TO: **James L. App, City Manager**

FROM: **Doug Monn, Public Works Director**

SUBJECT: **Adoption of Proposed Water Rate Structure**

DATE: **September 2, 2008**

NEEDS: For the City Council to conduct a public hearing, and if there is no majority protest, consider introduction of an ordinance establishing a revised water rate structure.

FACTS:

1. The City hired the firm of Kennedy/Jenks Consultants to thoroughly review the City's costs of providing water service to existing customers and to suggest alternative rate structures to provide sufficient revenues to cover such costs.

2. On July 1, 2008, the City Council considered three alternative water rate structures and selected a combined fixed and variable rate structure as the one to be proposed for adoption. Council also instructed staff to provide the notices required by Proposition 218 regarding the proposed water rates.

3. Notices were mailed to all property owners and water customers on July 2, 2008, explaining the reasons for the proposed water rates and describing the manner in which protests could be filed.

4. On August 19, 2008, City Council deferred action on the adopting the water rate structure and extended the Proposition 218 protest period through September 2, 2008.

5. Proposition 218 requires that a public hearing be held no less than 45 days after the notices are mailed. In order to be valid, a protest must be signed be signed by the property owner or water customer and contain the service address or assessor's parcel number; only one protest may be counted per parcel.

ANALYSIS & CONCLUSION: A thorough analysis of the revenue needs associated with operations of the City's water system for its existing customers has been prepared and is documented in the report entitled "Water Rate and Revenue Analysis Revised Final Report" by Kennedy/Jenks Consultants dated August 27, 2008.

Details about the proposed water rate structure are included in the attached report. In summary, the recommended water rate structure would have both a fixed monthly rate and a variable component, and would provide a tiered structure. The fixed rate component would be based on meter size. Single-family residences use either a 5/8" or 3/4" meter; other uses require larger meters. As shown on the table below, the fixed-rate component for a single-family home would not increase from the current rate of $18 until 2010, when it would rise to $19.98, and gradually increase annually to 2013.

Under the proposed structure, the variable component would depend on the amount of water actually used. Water usage is measured in increments of "hundred cubic feet," or HCF, which equals 748 gallons. For a single-family residence, there

would be one rate for up to 5 HCF and a higher rate over 5 HCF. Currently, a single-family residence pays $1.28 per HCF.

By way of comparison, a single -family residence that uses 30 HCF per month currently pays $56.40 per month ($18.00 fixed rate plus $38.40 for 30 HCF). Under the proposed rate structure, this same household would pay $92.90 in 2009; $143.43 in 2010; and $164.63 in 2011.

The proposed rate structure for all types of usage is depicted in the table below:

Water Rate Structure

Meter Size (inches)	Current Rate	Proposed Monthly Fixed Rates 2009	2010	2011	2012[1]	2013[2]
5/8" & 3/4"	$18	$18.00	$19.98	$22.48	$24.95	$24.95
1"	$18	$25.20	$27.97	$31.47	$34.93	$34.93
1-1/2"	$18	$32.40	$35.96	$40.46	$44.91	$44.91
2"	$18	$52.20	$57.94	$65.18	$72.36	$72.36
3"	$18	$198.00	$219.78	$247.25	$274.45	$274.45
4"	$18	$252.00	$279.72	$314.69	$349.30	$349.30
6"	$18	$378.00	$419.58	$472.03	$523.95	$523.95
8"	$18	$522.00	$579.42	$651.85	$723.55	$723.55
		Proposed Consumption Charge ($/HCF)				
All Customers Except Single Family						
All usage	$1.28	$2.56	$4.22	$4.86	$5.00	$5.15
Single Family Customers						
0-5 HCF	$1.28	$2.18	$3.59	$4.13	$4.25	$4.39
> 5 HCF	$1.28	$2.56	$4.22	$4.86	$5.00	$5.15

Note: HCF = 100 cubic feet, or 748 gallons.

