

**TO:** James L. App, City Manager  
**FROM:** Doug Monn, Public Works Director  
**SUBJECT:** Adoption of Water Capacity Charges  
**DATE:** September 2, 2008

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**NEEDS:** For the City Council to adopt by resolution the proposed water capacity charges (i.e. water connection fees).

**FACTS:**

1. On July 1, 2008, the City Council considered proposed water capacity charges, along with alternative water consumption rate structures, and directed staff to return with a proposed resolution enacting the water capacity charges. The Council is considering changes to water consumption rates in a separate action.
2. On August 19, 2008, the City Council deferred action on the proposed water capacity charges and directed staff to continue dialogue with the Home Builder's Association of the Central Coast and others on this matter.
3. Water capacity charges are imposed on new development to help pay for existing and/or new public facilities that are of proportional benefit to those being charged, whereas water consumption rates generate revenues to cover the costs of providing water service to existing customers.
4. Improvements to the City water system are needed, primarily to improve water quality and supply reliability, supplement the limited ground water supply, and also to provide adequate distribution, staffing, and water storage capacity for the existing community and new development.
5. The planned improvements, as outlined in the 2007 Integrated Water Resources Plan and Capital Improvement Program, amount to approximately \$210 million over the coming decade, including the Nacimiento Water Project supply and treatment capital costs, as well as other distribution system capital costs plus financing and operations costs.
6. On January 15, 2008, Council directed that studies of water consumption rates and water connection fees (water capacity charges) be prepared in light of both the Nacimiento Water Project and other planned water system improvements. The firm of HF&H Consultants, LLC, was retained to analyze the City's revenues and costs with respect to the water capacity charges; the firm of Kennedy/Jenks Consultants analyzed water consumption rates.
7. The revenues generated by the existing connection fees (water capacity charges) are inadequate to cover the costs of new development's share of the existing and future facilities set forth in the Integrated Water Resources and Capital Improvement Plan.
8. Based on HF&H's analysis, costs for the City's existing entitlement in the Nacimiento Water Project and the associated water treatment plant are to be borne equally between existing rate payers and new development. Future facilities such as tanks and pipelines identified in the City's master planned water system will have the capacity to serve both existing and future customers. Therefore the proposed capacity charges are based on the total cost of providing that capacity divided

among the total number of equivalent meter units at build-out, to ensure that new development would pay its proportionate share of the capacity being provided. In addition, these proposed capacity fees include the full cost of obtaining additional water from Nacimiento for new development.

9. The City wishes to ensure the ability to produce water to meet peak demands, extend water reliability, and improve water quality. A phased connection fee will provide the necessary funding to provide a reliable, well-maintained, infrastructure system and reliable water resource to serve the needs of future customers; water consumption rates will provide the funds necessary to assure the same benefits for existing customers.

**ANALYSIS &  
CONCLUSION:**

Since the August 19<sup>th</sup> Council meeting, staff met again with representatives of the Home Builders' Association of the Central Coast and responded to their comments. Relevant correspondence is attached.

The water capacity charges are based on new development's share in the cost of the existing community water system, future facilities such as the City's Nacimiento Water Supply Project entitlement and the planned water treatment plant; share in conveyance costs, and additional future water supply needed to support growth. The following table lists the proposed capacity charges by connection (meter) size:

Meter Size	Current Charge as of:	Proposed Charge as of <sup>1,5</sup>				
	Jul 1 08	Jan 1 09 <sup>2</sup>	Jan 1 10 <sup>3</sup>	Jan 1 11 <sup>4</sup>	Jan 1 12 <sup>6</sup>	Jan 1 13
5/8" and 3/4"	\$9,119	\$15,142	\$20,481	\$27,617	\$27,905	\$28,208
1"	\$15,226	\$25,287	\$34,203	\$46,120	\$46,601	\$47,107
1 1/2"	\$30,364	\$50,423	\$68,202	\$91,965	\$92,922	\$93,933
2"	\$48,601	\$80,707	\$109,164	\$147,199	\$148,731	\$150,349
3"	\$97,292	\$151,420	\$204,810	\$276,170	\$279,046	\$282,080
4"	\$152,002	\$252,417	\$341,418	\$460,375	\$465,170	\$470,227
6"	\$303,914	\$504,683	\$682,632	\$920,475	\$930,060	\$940,173
8"	\$486,280	\$807,523	\$1,092,252	\$1,472,815	\$1,488,152	\$1,504,333
10"	\$699,100	\$1,160,937	\$1,570,278	\$2,117,395	\$2,139,445	\$2,162,708

<sup>1</sup>Beginning on January 1, 2010 and each January 1 thereafter, fees shown in the table shall be adjusted based on the change in the Engineering News Cost Record construction cost index (or equivalent publication) as reported for the twelve month period ending October 31<sup>st</sup> of the prior year.

<sup>2</sup>Water capacity charge do not include the water treatment plant and additional future water supply components.

<sup>3</sup>Charges include the water treatment plant component.

<sup>4</sup>Charges include additional future water supply.

<sup>5</sup>Note: fee phased in such that Year 1 omits water treatment plant and future supply; Year 2 omits future supply only; Year 3 includes all components.

<sup>6</sup>Begin 5.5% inflationary adjustment to existing system buy-in component

Details regarding the derivation of the proposed water capacity charges are addressed in the attached report, "Water Capacity Charge Study – Revised Final" by HF&H Consultants dated August 27, 2008.

Several aspects of the study have been revised and refined since the publication of the draft dated June 2008. For one, debt service is not impacted by inflation. Secondly, the capital improvement program was updated to include land acquisition of a storage tank site. Additionally a proportional share of the central support system for a remote read meter system project (software and computer equipment) was incorporated. Last, the estimated value of existing facilities was adjusted to omit developer-installed in-tract pipelines on the basis that City/customer funds were not used to install that portion of the existing water system in the first place.

As for implementation of the water capacity charges, the following are recommended:

- a. That City Council approve and adopt the schedule of water connections fees (water capacity charges) reflect in the attached resolution as Exhibit 'A' September 2, 2008, to become effective January 1, 2009.
- b. That beginning January 1, 2010 and each January 1 thereafter, the fees shown on Exhibit A shall be adjusted based on the change in the Engineering News Cost Record construction cost index (or equivalent publication) as reported for the twelve month period ending October 31st of the prior year. Further, that said water connection fees (water capacity charges) shall be reviewed no less than biennially (every two years) in conjunction with the update of the City's four-year financial plan to ensure that the water connection fees (water capacity charges) then in existence do not exceed the estimated reasonable cost of providing the public facilities and services for which they are imposed.
- c. That building permits approved and obtained by December 31, 2008 shall be subject to the capacity charges currently in effect, and those obtained on or after January 1, 2009 shall be subject to the capacity charges set forth in Exhibit A of the proposed resolution. Applications shall be processed on a first-come, first-served basis, in accordance with the City's standard policies.

**POLICY**

**REFERENCE:** General Plan, Economic Strategy; Urban Water Management Plan; Integrated Water Resource Plan; Nacimiento Water Project Entitlement Contract.

**FISCAL IMPACT:** The need to implement new water capacity charges to increase revenues is directly related to the requirement to make new development pay for its share of the Nacimiento bond debt payments, treatment plant construction, and other conveyance system improvements. If revenues through new capacity charges to pay for new development's share of those costs are not sufficient, the General Fund will ultimately have to make up any shortfall. The General Fund funds operations such as, library services, children's and senior programs, parks, as well as police and fire, and other City amenities. Serious budget cuts and significant reductions in some programs would result.

**OPTIONS:** a. Approve Resolution No. 08-XX establishing the Water Capacity Charges (i.e. water connection fees).

- b. Amend, modify, or reject the above option.

Attachments

- 1) "Water Capacity Charge Study – Revised Final" dated August 27, 2008, prepared by Hilton, Farnkopf & Hobson Consultants
- 2) Correspondence with Home Builders' Association of the Central Coast
- 3) Resolution No. 08-xx



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August 27, 2008

Mr. Jim App  
City Manager  
City of Paso Robles  
1000 Spring Street  
Paso Robles, CA 93446

Subject: **Water Capacity Charge Study: Revised Final Report**

Dear Mr. App:

Since submitting the August 7, 2008 draft of this report, I met with representatives of the Home Builder's Association of the Central Coast and City Staff. I have revised the report based on the input received concerning depreciation, developer contributions, and projected connections.

## **1.0. INTRODUCTION**

The scope of this study was to update the City's water capacity charge based on the best available data and in conjunction with an update of the City's water rates. In this way, the same set of assumptions concerning capital costs and growth rates were used in both studies.

## **2.0. BACKGROUND**

The City charges new development a one-time capacity charge at the time that the connection is made to the City's water facilities. The purpose of the capacity charge is to ensure that development pays its fair share of the costs associated with providing capacity. Capacity charges are a type of development impact fee that public agencies may impose as a condition of development under the authority of California Government Code Section 66000 *et seq.*, the Mitigation Fee Act. The Act requires that "those fees or charges shall not exceed the estimated reasonable cost of providing the service"<sup>1</sup>. Because the Act does not prescribe a formula or procedure for determining

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<sup>1</sup> Mitigation Fee Act Section 66013(a).

“the estimated reasonable cost,” it is the responsibility of the analyst to employ a method that yields a reasonable result.

The courts generally regard fees as being reasonable if they are not capricious, arbitrary, or discriminatory. Fees are capricious if there is no factual basis for the underlying data used to make the calculations. Fees are arbitrary if there is no logical rationale for choosing among alternatives. Fees are discriminatory if they disproportionately allocate costs to one class of service to the benefit of another class. The purpose of this report is to document that the conditions have been met to establish that the City’s water capacity charge is reasonable.

**Figure 1** summarizes the City’s current capacity charges, which became effective July 1, 2008. Residential connections pay the fees shown in Table A. For non-residential connections, the applicable fee is the higher of Table A or Table B. It is the City’s practice to conduct studies to periodically update its capacity charge calculations with the latest capital costs. The capacity charges are escalated annually between studies to reflect inflationary cost increases. The current fees reflect a study conducted in 2004<sup>2</sup>, and have been increased subsequently by the increase in the Engineering News Record’s (ENR) Construction Cost Inflation index.

**Figure 1. Current Capacity charges (Effective July 1, 2008)**

<i>Table A</i>		<i>Table B</i>	
Type of Development	Fee	Meter Size	Fee
Single-Family Residence	\$9,119	3/4"	\$9,119
Multi-Family Residence	\$7,230 per unit	1"	\$15,226
Mobile Home Park	\$9,119 per space	1 1/2"	\$30,364
Mobile Home Subdivision Lot	\$9,119 per lot	2"	\$48,601
Commercial/Industrial	\$9,119 + \$626 per unit	3"	\$97,292
Hospital/Convalescent	\$9,119 + \$626 per room	4"	\$152,002
Motel/Hotel	\$9,119 + \$626 per room	6"	\$303,914
School	\$9,119 + \$626 per classroom	8"	\$486,280
		10"	\$699,100

<sup>2</sup> Foresight Consulting Services. This study also derived water capacity charges based on equivalent dwelling units; water capacity charges are now charged based on the size of the water service connection.

### 3.0. APPROACH AND ANALYSIS

The approach used to calculate the water capacity charges derives the capacity charges that represent the average unit cost of facilities required to provide capacity for growth. The average cost is determined by dividing the cost of all existing and future facilities by the associated units of capacity. In this way, all *current and future customers participate equally* in the system capital. Because of this equal participation, *no discrimination occurs* against either growth or existing rate payers. Hence, *no subsidies are provided* by either growth or existing rate payers.

This approach generally follows the “buy-in” or “average cost” methodology, which is one of the two most common methods for calculating capacity charges, the other being the “incremental cost” methodology. The buy-in approach was preferred over the incremental approach because it avoids some of the shortcomings of the incremental approach.

By using the buy-in methodology, it is not necessary to determine the portion of each facility that is attributable to growth, as is required when using the incremental cost methodology. Apportioning facilities to growth can be difficult and contentious because apportioning belies the fact that water systems are complex, integral networks. Parsing individual facilities between existing and future customers can create the impression that growth is independent of existing facilities, which is rarely the case. Growth typically occurs adjacent to or within existing service areas, thereby expanding the service provided by existing facilities.

The incremental approach can also be considered somewhat arbitrary. Whereas the buy-in method is based on the average cost of capacity, which is the same for existing and new connections, the incremental cost method is based on the most recent increment of cost, which could be high or low compared with the average cost, depending on which facilities happen to be proposed for construction at any given time. Once the facilities are constructed, they drop out of the calculation even though they may provide surplus capacity for growth long after they are constructed.

The incremental approach also ignores capacity in existing facilities that is used by growth. Existing facilities should be included in the capacity charge calculation because they provide capacity for growth. The existing facilities constitute a network with capacity for both existing rate payers as well as capacity for growth. Existing facilities are included in the capacity charge calculation so that growth reimburses existing rate payers for the investment made on behalf of growth. Future facilities were also

included in the capacity charge calculation whether they are required by existing or future customers. These future facilities will be integral with the existing facilities.

The buy-in approach was selected over the incremental approach because it corrects for these shortcomings in the incremental approach. To make the calculation using the buy-in approach, existing and future facilities were identified, their values were determined, the capacity associated with the facilities was determined, and, by dividing the values by the corresponding capacity, the unit cost of capacity was calculated. The unit cost represents the average cost of capacity. A spreadsheet model was prepared to make the calculations. Each of these steps is described below.

### **3.1. Facilities Included in Calculation**

An inventory of the existing and future facilities based on fixed asset records, facilities master plans, and related engineering data was compiled. It is likely that the inventory of existing facilities is not comprehensive and that facilities exist that are undocumented and have thus been inadvertently omitted. Despite probable omissions in the inventory, no allowance was added as a contingency.

Most of the existing facilities constitute the transmission pipelines. Existing wells and distribution system reservoirs are also included. All of these facilities are known to exist and constitute a city-wide network of pipelines that provide capacity for growth. Again, these facilities are an integral part of the water supply network that provides capacity for growth.

The future facilities are derived from the water master plan and related documents. These facilities will provide capacity for growth as well as benefit existing rate payers by improving reliability and upgrading facilities between now and build-out as documented in the city's general plan.

The combination of the existing and future facilities represents all water system infrastructure known at this time that will be required to meet demands at build-out. There will no doubt be additional facilities that should be included in future updates. There will also be other facilities that are currently projected for future construction that are modified or replaced by other facilities. Changes like this can be reflected in future updates. We note that City staff have reviewed the list of existing and future facilities to ensure that there are no existing facilities that are also included in the future facilities.



### **3.2.1. Value of Existing Facilities**

It is our understanding that none of the existing facilities was funded from debt. Hence, there are no financing costs to include in valuing the facilities. The historical cost of existing wells and reservoirs was escalated to 2008 using the Engineering News Record construction cost index. By using historic book values and current construction costs, it is possible that other indirect overhead costs have been omitted. For example, land acquisition, legal, management, and similar project overhead may not be reflected in the historical costs or in the unit costs used in this report for estimating current construction cost.

The value of transmission mains was derived from an inventory of the lengths of pipe of each diameter. The cost was determined by multiplying the number of linear feet of each size of pipe by the current estimated cost per linear foot. The resulting value of the transmission mains represents the estimated construction cost in today's dollars.

The transmission and distribution system contains pipelines that were constructed by developers and dedicated to the City. These pipelines tend to be located in subdivisions and may only serve a specific subdivision. Once the contributed pipelines are accepted by the City, they become the City's responsibility to maintain and repair.

Because contributed pipelines were not paid for through rates, rate payers do not need to be reimbursed for constructing them. As a result, it may not be necessary to include the construction cost of contributions in calculating the capacity charge if the contributed facilities provide no surplus capacity that could accommodate additional growth. Although excluding the contributed pipelines from the calculation would mean that the capacity charge would not include facilities paid for by developers, it would also mean that the subsequent costs paid for by rate payers to maintain contributed facilities that have surplus capacity for additional growth would not be properly included in the capacity charge.

The City does not maintain records on which mains were contributed by developers. Nor does the City maintain records on which facilities were of only specific benefit to a subdivision and do not provide additional capacity for infill, upstream development, or additional growth. Without such records, excluding developer contributions is highly judgmental.

Since the preparation of the previous report draft, the City estimated the amount of pipeline that could have been contributed by developers. The estimate was made by

attributing portions of certain pipeline sizes to growth (see Model Table 6). The result indicated that 41% of the transmission and distribution pipelines could have been contributed by growth. We view this as a high estimate of the value of the potential developer contributions. Within this 41% there are mains that are not strictly in-tract facilities and could provide broader benefit as part of the city-wide network of pipelines.

The effect of excluding 41% of the transmission and distribution system from the calculation is that there is very little chance that any contributed facilities have been included in the capacity charge. Furthermore, none of the subsequent costs borne by rate payers to maintain the surplus capacity is reimbursed by the capacity charge. Despite the likelihood that rate payers are not fully reimbursed, 41% of the transmission and distribution facilities were deducted from the capacity charge calculation.

The resulting value of existing facilities reflects full replacement cost; depreciation was not deducted. Deducting depreciation from the replacement cost is a valuation technique appropriately used in determining the fair market value of utilities for purposes of selling the systems. In selling a system, a buyer will be unwilling to purchase used facilities at today's cost of new facilities. Deducting depreciation to determine fair market value is therefore necessary to attract buyers.

Some analysts deduct depreciation when calculating capacity charges.<sup>3</sup> In our opinion, this practice confuses fair market value with cost reimbursement. By paying capacity charges, development does not acquire any ownership interest in the facilities. Paying a capacity charge reimburses rate payers for costs they incurred in providing surplus capacity for growth at such time as growth occurs. Hence, the capacity charge recovers costs, but does not purchase capacity. In calculating capacity charges, using depreciated replacement cost undervalues the assets and does not fully recover growth's share of costs.

Deducting depreciation not only confuses market value with cost recovery, it is also fundamentally illogical because facilities that are fully depreciated on paper, but are still in service, will have no value. Clearly, these facilities have value because they are still in service even though they have no book value from an accounting standpoint. Rate payers should be reimbursed for the value at replacement cost despite the age of the facility because rate payers have borne the cost of construction plus many years of

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<sup>3</sup> As previously discussed, some analysts also use the incremental approach despite its obvious flaws.

maintenance so that facilities can provide service equivalent to recently constructed facilities.

Including depreciation does not mean that growth subsidizes existing rate payers. Depreciation occurs on all facilities, both those that are used by existing rate payers as well as the unused portion provided for growth. Rates include the cost of renewal and replacement to offset depreciation. Growth benefits from renewal and replacement, which maintains the functional integrity of the surplus capacity for the convenience of growth when it occurs. Including depreciation in the capacity charge ensures that growth reimburses rate payers for bearing the cost of maintaining, renewing, and replacing system capacity. The cost is averaged over all capacity, so that *growth covers its proportionate share* and so that *no subsidy occurs*.

As part of the reimbursement of costs, it is appropriate to include a reasonable premium. The premium should contain a risk component analogous to the risk premium granted by regulators to investor owned utilities. Rate payers do not have to provide surplus capacity. When they do, they do so with no certain payback. When new facilities are debt financed, as is the City's case, rate payers assume the risk of servicing growth's share of the debt service when growth slows down.

The premium should also contain an economic component representing opportunity cost. Rate payers should receive a return on their investment to provide an incentive for fronting the cost for growth. Using full replacement cost recognizes the total investment made by rate payers on behalf of growth and provides a premium.

The investment in capacity made by rate payers is appropriately valued at replacement cost to give effect to the appreciation in value since the original cost was incurred, as well as the value of subsequent maintenance. The value of maintenance is reflected in replacement cost because, since their construction, all facilities have been maintained, not just the portion used by existing rate payers. Through maintenance, the capacity available to growth provides service indistinguishable from facilities constructed today.

In the end, the capacity charge is intended to reimburse rate payers for costs they incur to provide capacity for growth. Depreciation is one of those costs. The water rates are set to cover the cost of depreciation. Depreciation needs to be included in the capacity charge to ensure that rate payers are fairly reimbursed.

