

To: James L. App, City Manager
From: Mike Compton, Director of Administrative Services
Subject: Water User Fee Ordinance – Rate Restructuring
DATE: June 7, 2005

Needs:

Consider introduction and first reading of an ordinance modifying rate structure for water user fees.

Facts:

1. In August 2004, the Council authorized future increases in water consumption rates to pay for Nacimiento Water.
2. During this discussion, questions were raised regarding how the existing rate structure was developed and whether consideration should be given to developing an alternative rate structure.
3. The Council appointed Mayor Pro Tem Jim Heggarty and Councilman Gary Nemeth to serve as an ad hoc committee on this matter.
4. A variety of options were examined. The Council's ad hoc committee is recommending "no flat rate/no minimum consumption" or "pay-as-you-go" option for Council consideration.
5. The proposed rate re-structuring is intended to be "revenue neutral", i.e., the City will realize no financial gain or loss.

Analysis
and
Conclusion:

The City's current bi-monthly rate structure charges a flat, or fixed, rate (currently \$26.24) for water consumed up to and including the first 20 units consumed (a unit is 748 gallons – rounding up, the bi-monthly consumption maximum allowance for the fixed/flat rate is 15,000 gallons [748 gallons x 20 units]). Should a water consumer use more than 20 units over the two month billing period each unit is billed at \$0.96.

An alternative rate structure could be developed based upon the cost of water infrastructure, production, storage and distribution facilities, required to provide water to every user. The reasoning behind this methodology is that every customer would pay a fixed dollar amount representing the amortized cost of the basic infrastructure required to provide water at the "tap". Additionally, minimum consumption units would be eliminated. Customers would pay for all water consumed beginning with the first unit.

Based upon “statistical averaging” and the assumption of “revenue neutrality” this rate option would look as follows:

Flat rate amount = \$9.04 per billing period
 Consumption rate amount = \$0.976 per unit beginning w/1st unit

(Note: consumption rate illustrated above has not yet been adjusted for the annual CPI inflation factor, nor for Nacimientto water, both due to be implemented July 1, 2005. . The inflation factor is 2.4% and will increase the consumption rate under this option to \$1.00 per unit (hundred cubic feet/748 gallons). Nacimientto water will add a flat \$12.00 per 2 month billing.

The third rate option presented to the ad hoc committee was a fully consumption based rate structure. Under this option, the flat rate charge and any minimum consumption units is eliminated. Customers would pay only for what or as they consume (much as driver’s do when purchasing gasoline). Based upon “statistical averaging” and the assumption of “revenue neutrality” this rate option would look as follows:

Consumption rate amount = \$1.18 per unit beginning w/1st unit

((Note: consumption rate illustrated above has not yet been adjusted for the annual CPI inflation factor, nor for Nacimientto water, both due to be implemented July 1, 2005. . The inflation factor is 2.4% and will increase the consumption rate under this option to \$1.00 per unit (hundred cubic feet/748 gallons). Nacimientto water will add a flat \$12.00 per 2 month billing.

The following rate matrix illustrates the various rate alternatives before applying the annual CPI inflation, and Nacimientto water, factor in order to illustrate an “apples to apples” comparison:

Bill Illustration Impact on typical low consumption account as compared to typical consumption account.....	BI-MONTHLY Billing Period	
	Accounts w/average Cons. = 10	Accounts w/average Cons. = 80
OPTION #1 - No Rate Change	\$ 26.24	\$ 82.88
OPTION #2 - Adjust Flat Rate to "Standard" w/no minimum	\$ 18.80	\$ 87.12
OPTION #3 - Eliminate fixed rate and minimum consumption	\$ 11.80	\$ 94.40

As noted above, the Council’s ad hoc committee has recommended Option #3. As clearly illustrated by the matrix, customers who consume little water would pay less and those that use more would pay more. Assuming “statistical averaging” remains constant, this option would be “revenue neutral”.

