

TO: BOARD OF DIRECTORS
FROM: MICHAEL LEBRUN *MLC*
INTERIM GENERAL MANAGER

**AGENDA ITEM
E-1
JANUARY 26, 2011**

DATE: JANUARY 21, 2011

REVIEW WATERLINE INTERTIE PROJECT – CONSIDER THE FOLLOWING: (A) DELIVERY VOLUME FOR PROPOSED ASSESSMENT; AND (B) NEXT STEPS AND SCHEDULE

ITEM

Review Waterline Intertie Project (WIP) Delivery Volume for Proposed Assessment and Schedule [CONSIDER INFORMATION PRESENTED AND ESTABLISH DELIVERY VOLUME FOR PROPOSED ASSESSMENT AND PROVIDE INSTRUCTION TO STAFF]

BACKGROUND

The District has been pursuing a Waterline Intertie Project with the City of Santa Maria for a number of years. The Project is intended to diversify the Districts supply portfolio and thereby increase supply dependability through the foreseeable yet uncertain future and consistent with the project objectives listed in the Project EIR. The Project design phase is nearing completion and Project funding efforts via an Assessment District and rate charges are now being evaluated in detail. Education and Outreach efforts will be coordinated with the Assessment proceedings in order to inform the affected property owners about the Project and proposed charges.

The outreach program has been delayed to allow staff to revisit project costs and the apportionment of those costs between assessment and rates.

Today, staff is presenting a revised project schedule, revised project costs (construction and soft costs), and a proposal for reducing the amount of supplemental water included in the proposed assessment.

SCHEDULE

Up until recently, the Project schedule was dictated by design elements. In the coming months the assessment schedule and coordinated outreach efforts will lead project timing. A schedule showing the integration of assessment proceedings and outreach efforts is attached. The next step in this process is to provide the outreach consultant final assessment numbers with which to base survey questions on and then commence survey (Step 29, Phase I – Data Collection). The results of this initial survey are scheduled to be presented to your Board on March 23, 2011. Following the survey, the Assessment Engineer's Report and letters to property owners will be revised as necessary. The final Draft Engineer's Report and property owner letters are scheduled to be brought before your Board on April 25 and the County Board of Supervisors on May 3.

Following approval by both agencies, letters describing the assessment and providing property owners and estimate for assessment will be circulated and a 30-day public review period will commence. After the public review, the Assessment Engineer's report will be finalized and the assessment ballots will be prepared. Ballots are tentatively scheduled to be mailed on August

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29, 2011 and the assessment hearing is tentatively scheduled to be closed by the County Board of Supervisors on October 18, 2011.

The most challenging aspect of staying on schedule will be the coordination of outreach efforts and assessment proceedings. Staff has scheduled a conference call with the Assessment Engineer and Outreach team for January 27 during which the schedule will be reviewed and discussed in detail to identify 'tight spots' and key milestones. It is envisioned that the District General Manager, and to a lesser degree representatives from the other purveyors, will lead the outreach effort.

PROJECT COSTS

The cost of building the intertie pipeline has remained relatively stable at near \$23.6 Million, as design has progressed during the past year. In an effort to provide the Assessment Engineer a final cost estimate for inclusion in the Assessment Report, and with an understanding that this value would set the ceiling for property assessments, staff reviewed project soft costs and increased budget estimates where justified. A table highlighting these changes and the basis for them is attached. Staff will review this table during the Board Meeting. The current estimated grand total for the project is **\$25.3 Million** dollars. This project total is the basis for the Assessment values presented today.

Staff feels the current cost estimate is conservatively high, yet reasonable. The estimate represents a balance between insuring the assessment generates enough revenue to complete the project while at the same time keeping the cost to property owners as reasonable as possible.

ASSESSMENT BASIS

Monies raised via the assessment process must be used for capital infrastructure and related expenses. The District intends to fund the Waterline Intertie Project cost outlined above and a *portion* of the capital cost of the water charge from City of Santa Maria, through assessment of property owners who will receive a special benefit from the Project. Up to this point, the District used 3000 acre-feet of water per year (AFY) at \$1,270 acre/foot with a 69% capital factor for Santa Maria water costs as the basis for assessment calculation. This resulted in a charge of approximately **\$35 Million** in water-charge related capital costs over the 30-year bond period and in effect 'drove' the assessment costs.

Staff investigated scenarios where the *capital portion* of water costs from Santa Maria were split between rate charges and assessment. Staff believes the bi-monthly water rates and charges could not be further increased without negatively impacting water sales (due to excessive rates) and thus impact the entire rate-revenue model. District bi monthly water rates and charges are currently envisioned to require a 7% increase per year to cover existing operating revenue deficiencies and 5.5% per year to cover costs associate with the non-capital portion of Santa Maria Water cost. This results in an estimated 12.5% rate increase yearly over the 5-year rate study period. This is an estimate of the average rate increase across the customer base. The District intends to convert from a two-tier to four-tier rate structure when these rate changes are adopted. The rate increase experienced by customers whose water demands put them in the higher tiers of the new structure will be significantly greater than this estimated average.

