

To: James L. App, City Manager
From: Mike Compton, Director of Administrative Services
Subject: Public Hearing - Water User Fees for Nacimiento Water
DATE: August 3, 2004

Needs:

Consider introduction and first reading of an ordinance modifying water user fees for Nacimiento Water.

Facts:

1. The Council at their July 20, 2004 meeting authorized the execution of the Nacimiento Water contract with the San Luis Obispo Flood Control District.
2. This same contract was previously approved by the City of San Luis Obispo and Atascadero Mutual Water Company.
3. The agenda staff report presented to the Council at their July 20, 2004 proposed an increase in monthly water rates beginning July 1, 2005 at the rate of \$6.00 continuing every July 1st thereafter until the total monthly increase is \$36 to pay for Nacimiento Water.
4. This public hearing has been duly noticed and scheduled for Council consideration and action.

Analysis
and
Conclusion:

The Nacimiento Water Project (NWP) poses a unique challenge. Come 7/1/10 or thereabouts, the City will need, according to current estimates prepared by County engineering, \$4.8 million annually in new, reoccurring revenues (ignoring the operating cost of a water treatment facility). Impact fees alone will NOT provide sufficient funds. The NWP component of the impact fee is \$3,300. At 200 units annually, only \$660,000 would be collected, far short of the \$4.8 million required annually to meet annual debt and operating costs. Other dilemmas include:

- ✓ Impact fees are only collected once. They don't provide a continuous revenue source.
- ✓ Bond covenants will likely require an ongoing "operating" revenue source;(i.e. user fees rather than a development based revenue source; i.e. impact fee).

The following assumptions are built into the user fee analysis:

- City's share of NW capital cost is \$51 million + \$1 million for pre-project.
- The annual revenue requirement beginning 7/1/10 is \$4.8 million.

- All impact fees collected for NW will be handled as an “operating transfer in” for water operations in order to mitigate as much as possible the impact upon user fees.
- City will construct 200 new residential units annually.
- The County will require, via the inter-agency agreement, a special reserve of 25% from each participant to cover “agency failures”. Should a participant fail to honor their contractual obligation for debt service and operational costs, the remaining non-County participants will be required to “backfill” the failure. It is assumed that existing City impact fees and/or operational funds may be pledged to meet said obligation without any impact upon user or impact fees.
- \$10,000,000 estimated cost of water treatment facility would be added to impact fee schedule.
- User fees collected from 7/1/05 through 6/30/10 would be used with these impact fees to pay for the water treatment facility. The shortfall, if any, would be backfilled temporarily from impact fee fund.
- Annual inflationary adjustments to user fees may provide sufficient revenues for maintenance and operations of the treatment facility. As costs for the treatment facility are “engineered” rates may be adjusted accordingly.

There is no option that reflects the establishment of community facility districts (CFD). However, any resources derived from CFD could readily be used to “write down” user fees and/or capital costs depending upon the timing and source. CFD may readily lend themselves to a “NW” user fee wherein each unit pays an operating “surcharge” for NW.

Fiscal
Impact:

Given the assumptions just noted above, the water user fees would need to be increased by \$36 per the following calculation:

NW annual capital cost if financed	=	\$3,373,000
NW annual operating cost	=	<u>1,440,000</u>
Total Annual Cost		<u>\$4,813,000</u>

Total Customers = 10,000

Annual Cost / Customers = \$481 \$481/12 = \$40

- User fee credit for “operating transfer in” from water impact fee fund would be \$660,000 (\$3,300 x 200).
- Monthly user fee credit would be \$5.00 (\$660,000/10,000/12).

NET MONTHLY USER FEE INCREASE REQUIRED = \$35.00 (\$40.00-\$5.00)

To mitigate impact upon rate payers, it is proposed that water rates be increased each July 1st beginning 7/1/05 by \$6.00 per month. Thus, on 7/1/10, rate payers would be paying an additional \$36.00 per month.

It should be noted that this \$36.00 does NOT include a component for the maintenance and operations of a water treatment facility. Initial estimates put this expense at \$1 million annually. Until such time as more accurate cost is determined, staff has not recommended an adjustment for the water treatment. However, based upon the NWP adjustment, \$1.39 each 7/1 would get the rate to the \$8.33 per month required to generate \$1 million annually.

Options:

- a. That the Council, upon close of the public hearing, introduce and hold first reading of Ordinance No. XXX N.S. to modify sewer and water user fees; and set August 17, 2004, as the date for adoption of said ordinance.
- b. Amend, modify, or reject the above option.

