



May 5, 2016

TO: LOCSD Board of Directors

FROM: Peter J. Kampa, Interim General Manager

SUBJECT: Agenda Item 12C – 5/5/2016 Board Meeting
Consideration of Water Shortage Emergency (Water) Rates and
Declaring a Stage IV Critical Water Supply Emergency

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STAFF RECOMMENDATION

This item is intended for Board discussion, understanding and direction as it relates to the revenue needs of the District and rates previously adopted by the Board.

DISCUSSION

The purpose of this discussion is to detail for the Board of Directors the facts related to the District's revenue shortfall caused by a larger than expected decline in water sales. The District's most recent Financial Plan and Water Rate Study (referred to herein as Study) was completed in December 2014 and accepted by the Board after extensive public and committee review and input. The purpose of the Study was to consider the District's financial needs in the short and mid-term for the operation of its water enterprise and completion of necessary capital improvements. The narrative Financial Projections section of the Study is included herein as Attachment 1.

A public hearing was held to receive comments and protests against the increased water rates proposed in the Study and, lacking a majority protest, the increased rates were adopted by the Board in Resolution 2015-02, included as Attachment 2 herein. These increased rates have been implemented for the 2015/16 fiscal year, and are scheduled for the second increase to take effect on July 1, 2016.

The Study was designed to ensure that the District's revenue was high enough to meet operating costs, increases in costs and major capital projects as detailed in various memoranda to the Board from the District Engineer. The increased rates proposed in the Study would knowing result in an unknown decrease in customer water consumption. The ongoing drought and the District's adoption of a Water Supply Contingency Plan (with violation penalties and restrictions) would obviously further reduce water sales in addition to any rate impact.

To account for the variability in revenue caused by customer water demand changes, the Study contained a revenue recovery component titled Emergency Shortage Rate Structure, intended to be implemented in the event that water sales continued to decline further than estimated. Attachment 3 hereto contains the Study section related to Emergency Shortage Rate adoption.

The Study described a number of actions required of the District to further define the implementation triggers and timing associated with implementation of the Emergency Shortage Rates. To date, the District has not developed the specific triggers for implementation of the Emergency Rates, nor has it implemented any component of the Emergency rates. The severe shortfall on the District's revenue,

when compared to the revenue projections in the Plan, would appear to justify the implementation of the Emergency Shortage Rates; as summarized below:

	STUDY	ACTUAL	VARIANCE
FY 2014-15	\$ 1,850,000	\$ 1,691,402	\$(158,598)
FY 2015-16	\$ 2,072,000	\$ 1,687,529	\$(384,471)
TOTAL			\$(543,069)

The District also adopted Resolution 2015-10 declaring a Stage 3 (Water Supply) Emergency and Resolution 2015-12 amending the Stage 3 Emergency to prohibit the approval of new connections to the water system. These Resolutions are included as Attachment 4. There is no current direct connection between the Emergency Shortage Rates and the Stage 3 Emergency adopted in the Resolutions, therefore their adoption did not automatically trigger implementation of the Emergency Shortage Rates, even though the Emergency Shortage rate structure contains reference to the various stages of emergency (from the Supply Contingency Plan).

Attachment 5 contains water consumption and water revenue graphs showing the continued decline in water sales and revenue. Action is necessary to ensure that the District's water enterprise is funded adequately to complete the necessary capital improvement projects. Also to be considered is the fact that rainfall within the District continues to be at a level that the District should consider a Stage 4 supply emergency pursuant to its supply contingency plan.

Variations From Approved 2014 Financial Plan

A joint FAC/UAC committee meeting was held on April 25, 2016 to address the serious revenue shortfall being experienced by the District as a result of a continued higher than expected level of customer water conservation. The 2014 Financial Plan and Rate Study (Plan) established the basis for water rate increases to be implemented each fiscal year beginning in July 2015 through June 30, 2020. As outlined above, the Plan detailed a specific amount of revenue necessary for the District to continue to operate the water system in compliance with all regulations and standards, as well as to complete Capital Improvement Projects (CIP) required by the ISJ as included in the Basin Management Plan and other projects needed to control expenses, provide safe water and to meet the water supply needs of the community.

The revenue was to be raised through implementation of water rates to be increased by 15% in fiscal year 2015/16, and approximately 15% in FY 2016/17, 8% in both 2017/18 and 2018/19. These cumulative increases result in an overall 52.8% increase in water rates from 2015/16 through 2018/19, with an estimated resulting 39% overall water revenue increase over the four year period.

The Rate Plan had assumed only a 15.5% decrease in water sales in 2014/15 through 2016/17. In actuality, customer consumption appears to have decreased by over 41% in the last two years alone, causing the revenue shortfall shown in the table above. The result is a decrease in overall water revenue of 3.1% in the first year of rate increase implementation rather than the 15% increase in revenue planned.

Revenue Recovery Options

Staff is evaluating several remedial courses of action and seeks the input and direction from the Board in determining our course of action. It is important to understand that the District must operate within the amount and timing of the rate increases as approved by the Board in 2015. In order to implement water rates higher than detailed in the Plan, another rate increase Notice and Public Hearing process would need to be initiated.