Staff revisited the purchase Agreement with the City of Santa Maria to explore other options. This Agreement puts forth a minimum delivery schedule of 2,000 AFY for the first ten years of the agreement, 2,500 AFY for the second ten years and 3,000 AFY for next ten years. The Agreement also defines the cost of water based on Tier I of the City's rate (variable) and a

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delivery cost factor which is set on a consumer price index (variable) value that tracks the cost of energy in the southern part of the state. Staff verified with the City of Santa Maria that their rates are currently on a 5% per year increase schedule that continues through July 2012. City water rates are subject to escalation throughout the Agreement period. Staff has not yet been able to verify any changes in the CPI value. The current cost of Santa Maria water, without consideration for changes in the CPI during the past two-years (relatively stable energy costs) is \$1,324/AF. This value resulted in an increase of approximately \$15 per year in the assessment and is used in the updated assessment values summarized below.

The delivery of supplemental water to the District and Mesa is also governed by the June 30, 2005 Stipulation filed with the court overseeing Santa Maria Groundwater Basin adjudication. The stipulation envisions a flow rate of 2,500 AFY and apportions that flow between the four purveyors.

Staff is recommending a 2000 AFY delivery schedule be used as a basis for assessment, with the purveyor partners (Golden State Water Company, Rural Water Company, Woodlands Mutual Water Company) taking their full apportionment relative to 2,500 AFY throughout the assessment period (30-years) and the District taking the balance. This change lowers the cost per benefit unit to District property owners by nearly \$130/year and does not impact the cost per benefit unit to purveyor partners. In year ten of water delivery and again in year twenty, the District will be required by Agreement with Santa Maria to increase water delivery by 500 AFY. Since the timing of these increases will be known (based on date of first delivery of Santa Maria water via the intertie) the District will have ample time to plan for the increased costs associated with the increase delivery. Since the purveyor partners will already be receiving full allotments, the District will be on its own to consider funding models (Assessment, rates, development fees) for the water. The NMMA-TG is empowered to seek a court order to require the District to import more water. If the Technical Group makes such demands it is assumed that water severity triggers (Groundwater Index) and other physical evidence (seawater intrusion) are present and the import of additional water would be discussed in this context with District customers and property owners.

Estimated assessment cost per Benefit Unit (NCSD only)

Developed Property	\$213 – 267	(previously \$345 – 410)
Undeveloped Property	\$358 – 412	(previously \$429 – 496)

FISCAL IMPACT

Budgeted staff time was used to prepare this report. The Santa Maria Waterline Intertie Project is, by far, the largest capital improvement project ever undertaken by the District.