### 3.2.2. Value of Future Facilities

The cost of future facilities was based on current engineering cost estimates and escalated to the projected date of construction. It is our understanding that these cost estimates include all associated engineering and construction costs but may not include the cost of City overhead. As such, the costs slightly underestimate the total system cost.

The Nacimiento regional pipeline will be debt-financed and the City's obligation for bond payments commences in 2010. It was assumed that the cost of the Nacimiento water treatment plant would be debt-financed as well and that all other project costs would be funded on a pay-as-you-go basis. Financing costs were included in the value of these two debt-financed future facilities. The financing costs that were provided with the cost estimates include interest payments and issuance costs.

It was assumed that nearly all future facilities would be of common benefit to existing and future rate payers. By common benefit, we mean that their capacity provides for both existing and future rate payers. There is one exception, however: the cost of future water supply in addition to the City's current 4,000 acre-feet of Nacimiento water was considered of benefit to growth only.

The inventory of future facilities in our draft report dated June 25, 2008, was reviewed and updated by Public Works Staff. For example, the original calculations included a \$4.7 million budget associated with the remote meter read program. The City agrees that the portion of this budget associated with the centralized system supporting remote reading should be shared between existing customers and new development. The portion associated with meter replacement benefits only existing customers. The result is that only \$2.9 million of that particular program is included in the cost sharing calculations. In addition, a water storage tank site acquisition was added to the capital improvement program. This added \$1.7 million.

### 3.3. Projected Equivalent Meter Units

**Figure 2** shows the derivation of the total and growth-related equivalent meter units (EMUs<sup>4</sup>) at build-out. The number of accounts for each meter size for 2007 was updated

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<sup>4</sup> The capacity of a 3/4" meter is considered one meter unit. The capacity of larger meters, divided by the capacity of a 3/4" meter, equals a ratio referred to as the "EMU multiplier." As shown in Figure 2, a 1" meter equals 1.67 EMUs. The EMU multipliers are taken from American Water Works Association standards.

based on December 2007 data from the City's billing system. The projection for 2025 was based on an extrapolation of land use growth projections and shows an increase in EMUs from 13,158 to 21,566, an increment of growth of 8,408 EMUs.<sup>5</sup>

**Figure 2. Equivalent Meter Units**

(1) Meter Size	(2) EMU Multiplier <sup>1</sup>	(3) 2007		(5) 2025		(7) Growth Increment	
		(3) Accounts <sup>2</sup>	(4) EMUs (2)*(3)	(5) Accounts <sup>3</sup> (3)*% Incr.	(6) EMUs <sup>3</sup> (2)*(5)	(7) Accounts (5)-(3)	(8) EMUs (2)*(7)
5/8" & 3/4"	1.00	9,141	9,141	14,660	14,660	5,519	5,519
1"	1.67	606	1,012	1,199	2,002	593	990
1 1/2"	3.33	169	563	275	916	106	353
2"	5.33	275	1,466	451	2,404	176	938
3"	10.00	28	280	46	462	18	182
4"	16.67	27	450	44	733	17	283
6"	33.33	1	33	1	37	0	3
8"	53.33	4	213	7	352	3	139
10"	76.67	0	0	0	0	0	0
		10,251	13,158	16,683	21,566	6,432	8,408
Growth's proportionate share							39.0%
1. AWWA <i>Water Meters - Selection, Installation, Testing, and Maintenance</i>							
2. City of Paso Robles; account data as of December 2007							
3. City of Paso Robles August 27, 2008 memo from C. Halley							

### 3.4.1. Capacity Charges

The capacity charge was generally calculated by multiplying the value of the existing and future facilities times 39.0%, which represents the number of growth-related EMUs divided by the number of total EMUs at buildout. The Nacimiento facilities and additional water supply were exceptions, as noted above. The calculation also reflects the deduction of the estimated developer contributions in transmission and distribution facilities. **Figure 3** summarizes this calculation.

<sup>5</sup> Figure 2 differs from Table 4 in the 2008 Urban Water Management Plan. A review by City Staff indicated that the Urban Water Management Plan overestimated the projected connections.

**Figure 3. Facility Costs and Capacity Charge**

	Project Costs			Costs Allocated to Growth			Capacity Charge Components per EMU
	Cash Funded	Debt Funded <sup>1</sup>	Cost in 2008 Dollars	Cash Funded	Debt Funded <sup>1</sup>	Cost in 2008 Dollars	
<b>Existing Facilities</b>							
Supply	\$3,033,386	\$0	\$3,033,386	\$898,000	\$0	\$898,000	\$107
Treatment	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Conveyance	\$104,763,623	\$0	\$104,763,623	\$40,196,069	\$0	\$40,196,069	\$4,781
<b>Existing Facilities Total</b>	<b>\$107,797,009</b>	<b>\$0</b>	<b>\$107,797,009</b>	<b>\$41,094,069</b>	<b>\$0</b>	<b>\$41,094,069</b>	<b>\$4,888</b>
<b>Future Facilities</b>							
Supply							
Nacimiento Regional Pipeline	\$0	\$144,190,000	\$144,190,000	\$0	\$72,095,000	\$72,095,000	\$8,575
Other	\$7,371,372	\$0	\$7,371,372	\$2,873,803	\$0	\$2,873,803	\$342
	\$7,371,372	\$144,190,000	\$151,561,372	\$2,873,803	\$72,095,000	\$74,968,803	\$8,917
Treatment							
Nacimiento Treatment Plant	\$0	\$89,770,000	\$89,770,000	\$0	\$44,885,000	\$44,885,000	\$5,339
Other	\$6,843,741	\$0	\$6,843,741	\$2,668,101	\$0	\$2,668,101	\$317
	\$6,843,741	\$89,770,000	\$96,613,741	\$2,668,101	\$44,885,000	\$47,553,101	\$5,656
Conveyance	\$23,870,121	\$0	\$23,870,121	\$8,580,078	\$0	\$8,580,078	\$1,021
Additional Future Water Supply	\$60,000,000	\$0	\$60,000,000	\$60,000,000	\$0	\$60,000,000	\$7,136
<b>Future Facilities Total</b>	<b>\$98,085,234</b>	<b>\$233,960,000</b>	<b>\$332,045,234</b>	<b>\$74,121,982</b>	<b>\$116,980,000</b>	<b>\$191,101,982</b>	<b>\$22,729</b>
<b>All Facilities Total</b>	<b>\$205,882,243</b>	<b>\$233,960,000</b>	<b>\$439,842,243</b>	<b>\$115,216,051</b>	<b>\$116,980,000</b>	<b>\$232,196,051</b>	<b>\$27,617</b>

1. Costs comprised of all principal and interest to be paid over the 30-year term of the bond.

The project costs are itemized into cash-funded and debt-funded components (the cost for the debt-funded component comprises cumulative principal and interest payments). The capacity charge is itemized into the components that are of common benefit and of benefit to growth alone. The result shows a capacity charge of \$27,617 per EMU.

**4.0. RECOMMENDATIONS**

The proposed capacity charges are significantly higher than the current charges. We recommend that the City phase in the new capacity charges over a three-year period, as shown in **Figure 4**.

**Figure 4. Phased-In Capacity Charges**

Connection Size	Current Charge as of:	Proposed Charge as of:		
	July 1, 2008	January 1, 2009	January 1, 2010	January 1, 2011
5/8" and 3/4"	\$9,119	\$15,142	\$20,481	\$27,617
1"	\$15,226	\$25,287	\$34,203	\$46,120
1 1/2"	\$30,364	\$50,423	\$68,202	\$91,965
2"	\$48,601	\$80,707	\$109,164	\$147,199
3"	\$97,292	\$151,420	\$204,810	\$276,170
4"	\$152,002	\$252,417	\$341,418	\$460,375
6"	\$303,914	\$504,683	\$682,632	\$920,475
8"	\$486,280	\$807,523	\$1,092,252	\$1,472,815
10"	\$699,100	\$1,160,937	\$1,570,278	\$2,117,395

Note: 2009 omits water treatment plant and future supply; 2010 omits future supply only; 2011 includes all components.

At the completion of the phase-in period, we recommend that the capacity charges be increased annually by escalating the cash-funded portion based on an appropriate construction cost index. The debt-funded portion is fixed and should not be escalated.

Note that the proposed capacity charges are listed by meter size only. The City currently has two schedules of charges, one based on development type and the other based on service connection size. The industry standard for water capacity charges is to charge on the basis of meter size, not development type. Development type matters with sewer capacity charges because there is a difference in wastewater loadings among classes of development. With water capacity charges, however, capacity does not vary by development type. The capacity in a two-inch connection, for example, is the same regardless of what type of development uses the capacity.

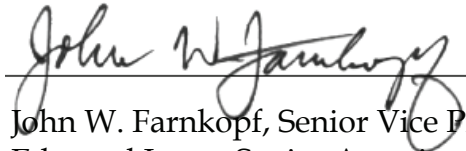
We also recommend maintaining an accounting of the capital expenditures so that, as future facilities are constructed, any variance in cost can be reflected in an updated capacity charge.

Mr. Jim App  
August 27, 2008  
Page 12

Please do not hesitate to call if you have any questions. Thank you for choosing HF&H to assist with this matter.

Very truly yours,

HILTON FARNKOPF & HOBSON, LLC

A handwritten signature in black ink, appearing to read "John W. Farnkopf", is written over a horizontal line.

John W. Farnkopf, Senior Vice President  
Edmund Jones, Senior Associate

Attachments:

Water Capacity Charge Model  
TJ Cross Memorandum



City of Paso Robles  
Water Connection Fee Study  
Table 1 - Water System CIP Cost Allocation

	Source	Original Cost	Year of Cost Estimate	Escalation Factor (Table 4)	Cost in 2008 Dollars	Allocation to Future Users	
<b>Future Projects</b>							
<u>Nacimiento Water Project</u>							
Nacimiento WTP	c.	\$89,770,000	2008	1.00	\$89,770,000	50.0%	\$44,885,000
Nacimiento Regional Pipeline	c.	\$144,190,000	2008	1.00	\$144,190,000	50.0%	\$72,095,000
Additional 4,000 AFY Nacimiento Entitlement	c.	\$60,000,000	2009	1.00	\$60,000,000	100.0%	\$60,000,000
Subtotal - Nacimiento Water Project		\$293,960,000			\$293,960,000	60.2%	\$176,980,000
<u>Wells</u>							
New Sherwood Well #11 Installation	a.	\$500,000	2008	1.00	\$500,000	39.0%	\$194,930
Sherwood Well Arsenic Treatment System	a.	\$2,096,241	2008	1.00	\$2,096,241	39.0%	\$817,240
Ronconi Filtration Relocation	a.	\$4,747,500	2008	1.00	\$4,747,500	39.0%	\$1,850,860
Annual Well Rehabilitation	a.	\$2,916,700	2008	1.00	\$2,916,700	39.0%	\$1,137,105
New Well Drilling Program	a.	\$3,954,672	2008	1.00	\$3,954,672	39.0%	\$1,541,768
Subtotal - Wells		\$14,215,113			\$14,215,113	39.0%	\$5,541,903
<u>Tank, Booster Station and Metering Projects</u>							
FE7 - 21st Reservoir Construction	a.	\$10,321,353	2008	1.00	\$10,321,353	39.0%	\$4,023,882
Acquire Water Tank Site	a.	\$1,669,538	2008	1.00	\$1,669,538	39.0%	\$650,886
Water Tanks - Coating Repairs	a.	\$291,670	2008	1.00	\$291,670	39.0%	\$113,710
W16 - Fire Pump & 8" Water Line at HP Booster Station	a.	\$253,221	2008	1.00	\$253,221	0.0%	\$0
Remote Read Meter System	a.	\$2,935,603	2008	1.00	\$2,935,603	39.0%	\$1,144,474
Water Meter Replacement	a.	\$332,724	2008	1.00	\$332,724	39.0%	\$129,716
Subtotal - Tank, Booster Station & Metering		\$15,804,109			\$15,804,109	38.4%	\$6,062,669
<u>Pipeline Improvements</u>							
W14 - 8" Water Line in Highland Park Zone	a.	\$343,784	2008	1.00	\$343,784	0.0%	\$0
E4 - 12" Water Line in Miller Court	a.	\$202,676	2008	1.00	\$202,676	0.0%	\$0
W13 - 8" Water Line in 15th Street	a.	\$90,673	2008	1.00	\$90,673	0.0%	\$0
W17 - 12" Water Line in Nacimiento Lake Drive	a.	\$480,633	2008	1.00	\$480,633	0.0%	\$0
W4 - 10" Water Line in 36th Street	a.	\$444,300	2008	1.00	\$444,300	39.0%	\$173,215
W5 - 8" Water Line in 22nd Street	a.	\$76,995	2008	1.00	\$76,995	39.0%	\$30,017
W6 - 10" Water Line in 22nd Street	a.	\$161,228	2008	1.00	\$161,228	0.0%	\$0
W10 - 8" Water Line in Olive Street	a.	\$329,803	2008	1.00	\$329,803	0.0%	\$0
W7 - 10" Water Line in 24th Street	a.	\$412,325	2008	1.00	\$412,325	39.0%	\$160,749
W8 - 8" Water Line in Oak Street	a.	\$410,956	2008	1.00	\$410,956	39.0%	\$160,215
W9 - 8" Water Line in 2nd Street	a.	\$307,826	2008	1.00	\$307,826	39.0%	\$120,009
W1 - 12" Water Line in Spring Street	a.	\$1,846,387	2008	1.00	\$1,846,387	39.0%	\$719,832
W2 - 8" Water Line in Oak Street	a.	\$398,917	2008	1.00	\$398,917	39.0%	\$155,522
W18 - 14" Water Line in Pine Street	a.	\$1,216,753	2008	1.00	\$1,216,753	39.0%	\$474,363
FE6 - 16" Water Line in Linne Road	a.	\$1,342,756	2008	1.00	\$1,342,756	39.0%	\$523,487
Subtotal - Pipeline Improvements		\$8,066,012			\$8,066,012	31.2%	\$2,517,410
<b>Total - Future Projects</b>		<b>\$332,045,234</b>			<b>\$332,045,234</b>	<b>57.6%</b>	<b>\$191,101,982</b>

City of Paso Robles  
 Water Connection Fee Study  
 Table 1 - Water System CIP Cost Allocation

	Source	Original Cost	Year of Cost Estimate	Escalation Factor (Table 4)	Cost in 2008 Dollars	Allocation to Future Users	
<b>Existing Facilities</b>							
<u>Wells</u>							
Well	b.	\$8,135	1984	1.8086	\$14,713	39.0%	\$6,000
Well	b.	\$33,061	1983	1.7826	\$58,934	39.0%	\$23,000
Ronioni Well	b.	\$77,339	1984	1.8086	\$139,874	39.0%	\$55,000
Tbird Well	b.	\$57,596	1984	1.8086	\$104,168	39.0%	\$41,000
Osborne Well	b.	\$56,175	1988	1.5924	\$89,455	39.0%	\$35,000
Butterfield Well Rehab	b.	\$16,668	1989	1.5393	\$25,656	0.0%	\$0
Borcherdt Well Rehab	b.	\$43,044	1989	1.5393	\$66,256	0.0%	\$0
Well #11 Rehab	b.	\$59,937	1989	1.5393	\$92,260	0.0%	\$0
Barney Swartz Well Install	b.	\$208,646	1991	1.4677	\$306,219	39.0%	\$119,000
Ronconi Well Install	b.	\$102,872	1991	1.4677	\$150,980	39.0%	\$59,000
Well Fencing	b.	\$9,991	1991	1.4677	\$14,664	0.0%	\$0
Rehab Sherwood Well #9	b.	\$30,373	1991	1.4677	\$44,577	0.0%	\$0
Rehab Thunderbird Well	b.	\$39,355	1993	1.4097	\$55,478	0.0%	\$0
Airport Well Installation	b.	\$223,701	1993	1.4097	\$315,346	39.0%	\$123,000
Ronconi Well Rehab	b.	\$6,470	1993	1.4097	\$9,121	0.0%	\$0
Upgrade Barney Schwartz Well	b.	\$19,432	1993	1.4097	\$27,393	39.0%	\$11,000
Thunderbird Well #17 install	b.	\$123,704	1994	1.3984	\$172,984	39.0%	\$67,000
Tarr Airport Well	b.	\$50,400	1994	1.3984	\$70,478	39.0%	\$27,000
Airport well upgrade	b.	\$23,555	1995	1.3924	\$32,799	39.0%	\$13,000
Thunderbird Well upgrade	b.	\$20,488	1995	1.3924	\$28,528	39.0%	\$11,000
Rehab Thunderbird Well #17	b.	\$9,930	1996	1.3774	\$13,678	0.0%	\$0
Rolling Hills Well Installation	b.	\$131,809	1996	1.3774	\$181,557	39.0%	\$71,000
Rehab Sherwood well #11	b.	\$6,383	1996	1.3774	\$8,792	0.0%	\$0
Thunderbird Well Install	b.	\$10,995	1996	1.3774	\$15,145	39.0%	\$6,000
Royal Oak #20 Well Installation	b.	\$168,652	1997	1.3567	\$228,804	39.0%	\$89,000
Rehab Sherwood #9 well	b.	\$30,952	1997	1.3567	\$41,992	0.0%	\$0
Fox Well #21 Well Installation	b.	\$98,814	1997	1.3567	\$134,057	39.0%	\$52,000
Tbird #5 Well Installation	b.	\$95,492	1999	1.3396	\$127,924	39.0%	\$50,000
Tbird #5 Well Installation	b.	\$31,285	1999	1.3396	\$41,911	39.0%	\$16,000
Rehab Sherwood #9 well	b.	\$36,413	1999	1.3396	\$48,780	0.0%	\$0
Rehab Butterfield Well #12	b.	\$37,938	2001	1.2342	\$46,822	0.0%	\$0
Rehab Well #6	b.	\$13,490	2002	1.1946	\$16,114	0.0%	\$0
Tarr #19 Well Complete (352)	b.	\$25,909	2004	1.1098	\$28,754	39.0%	\$11,000
Royal Oaks Well (496)	b.	\$29,432	2004	1.1098	\$32,664	39.0%	\$13,000
Rehab Butterfield Well #12 (351)	b.	\$109,919	2006	1.0025	\$110,198	0.0%	\$0
Rehab Cuesta Well # 500	b.	\$28,568	2006	1.0025	\$28,640	0.0%	\$0
Rehab Fox Well #21 #565	b.	\$107,399	2006	1.0025	\$107,672	0.0%	\$0
Subtotal - Existing Facilities, Wells		\$2,184,323			\$3,033,386	29.6%	\$898,000
<u>Water Supply</u>							
Paint Water Storage Tanks	b.	\$22,577	1993	1.4097	\$31,827	0.0%	\$0
Booster Station Upgrade @ Yard	b.	\$9,016	1994	1.3984	\$12,608	39.0%	\$5,000
Re-coat GH Water Tank Interior	b.	\$213,442	2003	1.1724	\$250,245	0.0%	\$0
GH Water Tank #2	b.	\$2,897,941	2003	1.1724	\$3,397,628	39.0%	\$1,325,000
SE Tank and Water Main #555	b.	\$245,347	2006	1.0025	\$245,970	39.0%	\$96,000
Golden Hill Rd. Water Tank 1	b.	\$1,253,606	2006	1.0025	\$1,256,792	0.0%	\$0
Golden Hill Rd. Water Tank 2	b.	\$122,100	2006	1.0025	\$122,411	0.0%	\$0
Subtotal - Existing Facilities, Water Supply		\$4,764,029			\$5,317,481	26.8%	\$1,426,000
<u>Transmission Projects</u>							
All mains	d.	\$168,851,486	2008	1.0000	\$168,851,486		
Developer contributions for in-tract facilities	d.	(\$69,405,344)	2008	1.0000	(\$69,405,344)		
Subtotal - Existing Facilities - Transmission		\$99,446,142			\$99,446,142	39.0%	\$38,770,069
<b>Total - Existing Facilities</b>		<b>\$106,394,494</b>			<b>\$107,797,009</b>	<b>38.1%</b>	<b>\$41,094,069</b>
<b>Total All Projects</b>		<b>\$438,439,728</b>			<b>\$439,842,243</b>	<b>52.8%</b>	<b>\$232,196,051</b>
					EMUs		8,408
					Charge per EMU		\$27,617

a. Christine Halley, TJ Cross Engineers, Paso Robles 10-year capital improvement program  
 b. City of Paso Robles Depreciation Schedule FY 2006 - Asset Value at year of completion  
 c. Christine Halley, TJ Cross Engineers, Paso Robles 10-year capital improvement program; Includes all financing costs  
 d. Inventory: Paso\_Mplan.wtg; received from Christopher Alakel, P.E., City of Paso Robles (Table 6)