Fiscal

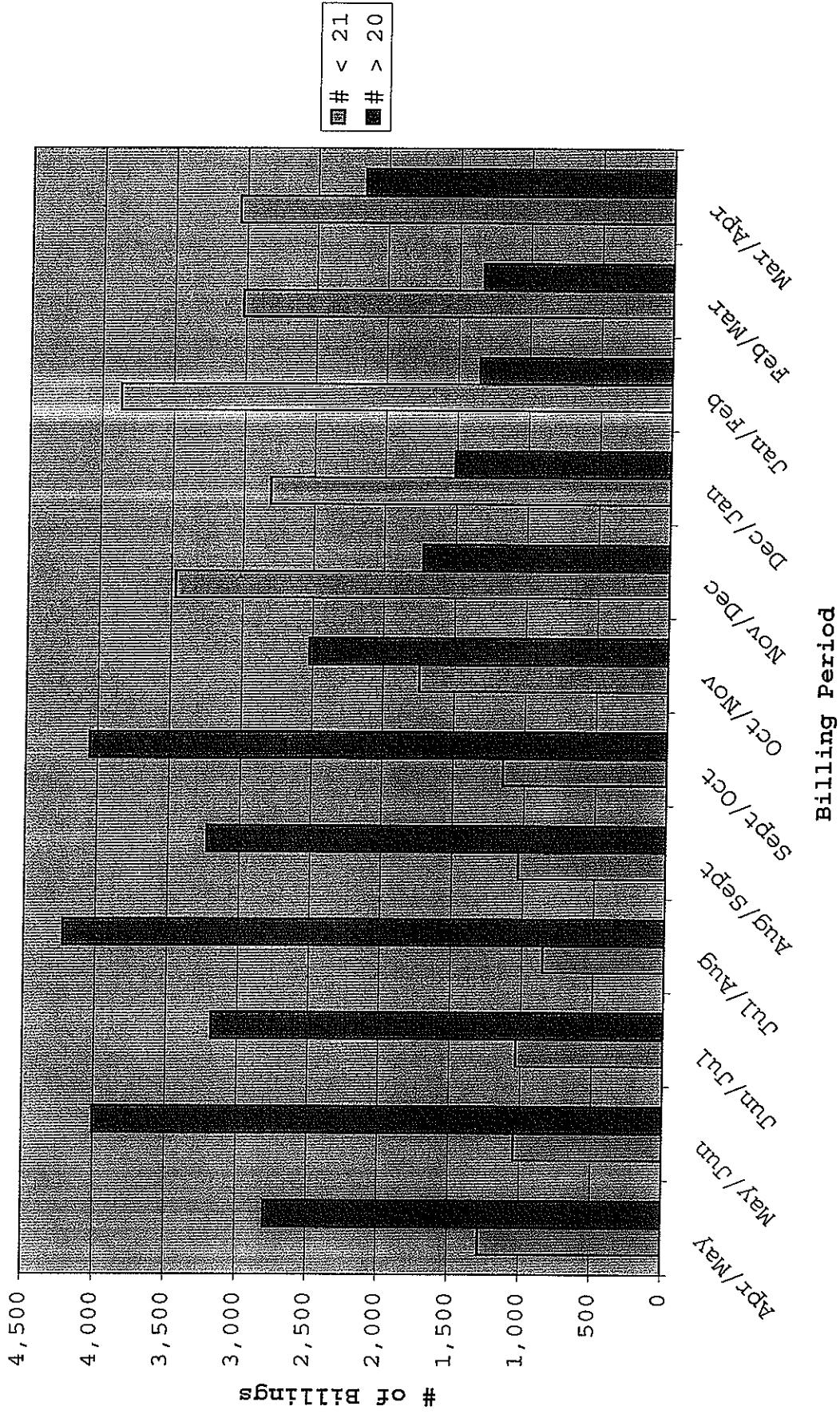
Impact:

None, since the modified rate structure is intended to be “revenue neutral”. However, customer reaction to the proposed rate structure is not predictable. Thus, the City may need to bring back further refinements once customer reactions are known.

