,112,301	\$3,186,900	\$3,630,800	\$3,751,900	\$3,877,100

^[1] Expenses are inflated as follows: Salaries - 1% in FY 2011-12, 2% in FY 2012-13, 3% annually thereafter; Benefits - 6% annually; Unit Electricity Cost - 5% annually; Unit Chemical Cost - 3% annually; Supplemental Water Cost per ac-ft - 3% annually; all other expenses are inflated at 3% annually.

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Transfers

The Water Fund makes an annual Transfer to the Water Replacement Fund to provide replacement capital for the water system. The District commissioned a Replacement Study in 2007 to study the amount that should be included annually in the District's Budget as a transfer for water system replacement. The study analyzed three replacement program funding methods of which the District's preference is the Model 2: Service Life Savings Replacement program.

For FY 2010-11, the District has budgeted a Transfer to the Water Replacement Fund in the amount of \$700,000. Future transfers have been estimated to increase at 50 percent of the levels identified in the Replacement Study for Model 2: Service Life Savings Replacement.

Financial Plan

The preferred financial plan for the Water Fund has been prepared to include revenue projected using the January 1, 2009 water rates and the revenue requirements identified above. The preferred plan is Option 2, Project Assessment Financing with 50 percent of Model 2: Service Life Savings Replacement, and is presented as Table 4.

Analysis of the financial plan indicates that the Water Fund will be deficient in meeting its future obligations. The deficiency is due to an existing operating deficiency, inflation in O&M expenses, and the additional expense obligations related to supplemental water from the Waterline Intertie Project. The statement indicates that revenue from water service rates will need to increase by 12.5 percent annually, shown on lines 2 through 6, to meet the future obligations of the fund.

The adjustments to revenue were determined based on financial planning criteria developed for the Water Fund. The criteria included a target Water Fund operating reserve of 180 days of O&M expense and a debt service coverage ratio that meets the requirements of Resolution No. 137. The operating reserve balance is allowed to decrease from the target level in interim years of the financial plan so that revenue adjustments could be established as equal annual increases. The operating reserve target fund balance is met by the last year of the study.

Alternative Financial Plans

Additional financial plans were prepared that coincide with the options discussed at the beginning of this report. These options illustrate the impacts to the Water Fund of transferring 100 percent of the annual replacement amounts identified for the Model 2: Service life Savings Replacement (Options 1 and 3), and the impact of excluding the Waterline Intertie Project (Options 2 and 4).

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Table 4 **With Assessment Financing**
Nipomo Community Services District **50 percent of Model 2: Service Life Savings Replacement**
Water Utility **Option 2**
Water Fund Flow of Funds Statement

Line No.	Description	Fiscal Year Ending June 30						
		2010-11	2011-12	2012-13	2013-14	2014-15		
Revenue								
1	Water Sales Revenue Under Existing Rates ^[1]	\$2,930,900	\$2,913,800	\$2,896,900	\$2,880,200	\$2,863,500		
	Additional Water Sales Revenue Required:							
	Fiscal Year	Revenue Increase	Effective Date					
2	2010-11	12.5%	Jan 1, 2011	183,200	364,200	362,100	360,000	357,900
3	2011-12	12.5%	Jan 1, 2012		204,900	407,400	405,000	402,700
4	2012-13	12.5%	Jan 1, 2013			229,200	455,700	453,000
5	2013-14	12.5%	Jan 1, 2014				256,300	509,600
6	2014-15	12.5%	Jan 1, 2015					286,700
7	Total Additional Water Sales Revenue			183,200	569,100	998,700	1,477,000	2,009,900
8	Total Water Sales Revenue			3,114,100	3,482,900	3,895,600	4,357,200	4,873,400
9	Other Revenue ^[2]			70,800	70,800	70,800	70,800	70,800
10	Interest Income From Operations ^[3]			10,900	8,800	7,700	7,400	8,900
11	Total Revenue			\$3,195,800	\$3,562,500	\$3,974,100	\$4,435,400	\$4,953,100
Revenue Requirements								
12	Operation and Maintenance Expense ^[4]			\$3,036,400	\$3,121,900	\$3,563,800	\$3,682,900	\$3,806,000
13	1978 Water Revenue Bonds ^[5]			15,300	14,800	15,200	15,700	15,100
14	Minor Capital Expenditures			75,900	65,000	67,000	69,000	71,100
15	Transfers to Water Replacement Fund ^{[4][6]}			700,000	566,000	566,000	566,000	571,000
16	Total Revenue Requirements			3,827,600	3,767,700	4,212,000	4,333,600	4,463,200
17	Net Funds Available			(\$631,800)	(\$205,200)	(\$237,900)	\$101,800	\$489,900
18	Beginning Water Fund Balance			2,500,000	1,868,200	1,663,000	1,425,100	1,526,900
19	Cumulative Water Fund Balance			\$1,868,200	\$1,663,000	\$1,425,100	\$1,526,900	\$2,016,800
20	Minimum Desired Balance ^[7]			\$1,518,200	\$1,561,000	\$1,781,900	\$1,841,500	\$1,903,000
Annual Debt Service Coverage								
21	Net Revenue ^[8]			\$216,500	\$485,900	\$439,500	\$779,600	\$1,172,100
22	Existing Debt Service Payments ^[9]			15,300	14,800	15,200	15,700	15,100
23	Coverage			1415%	3283%	2891%	4966%	7762%

^[1] Estimated revenue based on number of customers and projected water sales volume.

^[2] Includes penalties and miscellaneous income.

^[3] Assumes an interest rate of 0.5% on the average fund balance.

^[4] Projected expense from Table 3.

^[5] Existing 1978 Revenue Bonds debt service.

^[6] Annual amount for water system replacement. As budgeted for FY 2010-11.

^[7] Estimated at 180 days of operation and maintenance expense.

^[8] As defined in Resolution No. 137. Includes all charges and all other income including interest income of the Enterprise.

^[9] Debt service from line 13 above.

This illustration is presented in a matrix format in Table 5. Option 1 includes the Waterline Intertie Project and an annual replacement transfer that equals the amounts identified for Model 2: Service Life Savings Replacement. Option 2 is the preferred financial plan discussed in this report and includes 50

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percent of the Model 2: Service Life Savings Replacement amount. Options 3 and 4 are the same as Option 1 and 2 except do not include the Waterline Intertie Project. The tables showing the financial plans related to Options 1, 3, and 4 are provided in Appendix A.

Table 5
 Nipomo Community Services District
 Water Utility
**Summary of Annual Revenue Adjustments Required With and Without
 Waterline Intertie Project Under Replacement Program Funding Options**

WITH WATERLINE INTERTIE PROJECT		
	OPTION 1	OPTION 2
	Model 2	50 Percent of Model 2
<u>Date of Increase</u>	<u>Service Life Savings</u>	<u>Service Life Savings</u>
	Revenue Increases (Table 4a) ^[1]	Revenue Increases (Table 4)
Jan 1, 2011	17.0%	12.5%
Jan 1, 2012	17.0%	12.5%
Jan 1, 2013	17.0%	12.5%
Jan 1, 2014	17.0%	12.5%
Jan 1, 2015	17.0%	12.5%

WITHOUT WATERLINE INTERTIE PROJECT		
	OPTION 3	OPTION 4
	Model 2	50 Percent of Model 2
<u>Date of Increase</u>	<u>Service Life Savings</u>	<u>Service Life Savings</u>
	Revenue Increases (Table 4c) ^[1]	Revenue Increases (Table 4d) ^[1]
Jan 1, 2011	12.0%	7.0%
Jan 1, 2012	12.0%	7.0%
Jan 1, 2013	12.0%	7.0%
Jan 1, 2014	12.0%	7.0%
Jan 1, 2015	12.0%	7.0%

^[1] Table presented in Appendix A.

From inspection of Table 5, if the annual replacement transfer was 100 percent of the Model 2: Service Life Savings Replacement amount in addition to the Waterline Intertie Project (Option 1), the revenue increases required would increase by 4.5 percent annually above those stated for the preferred financial plan (Option 2). Additionally, if the Waterline Intertie Project was excluded from the preferred financial plan (Option 4), the revenue increases required would decrease by 5.5 percent annually. If the Waterline Intertie Project was excluded and the annual replacement was restored to 100 percent of the Model 2: Service Life Savings Replacement amount (Option 3), the revenue increases required would decrease by 0.5 percent annually.

In accordance with the May 12, 2010 proposal scope of work, it is intended that this report will be presented to the District Board of Directors for discussion and then selection of an option on which to establish water rates. If there are any questions regarding this report, please call me at (949) 760-9454.

Very Truly Yours,

TUCKFIELD & ASSOCIATES

A handwritten signature in black ink, appearing to read "G. Clayton Tuckfield". The signature is written in a cursive, flowing style.