Within the approved rate program, following are available options initially considered by staff. All options are presented for public understanding, but not all of which are desirable or feasible for further consideration:

1. **Reduce Water Conservation requirements to increase water sales.** Although this option would increase revenue relatively quickly, there could be unintended consequences to water quality, could violate state mandates and agreements contained within the approved Basin Management Plan. Increasing water sales is not a feasible option for further consideration for these circumstances.
2. **Reduce general operating expenditures.** There is very little elasticity in our current operating expenses, since the majority of costs are directly related to pumping, treating and delivering safe drinking water to customers. If we reduce expenses to the level needed to fund the critical CIP projects, with our current cash flow, our level of service, system maintenance, system reliability and compliance capability will be jeopardized. Operating expense reductions should continue to be considered but are not the solution to the current revenue shortfall.
3. **Reduce the number, scope and cost of Capital Improvement Projects (CIP).** The 2014 Financial Plan and Rate Study included expenditures on projects contained within the District's approved capital improvement program and those regional projects required in the approved Basin Management Plan. Reducing expenditures on these projects requires careful consideration of potential implications to water supply continuity, health and safety and regional agreements made with other entities regarding regional water supplies. At this time, staff cannot support general reductions in funding in support of CIP completion.
4. **Implement Water Shortage Emergency Rates (as adopted).** As stated in the Financial Plan, the intent of the Water Shortage Emergency Rates was to make up revenue lost as a result of higher than expected water conservation. Since this is exactly what occurred, it is logical for the Board to implement these emergency rates at the earliest possible convenience and keep them in effect until adequate revenue is received to make up the revenue shortfall. If the emergency rates are implemented immediately, and customer consumption does not reduce further as a result, our revenue will NOT recover as hoped through implementation of the Emergency Rates detailed in the Plan. We also expect that customers will respond to the Emergency rates with increased water conservation which will further defeat the purpose of the rates. Additional financial projections should be performed to verify the above statements and more closely estimate revenue generation with the Emergency Rates in place long term.
5. **Commission a revised Financial Plan and Rate Study.** The Financial Plan assumed 58% of the District's identified revenue needs would come from water sales; which did not and will not occur. The water sales projections were significantly overstated, and the Shortage Emergency Rates were never intended to be a long term replacement for lost sales revenue. This leaves the Plan and associated rate structure as inadequate to meet this financial needs of the District over the next four years. A revised financial plan and rate study should be considered to reflect accurate to current customer consumption.

Water Shortage Contingency Plan Actions

On April 2, 2016 the Board of Directors declared a Stage III Water Shortage Emergency due to continued low rainfall amounts and concerns with the drought effects on water supply quantity and quality. Drought conditions continue to prevail, with the rainfall amounts meeting and exceeding the climate trigger for a declaration of Stage IV Severe Water Shortage in each the two, three and four year rainfall totals. The climate conditions for the two year and three year rainfall totals exceed the Stage V Critical Water Shortage trigger levels, with the four year total just 1.17 inches below the Critical level as shown below:

Time Period	Rainfall totals From Los Osos Landfill (Inches)	Stage III Emergency	Stage IV Severe	Stage V Critical
April 2012 - March 2013	9.87			
April 2013 - March 2014	6.59			
Two Year Subtotal	16.46	<=29 in rain	<=26 in rain	<=17 in rain
April 2014 - March 2015	7.61			
Three Year Subtotal	24.07	<=43 in rain	<=38 in rain	<=26 in rain
April 2015 - February 2016	11.89			
Four Year Subtotal	35.17	<=58 in rain	<=51 in rain	<=34 in rain

➤ **Reduced Water Sales**

- Water sales have declined in recent years and are expected to decrease further due to additional conservation measures and customer response to rate increases
- Water consumption in the current fiscal year, metered from July through October, was down over 10% compared to the prior fiscal year.
- Reduced levels of water consumption results in reduce water sales revenues, which in turn puts upward pressure on water rates. However, customers who conserve will end up purchasing fewer units of water which helps mitigate the impact of rate increases.
- Projected water sales assume higher percentage cutbacks in higher-tier water sales, coupled with lower percentage cutbacks in the lower tiers. Hence a 5% cutback in water sales would result in a roughly 5.5% decrease in revenues.

➤ **Operating Cost Inflation**

- Annual rate increases are needed to keep revenues in line with ongoing operating cost inflation. Cost inflation for water & wastewater utilities (whose costs are largely related to labor and capital) has historically been higher than CPI, which is more of a measure of urban goods and services.

Financial Projections

BWA developed 10-year water financial projections to evaluate annual revenue requirements and project rate increases. The projections are based on reasonable and slightly conservative assumptions and estimates. The projections facilitate evaluation of long term financial needs so that the District can set course in the right direction with rate increases. The proposed rates should be viewed as near-term steps along a longer path. Finances should be re-evaluated in future years to ensure the District's rates remain on track to meet future revenue requirements and continue to fund the District's costs of providing service.