Memorandum



To: Jim App, City Manager

From: Mike Compton, Director of Administrative Services
Meg Williamson, Acting Public Works Director
Assistant to the City Manager

Cc: Jennifer Sorenson, Finance Manager

Subject: Revenue Needs for Nacimientito Water

Date: June 11, 2004

The 2001 water impact fee study did not include the Nacimientito Water Project (NWP) as the Council had not made a formal decision relative to the City's participation. Since then, the Council has decided to participate and the NWP was included in the 2004 Study Update. The Final Letter Report dated May 24, 2004 as prepared by Foresight Consulting included the NWP at a cost of \$45 million based upon the SLO County's best estimates at the time. Due to the inclusion of the NWP as well as other CIP budget modifications approved by Council, the Study indicates that the water impact fee should increase from \$3,703 to \$6,685 per single family residential unit. Copy of the Report is attached.

Since May 24th, SLO County engineering has released revised NW cost figures that now identify Paso's capital cost at \$51.3 million. Staff's estimate for a NW treatment facility is \$10 million, making the total estimated capital cost for the NWP \$61.3 million. These revised capital costs would add an additional \$1,049 to the impact fee increasing it to \$7,734 per single family residential unit.

The NWP poses a unique challenge. Come 7/1/10 or thereabouts, the City will need, according to current estimates prepared by County engineering, \$4.8 million annually in new, reoccurring revenues (ignoring the operating cost of a water treatment facility). Impact fees alone will NOT provide sufficient funds. The NWP component of the impact fee is \$3,300. At 200 units annually, only \$660,000 would be collected, far short of the \$4.8 million required annually to meet annual debt and operating costs. Other dilemmas include:

- Impact fees are only collected once. They don't provide a continuous revenue source.
- Bond covenants will likely require an ongoing "operating" revenue source; (i.e. user fees rather than a development based revenue source; i.e. impact fee).

The following assumptions are included in financial analysis included herein:

- City's share of NW capital cost is \$51 million + \$1 million for pre-project.
- The annual revenue requirement beginning 7/1/10 is \$4.8 million.

- All impact fees collected for NW will be handled as an “operating transfer in” for water operations in order to mitigate as much as possible the impact upon user fees.
- City will construct 200 new residential units annually.
- The County will require, via the inter-agency agreement, a special reserve of 25% from each participant to cover “agency failures”. Should a participant fail to honor their contractual obligation for debt service and operational costs, the remaining non-County participants will be required to “backfill” the failure. It is assumed that existing City impact fees and/or operational funds may be pledged to meet said obligation without any impact upon user or impact fees.
- \$10,000,000 estimated cost of water treatment facility would be added to impact fee schedule.
- User fees collected from 7/1/05 through 6/30/10 would be used with these impact fees to pay for the water treatment facility. The shortfall, if any, would be backfilled temporarily from impact fee fund.
- Annual inflationary adjustments to user fees may provide sufficient revenues for maintenance and operations of the treatment facility. As the cost for the treatment facility are “engineered”, rates may be adjusted accordingly.

There is no option that reflects the establishment of community facility districts (CFD). However, any resources derived from CFD could readily be used to “write down” user fees and/or capital costs depending upon the timing and source. CFD may readily lend themselves to a “NW” user fee wherein each unit pays an operating “surcharge” for NW.

Nacimiento Water Analysis

- Development impact fee for NW would be \$3,300 per residential unit
- Development impact fee for NW treatment plant would be \$650 per residential unit
- Monthly user fee adjustment for NW would be \$40 per month, calculated as follows:

NW annual capital cost if financed	=	\$3,373,000
NW annual operating cost	=	<u>1,440,000</u>
Total Annual Cost		<u>\$4,813,000</u>

Total Customers = 10,000

Annual Cost / Customers = \$481 \$481/12 = \$40

- User fee credit for “operating transfer in” from water impact fee fund would be \$660,000 (\$3,300 x 200).
- Monthly user fee credit would be \$5.00 (\$660,000/10,000/12).

NET MONTHLY USER FEE INCREASE REQUIRED = \$35.00

It is recommended that the water user fees be increased by \$6.00 per month each year beginning 7/1/05 through 7/1/10 for the specific purpose of “easing” the annual operating cost impact of NW. During this time span, the amounts collected would be deposited into a special fund along with treatment facility impact fees and be used to “cash out” the construction of the water treatment plant.

