TO: BOARD OF DIRECTORS

FROM: MICHAEL S. LEBRUN MSL
GENERAL MANAGER

DATE: JULY 7, 2011

AGENDA ITEM
E-5
JULY 13, 2011

DRAFT WATER FUND WATER RATE STUDY AND RATE ADOPTION SCHEDULE

ITEM

DRAFT WATER FUND RATE STUDY AND RATE ADOPTION SCHEDULE [RECOMMEND BY MOTION AND ROLL CALL VOTE, APPROVE RATE STUDY AND INITIATE PROP 218 PROCEEDINGS]

BACKGROUND

The District's last water rate increase became effective on January 1, 2009 and was based on a rate study adopted in May 2005. Over the past several years, the Board of Directors has reviewed two draft Water Rate Studies prepared by Tuckfield and Associates, but no action was taken to implement new water rates. Below is a summary:

2009 Draft Report
On September 9, 2009, the Board of Directors reviewed the draft report, but no action was taken. The Draft Water Rate Study included three key assumptions:

- Funded Replacement would be funded at 100%,
- Supplemental Water project operations and maintenance and commodity costs, based on 3,000 acre-feet per year purchase of Supplemental water, would be included in future revenue requirements, and
- Supplemental capital costs, including the capital costs portion of Santa Maria water charges would be financed through an Assessment District.

The Draft Water Rate Study proposed a 19.5% water rate increase each year for five years.

2010 Draft Report
On September 22, 2010, the Board of Directors reviewed the Draft Report, approved the rate structure, including a four-tier rate structure for residential customers, and directed Staff to initiate the Prop 218 notice procedures. The Draft Water Rate Study included three key assumptions:

- Funded Replacement would be funded at 50%,
- Supplemental Water project operations and maintenance and commodity costs, based on 1,168 acre-feet per year purchase of Supplemental water, would be included in future revenue requirements, and
- Supplemental capital costs, including the capital costs portion of Santa Maria water charges would be financed through an Assessment District.

The Draft Water Rate Study proposed a 13% water rate increase each year for five years. On October 27, 2010, the Board of Directors voted to withhold publication of the Prop 218 notices because it would conflict with the proposed Supplemental Water Project assessment district schedule.

2011 Draft Report
Due to delays in the assessment district proceedings and a projected deficit in the Water Fund, on April 27, 2011, the Board of Directors directed Staff to request Tuckfield and Associates update the 2010 Draft Water Rate Study by removing the Supplemental Water Project. This would provide for the necessary rate increase to cover on-going operations and maintenance costs and stop the depletion of cash reserves that has occurred over the past several years. The Draft Water Rate Study proposes a 9.5% rate increase each year for five years becoming effective November 1, 2011. The Study proposes a fixed availability charge for each account type, a four-tier consumption rate structure for residential accounts and a two-tier consumption rate structure for commercial accounts, and a single-tier consumption rate structure for agricultural accounts.

The schedule to rate adoption is as follows:

July 13, 2011	Board approves Draft Water Rate Study and directs Staff to initiate Prop 218 notices
July 29, 2011	Mail Prop 218 notices (45 days notice period begins)
September 12, 2011	45 days expire
September 28, 2011	Public Hearing and rate adoption

STRATEGIC PLAN 2011 UPDATE (EXCERPT)

6.0 Finances
Objective: Recognizing that finances are critical to the ability of the District to effectively carry out the Mission the District must ensure the short-term and long-term fiscal health of the District. Strategy: The District will forecast and plan income and expenditures and provide financial resources to fund current and planned obligations.

6.1 Operate all enterprise funds to be financially sound.
The District is committed to operating all enterprise funds to be balanced and financially sound with reserves that cover both unforeseen emergencies and projected cash flow variations. In order to accomplish this, the rates and charges must reflect the cost of providing the services including the cost of replacing and/or rehabilitating aging facilities. Rates and charges will be reviewed at least every three years by a professional rate consultant.

FISCAL IMPACT

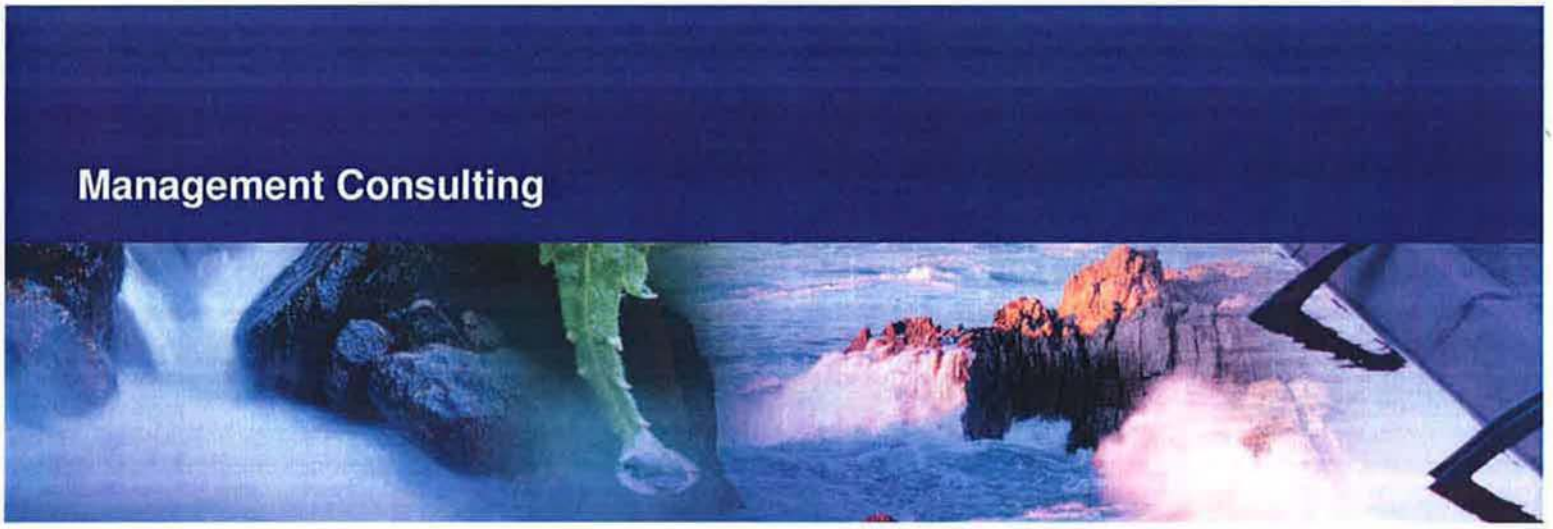
The last water rate increase went into over 2 ½ years ago (effective January 1, 2009). The adopted Fiscal Year 2011-12 Budget for the Water Fund #125 has a projected deficit. Cash reserves will cover the projected deficit until a rate increase is adopted.

RECOMMENDATION

Staff recommends your Board, by motion and roll call vote, accept the draft Report and approve the Proposition 218 Notice and direct Staff to initiate Prop 218 proceedings.

ATTACHMENTS

- Draft Report on Water Rate Study, dated May 2011
- Draft Proposition 218 notice



Report on

Water Rate Study

for

Nipomo Community Services District

July 2011

DRAFT

FINANCIAL CONSULTING
TUCKFIELD & ASSOCIATES
MANAGEMENT CONSULTING

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EXECUTIVE SUMMARY

This report has been prepared for the Nipomo Community Services District (District) by Tuckfield & Associates to document the findings and results of the District's 2010-11 Water Rate Study. The objectives of the study include the following.

- Analyze the Water Fund's historical revenue and revenue requirements, and project future revenue and revenue requirements recognizing the existing water service rates and future water system operations.

- Develop a reliable 5-year financial plan for the Water Fund that identifies adjustments to revenue to meet future Water Fund obligations.

- Create a schedule of water service rates that is fair and equitable, that provides predictable sources of revenue as described in the financial plan, and that meets Proposition 218 requirements for water service rates.

This study does not include operating and capital costs associated with the Supplemental Water Project for delivery of supplemental water from the City of Santa Maria. While efforts related to this project are on-going, the District has decided to move forward with this study to address current operating conditions, recognizing that this study will need to be updated when the costs, timing, and financing methods of the Supplemental Water Project have been further defined.

Water System Summary of Findings

- Capital improvements planned for the water system consist of the Desalination study and project, Misty Glen to Hetrick and Hetrick to Sandydale waterlines (Willow Phase I and II), a new water storage tank, and other projects. The improvements are estimated to cost over $7,642,000 including inflation and will be financed entirely from District reserves and do not impact water rates.

- Analysis of the Water Fund's revenue and revenue requirements indicated that the fund will be deficient in meeting its future obligations. This is due to an existing operating deficiency and future inflation in operation and maintenance (O&M) expenses. Revenue from water service rates are proposed to increase by 9.5 percent on each November 1 of 2011 through 2015.

- Table ES-1 presents the proposed water fixed charges for implementation by the District. The fixed charges related to water system revenues are established by meter size and increase

annually with the proposed revenue increases. Fixed charges related to litigation expenses remain constant by meter size over the study period.

Table ES-1
Nipomo Community Services District
Water Utililty
Proposed Bi-monthly Water Fixed Charges

Meter Size/ Litigation Charge	Nov 1, 2011-12	Nov 1, 2012-13	Nov 1, 2013-14	Nov 1, 2014-15	Nov 1, 2015-16
1 inch and less	$26.85	$29.40	$32.19	$35.25	$38.60
Litigation Charge	$6.32	$6.32	$6.32	$6.32	$6.32
1 1/2 inch	$76.22	$83.46	$91.39	$100.07	$109.58
Litigation Charge	$14.36	$14.36	$14.36	$14.36	$14.36
2 inch	$120.72	$132.19	$144.75	$158.50	$173.56
Litigation Charge	$19.92	$19.92	$19.92	$19.92	$19.92
3 inch	$224.64	$245.98	$269.35	$294.94	$322.96
Litigation Charge	$27.92	$27.92	$27.92	$27.92	$27.92
4 inch	$373.04	$408.48	$447.29	$489.78	$536.31
Litigation Charge	$36.00	$36.00	$36.00	$36.00	$36.00
6 inch	$743.75	$814.41	$891.78	$976.50	$1,069.27
Litigation Charge	$59.58	$59.58	$59.58	$59.58	$59.58
8 inch	$1,188.76	$1,301.69	$1,425.35	$1,560.76	$1,709.03
Litigation Charge	$68.08	$68.08	$68.08	$68.08	$68.08

- Table ES-2 presents the proposed residential volume rates, designed in this study as a four-block rate structure. The rate structure applies to single-family and multi-family customers. The rate structure for multi-family customers has been designed to be applicable to each dwelling unit. For multi-family customers that have one meter serving multiple dwelling units, it is necessary to multiply the number of dwelling units on the meter by the block rate break points, then applying the usage through the blocks to appropriately apply the rate structure.

- Table 8 in the report presents the proposed non-residential volume rates, designed as a two-block rate structure for Commercial and Irrigation Customers. The rate structure applies to individual meter size, recognizing average consumption of each meter size as the first block break point. All other non-residential customers are charged a uniform rate.

- Table ES-3 presents example bi-monthly water bills at various levels of consumption for a single-family residential 1 inch meter and smaller. The table indicates that for the November 1, 2011 rate increase, the bi-monthly water bill for the average single-family customer consuming 40 Ccf bi-monthly will increase from $90.12 to $99.01 (exclusive of Litigation Charges), a $8.89 increase, or 9.9 percent.