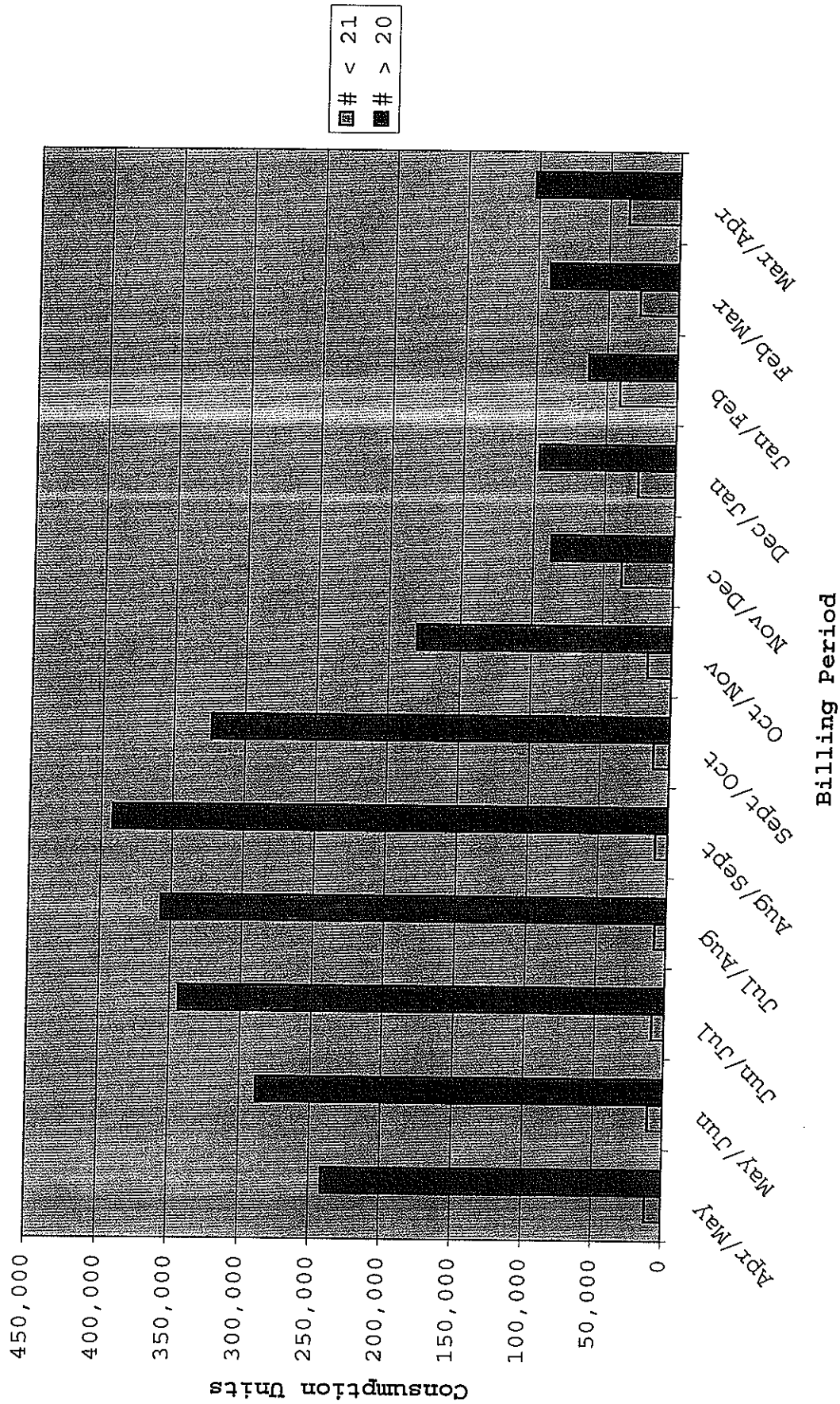
Options:

- a. That the Council, upon close of the public hearing, introduce and hold first reading of an ordinance to modify water rate structures; and set June 21, 2005, as the date for adoption of said ordinance.
- b. Amend, modify, or reject the above option.

of Accounts by Category



Water Consumption by Category



No. of Billings by Unit Category

	# < 21 Units	# > 20 Units	% < 20 Units
Apr/May	1,284	2,797	31%
May/Jun	1,043	4,003	21%
Jun/Jul	1,035	3,179	25%
Jul/Aug	854	4,226	17%
Aug/Sept	1,035	3,226	24%
Sept/Oct	1,150	4,053	22%
Oct/Nov	1,746	2,521	41%
Nov/Dec	3,469	1,727	67%
Dec/Jan	2,809	1,511	65%
Jan/Feb	3,868	1,350	74%
Feb/Mar	3,019	1,327	69%
Mar/Apr	<u>3,048</u>	<u>2,163</u>	58%
Total	24,360	32,083	43%
Average	2,030	2,674	43%

Consumption Units by Category

	# < 21 Units	# > 20 Units	Totals
Apr/May	11,772	240,858	252,630
May/June	10,720	287,820	298,540
June/July	9,026	343,427	352,453
July/Aug	8,105	356,927	365,032
Aug/Sept	9,050	391,862	400,912
Sept/Oct	11,560	323,450	335,010
Oct/Nov	16,834	180,315	197,149
Nov/Dec	37,143	87,003	124,146
Dec/Jan	26,212	96,534	122,746
Jan/Feb	40,915	62,924	103,839
Feb/Mar	27,231	91,237	118,468
Mar/Apr	<u>36,258</u>	<u>102,544</u>	<u>138,802</u>
Total	244,826	2,564,901	2,809,727
%	9%	91%	100%
Average	20,402	213,742	234,144
%	9%	91%	100%