City of Paso Robles  
 Water Connection Fee Study  
 Table 2 - Fee Calculation

	Project Costs			Costs Allocated to Growth			Capacity Charge Components per EMU
	Cash Funded	Debt Funded <sup>1</sup>	Cost in 2008 Dollars	Cash Funded	Debt Funded <sup>1</sup>	Cost in 2008 Dollars	
<b>Existing Facilities</b>							
Supply	\$3,033,386	\$0	\$3,033,386	\$898,000	\$0	\$898,000	\$107
Treatment	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Conveyance	\$104,763,623	\$0	\$104,763,623	\$40,196,069	\$0	\$40,196,069	\$4,781
<b>Existing Facilities Total</b>	<b>\$107,797,009</b>	<b>\$0</b>	<b>\$107,797,009</b>	<b>\$41,094,069</b>	<b>\$0</b>	<b>\$41,094,069</b>	<b>\$4,888</b>
<b>Future Facilities</b>							
Supply							
Nacimiento Regional Pipeline	\$0	\$144,190,000	\$144,190,000	\$0	\$72,095,000	\$72,095,000	\$8,575
Other	\$7,371,372	\$0	\$7,371,372	\$2,873,803	\$0	\$2,873,803	\$342
	\$7,371,372	\$144,190,000	\$151,561,372	\$2,873,803	\$72,095,000	\$74,968,803	\$8,917
Treatment							
Nacimiento Treatment Plant	\$0	\$89,770,000	\$89,770,000	\$0	\$44,885,000	\$44,885,000	\$5,339
Other	\$6,843,741	\$0	\$6,843,741	\$2,668,101	\$0	\$2,668,101	\$317
	\$6,843,741	\$89,770,000	\$96,613,741	\$2,668,101	\$44,885,000	\$47,553,101	\$5,656
Conveyance	\$23,870,121	\$0	\$23,870,121	\$8,580,078	\$0	\$8,580,078	\$1,021
Additional Future Water Supply	\$60,000,000	\$0	\$60,000,000	\$60,000,000	\$0	\$60,000,000	\$7,136
<b>Future Facilities Total</b>	<b>\$98,085,234</b>	<b>\$233,960,000</b>	<b>\$332,045,234</b>	<b>\$74,121,982</b>	<b>\$116,980,000</b>	<b>\$191,101,982</b>	<b>\$22,729</b>
<b>All Facilities Total</b>	<b>\$205,882,243</b>	<b>\$233,960,000</b>	<b>\$439,842,243</b>	<b>\$115,216,051</b>	<b>\$116,980,000</b>	<b>\$232,196,051</b>	<b>\$27,617</b>

1. Costs comprised of all principal and interest to be paid over the 30-year term of the bond.

City of Paso Robles

Water Connection Fee Study

Table 3 - Fee Per Equivalent Meter Unit

Growth Estimate

(1) Meter Size	(2) EMU Multiplier <sup>1</sup>	(3) 2007		(5) 2025		(7) Growth Increment	
		(3) Accounts <sup>2</sup>	(4) EMUs (2)*(3)	(5) Accounts <sup>3</sup> (3)**% Incr.	(6) EMUs <sup>3</sup> (2)*(5)	(7) Accounts (5)-(3)	(8) EMUs (2)*(7)
5/8" & 3/4"	1.00	9,141	9,141	14,660	14,660	5,519	5,519
1"	1.67	606	1,012	1,199	2,002	593	990
1 1/2"	3.33	169	563	275	916	106	353
2"	5.33	275	1,466	451	2,404	176	938
3"	10.00	28	280	46	462	18	182
4"	16.67	27	450	44	733	17	283
6"	33.33	1	33	1	37	0	3
8"	53.33	4	213	7	352	3	139
10"	76.67	0	0	0	0	0	0
		10,251	13,158	16,683	21,566	6,432	8,408
Growth's proportionate share							39.0%
1. AWWA <i>Water Meters - Selection, Installation, Testing, and Maintenance</i> 2. City of Paso Robles; account data as of December 2007 3. City of Paso Robles August 27, 2008 memo from C. Halley							

City of Paso Robles  
 Water Connection Fee Study  
 Table 4 - ENR Construction Cost Index History

Year	Index	Factor	% Increase
1978	3,412.20	2.6762	
1979	3,806.14	2.3992	11.55%
1980	4,371.96	2.0887	14.87%
1981	4,592.45	1.9884	5.04%
1982	4,993.30	1.8288	8.73%
1983	5,122.74	1.7826	2.59%
1984	5,049.13	1.8086	-1.44%
1985	5,055.04	1.8065	0.12%
1986	5,508.43	1.6578	8.97%
1987	5,732.37	1.5930	4.07%
1988	5,734.48	1.5924	0.04%
1989	5,932.57	1.5393	3.45%
1990	6,055.61	1.5080	2.07%
1991	6,222.06	1.4677	2.75%
1992	6,294.84	1.4507	1.17%
1993	6,477.95	1.4097	2.91%
1994	6,530.35	1.3984	0.81%
1995	6,558.16	1.3924	0.43%
1996	6,629.61	1.3774	1.09%
1997	6,731.08	1.3567	1.53%
1998	6,845.59	1.3340	1.70%
1999	6,816.70	1.3396	-0.42%
2000	7,447.99	1.2261	9.26%
2001	7,399.07	1.2342	-0.66%
2002	7,644.46	1.1946	3.32%
2003	7,788.80	1.1724	1.89%
2004	8,228.39	1.1098	5.64%
2005	8,462.45	1.0791	2.84%
2006	9,108.66	1.0025	7.64%
2007	9,131.81	1.0000	0.25%

Source: McGraw-Hill Construction Engineering News Record -  
 San Francisco Construction Cost Index History  
[www.enr.com](http://www.enr.com)  
 Base: 1913=100  
 December 31 values

City of Paso Robles  
 Water Connection Fee Study  
 Table 5 - AWWA Meter Equivalencies

Meter Size	Maximum Capacity <sup>1</sup>	Equivalent Meter Units	Capacity Charge <sup>2</sup>
5/8" & 3/4"	30	1.00	\$27,617
1"	50	1.67	\$46,120
1 1/2"	100	3.33	\$91,965
2"	160	5.33	\$147,199
3"	300	10.00	\$276,170
4"	500	16.67	\$460,375
6"	1,000	33.33	\$920,475
8"	1,600	53.33	\$1,472,815
10"	2,300	76.67	\$2,117,395

1. Rated maximum capacity in gallons per minute; Source: AWWA Water Meters -Selection, Installation, Testing, and Maintenance  
 2. Year 3 charges listed

City of Paso Robles  
 Water Connection Fee Study  
 Table 6 - System Cost Calculations

Diameter (Inches)	Linear Feet by Material Type						Unit Cost	Total Cost	City- Funded	Developer- Contributed	City Cost
	PVC	ACP	Cast Iron	Galv. Iron	Ductile Iron	Total					
2.0	0.0	0.0	0.0	6,590.0	0.0	6,590.0	\$158	\$1,037,925	100%	0%	\$1,037,925
3.0	0.0	0.0	796.0	426.0	0.0	1,222.0	\$158	\$192,465	100%	0%	\$192,465
4.0	1,056.0	26,159.0	45,645.0	392.0	70.0	73,322.0	\$158	\$11,548,215	100%	0%	\$11,548,215
5.0	0.0	0.0	0.0	0.0	10.0	10.0	\$158	\$1,575	100%	0%	\$1,575
6.0	19,962.0	77,378.0	21,898.0	0.0	415.0	119,653.0	\$158	\$18,845,348	50%	50%	\$9,422,674
8.0	204,280.5	158,878.0	422.0	0.0	9,131.0	372,711.5	\$158	\$58,702,061	20%	80%	\$11,740,412
10.0	39,122.0	77,220.0	7,361.0	0.0	1,366.0	125,069.0	\$165	\$20,636,385	73%	27%	\$15,064,561
12.0	41,340.0	45,864.0	7,029.0	0.0	1.0	94,234.0	\$233	\$21,909,405	66%	34%	\$14,460,207
14.0	5,615.0	8,367.5	1,164.0	0.0	1.0	15,147.5	\$255	\$3,862,613	100%	0%	\$3,862,613
16.0	31,784.0	4,125.0	0.0	0.0	52,326.0	88,235.0	\$300	\$26,470,500	100%	0%	\$26,470,500
24.0	2,837.0	0.0	0.0	0.0	10,140.0	12,977.0	\$435	\$5,644,995	100%	0%	\$5,644,995
Total	345,996.5	397,991.5	84,315.0	7,408.0	73,460.0	909,171.0		\$168,851,486			\$99,446,142
									Developer contributed		\$69,405,344

Source: Project Inventory: Paso\_Mplan.wtg; received from Christopher Alakel, P.E., Water Resources Manager, City of Paso Robles

**DATE:** August 27, 2008  
**TO:** John Farnkopf, HF&H Consultants  
**FROM:** Christine Halley, TJCross Engineers  
**SUBJECT:** Water Meter Counts at Buildout

---

As we discussed at our team meeting yesterday with City of Paso Robles staff, I am writing to confirm various statistics to be used in the water capacity fee calculations:

1. City Finance Dept provided meter counts by meter size as of December 2007. Those figures are attached. Please use these numbers as the basis for estimating existing equivalent meter units in your fee model. The December 2007 meter count (10,251) compares closely with the 2007 Public Water System Statistics as reported to DWR (within 1.6%).
2. A projection of meter counts by meter size at buildout is needed. To project this, the estimated percent growth in various user categories as outlined in the 2007 Potable Water Master Plan was referenced as the basis. Note that the percent growth was also compared to actual usage by user category as stated in the 2007 Public Water Systems Statistics as reported to DWR. Both sources were helpful in projecting accounts and EMUs at build-out. Please refer to the attached calculation.

Let me know if you have further questions pertaining to these figures.



**City of Paso Robles**

**Water Meter Count - Current and Projected**

C Halley

8/27/2008

**Percent Increase - Current to Buildout**

Land Use Category	Metered Demand by Land Use Category, AFY	Projected Buildout Demand per Land Use Category, gpm	Percent Increase
	(a)	(b)	(c)
Residential	4908	4,161	45.8%
Multi-family	755	2,314	79.8%
Other	2464	2,981	48.8%
<b>Totals =</b>	<b>8,127</b> AFY	<b>9,456</b> gpm	

- (a) 2007 Public Water System Statistics, DWR
- (b) 2007 Potable Water Distribution System Master Plan Table 5
- (c) Buildout as compared to (a)

safety factor = 10%

**Meter Counts and Equivalent Meter Units**

Meter Size	Current Statistics			Projected Statistics		
	Number of Accounts	EMU Multiplier	Current EMUs	Percent Increase in Usage per User Category	Projected No. of Accounts at Build Out	Projected EMUs at Build-Out
	(1)	(2)	(3)	(4)		(5)
5/8 and 3/4"	9141	1	9,141	45.8%	13,327	14,660
1"	606	1.67	1,012	79.8%	1,090	2,002
1 1/2"	169	3.33	563	45.8%	250	916
2"	275	5.33	1,466	48.8%	410	2,404
3"	28	10	280	48.8%	42	462
4"	27	16.67	450	48.8%	40	733
6"	1	33.33	33	48.8%	1	37
8"	4	53.33	213	48.8%	6	352
<b>Totals=</b>	<b>10,251</b>		<b>13,158</b>		<b>15,166</b>	<b>21,566</b>

(1) Source: City Finance Dept records for Dec 2007. Note that the meter count varies slightly (-1.6%) as compared to 2007 Public Water System Statistics, DWR.

(2) Source: AWWA Water Meters - Selection, Installation, Testing, and Maintenance. EMU is equivalent meter unit.

(3) = (1) x (2)

(4) Source: See table at left

(5) = (3) x [1+(4)] plus stated safety factor. The safety factor is included in recognition of estimating variables that pertain to meter size distribution at buildout.

BRYAN W. WENTER, AICP  
(925) 979-3315  
bwenter@mmlaw.com

July 21, 2008

**VIA E-MAIL**

Jim App ([japp@prcity.com](mailto:japp@prcity.com))  
City Manager  
City of Paso Robles  
1000 Spring Street  
Paso Robles, CA 93446

Iris P. Yang ([iyang@mhalaw.com](mailto:iyang@mhalaw.com))  
City Attorney  
McDonough Holland & Allen PC  
555 Capitol Mall 9th Floor  
Sacramento CA 95814

**Re: City of Paso Robles, Nacimiento Water Project  
Proposed Water Rate Structures and Capacity Charge Increases**

Dear Mr. App and Ms. Yang:

As you know, this firm represents the Home Builders Association of the Central Coast ("HBACC") in connection with the City of Paso Robles' proposal to increase water user rates and water capacity or connection charges to fund the Paso Robles Water Project. We understand that the proposed water capacity increases can generally be divided into three basic components: (1) the current charge; (2) the Nacimiento Water Project; and (3) additional Nacimiento water supply. Following a three-year phase in period, the City's water project would increase the current charge of \$9,119 per single-family residence to \$28,687 in 2011, a 215% increase.<sup>1</sup> Thereafter, the charge would be inflated at a rate, based on published construction cost indices, projected at 5.5% annually (adjusted as explained below in Section III). The HBACC appreciates the City's efforts on this important project and remains committed to working productively with its staff to ensure that any fee increases the City ultimately adopts are based on the best information and assumptions so that the studies upon which they are based accurately and fairly represent the cost of serving new development.

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<sup>1</sup> The proposed increase is so severe, particularly in comparison with neighboring communities, that it could cause development to be displaced to other areas. Last year, the state supreme court concluded that displaced development may require analysis under the California Environmental Quality Act, Cal. Pub. Res. Code sections 21000 *et seq.* *Muzzy Ranch Co. v. Solano County Airport Land Use Comm'n*, 41 Cal.4th 372 (2007).

## **I. HBACC'S ANALYSIS**

The HBACC's analysis of the increased charges was spearheaded by Joanne Brion of Brion & Associates, a well-regarded urban economics consulting firm. Ms. Brion carefully reviewed the City's 59-page July 1, 2008 staff report, which includes the following supporting studies: Water Rate and Revenue Analysis, dated June 23, 2008, prepared by Kennedy/Jenks Consultants; Revised Draft Projected Water Supply Plan and 10-Year CIP, dated June 24, 2008, prepared by TJ Cross Engineers; and Water Capacity Charge Study, dated June 25, 2008, prepared by HF&H Consultants, LLC. Ms. Brion also reviewed the Excel spreadsheets the City provided after our July 9, 2008 meeting with City staff and consultants and the Final 2005 Urban Water Management Plan ("UWMP"), dated June 2008, by Todd Engineers. Ms. Brion's memorandum summarizing her findings to date and the Excel spreadsheets that contain her calculations are attached.

## **II. HBACC'S REQUESTS**

The City has been working for more than a year to develop the proposed capacity charge increases. The HBACC has consistently requested to be included in that process. But the HBACC had less than two weeks to analyze the documents intended to justify those increases. In the limited time the HBACC has had to review the complicated information the City recently provided, the association has identified numerous issues that need additional clarification. The nature of those issues suggests that the City is not yet ready to consider, much less approve, these severe increases.

In addition to the substantive issues identified below and in the attachments, we note that the City's consultants seem to have made several critical errors that illustrate why those increases are not ready for adoption. As noted above, a 5.5% inflation factor was erroneously applied to improvements that will be financed with debt service. Likewise, a remote meter system was improperly included in the cost allocation upon which the proposed capacity charge increase is based. The costs for that system should be funded by existing development because new development will be subject to future meter charges that are not part of the connection fee. The HBACC also learned at the July 9 meeting with City staff and consultants that several storage tanks that are part of the City's water project are not included in the underlying calculations. Finally, as Ms. Brion noted in her memorandum, there is a discrepancy between the City's July 1 staff report, which shows that the capacity charge increase will be phased in over three years, and the Kennedy/Jenks analysis, which assumes the full \$28,687 charge goes into effect in FY 2008-2009.

Accordingly, the HBACC requests a postponement of the August 19, 2008 City Council hearing to consider adopting the increases to allow further analysis and an additional meeting with City staff and consultants. Ms. Brion is unavailable until the first full week of August and will need additional time to analyze the information provided. The HBACC hopes the City is amenable to taking the additional time needed to ensure the proposed capacity charge increases

are justifiable. There is little current building activity in the City and little chance Paso Robles will lose any revenue while working to resolve the remaining issues. We crafted this letter so City staff can share it with the Council to help explain why we are requesting a short postponement.

The HBACC also requests that the eventual new charges only be applied to development applications that are not deemed complete 60 or 90 days following adoption because the capacity charge increases would be applied with a limited amount of advanced warning to developers whose applications were not deemed complete by July 1, 2008. Although there is little current building activity in the City, the impact of such a significant unexpected charge would severely impact those projects for which applications have been filed but the City has not yet deemed complete.

### **III. REMOVAL OF 5.5% INFLATION FACTOR**

Before discussing the issues that the HBACC has identified that remain unresolved, we note that City staff and consultants agreed at the July 9 meeting that the 5.5% inflation factor the Kennedy/Jenks analysis applied should and will be removed from the improvements to be financed with debt service. This would lead to an incremental reduction in the proposed charge beginning in year 2012, when the charge would be inflated to \$30,265, and beyond. Even after making that change, however, the HBACC strongly believes that the proposed water capacity and connection charges exceed the cost of providing such service in violation of the Mitigation Fee Act. Gov't Code § 66013(a).

### **IV. MITIGATION FEE ACT**

The Mitigation Fee Act imposes important limitations on the charges public agencies such as the City may impose on new development to fund public facilities. In particular, the Act provides that "fees for water connection or sewer connections, or . . . capacity charges . . . shall not exceed the estimated reasonable cost of providing the service for which the fee or charge is imposed . . ." Gov't Code § 66013(a). In other words, a water connection charge or capacity charge violates the Act if it exceeds the cost of providing the service.

#### **A. MITIGATION FEE ACT, WATER DEMAND, AND ADDITIONAL 4,000 AFY SUPPLY**

The charge as presently proposed appears to violate the Mitigation Fee Act for at least two reasons. First, the additional 4,000 acre-feet per year ("AFY") of Nacimiento water supply beyond the City's current 4,000 AFY Nacimiento entitlement is not needed to serve buildout to the year 2025 and thus cannot legally be imposed on new development. Based on the data and assumptions contained in the analyses prepared by Kennedy/Jenks and HF&H, water demand is projected to increase from 6,776 AFY in 2008 to 11,600 AFY at buildout in 2025.<sup>2</sup> At the same

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<sup>2</sup> 2,951,855 HCF \* 748 gallons = 2,207,987,540 gallons / 325,851 = 6,776.06 AFY.

time, however, the UWMP provides that gross water use is 220 gallons per capita per day, and admits that water use in the City is on the high end of water demand rates compared with other nearby communities.<sup>3</sup> The City's gross per capita water demand converts to 10,842 AFY.<sup>4</sup> Apparently disregarding its own gross water demand figure, the UWMP then assumes that population will increase linearly and that demand will likewise increase linearly from 6,735 AFY in 2005 to 15,265 AFY in 2025.<sup>5</sup> Thus, whichever method is used, the City's projected water demand of 10,842 or 11,600 AFY is significantly less than 15,265 AFY.