Table ES-2
Nipomo Community Services District
Water Utility
Proposed Residential Water Consumption Rates [1]

Customer Classification	Rate Block	Nov 1, 2011-12	Nov 1, 2012-13	Nov 1, 2013-14	Nov 1, 2014-15	Nov 1, 2015-16
Single-family						
Proposed 4 Block Structure						
	0 to 24 Ccf	$1.64	$1.80	$1.97	$2.16	$2.37
	25 to 40 Ccf	$2.05	$2.25	$2.46	$2.69	$2.95
	41 to 100 Ccf	$2.88	$3.15	$3.45	$3.78	$4.14
	Over 100 Ccf	$4.93	$5.40	$5.91	$6.47	$7.08
Multi-family						
Proposed 4 Block Structure (per dwelling unit)						
	0 to 8 Ccf	$1.64	$1.80	$1.97	$2.16	$2.37
	9 to 12 Ccf	$2.05	$2.25	$2.46	$2.69	$2.95
	13 to 25 Ccf	$2.88	$3.15	$3.45	$3.78	$4.14
	Over 25 Ccf	$4.93	$5.40	$5.91	$6.47	$7.08

[1] Does not include fixed charges.

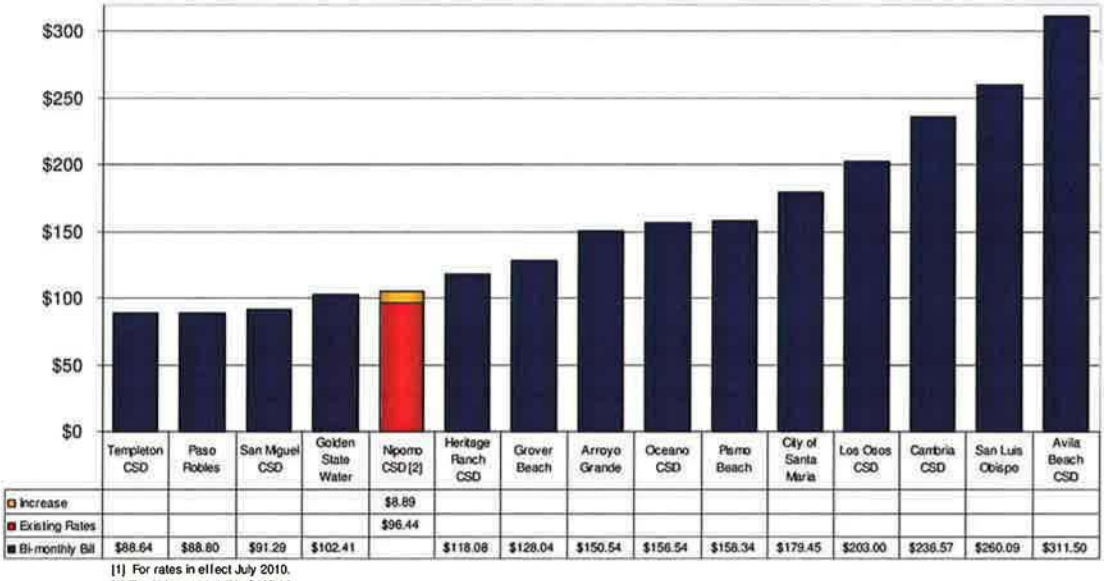
Table ES-3
Nipomo Community Services District
Water Utility
Example Single-family Residential Bi-monthly Water Bills [1]
For Rates in Effect Nov 1, 2011

Customer Classification	Consumption Ccf	Existing Rates	Proposed 4 Block Rates	Difference	Percent Difference
Single-family	0	$24.52	$26.85	$2.33	9.5%
1" meter	5	$32.72	$35.05	$2.33	7.1%
and smaller	10	$40.92	$43.25	$2.33	5.7%
	20	$57.32	$59.65	$2.33	4.1%
	30	$73.72	$78.51	$4.79	6.5%
	40	$90.12	$99.01	$8.89	9.9%
	50	$118.12	$127.81	$9.69	8.2%
	60	$146.12	$156.61	$10.49	7.2%
	70	$174.12	$185.41	$11.29	6.5%
	80	$202.12	$214.21	$12.09	6.0%
	90	$230.12	$243.01	$12.89	5.6%
	100	$258.12	$271.81	$13.69	5.3%
	110	$286.12	$321.11	$34.99	12.2%
	120	$314.12	$370.41	$56.29	17.9%
	130	$342.12	$419.71	$77.59	22.7%
	140	$370.12	$469.01	$98.89	26.7%
	150	$398.12	$518.31	$120.19	30.2%
	200	$538.12	$764.81	$226.69	42.1%

[1] Includes both fixed and consumption (variable) charges.

- Chart ES-1 has been prepared showing bi-monthly bills of water purveyors in San Luis Obispo County and other local communities. The comparison was prepared by applying the District's average single-family residential water consumption of 40 Ccf to each of the purveyor's single-family water rates for rates in effect July 1, 2010. The chart indicates that the District's water bill, including the November 1, 2011 increase and the Litigation Charge, is in the lower half of the communities shown.

Chart ES-1
Selected Local Water Agencies
Comparison of Single-family Residential Bi-monthly Water Bills [1]
at 40 Ccf Bi-monthly



	Templeton CSD	Paso Robles	San Miguel CSD	Golden State Water	Nipomo CSD [2]	Heritage Ranch CSD	Grover Beach	Arroyo Grande	Oceano CSD	Pismo Beach	City of Santa Maria	Los Osos CSD	Cambria CSD	San Luis Obispo	Avila Beach CSD
Increase					$8.89										
Existing Rates					$96.44										
Bi-monthly Bill	$88.64	$88.80	$91.29	$102.41		$118.08	$128.04	$150.54	$156.54	$158.34	$179.45	$203.00	$236.57	$260.09	$311.50

[1] For rates in effect July 2010.
[2] Total bi-monthly bill is $105.33.

1.0 INTRODUCTION

This report has been prepared for the Nipomo Community Services District (District) by Tuckfield & Associates and presents the findings and results of the 2010-11 Water Rate Study. The report includes development of a pro forma statement of revenues and expenses of the District's water enterprise fund and proposes adjustments to water rates for users of the system.

1.1 BACKGROUND

The Nipomo Community Services District was formed in 1965 and covers an area of approximately 4,650 acres. The District is located in the central coastal region of the state of California in San Luis Obispo County, north of Los Angeles by approximately 175 miles. The District has a population of over 12,100 and provides water service inside the District limits. Water service is accounted for in an enterprise fund of the District and relies upon user charges to meet all financial obligations.

The District obtains it water supply from eight active wells with an additional five wells on standby or out of service. The eight wells have a capacity of 3,920 gpm and extract water primarily from the Nipomo Mesa Management Area (NMMA) of the Santa Maria Groundwater Basin encompassing nearly 27.5 square miles. In additional to the groundwater wells, the water system includes six above ground storage reservoirs (tanks) and approximately 85 miles of distribution mains. The tanks have a storage capacity of 4.4 million gallons while the distribution system consists of piping ranging in size from 6 inch to 16 inches, valves, fire hydrants, and over 4,000 service connections.

1.2 SCOPE OF WORK

This study includes the results of the review and analysis of the District's Water Fund. Historical trends were analyzed from data provided by the District showing the number of customers, water consumption, revenue, and revenue requirements. Annual growth projections are reflected in the revenue projections by customer classification.

Revenue requirements include operation and maintenance expense, routine capital outlays, replacement, existing and proposed debt requirements, transfers, and additions to reserves. Changing conditions such as additional facilities, recognition of growth, and non-recurring maintenance expenditures are also recognized. Inflation for ongoing operation and maintenance expenses and other revenue requirements are included to reflect cost escalation.

From the Memorandum of Understanding (MOU) between the City of Santa Maria and the District, supplemental water is to be purchased from the City of Santa Maria and transmitted to the NMMA by the District. Under the MOU, the District is to receive an initial delivery of 2,000 ac-ft annually, thereby reducing groundwater pumping by the District. **However, the operating and capital costs associated with the Supplemental Water Project for delivery of supplemental water from the City of Santa Maria are not included in this study.** The timing of the project, its associated costs, and the amounts related to an assessment on parcels remain uncertain at

this time. It is anticipated that this study will need to be updated at a future date once the costs, timing, and financing methods of the Supplemental Water Project have been further defined.

Additionally, it should be noted that the financial plan and rates developed herein are based on the funding of the capital improvement plan as presented as well as estimates of operation and maintenance expenses. Any significant deviation from the construction cost estimates and funding requirements, major operating changes, or other financial policy changes that were not foreseen, may result in the need for lower or higher revenue than anticipated. It is suggested that the District conduct an update to the rate study at least every three years for prudent rate planning.

2.0 WATER UTILITY FINANCIAL PLANNING

Financial planning includes identifying and projecting revenues and revenue requirements for the Water Fund for a five-year planning period. A pro forma financial plan is prepared that compares revenue from projected water sales and other sources, with the projected revenue requirements of the fund. From this comparison, the pro forma statement is analyzed to determine the impacts from capital improvement financing decisions, from future estimates of operation and maintenance expense, and from any new obligation of the fund. The pro forma financial plan is then used to develop water service rates to meet the projected revenue requirements in such a manner that they may be phased-in to avoid rate spikes in any one particular year.

The remainder of this section discusses the capital improvement expenditures, the financing of those expenditures, and the revenue and revenue requirements identified for the Water Fund.

2.1 CAPITAL IMPROVEMENT PROGRAM

The District has developed a capital improvement program (CIP) for the water utility, presented in Table 1. The largest improvements include the Desalination study and project, a new water storage tank, and Misty Glen to Hetrick and Hetrick to Sandydale waterlines (Willow Phase I and II). Other improvement projects are also shown in the table. The cost of the improvements total over $7,642,000, shown on line 17 of Table 1, and includes inflation.

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

Line No.	Project Description	Fiscal Year Ending June 30 2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	Total
1	Desalination	$0	$0	$0	$300,000	$500,000	$500,000	$1,300,000
2	Water Storage Tank	20,000	400,000	1,200,000	400,000	0	0	2,020,000
3	Misty Glen to Hetrick (Willow Phase 1)	150,000	300,000	0	0	0	0	450,000
4	Hetrick to Sandydale (Willow Phase 2)	315,000	200,000	0	0	0	0	515,000
5	SCADA Upgrades - Water Fund Share	30,000	140,000	20,000	20,000	20,000	20,000	250,000
6	Urban Water Management Plan Update	52,500	0	0	0	0	0	52,500
7	Shop Equipment Storage Building	108,000	16,500	0	0	0	0	124,500
8	Standpipe Mixing	0	200,000	0	0	0	0	200,000
9	Fire Hydrants	0	72,600	72,600	72,600	72,600	72,600	363,000
10	Valves	0	184,000	184,000	184,000	184,000	184,000	920,000
11	Air/Vac's	0	16,500	16,500	16,500	16,500	16,500	82,500
12	Well Refurbishment	100,000	100,000	100,000	100,000	100,000	100,000	600,000
13	Cathodic Protection	0	0	0	0	0	0	0
14	Well Buildings	14,000	0	0	0	0	0	14,000
15	Tank Coating and Repairs	162,000	0	0	0	0	0	162,000
16	Total Capital Improvements (Uninflated)	$951,500	$1,629,600	$1,593,100	$1,093,100	$893,100	$893,100	$7,053,500
17	Total Capital Improvements (Inflated) [1]	$951,500	$1,686,600	$1,706,600	$1,212,000	$1,024,900	$1,060,700	$7,642,300

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

2.2 CAPITAL IMPROVEMENT PROGRAM FINANCING PLAN

Table 2 shows the sources of funds used to finance the improvements listed in Table 1. The sources of funding used to complete the CIP improvements generally follow the District's adopted FY 2010-11 Budget.

The Desalination study and project will be financed from reserves from the Supplemental Water Fund. Reserves from the Water Capacity Fund are planned to pay for the water storage tank, waterlines, SCADA upgrades, Urban Water Management Plan, equipment storage building, and standpipe mixing. Reserves from the Water Replacement Fund are available for the remaining replacement improvements.