➤ Key financial plan assumptions include:

- Financial projections are based on the 2014/15 Budget with a few minor modifications to better reflect current and future expenses based on input from District staff.
- Operating cost inflation is projected at 4% per year for planning purposes.
- The projections assume a relatively no growth for the first 5 years, followed by a future growth of 5 new single family homes (or equivalents) per year.

- ○ Water consumption is projected to decrease 10.5% in the current fiscal year based on data from bills sent July - November. Future water sales assume additional 5% reductions in water demand in each of the next two fiscal years, followed by small future reductions based on an estimated -0.20 elasticity (each 10% of future rate increases results in a corresponding 2% decrease in water sales starting 2017/18).

- Water sales revenues also account for two schools transitioning to recycled water for irrigation needs starting January 2017 (with completion of the wastewater treatment plant). The revenue loss at current rates is estimated at approximately \$50,000 per year adjusted by future rate increases.
- Assumes the District receives recycled water revenues for school irrigation at the rate of \$4.35 per ccf. These revenues initially offset a little over 40% of the loss of potable water sales for school irrigation. However, the revenue loss increases in future years as potable rates rise, while the recycled water rate remains unchanged.
- Property tax revenues based on 2014/15 budget of \$180,000 escalating by 2% per year.
- Assumes the District issues debt to finance \$4 million of high-priority capital improvements by early 2015/16. At this stage, it is difficult to pinpoint how much lenders would be comfortable lending to the District. Annual debt service is estimated at \$75,000 per each \$1 million of project funding based on a 20-year loan at 4%. Some banks may not be comfortable with repayment terms over 15 years, which would increase the annual payment. At the same time, an I-Bank loan could result in lower annual debt service, but it is currently not known if the District would qualify for a new I-Bank loan.
- ○ The District's share of ISJ Inter-Agency Cost Sharing is projected at \$50,000 for the next 2 fiscal years then decreases to \$20,000 annually plus cost inflation.
- New brine disposal costs are projected at \$50,000 in the current fiscal year, then escalate to \$100,000 over the next 2 years and increase to account for cost inflation thereafter.
- Assumes water conservation program funding of \$30,000 per year plus cost inflation.
- Capital improvement expenditures are based on CIP funding projections and account for 3% annual construction cost inflation.
- AMR meter replacement expenses are projected to continue at their current level adjusted for cost inflation through 2022/23, when the program is expected to be completed.
- Minimum fund reserve target for planning purposes recommended at 25% of annual operating, maintenance and debt service expenses, plus \$500,000 for emergency capital reserves.

Water Rate Projections

The following table shows projected water rates for the next 4 fiscal years along with additional information including a) the overall target rate increase and projected revenue increase generated from the rates offset by reduced water sales, b) the total 4-year increase to each component of the rate structure, and c) the differences between the water consumption rates per tier each year.

Projected Water Rates							
	Current	Projected				4-Year	
	2014/15	2015/16	2016/17	2017/18	2018/19	Increase	
Overall Rate Increase		15%	15%	7.5%	7.5%	52.8%	
Projected Revenue Increase		12.5%	9.5%	5.8%	6.6%	39.0%	
Fixed Bi-Monthly Service Charge	\$45.76	\$52.36	\$59.32	\$64.64	\$70.42	\$24.66	
Monthly Equivalent	22.88	26.18	29.66	32.32	35.21	12.33	
Water Consumption Charges (\$/ccf)							
Tier 1	0 - 5 ccf	\$1.63	\$2.00	\$2.35	\$2.50	\$2.60	\$0.97
Tier 2	6 - 10 ccf	3.07	3.75	4.40	4.80	5.20	2.13
Tier 3	11- 20 ccf	5.23	6.00	6.75	7.25	7.80	2.57
Tier 4	>20 ccf	7.20	8.20	9.20	9.80	10.40	3.20
<i>1 ccf = one hundred cubic feet = 748 gallons</i>							
Difference Between Tier Rates							
Tier 1 - 2		\$1.44	\$1.75	\$2.05	\$2.30	\$2.60	
Tier 2 - 3		2.16	2.25	2.35	2.45	2.60	
Tier 3 - 4		1.97	2.20	2.45	2.55	2.60	

Date: February 5, 2015
 Agenda Item: 7B
 Approved
 Denied
 Continued to

RESOLUTION NO. 2015-02

**A RESOLUTION OF THE BOARD OF DIRECTORS
 OF THE LOS OSOS COMMUNITY SERVICES DISTRICT
 AMENDING TITLE 2 SECTION 2.01.19 (A) DISTRICT RATES, CHARGES AND FEES**

WHEREAS, the Los Osos Community Services District ("District") became effective January 1, 1999, pursuant to an election and Resolution No 98-239 of the Board of Supervisors of the County of San Luis Obispo, and under the authority of the Cortese-Knox Local Government Reorganization Act of 1985 (Government Code §56000 et seq.); and

WHEREAS, the District established water rates and fees through Ordinance No. 2000-03 Establishing Bi-Monthly Rates for Water Service; and

WHEREAS, it is a major responsibility of the Los Osos Community Services District ("District") to maintain adequate levels of revenue, equitably collected from all classes of water customers to meet financial commitment of the District's water operations department, which benefit the customer or property being charged; and

WHEREAS, in 2015 the District retained Bartle Wells Associates to develop water rate and charge increases and water shortage emergency rates to meet the financial needs of the system. The increases were developed with input from District's Financial Advisory and Utilities Advisory Committees.