The UWMP also shows that the City's existing supply of 11,456 AFY<sup>6</sup> in 2010 (from river wells, basin wells, and the existing Nacimiento entitlement) will meet the projected demand.<sup>7</sup> Indeed, based on the City's own numbers, there is projected to be either a surplus of 614 AFY<sup>8</sup> or a slight shortage of 144 AFY.<sup>9</sup>

Based on the foregoing numbers, the Mitigation Fee Act prevents the City from charging new development the cost of the additional 4,000 AFY of Nacimiento water it seeks to obtain unless it submits the excess charge to a vote and obtains two-thirds approval. Those numbers suggest that the City is assuming gross water use per capita per day will somehow substantially increase at maximum buildout, yet no justification for this assumption is provided. The HBACC has developed preliminary internal calculations that indicate this excess charge comprises approximately \$10,000 of the proposed \$28,687 capacity charge.

If the City chooses to use the UWMP as the basis for the future demand, then the number of connections (25,560) the UWMP anticipates, which is based upon the maximum buildout of all land use categories, should be used as the basis for the apportionment of the capacity charge. The City should not, however, use the UWMP for future demand and the HF&H study for the number of anticipated connections (16,895). The inconsistencies in such an approach cause an excessive and unsubstantiated cost burden to be placed on each new connection.

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$$6,776.06 \text{ AFY} / 12,106 \text{ EMU} = .056 \text{ AFY/EMU.}$$
$$20,716 \text{ EMU (at 2025 buildout)} * .056 \text{ AFY/EMU} = 11,600 \text{ AFY.}$$

<sup>3</sup> See UWMP at 7-9.

<sup>4</sup> 220 GPCD \* 365 days = 80,300 gallons \* 44,000 (population in 2025) = 3,533,200,000 gallons / 325,851 = 10,842 AFY.

<sup>5</sup> See UWMP at 8-9 and Table 4.

<sup>6</sup> 4,600 AFY (river wells) + 2,856 AFY (basin wells) + 4,000 AFY (existing Nacimiento entitlement) = 11,456 AFY.

<sup>7</sup> See UWMP at 19-21 and Table 13.

<sup>8</sup> 11,456 AFY (UWMP supply projection) – 10,842 AFY (UWMP demand projection) = 614 AFY surplus.

<sup>9</sup> 11,600 AFY (Kennedy/Jenks and HF&H demand projection) – 11,456 AFY (UWMP supply projection) = 144 AFY shortage.

## **B. MITIGATION FEE ACT, BUY-IN METHODOLOGY, AND DEPRECIATION**

Second, the City's consultants have proposed a "buy-in" approach that does not depreciate existing water supply facilities. As the City's consultants recognize, the Mitigation Fee Act does not expressly prescribe the methodology for calculating connection charges. However, the Act clearly limits charges to those that will "not exceed the estimated reasonable cost of providing the service for which the fee or charge is imposed." Gov't Code § 66013(a). While the Act's requirements may be satisfied under several different methodologies, a buy-in fee of the type proposed here—based on the full replacement value of an entire system of capital improvements, including many that only retain a fraction of their remaining useful life—exceeds that important limitation. The estimated reasonable cost of providing service from an existing system is clearly not the cost to construct such a system today, but rather the cost to construct the system when it was built. The Mitigation Fee Act does not allow public agencies to impose capacity charges that force new development to reimburse existing users for the costs they incurred and the benefits they received. Ms. Brion's analysis suggests this excess charge comprises approximately \$3,000 to \$5,000 of the proposed \$28,687 capacity charge.

## **V. UNANSWERED QUESTIONS**

In addition to the substantive deficiencies we have identified in the proposed capacity charge increases, the HBACC raised several questions in its September 28, 2007, June 25, 2008, July 1, 2008, and July 7, 2008 correspondence to the City, all of which are incorporated into this letter by reference. Many of those questions, several of which are highlighted below, remain unanswered.

- The City's consultants increased the value of existing facilities from \$30.1 million in the City's 2007 studies to \$177.2 million today, which represents a nearly 500% increase. The City's consultants have not provided a rationale for this dramatic change and have not addressed whether the existing system has any capacity for new development to buy into or whether the system is adequate to serve such development.
- The City's consultants increased total costs for the water project from \$202 million in the City's 2007 studies to \$509 million today and increased new development's share of those costs have increased from 50% to 69%. The basis for these significant increases has not been adequately explained.
- The City's consultants have not addressed how they have accounted for water improvement projects that are funded through specific plans and master plans and have not addressed the possibility that some new development may build its own facilities or purchase water directly from other sources. The mechanism that will be used to track credits should also be addressed.

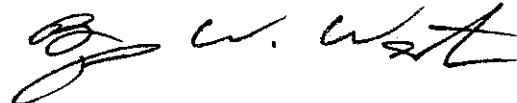
- The City has not addressed apparent discrepancies between its June 26, 2008 letter to the HBACC, the HF&H study, and the Kennedy/Jenks analysis.
- The City has not provided a breakdown of the components that comprise the stated \$15,000 acre-foot cost of Nacimiento water.

## VI. CONCLUSION

The HBACC continues to desire a productive relationship with the City in its development of the Paso Robles Water Project. Our analysis to date indicates that the capacity charge increase as presently proposed exceeds the statutory limits of the Mitigation Fee Act. To address these issues and the HBACC's unanswered questions, the association requests additional time to work with City staff and consultants.

Sincerely,

MORGAN MILLER BLAIR



BRYAN W. WENTER, AICP

BWW:

Attachment: Letter from Brion & Associates, dated July 17, 2008, with Excel spreadsheets.

cc: Jim Throop, Administrative Services Director ([jthroop@prcity.com](mailto:jthroop@prcity.com))  
John Falkenstien, P.E., City Engineer ([jfalkenstien@prcity.com](mailto:jfalkenstien@prcity.com))  
Jerry Bunin, HBACC ([jbunin@hbacc.org](mailto:jbunin@hbacc.org))  
Joanne Brion, Brion & Associates ([jgbrion@pacbell.net](mailto:jgbrion@pacbell.net))  
Daniel A. Muller, Esq. ([dmuller@mmlaw.com](mailto:dmuller@mmlaw.com))



## MEMORANDUM

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To: Jerry Bunin, Government Affairs Director, Home Builder's Association of the Central Coast

From: Joanne Brion, Brion & Associates

Subject: Response to City Meeting: New Water Connection Fee Calculations;  
B&A #2310-08

Date: July 21, 2008

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The following memorandum presents two alternative calculations for a new water connection fee in Paso Robles. As you know, the City provided us with an Excel file that includes the tables in the HF&H Water Connection Fee letter, where they proposed the new water connection fee of \$28,687. I have used that file to address issues and questions we discussed at our meeting with City staff and their consultants on July 9, 2008. Please note that the City's KJ Study assumes the \$28,687 rate goes into effect in FY 08/09 and this is not consistent with the City's Staff Report showing the fee being phased in over three years. I have followed the City's proposed phase in, as shown on page 5 of the July 1, 2008 Staff Report.

I have created the following summary table that provides estimated new fee rates, and the escalation of those fees using the city's 5.5% adjustment factor on non debt service improvements, assuming a new fee is adopted in 2008. The proposed rates are provided at the top of the table for ease of comparison. The City Staff report says that the adjustments will be based on actual ENR but we have used 5.5% as a place holder to illustrate how the fee might be phased and how that compares to our revised fees. We assume the fee escalates in 2012. Based on the Staff Report, the Nacimiento Treatment costs are added by 2010, and the additional water purchase is added by 2011. We have followed this phase in as well in **Table 1**.

As part of the review of the Water User studies, since our meeting on July 9<sup>th</sup>, we have concerns that the water demand figures are overstated, and inappropriately allocated to new development. It appears that the water demand factor from the UWMP is about .5 AFY for the existing EMUs and the future demand factor is about .75 AFY per EMU. We believe that the 4,000 AFY assumed to be required for new development is not needed or at the very least a much smaller amount of new water is needed. Thus, we question whether the entire cost of the additional 4,000 AFY can be fully allocated to new development. We would like to have more discussion about water demand and supply, as this additional water costs significantly adds to the proposed connection fee.



We have prepared two fee scenarios and a discussion of the results is as follows.

**1. Recalculation of the HF&H fee rate with the 5.5% inflation factor removed from the improvements being funded with debt service.**

As shown in **Table 1**, the new estimated fee would be approximately \$1,000 less in 2012 and \$2,000 less in 2013. At our July 9 meeting, City staff agreed to this change and this is presented for purposes of illustration so we can understand its magnitude. It is also applied to the next two revised fee estimates.

**2. Revised Rates with project costs split on a line item basis between new and existing development and a depreciated existing buy-in fee.**

As discussed in the meeting, the City's consultants contend that it is appropriate to calculate the costs per EMU assuming full buildout of the system. We contend costs should follow an approach where each project is assigned a cost allocation factor. This approach has always been used in the past, is used in prior studies conducted by HF&H, and is the most common approach in all fee studies, including water and sewer fee studies. We have taken the cost allocation factors directly from the TJ Cross memo that is attached to the Kennedy Jenks Water User Rate Study (KJ) and have not changed these factors.

One of our main points of disagreement has to do with how the City is valuing the existing system and calculating a buy-in fee. They are taking the full replacement value of the entire water system to create the fee. We believe the City should depreciate these improvements and have provided a depreciation schedule based on the HF&H list of improvements, year of construction and their ENR rates. As shown, the revised value of the buy-in fee is \$3,500 and not the proposed \$8,500 per EMU.

The resulting fee rate is about \$25,655 which is about \$3,000 less than the City's proposed rates. The categories of improvements relate directly to the HF&H improvement categories in **Table 1**; we have not coded them as conveyance or supply for simplicity. Thus HF&H uses the terms: *conveyance* and *supply improvements* and we use Wells, Tanks and Pipelines so that in the excel file the reader can see our exact calculations. We have not added or deleted any improvements in this recalculation; rather we have conducted a different methodology to split costs between new and existing development, consistent with prior city fee studies and the TC Cross cost allocation factors. The methodologies in the HF&H Study and the TJ Cross Study should be consistent.

We have also removed the remote meter system costs as this cost should be funded by existing users and by future meter charges to new development, which are not part of the connection fee.

**Other questions on the Capital Improvement List**

In the HF&H Study about \$26 million in improvement costs have been removed from the current water CIP, excluding Nacimiento projects. We have prepared the following table that compares the costs in the 2007 study to the 2008 study, both by HF&H. We would like to know if these improvements have been funded or are assumed to no longer be needed. They have been in the City's CIP for a number of years so we wonder if they will be added after this study and fee is adopted.

**Table 1**  
**Summary Table of Revised City Proposed Connection Fee**  
**Water Connection Fee Study, City of Paso Robles**  
*Prepared by Brion & Associates for the HBA of Central Coast*

Components of Fee	Proposed Connection Fee (fully indexed)	Proposed Index 5.5%	Escalated Fee Rate				
			2009	2010	2011	2012	2013
City's - HF&H Proposed Fee w/ City Staff Report Phase I	<b>\$28,687</b>		\$17,386	\$21,719	\$28,687	\$30,265	\$31,929
<b>1. HF&amp;H Proposed Fee with Adjustments to Future Increases</b>							
Existing Facilities - Total	\$8,554	yes	\$8,554	\$8,554	\$8,554	\$9,024	\$9,521
Future - Nac. Pipeline	\$6,960	no	\$6,960	\$6,960	\$6,960	\$6,960	\$6,960
Future - Nac. Treatment	\$4,333	no	\$0	\$4,333	\$4,333	\$4,333	\$4,333
Other Future Supply	<u>\$6,968</u>	no	<u>\$0</u>	<u>\$0</u>	<u>\$6,968</u>	<u>\$6,968</u>	<u>\$6,968</u>
Total - Future	\$18,262		\$6,960	\$11,294	\$18,262	\$18,262	\$18,262
Other Future Projects	\$594	yes	\$594	\$594	\$594	\$626	\$661
Future Conveyance	\$1,278	yes	\$1,278	\$1,278	\$1,278	\$1,349	\$1,423
Total Connection Fee	<b>\$28,687</b>		\$17,386	\$21,719	\$28,687	\$29,261	\$29,866
Reduction	\$0		(\$0)	\$0	\$0	(\$1,004)	(\$2,064)
<b>2. Revised Rates w/ % to New Development and Depreciated Existing Facilities</b>							
Existing Facilities - Total	\$3,560	yes	\$3,560	\$3,560	\$3,560	\$3,755	\$3,962
Future - Nac. Pipeline	\$5,213	no	\$5,213	\$4,941	\$5,213	\$5,500	\$5,802
Future - Nac. Treatment	\$8,373	no	\$0	\$7,937	\$8,373	\$8,834	\$9,319
Future - New Water Supply	<u>\$6,968</u>	no	<u>\$0</u>	<u>\$0</u>	<u>\$6,968</u>	<u>\$7,352</u>	<u>\$7,756</u>
Total - Future	\$20,554		\$5,213	\$12,878	\$20,554	\$21,685	\$22,878
Future Wells	\$714	yes	\$714	\$714	\$714	\$753	\$795
Future Tanks (1)	\$573	yes	\$573	\$573	\$573	\$604	\$638
Future Pipeline	\$254	yes	\$254	\$254	\$254	\$268	\$282
Total Connection Fee	<b>\$25,655</b>		\$10,313	\$17,978	\$25,655	\$27,066	\$28,554
Reduction	(\$3,032)		(\$7,073)	(\$3,741)	(\$3,032)	(\$3,199)	(\$3,375)

(1) The remote meter system costs are assumed to be funded by existing development with new development paying a new meter fee for each new connection, which is standard practice.

Sources: HF&H; City of Paso Robles; Brion & Associates.

Table IA-2007 compared to Table 1 - 2008  
Water System Allocation of Water Costs  
City of Paso Robles Connection Fees

Improvement Item		HF&H 2007 Cost (In 2006)	New HF&H Report 2008
<b>Future Projects</b>			
<b>Reservoir</b>			
FE7	Reservoir - Reservoir to 6.0 mg	\$200,000	
	SE Reservoir siting, design, const.	\$5,000,000	
	Acquire tank sites: South Vine, Vina Robles, Chandler	\$1,500,000	
	Install East Zone Reservoir	\$10,000,000	
	21st Street Reservoir	\$6,000,000	\$9,643,759
	W #16 and recoatings		\$460,000
	Remote Meter System		\$10,611,220
	Subtotal - Future Projects, Reservoir	\$22,700,000	\$20,714,979
<b>Wells</b>			
	New Well #10 installation	\$590,000	
	New Well #11 installation	\$590,000	
	Tower well & pipeline (#8 @ Airport)	\$590,000	
	Sherwood well treatment (2)	\$2,000,000	\$2,096,241
	Sherwood well #6 treatment	\$1,500,000	
	Rehab Osborne Well #14	\$100,000	\$0
	Rehab Sherwood Well #9	\$100,000	
	Rehab Sherwood Well #11	\$100,000	\$500,000
	Rehab Thunderbird Well #23	\$100,000	
	Rehab Dry Creek Well #18	\$100,000	
	Rehab Royal Oak Well # 20	\$100,000	
	Rehab Cuesta College Well	\$100,000	
	Rehab Fox Well #21	\$100,000	
	Rconi Filtration		\$4,500,000
	Well Drilling & Rehabilitation		\$5,200,000
	Subtotal - Future Projects, Wells	\$6,070,000	\$12,296,241
<b>Future Water Supply</b>			
	Lake Nacimiento Pipeline (City Share)		
	Lake Nacimiento Treatment Plant		
	New Water Supply (2008 #s include debt service)	\$0	\$0
<b>Water Supply</b>			
FE5	Nacimiento treatment plant pipeline		included above
	Relocate booster station & telemetry		
	Subtotal I - Future Projects, Water Supply	\$0	
<b>Transmission Projects</b>			
	Install Main: Golden Hill Road to Dallons	\$800,000	
	River Road & across 13 th bridge (16" a0	\$150,000	
	Instal Main: Thunderbird to Charolais	\$2,500,000	
	SCADA/Telemetry Improvements	\$30,000	
	Fireflow @ South City Limits	\$1,000,000	
E1	Golden Hill Road s/o Highway 46	\$8,085,000	
E2	Ardmore to Gilead (Chandler)	\$209,000	
E3	San Carlos and San Rafael, Santa Fe to Sherwood	\$92,000	
E4	Lombardo Court @ Miller Court	\$121,000	\$132,063
E5	Tractor St, Oakwood to Combine	\$260,000	
W1	Spring St, 24th to 36th	\$1,163,000	\$1,269,274
W2	Oak St, 30th to 32nd	\$238,000	\$259,934
W3	32nd St, Park to Pine	\$47,000	
W4	36th St, Spring to WWTP	\$347,000	\$378,372
W5	22nd St, Oak to Spring	\$63,000	\$69,176
W6	9th St, Olive to Oak	\$126,000	\$137,304
W7	24th and Riverside	\$289,000	\$315,484
W8	Oak St, 4th to 7th	\$181,000	\$314,436
W9	2nd St, Vine to Orcutt	\$173,000	\$223,250
W10	Olive St, 19th to 23rd	\$244,000	\$266,223
W11	James St, James to Cherry	\$47,000	
W12	Chestnut, 11th to 12th	\$126,000	
W13	15th St, Terrace to Hillcrest	\$79,000	\$85,946
W14	Highland Park Zone	\$315,000	\$343,784

Prepared by Brion & Associates



# CITY OF EL PASO DE ROBLES

*"The Pass of the Oaks"*

July 28, 2008

Home Builder's Association of the Central Coast  
Attn: Mr. Jerry Bunin, Government Affairs Director  
811 El Capitan Way, Suite 120  
San Luis Obispo, CA 93401-3333

Dear Mr. Bunin:

## Proposed Water Capacity Charges

Thank you for meeting with the City team on July 9<sup>th</sup>, and for the written correspondence dated July 21, 2008. I am writing to respond and confirm the City's direction on fee adoption.

**Buy-In Approach** – There persists debate regarding the overall method used to quantify new development's share of water system costs, particularly in the value of existing facilities. As your attorney has acknowledged, the Mitigation Fee Act does not prescribe the appropriate method for calculating these charges. This is a matter of professional opinion.

Professionals at HF&H advise that we use an approach that establishes a reasonable relationship between the facilities that benefit growth and the amount of the capacity charge, as legally required. The value of the system includes existing and future facilities because they comprise an integrated network benefiting both existing and future customers. Dividing the facilities of common benefit (i.e., all but the additional future water supply, which is entirely attributable to growth) by the number of equivalent meters at build-out in 2025 yields the average cost of capacity for common facilities; adding the cost of the additional future water supply results in the total capacity charge per equivalent meter unit.

The City accepts the professional guidance of HF&H in this regard and the buy-in approach will be the method used for the City's Water Capacity Charges.

## 2008 Calculation Differences

Recent correspondence pointed out differences between HF&H's analysis dated June 25, 2008, and prior documents. For the 2008 evaluation, more thorough and current information about the City's water system and recommended improvements was available. Specifically, the "future projects" were derived from the 2007 Potable Water System Master Plan and the 2007 Integrated Water Resources Plan. The Nacimiento Water Project costs listed are based on 1) the current debt service associated with the City's share in the regional Nacimiento project and 2) the current engineer's estimate of the proposed 6 MGD water treatment plant. The stated cost of the additional 4,000 AFY Nacimiento entitlement was provided by the San Luis Obispo County Flood Control & Water Conservation District and is addressed in the staff report to the Nacimiento Project Commission dated June 26, 2008, entitled "Determination of the 'Buy-In Fee'".

The "existing facilities" values were derived from an inventory of components of the water system with component cost estimates stated in 2008 dollars as estimated by City Public Works Department. The unit costs represent the engineer's opinion based on actual costs for similar projects constructed in the Central Coast.

**Remote Read Metering** – Consistent with the buy-in method, the costs of all capital programs are to be shared based on equivalent meter units. The remote read metering program is a \$4.7 million program scheduled in fiscal year 2010/11 that would involve replacing customer meters with remote-read units tied into a computer monitored software system. A portion of the program costs relates to replacing existing customer meters; this portion of the costs is appropriately borne by existing rate payers. Investment in the software system and other communications components are appropriately shared by all. The final report will note a revision from \$4.7 million to \$2.9 million for the remote read metering.