Table 2
Nipomo Community Services District
Water Utililty
Water Capital Improvement Financing

Line No.	Description	Fiscal Year Ending June 30 2010-11	2011-12	2012-13	2013-14	2014-15	2015-16
	Source of Funds						
1	Funds on Hand at Beginning of Year	$0	$0	$0	$0	$0	$0
2	Supplemental Water Fund	0	0	0	332,600	573,800	593,800
3	Water Capacity Fund	675,500	1,300,500	1,306,900	465,700	23,000	23,800
4	Water Replacement Fund	276,000	386,100	399,700	413,700	428,100	443,100
5	Total Sources of Funds	951,500	1,686,600	1,706,600	1,212,000	1,024,900	1,060,700
	Use of Funds						
6	Major Capital Improvements [1]	951,500	1,686,600	1,706,600	1,212,000	1,024,900	1,060,700
7	Total Use of Funds	951,500	1,686,600	1,706,600	1,212,000	1,024,900	1,060,700
8	Funds on Hand at End of Year	$0	$0	$0	$0	$0	$0

[1] From Table 1.

2.3 REVENUES

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 existing January 1, 2009 water rates to projections of customer growth and water sales volume.

2.3.1 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 for this study that there will be no customer growth throughout the study period and that current customers will be remain connected to the system.

2.3.2 Water Sales Volume

Discussions with the District indicated that the San Luis Obispo Local Agency Formation Commission (LAFCO) required that prior to any annexation, a water conservation program should be implemented by the District 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 for this study 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.

2.3.3 Water Sales Revenue

Revenue from water sales was determined through application of the January 1, 2009 water rates to projections of customer growth and water sales volume discussed above. Future water sales revenue using the existing water rates is projected to decline with the reduction in water consumption.

2.3.4 Miscellaneous Revenue

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.

2.4 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 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.

2.4.1 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.

Table 3

Nipomo Community Services District

Water Utililty

Historical and Projected Operation and Maintenance Expense and Minor Capital

		Fiscal Year Ending June 30										
		Historical (Actual)					Budget	Projected				
Line No.	Description	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16
	Operation and Maintenance Expense [1]											
	Operations and Maintenance											
1	Salaries	$204,368	$227,082	$211,455	$254,549	$282,000	$337,030	$337,500	$340,800	$347,200	$356,800	$366,500
2	Benefits	103,181	105,110	94,736	129,249	158,000	183,700	194,800	206,300	218,900	231,900	245,900
3	Electricty - Pumping	264,294	361,242	252,680	322,899	500,000	450,000	464,100	478,700	493,800	509,300	525,300
4	Natural Gas - Pumping	65,252	82,140	52,393	36,150	11,565	0	0	0	0	0	0
5	Chemicals	2,908	5,068	2,375	4,868	7,000	9,000	9,200	9,400	9,600	9,800	10,000
6	Repairs and Maintenance	103,791	175,330	124,512	178,995	150,000	200,000	206,000	212,200	218,600	225,200	232,000
7	Meters - New Installations	7,549	3,739	13,599	0	0	5,000	0	0	0	0	0
8	Meters - Replacement Program	5,302	22,620	14,550	15,026	45,000	48,000	49,400	50,900	52,400	54,000	55,600
9	Other	154,723	188,883	251,987	209,045	244,100	428,130	434,300	447,400	460,700	474,400	488,500
10	**Subtotal**	911,368	1,171,214	1,018,287	1,150,781	1,397,665	1,660,860	1,695,300	1,745,700	1,801,200	1,861,400	1,923,800
	General and Administrative											
11	Salaries	96,373	100,217	137,335	159,300	221,000	245,520	245,500	247,900	252,800	260,200	267,900
12	Benefits	46,105	44,655	64,119	154,010	169,100	180,320	191,200	202,600	214,800	227,600	158,600
13	Operating Transfer Out - Admin	129,371	142,769	177,410	226,072	320,390	297,581	306,500	315,700	325,200	335,000	345,100
14	Other	393,268	491,301	526,573	450,852	426,094	537,120	553,400	569,900	587,200	604,900	705,600
15	**Subtotal**	665,117	778,942	905,437	990,234	1,136,584	1,260,541	1,296,600	1,336,100	1,380,000	1,427,700	1,477,200
16	Total Operation and Maintenance Expense	$1,576,485	$1,950,156	$1,923,724	$2,141,015	$2,534,249	$2,921,401	$2,991,900	$3,081,800	$3,181,200	$3,289,100	$3,401,000
	Minor Capital [1]											
17	Fixed Asset Purchases	16,497	0	43,773	51,000	204,044	75,900	65,000	67,000	69,000	71,100	73,200
18	Total Minor Capital	$16,497	$0	$43,773	$51,000	$204,044	$75,900	$65,000	$67,000	$69,000	$71,100	$73,200
19	Total O&M and Minor Capital	$1,592,982	$1,950,156	$1,967,497	$2,192,015	$2,738,293	$2,997,301	$3,056,900	$3,148,800	$3,250,200	$3,360,200	$3,474,200

[1] Expenses are inflated as follows: Salaries - 0% in FY 2011-12, 1% in FY 2012-13, 2% annually thereafter; Benefits - 6% annually; Unit Electricity Cost- 4% annually; Unit Chemical Cost - 3% annually;

As presented in Table 3, salary costs are not projected to increase in FY 2011-12, however are projected to increase by 1 percent in FY 2012-13 and increase by 2 percent annually thereafter. Benefit costs are projected to increase by 6 percent annually. Unit power costs ($ per Ccf) are inflated by 4 percent annually and unit chemical costs ($ per Ccf) are inflated at the rate of 3 percent annually, with total expenses of each also increasing/decreasing in proportion to production volume. All other costs are projected to increase at 3 percent annually.

2.4.2 Debt Service

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

2.4.3 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 2011-12, increasing at 3 percent annually through the study period.

2.4.4 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 Model 2: Service Life Savings Replacement program is the District's preference.

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 for the Model 2: Service Life Savings Replacement program identified in the Replacement Study.

2.5 WATER FUND ANALYSIS

Table 4 presents a pro forma flow of funds statement for the Water Fund. Revenue from the sources discussed above is included in the table on lines 1 through 11. Revenue requirements discussed above are included on lines 13 through 16. Analysis of the Water Fund without revenue increases indicated that the fund will be deficient in meeting its future obligations. The deficiency is due to an existing operating deficiency and inflation in O&M expenses. The statement indicates that revenue from water service rates will need to increase by 9.5 percent annually on November 1, shown on lines 2 through 6, to meet the future obligations of the fund.

The increases in the water sales revenue were determined by recognizing specific financial planning criteria for the Water Fund. The criteria included an operating reserve target 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 deviate from the target level in some years of the financial plan so that revenue adjustments could be established as equal annual increases.

Table 4
Nipomo Community Services District
Water Utililty
Water Fund Flow of Funds Statement

Line No.	Description	Fiscal Year Ending June 30 2010-11	2011-12	2012-13	2013-14	2014-15	2015-16
	Revenue						
1	Water Sales Revenue Under Existing Rates [1]	$2,761,000	$2,743,900	$2,727,000	$2,710,300	$2,693,600	$2,677,200
	Additional Water Sales Revenue Required:						
	Fiscal Year / Annualized Revenue Increase / Effective Date						
2	2011-12 9.5% Nov 1, 2011		108,600	259,100	257,500	255,900	254,300
3	2012-13 9.5% Nov 1, 2012			118,200	281,900	280,200	278,500
4	2013-14 9.5% Nov 1, 2013				128,600	306,800	305,000
5	2014-15 9.5% Nov 1, 2014					140,000	333,900
6	2015-16 9.5% Nov 1, 2015						152,400
7	Total Additional Water Sales Revenue	0	108,600	377,300	668,000	982,900	1,324,100
8	Litigation Charge Revenue	169,900	169,900	169,900	169,900	169,900	169,900
9	Total Water Sales Revenue	2,930,900	3,022,400	3,274,200	3,548,200	3,846,400	4,171,200
10	Other Revenue [2]	70,800	70,800	70,800	70,800	70,800	70,800
11	Interest Income From Operations [3]	10,700	7,700	5,400	3,900	3,300	3,700
12	**Total Revenue**	$3,012,400	$3,100,900	$3,350,400	$3,622,900	$3,920,500	$4,245,700
	Revenue Requirements						
13	Operation and Maintenance Expense [4]	$2,921,400	$2,991,900	$3,081,800	$3,181,200	$3,289,100	$3,401,000
14	1978 Water Revenue Bonds [5]	15,300	14,800	15,200	15,700	15,100	15,400
15	Minor Capital Expenditures	75,900	65,000	67,000	69,000	71,100	73,200
16	Transfers to Water Replacement Fund [4] [6]	700,000	566,000	566,000	566,000	571,000	571,000
17	**Total Revenue Requirements**	3,712,600	3,637,700	3,730,000	3,831,900	3,946,300	4,060,600
18	Net Funds Available	($700,200)	($536,800)	($379,600)	($209,000)	($25,800)	$185,100
19	Beginning Water Fund Balance	2,500,000	1,799,800	1,263,000	883,400	674,400	648,600
20	**Cumulative Water Fund Balance**	$1,799,800	$1,263,000	$883,400	$674,400	$648,600	$833,700
21	Minimum Desired Balance [7]	$830,400	$847,700	$872,900	$900,600	$930,700	$961,900
	Annual Debt Service Coverage						
22	Net Revenue [8]	$136,600	$157,500	$315,700	$485,100	$673,000	$884,300
23	Existing Debt Service Payments [9]	15,300	14,800	15,200	15,700	15,100	15,400
24	Coverage	893%	1064%	2077%	3090%	4457%	5742%

[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] As budgeted for FY 2010-11. Future years assume amount is 50 percent of Model 2: Service Life Savings Replacement.
[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 14 above.

3.0 WATER UTILITY RATE DESIGN

3.1 EXISTING WATER SERVICE RATES

The existing water service rates were implemented on January 1, 2009 and are presented in Table 5. The structure consists of a bi-monthly fixed charge by meter size and a consumption charge consisting of a two-block volume charge for residential customers and a uniform volume charge for non-residential customers. Residential rate blocks were established recognizing the average bi-monthly consumption.

Table 5
Nipomo Community Services District
Water Utililty
Schedule of Existing Water Service Rates

Bi-monthly Fixed Charge [1]

	Meter Size						
	1" and less	1 1/2"	2"	3"	4"	6"	8"
All Customers	$24.52	$69.61	$110.25	$340.68	$340.68	$679.22	$1,085.63
Litigation Charge	$6.32	$14.36	$19.92	$27.92	$36.00	$59.58	$68.08

Volume Charge [1] [2]

	Block (in Ccf)		
	0 to 40	Over 40	All Water
Residential	$1.64	$2.80	
Irrigation			$2.06
All Other			$2.06

[1] Rates became effective January 1, 2009.
[2] Charge per Ccf of bi-monthly water consumption.

3.2 PROPOSED WATER RATE STRUCTURES AND RATES

The overall water system was evaluated to determine a methodology for which to design rates. The District has less than 4,500 accounts with non-residential customers making up about 4 percent of those accounts lending support to using a commodity-demand method of cost allocation.

In the commodity-demand method, revenue requirements are assigned as commodity costs, demand (capacity) costs, and customer costs. Commodity costs are characterized by those costs that vary with

the quantity of water produced, such as pumping power, chemicals, purchased water, and other costs. Demand costs are generally those costs associated with providing facilities to meet peak rates of use. Such costs may include all transmission and distribution system pumping and all treatment, transmission, and distribution mains and storage facilities that are sized to meet peak demands. Customer costs include those incurred to serve the customer, regardless of the amount of water consumed. These costs include meter and service maintenance, meter reading, billing, collecting, and accounting costs. The cost of service analysis resulted in an allocation of 25 to 30 percent of costs to be recovered from fixed charges with the remaining 70-75 percent of costs recovered from commodity rates. This result is similar to the existing rate structure.