WHEREAS, the District water rate and charge increases will be phased over the next four years in an effort to minimize cost impacts to customers. Water service charge increases will include 1) a fixed bi-monthly Service Charge not based on water use, and 2) bi-monthly Water Consumption Charges billed based on metered water use. Water Consumption Charges shall be billed in four phases using four inclining rate tiers as shown in Exhibit A Water Rates and Charges Update.

WHEREAS, Water Shortage Emergency Rates will be implemented to maintain adequate operating revenues during periods of reduced water sales and will include five (5) water use reduction stages as shown in Exhibit A 2015 Water Shortage Emergency Rates. In the event of a Stages 3, 4, 5 water shortage emergency, LOCSD will implement additional rate increases that will apply only to the District's Water Consumption Charges for bi-monthly metered water use. Water Shortage Emergency Rates are temporary and will be phased out as water use returns to normal.

WHEREAS, Government Code §61115 authorizes the District to adopt rates and charges by Resolution; and

WHEREAS, on February 5, 2015, the District conducted a duly noticed public hearing wherein the Board of Directors considered public comment in support and in opposition to the proposed rate and charge increase and whether or not a majority protest to the proposed rate and charge increase exists pursuant to Section 6 of Article XIII D of the California Constitution.

WHEREAS, the Board on February 5, 2015, has conducted the protest hearing and a total of 34 protests were filed before the end of the hearing.

WHEREAS, the Board finds that the number of protests do not constitute a majority.

WHEREAS, based on facts and analysis presented in the Water Rate Study, written protests received prior to the close of the February 5, 2015, public hearing, the Staff Report, Staff Presentation and public testimony received, the Board of Directors finds:

A. The District identified the parcels upon which the new rates and charges will be imposed, calculated the amount of the rates, and mailed notices to all Owners of Record and Customers of Record of properties responsible for the water rates and charges, which notices provided information on the proposed rates and charges, the basis for the calculation, the reason for the rates and charges, and the date, time, and location for a public hearing which was not less than 45 days after the date of mailing.

B. The public hearing adopting this Resolution has been properly noticed pursuant to Government Code §54954.2 (The Brown Act).

C. The rates and charges adopted by this Resolution:

1. Are for the purposes of meeting operation, maintenance, and capital replacement expenses for providing adequate water services for District customers.
2. Will be applied to customer water bills no sooner than April 1, 2015.
3. Do not exceed the funds required to provide adequate water service to District customers.
4. Do not exceed the proportional cost of services attributable to those parcels receiving water service.

D. The revenues derived from the water rate and charge increases and water shortage emergency rates will not be used for any purpose other than that for which the rate and charges are herein imposed.

NOW, THEREFORE, BE IT RESOLVED, DETERMINED AND ORDERED, by the Board of Directors of the District as follows:

Section 1. Incorporation of Recitals

The Recitals are true and correct and incorporated herein by this reference. The Recitals and referenced reports and studies contained therein constitute and support the findings of the District in support of this Resolution.

Section 2. Water Rates

The following amendment is hereby adopted:

Section 2 01.19. District rates, charges and fees

A. Water rates, charges and fees

Water rates are set forth in Appendix A (previously adopted by Ordinance No. 2000-03), and amended by Resolution 2015-02 to include Exhibit A 2015 Water Rates and Charges Update, and 2015 Water Shortage Emergency Rates

Section 3. Repeal of Prior Ordinances and Resolutions

All Ordinances, Resolutions and sections of Ordinances and Resolutions that are inconsistent with this Resolution are hereby repealed.

Section 4. Effect of Repeal on Past Actions and Obligations

This Resolution does not affect prosecutions for violations committed prior to the effective date of this Resolution, does not waive any fee or penalty due and unpaid on the effective date of this Resolution, and does not affect the validity of any bond or cash deposit posted, filed or deposited pursuant to the requirements of any prior Resolution or Ordinance.

Section 5. CEQA Findings

The Board of Directors of the District finds that the rates and charges adopted by this Resolution exempt from the California Environmental Quality Act pursuant to Public Resources Code § 21080(b)(8) and CEQA Guidelines Section 15273. The District General Manager is directed to prepare and file appropriate notices.

Section 6. Severance Clause

If any section, subsection, sentence, clause or phrase of this Resolution is for any reason held to be unconstitutional, ineffective or in any manner in conflict with the laws of the United States, or the State of California, such decision shall not affect the validity of the remaining portions of this Resolution. The Governing Board of the District hereby declares that it would have adopted this Resolution and each section, subsection, sentence, clause and phrase thereof, irrespective of the fact that any one or more sections, subsections, sentences, clauses or

phrases be declared unconstitutional, ineffective, or in any manner in conflict with the laws of the United States or the State of California.