**Inflationary Factor on Debt Service** – We agree that inflation does not apply to the debt service components of the water capacity charges. The final report will note that revision.

**Storage Tanks** - The 10-year capital improvement program included the 21<sup>st</sup> Reservoir construction along with regular maintenance of the existing reservoirs. Public Works staff noted that one other tank project should be included in the 10-year listing, that is the Vina Robles tank site. The final report will note the addition of the Vina Robles tank activities.

**Depreciation** – Per HF&H letter report dated June 25, 2008, the value of existing facilities is full replacement cost; depreciation was not deducted. Deducting depreciation from the replacement cost is a valuation technique used in determining the fair market value of utilities for purposes of selling the systems, but not appropriate here. As stated in the HF&H report, the existing facilities create a network with capacity for existing rate payers as well as capacity for growth. Using depreciation to calculate the capacity charges under the proposed buy-in approach, as described above and in the HF&H Report, would result in undervaluing the assets and essentially mean that existing rate-payers would be subsidizing new development, which would be both inappropriate and questionable from a legal perspective.

**Supply Projections** – The July 21<sup>st</sup> correspondence suggests that the forecasted need for a future additional 4,000 AFY of water supply is overstated. The City's water planning documents, including the 2007 Integrated Water Management Plan, point to the need for an additional 4,000 AFY of Nacimiento deliveries above and beyond the current Nacimiento entitlement. This estimate takes into account sustainable long-term yield from the ground water basin, quality issues both from a drinking water and waste stream perspective, and peak seasonal considerations.

As previously discussed with HBA representatives, should development projects demonstrate other means of securing reliable, new water supply from sources other than groundwater, then the City would consider omitting a portion of the water capacity charge as an offset to securing that supply.

**Basis of 2008 Analysis** – Refer to the June 26<sup>th</sup> HF&H analysis and prior correspondence for a description of the existing facility valuation and differences in previous year's fee calculations. These have been adequately explained in prior correspondence. For example, the July 9<sup>th</sup> handout materials contained an 8-page memo describing the method for calculating the \$15,000 per acre-foot Nacimiento buy-in.

Mr Jerry Bunin  
Page 3

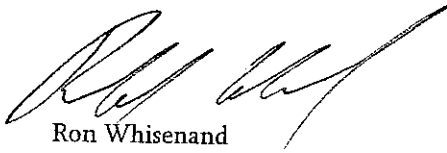
July 28, 2008

**Implementation** - The HBA suggestion that "new charges only be applied to development applications that are not deemed complete 60 or 90 days following adoption" would be inconsistent with past Council policy. It has been past policy of the Council (most recently applied to updated development impact fees in October 2006) to exempt building permits accepted for processing prior to the Council date of adoption of new fees. A sunset clause is typically applied where these permits must be obtained by a certain date. In this case, that date is suggested to be December 31, 2008.

\* \* \*

The proposed water capacity charges and rate structure were introduced at the City Council meeting on July 1, 2008. Council will consider adoption of the proposed water capacity charges at their August 19, 2008, meeting.

Sincerely,



Ron Whisenand  
Community Development Director

Copy: John Farnkopf, HF&H  
Roger Null, Kennedy Jenks Consultants  
Christine Halley, TJCross Engineers

## TECHNICAL MEMORANDUM

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To: Jerry Bunin, Government Affairs Director, Home Builders Association of the Central Coast

From: Joanne Brion, Brion & Associates

Subject: Additional Comments of Revised Water Connection Fee in Paso Robles – Response to July 31, 2008 HF&F Report – Revised Fee and City’s Letter; B&A #2310-08

Date: August 10, 2008

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The City and HF&H have issued a revised Water Capacity Charge Study (Final Report) dated August 7<sup>th</sup>, 2008. We have also been provided with two spreadsheets from the City prepared by Staff, which appears to be based on Christine Halley’s work on the Water User Fee Study. These two tables include a comparison of the currently proposed fees to those of July 1, 2008 and a partial CIP list with a couple revisions. The City has also provided a response to our letter dated July 21, 2008.

In general, the above documents include very few changes or substantive responses to our comments. It would appear that the spreadsheets that have been provided by the City have been updated and superseded in the Final HF&H report. Staff has taken the position on most of our comments that they disagree with our comments and believe they are correct with proceeding with the water connection fee as proposed at the beginning of July. Two very minor changes were made, including one correction that needed to be made. These include.

- Removal of the inflation factor on all debt service funded improvements, which apply to the Nacimiento project. This does not reduce the fee until after 2012.
- Removal of some of the remote meter system software and development costs; that is, from about \$4.9 million to \$2.9 million.

The City also added a new improvement, water tank land with a cost of about \$1.7 million; apparently left out of prior studies.

Based on these comments and questions, we have estimated three possible revisions to the currently proposed fee per EMU. These are discussed at the end of this memo and shown in Table A. We continue to raise substantive comments on issues including:

- 1) the inconsistencies between the Urban Water Manager Plan and the Connection Fee Study concerning the number of new accounts and associated EMUs;
- 2) new future water demand requirements and the allocation of the additional 4,000 AFY to only new development and the source of the \$15,000 per AFY cost factor;
- 3) the Buy-In fee method of calculation; and
- 4) the cost allocation methods used and inconsistencies between the connection fee and user fee studies.

Each of our questions has not been adequately addressed, although the City has written about these topics. Again, we raise the following questions and comments on the Water Connection Fee Study, as released on August 7, 2008 and other city documents provided to the HBA:

- 1. There is a significant inconsistency between the data used in the UWMP and the HF&H Fee Study, concerning accounts/EMUs. If the UWMP data is used the resulting connection fee is \$10,700 or 63% less than the proposed connection fee of \$28,654.*

The City has not resolved the inconsistency on the basis of water demand or number of accounts being served in 2025. The Urban Water Management Plan (UWMP) calculates 15,265 AFY of water demand (plus system losses) serving 25,560 new accounts at 2025, while the projections from the HF&H rate study indicate that only 16,895 new accounts will be served at 2025 which translates to a yearly demand of approximately 11,600 AF. Both studies were adopted within the same timeframe and should therefore be consistent and not contradictory.

The attached chart comparison outlines the major inconsistencies between the two studies. **Table A** presents a revised water connection fee using the EMUs/Accounts from the UWMP study, which results in a connection fee of \$10,700 per EMU, or 63% less than the City's proposed connection fee of \$28,654 (revision #3).

Applying the current proposed connection fee of \$28,654 to the EMUs derived from the UWMP study, would result in total revenues of about \$551 million from new development; the HF&F Study estimates new development's share of the \$509 million CIP to be about \$247 million and thus, new development would be overcharged about \$304 million through 2025.

Either the amount of connections and associated water demand required in the UWMP needs to be revised downward or the number of connections needs to be increased in the HF&H Study to be consistent with the UWMP in the connection fee study.



Comparison of UWMP and HF&H Assumptions

Todd 2008 Urban Water Management Plan Basis for Accounts/Water Demand

**Table 4  
Past, Current and Projected Water Deliveries**

Water Use Sectors	2000		2005		2010		2015		2020		2025	
	# of Accounts	Deliveries (AFY)	# of Accounts	Deliveries (AFY)	# of Accounts	Deliveries (AFY)	# of Accounts	Deliveries (AFY)	# of Accounts	Deliveries (AFY)	# of Accounts	Deliveries (AFY)
Single Family	6,862	4,500	8,100	4,170	9,425	4,807	10,750	5,445	12,075	6,032	13,945	7,125
Multi-family	In other categories	In other categories	1,800	685	3,525	1,447	5,450	2,210	7,375	2,972	9,300	3,735
Commercial	437	700	622	363	1,010	1,393	1,389	1,918	1,763	2,744	2,146	2,969
Industrial	Included in commercial	Included in commercial	63	167	161	268	138	369	176	470	214	571
Parks, Landscape Irrigation, Other	331	800	325	345	339	951	412	1,057	456	1,184	500	1,270
<b>Total</b>	<b>7,600</b>	<b>6,803</b>	<b>10,720</b>	<b>6,736</b>	<b>14,430</b>	<b>8,666</b>	<b>18,139</b>	<b>10,999</b>	<b>21,850</b>	<b>13,132</b>	<b>25,560</b>	<b>15,265</b>

**Connections**

2000 total connections from Ape (April 2000) and assume same breakdown as in 1999 City approved spreadsheet, multi-family units not an individual metered  
2005 connections derived from 2004 OWR Public Water System Status Form and General Plan update (3.4 and LULU 1) residential units for 2005 which appears to include all multi-family units  
2025 connections using Boyle's 2025 demand (September 23, 2005) and same water use (AFY) connection as in 2005  
Note conversion of Boyle (September 23, 2005) and use water demand values to connections results in lower residential units than General Plan update (3.4, max residential units = 30,843)

**Deliveries**

2000 deliveries estimated from total pumping (assuming 7% loss) and similar use per connection as 2004/2005. 2000 does not include all multi-family connections  
2005 deliveries derived from 2004 OWR spreadsheet, total pumping minus 10% losses and Boyle June 2000s  
2025 deliveries from Boyle draft Table 5 (September 23, 2005) annual demand for various land use categories at 2025 outlook

Assumed linear increase for all land use categories between 2005 and 2025

**HF&H 2008 Report Basis for Accounts/Demand**

Figure 2. Equivalent Meter Units

(1) Meter Size	(2) EMU Multiplier <sup>1</sup>	(3) 2008		(5) 2025		(6) Growth Increment	
		(4) Accounts <sup>2</sup>	(3) EMUs (2)*(3)	(5) Accounts (3)*1.71% incr.	(5) EMUs (2)*(5)	(6) Accounts (5)-(3)	(6) EMUs (2)*(4)
5/8" & 3/4"	1.00	3,961	3,961	15,242	15,242	6,381	6,381
1"	1.67	503	338	881	1,435	355	597
1 1/2"	3.33	144	480	247	823	103	343
2"	5.33	215	1,147	268	1,963	153	816
3"	10.00	24	240	41	410	17	170
4"	18.67	18	300	31	517	13	217
6"	33.33	1	33	2	67	1	33
8"	53.33	2	107	3	160	1	53
10"	76.67	0	0	0	0	0	0
12"	116.67	0	0	0	0	0	0
		<b>9,869</b>	<b>12,196</b>	<b>18,895</b>	<b>20,716</b>	<b>7,027</b>	<b>8,510</b>
Population:	1/1/2008	29,334	<sup>3</sup>				
	2025	51,251	<sup>4</sup>				
	Increase	21,317					
	Increase	71% Used to escalate accounts in column 5 above					

1. AWWA Water Meters - Selection, Installation, Testing, and Maintenance  
2. City of Paso Robles: CY 2007 water usage by class data; does not include unbillable accounts.  
3. Source: California Department of Finance, B-6 Population Estimates, May 2005.  
4. Buildout to 2025 is from City Council resolution adopting new general plan buildout population of 44,000 plus potential for 7,251 residents beyond General Plan associated with potential annexations and/or General Plan amendments.

11,600 AFY

Note 20,716 EMUs translates into approximately 11,600 AFY based upon current City Demand.

Table A  
Summary Comparison of Proposed and Revised Water Connection Fees  
Water Connection Fee Study, City of Paso Robles  
Prepared by Brion & Associates for the HBA of Central Coast

Item	Fees as of 2011	Notes
Proposed HF&H Fee	\$28,654	Includes modest reduction in remote meter reading costs and addition of one tank project; net change from July 1 is about \$50.
<b>Proposed Revised Fees</b>		
<b>Scenario 1. With Revised Buy in Fee</b>		
Buy In w/ Depreciation	\$3,560	Using depreciation method
Future Projects/Nacimiento	\$20,554	Using Cost Allocation method from User Fee Study
Other CIP Projects	\$1,560	Using Cost Allocation method from User Fee Study
<b>Total Fee with New Buy In</b>	<b>\$25,674</b>	While buy in fee is less, new future projects are more per EMU
Amt Change from Proposed Fee	(\$2,980)	-10% Net change is about \$3,000
<b>Scenario 2. With Revised Buy In and Cost Sharing of New 4,000 AFY of Water</b>		
Buy In w/ Depreciation	\$3,560	Using depreciation method
Future Projects/Nacimiento	\$17,070	Same as above with \$60 m new water cost split 50/50 new and existing
Other CIP Projects	\$1,560	Using Cost Allocation method from User Fee Study
<b>Total Fee with New Buy In</b>	<b>\$22,190</b>	
Amt Change from Proposed Fee	(\$6,464)	-23%
<b>Scenario 3. With UWMP Accounts - EMUs</b>		
Existing Buy In fee	\$2,353	This uses same costs as HF&H Study with revised estimate of EMUs/Accounts from UWMP
Future Projects/Nacimiento	\$7,642	
Other CIP Projects	\$698	
<b>Total Fee with 19,234 EMUs</b>	<b>\$10,693</b>	Assumes total EMUs at 2025 of 31, 341 based on ratio of EMUs
Amt Change from Proposed Fee	(\$17,961)	-63% from HFH Study and 25,560 accounts at 2025 from Todd UWMP (1); the net new EMUs equals 19,234 instead of 8,600 from HF&H

(1) See "2005 Final Urban Water Management Plan, prepared June 2008 for City of Paso Robles by Todd Engineers Table 4. Sources: HF&H; Todd Engineers; City of Paso Robles; Brion & Associates.

**2. The City has not made the case that the additional required 4,000 AFY is needed solely to serve new development; given the \$60 million cost associated with this water, this cost adds substantially to the connection fee.**

The City has indicated that the additional 4,000 AFY "takes into account sustainable long-term yield from the ground water basin, quality issues from a drinking water and waste stream perspective and peak seasonal considerations" (July 28 City letter). This is counter to the previous City statement that the 4,000 AFY is "assumed to benefit only new growth" (HF&H report). This discrepancy has not been addressed. The cost of this water, if determined to be needed, should be spread over both new and existing

development at the 50/50 split used in the Water User Fee Study for other Nacimient water related improvements.

In addition, a review of the Determination of the Buy-In Fee prepared by the Nacimient Water Project does not clearly state the cost basis to the City for the additional purchase of 4,000 ACY. This report is premised on the water being delivered to Santa Margarita and indicates that all participating agencies would receive a credit in the project costs based upon the additional buy-in cost. It is not possible to effectively determine the cost basis of \$15,000/AFY that the City is proposing. We have asked several times for the source of this cost factor and have not received a satisfactory answer.

- 3. The calculation of the Buy-In Fee component of the connection fee significantly overstates the value of the existing system and improvements and charges new development for improvements which do not serve new development.***

One of our main points of disagreement has to do with how the City is valuing the existing system and calculating a buy-in fee. They are taking the full replacement value of the entire water system to create the fee. We believe the City should depreciate these improvements and provide a depreciation schedule based on the HF&H list of improvements, year of construction and their ENR rates. As shown, the revised value of the buy-in fee is \$3,500 and not the proposed \$8,500 per EMU. The method the City is currently using results in a fee for this component that is equal to the total current connection fee, which is about \$8,900 per EMU. How can the existing connection fee, which includes a substantial amount of new improvements from the CIP, be equal to the value of the existing system in the new fee?

The Depreciation Method and Buy-in Approach issue is a major disagreement between the City and the HBA. The buy-in method used by the city clearly overstates the value and benefit received by new development for this existing system. The existing user fees cover the ongoing replacement of improvements in the existing system. The City's User Fee Study states the City needs to set up a capital replacement fund to cover these costs. The connection fee study is not consistent in this regard with the User Fee Study.

- 4. There is a fundamental inconsistency between the cost allocation methods used in the HF&H Study and the KJ Water Rate User Study/ TC Cross data, which results in varying fee rates, as summarized in Table A above.***

The HF&F Study uses a method where all improvements, existing and planned are added up and divided by total EMUs at 2025, with the exception of the 4,000 AFY of water. The Water User Rate Study uses the more standard method of assigning a cost allocation factor to each improvement cost based on the "demand" for each improvement. In addition, there are some improvements where the User Fee Study assigns 100% of the cost to existing development but the HF&H study assigns the

cost to new and existing development; e.g., the remote meter system cost. There is also an inconsistency between the cost of this system between the new HF&H study and the spreadsheets sent by the City. The HF&H study reduced this cost to \$2.9 million but the City's spreadsheet still shows this cost at about \$4.7 million.

Overall, the costs, assumptions, and cost allocation methodology between the User Fee Rate Study and the Connection Water Fee Study need to be the same. These two studies have been prepared using the same data and inputs and currently are not consistent.

### **Proposed Revisions to Connection Fees**

The following section discusses three potential ways the connection fee can be revised based on the comments above and illustrates the magnitude of how these comments impact the fee rate (see Table A). We are presenting these possible revisions to illustrate that there are a wide number of problems with the current study and when these problems are addressed, the proposed connection fee is substantially less. What this means is that the current studies do not present fees that represent the reasonable cost of providing new water system improvements for new development but rather overstates the burden placed on new development. This is not allowed under the Mitigation Fee Act.

#### ***1. Connection Fee with Revised Buy-in and standard Cost Allocation Method***

As shown in Table A, the revised connection fee under this approach would be \$25,674, or about \$3,000 less than the proposed fee. The buy-in component using the depreciation method is about \$3,500 and the future projects component using the standard cost allocation method is slightly higher than the HF&H study, or about \$20,500 per EMU. This results in a fee that is 10% less than the current proposed fee.

#### ***2. Connection fee with Revised Buy-in and Cost Sharing of new 4,000 AFY of water***

This proposed approach uses the above changes and splits the \$60 million cost of the new water between existing and new development 50/50, consistent with the Water User Rate Fee Study's cost allocation for other Nacimientos costs. The resulting fee is \$22,190 or 23% less than the proposed fee per EMU.

#### ***3. Connection fee with above changes and UWMP's new EMUs of 19,234 instead of 8,600 in HF&H Study***

As shown in Table A, at the bottom of the table, the above changes combined with using the data from the UWMP study for new connections/EMUs results in a fee of about \$10,700 or about 63% less than what the City is currently proposing. This fee calculation simply takes the above cost items and divides them by a larger amount of future connections or EMUs of about 19,234.



Friday, August 15, 2008

Mayor Frank Mecham and  
City Council members  
1000 Spring St.  
Paso Robles, CA. 93446

**RE: Summary of Comments on Water Connection Fee Study and Proposed Fee Increases, City of Paso Robles**

Dear Mayor Frank Mecham and members of the City Council:

The following summary of the Home Builders Association's comments and questions was prepared by our consultant Joanne Brion. If the city has addressed them, it is noted by "**Addressed**" with explanation as needed.