3.2.1 Fixed Charge Component

A review and analysis was conducted of the current fixed charges of the District. Revenue generated from the fixed charges is approximately equal to 30 percent of the total water sales revenue, including the Litigation Charge revenue, and equals about 25 percent when excluding the Litigation Charge revenue. In addition, the existing fixed charges are established recognizing meter capacity ratios. Because the fixed charges reflect industry practice, it is proposed that future charges be established by increasing the current fixed charges by the annual percentages determined in the financial plan in Table 4. Increasing the fixed charges in this manner will maintain fixed charge revenue that follows averages for the state of California and follow guidelines of the California Urban Water Conservation Council (CUWCC) for fixed charges. Table 6 presents the proposed fixed charges for the each year of the study period. Fire protection fixed charges are presented in Appendix C.

Table 6
Nipomo Community Services District
Water Utililty
Proposed Bi-monthly Water Fixed Charges

Meter Size/ Litigation Charge	Nov 1, 2011-12	Nov 1, 2012-13	Nov 1, 2013-14	Nov 1, 2014-15	Nov 1, 2015-16
1 inch and less	$26.85	$29.40	$32.19	$35.25	$38.60
Litigation Charge	$6.32	$6.32	$6.32	$6.32	$6.32
1 1/2 inch	$76.22	$83.46	$91.39	$100.07	$109.58
Litigation Charge	$14.36	$14.36	$14.36	$14.36	$14.36
2 inch	$120.72	$132.19	$144.75	$158.50	$173.56
Litigation Charge	$19.92	$19.92	$19.92	$19.92	$19.92
3 inch	$224.64	$245.98	$269.35	$294.94	$322.96
Litigation Charge	$27.92	$27.92	$27.92	$27.92	$27.92
4 inch	$373.04	$408.48	$447.29	$489.78	$536.31
Litigation Charge	$36.00	$36.00	$36.00	$36.00	$36.00
6 inch	$743.75	$814.41	$891.78	$976.50	$1,069.27
Litigation Charge	$59.58	$59.58	$59.58	$59.58	$59.58
8 inch	$1,188.76	$1,301.69	$1,425.35	$1,560.76	$1,709.03
Litigation Charge	$68.08	$68.08	$68.08	$68.08	$68.08

3.2.2 Variable Rate Component

Water service rates are typically composed of a fixed charge and a volume charge (variable rate). All costs not recovered in the fixed charge are recovered in the volume charge. The volume charge may be a uniform charge per unit of consumption, or established as a series of block rates, where a block of water is a defined amount of water consumption, such as zero to 500 cubic feet (0 to 5 Ccf).

Rate blocks are designed based on an analysis of the bills rendered by customer classification for various levels of consumption. This analysis includes tabulating the number of bills and their consumption, then developing cumulative consumption of bills rendered for each consumption level.

The result of this tabulation is the determination of the percentage of the total water volume that is consumed in each block, allowing consumption curves to be drawn to illustrate usage patterns. Such curves allow pricing to be established for various rate blocks and the determination of revenue impacts from such pricing.

A bill tabulation and analysis was performed for the District's customer classifications using 5 year's of historical information from billing system records. From the tabulation, charts showing the distribution of bills by their consumption level can be developed. These are presented in Appendix A for the single-family and multi-family classifications. Additionally, several findings can be drawn from the bill tabulation and analysis that include the following.

- Approximately 82 percent of the water consumed is related to residential customers (single-family, multi-family).
- The average bi-monthly consumption of a single-family residential customer is 40 Ccf.
- The average bi-monthly consumption of a multi-family dwelling unit is 12 Ccf.
- The average bi-monthly water consumption of the commercial classification is 60 Ccf.
- Commercial accounts consist of less than 3 percent of the total accounts.
- Irrigation sales volume represents approximately 13 percent of total water sales volume.

Also from the tabulation, customer classification usage patterns were drawn and evaluated and are presented in Appendix B. Figure B-1 shows consumption patterns of the various customer classifications of the District. Review of all the curves indicates that it is appropriate to recognize these as separate classes, because of the wide separation of the curves from one another.

The curve for single-family customers exhibits a typical consumption pattern for this classification. The multi-family curve has been determined on an individual dwelling unit basis and displays a more uniform use per unit than single-family. These conclusions are also supported by the charts in Appendix A.

3.2.3 Residential Rate Structures

The current two-block residential rate structure is designed such that the first block is set at the average water use of single-family customers. The findings of the bill tabulation analysis confirmed that 40 Ccf is the average for single-family while the analysis determined that 12 Ccf is the average for multi-family. The price differential from the first to the second block is 170 percent. While a two-block rate structure is adequate for water conservation, it does not necessarily address excess use that may occur in the top of the consumption curve.

The proposed four-block residential structure is established with a first block that corresponds to average winter water consumption, to provide a signal of when an average residential customer may be starting to use water for outdoor uses. The average winter water use consumption was determined using water billing information from the months of December through March.

The second block is designed such that the block break point is set at the average water consumption for each of the residential classifications. The fourth block is established to capture slightly less than 10 percent of the highest water usage. The highest block is typically established to capture 80 to 90 percent of the top water consumption. The third block captures all remaining use. Prices for the four-block rate structure have been set to increase by 125 percent, 175 percent, and 300 percent of the first block price. The third block price reflects the estimated cost for the District to obtain supplemental water from the City of Santa Maria of $1,500 per ac-ft in FY 2013-14. Table 7 presents the proposed residential water rate structure and proposed future residential consumption rates for each year of the study period. The proposed consumption rates increase at the percentages identified in the financial plan in Table 4, beginning with FY 2011-12.

The multi-family rate structure has been established on an individual dwelling unit basis to develop rates that places multi-family customers on a similar basis as single-family customers. For multi-family customers that have one meter serving multiple units, it is necessary to multiply the number of dwelling units on the meter by the block rate break points, then applying the usage through the blocks. This effectively charges each dwelling unit the average use per unit of the water consumed through the meter. The District may need to program the billing system to perform this task.

3.2.4 Non-Residential Rate Structures

The proposed rate structures for non-residential water service were established by analyzing the non-residential classifications individually. These classifications include Commercial, Irrigation, Agriculture, and All Other non-residential customers.

3.2.4.1 Commercial Classification. Block rate structures are generally not appropriate for Commercial customers because of the disparity of use within this classification. Exploring this type of structure for the District's Commercial class included an analysis of the commercial use by meter size. Figure B-2 in Appendix B shows this wide range of the use, illustrated by the consumption patterns. For example, if a block rate structure were designed that applied to all Commercial customers with a block break point set at the average use of 60 Ccf, from Figure B-2, those with a 1½

inch meter would have nearly 80 percent of their use over 60 Ccf and would be unfairly penalized. Customers with a ¾ inch meter would have consumed nearly 90 percent of their use by the block break point, and would seldom be over the first block.

Table 7
Nipomo Community Services District
Water Utility
Proposed Residential Water Consumption Rates [1]

Customer Classification	Rate Block	Nov 1, 2011-12	Nov 1, 2012-13	Nov 1, 2013-14	Nov 1, 2014-15	Nov 1, 2015-16
Single-family						
Proposed 4 Block Structure						
	0 to 24 Ccf	$1.64	$1.80	$1.97	$2.16	$2.37
	25 to 40 Ccf	$2.05	$2.25	$2.46	$2.69	$2.95
	41 to 100 Ccf	$2.88	$3.15	$3.45	$3.78	$4.14
	Over 100 Ccf	$4.93	$5.40	$5.91	$6.47	$7.08
Multi-family						
Proposed 4 Block Structure (per dwelling unit)						
	0 to 8 Ccf	$1.64	$1.80	$1.97	$2.16	$2.37
	9 to 12 Ccf	$2.05	$2.25	$2.46	$2.69	$2.95
	13 to 25 Ccf	$2.88	$3.15	$3.45	$3.78	$4.14
	Over 25 Ccf	$4.93	$5.40	$5.91	$6.47	$7.08

[1] Does not include fixed charges.

However, at the District's request, to design an equitable Commercial block rate structure requires the use of individual block rates for each Commercial meter size. This analysis has been completed and a two-block rate structure has been designed that is equated to the residential classifications. The first block is set at the average consumption for that individual meter size, with a second block that captures all remaining use. The Commercial rate structure and pricing is presented in Table 8.

3.2.4.2 Irrigation Classification. The Irrigation class is generally recognized by the relatively high demands it places on the water system, from landscape systems, parks, and other uses. Following a similar exercise that was performed for the Commercial classification, Figure B-3 shows the consumption patterns of the Irrigation classification by meter size. The consumption patterns indicate a similar wide separation among the meter sizes as was found in the Commercial classification.

Inspection of Figure B-3 also indicates that several of the meter sizes could be grouped because of the similarities in the consumption patterns. From Figure B-3, the 5/8 inch and 1 inch meter sizes exhibit similar use patterns, as does the 1 ½ inch and 2 inch meter sizes, and similarly between the 3 inch and 4 inch meters. At the request of the District, an Irrigation two-block rate structure is designed by grouping the larger meter sizes and by establishing the first block at the average consumption of the meters. The Irrigation rate structure and pricing is presented in Table 8.

Table 8 also presents the proposed future non-residential consumption rates for each year of the study period for all non-residential classifications. The proposed consumption rates increase at the percentages identified in the financial plan in Table 4, beginning with FY 2012-13.

Table 8
Nipomo Community Services District
Water Utililty
Proposed Non-residential Water Consumption Rates [1]

Customer Classification	Meter Size	Rate Block	Nov 1, 2011-12	Nov 1, 2012-13	Nov 1, 2013-14	Nov 1, 2014-15	Nov 1, 2015-16
Commercial							
	5/8" Meter	0 to 35	$2.05	$2.25	$2.46	$2.69	$2.95
		Over 35	$2.88	$3.15	$3.45	$3.78	$4.14
	3/4" Meter	0 to 50	$2.05	$2.25	$2.46	$2.69	$2.95
		Over 50	$2.88	$3.15	$3.45	$3.78	$4.14
	1" Meter	0 to 55	$2.05	$2.25	$2.46	$2.69	$2.95
		Over 55	$2.88	$3.15	$3.45	$3.78	$4.14
	1 1/2" Meter	0 to 290	$2.05	$2.25	$2.46	$2.69	$2.95
		Over 290	$2.88	$3.15	$3.45	$3.78	$4.14
	2" Meter	0 to 165	$2.05	$2.25	$2.46	$2.69	$2.95
		Over 165	$2.88	$3.15	$3.45	$3.78	$4.14
	3" Meter	0 to 82	$2.05	$2.25	$2.46	$2.69	$2.95
		Over 82	$2.88	$3.15	$3.45	$3.78	$4.14
Irrigation							
	5/8" Meter	0 to 50	$2.05	$2.25	$2.46	$2.69	$2.95
		Over 50	$2.88	$3.15	$3.45	$3.78	$4.14
	1" Meter	0 to 75	$2.05	$2.25	$2.46	$2.69	$2.95
		Over 75	$2.88	$3.15	$3.45	$3.78	$4.14
	1 1/2" Meter	0 to 350	$2.05	$2.25	$2.46	$2.69	$2.95
		Over 350	$2.88	$3.15	$3.45	$3.78	$4.14
	2" Meter	0 to 350	$2.05	$2.25	$2.46	$2.69	$2.95
		Over 350	$2.88	$3.15	$3.45	$3.78	$4.14
	3" Meter	0 to 3000	$2.05	$2.25	$2.46	$2.69	$2.95
		Over 3000	$2.88	$3.15	$3.45	$3.78	$4.14
	4" Meter	0 to 3000	$2.05	$2.25	$2.46	$2.69	$2.95
		Over 3000	$2.88	$3.15	$3.45	$3.78	$4.14
Agriculture			$2.37	$2.59	$2.84	$3.11	$3.41
All Other			$2.37	$2.59	$2.84	$3.11	$3.41

[1] Does not include fixed charges.