G. Clayton Tuckfield
Principal

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Appendix A

Alternative Financial Plans

Option 1, 3, and 4

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Table 4a **With Assessment Financing**
Nipomo Community Services District **Model 2: Service Life Savings Replacement**
Water Utility **Option 1**
Water Fund Flow of Funds Statement

Line No.	Description	Fiscal Year Ending June 30						
		2010-11	2011-12	2012-13	2013-14	2014-15		
Revenue								
1	Water Sales Revenue Under Existing Rates ^[1]	\$2,930,900	\$2,913,800	\$2,896,900	\$2,880,200	\$2,863,500		
	Additional Water Sales Revenue Required:							
	Fiscal Year	Revenue Increase	Effective Date					
2	2010-11	17.0%	Jan 1, 2011	249,100	495,300	492,500	489,600	486,800
3	2011-12	17.0%	Jan 1, 2012		289,800	576,200	572,900	569,600
4	2012-13	17.0%	Jan 1, 2013			337,100	670,300	666,400
5	2013-14	17.0%	Jan 1, 2014				392,100	779,700
6	2014-15	17.0%	Jan 1, 2015					456,100
7	Total Additional Water Sales Revenue			249,100	785,100	1,405,800	2,124,900	2,958,600
8	Total Water Sales Revenue			3,180,000	3,698,900	4,302,700	5,005,100	5,822,100
9	Other Revenue ^[2]			70,800	70,800	70,800	70,800	70,800
10	Interest Income From Operations ^[3]			11,100	8,300	5,900	5,400	8,000
11	Total Revenue			\$3,261,900	\$3,778,000	\$4,379,400	\$5,081,300	\$5,900,900
Revenue Requirements								
12	Operation and Maintenance Expense ^[4]			\$3,036,400	\$3,121,900	\$3,563,800	\$3,682,900	\$3,806,000
13	1978 Water Revenue Bonds ^[5]			15,300	14,800	15,200	15,700	15,100
14	Minor Capital Expenditures			75,900	65,000	67,000	69,000	71,100
15	Transfers to Water Replacement Fund ^{[4][6]}			700,000	1,132,000	1,132,000	1,132,000	1,142,000
16	Total Revenue Requirements			3,827,600	4,333,700	4,778,000	4,899,600	5,034,200
17	Net Funds Available			(\$565,700)	(\$555,700)	(\$398,600)	\$181,700	\$866,700
18	Beginning Water Fund Balance			2,500,000	1,934,300	1,378,600	980,000	1,161,700
19	Cumulative Water Fund Balance			\$1,934,300	\$1,378,600	\$980,000	\$1,161,700	\$2,028,400
20	Minimum Desired Balance ^[7]			\$1,518,200	\$1,561,000	\$1,781,900	\$1,841,500	\$1,903,000
Annual Debt Service Coverage								
21	Net Revenue ^[8]			\$282,600	\$702,800	\$849,100	\$1,432,600	\$2,129,900
22	Existing Debt Service Payments ^[9]			15,300	14,800	15,200	15,700	15,100
23	Coverage			1847%	4749%	5586%	9125%	14105%

^[1] Estimated revenue based on number of customers and projected water sales volume.

^[2] Includes penalties and miscellaneous income.

^[3] Assumes an interest rate of 0.5% on the average fund balance.

^[4] Projected expense from Table 3.

^[5] Existing 1978 Revenue Bonds debt service.

^[6] Annual amount for water system replacement. As budgeted for FY 2010-11.

^[7] Estimated at 180 days of operation and maintenance expense.

^[8] As defined in Resolution No. 137. Includes all charges and all other income including interest income of the Enterprise.

^[9] Debt service from line 13 above.

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Table 4c **Without Waterline Intertie Project**
Nipomo Community Services District **Model 2: Service Life Savings Replacement**
Water Utility **Option 3**
Water Fund Flow of Funds Statement

Line No.	Description	Fiscal Year Ending June 30				
		2010-11	2011-12	2012-13	2013-14	2014-15
Revenue						
1	Water Sales Revenue Under Existing Rates ^[1]	\$2,930,900	\$2,913,800	\$2,896,900	\$2,880,200	\$2,863,500
	Additional Water Sales Revenue Required:					
	Fiscal Year	Revenue Increase	Effective Date			
2	2010-11	12.0%	Jan 1, 2011	175,900	349,700	347,600
3	2011-12	12.0%	Jan 1, 2012		195,800	389,300
4	2012-13	12.0%	Jan 1, 2013			218,000
5	2013-14	12.0%	Jan 1, 2014			433,500
6	2014-15	12.0%	Jan 1, 2015			242,800
7	Total Additional Water Sales Revenue			175,900	545,500	954,900
8	Total Water Sales Revenue			3,106,800	3,459,300	3,851,800
9	Other Revenue ^[2]			70,800	70,800	70,800
10	Interest Income From Operations ^[3]			10,900	7,300	4,900
11	Total Revenue			\$3,188,500	\$3,537,400	\$3,927,500
Revenue Requirements						
12	Operation and Maintenance Expense ^[4]			\$3,036,400	\$3,121,900	\$2,893,700
13	1978 Water Revenue Bonds ^[5]			15,300	14,800	15,200
14	Minor Capital Expenditures			75,900	65,000	67,000
15	Transfers to Water Replacement Fund ^{[4][6]}			700,000	1,132,000	1,132,000
16	Total Revenue Requirements			3,827,600	4,333,700	4,107,900
17	Net Funds Available			(\$639,100)	(\$796,300)	(\$180,400)
18	Beginning Water Fund Balance			2,500,000	1,860,900	1,064,600
19	Cumulative Water Fund Balance			\$1,860,900	\$1,064,600	\$884,200
20	Minimum Desired Balance ^[7]			\$1,518,200	\$1,561,000	\$1,446,900
Annual Debt Service Coverage						
21	Net Revenue ^[8]			\$209,200	\$462,200	\$1,067,300
22	Existing Debt Service Payments ^[9]			15,300	14,800	15,200
23	Coverage			1367%	3123%	7022%

^[1] Estimated revenue based on number of customers and projected water sales volume.

^[2] Includes penalties and miscellaneous income.

^[3] Assumes an interest rate of 0.5% on the average fund balance.

^[4] Projected expense from Table 3, excluding lines 5 and 6.

^[5] Existing 1978 Revenue Bonds debt service.

^[6] Annual amount for water system replacement. As budgeted for FY 2010-11.

^[7] Estimated at 180 days of operation and maintenance expense.

^[8] As defined in Resolution No. 137. Includes all charges and all other income including interest income of the Enterprise.

^[9] Debt service from line 13 above.

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Table 4d **Without Waterline Intertie Project**
Nipomo Community Services District **50 Percent of Model 2: Service Life Savings Replacement**
Water Utility **Option 4**
Water Fund Flow of Funds Statement

Line No.	Description	Fiscal Year Ending June 30						
		2010-11	2011-12	2012-13	2013-14	2014-15		
Revenue								
1	Water Sales Revenue Under Existing Rates ^[1]	\$2,930,900	\$2,913,800	\$2,896,900	\$2,880,200	\$2,863,500		
	Additional Water Sales Revenue Required:							
	Fiscal Year	Revenue Increase	Effective Date					
2	2010-11	7.0%	Jan 1, 2011	102,600	204,000	202,800	201,600	200,400
3	2011-12	7.0%	Jan 1, 2012		109,100	217,000	215,700	214,500
4	2012-13	7.0%	Jan 1, 2013			116,100	230,800	229,500
5	2013-14	7.0%	Jan 1, 2014				123,500	245,600
6	2014-15	7.0%	Jan 1, 2015					131,400
7	Total Additional Water Sales Revenue			102,600	313,100	535,900	771,600	1,021,400
8	Total Water Sales Revenue			3,033,500	3,226,900	3,432,800	3,651,800	3,884,900
9	Other Revenue ^[2]			70,800	70,800	70,800	70,800	70,800
10	Interest Income From Operations ^[3]			10,700	7,800	6,500	6,700	7,400
11	Total Revenue			\$3,115,000	\$3,305,500	\$3,510,100	\$3,729,300	\$3,963,100
Revenue Requirements								
12	Operation and Maintenance Expense ^[4]			\$3,036,400	\$3,121,900	\$2,893,700	\$2,992,800	\$3,095,200
13	1978 Water Revenue Bonds ^[5]			15,300	14,800	15,200	15,700	15,100
14	Minor Capital Expenditures			75,900	65,000	67,000	69,000	71,100
15	Transfers to Water Replacement Fund ^{[1][6]}			700,000	566,000	566,000	566,000	571,000
16	Total Revenue Requirements			3,827,600	3,767,700	3,541,900	3,643,500	3,752,400
17	Net Funds Available			(\$712,600)	(\$462,200)	(\$31,800)	\$85,800	\$210,700
18	Beginning Water Fund Balance			2,500,000	1,787,400	1,325,200	1,293,400	1,379,200
19	Cumulative Water Fund Balance			\$1,787,400	\$1,325,200	\$1,293,400	\$1,379,200	\$1,589,900
20	Minimum Desired Balance ^[7]			\$1,518,200	\$1,561,000	\$1,446,900	\$1,496,400	\$1,547,600
Annual Debt Service Coverage								
21	Net Revenue ^[8]			\$135,700	\$228,900	\$645,600	\$763,600	\$892,900
22	Existing Debt Service Payments ^[9]			15,300	14,800	15,200	15,700	15,100
23	Coverage			887%	1547%	4247%	4864%	5913%

^[1] Estimated revenue based on number of customers and projected water sales volume.