1. **Growth – Demand Assumptions.** There is a significant inconsistency between the data used in the UWMP and the HF&H Fee Study, concerning accounts/EMUs. The UWMP uses 25,560 accounts at 2025 and the HF&H Study uses about 17,000 at 2025 and both studies cite the General Plan as the source. The HF&H Study adds an additional 7,000 residents above the General Plan but still has a significantly lower number of accounts/EMUs than the UWMP. **Not Addressed so far** (see charts at end of comments).
2. **Impact of Higher Accounts.** Applying the current proposed connection fee of \$28,654 to the net new EMUs (19,234) derived from the UWMP study, results in total revenues of about \$551 million from new development; the HF&H Study estimates new development's share of the \$509 million CIP to be about \$247 million and thus, new development would be overcharged about \$304 million through 2025. **Not Addressed so far.**
3. **New Additional Water Purchases.** The City has not adequately made the case that the additional 'required' 4,000 AFY is needed solely to serve new development; given the \$60 million cost associated with this water, this cost adds substantially to the connection fee. The city's recent letter suggests that this water is needed for a variety of purposes including "sustainable long-term yield from the ground water basin, quality issues from a drinking water and waste stream perspective and peak seasonal considerations." **Not Addressed so far.** (see further discussion at end of document)
4. **Buy-In Fee for Existing System.** The calculation of the Buy-In Fee component of the connection fee significantly overstates the value of the existing system and improvements and charges new development for improvements which do not serve new development. When a depreciation method is used the Buy-In fee would be about \$3,500 instead of the proposed \$8,500 fee per EMU. How can the cost of buying into the existing system be equal to the current total connection fee which includes funding for significant new improvements? **Addressed potentially; understand verbally that the City will revisit issue of using depreciation of existing improvements based on meeting with Staff on 8.11.08.**
5. **Cost Allocation Inconsistencies.** There is a fundamental inconsistency between the cost allocation methods used in the HF&H Study and the KJ Water Rate User Study/ TC Cross data, which results in varying fee rates. These two studies have been prepared using the same source data and inputs and currently are not consistent from a methodological standpoint. **Not Addressed so far.**

6. **Remote Meter Software/System.** The User Fee Study assigns 100% of the cost for the remote metering system to existing development but the HF&H study assigns the cost to new and existing development; e.g., the remote meter system cost. The HF&H study reduced this cost to \$2.9 million. This is an extremely high cost for a software system and as shown in the User Fee Study, new development is not supposed to pay for this item. New development will be paying the new user fees to cover this cost. **Not Addressed.**
7. **Inflation on Debt Service.** The proposed water rate and revenue analysis (by Kennedy/Jenks) study indicates that the proposed connection fee will increase 5.5% per year. Since the majority of this new connection fee is for debt service on bonds that have already been sold and this debt service is fixed, the normal inflation adjusted percentage is unwarranted, resulting in overcharging new development. **Addressed; lowers fee in later years but not until after 2012.**
8. **Documentation and Supporting Data.** The HF&H study does not provide any back up tables, assumptions or calculations as it did in 2007. Please provide their "spreadsheet" references in the 2008 model and any "alternatives" analysis conducted for our review. **Addressed.**
9. **Existing Deficiencies.** The City's analysis does not show existing deficiencies in the current system or show how existing customers will fund deficiencies so new development will not fund them. **Not Addressed.**
10. **Developer Funded Improvements & Credits.** How has HF&H accounted for water improvement projects that are being funded through Specific Plans or Master Plans? The study makes no mention of this and also does not comment on the fact that some new development may build certain improvements or purchase water directly. What mechanism will be available to track credits, etc.? **Addressed generally but not specifically; need language in final report and ordinance that clearly states that credits will be given.**
11. **Fee Comparisons.** In the City's July 1, 2008 Staff Report, the comparison to other cities' connection fees is misleading because it uses a much lower fee for Paso Robles which will only be in effect for one year. The figures need to be compared to the proposed full rate of \$28,900. The economic development implications should be addressed based on the higher amount. This higher rate is likely to push development elsewhere in the region, leaving the city unable to service its debt. While Templeton's fee is likely to increase to \$25,000, as noted by staff, most of the fees for other cities will not likely increase at such a significant rate. **Addressed; City says that only comparing the first year's fee is appropriate. We still contend that the fee will be \$28,000 plus and should be compared to the existing fees.**
12. **Capital Improvement Program.** In the HF&H Study, about \$26 million in improvement costs have been removed from the current water CIP, excluding Nacimiento projects. We have prepared the following table that compares the costs in the 2007 study to the 2008 study, both by HF&H. We would like to know if these improvements have been funded or are assumed to no longer be needed. They have been in the City's CIP for a number of years so we wonder if they will be added after this study and fee is adopted. **Not Addressed directly.**

**Comment #1: Growth – Demand Assumptions - Comparison of UWMP and HF&H Assumptions**

**Todd 2008 Urban Water Management Plan Basis for Accounts/Water Demand**

**Table 4  
Past, Current and Projected Water Deliveries**

Water Use Sector	2000		2005		2010		2015		2020		2025	
	# of Accounts	Deliveries (AFY)	# of Accounts	Deliveries (AFY)	# of Accounts	Deliveries (AFY)	# of Accounts	Deliveries (AFY)	# of Accounts	Deliveries (AFY)	# of Accounts	Deliveries (AFY)
Single Family	6,882	4,500	8,100	4,170	9,425	4,807	10,750	5,445	12,075	6,082	13,480	6,720
Multi-Family	In other categories	In other categories	1,600	685	3,525	1,447	5,450	2,210	7,375	2,972	9,300	3,735
Commercial	437	700	632	868	1,010	1,393	1,389	1,918	1,768	2,444	2,146	2,969
Industrial	Included in commercial	Included in commercial	63	167	101	268	138	369	176	470	214	571
Parks, Landscaping, Irrigation, Other	301	800	325	845	359	951	412	1,057	456	1,164	500	1,270
<b>Total</b>	<b>7,800</b>	<b>8,000</b>	<b>10,720</b>	<b>6,735</b>	<b>14,430</b>	<b>8,868</b>	<b>18,139</b>	<b>10,939</b>	<b>21,650</b>	<b>14,132</b>	<b>25,560</b>	<b>15,285</b>

**Connections**

2000 total connections from App (April 2000) and assume same breakdown as in 1999 City supplied spreadsheet, multi-family units not all individually metered  
 2005 connections derived from 2004 DWR Public Water System Status form and General Plan update, p. 4 and LU-1, residential units for 2005 which appears to include all multi-family units  
 2025 connections using Boylo's 2025 demand (September 23, 2005) and same water use (AF/connection) as in 2005  
 Note conversion of Boylo (September 23, 2005) land use water demand values to connections results in more residential units than General Plan update (p. 4, max residential units = 10,843)

**Deliveries**

2000 deliveries estimated from total pumping (assuming 7% loss) and similar use per connection as 2004/2005, 2000 does not include all multi-family connections  
 2005 deliveries derived from 2004 DWR worksheet total pumping minus 10% losses and Boylo June 2006b  
 2025 deliveries from Boylo draft Table 5 (September 23, 2005) annual demand for various land use categories at 2025 buildout

Assumed linear increase for all land use categories between 2005 and 2025

**HF&H 2008 Report Basis for Accounts/Demand**

**Figure 2. Equivalent Meter Units**

Meter Size	EMU Multiplier <sup>1</sup>	2008		2025		Growth Increment	
		Accounts <sup>2</sup>	EMUs (2)*(3)	Accounts (3)*% incr.	EMUs (2)*(5)	Accounts (5)-(3)	EMUs (6)-(4)
		5/8" & 3/4"	1.00	8,961	8,961	15,342	15,342
1"	1.67	503	838	861	1,435	358	597
1 1/2"	3.33	144	480	247	823	103	343
2"	5.33	215	1,147	368	1,963	53	816
3"	10.00	24	240	41	410	17	170
4"	16.67	18	300	31	517	13	217
6"	33.33	1	33	2	67	1	33
8"	53.33	2	107	3	160	1	53
10"	76.67	0	0	0	0	0	0
12"	116.67	0	0	0	0	0	0
		<b>9,868</b>	<b>12,106</b>	<b>16,895</b>	<b>20,716</b>	<b>7,027</b>	<b>6,610</b>
Population:	1/1/2008	29,934	<sup>3</sup>				
	2025	51,251	<sup>4</sup>				
	Increase	21,317					
	Increase	71%	Used to escalate accounts in column 5 above				

1. AWWA *Water Meters - Selection, Installation, Testing, and Maintenance*  
 2. City of Paso Robles; CY 2007 water usage by class data; does not include unbillable accounts.  
 3. Source: California Department of Finance, E-4 Population Estimates, May 2008.  
 4. Buildout to 2025 is from City Council resolution adopting new general plan buildout population of 44,000 plus potential for 7,257 residents beyond General Plan associated with potential annexations and/or General Plan amendments.

Note 20,716 EMUs translates into approximately 11,600 AFY based upon current City Demand.

**Comment #3: New Additional Water Purchases**

There is a lack of consistency in terms of the City's basis for the need of the additional 4,000 AFY of Nacimiento Water and who should be responsible for the cost of the additional water. The City has repeatedly stated that new

development should pay for the 4,000 AFY, yet various City correspondence and reports contradict that requirement.

The HBA concurs that there is a need for the additional 4,000 AFY as outlined in the City's July 28<sup>th</sup> response to the HBA, specifically to deal with groundwater issues, water quality and peaking issues:

**Supply Projections** – The July 21<sup>st</sup> correspondence suggests that the forecasted need for a future additional 4,000 AFY of water supply is overstated. The City's water planning documents, including the 2007 Integrated Water Management Plan, point to the need for an additional 4,000 AFY of Nacimiento deliveries above and beyond the current Nacimiento entitlement. This estimate takes into account sustainable long-term yield from the ground water basin, quality issues both from a drinking water and waste stream perspective, and peak seasonal considerations.

By utilizing the information contained in the HF&H report shown below, based upon existing City water use, a case can be made that the anticipated demand in 2025 will be 11,600 AFY. Since the Urban Water Management Plan indicates that 15,265 AFY is required, the inference would be that the approximate 4,000 AFY difference would be used for improving water quality and to address peaking and groundwater issues that would benefit all water users. As a result, all users should pay for the additional 4,000 AFY of Nacimiento Water.

**HF&H 2008 Report Basis for Accounts/Demand**

**Figure 2. Equivalent Meter Units**

(1) Meter Size	(2) EMU Multiplier <sup>1</sup>	(3) 2008		(5) 2025		(7) Growth Increment	
		(4) Accounts <sup>2</sup>	(4) EMUs (2)*(3)	(5) Accounts (3)*% incr.	(5) EMUs (2)*(5)	(7) Accounts (5)-(3)	(7) EMUs (6)*(4)
5/8" & 3/4"	1.00	8,961	8,961	15,342	15,342	6,381	6,381
1"	1.67	503	838	861	1,435	358	597
1 1/2"	3.33	144	480	247	823	103	343
2"	5.33	215	1,147	368	1,963	153	816
3"	10.00	24	240	41	410	17	170
4"	16.67	16	300	31	517	13	217
6"	33.33	1	33	2	67	1	33
8"	53.33	2	107	3	160	1	53
10"	76.67	0	0	0	0	0	0
12"	116.67	0	0	0	0	0	0
		9,868	12,106	16,895	20,716	7,027	8,610
Population:	1/1/2008	29,934 <sup>3</sup>					
	2025	51,251 <sup>4</sup>					
	Increase	21,317					
	Increase	71%	Used to escalate accounts in column 5 above				

Equates to Current use of 6,776 AFY at 2007 by City

Equates to Future use of 11,600 AFY at 2025 by City

1. AWWA Water Meters - Selection, Installation, Testing, and Maintenance  
 2. City of Paso Robles; CY 2007 water usage by class data; does not include unbillable accounts.  
 3. Source: California Department of Finance, E-4 Population Estimates, May 2008.  
 4. Buildout to 2025 is from City Council's resolution adopting new general plan buildout population of 44,000 plus potential for 7,251 residents beyond General Plan associated with potential annexations and/or General Plan amendments.

Current demand based upon City meter information from KJ June 23 Report  
 Note 20,716 EMUs translates into approximately 11,600 AFY based upon current City Demand.

Both TJ Cross correspondence and the UWMP indicate that the additional 4,000 AFY would benefit both new development as well as existing users by adding a measure of security to the City's water supply.

The Final UWMP pg 17, addresses peaking problems specifically:

outreach program to have when needed to solicit voluntary water use reductions. The use of Nacimiento water by 2010 and future development possibly securing use of 4,000 AFY of additional Nacimiento water will also alleviate peaking problems. Demands can also be reduced with the



The June 24<sup>th</sup> TJ Cross Letter to Kennedy Jenks states the need to have the water available to address “other factors”:

As mentioned above, the City is expected to need an additional 4,000 AFY of Nacimiento entitlement by 2018 depending on the pace of development and other factors. Serious concerns regarding the availability of Nacimiento entitlement exists such that the City wishes to plan for the purchase of availability entitlement as soon as financially feasible.



Saturday, August 16, 2008

Mayor Frank Mecham and  
City Council members  
1000 Spring St.  
Paso Robles, CA. 93446

**RE: Paso Robles City Council Adoption of Water Capacity Charges Agenda Item #1, Aug. 19, 2008**

Dear Mayor Frank Mecham and members of the City Council:

As you know, the Home Builders Association has been engaged with the City of Paso Robles on the proposed water capacity charge since September 2007. We support the Nacimiento Water Project and have publicly stated our willingness to pay our share of the costs for obtaining and distributing Nacimiento water. We have given every effort to resolve questions and concerns quickly so the project can move forward on schedule with the appropriate capacity charge increase. We hired consultants to provide the city with professional communication pinpointing questions and where more information and clarification were needed.

We are disappointed in the city staff's responses. We are disappointed that we most likely have to appear before you at the Aug. 19 public hearing to ask you to continue this item so the staff can address and answer the issues and questions we have raised in frequent correspondence and meetings during the last six weeks.

The Aug. 19 staff report contains only one vague sentence referring to our communications and meetings and only one piece of our correspondence; and, even more unfortunately, it is the letter we sent the city before your last hearing on this, July 1. The Aug. 19 report omits that we have since met with staff twice, submitted two letters and then a summary of outstanding, unresolved and unanswered questions for an Aug. 11 meeting. At that meeting and in subsequent e-mail, staff said it would get back to us with answers to our questions and more information before the Aug. 19 meeting. It has not done so as of Saturday, Aug. 16.

As a result, we have attached for your interest an Excel spreadsheet detailing the correspondence between the association and the city, a pdf file with all that correspondence, and a memo from our consultant, Joanne Brion, that summarizes the issues we raised and the status of their resolution or lack thereof.

Her memo notes the inconsistencies we pointed out to the staff between the Urban Water Management Plan and the HF&H fee study and between the HF&H study and the KJ Water Rate User Study/TJ Cross data. She also notes that the staff has not answered our questions about overcharges related to user account discrepancies and a normal depreciation within the system buy-in fee.

The association recommends that the City Council continue this matter and direct staff to resolve the inconsistencies her memo notes, to add depreciation to the buy-in fee, and to use the Urban Water Management Plan as the basis to determine water needs rather than the HF&H rate study. We look forward to working with the city to resolve this as soon as possible.

Sincerely yours,

Jerry Bunin  
Government Affairs Director  
Home Builders Association

CC: City Manager Jim App

---

811 El Capitan Way, Suite 120  
San Luis Obispo, California  
93401-3333

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805.546.0339: fax  
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ERIC N. ROBINSON  
erobinson@kmtg.com

August 18, 2008

**BY ELECTRONIC MAIL & U.S. MAIL**

Ron Whisenand  
Community Development Director  
City of El Paso de Robles  
1000 Spring Street  
Paso Robles, CA 93446

*Re: River Oaks II overlying groundwater rights*

Dear Mr. Whisenand:

We write on behalf of River Oaks II, LLC to resolve an apparent misunderstanding about groundwater rights associated with the River Oaks II project.

The River Oaks II project encompasses just over 270 acres of land within the City of El Paso de Robles ("City"). The land physically overlies the Paso Robles Groundwater Basin ("Basin") and is owned by River Oaks II, LLC ("River Oaks"). Under basic principles of California water and real property law, River Oaks' ownership of the project land includes ownership of an "overlying" right in the Basin's groundwater.

"An overlying right . . . is the owner's right to take water from the ground underneath for use on his land within the basin or watershed; it is based on the ownership of the land and is appurtenant thereto." *City of Barstow v. Mojave Water Agency*, 23 Cal.4th 1224, 1240 (2005) (citing *California Water Service Co., v. Edward Sidebotham & Sons, Inc.*, 224 Cal. App. 2d 715, 725 (1964)). A landowner's overlying water right has long been recognized as that owner's private property. *City of San Bernardino v. City of Riverside*, 186 Cal. 7, 24 (1921). Rights to use water are protected by the Takings Clause of the Fifth Amendment to the United States Constitution. See *Tulare Lake Basin Water Storage Dist. v. United States*, 59 Fed. Cl. 246, 247 (2003) (awarding just compensation for regulation restricting use of right to water).

Based on recent discussions with City staff, we are concerned that the City might be assuming that it has a special right to all groundwater lying within its municipal boundaries and that this assumed right somehow supersedes River Oaks' overlying right in groundwater arising from its ownership of the River Oaks II project land. The California Supreme Court "refuted" that precise theory 87 years ago, rejecting a city's claim that "the part of the waters pertaining to the lands within the city is set apart by law for the common public use of the owners of the land and other persons in the city, that the city has in some manner become the

ATTORNEYS AT LAW  
400 CAPITOL MALL, 27<sup>TH</sup> FLOOR SACRAMENTO, CALIFORNIA 95814-4416 TELEPHONE (916) 321-4500 FAX (916) 321-4555  
www.kmtg.com

Ron Whisenand  
City of El Paso de Robles  
August 18, 2008  
Page 2

11923.008

administrator of this public or common use in place of the landowners, and has become substituted to their individual rights for the benefit of all . . . ." *City of San Bernardino, supra*, 186 Cal. at 24. Although the City may have its own overlying groundwater rights to irrigate parks or other overlying lands that it owns, the City has no right or interest that in any way supervenes or extinguishes River Oaks' overlying groundwater right.

We hope this clarification of controlling law assists the City in seeing that the overlying groundwater rights associated with the River Oaks II project must be recognized as an offset in calculating the water capacity charge that has been proposed for the project.

Sincerely,

KRONICK, MOSKOVITZ, TIEDEMANN & GIRARD  
A Law Corporation



Eric N. Robinson

ENR

cc: Dick Willhoit  
Tom Zehnder  
Kris Vardas  
Doug Monn  
Iris Yang  
Kenneth C. Bornholdt

898237.1



**CITY OF EL PASO DE ROBLES**  
*"The Pass of the Oaks"*

August 22, 2008

Home Builder's Association of the Central Coast  
Attn: Mr Jerry Bunin, Government Affairs Director  
811 El Capitan Way, Suite 120  
San Luis Obispo, CA 93401-3333

**SUBJECT:** City of Paso Robles  
Proposed Water Capacity Charges

Dear Mr Bunin,

As promised and in preparation for our August 26<sup>th</sup> meeting, this letter addresses the various issues raised by the HBA in memos sent by it or its representatives on August 10, 15 and 16, 2008. The City has considered all of the issues raised, and agrees that certain adjustments are appropriate.

Furthermore, the City and the HBA have reached common ground on many points:

- Gradual purchases of additional Nacimiento water supplies as opposed to the more expensive bond financing approach;
- Developer-provided infrastructure is omitted from the existing system valuation;
- A buy-in approach that equitably shares costs between existing customers and new development;
- Calculated rates that include build-out, possible annexations, and active General Plan amendment applications (e.g. River Oaks II, Chandler Ranch, and Olsen-Beachwood);
- No inflationary adjustments to debt service components of the fee, and;
- An adjusted remote read metering system budget to strip out meter replacement costs from the shared cost component of that project.

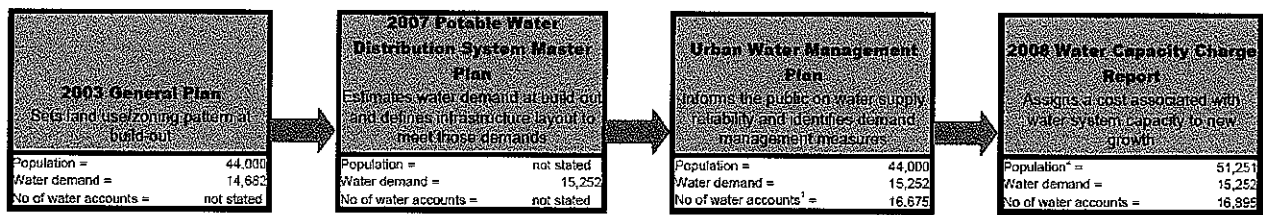
In summary, the City has listened to the HBA comments and amended its approach in response to those comments. It is our goal to thoroughly address your comments and present a recommended water capacity charge structure at the City Council's September 2, 2008, meeting.

**Correlation with the Urban Water Management Plan and General Plan**

Comment: The HBA noted that the HF&H Water Capacity Charge Study: Final Report dated August 7, 2008, was based on an estimated 16,895 water accounts in the year 2025 while the Todd Engineer's *Urban Water Management Plan* dated June 2008 referred to 25,560 water accounts in 2025.