Section 7. Effective Date

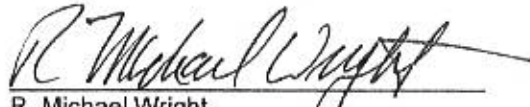
This Resolution shall take effect immediately. The rates and charges adopted by this Resolution shall take effect no sooner than April 1, 2015.

ADOPTED this 5th day of February by the Governing Body of the Los Osos Community Services District by the following roll call votes:

Upon motion of Director DeKubski, seconded by Director Tornatzky and on the following roll call vote, to wit:

AYES: DeKubski, Tornatzky, Storm, Wright
NOES: Cebal
ABSENT: _____
ABSTAIN: _____

The foregoing resolution is hereby passed and adopted this 5th day of February, 2015.



R. Michael Wright
President, Board of Directors
Los Osos Community Services District

ATTEST:


Kathy A. Kivley
General Manager and Secretary to the Board

APPROVED AS TO FORM:

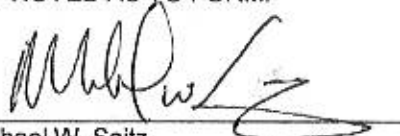

Michael W. Seitz
District Legal Counsel

Exhibit A
2015 Water Rate and Charges Update

	2015-2018 Water Rates			
	July 1 2015	July 1 2016	July 1 2017	July 1 2018
Fixed Bi-Monthly Service Charge	\$52.36	\$59.32	\$64.64	\$70.42
<i>Monthly Equivalent</i>	26.18	29.66	32.32	35.21

Water Consumption Charges

Rate per hundred cubic feet (ccf) of metered water use per bi-monthly billing period.

Tier 1	0 - 5 ccf	\$2.00	\$2.35	\$2.50	\$2.60
Tier 2	6 - 10 ccf	3.75	4.40	4.80	5.20
Tier 3	11- 20 ccf	6.00	6.75	7.25	7.80
Tier 4	>20 ccf	8.20	9.20	9.80	10.40

1 ccf = one hundred cubic feet = 748 gallons

Equivalent Rate per 100 Gallons of Water Use (for informational purposes only)

Tier 1	0 - 5 ccf	\$0.27	\$0.31	\$0.33	\$0.35
Tier 2	6 - 10 ccf	0.50	0.59	0.64	0.70
Tier 3	11- 20 ccf	0.80	0.90	0.97	1.04
Tier 4	>20 ccf	1.10	1.23	1.31	1.39

2015 Water Shortage Emergency Rates

Maximum Water Shortage Emergency Rates

		Stage 3	Stage 4	Stage 5
		Emergency Water Shortage	Severe Water Shortage Emergency	Critical Water Shortage Emergency
Water Shortage Emergency Rates				
<i>Rate per hundred cubic feet (ccf) of metered water use per bi-monthly billing period.</i>				
Tier 1	0 - 5 ccf	\$2.60	\$3.14	\$3.51
Tier 2	6 - 10 ccf	5.20	6.29	7.02
Tier 3	11- 20 ccf	7.80	9.43	10.52
Tier 4	>20 ccf	10.40	12.57	14.03

1 ccf = one hundred cubic feet = 748 gallons

being unfairly burdened due to the compounded effect of both overall and structural rate increases.

- Potential rate structure alternatives could include:
 - Adopting across-the-board rate increases with no rate structure modifications
 - Levying fixed bi-monthly service charges based on each customer's meter size and capacity. This would result in higher fixed charged for larger customers.
 - Maintaining the current tiered water consumption rate structure for single family and potentially small commercial accounts, but transitioning to a uniform average rate for larger customers, many of which currently purchase the majority of their water in the higher tiers.
 - Changing the level of cost recovery from fixed vs. variable rates.
 - Potentially further reducing the steepness of current tiered consumption charges. This would result in increased impacts on low to moderate water users and reduced impacts on high water users compared to the proposed rates.
 - Transitioning to some form of budget-based water rates (similar to water rationing) with customers allocated water based on number of residents per household and potentially other factors. Water use within a customer's allocation would be billed at a lower rate, and water use above their allocation would be billed at a higher rate to discourage unnecessary use.
- Based on conceptual discussion and input provided by the District's FAC and UAC, the proposed rates maintain the District's current rate structure with a few relatively minor modifications noted earlier.

→ Water Shortage Emergency Rates

- BWA also developed Water Shortage Emergency Rates with the goal of helping the District to remain financially stable during periods of emergency water shortages and resulting reductions in water sales.
 - The proposed emergency rates are designed to support financial stability and are entirely separate from the water use penalties identified in the previously-adopted Water Shortage Contingency Plan (presented August 2014). The Plan defines 5 stages of water reduction targets and includes escalating water use restrictions and penalties designed to reduce water consumption to achieve the reduction targets.
 - Under the *Water Shortage Contingency Plan*, customers are required to cut back water use to various designated levels associated with each stage of warning or emergency. Beginning with a Stage 3 Emergency, water use in excess of the allowed allocations is subject to penalties of 2x and 4x the District's regular water rates. The proposed Water

Shortage Emergency Rates assume customers reduce consumption to comply with the cutback requirements.