^[2] Includes penalties and miscellaneous income.

^[3] Assumes an interest rate of 0.5% on the average fund balance.

^[4] Projected expense from Table 3, excluding lines 5 and 6.

^[5] Existing 1978 Revenue Bonds debt service.

^[6] Annual amount for water system replacement. As budgeted for FY 2010-11.

^[7] Estimated at 180 days of operation and maintenance expense.

^[8] As defined in Resolution No. 137. Includes all charges and all other income including interest income of the Enterprise.

^[9] Debt service from line 13 above.

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TO: BOARD OF DIRECTORS

FROM: DON SPAGNOLO
GENERAL MANAGER



DATE: AUGUST 5, 2010

**AGENDA ITEM
E-2**

AUGUST 11, 2010

**AGREEMENT WITH SAN LUIS OBISPO COUNTY TO FORM ASSESSMENT
DISTRICT TO FINANCE CONSTRUCTION OF THE WATERLINE INTERTIE
PROJECT**

ITEM

Consideration and approval of Agreement between the District and the County of San Luis Obispo to form an assessment district within the boundaries of the Nipomo Community Services District, the Woodlands Mutual Water Company, Golden State Water Company and Rural Water Company to finance the construction costs for the Santa Maria Waterline Intertie Project. [RECOMMEND APPROVAL]

BACKGROUND

The Nipomo Community Services District (the "District" or "NCSD"). The Woodlands Mutual Water Company ("WMWC"), Golden State Water Company ("GSWC") and Rural Water Company ("RWC") currently rely on groundwater underlying the Nipomo Mesa Management Area (formerly known as the Nipomo Mesa Groundwater Subbasin) of the Santa Maria Groundwater Basin to provide water service to water customers. The Court in the lawsuit summarized, below, designates the Nipomo Mesa Water Conservation Area as the Nipomo Mesa Management Area. For ease of reference this report will use the term Nipomo Mesa Water Conservation Area or NMWCA to describe the geographic area of the groundwater basin that underlies the Nipomo Mesa.

Over the past several years, a number of groundwater studies have been conducted in the Nipomo Mesa area in order to assess the status of groundwater resources. These studies include: 1) Water Resources of the Arroyo Grande – Nipomo Mesa Area in 2002, prepared by the California Department of Water Resources (DWR), dated October 25, 2002; 2) 2004 the Nipomo Mesa Groundwater Resource Capacity Study prepared at the request of the County of San Luis Obispo (the "County") by the firm of S.S. Papadopoulos & Associates, Inc.; 3) "Water Supply in the Nipomo Mesa Area, October, 2004", a Resource Capacity Study prepared by the County of San Luis Obispo, Department of Planning and Building; and 4) Additionally, commencing in June 2008, the Nipomo Mesa Management Area Technical Group files annual reports with the Court pursuant to a 2005 Stipulation and Final Judgment of that Court (see below).

The 2002 Department of Water Resources Report concluded that overdraft of the Santa Maria Groundwater Basin is not likely through the year 2020 but indicates that projected water demands exceed the dependable safe yield of groundwater in the Nipomo Mesa Sub-Area. The March 2004 Papadopoulos Report concluded that the Nipomo Mesa Sub-Basin is currently in overdraft. The County's November 2004 Resource Capacity Study indicated that in order to

maintain sustainability of the Nipomo Mesa groundwater supply, total extractions would have to be stabilized at 6,000 acre-feet per year (as first indicated in the Department of Water Resources Report) and that sustainability can be achieved through a combination of conservation and water supply augmentation.

In recognition of the findings and recommendations contained in the 2002 DWR Report and the 2004 Papadopoulos Report, the District on September 07, 2004, entered into a Memorandum of Understanding with the City of Santa Maria for the purchase of approximately 2,500 acre-feet of water per year to provide supplemental water for the exclusive use of the District (2004 MOU). (see following sections for update).

As recommended in the County's 2004 Resource Capacity Study on June 22, 2007, the County Board of Supervisors certified the Severity Level III for water resources underlying the Nipomo Mesa Water Conservation Area. Table F of the County's Resource Management System provides:

Table F		
RESOURCE DEFICIENCY CRITERIA FOR LEVELS OF SEVERITY		
Level I	Level II	Level III
Projected consumption estimated to exceed dependable supply within 9 years	7 year lead time to develop supplementary water for delivery to users	Resource is being used at or beyond its estimated dependable supply or will deplete dependable supply before new supplies can be developed

GROUNDWATER ADJUDICATION SUMMARY

In 1997 the Santa Maria Valley Water Conservation District filed a groundwater adjudication lawsuit involving the Santa Maria Groundwater Basin that stretches from Orcutt to the South to Pismo Beach to the North. The greater Santa Maria Groundwater Basin includes waters underlying the Nipomo Mesa area (at the time commonly known as the Nipomo Hydrologic Sub-basin). The parties to the lawsuit include the City of Santa Maria, landowners and other water purveyors that pump groundwater from the Santa Maria Groundwater Basin. The NCSD, WMWC, GSWC, and RWC pump water from the underlying Nipomo Mesa Water Conservation Area and are parties to the groundwater adjudication.

The Court in its Partial Statement Of Decision *Re Trial Phase III* found "No evidence of seawater intrusion, land subsidence, or water quality deterioration that would be evidence of overdraft has been presented. Some wells in the Nipomo Mesa area do show lowering of water levels that may result from the pumping depression or other cause, and there may be some effects in that portion of the Basin that are not shared Basin-wide. But, that is not sufficient in any event to demonstrate Basin-wide overdraft" (totality of the greater Santa Maria Groundwater Basin). Subsequently, many of the parties including NCSD, WMWC, GSWC and RWC that overlay the Nipomo Mesa portion of the Groundwater Basin, along with the City of Santa Maria and the County of San Luis Obispo signed a June 30, 2005, Stipulation (the "Stipulation"), that was approved by the Court. The Final Judgment after trial provides "the

Court approves the Stipulation, orders the stipulating parties only to comply with each and every term thereof, and incorporates the same herein as though set forth at length”.

The Stipulation divides the Santa Maria Groundwater Basin into three management areas known as the Santa Maria Valley Management Area (Southern portion of the Groundwater Basin) the Nipomo Mesa Management Area (the NMMA) (the center portion of the Groundwater Basin) and the Northern Cities Management Area (the northern portion of the Groundwater Basin).

Pursuant to the Stipulation the Woodlands Mutual Water Company, Golden State Water Company and Rural Water Company agreed to participate in the Santa Maria Intertie Project that is the subject of the 2004 MOU. As outlined in the Stipulation the 2,500 AF is to be divided up as follows:

NCSD – 66.68% or 1,669 AFY
WMWC – 16.66% or 415 AFY
GSWC – 8.33% or 208 AFY
RWC – 8.33% or 208 AFY

Additionally, pursuant to the Stipulation the NCSD, Woodlands Mutual Water Company, Golden State Water Company and an Ag representative formed the Nipomo Mesa Management Area Technical Group to monitor the groundwater underlying the Nipomo Mesa Management Area, to file reports with the Court and to make recommendations to the Court. The 2009 Annual Report makes the following recommendations related to the Supplemental Water Project:

“Supplemental Water Supply – An alternative water supply that would allow reduced pumping within the NMMA is likely to be the most effective method of reducing the stress on the aquifer and allow groundwater elevations to recover. The Nipomo Supplemental Water project is likely to be the fastest method of obtaining alternative water supplies. Given the Potentially Severe Water Shortage Conditions within the NMMA and the other risk factors discussed in this Report, the TG recommends that this project be implemented as soon as possible”.

The 2009 Northern Cities Management Annual Report indicates that during the reporting period the interface/mixing zones between seawater and fresh water shifted inland in the Oceano area that borders the NMMA's northern boundary. Subsequent reports from the Northern Cities Management Area indicate that this mixing zone has moved offshore.

SUPPLEMENTAL WATER PROJECT SUMMARY

After entering into the 2005 Stipulation, several additional studies have been prepared by NCSD in order to further evaluate alternatives to the Santa Maria Intertie Project, including: (1). the Preliminary Engineering Memorandum, prepared by Boyle Engineering, dated November, 2006; (2). Evaluation of Supplemental Water Alternatives – Technical Memorandum No. 1, prepared by Boyle Engineering dated June 2007; (3). Evaluation of Desalinization as a Source of Supplemental Water - Technical Memorandum No. 2, prepared by Boyle Engineering dated September 28, 2007; and (4). Evaluation of Supplemental Water Alternatives - Technical Memorandum No. 3, prepared by Boyle Engineering dated November 30, 2007. These memorandums have confirmed that the Santa Maria Intertie Project is the most feasible project to provide alternative water sources within the Nipomo Mesa Water Conservation Area.

The Waterline Intertie Project involves the construction of approximately five miles of new waterlines, pump stations and water storage facilities to transport up to 3,000 AF of new water from the City of Santa Maria. The Project final EIR has been certified by the District as lead agency and the City of Santa Maria as a responsible agency. The final Supplemental Water Agreement has been approved by the District and the City of Santa Maria.