Many factors were taken into account in proposing Paso Robles' water rates and charges. Some noteworthy considerations are:

- Currently, the fixed rate component of the water rate structure is the same regardless of whether a customer has a 5/8-inch meter (as is typical for a single family residence) or a 2-inch meter needed for a business with greater water needs. Much of the water system component sizing and costs relate to delivery

[1] Both the fixed and variable rates would be subject to adjustment on January 1, 2012 by the increase in the Consumer Price Index for All Urban Consumers (CPI-U) for the San Francisco-Oakland-San Jose region as reported by the Bureau of Labor Statistics for the 12 months ending October 31 of the prior year.

[2] Both the fixed and variable rates would be subject to adjustment on January 1, 2013 and each January 1 thereafter by the increase in the Consumer Price Index for All Urban Consumers (CPI-U) for the San Francisco-Oakland-San Jose region as reported by the Bureau of Labor Statistics for the 12 months ending October 31 of the prior year.

capacity, so it stands that customers with higher potential water demand (i.e. larger meters) pay a corresponding higher portion of the share in monthly costs. In keeping with the principle that consumers should pay their fair share of costs, the recommended fixed rate component is higher for larger meters.

- In the past, the City has allowed customers to apply for a "life line" water rate, thus allowing lower income customers to benefit from lower water rates. The proposed rate structure would extend the "life line" lower rate to all residential customers such that the first tier of water use (up to 5 HCF per month) would be delivered at a reduced unit cost. This tiering has the added benefit of rewarding low water use customers for their water conservation success.

- Existing City practice is to provide a credit back to City park/facility and school irrigation in proportion to public usage. Any school that opens its recreational fields for public recreation is eligible for this credit, as is any municipal park or facility. The proposed rate structure would cease this practice and approach City park/facility billings as payable from the General Fund. Sports and event fees will require adjustment to provide a revenue stream for that water billing.

The proposed water rates are proposed to go into effect on January 1, 2009. This implementation date is recommended for the proposed water rates to allow time for required customer notification and to put the new rates into effect during a time of year when usage is traditionally low, thus allowing customers time for a seasonal adjustment.

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

FISCAL IMPACT: The City is contractually obligated to make its share of the debt service payments for the bonds that have been issued to pay for the construction of the Nacimiento Pipeline project. Additionally, one of the facts noted in the Kennedy/Jenks report is that the City has had to draw on reserves to pay for current operations for the last two years because operating expenses have exceeded revenues.

If new water rates are not adopted to pay for the costs of water service the General Fund will, ultimately, have to make up any shortfall. The General Fund pays for operations such as library services, children's and senior programs, parks, as well as police and fire. Serious budget cuts and significant reductions in some services could result.

OPTIONS: a. Close the public hearing and

1. Establish whether sufficient valid protests have been received per Proposition 218 procedures to prohibit adoption of the selected water rate structure.

2. If there is no majority protest, proceed with introduction of Ordinance No. 08-xx and direct staff to schedule September 16, 2008, as the date for reading and adoption of the ordinance.

3. If, there is a majority protest, direct staff to develop alternatives.

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

Attachments

1) "Water Rate and Revenue Analysis Revised Final Report" dated August 27, 2008, prepared by Kennedy Jenks Consultants
2) Ordinance No. 08-xx

Kennedy/Jenks Consultants

2355 Main Street Suite 140
Irvine, CA 92614
949-261-1577
949-261-2134 (Fax)

City of Paso Robles
Water Rate and Revenue Analysis
Revised Final Report

August 27 2008

Prepared for

City of Paso Robles
Department of Public Works
1000 Spring Street
Paso Robles, CA

K/J Project No. 0883005

Kennedy/Jenks Consultants

Engineers & Scientists
2355 Main Street, Suite 140
Irvine, California 92614
949-261-1577
949-261-2134 (Fax)

27 August 2008

Mr. Doug Monn
Director of Public Works
City of Paso Robles
1000 Spring Street.
Paso Robles, California 93446

Subject: Revised Final Report - Water Rate and Revenue Analysis
K/J 0883005

Dear Mr. Monn:

Kennedy/Jenks Consultants is pleased to submit the Water Rate and Revenue Analysis Draft Report to the City of Paso Robles (City). By way of process, we have submitted this final report as a digital ".pdf" file for your distribution as appropriate within the City.