NEXT
STEP
→

➤ Trigger points for implementing emergency water shortage rates:

- BWA recommends the District establish a clear process for implementing Water Shortage Emergency Rates.
- Trigger points for Water Shortage Emergency Rates are designed to correspond with the escalating emergency stages identified in the Water Shortage Contingency Plan.
- Water Shortage Emergency Rates can be phased in at Board direction, such as via Board action declaring escalating Water Shortage Emergency Stages.
- Water Shortage Emergency Rates should be gradually phased out as water sales return to normal levels projected for each year. Emergency Rates should not immediately be rescinded when a water shortage stage is declared over as it typically takes additional time for water sales to return to normal-year levels.

Describe

- The proposed Water Shortage Emergency Rates are designed to a) account for projected water use reductions already factored into the normal-year water rate projections, b) compensate for reduced water sales revenues, and c) compensate for an estimate of additional costs the District may need to incur to help ensure compliance with the various water shortage emergency stages.
 - The proposed rates assume higher cutback levels in higher tiers, and less in lower tiers, in response to the escalating water shortage emergency stages.
 - The proposed rates also assume additional conservation program costs of \$50,000 in Stage 3 escalating to \$150,000 in Stage 5.
- BWA developed Water Shortage Emergency Rates for each year based on the financial projection and water sales projections developed for the rate study. BWA recommends the District adopt the Water Shortage Emergency Rates for 2018/19 as maximum levels to give the District some flexibility to phase in emergency rates up to those maximum levels in upcoming years as needed.
- The maximum Water Shortage Emergency Rates should be adopted along with regular water rate increases via the Proposition 218 process in order to give LOCSD the legal authority to implement emergency rates when needed. The District can opt to phase in emergency rates as needed provided the rates do not exceed the maximum levels noticed and adopted via the Proposition 218 process.

Water Shortage Emergency Rates

	Stage 3	Stage 4	Stage 5
	Emergency Water Shortage	Severe Water Shortage Emergency	Critical Water Shortage Emergency
Water Use Reduction Target (from Baseline)	25%	35%	50%
2015/16 Water Shortage Emergency Rates			
Required Additional Rate Increase %	9.5%	31.5%	47.7%
Tier 1	\$2.19	\$2.63	\$2.95
Tier 2	\$4.11	\$4.93	\$5.54
Tier 3	\$6.67	\$7.89	\$8.86
Tier 4	\$8.98	\$10.78	\$12.91
2016/17 Water Shortage Emergency Rates			
Required Additional Increase %	4.5%	25.0%	40.0%
Tier 1	\$2.46	\$2.94	\$3.29
Tier 2	\$4.60	\$5.50	\$6.16
Tier 3	\$7.05	\$8.44	\$9.45
Tier 4	\$9.61	\$11.50	\$12.88
2017/18 Water Shortage Emergency Rates			
Required Additional Increase %	1.9%	22.9%	37.4%
Tier 1	\$2.55	\$3.07	\$3.43
Tier 2	\$4.89	\$5.90	\$6.59
Tier 3	\$7.39	\$8.91	\$9.96
Tier 4	\$9.99	\$12.04	\$13.46
2018/19 Water Shortage Emergency Rates			
Required Additional Increase %	-	20.9%	34.9%
Tier 1	\$2.60	\$3.14	\$3.51
Tier 2	\$5.20	\$6.29	\$7.02
Tier 3	\$7.80	\$9.43	\$10.52
Tier 4	\$10.40	\$12.57	\$14.03

July 1, 2016
→

Note: Due to anticipated reductions in normal-year water sales factored into the regular water rate increases, no additional rate increases would be needed to support financial stability in a Stage 1 or Stage 2 emergency, or under a Stage 3 emergency in 2018/19.

RESOLUTION 2015 - 10

**RESOLUTION OF THE BOARD OF DIRECTORS
OF THE LOS OSOS COMMUNITY SERVICES DISTRICT
AMENDING THE DISTRICT'S WATER SHORTAGE CONTINGENCY PLAN
AND DECLARING A STAGE III EMERGENCY**

WHEREAS, the Los Osos Community Services District ("District") became effective January 1, 1999, pursuant to an election and Resolution No 98-239 of the Board of Supervisors of the County of San Luis Obispo, and under the authority of the Cortese-Knox Local Government Reorganization Act of 1985 (Government Code §56000 et seq.); and

WHEREAS, in September, 2014, the District adopted a Water Shortage Contingency Plan that identified voluntary and mandatory water use restrictions and shortage stages I-V designed to reduce water demand in response to drought or other water quality or supply deficiencies.

WHEREAS, the purpose of this resolution is to declare a Stage III Water Shortage Emergency within the Los Osos Community Services District based on the climate trigger of less than 43" of total cumulative rainfall over the course of 3 years pursuant to the guidelines within the adopted Water Shortage Contingency Plan.

WHEREAS, the Board of Directors desires to modify the adopted Water Shortage Contingency Plan to establish a daily water volume allocation for each residential occupant within the District, in place of the previously-adopted allocation which assumes a minimum household size of 3 persons.