The Project is nearing 90% design completion. In the first ten (10) years of operation the minimum delivery requirement is 2,000 AFY.

The objectives of the Waterline Intertie Project include:

1. Slow the depletion of the above-sea-level groundwater in storage beneath the Nipomo Mesa Groundwater Management Area (NMMA) of the Santa Maria Groundwater Basin to reduce the potential for sea water intrusion by using supplemental water consistent with the settlement agreement and the judgment related to the groundwater adjudication.
2. Assist in stabilizing the groundwater levels in the NMMA by reducing pumping in the NMMA.
3. Augment current water supplies available to the Woodlands and other water purveyors on the Mesa by 831 acre-feet per year as follows: Woodlands (415 AFY), Golden State Water Company (208 AFY) and Rural Water Company (208 AFY).
4. Increase the reliability of District water supply by providing a diversity of water sources.

ASSESSMENT DISTRICT SUMMARY

The District previously explored various alternatives for financing the construction of the Waterline Intertie Project, namely increasing bi-monthly water rates or the creation of an assessment district. Water rates, if approved, can only be imposed on District customers (developed properties receiving water service) while assessments, if approved, can be imposed on both developed and vacant properties. In September 2008, the Board approved the formation of an assessment district as the best alternative to finance the District's portion of the construction costs of the Waterline Intertie Project. The District, thereon, retained the Wallace Group to prepare assessment data reports for assessing the developed and undeveloped properties within the District.

Subsequently, the District, Woodlands, Golden State Water Company and Rural Water Company began exploring the formation of an assessment district to finance all participating water companies construction costs. Because the District cannot form assessment districts outside its boundaries, the District requested the County to participate in the formation of an assessment district that would include properties within the NCSD, WMWC, GSWC and RWC to finance all construction costs of the Waterline Intertie Project.

An assessment district that includes the participation of all water companies makes sense for several reasons including the following:

1. Both developed and undeveloped properties will participate in paying for the construction of the Waterline Intertie Project, thus spreading costs beyond the existing water

customer base. Undeveloped properties benefit, because property owners will have a source of water to support development within existing water company boundaries consistent with development authorized by the existing County General Plan.

2. Rather than financing the Project with a variety of mechanisms i.e., rates and charges from some participating water companies (that require CPUC approval) and the District's formation of an assessment district, a single assessment district provides a uniform financing mechanism that includes timely payment of costs and does not require CPUC approval.
3. Assessment District bonds are sold with lower interest rates thereby, reducing total project costs.

NATURE OF THE CONTRACT WITH THE COUNTY

The Agreement is solely between the District and the County related to the formation of the assessment district to finance the Santa Maria Intertie Project. The County's obligations are outlined in Sections 3(A & B) and the District's obligations and duties are outlined in Section 2 of the attached Agreement.

The County will commence formation of the assessment district upon receipt of the NCSD's Notice to Proceed. The NCSD's Notice to Proceed will not occur until it has formal commitments from the other water companies for payment of their proportional share of the formation costs.

FISCAL IMPACT

The assessment district formation costs are currently estimated as follows:

- County's costs, Section 3(A) equals \$60,000;
- The District's Section 2 costs are estimated at \$91,000 covering the cost of the Financial Adviser and Public Outreach..

The estimated total formation costs are \$150,000 excluding Assessment Engineering, to be apportioned as follows:.

1. NCSD - 4, 551 parcels or 57.53% of Formation Costs or \$ 86,295.
2. Golden State Water Company – 1,482 parcels or 18.73% of Formation Costs or \$28,095.
3. Rural Water Company – 1,068 parcels or 13.5% of Formation Costs or \$20,250.
4. Woodlands Mutual Water Company – 810 parcels or 10.24% of Formation Costs or \$15,360.

The District's Assessment Engineering costs are estimated at \$105,000 of which \$61,000 has been spent on preliminary engineering.

Upon the successful formation of the assessment district, the lion's share of the above costs can be reimbursed from assessment bond proceeds.

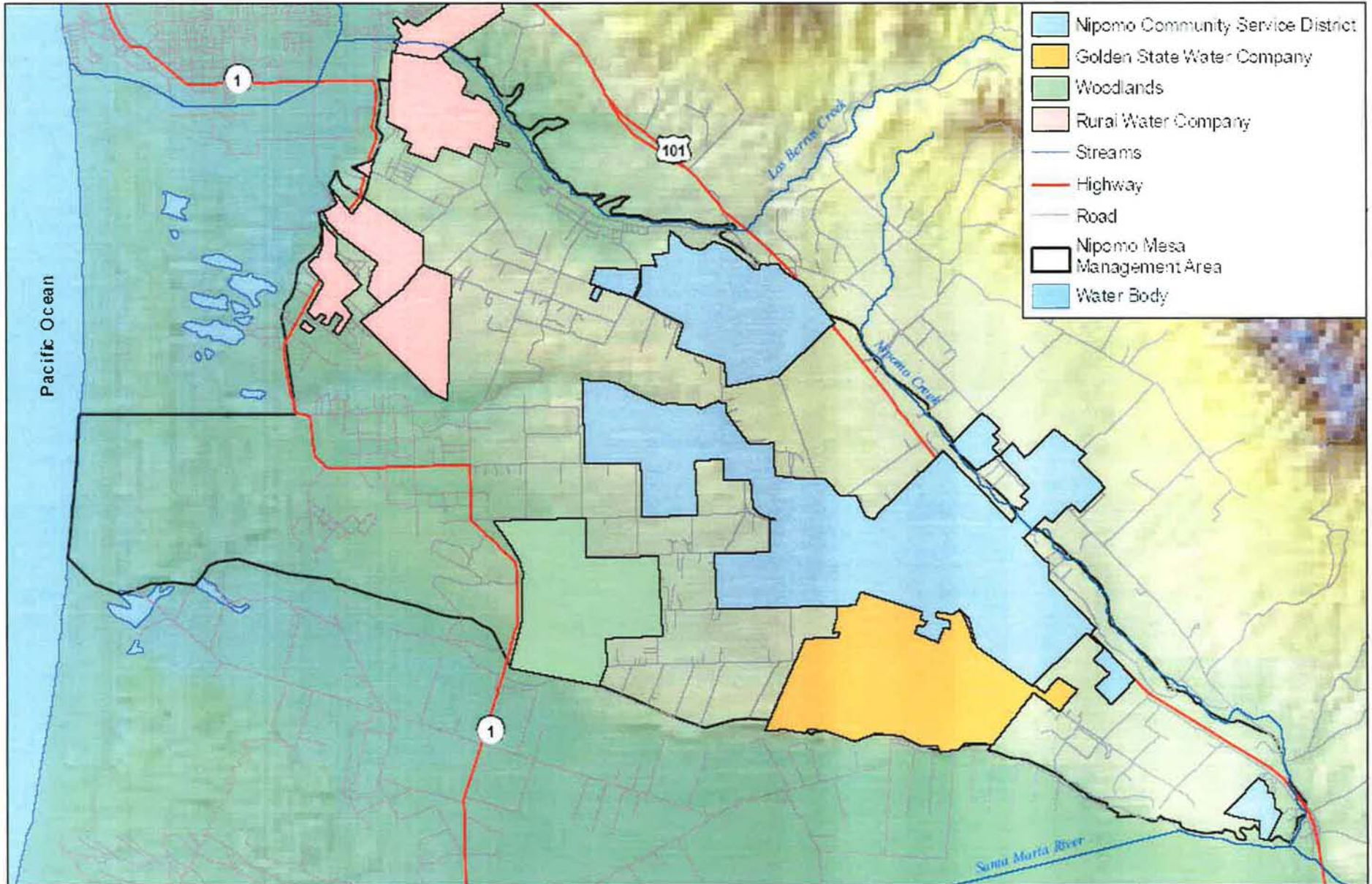
RECOMMENDATION

Staff recommends that the Board receive this staff report, staff presentation and public comment and:

1. Approve the Agreement; or
2. Provide other instructions to staff.

ATTACHMENTS

- Map showing boundaries of NCSD, WMWC, GSWC and RWC; and
- Agreement.