Response: First, there was an error in the *Urban Water Management Plan* which will be corrected. Second, it is important to clarify the relationship between the City's General Plan and the water planning documents.

**City of el Paso de Robles  
Major Planning Documents**



<sup>1</sup> Corrected value noted  
<sup>2</sup> Population accounts for 44,000 general plan forecast plus an additional 7,251 residents likely associated with potential annexations.

The land uses identified in the 2003 General Plan translate into an estimated City population in the year 2025 of 44,000 in an estimated 16,286 dwelling units with an associated water demand of 14,682 AFY.

The City's 2007 *Potable Water Distribution System Master Plan* forecasted the distribution of water demand spatially throughout the service area by reviewing existing land uses and actual customer water use records and then calculating the various "water duty factors" by land use category. (Please see the attached excerpt Table 5 from the 2007 master plan.)

These water duty factors were then applied to the General Plan's projected 2025 build-out scenario. The result was the forecast 15,252 AFY water demand at build-out. Thus, the water demand estimating method applied in the 2007 *Potable Water Distribution System Master Plan* relates directly to General Plan land uses and forecasts how that demand may be distributed around the City. It also takes into account projected trends in residential vs. non-residential land uses.

Note that the demand estimate from the 2007 Master Plan compares closely with the estimate documented in the 2003 General Plan EIR (that is, 15,252 vs. 14,682 AFY). Because it is land use based and linked to actual customer category usage, the City considers the Master Plan estimate of future water demand to be more accurate.

The City's latest *Urban Water Management Plan* also recognizes both the 2003 General Plan projected population of 44,000 in the year 2025 and the correlating water demand of 15,252 AFY as stated in the 2007 *Potable Water Distribution System Master Plan*.

Based on the HBA's comment, the City reviewed the table in the *Urban Water Management Plan* showing the current and forecasted number of water accounts and found that it inserted incorrect numbers which were then carried forward into future years. Recalculation of production and usage factors yields a projection of 16,675 accounts (refer to attached corrected Table 4). HF&H will use the 16,675 number of accounts in its final report. A corrected update of the *Urban Water Management Plan* will be filed.

### Projected Water Demand

Comment: It appears that future water demand is overstated, thus throwing into question the magnitude of the future water supply component of the proposed fee.

Response: The projected water supply of 15,252 acre-feet per year was derived using the water duty factor approach as described above. It takes into account the projected mix of residential and commercial/industrial users defined in the City's General Plan and is the basis for determining the water supply needed at build-out. We acknowledge that other factors (including hydrogeologic and regulatory) may affect the future yield from the City's water sources. At this point, the water supply program can be summarized as follows:

### Summary Water Supply Program

Supply Source	Estimated Yield, (AFY)	Existing Customer Portion	New Development Portion	
Well Supply - Ground Water and River Underflow	7,500	7,500 <sup>(1)</sup>		<i>Long-term yield from wells estimated at historic pumping level of approx 7,500 AFY</i>
Nacimiento Delivery Entitlement	4,000	2,000	2,000	<i>Current City entitlement as of 2004 contract execution allocated between existing and new development</i>
Additional Future Supply	4,000	0	4,000	<i>Estimated additional supply needed to reliably satisfy build-out water demands</i>
<b>Total Est Yield of Supply =</b>	<b>15,500</b>			
<b>Projected Water Demand =</b>	<b>15,252</b>	<i>Estimated water demand at build-out as stated in 07 Potable Water System Master Plan and Urban Water Management Plan dated June 08</i>		

(1) The 2005 Urban Water Management Plan projects approx 950 AFY of recycled water will be put to beneficial use by the Year 2025. Groundwater pumping will be offset as recycled water demand is developed.

Planning for an additional 4,000 acre-feet per year of water supply in addition to well water and the current Nacimiento Project entitlement is a cornerstone of the City's integrated water resources plan.

Further, based on the 2007 Public Water System Statistics as submitted to the State Dept of Water Resources, the current overall water production per water account is 0.75 acre-feet per year. Broken down by user class, the current annual production per account is:

	% Total Production	AFY per Account
SFR	60.4%	0.56
MFR	9.3%	1.89
Commercial	13.8%	1.48
Industrial	2.2%	2.64
Parks/Landscape	12.0%	2.74
Other	2.3%	3.61

At build-out, the distribution of usage among user classes is projected to shift significantly. It is estimated that single family residential (SFR), the lowest usage per account category, will fall from 60% of total water use to 44% of total water use at build-out. At the same time, there will be an increase in the higher usage categories resulting in an overall increase in water usage per account.

The overall increase in water use per connection from 0.75 acre-feet per year per account in 2007 to 0.91 acre-feet per year per account at build-out is supported by the anticipated future shift in water usage categories. The attached spreadsheet enumerates these calculations.

### **Future Water Supply for New Development**

Comment: The cost of future water supply as well as the current 4,000 acre-foot per year Nacimiento entitlement should be shared between existing customers and new development.

Response: As noted above, the initial 4,000 AFY of Nacimiento water is being shared equally between existing customers and new development. However, the City sees no justification to have existing customers pay for future Nacimiento water entitlements. That additional supply will be needed to reliably meet the needs of new development as described in the *Water Source Evaluation* dated September 2006 prepared by Boyle Engineering Corp., the *Urban Water Management Plan* prepared by Todd Engineers, dated June 2008, and the *Potable Water Distribution System Master Plan* prepared by Boyle Engineering Corp., dated 2007.

The estimated \$15,000 per acre-foot cost of additional Nacimiento entitlement is the best estimate available from the San Luis Obispo County Flood Control & Water Conservation District. A memo describing the detailed basis of that estimate was provided to the HBA on July 9, 2008.



### **Buy-In Approach and Depreciation**

Comment: The HBA prefers an incremental method be used for determining capacity charges as opposed to a buy-in approach. However, if the City uses the buy-in approach, depreciation should be taken into consideration.

Response: As documented in earlier correspondence, the HF&H 2008 report, and various staff reports, the buy-in approach is an appropriate method for determination of the existing facility fee component.

With respect to depreciation, as stated before, using a depreciated value to calculate buy-in effectively means that existing customers would be subsidizing new development's share of the cost of the existing system. That would be both unfair and inappropriate.

However, the portion of the water system assets that were originally installed by developers to serve only their developments (i.e., not future growth) should be excluded from the estimated value of existing facilities.

The City estimates that approximately \$69 million of the existing system value is allocable to in-tract facilities. Therefore, the existing system value is reduced by that amount.

### **Water Rate User Study Consistency with Water Capacity Charge Study**

Comment: The HBA noted inconsistencies between the Kennedy/Jenks study on water rates and the HF&H study on capacity charges in their cost allocations to new development.

Response: The appendix materials included with the June 23, 2008, Kennedy Jenks Consultants report on water rates did include a proposed capital improvement program budget that lists the "allocation to new development" for each project category. However, because the water capacity charge is based on the buy-in method rather than cost allocation, cost allocation is not relevant. The appendix materials in the Kennedy/Jenks Consultants report have been revised to omit the allocation figures. More importantly, those cost allocation figures did not affect the calculation of user rates. Please see Table 4 of the Kennedy Jenks Consultants report for a tabulation of the full CIP fund costs. There is no inconsistency between the two studies or their conclusions.

### **Other Issues**

Remote read metering system – The reports presented at the July 1<sup>st</sup> City Council meeting included a \$4.7 million capital project in fiscal year 2010/11 for transferring to a remote read meter system plus an annual budget for ongoing water meter replacement. The HBA pointed out that meter replacement benefits existing customers and should not be a shared cost with new development. The City agrees. Later reports distinguished costs budgeted for the remote read metering software packet, the wireless communication infrastructure, and integration into the City's billing system and treated that estimated cost as a shared cost. The result was that \$2.9 million will be shared between existing customers and new development.

Inflation on debt service – At the July 9<sup>th</sup> meeting between the City rate team and the HBA, all agreed that the inflationary adjustment on debt service components of the water capacity charge does not apply. Subsequent fee calculations have omitted that inflation.

Supporting data for water capacity charge calculation – The HBA requested and subsequent reports have included supporting calculations.

Existing deficiencies – A question arose as to how costs associated with correcting existing deficiencies are paid by existing customers. The buy-in approach effectively allocates the cost of the existing facilities equally to all existing and future connections. The cost of surplus capacity and the cost of remedying any deficiencies are borne equally by all connections. The notion that growth should not pay to remedy deficiencies has no place in a buy-in calculation. Under the buy-in calculation, all connections participate equally in the cost of capacity, deficiencies and all. Paying equally in the cost of capacity ensures that growth does not pay more than its share.

Comparative fees – The July 1<sup>st</sup> staff report included a table showing other Central Coast community connection fees. HBA suggests that the table should have listed the January 2011 proposed fee and that an economic analysis should be conducted.

First, the table was simply to show relative rates, and not to exhaustively compare each agency's services, which can vary. Moreover, comparing a 2011 Paso Robles rate to 2008 rates elsewhere would be even more misleading, since we have no way of knowing what other communities would charge in 2011.

Dropped \$26 million from CIP – The HBA pointed out that estimates of water capital improvements dated 2007 are \$26 million greater than those listed in the current rate and fee studies. The current reports are based on the current 10-year capital improvement program and represent the most current schedule of necessary upgrades. The difference lies in the fact that some capital projects included in the water master plan are expected to be installed by developers and are therefore omitted from the City's program, consistent with the approach discussed above under the "Buy-In" discussion.

## Conclusion

Based on the above, the water capacity charge is \$27,932 per equivalent meter unit. A breakdown of fee components is attached.

Mr Jerry Bunin  
Page 7

August 22, 2008

We appreciate HBA's participation and valuable input in helping to ensure that that the proposed water capacity charges are fair and well-aligned with the benefit that new development will receive - we thank you for that. We hope that this information will be helpful for our meeting and that the proposed charges can be adopted so that the City can continue to provide reliable, quality water service to existing users and new development alike.

Sincerely,

Ron Wisenand  
Community Development Director

Copy: Jim App, City Manager  
Doug Monn, Director of Public Works  
Jim Throop, Director of Administrative Services  
John Farnkopf, HF&H  
Roger Null, Kennedy/Jenks Consultants  
Christine Halley, TJCross Engineers  
Iris P. Yang, City Attorney

Attachments: Table 5 from the 2007 *Potable Water Distribution System Master Plan*  
Corrected Table 4 from the 2005 *Urban Water Management Plan*  
Water Demand Per Connection  
Table 1 Water System Cost Allocation dated August 22, 2008

**TABLE 5**  
**Projected Build-Out Demand Per Land Use Category**

<u>LAND USE CATEGORY<sup>(1)</sup></u>	<u>ACREAGE<sup>(2)</sup></u>	<u>WATER DUTY FACTOR (gpd/acre)</u>	<u>ANNUAL DEMAND (MG/yr)<sup>(3)</sup></u>	<u>AVERAGE DAY DEMAND (gpm)</u>
RR	3	90	0.10	0.19
RS	619	190	43	82
RSF-1	474	460	80	151
RSF-2	338	930	115	218
RSF-3	802	1,400	410	779
RSF-4	2,187	1,900	1,517	2,884
RSF-6	24	2,800	25	47
RMF-8	421	3,700	569	1,081
RMF-9	15	4,200	23	44
RMF-12	260	5,600	531	1,010
RMF-16	0	7,400	0	0
RMF-20	17	9,300	58	110
MHP	60	1,650	36	69
NC	53	1,500	29	55
OP	33	4,600	55	105
CC	105	1,800	68	129
RC	176	1,300	81	154
CS	614	2,600	564	1,073
BP	1,551	700	331	629
BP (Brewery)	1.5	18,000	10	19
M	52	1,000	16	30
PF	1,685	1,900	241	458
POS	1,395	770	173	329
	10881	TOTAL =	4,973 MG/yr	9,455 gpm 13.6 MGD

<sup>(1)</sup> See Table 2 for unabbreviated land use categories.

<sup>(2)</sup> Residential acreage figures referenced from Table LU-2 in 2003 Land Use Element. Non-Residential acreage figures referenced from the Master Non-Residential List provided by City Planning Department. Per City of Paso Robles 2003 Land Use Element, no increase in non-residential acreage is anticipated. CYA, landfill, golf courses and river bottom areas are removed from demand calculations, but shown in "Acreage" column.

<sup>(3)</sup> Does not include water demand at golf courses, CYA camp, landfill, or river bottom. These areas are not planned to be served by the City in the next 15-20 years.

**City of Paso Robles  
Corrected Delivery Statistics**

**Corrected Table 4  
Past, Current and Projected Water Deliveries**

Water Use Sectors	2005			2007			2025				
	# of Accounts (1)	Sales (HCF) (2)	Production (AFY) (3)	Usage Factor (4)	# of Accounts (5)	Sales (HCF) (6)	Production (AFY) (7)	Usage Factor (8)	# of Accounts (9)	Production (AFY) (10)	Usage Factor (11)
Single Family	8,273	1,683,497	4,000	0.48	8,788	1,996,359	4,908	0.56	12,015	6,710	0.56
Multi-Family	386	346,067	822	2.13	399	307,114	755	1.89	1,973	3,733	1.89
Commercial	682	521,325	1,239	1.82	759	456,430	1,122	1.48	2,008	2,969	1.48
Industrial	0	30,147	72	n/a	68	73,088	180	2.64	216	570	2.64
Parks, Landscape Irrigation	302	513,131	1,219	4.04	357	398,077	979	2.74	463	1,270	2.74
Other	29	26,209	62	2.15	51	74,800	184	3.61	0	0	3.61
<b>TOTAL =</b>	<b>9,672</b>	<b>3,120,376</b>	<b>7,414</b>		<b>10,422</b>	<b>3,305,868</b>	<b>8,127</b>		<b>16,675</b>	<b>15,252</b>	

**Sources:**

(1), (2) and (3): 2005 Public Water System Statistics, DWR.

(4) = (3)/(1)

(5), (6) and (7): 2007 Public Water System Statistics, DWR

(8) = (7)/(5)

(9) = (10)/(11)

(10) = Estimated production by water use sector as stated in 2007 Potable Water System Master Plan

(11): Usage factors projected at build-out extended from 2007 actuals

Water Demand Per Connection		
	HBA Interpretation	City Response
Current (2007)		
Water Demand (AFY)	Current water demand 2007 per KJ 6,776 report	2007 water production per Public Water System Statistics, DWR 8,127
Number of EMUs	12,106 From HF&H report Calculated based upon existing	No. of accounts as stated in 2007 system statistics 10,422
Demand/EMU (AFY/EMU)	0.56 use	Gross water demand per account per 2007 system statistics 0.78
Projected (2025)		
Water Demand (AFY)	11,601 Calculated Water Demand 20,716 From HF&H report	Simplistic calc presuming account usage remains constant thru build-out Projected no. of water accounts 13,003
Number of EMUs	Use calculated number from 2007	Actual gross water demand per account from above 16,675
Demand/EMU (AFY/EMU)	0.56 above	0.78
Alternate Analysis Projected (2025)		
Water Demand (AFY)	15,285 From Todd report	Build-out water demand per 2007 Potable Water Master Plan 15,265
Number of EMUs	20,716 From HF&H report Calculated - results in very high	Projected no. of water accounts 16,675
Demand/EMU (AFY/EMU)	0.74 demand per EMU	0.92 Calculated water demand per account

City of Paso Robles  
 Water Connection Fee Study  
 Table 1 - Water System CIP Cost Allocation

	Source	Original Cost	Year of Cost Estimate	Escalation Factor (Table 4)	Cost in 2008 Dollars	Incremental Allocation to Future Users		Component
<b>Future Projects</b>								
<b>Nacimiento Water Project</b>								
Nacimiento WTP	c.	\$89,770,000	2008	1.00	\$89,770,000	50.0%	\$44,885,000	Treatment
Nacimiento Regional Pipeline	c.	\$144,190,000	2008	1.00	\$144,190,000	50.0%	\$72,095,000	Supply
Additional 4,000 AFY Nacimiento Entitlement	c.	\$60,000,000	2009	1.00	\$60,000,000	100.0%	\$60,000,000	Supply
Subtotal - Nacimiento Water Project		\$293,960,000			\$293,960,000	60.2%	\$176,980,000	
<b>Wells</b>								
New Sherwood Well #11 Installation	a.	\$500,000	2008	1.00	\$500,000	40.9%	\$204,309	Supply
Sherwood Well Arsenic Treatment System	a.	\$2,096,241	2008	1.00	\$2,096,241	40.9%	\$856,560	Treatment
Ronconi Filtration Relocation	a.	\$4,747,500	2008	1.00	\$4,747,500	40.9%	\$1,939,910	Treatment
Annual Well Rehabilitation	a.	\$2,916,700	2008	1.00	\$2,916,700	40.9%	\$1,191,814	Supply
New Well Drilling Program	a.	\$3,954,672	2008	1.00	\$3,954,672	40.9%	\$1,615,947	Supply
Subtotal - Wells		\$14,215,113			\$14,215,113	40.9%	\$5,808,539	
<b>Tank, Booster Station and Metering Projects</b>								
FE7 - 21st Reservoir Construction	a.	\$10,321,353	2008	1.00	\$10,321,353	40.9%	\$4,217,482	Conveyance
Acquire Water Tank Site	a.	\$1,669,538	2008	1.00	\$1,669,538	40.9%	\$682,202	Conveyance
Water Tanks - Coating Repairs	a.	\$291,670	2008	1.00	\$291,670	40.9%	\$119,181	Conveyance
W16 - Fire Pump & 8" Water Line at HP Booster Station	a.	\$253,221	2008	1.00	\$253,221	0.0%	\$0	Conveyance
Remote Read Meter System	a.	\$2,935,603	2008	1.00	\$2,935,603	0.0%	\$0	Conveyance
Water Meter Replacement	a.	\$332,724	2008	1.00	\$332,724	40.9%	\$135,957	Conveyance
Subtotal - Tank, Booster Station & Metering		\$15,804,109			\$15,804,109	32.6%	\$5,154,821	
<b>Pipeline Improvements</b>								
W14 - 8" Water Line in Highland Park Zone	a.	\$343,784	2008	1.00	\$343,784	0.0%	\$0	Conveyance
E4 - 12" Water Line in Miller Court	a.	\$202,676	2008	1.00	\$202,676	0.0%	\$0	Conveyance
W13 - 8" Water Line in 15th Street	a.	\$90,673	2008	1.00	\$90,673	0.0%	\$0	Conveyance
W17 - 12" Water Line in Nacimiento Lake Drive	a.	\$480,633	2008	1.00	\$480,633	0.0%	\$0	Conveyance
W4 - 10" Water Line in 36th Street	a.	\$444,300	2008	1.00	\$444,300	40.9%	\$181,549	Conveyance
W5 - 8" Water Line in 22nd Street	a.	\$76,995	2008	1.00	\$76,995	40.9%	\$31,461	Conveyance
W6 - 10" Water Line in 22nd Street	a.	\$161,228	2008	1.00	\$161,228	0.0%	\$0	Conveyance
W10 - 8" Water Line in Olive Street	a.	\$329,803	2008	1.00	\$329,803	0.0%	\$0	Conveyance
W7 - 10" Water Line in 24th Street	a.	\$412,325	2008	1.00	\$412,325	40.9%	\$168,483	Conveyance
W8 - 8" Water Line in Oak Street	a.	\$410,956	2008	1.00	\$410,956	40.9%	\$167,924	Conveyance
W9 - 8" Water Line in 2nd Street	a.	\$307,826	2008	1.00	\$307,826	40.9%	\$125,783	Conveyance
W1 - 12" Water Line in Spring Street	a.	\$1,846,387	2008	1.00	\$1,846,387	40.9%	\$754,465	Conveyance
W2 - 8" Water Line in Oak Street	a.	\$398,917	2008	1.00	\$398,917	40.9%	\$163,004	Conveyance
W18 - 14" Water Line in Pine Street	a.	\$1,216,753	2008	1.00	\$1,216,753	40.9%	\$497,186	Conveyance
FE6 - 16" Water Line in Linne Road	a.	\$1,342,756	2008	1.00	\$1,342,756	40.9%	\$548,673	Conveyance
Subtotal - Pipeline Improvements		\$8,066,012			\$8,066,012	32.7%	\$2,638,529	
<b>Total - Future Projects</b>		<b>\$332,045,234</b>			<b>\$332,045,234</b>	<b>57.4%</b>	<b>\$190,581,889</b>	
<b>Existing Facilities</b>								
<b>Wells</b>								
Well	b.	\$8,135	1984	1.8086	\$14,713	40.9%	\$6,000	Supply
Well	b.	\$33,061	1983	1.7826	\$58,934	40.9%	\$24,000	Supply
Ronconi Well	b.	\$77,339	1984	1.8086	\$139,874	40.9%	\$57,000	Supply
Tbird Well	b.	\$57,596	1984	1.8086	\$104,168	40.9%	\$43,000	Supply
Osborne Well	b.	\$56,175	1988	1.5924	\$89,455	40.9%	\$37,000	Supply
Butterfield Well Rehab	b.	\$16,668	1989	1.5393	\$25,656	0.0%	\$0	Supply
Borcherdt Well Rehab	b.	\$43,044	1989	1.5393	\$66,256	0.0%	\$0	Supply
Well #11 Rehab	b.	\$59,937	1989	1.5393	\$92,260	0.0%	\$0	Supply
Barney Swartz Well Install	b.	\$208,646	1991	1.4677	\$306,219	40.9%	\$125,000	Supply
Ronconi Well Install	b.	\$102,872	1991	1.4677	\$150,980	40.9%	\$62,000	Supply
Well Fencing	b.	\$9,991	1991	1.4677	\$14,664	0.0%	\$0	Supply
Rehab Sherwood Well #9	b.	\$30,373	1991	1.4677	\$44,577	0.0%	\$0	Supply
Rehab Thunderbird Well	b.	\$39,355	1993	1.4097	\$55,478	0.0%	\$0	Supply
Airport Well Installation	b.	\$223,701	1993	1.4097	\$315,346	40.9%	\$129,000	Supply
Ronconi Well Rehab	b.	\$6,470	1993	1.4097	\$9,121	0.0%	\$0	Supply
Upgrade Barney Schwartz Well	b.	\$19,432	1993	1.4097	\$27,393	40.9%	\$11,000	Supply
Thunderbird Well #17 install	b.	\$123,704	1994	1.3984	\$172,984	40.9%	\$71,000	Supply
Tarr Airport Well	b.	\$50,400	1994	1.3984	\$70,478	40.9%	\$29,000	Supply
Airport well upgrade	b.	\$23,555	1995	1.3924	\$32,799	40.9%	\$13,000	Supply
Thunderbird Well upgrade	b.	\$20,488	1995	1.3924	\$28,528	40.9%	\$12,000	Supply
Rehab Thunderbird Well #17	b.	\$9,930	1996	1.3774	\$13,678	0.0%	\$0	Supply
Rolling Hills Well Installation	b.	\$131,809	1996	1.3774	\$181,557	40.9%	\$74,000	Supply
Rehab Sherwood well #11	b.	\$6,383	1996	1.3774	\$8,792	0.0%	\$0	Supply
Thunderbird Well Install	b.	\$10,995	1996	1.3774	\$15,145	40.9%	\$6,000	Supply
Royal Oak #20 Well Installation	b.	\$168,652	1997	1.3567	\$228,804	40.9%	\$93,000	Supply