Amounts collected from user fees is illustrated as follows:

NW Water User Fees					
	7/1/2005	7/1/2006	7/1/2007	7/1/2008	7/1/2009
\$	720,000	\$ 720,000	\$ 720,000	\$ 720,000	\$ 720,000
		720,000	720,000	720,000	720,000
			720,000	720,000	720,000
				720,000	720,000
					720,000
	720,000	1,440,000	2,160,000	2,880,000	3,600,000
Total	\$ 10,800,000				

Amounts collected from NW treatment impact fees is illustrated as follows:

NW Treatment Plant Impact Fees					
9/1/2004	7/1/2006	7/1/2006	7/1/2007	7/1/2008	7/1/2009
\$ 108,550	\$ 130,000	\$ 130,000	\$ 130,000	\$ 130,000	\$ 130,000
	130,000	130,000	130,000	130,000	130,000
		130,000	130,000	130,000	130,000
			130,000	130,000	130,000
				130,000	130,000
					130,000
108,550	260,000	390,000	520,000	650,000	780,000
\$ 2,708,550					

\$ 10,000,000 Estimated Cost of Treatment Water Plant

Summary of all amounts collected:

<u>\$ 10,000,000</u>	Estimated Cost of Treatment Water Plant
10,800,000	Contribution from NW user fees
2,708,550	Contribution from impact fee fund (future TP fees)
<u>\$ 13,508,550</u>	Total Treatment Plant Contribution

After 7/1/10, NW treatment plant impact fees would be used to 'repay' users, via an operating transfer "in" for their upfront contribution towards construction of the treatment plant. User fees collected prior to 7/1/10 would be used to pay annual debt service and operating & maintenance costs of NW delivery system.

Whether the user fee increase is on the fixed rate portion or variable rate portion is not addressed at this time. The critical key is to begin implementing a series of rate increase to ease customers into the final cost for NW. Given that the annual cost for NW is known and relatively fixed, using the fixed rate portion of the current rate structure would provide a greater degree of confidence that the amounts collected would be sufficient. Using the variable rate portion may subject customers to a number of unscheduled rate modifications to adjust fee collections due to the

seasonality of water consumption and consumption variations arising from water conservation efforts.

RESOLUTION NO. 04-

A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF EL PASO DE ROBLES
APPROVING REVISED SEWER AND WATER CONNECTION FEES

WHEREAS, the City Council revised the City's sewer and water connection fees (development impact fees) on December 18, 2001 by approving Resolution No. 01-266; and

WHEREAS, Resolution No. 01-266 called for bi-annual updates; and

WHEREAS, the City Council approved Resolution No. 03-212 authorizing a budget appropriation for the fee update study; and

WHEREAS, the City engaged the firm of Foresight Consulting to update the sewer and water connection fees in accordance with Council policy; and

WHEREAS, in accordance with procedures set forth in state law, copies of the report prepared by Foresight Consulting have been and are available for public review and copying; and

WHEREAS, the study found that sewer and water connection fees should be revised in order to provide sufficient funding to construct the sewer and water infrastructure improvements necessary to serve future growth.

NOW, THEREFORE, BE IT HEREBY RESOLVED by the City Council of the City of El Paso de Robles that based upon the Study prepared by Foresight Consulting, there is a need to modify the existing sewer and water connection fees in the amounts necessary to cover the estimated reasonable cost of providing sewer and water services.

BE IT FURTHER RESOLVED that the City Council of the City of El Paso de Robles hereby approves and adopts the schedule of sewer and water connection fees, attached hereto as Exhibit "A", that shall be effective October 4, 2004. Said fees shall be payable for each and every building permit issued on or after October 4, 2004. All permittees must pay the entire amount of the fee in effect at the time of issuance of building permit, taking into account any credit for any amounts paid prior to building permit issuance.

BE IT FURTHER RESOLVED by the City Council of the City of El Paso de Robles that the fees identified in Exhibit "A" shall be modified annually each July 1 based on the change in the Engineering News Record's construction cost index as reported for the twelve month period ending in April of each year.

BE IT FINALLY RESOLVED by the City Council of the City of El Paso de Robles that said sewer and water connection fees shall reviewed no less than bi-annually in conjunction with the update of the City's four year financial plan to ensure that the sewer and water connection fees then in existence do not exceed the estimated reasonable costs of providing the public facilities and services for which they are imposed.