NOTES:
 Coordinate System: UTM Zone 10N
 Horizontal Datum: NAD 83
 Topography: National Elevation Dataset: 10m



NMMA Water Purveyor Boundaries



NMMA
Technical
Group

DATE: 04-03-09

BY: J. Deppner

MEMORANDUM OF UNDERSTANDING

This Memorandum of Understanding (the "MOU"), dated as of _____, 2010, by and between the County of San Luis Obispo, California (the "County"), a political subdivision duly organized and existing under the laws of the State of California (the "State"), and the Nipomo Community Services District (the "CSD"), a public instrumentality duly organized and existing under the laws of said State, is undertaken with regard to the following facts:

RECITALS:

WHEREAS, the CSD has a present need to arrange financing for the construction of a waterline intertie project (the "Project") described in that certain Environmental Impact Report ("EIR") approved and adopted by the CSD on May 13, 2009; and

WHEREAS, the Project calls for the design and construction of pipelines and other facilities by the CSD for the conveyance of water from the City of Santa Maria, California ("City") to properties within the CSD; and

WHEREAS, the Project is CSD's effort to implement a physical solution to groundwater conditions within the Nipomo Mesa Management Area ("NMMA") identified in the June 2005 Stipulation (as identified herein) partially settling the Santa Maria Groundwater Basin Litigation. Said Stipulation was duly signed by, inter alia, the CSD, the City of Santa Maria, and the County of San Luis Obispo; and

WHEREAS, the Project is also consistent with the need to address groundwater conditions within the Nipomo Mesa Water Conservation Area (NMWCA) as identified in the County's Resource Capacity Study, Water Supply in the Nipomo Mesa Area, dated November 2004; and

WHEREAS, the CSD represents that water companies pumping groundwater in the NMMA, specifically Golden State Water Company, Rural Water Company, and Woodlands Mutual Water Company (collectively the "Water Companies") are signatories to the Stipulation; and

WHEREAS, the CSD represents that while it has the authority to create an assessment district that includes any properties benefiting from the Project that lie within the CSD's boundaries, the CSD does not have the power to create an assessment district that includes any properties benefiting from the Project that lie outside the CSD's boundaries; and

WHEREAS, the CSD has requested that the County undertake the necessary processes for the possible establishment of an assessment district (the "Assessment District") that would include properties specially benefiting from the Project, including properties that lie both within and outside the CSD's boundaries that specially benefit from the Project and properties within the boundaries of the Water Companies that specially benefit from the Project; and

WHEREAS, the Project is and will be located within or proximate to the boundaries of the County; and

WHEREAS, the parties hereto wish to provide the terms and conditions upon which the possible formation of such an Assessment District would be processed by the County;

NOW, THEREFORE, be it agreed and understood by the parties hereto, as follows:

Section 1. Recitals; Defined Terms. The foregoing recitals are true and correct. Capitalized terms used but not defined herein shall have the meanings set forth in the Recitals hereof or as follows:.

“1913 Act” shall mean Sections 10000 *et seq.* of the Health & Safety Code of the State, comprising the Municipal Improvement Act of 1913.

“Assessment District” shall mean the assessment district, if any, formed at the conclusion of the Assessment Proceedings.

“Assessment Proceedings” shall mean the formal proceedings aimed at the formation of an assessment district for the Project undertaken by the County pursuant to the 1913 Act or any other applicable law relating to procedures for the formation of an assessment district for the Project.

“Auditor-Controller” shall mean the Auditor-Controller of the County.

“Bond Issuance Phase” shall mean the period of time following the Conclusion Date through and including the Closing Date.

“Bond Law” shall mean the Improvement Bond Act of 1915, being Sections 8500 *et seq.* of the Health & Safety Code of the State.

“Cash Contribution” shall mean the cash payments made by the CSD to or on behalf of the County in order to provide for the costs of services associated with the satisfaction of the conditions of this MOU, as it may from time to time be amended. The initial Cash Contribution of the CSD is set forth on Exhibit A to this MOU.

“Claims” shall mean all claims, demands, litigation, losses, judgments, damages, liabilities, costs and expenses, regardless of whether the claim is formally commenced in a court or not. As used herein, “Claims” shall refer to any Claim by any person or entity, including, but not limited to, any Claim by the CSD.

“Closing Date” shall mean the date upon which the CSD Bonds are issued by the County on behalf of the Assessment District, and the proceeds thereof made available to the CSD for the Project.

“Commencement Date” shall be the date the County receives the first “Notice to Proceed – Formation Phase” from the CSD pursuant to Section 4(A) of this MOU.

“CSD Bonds” shall mean any assessment bonds issued by the County under the Bond Law after the Conclusion Date for the initial financing of the Project after an assessment district is created.

“Effective Date” shall mean the date of execution of this MOU by the CSD or by the County, whichever is later, as shown on the signature page hereof. Once each party’s governing body approves this MOU, it shall be promptly signed by its authorized representative.

“Formation Costs” shall mean the costs of any party relating to the Assessment Proceedings and/or any preliminary activities relating to the County’s possible formation of the Assessment District, including, without limitation, the Cash Contribution, legal costs and expenses of the parties hereto, the costs of published and mailed notices, engineering expenses, testing, environmental and soils testing and reporting and fees of financial advisors and consultants.

“Conclusion Date” shall mean the date upon which the Assessment Proceedings are concluded, regardless of whether an Assessment District is formed on such date.

“Formation Phase” shall mean the period of time from the Effective Date through and including the Conclusion Date.

“Project Costs” shall mean the sums paid or to be paid for the acquisition, construction or improvement of any portion or segment of the Project, in accordance with a purchase order or contract therefor, together with all related administrative, engineering, legal, financial and other costs incurred by the CSD in connection with such acquisition, construction or improvement, including all applicable sales taxes and other charges.

“Stipulation” shall mean that certain Stipulation of June 30, 2005, approved by the Superior Court of the State of California, County of Santa Clara, in that certain groundwater adjudication commonly referred to as the *Santa Maria Valley Water Conservation District vs. the City of Santa Maria, et al.* (lead case number CV770214, later incorporated into a final judgment in said litigation, issued January 25, 2008.

Section 2. Duties of CSD. The CSD shall, at its own expense and with due diligence, during the term of this MOU, in addition to its obligation to pay costs and expenses as provided in Section 5 below, (a) hire a registered professional engineer to prepare a detailed engineer’s report; (b) deliver to the County a detailed engineer’s report consistent with article XIID, section 4 of the California Constitution and other applicable law that would, *inter alia*, identify all properties receiving special benefits from the Project; (c) retain a financial advisor to serve the CSD; (d) provide adequate information to property owners regarding the Project and the proposed formation of the Assessment District; (e) construct the Project in accordance with engineering plans and specifications provided to the County and in compliance with the Stipulation and the applicable provisions of the EIR; and (f) provide annual disclosure respecting the CSD Bonds as required pursuant to Rule 15c2-12, promulgated by the Securities and Exchange Commission. At the County’s request, the CSD shall, at its own expense, provide the County with any requested information relating to the Project, including, but not limited to, any and all updated engineering or design information, and any and all agreements signed or approved by the CSD.

Section 3. Duties of County. During the term of this MOU, and in conjunction with the timeframes set forth below, the County shall have the following duties:

(A) During the Formation Phase, the County shall: (1) retain special counsel to assist in the Formation Phase; (2) coordinate the process for the formation of the Assessment District,

including publication and/or mailing of notices required under the 1913 Act and adoption of appropriate resolutions; (3) collect and tabulate the results of balloting; and (4) canvass the final tabulation of ballots.

(B) Following the creation of an Assessment District, if any, the County shall: (1) retain Bond Counsel to assist in the issuance of the CSD Bonds; (2) administer the Assessment District after formation, including the annual delivery of assessment rolls to the Auditor-Controller of the County and the transmission of collected assessments to the fiscal agent to be used as debt service for the CSD Bonds; (3) retain its own financial advisor and underwriter or underwriters in connection with the authorization, issuance and sale of the CSD Bonds; (4) coordinate the issuance of the CSD Bonds through the preparation of appropriate resolutions, fiscal agent agreements, a preliminary and a final official statement and related legal documents; (5) administer the sale of the CSD Bonds; (6) provide for payment of the costs of issuance of the CSD Bonds from proceeds thereof; (7) make the proceeds of the CSD Bonds available to the CSD for the construction of the Project; and (8) require the fiscal agent to maintain appropriate books and records respecting the CSD Bonds, collection and payment of debt service thereon, and investment earnings on unexpended proceeds; provided, however, that the CSD shall be responsible for the payment of all costs and expenses associated with the County's performance under this Section.

Section 4. Notice to Proceed.

(A) Formation Phase. The County shall commence performance of County duties under Section 3(A) above within five (5) days of CSD's "Notice to Proceed – Formation Phase" and unless otherwise directed in writing by the CSD shall proceed with said duties with due diligence.

(B) Bond Issuance Phase. Following the creation of an Assessment District, and after the parties have amended Exhibit A, and the CSD has paid the amended deposit amount to the County, the County shall commence performance of County duties under Section 3(B) above within five (5) days of CSD's "Notice to Proceed – Bond Issuance Phase," and unless otherwise directed in writing by the CSD, shall proceed with said duties with due diligence.

Section 5. Costs and Expenses. The CSD covenants and agrees that it shall pay all Formation Costs and any other costs and expenses of the County relating to the duties described in Sections 3(A) and/or 3(B) above, including reasonable and necessary County staff time and the costs and expenses of consultants retained for said purposes by the County within twenty days of receipt of invoices for such costs and expenses. County invoices shall be itemized and shall identify the person providing the service, the service performed, the amount of time spent on performing the service, the amount charged for each item of service and a description by item for cost and expenses. Within five business days of the Effective Date of this MOU, the CSD shall deposit with the County the sum specified on Exhibit A attached hereto.

Following the creation of an Assessment District, the County and the CSD shall agree upon such additional deposits, costs and expenses as may be necessary for the issuance of the CSD Bonds pursuant to the Bond Law and shall amend Exhibit A to reflect such additional deposits, costs and expenses. In no event shall the County be liable to pay any of the costs and expenses incurred in connection with the execution of this MOU, the processing of the proposed

Assessment District or the issuance of the CSD Bonds, which shall all be the responsibility of the CSD.