3.3 EXAMPLE BI-MONTHLY BILLS UNDER PROPOSED RATES

Tables 9 and 10 present example bi-monthly bills of the residential and the non-residential water rate structures, respectively, for the November 1, 2011 increase. Table 9 indicates that for the November 1, 2011 increase, the bi-monthly water bill for the average single-family customer consuming 40 Ccf bi-monthly will increase from $90.12 to $99.01 (exclusive of Litigation Charges), an increase of $8.89 increase, or 9.9 percent.

Table 9
Nipomo Community Services District
Water Utility
Example Residential Bi-monthly Water Bills [1]
For Rates in Effect Nov 1, 2011

Customer Classification	Consumption Ccf	Existing Rates	Proposed 4 Block Rates	Difference	Percent Difference
Single-family	0	$24.52	$26.85	$2.33	9.5%
1" meter	5	$32.72	$35.05	$2.33	7.1%
and smaller	10	$40.92	$43.25	$2.33	5.7%
	20	$57.32	$59.65	$2.33	4.1%
	30	$73.72	$78.51	$4.79	6.5%
	40	$90.12	$99.01	$8.89	9.9%
	50	$118.12	$127.81	$9.69	8.2%
	60	$146.12	$156.61	$10.49	7.2%
	70	$174.12	$185.41	$11.29	6.5%
	80	$202.12	$214.21	$12.09	6.0%
	90	$230.12	$243.01	$12.89	5.6%
	100	$258.12	$271.81	$13.69	5.3%
	110	$286.12	$321.11	$34.99	12.2%
	120	$314.12	$370.41	$56.29	17.9%
	130	$342.12	$419.71	$77.59	22.7%
	140	$370.12	$469.01	$98.89	26.7%
	150	$398.12	$518.31	$120.19	30.2%
	200	$538.12	$764.81	$226.69	42.1%
Multi-family [2]	0	$24.52	$26.85	$2.33	9.5%
1" meter	20	$65.72	$59.65	($6.07)	-9.2%
and smaller	48	$123.40	$112.13	($11.27)	-9.1%
4 Units	60	$148.12	$146.69	($1.43)	-1.0%
	80	$189.32	$204.29	$14.97	7.9%
	100	$230.52	$261.89	$31.37	13.6%
	150	$333.52	$518.25	$184.73	55.4%

[1] Includes both fixed and consumption (variable) charges.
[2] Applies to Multi-family customers that do not have separate irrigation meters.

Table 10
Nipomo Community Services District
Water Utililty
Example Non-residential Bi-monthly Water Bills [1]
For Rates in Effect Nov 1, 2011

Customer Classification	Consump	Existing Rates	Commercial 2 Block	Irrigation 2 Block	All Other	Difference
	Ccf					
Commercial	0	$24.52	$26.85			$2.33
1" Meter	20	$65.72	$67.85			$2.13
	48	$123.40	$125.25			$1.85
	60	$148.12	$154.00			$5.88
	80	$189.32	$211.60			$22.28
	100	$230.52	$269.20			$38.68
	150	$333.52	$413.20			$79.68
	200	$436.52	$557.20			$120.68
	250	$539.52	$701.20			$161.68
	300	$642.52	$845.20			$202.68
	350	$745.52	$989.20			$243.68
	400	$848.52	$1,133.20			$284.68
	500	$1,054.52	$1,421.20			$366.68
Irrigation	0	$69.61		$76.22		$6.61
1 1/2" Meter	100	$275.61		$281.22		$5.61
	200	$481.61		$486.22		$4.61
	300	$687.61		$691.22		$3.61
	350	$790.61		$793.72		$3.11
	400	$893.61		$937.72		$44.11
	500	$1,099.61		$1,225.72		$126.11
	600	$1,305.61		$1,513.72		$208.11
	700	$1,511.61		$1,801.72		$290.11
	800	$1,717.61		$2,089.72		$372.11
	900	$1,923.61		$2,377.72		$454.11
All Other Non-residential						
1" Meter	0	$24.52			$26.85	$2.33
	100	$230.52			$263.85	$33.33
	200	$436.52			$500.85	$64.33
	300	$642.52			$737.85	$95.33
	400	$848.52			$974.85	$126.33
	500	$1,054.52			$1,211.85	$157.33

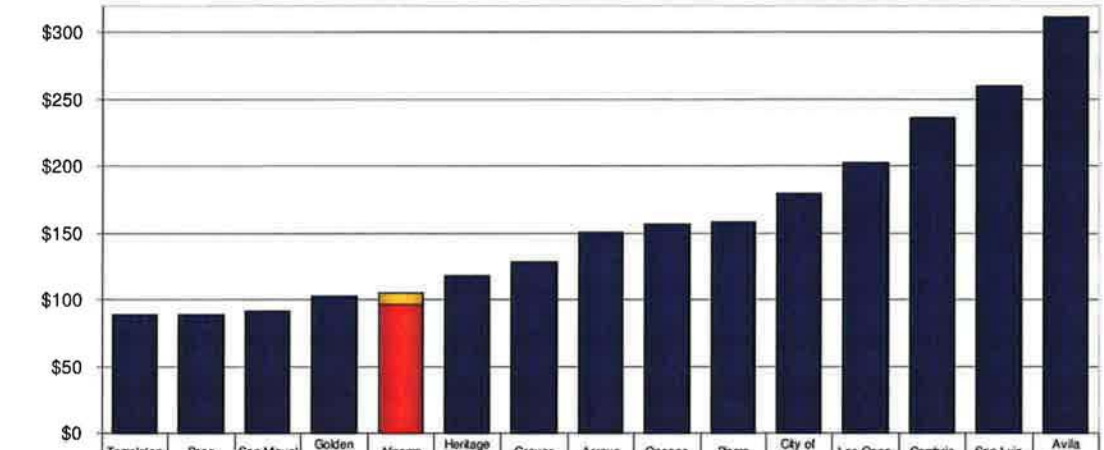
[1] Includes both fixed and consumption (variable) charges.

3.4 SINGLE-FAMILY BILL COMPARISON WITH OTHER LOCAL AGENCIES

A bi-monthly bill comparison has been prepared showing bi-monthly bills of water purveyors in San Luis Obispo County and other local communities. The comparison shown in Chart 1 was prepared by applying the District's average single-family water consumption of 40 Ccf to each of the water purveyor's single-family water rate schedules for water rates in effect as of July 1, 2010. The chart

indicates that the District's bi-monthly bill at 40 Ccf, with the proposed increase and including Litigation Charges, is in the lower half of the agencies listed.

Chart 1
Selected Local Water Agencies
Comparison of Single-family Residential Bi-monthly Water Bills [1]
at 40 Ccf Bi-monthly



	Templeton CSD	Paso Robles	San Miguel CSD	Golden State Water	Nipomo CSD [2]	Heritage Ranch CSD	Grover Beach	Arroyo Grande	Oceano CSD	Pismo Beach	City of Santa Maria	Los Osos CSD	Cambria CSD	San Luis Obispo	Avila Beach CSD
Increase					$8.89										
Existing Rates					$96.44										
Bi-monthly Bill	$88.64	$88.80	$91.29	$102.41		$118.08	$128.04	$150.54	$156.54	$158.34	$179.45	$203.00	$236.57	$260.09	$311.50

[1] For rates in effect July 2010.
[2] Total bi-monthly bill is $105.33.

Appendix A

Residential Bill Distribution

Figure A-1
Cumulative Billed Usage of SFR Classification
Nipomo Community Services District

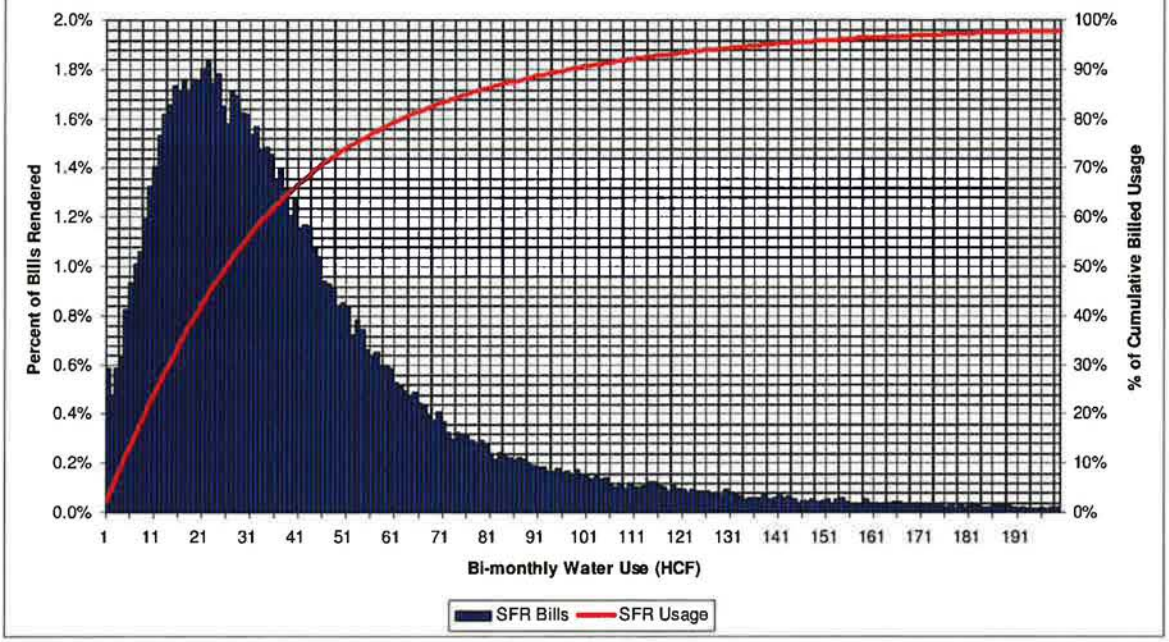
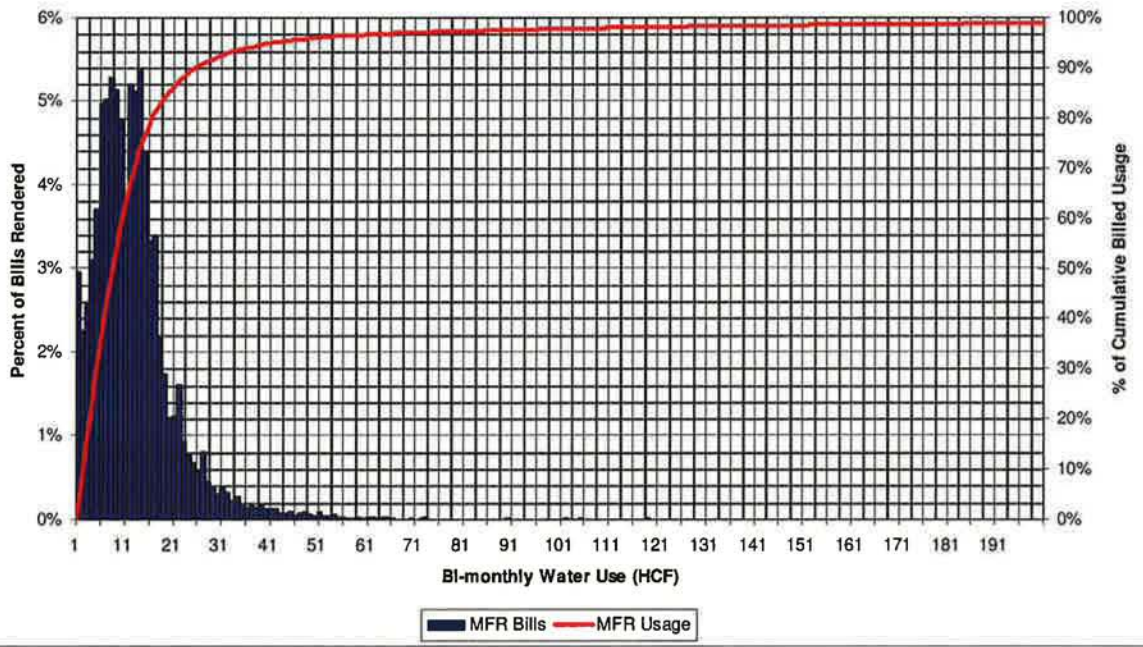