Billing Period	Bill Date	# of billings less than or equal to 20 units	Total Consumption	Avg Cons less than or = to 20	# of billings greater than 20	Total Consumption	Avg Cons greater than 20 units	GRAND TOTAL Billings	GRAND TOTAL Consumption
Jan/Feb	3/1/2004	3,294	35,992	11	1,650	83,973	51	4,944	119,965
Feb/Mar	4/1/2004	2,199	21,602	10	1,934	119,429	62	4,133	141,031
Mar/Apr	5/1/2004	1,703	20,210	12	3,298	168,291	51	5,001	188,501
Apr/May	6/1/2004	1,284	11,772	9	2,797	240,858	86	4,081	252,630
May/June	7/1/2004	1,043	10,720	10	4,003	287,820	72	5,046	298,540
June/July	8/1/2004	1,035	9,026	9	3,179	343,427	108	4,214	352,453
July/Aug	9/1/2004	854	8,105	9	4,226	356,927	84	5,080	365,032
Aug/Sept	10/1/2004	1,035	9,050	9	3,226	391,862	121	4,261	400,912
Sept/Oct	11/1/2004	1,150	11,560	10	4,053	323,450	80	5,203	335,010
Oct/Nov	12/1/2004	1,746	16,834	10	2,521	180,315	72	4,267	197,149
Nov/Dec	1/1/2005	3,469	37,143	11	1,727	87,003	50	5,196	124,146
Dec/Jan	2/1/2005	2,809	26,212	9	1,511	96,534	64	4,320	122,746
Jan/Feb	3/1/2005	3,868	40,915	11	1,350	62,924	47	5,218	103,839
Feb/Mar	4/1/2005	3,019	27,231	9	1,327	91,237	69	4,346	118,468
Mar/Apr	5/1/2005	3,048	36,258	12	2,163	102,544	47	5,211	138,802
Total		24,360	244,826	10	32,083	2,564,901	80	56,443	2,809,727
Avg		2,030	20,402	10	2,674	213,742	80	4,704	50
Total Customers									9,407

One Year Consumption Cost Illustration:

	<u>Option #1</u>	<u>Option #2</u>	<u>Option #3</u>
	No <u>Change</u>	Reduce Flat Rate & Min. <u>Con.</u>	Eliminate Flat Rate & <u>Min. Con.</u>
Restaurant #1	\$ 672.00	\$ 694.50	\$ 774.08
Restaurant #2	\$ 2,026.56	\$ 2,071.63	\$ 2,439.06
Hotel #1	\$ 5,684.16	\$ 5,801.49	\$ 6,882.94
Hotel #2	\$ 2,433.60	\$ 2,485.46	\$ 2,939.38
Laundry	\$ 4,095.36	\$ 4,174.91	\$ 4,981.96

Incremental Annual Cost Impact:

	<u>Option #1</u>	<u>Option #2</u>	<u>Option #3</u>
Restaurant #1	n/a	\$ 22.50	\$ 79.58
Restaurant #2	n/a	\$ 45.07	\$ 367.43
Hotel #1	n/a	\$ 117.33	\$ 1,081.45
Hotel #2	n/a	\$ 51.86	\$ 453.92
Laundry	n/a	\$ 79.55	\$ 807.05

NOTICE OF PUBLIC HEARING

City of Paso Robles

**WATER USER FEES
PROPOSED RATE RESTRUCTURING**

NOTICE IS HEREBY GIVEN THAT, in accordance with Government Code 66016 and 66018, the City Council of the City of El Paso de Robles will hold a public hearing to receive public testimony regarding the proposed restructuring of water user fees within the City of El Paso de Robles.

The public hearing will be held at 7:30 p.m., Tuesday, June 7, 2005 at the Library Conference Center located at 1000 Spring Street. The public is invited to attend and encouraged to speak on this matter.

The Council will be considering adoption of an ordinance that provides for the elimination of the existing base water rate and minimum consumption units. The proposed rate structure is intended to be "revenue neutral" and is entirely consumption based. If adopted, customers would pay for every water unit consumed beginning with the first unit.

For questions concerning the proposed modifications or to receive a copy of the report, please contact the Department of Administrative Services at 237-3999.

Michael J. Compton
Director of Administrative Services

June 1, 6, 2005

6191621

ORDINANCE NO. XXX N.S.

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

WHEREAS, the City Council is desirous of modifying the current water user fee rate structure; and

WHEREAS, the City Council has determined that a water user fee rate structure based entirely upon water consumption, except for the fixed rate previously adopted for Nacimiento Water Project, is more equitable; and

WHEREAS, the proposed changes in the water user fee rate structure are intended to be "revenue neutral".

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.

That section of Ordinance No. 882 relating to the fixed rate monthly user fee for Nacimiento Water Project shall remain in place and unchanged by this ordinance amendment. The remaining portion of the fixed rate water user fee shall be eliminated and the current variable rate shall be increased to \$1.18 per hundred cubic feet (unit) and shall apply for each hundred cubic feet (unit) of water consumed beginning with the first hundred cubic feet (unit) consumed. This rate shall be adjusted July 1, 2005 by the increase in the Consumer Price Index as provided for in the following paragraph.

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 water user 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 for first reading at a regular meeting of the City Council of the City of El Paso de Robles on this 7th day of June, 2005, by the following vote:

AYES:

NOES:

ABSTAIN:

ABSENT:

Frank R. Mecham, Mayor

ATTEST:

Sharilyn M. Ryan, Deputy City Clerk