Section 6. Reimbursement of Cash Contributions, Expenses. To the extent permitted by law, the CSD shall be entitled to be reimbursed for amounts advanced under Section 2 and 5 hereof from the proceeds of the CSD Bonds, as and when issued. Notwithstanding the foregoing, the County makes no representations and can provide no assurances to the CSD that the CSD Bonds will in fact be issued, that the CSD will be reimbursed therefrom, or that the CSD Bonds will be issued upon terms sufficient to generate enough proceeds to pay both Project Costs and the Formation Costs.

Section 7. Notices and Hearings. In connection with the Formation Phase and the issuance of the CSD Bonds, the County will be required, pursuant to pertinent provisions of the 1913 Act and the Bond Law, to provide notices, including published notices, and to conduct public hearings; the CSD covenants and agrees to post notices (and, as to parties which have previously so requested of the CSD, to mail notices) of each related agenda item being considered and of each related public hearing to be conducted by the County.

Section 8. Assessments Based on Special Benefits. In providing the engineering and related support during the Formation Phase, the CSD understands and agrees that the assessments to be imposed upon properties within the Assessment District, when formed, shall be made strictly upon the basis of special benefit to such properties as required by law.

Section 9. Maintenance and Operation of Project.

(A) CSD Ownership of the Project. Except as to connectors and pumping facilities associated with the Project to be owned and/or operated by the City, the Project and all of its pumps, machinery, conduits, apparatus, fixtures, fittings and equipment of any kind, real property (including rights-of-way) and capacity (except as provided in subparagraph E below) are and shall be, owned and/or operated by the CSD and shall be held and operated and maintained by the CSD as provided for herein.

(B) CSD's Objectives and Covenants. The CSD covenants and agrees that it will operate and maintain the Project in accordance with all relevant and valid governmental laws, ordinances, approvals, rules, regulations and requirements, including, without limitation, such zoning, sanitary, pollution, environmental and safety ordinances and laws and such rules and regulations thereunder as may be binding upon the CSD. The CSD further covenants and agrees that it will maintain and operate the Project in good repair, working order and condition, and that it will from time to time inspect and test all of the Project against then-current water supply industry standards, and that the CSD will pursue all necessary and proper replacement, repairs, renewals and improvements thereto. The CSD's operation of the Project, shall be consistent with the provisions of the "Stipulation" and "Final Judgment." The CSD agrees further that all revenues received from the Project shall be used for the sole benefit of the Project.

(C) CSD's Capital Reserves; Annual Budgets to Be Prepared by the CSD. In order to satisfy its covenants set forth in this MOU, the CSD shall determine the amount of capital reserves necessary for the Project for each upcoming fiscal year and its annual budget shall reflect such capital reserves. The CSD shall provide copies of the draft budget to the County for review and comment prior to final approval by the CSD's governing board.

(D) No Sale, Lease or Disposing of Project. The CSD covenants and agrees not to sell, lease or otherwise dispose of the Project or any part thereof essential to the proper operation thereof or to the earning or collection of the gross revenues of the Project, nor to enter into any MOU or lease which would impair the operation of the Project, or any part thereof necessary in order to secure adequate revenues for the payment of amounts due under this MOU, other than as necessary to secure the CSD Bonds; *provided, however*, that any real or personal property which has become nonfunctional or obsolete or which is not needed for the efficient operation of the Project may be sold or disposed of if such disposition will not have the effect of reducing revenues of the Project below the levels required under this MOU.

(E) Assignment of Capacity. Nothing in this MOU prohibits the CSD from assigning capacity interests in the Project's pipelines and related facilities to any of the Water Companies so long as such assignment is consistent with the final engineer's report and all applicable laws. Copies of any such assignments made by the CSD shall be immediately provided to the County and its Bond Counsel. If the CSD desires CSD Bonds to be issued on a tax-exempt basis, such assignments, if desired by the CSD, should not be undertaken without consultation with and the prior written approval of Bond Counsel to the County. Following the issuance of any CSD Bonds for the Project on a tax-exempt basis, such assignments, if desired by the CSD, shall not be undertaken without consultation with and the prior written approval of Bond Counsel to the County.

(F) CSD to Maintain Project. The CSD covenants and agrees to maintain and preserve the Project in good repair and working order at all times, to operate the same in an efficient and economical manner and to pay all operation and maintenance costs of the Project as they become due, all in accordance with the best business judgment of the CSD.

(G) No Superior Liens or Payments. The CSD covenants and agrees not to create or allow any lien on or payment from the revenues of the Project or any part thereof prior to, or superior to, the CSD's obligations to provide for debt service on the CSD Bonds.

(H) CSD to Insure Project. The CSD covenants and agrees to procure and maintain insurance, that is reasonable, relating to the Project which the CSD shall deem advisable or necessary to protect its interests and/or which may be required for the issuance of CSD Bonds. Such insurance shall afford protection in such amounts and against such risks as are usually covered in connection with similar water enterprises in the State of California; provided, that any such insurance may be maintained under a self-insurance program, so long as such self-insurance program is maintained in accordance with standards and in such amounts as are then usually maintained for similar water delivery projects in the State.

(I) CSD to Pay Obligations; Observe Laws. The CSD covenants and agrees to pay and discharge all valid taxes, assessments and other governmental charges which may hereafter be lawfully imposed upon the Project or any part thereof when the same shall become due and to duly observe and conform to all valid regulations and requirements of any governmental authority relative to the operation of the Project that are not being contested by the CSD in good faith.

(J) Eminent Domain. CSD covenants and agrees that if all or any material part of the Project shall be taken by eminent domain proceedings, or if the CSD receives any insurance proceeds resulting from a casualty loss to any material portion of the Project, the proceeds

thereof shall be used by the CSD to construct or install replacements for the condemned or destroyed components of the Project or to redeem the CSD Bonds.

Section 10. Indemnification. The County is willing to enter into this MOU only if all of the County's expenses, costs, and possible exposure to liability relating to this MOU are assumed by the CSD to the fullest extent allowed by law. Accordingly, the CSD agrees to indemnify, defend and hold harmless the County, including its officers, employees and each person, if any, who controls (as such term is defined in Section 15 of the Securities Act of 1933, as amended) the County, against any and all Claims by any person relating to this MOU, the engineer's report, the Assessment Proceedings, the issuance of the CSD Bonds (including but not limited to, any Claims relating to the exclusion from gross income of interest on the CSD Bonds or the failure to satisfy the requirements of Rule 15c2-12 (Continuing Disclosure), promulgated by the Securities and Exchange Commission), and/or the design, construction, operation or maintenance of the Project, regardless of whether or not the Claim arises from any omission of the County, the CSD, or some other person or entity. The CSD's duty to defend the County extends to all of the aforementioned Claims even if the Claim arises from the active or passive negligence by the County. The CSD's duty to indemnify the County extends to all of the aforementioned Claims even if the Claims arise from any active or passive negligence by the County (but not from any willful acts by the County).

In case any Claim shall be made or action brought against the County or any controlling person as provided above, the County shall promptly notify the CSD in writing setting forth the particulars of such Claim or action and the CSD shall assume the defense thereof, including the retaining of counsel reasonably acceptable to the County and the payment of all expenses. Notwithstanding the CSD's election to appoint counsel to represent the indemnified party in an action, the indemnified party shall have the right to employ separate counsel (including local counsel), and the CSD shall bear the reasonable fees, costs and expenses of such separate counsel if (i) the use of counsel chosen by the CSD to represent the indemnified party would present such counsel with a conflict of interest; (ii) the actual or potential defendants in, or targets of, any such action include both the indemnified party and the CSD and the indemnified party shall have reasonably concluded that there may be legal defenses available to it and/or other indemnified parties which are materially different from or additional to those available to the CSD; (iii) the CSD shall not have employed counsel reasonably satisfactory to the indemnified party to represent the indemnified party within a reasonable time after notice of the institution of such action; or (iv) the CSD shall authorize the indemnified party to employ separate counsel at the expense of the CSD. The CSD will not, without the prior written consent of the indemnified parties, settle or compromise or consent to the entry of any judgment with respect to any pending or threatened Claim, action, suit or proceeding in respect of which indemnification or contribution may be sought hereunder (whether or not the indemnified parties are actual or potential parties to such Claim or action) unless such settlement, compromise or consent includes an unconditional release of each indemnified party from all liability arising out of such claim, action, suit or proceeding.

Nothing contained in the foregoing indemnity provisions shall be construed to require the CSD to:

- A. Indemnify, defend and hold harmless the County from claims by its own employees, contractors and consultants that are unrelated to any act or omission by the CSD, its employees, agents, representatives or contractors; or

B. Indemnify, defend and hold harmless the contractors and consultants retained by County pursuant to this MOU.

Section 11. CSD's Assumption of Risk. The CSD acknowledges that the County is entering into this MOU at the request of the CSD, and that the County has never before (1) created an assessment district, nor issued bonds, for a project that is being constructed, owned and operated by a community services district, or (2) created an assessment district for such a project that included properties outside the boundaries of the community services district. The CSD enters into this MOU with full appreciation of the risks associated with such a venture and assumes all risks associated with a unilateral or mutual mistake of law or fact, frustration of purpose, or impossibility of performance. Under no circumstances shall any obligations or duties of the CSD under this MOU be excused, voided or relieved by any unilateral or mutual mistake of law or fact, frustration of purpose, or impossibility of performance. Under no circumstances shall the County be out of pocket for any costs associated with this MOU.