Figure A-2
Cumulative Billed Usage of MFR Classification
Nipomo Community Services District



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Appendix B

Cumulative Billed Consumption Of Customer Classifications

Figure B-1
Cumulative Billed Usage of Customer Classifications
Nipomo Community Services District
FY 2004-05 thru FY 2008-09

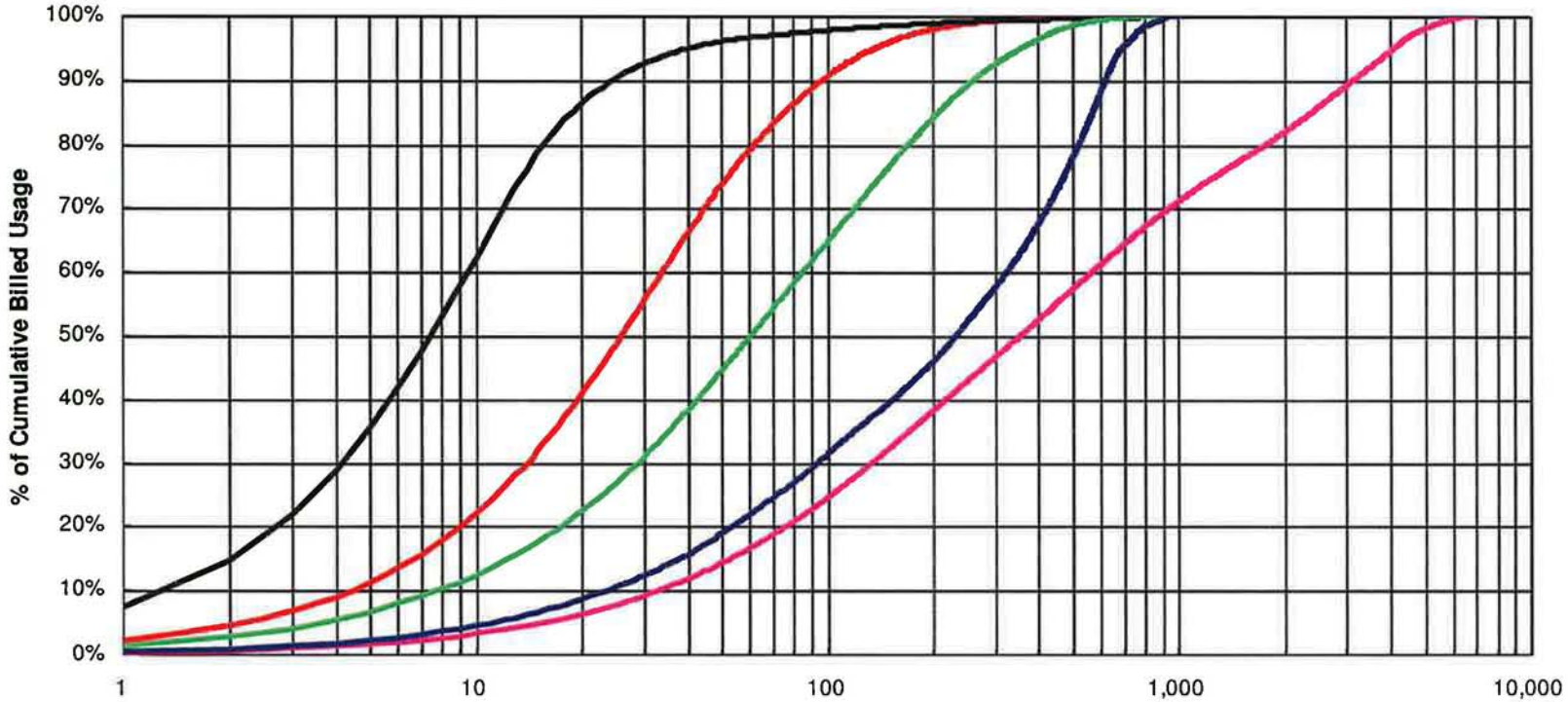

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Figure B-2
Cumulative Billed Usage of Commercial Classifications
Nipomo Community Services District
FY 2004-05 thru FY 2008-09

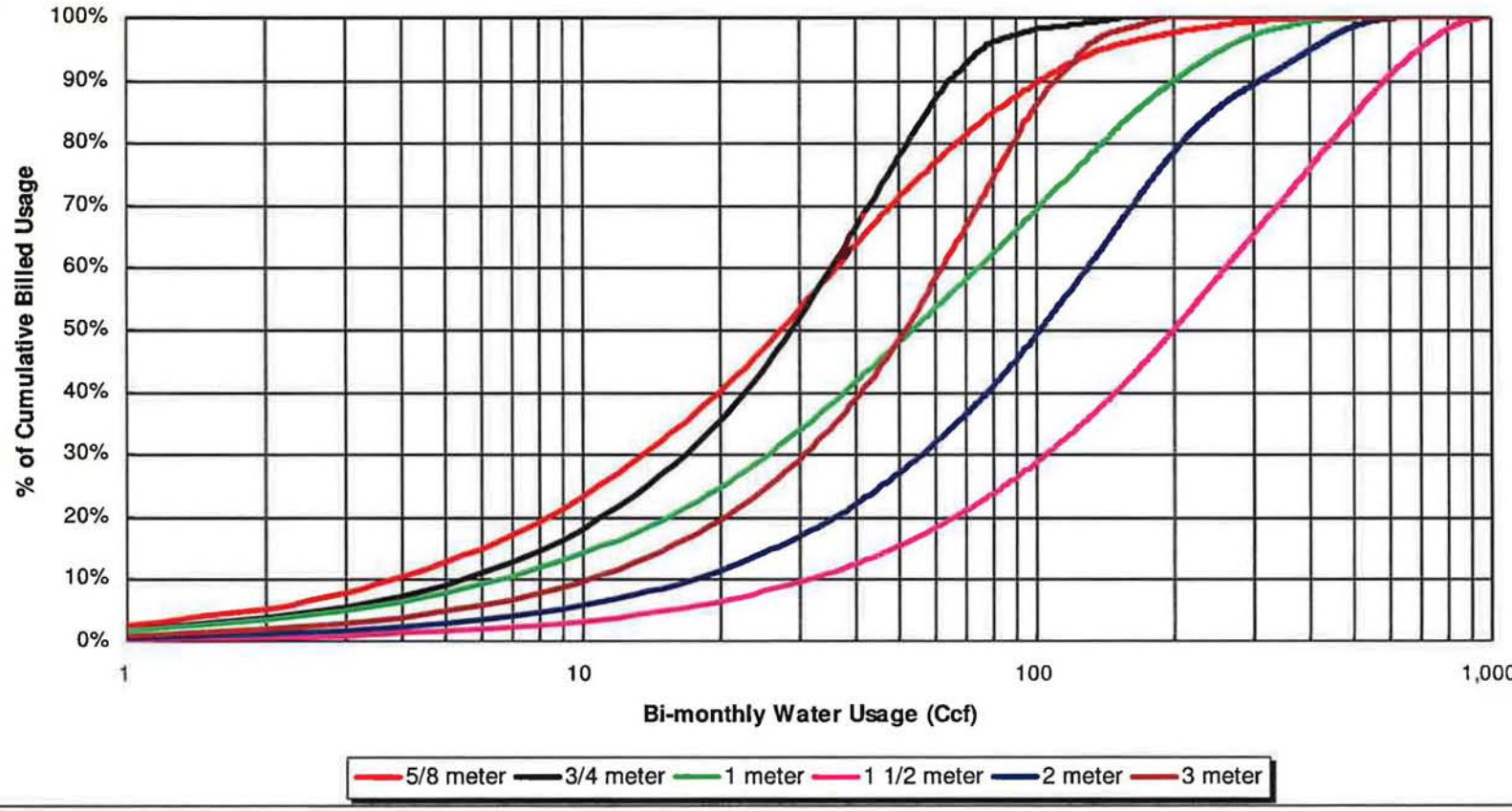

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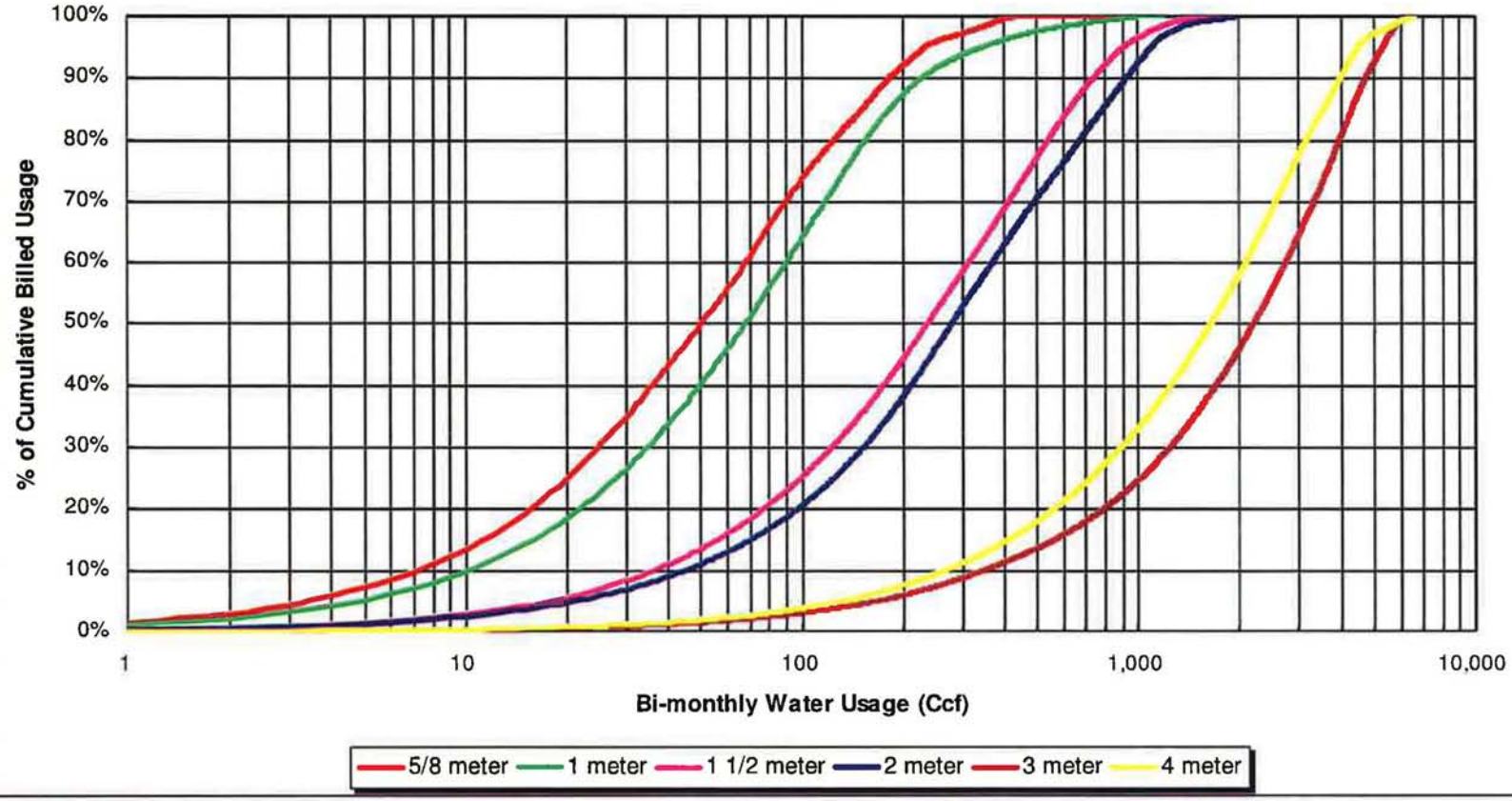
Figure B-3
Cumulative Billed Usage of Irrigation Classifications
Nipomo Community Services District
FY 2004-05 thru FY 2008-09



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Appendix C

Private Fire Protection Fixed Charges

Table C-1

Nipomo Community Services District

Water Utililty

Proposed Bi-monthly Private Fire Protection Charges

Size	Nov 1, 2011-12	Nov 1, 2012-13	Nov 1, 2013-14	Nov 1, 2014-15	Nov 1, 2015-16
Inches					
3	$10.95	$11.99	$13.13	$14.38	$15.75
4	$13.14	$14.39	$15.76	$17.26	$18.90
6	$19.71	$21.58	$23.63	$25.87	$28.33
8	$27.38	$29.98	$32.83	$35.95	$39.37
10	$32.85	$35.97	$39.39	$43.13	$47.23

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Date of mailing Notice

NIPOMO COMMUNITY SERVICES DISTRICT
NOTICE OF PUBLIC HEARING
WATER RATE INCREASE

To: Owners of Record and Customers of Record

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

NOTICE OF PUBLIC HEARING

A Public Hearing for the Proposed Water Rate Increase will be held on:

Date: September 12, 2011 Time: 9:00 a.m.