WHEREAS, the Board of Directors has elected to provide flexibility in the use of water within a residential customer's allocation by removing the prohibition on outdoor irrigation.

WHEREAS, the public hearing for adopting this Resolution has been properly noticed pursuant to Government Code §54954.2 (The Brown Act).

NOW, THEREFORE, BE IT RESOLVED, DETERMINED AND ORDERED, by the Board of Directors of the District as follows:

1. The above recitals are true and correct.
2. A. The Water Shortage Contingency Plan is hereby modified to establish an allocation per occupant for residential and multifamily uses as follows:
 - a. Stage III – 50 gallons per day per occupant
 - b. Stage IV – 45 gallons per day per occupant
 - c. Stage V – 42 gallons per day per occupant

B. Allocations are not transferable from residential or multifamily.
3. The Water Shortage Contingency Plan is hereby modified to remove the prohibition on the use of potable water to irrigate landscaping from Stages III, Stage IV, and Stage V.
4. The District General Manager shall provide all customers with a written notice of the Stage III Emergency, including a description of the allowable water use per occupant and penalties for non-compliance. Customers shall have a minimum of a full water billing cycle prior to the enforcement of penalties.
5. All Ordinances, Resolutions and sections of Ordinances and Resolutions that are inconsistent with this Resolution are hereby repealed.

6. The Board of Directors of the District finds that the Stage III Water Shortage Emergency adopted by this Resolution is exempt from the California Environmental Quality Act pursuant to Public Resources Code § 21080(b)(8) and CEQA Guidelines Section 15273. The District General Manager is directed to prepare and file appropriate notices.
7. If any section, subsection, sentence, clause or phrase of this Resolution is for any reason held to be unconstitutional, ineffective or in any manner in conflict with the laws of the United States, or the State of California, such decision shall not affect the validity of the remaining portions of this Resolution. The Governing Board of the District hereby declares that it would have adopted this Resolution and each section, subsection, sentence, clause and phrase thereof, irrespective of the fact that any one or more sections, subsections, sentences, clauses or phrases be declared unconstitutional, ineffective, or in any manner in conflict with the laws of the United States or the State of California.

Upon the motion of Director Ochylski, seconded by Director Storm and on the following roll call vote:

AYES: Ochylski, Storm, Casera, Tornatzky, Wright
 NOES: _____
 ABSENT: _____
 ABSTAIN: _____

The following Resolution is hereby passed, approved and adopted by the Board of Directors of the Los Osos Community Services District on the 2nd day of April 2015.

R. Michael Wright
 R. Michael Wright
 President, Board of Directors
 Los Osos Community Services District

ATTEST:

Kathy A. Kivley
 Kathy A. Kivley
 General Manager and Secretary to the Board

APPROVED AS TO FORM:

Michael W. Seitz
 Michael W. Seitz
 District Legal Counsel

RESOLUTION NO. 2015-12

**A RESOLUTION OF THE BOARD OF DIRECTORS
OF THE LOS OSOS COMMUNITY SERVICES DISTRICT
AMENDING STAGE III OF THE DISTRICT'S WATER SHORTAGE CONTINGENCY PLAN**

WHEREAS, the Los Osos Community Services District ("District") became effective January 1, 1999, pursuant to an election and Resolution No 98-239 of the Board of Supervisors of the County of San Luis Obispo, and under the authority of the Cortese-Knox Local Government Reorganization Act of 1985 (Government Code §56000 et seq.); and

WHEREAS, in September, 2014, the District adopted a Water Shortage Contingency Plan that identified voluntary and mandatory water use restrictions and shortage stages I-V designed to reduce water demand in response to drought or other water quality or supply deficiencies.

WHEREAS, on April 2, 2015, the District declared a Stage III Emergency pursuant to the guidelines within the adopted Water Shortage Contingency Plan.

WHEREAS, the Board of Directors desires to modify Stage III of the adopted Water Shortage Contingency Plan to suspend the processing of Intent to Serve letters for the establishment of new water services.

WHEREAS, the public hearing for adopting this Resolution has been properly noticed pursuant to Government Code §54954.2 (The Brown Act).

NOW, THEREFORE, BE IT RESOLVED, DETERMINED AND ORDERED, by the Board of Directors of the District as follows:

1. The above recitals are true and correct.
2. Stage III of the Water Shortage Contingency Plan is hereby modified to suspend the processing of all new Intent to Serve applications, unless such applications were submitted and deemed complete prior to April 2, 2015.
3. All Ordinances, Resolutions and sections of Ordinances and Resolutions that are inconsistent with this Resolution are hereby repealed.
4. The Board of Directors of the District finds that the proposed modification to the Stage III Water Shortage Emergency adopted by this Resolution is exempt from the California Environmental Quality Act pursuant to Public Resources Code § 21080(b)(8) and CEQA Guidelines Section 15273. The District General Manager is directed to prepare and file appropriate notices.
5. If any section, subsection, sentence, clause or phrase of this Resolution is for any reason held to be unconstitutional, ineffective or in any manner in conflict with the laws of the United States, or the State of California, such decision shall not affect the validity of the remaining portions of this Resolution. The Governing Board of the District hereby declares that it would have adopted this Resolution and each section, subsection, sentence, clause and phrase thereof, irrespective of the fact that any one or more sections, subsections, sentences, clauses or phrases be declared unconstitutional, ineffective, or in any manner in conflict with the laws of the United States or the State of California.