Section 12. Notices. The County covenants and agrees to provide notice to the CSD, at the address shown on Exhibit B hereto, of all hearings and other proceedings related to the formation of the Assessment District, the approval or issuance of the CSD Bonds and the Project which the County may conduct during the term of this MOU. The CSD covenants and agrees to provide notice to the County, at the address shown on Exhibit B hereto, of all hearings and other proceedings related to the formation of the Assessment District, the approval or issuance of the CSD Bonds and the Project which the CSD may conduct during the term of this MOU. Either party may provide a different notice address to the other party, in which case, an amended Exhibit B will be provided to each party.

Section 13. Cooperation of Parties. The parties hereto recognize that it is essential to cooperate fully concerning the handling of data and information contemplated by this MOU. In connection herewith, the parties therefore agree to provide any data, information and documentation reasonably necessary in order to accomplish the goals of this MOU.

Section 14. Opinions and Determination: Good Faith. Where terms of this MOU provide for an action to be based upon opinion, judgment, approval, review or determination of either the CSD or the County hereto such terms are not intended to and shall never be construed to permit such opinion, judgment, approval, review or determination to be arbitrary, capricious or unreasonable. The County and the CSD shall each act in good faith in performing their respective obligations as set forth in this MOU.

Section 15. Term of Agreement; Survival of Obligations. This MOU shall automatically terminate (A) on the day which is 365 days following the Effective Date, (i) if no Assessment District is formed, or (ii) if no CSD Bonds have then been issued; or (B) the day the final CSD Bonds are retired and paid in full. The CSD's obligations under Sections 5 (Costs and Expenses), 9 (Indemnification) and 10 (County's Access to Information) shall survive the termination of this MOU, and shall remain in full force and effect until fully satisfied.

Section 16. No Guarantee of Assessment District Formation. The County and the CSD understand that there is no guarantee that an Assessment District will be formed by virtue of execution and delivery of this MOU or the efforts of either party during the Formation Phase. If a proposed assessment district is not approved by a sufficient number of property owner

ballots as required by applicable law, the County shall be under no obligation to conduct any further Assessment Proceedings under this MOU.

Section 17. Modification. No amendment to or variation of the terms of this MOU, excepting notice addresses, as described in Section 11, shall be valid unless made in writing and signed by the affected parties; no oral understanding or agreement not incorporated herein shall be binding upon any of the parties; and no exceptions, alternatives, substitutes or revisions are valid or binding unless authorized by the parties in writing.

Section 18. Successors and Assigns. The terms, covenants and conditions contained herein shall apply to and bind the heirs, successors, executors, administrators and assigns of the parties hereto.

Section 19. Review for Legal Adequacy. Each party to this MOU acknowledges and agrees that this MOU has been reviewed by legal counsel to such party for legal adequacy.

Section 20. No Waiver. No waiver of the breach of any of the covenants, agreements, restrictions or conditions of this MOU by any party shall be construed to be a waiver of any succeeding breach of the same or other covenants, agreements, restrictions or conditions of this MOU. No delay or omission of any party in exercising any right, power or remedy herein provided in the event of default shall be construed as a waiver thereof, or acquiescence therein, or be construed as a waiver of a variation of any of the terms of this MOU.

Section 21. Severability. If any term or portion of this MOU is held to be invalid, illegal, void or otherwise unenforceable by a court of competent jurisdiction, the remaining provisions of this MOU shall continue in full force and effect.

Section 22. Governing Law. This MOU shall be governed by the provisions of the laws of the State of California applicable to contracts made and performed in such State.

Section 23. Counterparts. This MOU may be executed in counterparts, each of which shall, together, constitute an entire document.

IN WITNESS WHEREOF, the parties have each executed this MOU by their duly authorized representatives as set forth below:

COUNTY OF SAN LUIS OBISPO

By _____
Chairperson, Board of Supervisors

Dated: _____

**APPROVED AS TO FORM:
WARREN R. JENSEN,
COUNTY COUNSEL:**

By _____
Deputy County Counsel

**ATTEST:
JULIE L. RODEWALD, COUNTY CLERK**

By _____
Deputy County Clerk

NIPOMO COMMUNITY SERVICES DISTRICT

By _____
Authorized Representative

Dated: _____

EXHIBIT A

ESTIMATED COSTS AND CASH CONTRIBUTIONS
(as of _____, 2010)

The Formation Phase costs to be paid or reimbursed by the CSD are estimated at \$60,000; upon execution of the MOU, the CSD shall deposit the sum of \$25,000 with the County as a credit towards the total Formation Phase costs.

This schedule will be amended following the successful conclusion of the Formation Phase and the further authorization of the parties.

EXHIBIT B

NOTICE ADDRESSES

If to the County :

The County of San Luis Obispo
c/o Public Works Director
County Government Center Room 207
San Luis Obispo, CA 93408

Copy to: County Counsel, County Government Center Room D320, San Luis Obispo,
CA 93408

If to the CSD:

General Manager
Nipomo Community Services District
148 South Wilson Street
Nipomo, CA 93444-0326

Copy to:

Jon S. Seitz
Shipsey & Seitz, Inc
1066 Palm Street
San Luis Obispo, CA 93401
Phone: (805) 543-7272
Email: Jon@shipseyandseitz.com

TO: BOARD OF DIRECTORS

FROM: DON SPAGNOLO
GENERAL MANAGER



DATE: AUGUST 4, 2010

AGENDA ITEM E-3

AUGUST 11, 2010

EMERGENCY WATER SHORTAGE REGULATION DETERMINATION

ITEM

Consider Emergency Water Shortage Regulation Determination [RECEIVE REPORT AND PROVIDE DIRECTION TO STAFF]

BACKGROUND

The Board recently received a technical report from Brad Newton of SAIC regarding the Spring 2010 Groundwater Index. The report examined the groundwater surface elevations in many monitoring wells across the mesa to compute the groundwater index. The results indicate the spring 2010 groundwater index is 80,000 acre-feet (AF).

A technical memorandum was previously presented to the Board titled the Emergency Water Shortage Regulations and Future Groundwater in Storage prepared by SAIC in January 2008. The memorandum identified groundwater in storage (GWS) amounts that designate Water Shortage Conservation Stages I-IV. The conservation stages were developed on the basis of historical groundwater in storage estimates, the change in the groundwater in storage annually and the magnitude of uncertainty in the estimates of groundwater in storage. The GWS was classified as the groundwater index (GWI) in later reports. The following are the ranges of the designated stages for water storage in the previous draft ordinance:

Stage I Conservation – Water Watch

Water Shortage Condition: $100,000 > GWS \geq 90,000$

Stage II Conservation – Water Warning

Water Shortage Condition: $90,000 > GWS \geq 80,000$

Stage III Conservation – Water Emergency

Water Shortage Condition: $80,000 > GWS \geq 70,000$

Stage IV Conservation – Extreme Water Emergency

Water Shortage Condition: $GWS < 70,000$

The GWS or GWI determination is made in the spring and fall of each year. The following would have been the water conservation goals of the draft ordinance:

Stage I condition would initiate the use of water will be restricted to indoor use and landscape irrigation during certain periods of the day

Stage II condition would initiate a goal of achieving a ten percent (10%) reduction in water consumption is established

Stage III conditions would initiate a goal of achieving a thirty-five percent (35%) reduction in water consumption is established

Stage IV conditions would initiate a goal of achieving a fifty percent (50%) reduction in water consumption is established

The 2010 spring groundwater index of 80,000 AF would have fallen within the Stage II Conservation – Water Watch in which a goal of 10% reduction in water consumption would be established. Present conservation measures are outlined in Code Section 3.24.020, which provides for voluntary conservation that staff understands was adopted by all of the water purveyors that participate in the Nipomo Mesa Management Area technical group.

IMPACT

Implementation of the restricted use of water or water conservation goals may reduce overall revenue depending on the length of time the measures are sustained. The water conservation measures would only have applied to the water customers within the Nipomo Community Services District.

RECOMMENDATION

Staff recommends that the Board receive the report and provide direction to staff if any.