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

At the public hearing the Nipomo Community Services District Board of Directors will consider all public comment in support and in opposition of the proposed Water Rate Increase and whether or not a Majority Protest exists (see below). If approved, the Water Rate Increase would become effective November 1, 2011.

After the close of the Public Hearing, the Board of Directors may direct the District Secretary, or designee, to begin tabulation of the protests and, if necessary, to continue the agenda item to the Board of Directors meeting of October 12, 2011, to announce the protest outcome and to consider the adoption of resolutions consistent with the District Secretary's determination.

REVISED RATE STRUCTURE

The existing rate structure for residential customers is based on a bi-monthly fixed charge component and a bi-monthly two tiered (block rate) commodity component. The existing rate structure for irrigation, commercial and other water customers is based on a bi-monthly fixed charge component and bi-monthly single block rate component.

The proposed rate structure includes:

- A bi-monthly fixed charge component (Table 1).
- Residential four-block (tiered) commodity rate component (Table 2).
- Two-block (tiered) commodity rate component for commercial and irrigation (Table 3); and
- A uniform water rate for agriculture and all other users (Table 4).

The revised rate structure is included in the Tuckfield & Associate "Report on Water Rate Study" referenced in the next section.

BASIS OF PROPOSED RATES

The NCSD contracted with Tuckfield & Associates to conduct a water rate study to determine the revenue required to meet the NCSD's financial obligations in providing water service within the NCSD's Water System. The conclusions and recommendations of Tuckfield & Associates are summarized in a final report entitled, "Report on Water Rate Study," dated May 2011 (the "Study").

The objectives of the Study included the following:

- Analyze the water fund's historical revenue and revenue requirements, and project future revenue and revenue requirements recognizing the existing water service rates and future water system operations.
- Develop a reliable 5-year financial plan for the water fund that identifies adjustments to revenue to meet future water fund obligations.
- Create a schedule of water service rates that is fair and equitable, that provides predictable sources of revenue as described in the financial plan, and that meets Proposition 218 requirements for water service rates.

The Study concluded:

- The water fund's revenue and revenue requirements indicated that the fund will be deficient in meeting its future obligations. The deficiency is due to existing operation deficiencies, inflation in operation and maintenance (O&M) expensesRevenue from water service rates will need to increase by an average of 9.5% on an annual basis commencing on November 1, 2011, through October 31, 2016.

COMMODITY – DEMAND COST OF SERVICE METHODOLOGY

The Study recommends the use of commodity-demand cost of service methodology in establishing water rates.

In the commodity-demand method, revenue requirements are assigned as commodity costs, demand (capacity) costs, and customer costs. Commodity costs are characterized by those costs that vary with the quantity of water produced, such as pumping power, chemicals, purchased water, and other costs. Demand costs are generally those costs associated with providing facilities to meet peak rates of use. Such costs may include all transmission and distribution system pumping and all treatment transmission, and distribution mains and storage facilities that are sized to meet peak demands. Customer costs include those incurred to serve the customer, regardless of the amount of water consumed. These costs include meter and service maintenance, meter reading, billing, collecting, and accounting costs. The cost of service analysis resulted in an allocation of 25 to 30 percent or costs to be recovered from fixed charges with the remaining 70-75 percent of costs recovered from commodity rates. This result is similar to the existing rate structure.

The Fixed Charge Component

The proposed bi-monthly fixed charge component for all customer classifications is based on meter size and is depicted in the following table:

TABLE 1

Proposed Bi-monthly Water Fixed Charges [1]

Meter Size/ Litigation Charge	Existing Charges	Effective November 1 of each Fiscal Year 2011-12	2012-13	2013-14	2014-15	2015-16
1 inch and less	$24.52	$26.85	$29.40	$32.19	$35.25	$38.60
Litigation Charge	$6.32	$6.32	$6.32	$6.32	$6.32	$6.32
1 1/2 inch	$69.61	$76.22	$83.46	$91.39	$100.07	$109.58
Litigation Charge	$14.36	$14.36	$14.36	$14.36	$14.36	$14.36
2 inch	$110.25	$120.72	$132.19	$144.75	$158.50	$173.56
Litigation Charge	$19.92	$19.92	$19.92	$19.92	$19.92	$19.92
3 inch	$205.15	$224.64	$245.98	$269.35	$294.94	$322.96
Litigation Charge	$27.92	$27.92	$27.92	$27.92	$27.92	$27.92
4 inch	$340.68	$373.04	$408.48	$447.29	$489.78	$536.31
Litigation Charge	$36.00	$36.00	$36.00	$36.00	$36.00	$36.00
6 inch	$679.22	$743.75	$814.41	$891.78	$976.50	$1,069.27
Litigation Charge	$59.58	$59.58	$59.58	$59.58	$59.58	$59.58
8 inch	$1,085.63	$1,188.76	$1,301.69	$1,425.35	$1,560.76	$1,709.03
Litigation Charge	$68.08	$68.08	$68.08	$68.08	$68.08	$68.08

[1] Does not include Blacklake buy-in-charge (NCSD Code § 3.40)

The above referenced litigation charge reflects the adjusted rate to offset the District's financial obligations related to the lawsuit titled *Santa Maria Valley Water Conservation District v. The City of Santa Maria, the Nipomo Community Services District, et al.* This lawsuit is commonly referred to as the Santa Maria Groundwater Adjudication. When the District's financial obligations regarding this lawsuit have been satisfied, the litigation charge will be eliminated.

Residential Commodity Rate Component

The proposed bi-monthly four-block commodity rate component for both single family and multi-family is depicted in the following table:

TABLE 2

Proposed Residential Water Commodity Rates [1][2]
CcF equals 748 gallons

Customer Classification	Rate Block	Existing Rates	Effective November 1 of each Fiscal Year 2011-12	2012-13	2013-14	2014-15	2015-16
Single-Family							
Existing Structure							
	0 to 40 Ccf	$1.64					
	Over 40 Ccf	$2.80					
Proposed 4-Block Structure							
	0 to 24 Ccf		$1.64	$1.80	$1.97	$2.16	$2.37
	25 to 40 Ccf		$2.05	$2.25	$2.46	$2.69	$2.95
	41 to 100 Ccf		$2.88	$3.15	$3.45	$3.78	$4.14
	Over 100 Ccf		$4.93	$5.40	$5.91	$6.47	$7.08
Multi-family							
Existing Structure							
	All Consumption	$2.06					
Proposed 4-Block Structure (per dwelling unit)							
	0 to 8 Ccf		$1.64	$1.80	$1.97	$2.16	$2.37
	9 to 12 Ccf		$2.05	$2.25	$2.46	$2.69	$2.95
	13 to 25 Ccf		$2.88	$3.15	$3.45	$3.78	$4.14
	Over 25 Ccf		$4.93	$5.40	$5.91	$6.47	$7.08

[1] Does not include fixed charges.
[2] **Does not include Blacklake buy-in-charge (NCSD Code § 3.40)**

Commercial and Irrigation Commodity Rate Component

The proposed bi-monthly two-block commodity rate component for commercial and irrigation is depicted in the following table:

TABLE 3

Proposed Non-residential Commodity Rate Component [1] [2]
All numbers reflect CcF
CcF equals 748 gallons

Customer Classification	Meter Size	Rate Block	Existing Rates	Effective November 1 of each Fiscal Year 2011-12	2012-13	2013-14	2014-15	2015-16
Proposed Two-Block Rate Structure for Commercial and Irrigation Commodity Rate Component								
Commercial								
	5/8" Meter	0 to 35 Ccf	$2.06	$2.05	$2.25	$2.46	$2.69	$2.95
		Over 35 Ccf	$2.06	$2.88	$3.15	$3.45	$3.78	$4.14
	3/4" Meter	0 to 50 Ccf	$2.06	$2.05	$2.25	$2.46	$2.69	$2.95
		Over 50 Ccf	$2.06	$2.88	$3.15	$3.45	$3.78	$4.14
	1" Meter	0 to 55 Ccf	$2.06	$2.05	$2.25	$2.46	$2.69	$2.95
		Over 55 Ccf	$2.06	$2.88	$3.15	$3.45	$3.78	$4.14
	1 1/2" Meter	0 to 290 Ccf	$2.06	$2.05	$2.25	$2.46	$2.69	$2.95
		Over 290 Ccf	$2.06	$2.88	$3.15	$3.45	$3.78	$4.14
	2" Meter	0 to 165 Ccf	$2.06	$2.05	$2.25	$2.46	$2.69	$2.95
		Over 165 Ccf	$2.06	$2.88	$3.15	$3.45	$3.78	$4.14
	3" Meter	0 to 82 Ccf	$2.06	$2.05	$2.25	$2.46	$2.69	$2.95
		Over 82 Ccf	$2.06	$2.88	$3.15	$3.45	$3.78	$4.14
	4" Meter	0 to 25 Ccf	$2.06	$2.05	$2.25	$2.46	$2.69	$2.95
		Over 25 Ccf	$2.06	$2.88	$3.15	$3.45	$3.78	$4.14
Irrigation								
	5/8" Meter	0 to 50 Ccf	$2.06	$2.05	$2.25	$2.46	$2.69	$2.95
		Over 50 Ccf	$2.06	$2.88	$3.15	$3.45	$3.78	$4.14
	1" Meter	0 to 75 Ccf	$2.06	$2.05	$2.25	$2.46	$2.69	$2.95
		Over 75 Ccf	$2.06	$2.88	$3.15	$3.45	$3.78	$4.14
	1 1/2" Meter	0 to 350 Ccf	$2.06	$2.05	$2.25	$2.46	$2.69	$2.95
		Over 350 Ccf	$2.06	$2.88	$3.15	$3.45	$3.78	$4.14

Table 3 Continued

2" Meter	0 to 350 Ccf	$2.06	$2.05	$2.25	$2.46	$2.69	$2.95
	Over 350 Ccf	$2.06	$2.88	$3.15	$3.45	$3.78	$4.14
3" Meter	0 to 3000 Ccf	$2.06	$2.05	$2.25	$2.46	$2.69	$2.95
	Over 3000 Ccf	$2.06	$2.88	$3.15	$3.45	$3.78	$4.14
4" Meter	0 to 3000 Ccf	$2.06	$2.05	$2.25	$2.46	$2.69	$2.95
	Over 3000 Ccf	$2.06	$2.88	$3.15	$3.45	$3.78	$4.14

[1] Does not include fixed charges.
[2] **Does not include Blacklake buy-in-charge (NCSD Code § 3.40)**

Agriculture Commodity Rate Component

The proposed single-block commodity rate component for agriculture and all other users is depicted in the following table:

TABLE 4

Proposed Agriculture Commodity Rate Component [1]
All numbers reflect CcF
CcF equals 748 gallons

Customer Classification	Meter Size	Rate Block	Existing Rates	Effective November 1 of each Fiscal Year 2011-12	2012-13	2013-14	2014-15	2015-16
Agriculture			$2.06	$2.37	$2.59	$2.84	$3.11	$3.41
All Other			$2.06	$2.37	$2.59	$2.84	$3.11	$3.41

[1] Does not include fixed charges.