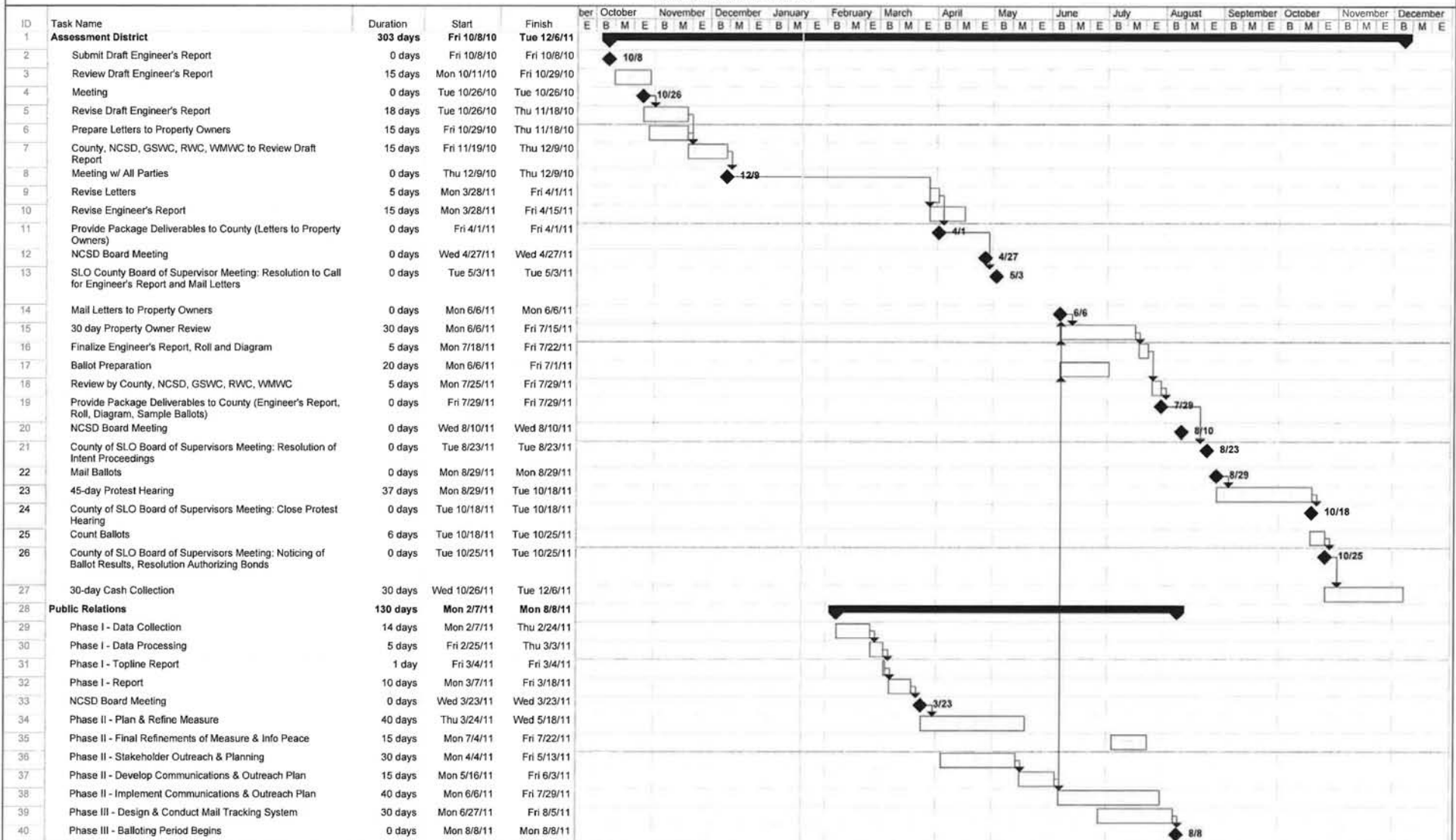
RECOMMENDATION

Staff recommends that the Board consider the information presented and provide staff policy direction to use 2000 AFY as the delivery basis for Assessment proceedings.

ATTACHMENTS

WIP Assessment and Outreach Timeline
WIP Cost Summary

San Luis Obispo County
Nipomo Mesa Water Interlie Project
Assessment District No. 1 Schedule



		Notes	UPDATED NCSD COSTS	NCSD NOTES
Construction				
Construction	\$15,876,900.00	Need to update from AECOM 90% Opinion of Probable Cost	\$18,258,400	\$15,876,900 plus 15% contingency based on 90% Complete Design Cost Opinion
Construction Contingency (15%)	\$2,381,535.00			
Construction Subtotal	\$18,258,435.00			
Additional Expenses				
Right of Way/Property Acquisition	\$357,144.00	Does this include expenses to date (\$34,170, \$40,529, \$3,445)	\$357,144	Property allowance plus expenses to date
Preliminary Engineering	\$601,355.00		\$601,355	No Change
Testing/Potholing/Peer Review	\$69,095.00		\$69,095	No Change
Permits	\$80,000.00	Need additional County permitting fees and any other fees known	\$80,000	\$75,000 allowance (SLO County encroachment, CDFG, etc.) plus expenses to date
Design Engineering	\$1,260,180.00		\$1,260,180	Anticipated Design Revision #10 \$68,580 plus current contract
Office Engineering During Construction	\$521,814.00		\$521,814	Anticipated Additional construction support (\$270,043) and Ops Plan (\$75,931) plus current contract
Construction Management/Inspection	\$2,299,460.00	Includes Environ. Monitoring (Need costs for Archeological Monitor	\$2,299,460	Current contract (\$53,700) plus estimated construction CM (\$2,245,760)
EIR Preparation	\$275,000.00	Need costs for additional EIR work	\$275,000	\$20,000 allowance for EIR Addendum plus expenses to date
Attorney Fees	\$123,662.00	Do we need to add more for anticipated attorney fees throughout A	\$123,662	\$40,000 allowance for attorney fees plus expenses to date
Financial Advisor	\$17,000.00		\$17,000	No Change
Public Outreach	\$120,000.00	Need costs for mailings, postage, etc	\$120,000	\$40,000 allowance for mailings, postage, etc. plus contract amount
District Administration Expenses	\$371,982.00	Do we need to add more for anticipated District expenses	\$371,982	\$120,000 allowance for additional capitalized District Costs plus expenses to date
County of San Luis Obispo	\$100,000.00	Do we need to add more for additional anticipated County expense	\$100,000	\$40,000 allowance for additional County costs plus expenses to date
Assessment Engineering	\$180,000.00			
Sub Total	\$6,376,692.00		\$24,455,092	
Contingency (10%)	\$637,669.20		\$619,669	10% Contingency excluding estimated construction costs
Additional Expenses Subtotal	\$7,014,361.20		\$25,074,761	
Construction Subtotal	\$18,258,435.00			
Additional Expenses Subtotal	\$7,014,361.20			
Grand Project Total	\$25,272,796.20			

SM Capital Costs of Water	
Cost per AF	\$1,324
Minimum Water Delivery (AF)	2,000
Total Annual Water Allocation Costs	\$2,648,000
Estimated Capital Expenses of Annual Costs	69%
Capital Expenses for Minimum Delivery	\$1,827,120
Capital Cost per AF of Delivered Water	\$913.56