PASSED AND ADOPTED by the City Council of the City of Paso Robles this 3rd day of August 2004 by the following vote:

AYES:
NOES:
ABSTAIN:
ABSENT:

Frank Mecham, Mayor

ATTEST:

Sharilyn M. Ryan, Deputy City Clerk

EXHIBIT "A"

Sewer and Water Development Impact (Connection) Fee Schedule

TABLE A - Water Connection Fees (5/8" and 3/4" metered service):

\$7,734 per single-family residence	
\$6,134 per multi-family residence (unit)	
\$7,734 per mobile home park space	
\$7,734 per mobile home subdivision lot	
\$7,734 per commercial unit +	\$530 per unit
\$7,734 per hospital/convalescent home +	\$530 per room
\$7,734 per motel/hotel +	\$530 per room
\$7,734 per school +	\$530 per classroom
\$7,734 per industrial/manufacturing +	\$0.189 per sq.ft.

TABLE B - Water Connection Fees (services w/meters 1" or larger):

<u>Meter Size</u>	<u>Fee</u>
1"	\$ 12,916
1 1/2"	\$ 25,755
2"	\$ 41,224
3"	\$ 82,525
4"	\$128,930
6"	\$257,783
8"	\$412,468
10"	\$592,986

Sewer Connection Fees:

\$4,351 per single-family residence	
\$6,134 per multi-family residence	
\$4,351 per mobile home park space	
\$4,351 per mobile home subdivision lot	
\$4,351 per commercial unit	
\$4,351 per hospital/convalescent home +	\$201 per room
\$4,351 per motel/hotel +	\$82 per room
\$6,148 per school +	\$82 per classroom
\$4,004 per industrial/manufacturing +	\$47 per 5 employees

ORDINANCE NO. XXX N.S.

AN ORDINANCE OF THE CITY OF EL PASO DE ROBLES
AMENDING SECTIONS 14.04.020 AND 14.16.020 OF THE CITY OF EL PASO DE ROBLES
MUNICIPAL CODE TO ADJUST WATER USER FEES

WHEREAS, the City Council has approved participation in the Nacimiento Water Project to help assure a high quality and continuous supply of water to its citizens; and

WHEREAS, as the Nacimiento Water Project will, based upon current construction costs, result in a new reoccurring annual cost of \$4.8 million; and

WHEREAS, the City Council proposes to collect said annual cost from a combination of user and impact fees; and

WHEREAS, it has been determined that it is necessary to raise water user fees by \$36.00 per month; and

WHEREAS, in order to mitigate the impact upon the City's water customers, the City Council desires to raise monthly rates by \$6.00 every July 1st beginning 2005 and continuing through 2010.

NOW, THEREFORE, THE CITY COUNCIL OF THE CITY OF EL PASO DE ROBLES DOES ORDAIN AS FOLLOWS:

SECTION 1. Subdivision C of Section 14.04.020 of the Paso Robles Municipal Code is hereby amended to read as follows:

“C. FEES—WATER USAGE RATES. The monthly rates to be charged and collected by the water department for all water consumption including private fire lines, bulk water delivery or fire hydrant usage from every person, school, firm or corporation shall be charged at rates established by ordinance of the City Council. Other than as expressly set forth herein, such water usage rates may only be established or amended by a two-thirds vote of the city council in favor of such establishment or amendment of water usage rates.

Effective July 1, 2005, the base water usage fee in place at the time shall be increased by \$12.00 for up to 2,000 cubic feet of water per customer for each two-month billing period (\$6.00 per month) and shall be further adjusted every July 1st thereafter through July 1, 2010 by an additional \$12.00 for up to 2,000 cubic feet of water per customer for each two-month billing period (\$6.00 per month).

Unless otherwise specifically adjusted by subsequent action of the City Council or by the annual inflationary adjustment provided for below, the variable consumption rate shall remain unchanged at \$0.96 per 100 cubic feet.

The base water usage fee and variable consumption rate established in this section shall be modified annually by the increase in the Consumer Price Index for the San Francisco-Oakland-San Jose Region as reported by the Bureau of Labor Statistics for the year ending April of each year and shall be applied to all billing statements calculated, generated and distributed beginning July 1st of each fiscal year.

The water usage fees shall further be reviewed no less than bi-annually in conjunction with the update of the City's budget to ensure that the sewer and water connection fees then in existence do not exceed the costs of providing water service within the City.”

SECTION 3. Severability

If any action, subsection, sentence, clause or phrase of this ordinance is, for any reason, held by a court of competent jurisdiction to be invalid or unconstitutional, such decision shall not affect the validity of the remaining portions of this ordinance.

Introduced at a regular meeting of the City Council held on August 3, 2004, and passed and adopted by the City Council of the City of El Paso de Robles on the 17th day of August by the following vote:

AYES:
NOES:
ABSTAIN:
ABSENT:

Frank R. Mecham, Mayor

ATTEST:

Sharilyn M. Ryan, Deputy City Clerk