City of Paso Robles  
 Water Connection Fee Study  
 Table 1 - Water System CIP Cost Allocation

	Source	Original Cost	Year of Cost Estimate	Escalation Factor (Table 4)	Cost in 2008 Dollars	Incremental Allocation to Future Users		Component
Rehab Sherwood #9 well	b.	\$30,952	1997	1.3567	\$41,992	0.0%	\$0	Supply
Fox Well #21 Well Installation	b.	\$98,814	1997	1.3567	\$134,057	40.9%	\$55,000	Supply
Tbird #5 Well Installation	b.	\$95,492	1999	1.3396	\$127,924	40.9%	\$52,000	Supply
Tbird #5 Well Installation	b.	\$31,285	1999	1.3396	\$41,911	40.9%	\$17,000	Supply
Rehab Sherwood #9 well	b.	\$36,413	1999	1.3396	\$48,780	0.0%	\$0	Supply
Rehab Butterfield Well #12	b.	\$37,938	2001	1.2342	\$46,822	0.0%	\$0	Supply
Rehab Well #6	b.	\$13,490	2002	1.1946	\$16,114	0.0%	\$0	Supply
Tarr #19 Well Complete (352)	b.	\$25,909	2004	1.1098	\$28,754	40.9%	\$12,000	Supply
Royal Oaks Well (496)	b.	\$29,432	2004	1.1098	\$32,664	40.9%	\$13,000	Supply
Rehab Butterfield Well #12 (351)	b.	\$109,919	2006	1.0025	\$110,198	0.0%	\$0	Supply
Rehab Cuesta Well # 500	b.	\$28,568	2006	1.0025	\$28,640	0.0%	\$0	Supply
Rehab Fox Well #21 #565	b.	\$107,399	2006	1.0025	\$107,672	0.0%	\$0	Supply
Subtotal - Existing Facilities, Wells		\$2,184,323			\$3,033,386	31.0%	\$941,000	
<b>Water Supply</b>								
Paint Water Storage Tanks	b.	\$22,577	1993	1.4097	\$31,827	0.0%	\$0	Conveyance
Booster Station Upgrade @ Yard	b.	\$9,016	1994	1.3984	\$12,608	40.9%	\$5,000	Conveyance
Re-coat GH Water Tank Interior	b.	\$213,442	2003	1.1724	\$250,245	0.0%	\$0	Conveyance
GH Water Tank #2	b.	\$2,897,941	2003	1.1724	\$3,397,628	40.9%	\$1,388,000	Conveyance
SE Tank and Water Main #555	b.	\$245,347	2006	1.0025	\$245,970	40.9%	\$101,000	Conveyance
Golden Hill Rd. Water Tank 1	b.	\$1,253,606	2006	1.0025	\$1,256,792	0.0%	\$0	Conveyance
Golden Hill Rd. Water Tank 2	b.	\$122,100	2006	1.0025	\$122,411	0.0%	\$0	Conveyance
Subtotal - Existing Facilities, Water Supply		\$4,764,029			\$5,317,481	28.1%	\$1,494,000	
<b>Transmission Projects</b>								
All mains	d.	\$168,851,486	2008	1.0000	\$168,851,486			Conveyance
Developer contributions for in-tract facilities	d.	(\$69,405,344)	2008	1.0000	(\$69,405,344)			Conveyance
Subtotal - Existing Facilities - Transmission		\$99,446,142			\$99,446,142	40.9%	\$40,635,397	
<b>Total - Existing Facilities</b>		<b>\$106,394,494</b>			<b>\$107,797,009</b>	<b>40.0%</b>	<b>\$43,070,397</b>	
<b>Total All Projects</b>		<b>\$438,439,728</b>			<b>\$439,842,243</b>	<b>53.1%</b>	<b>\$233,652,285</b>	
						EMUs	8,365	Growth EMUs
						Charge per EMU	\$27,932	
a. Christine Halley, TJ Cross Engineers, Paso Robles 10-year capital improvement program b. City of Paso Robles Depreciation Schedule FY 2006 - Asset Value at year of completion c. Christine Halley, TJ Cross Engineers, Paso Robles 10-year capital improvement program; Includes all financing costs d. Inventory: Paso_Mplan.wtg; received from Christopher Alakel, P.E., City of Paso Robles (Table 6)								





**Iris P. Yang**  
Attorney at Law

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916.325.4576 tel  
916.444.3826 fax  
iyang@mhalaw.com

August 26, 2008

VIA E-MAIL & U.S. MAIL

Eric N. Robinson  
Kronick Moskovitz Tiedemann & Girard  
400 Capitol Mall, 27th Floor  
Sacramento, CA 95814

Re: River Oaks II Overlying Groundwater Rights

Dear Mr. Robinson: *Eric*

I am writing you this letter on behalf of the City of El Paso de Robles ("City") in response to your letter ("Letter") to Ron Whisenand dated August 18, 2008. As I mentioned in our phone call, we are somewhat puzzled by the Letter.

The City agrees with the underlying legal principles contained in your Letter, and therefore does not dispute that River Oaks II, LLC ("River Oaks"), as the property owner, has an overlying water right in the Paso Robles Groundwater Basin ("Basin"). The City has not claimed, nor does it claim, that it has a "special right to all groundwater lying within its municipal boundaries." More importantly, however, the City fails to see a connection between River Oaks' overlying water rights and River Oaks' demand that those rights should offset the City's water capacity charges for the River Oaks project.

A capacity charge, as defined by Government Code section 66013(b)(3), is:

a charge for public facilities in existence at the time a charge is imposed or charges for new public facilities to be acquired or constructed in the future that are of proportional benefit to the person or property being charged, including supply or capacity contracts for rights or entitlements, real property interests, and entitlements and other rights of the local agency involving capital expense relating to its use of existing or new public facilities. A "capacity charge" does not include a commodity charge.

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Erin N. Robinson  
August 26, 2008  
Page 2

The City's capacity charge is not a charge for using the water and is not infringing on River Oaks' overlying water rights. As you stated in your Letter, "An overlying right . . . is the owner's right to take water from the ground underneath for use on his land within the basin or watershed . . ." *City of Barstow v. Mojave Water Agency*, 23 Cal. 4<sup>th</sup> 1224, 1240 (2005).

However, River Oaks' underlying water right neither restricts nor offsets a capacity charge imposed by the City since the City is the purveyor of water for all new development. If the River Oaks II project is approved, the City will be supplying residential water to its residents through its water system. The connection fees and capacity charges are based on the City's cost of the facilities necessary to serve that new development. The City's policy, as reflected in the Urban Water Management Plan, is to pursue non-groundwater sources for new development. In addition, the Conservation Element of the City's General Plan provides that private water well use "shall be allowed only for existing agriculture uses and then only when approved by the City Council."

If we have misunderstood the meaning or intent of your Letter, please let me know. I look forward to hearing from you.

Sincerely,

Iris P. Yang  
Attorney for City of El Paso de Robles

IPY:jjh

cc: James L. App, City Manager  
Doug Monn, City Public Works Director  
Ronald Whisenand, City Community Development Director

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**CITY OF EL PASO DE ROBLES**  
*"The Pass of the Oaks"*

August 27, 2008

Home Builder's Association of the Central Coast  
Attn: Mr Jerry Bunin, Government Affairs Director  
811 El Capitan Way, Suite 120  
San Luis Obispo, CA 93401-3333

**SUBJECT:** Calculation of Water Capacity Charges

Dear Mr Bunin,

The City wanted to respond promptly to you after yesterday's meeting regarding the proposed water capacity charges. We covered many issues from equivalent meter calculations to population projections to fee calculations. Questions posed ranged from "What is the source for the number of water accounts?" to "Why have numbers changed since the June 2008 publication of the water capacity charge analysis?"

The City and the HBA have sustained a brisk exchange of information and opinions on the basis for the fee calculation. Common ground has been reached on some points. We have also agreed to disagree on some points.

The City's fee team spent a good deal of time reviewing the data exchanged at yesterday's meeting and have reached a conclusion:

1. The fees will be calculated based on the 44,000 General Plan population without speculating on potential annexations or land use changes that were not envisioned in the 2003 General Plan.
2. Updated counts of meter sizes will be utilized.
3. Alternative approaches to projecting equivalent meter units at build-out point to essentially the same number. The approach outlined in the attached table will be utilized.

In simplified terms, the current estimated annual water demand per meter unit is 0.79 acre-feet. The points noted above result in 0.71 acre-feet per equivalent meter unit at build-out.

The resulting water capacity charge (connection fee) is approximately \$27,600.

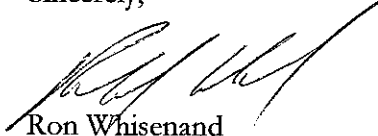
Painstaking comparison of numbers could indeed continue, but our repeated evaluation of the cost to the City to extend water service to new development points to a fee in the range of \$27,000 to

Page 2

\$29,000 per home. The HBA mentioned the expectation that the fee could be limited to \$17,000 per home. In no way can the City's fee team justify such a low figure without unfairly burdening existing ratepayers.

Revised final reports are in preparation now such that staff reports for the September 2, 2008, Council meeting will be posted by the City Clerk's office by close of business today.

Sincerely,



Ron Whisenand  
Community Development Director

Copy: Jim App  
Doug Monn  
Jim Throop  
Christopher Alakel  
John Falkenstien  
John Farnkopf  
Christine Halley

Enc: Water Capacity Charge Overview dated August 27, 2008

**City of Paso Robles**  
**Equivalent Meter Unit Calculations**  
 C Halley; 2025 Projection Table Rev03.xls

8/27/2008

safety factor = 10.0%

**Water Capacity Charge Overview**

Meter Size	Number of Accounts (1)	EMU Multiplier (2)	Current EMUs (3)	Percent Increase in Usage per User Category (4)	Projected EMUs at Build-Out (5)
5/8 and 3/4"	9145	1	9,145	45.8%	14,667
1"	606	1.67	1,012	79.8%	2,002
1 1/2"	169	3.33	563	45.8%	903
2"	275	5.33	1,466	48.6%	2,396
3"	28	10	280	48.6%	458
4"	27	16.67	450	48.6%	736
6"	1	33.33	33	48.6%	54
8"	4	53.33	213	48.6%	349
<b>Totals=</b>	<b>10,255</b>		<b>13,162</b>		<b>21,563</b>

(1) Source: City Finance Dept records for Dec 2007. Note that the meter count varies slightly (-1.6%) as compared to 2007 Public Water System Statistics, DWR.

(2) Source: AWWA Water Meters - Selection, Installation, Testing, and Maintenance.

EMU is equivalent meter unit.

(3) = (1) x (2)

(4) Source: 2007 Potable Water Distribution System Master Plan comparison of land use duty factors from Tables 4 vs 5

(5) = (3) x [1+(4)] plus stated safety factor. The safety factor is included in recognition of estimating variables that pertain to meter size distribution at buildout.

	Water Production, AFY (6)	Estimated Values (7)	Water Production per unit (8)
Current Values	8127	10,255 meters	0.79
Buildout Projections	15252	21,563 EMUs	0.71

(6) Source: Current production as stated in 2007 Public Water System Statistics, DWR. Buildout production per 2007 Potable Water Distribution System Master Plan.

(7) See table above

(8) = (6)/(7)

RESOLUTION NO. 08-XX

A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF PASO ROBLES  
MODIFYING AND ADOPTING WATER CONNECTION AND CAPACITY CHARGES

---

WHEREAS, improvements to the City water system are needed, primarily to supplement the limited ground water supply, and also to provide adequate distribution, staffing, and water storage capacity; and

WHEREAS, the planned improvements as outlined in the 2007 Integrated Water Resources Plan and Capital Improvement Program amount to approximately \$210 million over the coming decade, including Nacimiento supply and treatment capital costs as well as other distribution system capital costs plus financing and operations costs; and

WHEREAS, on January 15, 2008, Council directed that studies of water rates and water connection fees (water capacity charges) be prepared in light of both the Nacimiento project and other planned water system improvements; and

WHEREAS, the City retained the firm of HF&H Consultants, LLC to analyze the City's costs for existing and future facilities as well as the proportional share of such costs that should be borne by new development through water capacity charges; and

WHEREAS, HF&H determined that the revenues generated by the existing connection fees (water capacity charges) are inadequate to pay for new development's proportional costs of those improvements set forth in the Integrated Water Resources and Capital Improvement Plan which are necessary to sustain water system operations and water production in compliance with State Dept of Public Health, local fire code, and other requirements; and

WHEREAS, the City wishes to ensure the ability to produce water to meet peak demands, extend water reliability and improve water quality; and

WHEREAS, a phased connection fee will provide the necessary funding to provide a reliable, well-maintained, infrastructure system and reliable water resource to serve the needs of its existing and future customers; and

WHEREAS, notices and information regarding the September 2, 2008 public hearing on the adoption of the proposed capacity charges, in compliance with the requirements of Government Code section 66016, were sent to interested parties.

THEREFORE, BE IT RESOLVED AS FOLLOWS:

SECTION 1. The City Council of the City of El Paso de Robles hereby finds and determines that the proposed water connection and capacity charges do not exceed the estimated reasonable cost of providing the service for which the fee is to be charged. This finding is based on the study conducted by HF&H, dated August 27, 2008, as amended to date, and incorporated herein

by reference, the staff report and other testimony and information presented at the public hearing.

SECTION 2. The City Council of the City of El Paso de Robles does hereby approve and adopt the schedule of water connections fees (water capacity charges) attached hereto as Exhibit 'A' and incorporated herein by reference, to become effective January 1, 2009.

SECTION 3. Beginning January 1, 2010 and each January 1 thereafter, the fees shown on Exhibit A shall be adjusted based on the change in the Engineering News Cost Record construction cost index (or equivalent publication) as reported for the twelve month period ending October 31st of the prior year. Further, that said water connection fees (water capacity charges) shall be reviewed no less than biennially (every two years) in conjunction with the update of the City's four-year financial plan to ensure that the water connection fees (water capacity charges) then in existence do not exceed the estimated reasonable cost of providing the public facilities and services for which they are imposed.

SECTION 4. Building permits approved and secured by the project owner or agent on or before December 31, 2008, shall be subject to the connections fees in effect immediately prior to the adoption of this Resolution. Permits secured January 2, 2009 or later shall be subject to the fees adopted by this Resolution. All building permit applications received after September 2, 2008, shall be processed on a first-come, first-served basis, in accordance with the City's standard policies.

PASSED AND ADOPTED by the City Council of the City of Paso Robles this 2<sup>nd</sup> day of Septmeber 2008 by the following votes:

AYES:

NOES:

ABSTAIN:

ABSENT:

ATTEST:

---

Frank R. Mecham, Mayor

---

Deborah D. Robinson, Deputy City Clerk

**EXHIBIT 'A'**  
**TO RESOLUTION 08- XX**

Water Connection and Capacity Charges

Meter Size	Current Charge as of:	Proposed Charge as of <sup>1,5</sup>				
	Jul 1 08	Jan 1 09 <sup>2</sup>	Jan 1 10 <sup>3</sup>	Jan 1 11 <sup>4</sup>	Jan 1 12 <sup>6</sup>	Jan 1 13
5/8" and 3/4"	\$9,119	\$15,142	\$20,481	\$27,617	\$27,905	\$28,208
1"	\$15,226	\$25,287	\$34,203	\$46,120	\$46,601	\$47,107
1 1/2"	\$30,364	\$50,423	\$68,202	\$91,965	\$92,922	\$93,933
2"	\$48,601	\$80,707	\$109,164	\$147,199	\$148,731	\$150,349
3"	\$97,292	\$151,420	\$204,810	\$276,170	\$279,046	\$282,080
4"	\$152,002	\$252,417	\$341,418	\$460,375	\$465,170	\$470,227
6"	\$303,914	\$504,683	\$682,632	\$920,475	\$930,060	\$940,173
8"	\$486,280	\$807,523	\$1,092,252	\$1,472,815	\$1,488,152	\$1,504,333
10"	\$699,100	\$1,160,937	\$1,570,278	\$2,117,395	\$2,139,445	\$2,162,708

<sup>1</sup>Beginning on January 1, 2010 and each January 1 thereafter, fees shown in the table shall be adjusted based on the change in the Engineering News Cost Record construction cost index (or equivalent publication) as reported for the twelve month period ending October 31<sup>st</sup> of the prior year.

<sup>2</sup>Water capacity charge do not include the water treatment plant and additional future water supply components.

<sup>3</sup>Charges include the water treatment plant component.

<sup>4</sup>Charges include additional future water supply.

<sup>5</sup>Note: fee phased in such that Year 1 omits water treatment plant and future supply; Year 2 omits future supply only; Year 3 includes all components.

<sup>6</sup>Begin 5.5% inflationary adjustment to existing system buy-in component