ATTACHMENT

- Exhibit "A" of the Amendment to Chapter 3.24 of the District Code

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NIPOMO COMMUNITY SERVICES DISTRICT
ORDINANCE NO. 2009-113
AN ORDINANCE OF THE NIPOMO COMMUNITY SERVICES DISTRICT
AMENDING CHAPTER 3.24 OF THE DISTRICT CODE

Exhibit "A"

BE IT ORDAINED by the Board of Directors of the Nipomo Community Services District as follows:

Section 1. Amendments to Chapter 3.24 of the District Code

The Nipomo Community Services District Board of Directors hereby adopts and approves the Amendment and Restatement of Sections 3.24.010 and 3.24.020 of Chapter 3.24 of the District Code as follows:

3.24.010 Definitions.

- A. "Applicant" means person who requests water from the District.
- B. "Customer" means person receiving water from the District distribution system.
- C. "District" means Nipomo Community Services District.
- D. "HFC" means hundred cubic feet.
- E. "Potentially Severe Water Shortage Conditions" means the finding of the Nipomo Mesa Management Area Technical Group that a Potentially Severe Water Shortage Condition exists within the Nipomo Mesa Management Area pursuant to Section VI D(1) of the June 2005 Stipulation as incorporated into the January 25, 2008 Final Judgment in the Groundwater Litigation (Santa Maria Valley Water Conservation District vs. The City of Santa Maria, et al. Case No. CV 770214)

3.24.020 Voluntary Restrictions on Non-Essential and/or Wasteful Use of Water.

- A. The waste of District water includes:
 - (1) Use through any meter when the utility has notified the customer in writing to repair a broken or defective lateral, sprinkler, watering or irrigation system and the customer has failed to effect such repairs within five business days;
 - (2) Use of potable water for washing streets with trucks, except to protect the health and safety of the public;
 - (3) Operation of commercial car washes without recycling at least 50% of the potable water used per cycle; and
 - (4) The use of potable water to jet wash sewer lines, except where required for public health or safety; and
 - (5) Individual private washing of cars, trucks, trailers, and commercial vehicles with a hose except with the use of a positive action shut-off nozzle.

NIPOMO COMMUNITY SERVICES DISTRICT
ORDINANCE NO. 2009-113
AN ORDINANCE OF THE NIPOMO COMMUNITY SERVICES DISTRICT
AMENDING CHAPTER 3.24 OF THE DISTRICT CODE

EXHIBIT "A" CONTINUED

- B. In addition to those restrictions referenced in subparagraph A above, during periods of Potentially Severe Water Shortage Conditions, the waste of District water includes:
- (1) Use of potable water to irrigate turf, lawns, gardens, or ornamental landscaping between the hours of 7 a.m. and 7 p.m. without quick acting positive action shut-off nozzle;
 - (2) Use of potable water for decorative fountains or the filling or topping off of decorative lakes or ponds. Exceptions are made for those decorative fountains, lakes, or ponds which utilize recirculated water; and
 - (3) Service of water by any restaurant except upon request of a patron.
- C. The General Manager shall institute a public awareness campaign regarding the waste of District water, including notices to each District water customer within fourteen (days) of the District's approval of Sections 3.24.020 A and B.

Introduced at regular meeting of the Board of Directors held on September 30, 2009, and passed and adopted by the District Board of Directors on the 14th day of October, 2009, by the following roll call vote to wit:

AYES: Directors Winn, Eby, Nelson, Vierheilig and Harrison
NOES: None
ABSENT: None
ABSTAINING: None



JAMES HARRISON,
President of the Board of Directors
Nipomo Community Services District

TO: BOARD OF DIRECTORS

FROM: DON SPAGNOLO
GENERAL MANAGER



DATE: AUGUST 3, 2010

AGENDA ITEM

E-4

AUGUST 11, 2010

APPOINTMENT OF ALTERNATE TO THE WATER RESOURCES ADVISORY COMMITTEE

ITEM

Consider appointing an alternate District representative to the San Luis Obispo County Water Resources Advisory Committee. [APPROVE STAFF RECOMMENDATION]

BACKGROUND

The San Luis Obispo County Flood Control and Water Conservation District Water Resources Advisory Committee (WRAC) advises the County Board of Supervisors concerning all policy decisions relating to water resources of the County's Flood Control and Water Conservation District.

Membership on the committee is open to various agencies and groups throughout the County, including the District. Each agency/group may have a member and an alternate. Agencies nominate candidates to serve on the Committee which are then confirmed by the Board of Supervisors.

Each agency is represented either by all elected officials, all staff members or some combination thereof. Currently the Nipomo Community Services District's (NCSD) member on the WRAC is Director Eby. Director Winn also serves on the Committee as a Board of Supervisors appointment. The NCSD alternate, which is vacant, attends the committee meeting in place of the member when the member is unable to attend. The Board could fill the vacancy with another Director or with a District staff member. In the past the Board has nominated the General Manager as the member and a Director as alternate.

RECOMMENDATION

It is recommended the Board nominate the General Manager as the NCSD alternate to the WRAC and direct staff to forward the nominee to the County Board of Supervisors for confirmation.

ATTACHMENT

- WRAC Bylaws

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**SAN LUIS OBISPO COUNTY FLOOD CONTROL
AND WATER CONSERVATION DISTRICT
WATER RESOURCES ADVISORY COMMITTEE
BYLAWS**

ARTICLE I Purposes of the Committee

1. To advise the County Board of Supervisors concerning all policy decisions relating to the water resources of the San Luis Obispo County Flood Control and Water Conservation District. The Committee shall determine the needs and financial capabilities of the District with respect to water resources and upon deliberation shall convey their recommendations to the Board of Supervisors.
2. To recommend to the Board of Supervisors specific water resource and water conservation programs with recognition of the economic and environmental values of the programs. Further, to recommend to the Board of Supervisors other programs concerning the objectives and purposes of the San Luis Obispo County Flood Control and Water Conservation District Act.
3. To recommend methods of financing water resource programs.

ARTICLE II Members

1. Membership on the Committee shall be available to the following agencies or groups (agencies):
 - a. Each Incorporated City
 - b. Each Supervisorial District
 - c. Each Water Serving Independent Special District
 - d. Each Resource Conservation District
 - e. Atascadero Mutual Water Company
 - f. California Men's Colony
 - g. Camp San Luis Obispo
 - h. Cuesta Community College
 - i. Golden State Water Company
 - j. Rural Water Company
 - k. County Farm Bureau
 - l. Environmental At-Large (3 members)
 - m. Agriculture At-Large (2 members)
2. Each agency or group may have a member and an alternate.
3. Members (and alternates) for agencies shall be nominated by their agency and confirmed by the Board of Supervisors.
4. Members (and alternates) for the Supervisorial Districts shall be nominated by the Supervisor of that district and confirmed by the Board of Supervisors. Such representatives shall reside in, and represent their District at the pleasure of the District's supervisor.

Adopted November 3, 2009

5. The two Agricultural At-Large members (and their alternates) shall be selected by the Board of Supervisors from applicants engaged in production agriculture. Their terms shall be for two years, to be replaced or reaffirmed in February of odd numbered years.
6. The three Environmental At-Large members (and their alternates) shall be selected by the Board of Supervisors from applicants with a record of membership in one or more environmental groups and/or independent environmental activism. Their terms shall be for two years, to be replaced or reaffirmed in February of odd numbered years.
7. Members are encouraged to provide an update on water resource issues relevant to their group or agency at least once per year.
8. Three successive unexcused absences of a member without notifying the Committee, if no alternate is representing the member, shall be cause for the member to be dropped from the Committee and the member's agency shall be notified and nomination of a new representative requested.
9. This Committee shall comply with all applicable laws, including the Ralph M. Brown Act.
10. Members and alternates serve at the pleasure of the Board of Supervisors.

ARTICLE III Meetings

1. Meetings shall be held on the first Wednesday of each month except for July and August. If a majority vote of members present in a regular meeting approve, the July and/or August meeting may be held, and any regular meeting may be postponed if it would fall on a holiday.
2. Meetings shall begin at 1:30 p.m. and shall continue for no more than two hours unless extended time is approved by a majority vote.
3. The Chairperson, or the Vice Chairperson in the Chairperson's absence, may call a Special Meeting after proper notification of the Committee members. Proper notification shall be deemed to have been met if such notification is written and is delivered personally, by mail, by email with a confirmation receipt, or by direct contact by telephone at least 24 hours in advance of the scheduled meeting.
4. Meetings may be canceled by vote of the committee in a meeting. If there are insufficient items to justify a meeting it may be canceled by agreement between the Chairperson and Secretary. Notice of canceled meetings shall be the same as for special meetings.
5. Ten members, or their alternates in their absence, shall constitute a quorum.
6. Any decision or recommendation to the Board of Supervisors shall require a majority vote by Committee members present, or their alternates, for passage.
7. Every member agency shall have one vote. This vote may be cast by the member or the alternate.

Adopted November 3, 2009

8. Meetings shall be open to the public and members of other governmental agencies. Visitors may express opinions or make requests during public comment. The Chairperson may open and close the meeting to public comment.

ARTICLE IV Officers

1. Officers of the Committee shall consist of the Chairperson, Vice-Chairperson and Secretary.
2. The Chairperson and Vice-Chairperson of the Committee shall be selected from the members of the Committee and elected by a majority vote of the members present. The Secretary shall be County Public Works staff assigned annually by the County Public Works Department Director.
3. Election of Officers shall be done annually at the January meeting of the Committee.
4. Vacated elected offices shall be filled by election/appointment by the Committee. The Vice-Chairperson shall assume the Chairpersonship in the event of absence of the Chairperson.

Adopted November 3, 2009