EXISTING RATE AND PROPOSED RATE COMPARISON

Tables 5 and 6 compare existing rates to the proposed rates for calendar year 2011.

TABLE 5

Example Residential Bi-monthly Water Bills [1][2]
All numbers reflect CcF
CcF equals 748 gallons

Customer Classification	Consumption Ccf	Existing Rates	Proposed 4 Block Rates	Difference	Percent Difference
Single-Family 1" meter and smaller	0	$24.52	$26.85	$2.33	9.5%
	5	$32.72	$35.05	$2.33	7.1%
	10	$40.92	$43.25	$2.33	5.7%
	20	$57.32	$59.65	$2.33	4.1%
	30	$73.72	$78.51	$4.79	6.5%
	40	$90.12	$99.01	$8.89	9.9%
	50	$118.12	$127.81	$9.69	8.2%
	60	$146.12	$156.61	$10.49	7.2%
	70	$174.12	$185.41	$11.29	6.5%
	80	$202.12	$214.21	$12.09	6.0%
	90	$230.12	$243.01	$12.89	5.6%
	100	$258.12	$271.81	$13.69	5.3%
	150	$398.12	$518.31	$120.19	30.2%
	200	$538.12	$764.81	$226.69	42.1%

[1] Includes both fixed and consumption (variable) charges.
[2] **Does not include Blacklake buy-in-charge (NCSD Code § 3.40)**

TABLE 6

Example Commercial, Irrigation and Agriculture Bi-monthly Water Bills [1] [2]

All numbers reflect CcF
CcF equals 748 gallons

Customer Classification	Consumption Ccf	Existing Rates	Commercial 2 Block	Irrigation 2 Block	All Other 1 Block	Difference
Commercial	0	$24.52	$26.85			$2.33
1" Meter	20	$65.72	$67.85			$2.13
	48	$123.40	$125.25			$1.85
	60	$148.12	$154.00			$5.88
	80	$189.32	$211.60			$22.28
	100	$230.52	$269.20			$38.68
	150	$333.52	$413.20			$79.68
	200	$436.52	$557.20			$120.68
	250	$539.52	$701.20			$161.68
	300	$642.52	$845.20			$202.68
	350	$745.52	$989.20			$243.68
	400	$848.52	$1,133.20			$284.68
	500	$1,054.52	$1,421.20			$366.68
Irrigation						
1 1/2" Meter	0	$69.61		$76.22		$6.61
	100	$275.61		$281.22		$5.61
	200	$481.61		$486.22		$4.61
	300	$687.61		$691.22		$3.61
	350	$790.61		$793.72		$3.11
	400	$893.61		$937.72		$44.11
	500	$1,099.61		$1,225.72		$126.11
Agriculture & All Other						
1" Meter	0	$24.52			$26.85	$2.33
	100	$230.52			$263.85	$33.33
	200	$436.52			$500.85	$64.33
	300	$642.52			$737.85	$95.33
	400	$848.52			$974.85	$126.33
	500	$1,054.52			$1,211.85	$157.33

[1] Includes both fixed and commodity (variable) charges.
[2] **Does not include Blacklake buy-in-charge (NCSD Code § 3.40)**

TABLE 7

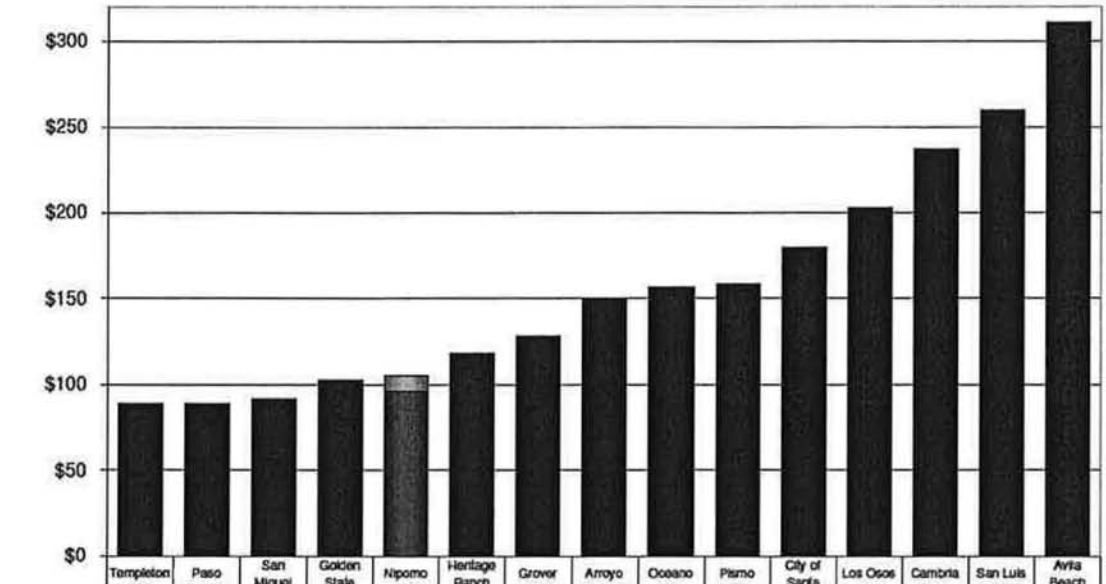
Proposed Bi-monthly Private Fire Protection Charges

Meter Size/	Existing Charges	Effective November 1 of each Fiscal Year 2011-12	2012-13	2013-14	2014-15	2015-16
3	$5.00	$10.95	$11.99	$13.13	$14.38	$15.75
4	$6.00	$13.14	$14.39	$15.76	$17.26	$18.90
6	$9.00	$19.71	$21.58	$23.63	$25.87	$28.33
8	$12.50	$27.38	$29.98	$32.83	$35.95	$39.37
10	$15.00	$32.85	$35.97	$39.39	$43.13	$47.23

SINGLE-FAMILY BILL COMPARISON WITH OTHER LOCAL AGENCIES

A bi-monthly bill comparison has been prepared showing the District's average single family bi-monthly bill under the proposed rates with other selected local water agencies. The comparison has been made using water rates in effect as of July 1, 2010, with proposed rate adjustment. The comparison shown in Chart 1 was prepared by applying the District's average single-family water consumption of 40 Ccf, including the litigation charge, to each of the water purveyors' single-family water rate schedules.

Chart 1
Selected Local Water Agencies
Comparison of Single-family Residential Bi-monthly Water Bills [1]
at 40 Ccf Bi-monthly



	Templeton CSD	Paso Robles	San Miguel CSD	Golden State Water	Nipomo CSD [2]	Heritage Ranch CSD	Grover Beach	Arroyo Grande	Oceano CSD	Pismo Beach	City of Santa Maria	Los Osos CSD	Cambria CSD	San Luis Obispo	Avila Beach CSD
Increase					$8.89										
Existing Rates					$96.44										
Bi-monthly Bill	$68.64	$88.80	$91.29	$102.41		$118.08	$128.04	$150.54	$156.54	$158.34	$179.45	$203.00	$236.57	$260.09	$311.60

[1] For rates in effect July 2010.
[2] Total bi-monthly bill is $105.33.

BLACKLAKE "BUY-IN-CHARGE"

(Only applies to NCSD Blacklake Water Customers)

In 2009 the Blacklake and Town Water Divisions were merged into a single water system known as the NCSD Water System. As part of the merger former Blacklake water customers agreed to pay a fixed Buy-in-Charge. The Buy-in-Charge is a separate surcharge on individual water bills within Blacklake only, to offset the financial impacts of the merger on the former Town Water Division and to pay the costs for the related intertie projects. The Blacklake Buy-in-Charge is not adjusted by the proposed rate increase. The Blacklake Buy-in-Charge will continue to be included only in Blacklake customer water bills until paid in full.

USE OF WATER RATE

Each District utility service (water & sewer) is operated as separate enterprises. The proposed water system rates would be used to:

- Provide sufficient funds for on-going operation and maintenance for the District Water System.
- Rehabilitate, replace and upgrade facilities needed to provide services for the District Water System.
- Establish reserves to reduce risk and prudently manage the District's delivery of water resources.

MAJORITY PROTEST

Pursuant to Section 6 of Article XIII D of the California Constitution, the following persons may submit a written protest against the Proposed Water Rate Increase to the District's Secretary before the close of the Public Hearing referenced above.

- An owner(s) of property (parcel(s)) ("owner of record") receiving water service from the NCSD Water System. If the person(s) signing the protest, as an owner, is not shown on the last equalized assessment roll as the owner of the parcel(s), then the protest must contain or be accompanied by written evidence that such person signing the protest is the owner of the parcel(s) receiving water service; and
- "Customer of record" (Tenant(s)) whose name appears on the District records as the customer of record for the corresponding parcel receiving water service from the NCSD Water System (tenant-customer).

A valid written protest must contain a statement that you protest the increase in water rates, the address and Assessor's Parcel Number (APN) of the parcel or parcels which receive water service and must be signed and dated, with original signature, by the owner of record, the customer of record, or a representative of an owner of record or a customer of record, for the parcel or parcels receiving water service. One written protest per parcel shall be counted in calculating a majority protest to the proposed water rate increase subject to the requirements of Section 6 of Article XIII D of the California Constitution. Written protests will not be accepted by email or by facsimile. Verbal protests will not be counted in determining the existence of a majority protest.

To be counted, a written protest must be received by the close of the Public Hearing referenced on page 1, including those mailed to the District. No postmarks will be accepted; therefore, any written protest not actually received by the close of the Public Hearing, whether or not mailed prior to the Public Hearing, will not be counted.

A representative may sign a written protest on behalf of an owner of record or a customer of record provided the representative attaches to the written protest, written documentation/authorization, with original signature, to act in such capacity.

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

Nipomo Community Services District
Attn: District Secretary
P.O. Box 326
Nipomo, CA 93444-0326

Written protests may also be personally delivered to the Board Secretary at the Nipomo Community Service District Office located at 148 South Wilson Street, Nipomo, California, during regular office hours (8 a.m. – 4:30 p.m. Monday through Friday, excluding holidays).

If valid written protests are presented by a majority of owners of record and/or customers of record of parcels receiving water service within the NCSD's Water System, then the NCSD will not adjust/increase the water rates. Only one protest per parcel will be counted in determining whether or not a majority protest exists.

CHANGE IN PROTEST

Up to the close of the above referenced public hearing September 12, 2011 (see page 1), owners of record and customers of record can change or cancel a prior written protest by written notification to the District. To be valid, the change in protest must state that the prior protest is withdrawn, must be signed by the person or persons who signed the original protest, must contain the address and APN number of the parcel or parcels that receive water service, must be dated and must be received by the District Secretary by the close of the Public Hearing referenced in this Notice.

AVAILABILITY OF STUDIES, REPORTS AND INFORMATION

Additional information on the proposed water rates is available in the *Tuckfield & Associates Report on Water Rate Study* and the *Staff Report.* These reports are available for review at the District's administrative offices located at 148 South Wilson Street, Nipomo, California, and on the District's website at www.ncsd.ca.gov. In addition, customers may contact the District General Manager at (805) 929-1133 for further information about the proposed rates.