Upon the motion of Director Dekyelski, seconded by Director Storm
and on the following roll call vote:

AYES: Dekyelski, Storm, Casera, Tomatzky, Wright
NOES: _____
ABSENT: _____
ABSTAIN: _____

The following Resolution is hereby passed, approved and adopted by the Board of Directors of the Los Osos Community Services District on the 7th day of May 2015.

R. Michael Wright
R. Michael Wright
President, Board of Directors
Los Osos Community Services District

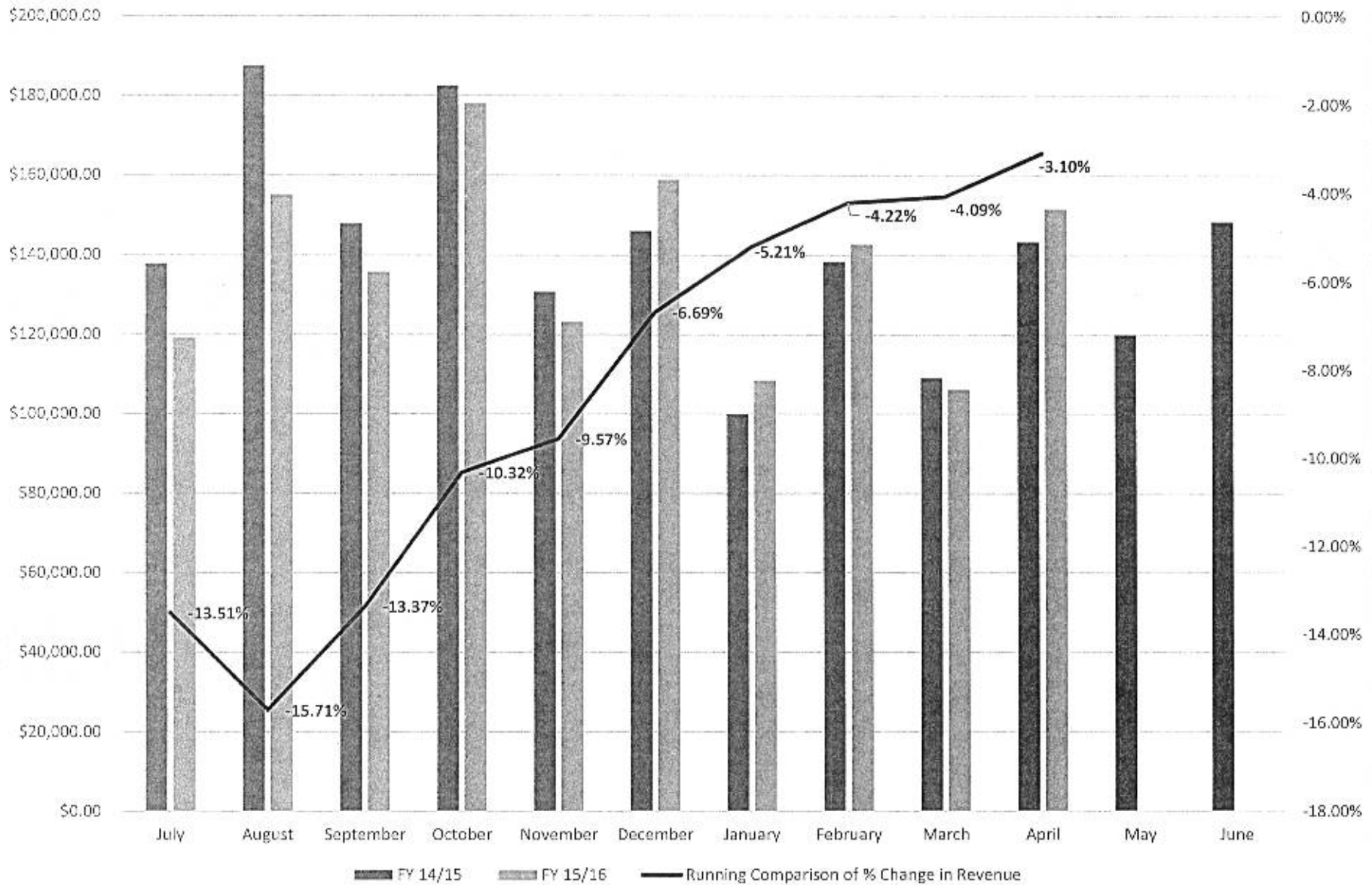
ATTEST:

Ann G. Kudart
Ann G. Kudart
Deputy Secretary to the Board of Directors

APPROVED AS TO FORM:

Michael W. Seitz
Michael W. Seitz
District Legal Counsel

LOCSD Revenue Comparison Based On Water Billing
FY 14/15 vs FY 15/16



LOCSD Consumption Comparison Based on Water Billing FY 14/15 to FY 15/16