This Rate Study Report is a compilation of the analysis and findings of the City's water fund and incorporates the City's comments and direction obtained from previous draft work products. The results of the study are intended to serve as a plan for future revenue and rate adjustments based on the projected costs and utility water demands.

There are several important factors associated with the performance of the City's water fund that impact the study findings. First and foremost is the need to plan for the funding of the new Nacimiento water supply. The capital, debt, and operational costs associated with the City's transition to this source of supply will continue to place pressure on the City's water rates for several years. Fortunately, it appears that within the five-year planning period, the City's water system cost obligations and associated rate adjustments will have stabilized, positioning the City's water system for long-term financial stability.

It has been a pleasure working with you and the other members of the Rate Study Team on this interesting project and look forward to working with you in the future. Please contact us if you have any questions or need additional information.

Very truly yours,

KENNEDY/JENKS CONSULTANTS

Roger Null, V.P.
Project Manager

Ken Shuey, P.E.
Senior Technical Financial Consultant

Table of Contents

Table of Contents (cont'd)

List of Tables

List of Appendices

Section 1: Introduction

1.1 Background and Objectives

The City of Paso Robles (City) is a central coast community located in San Luis Obispo County. The City provides commonly sought services, including water and sewer services, to approximately 28,000 residents through 10,000 service connections. To provide a reliable and quality water supply to its customers, the City is now in the implementation phase of a comprehensive long range water system improvement program. Implementation of this program as well as other factors may affect the financial condition of the City's water utility. These factors are:

- The need to assess the future water utility revenue requirements.
- The need to fully implement the financial and operational requirements of the new Nacimiento water supply. These financial obligations include generation of an appropriate level of revenues to pay the annual debt service on the new regional supply pipeline, financing the construction of a proposed water treatment plant to treat the new supply, and funding the increased operating expenses associated with the Nacimiento water supply.
- The need to evaluate the future operating and non-operating revenues and expenses and their effect on the utility's operation.
- The need to fund other capital improvements associated with the City's recent Potable Water Distribution Master Plan and other water system planning projects.
- The need to develop updated rates to fund the projected enterprise financial requirements.
- A need to review and develop an appropriate rate structure to support the water fund's obligations and meet various rate equity and cost recovery requirements.

1.2 Project Scope and Authorization

The City identified the need for a financial evaluation to support the implementation of its long range water system improvement program. As such, the City entered into an agreement with Kennedy/Jenks Consultants on January 15, 2008, to conduct this study to assess the impact of its diversified water supply costs, changing operating expenses, forthcoming debt obligations, and the proposed capital improvement program expenditures. The scope of work for the water rate and revenue study is summarized as follows:

- Perform a financial projection of the City's water enterprise revenue and funding requirements, including the financial impact of future water supply costs.
- Review and develop recommendations regarding appropriate fixed and variable water rates to recover the identified costs.
- Develop a schedule of updated water rates required to meet the financial obligations of the City's water utility.
- Prepare a report of findings that presents the analysis information, conclusions, and recommendations of the water revenue and rate analysis study.

Section 2: Historical and Current Conditions

2.1 Evaluation of Historical & Current Financial Condition

The financial condition of the City's water utility was reviewed and a summary of financial performance is presented in Table 1. The information presented in this table was derived from the City's Comprehensive Annual Financial Reports (CAFRs). The CAFR for Fiscal Year (FY) 06-07 represents the most recent audited financial document of the water utility's financial performance.

The financial condition of a water utility is assessed by contrasting several financial parameters with the financial performance as reported in the City's CAFRs. Foremost among these parameters are criteria for net operating revenues and an assessment of the utility's fund balance. The findings related to each of these elements are provided as follows.

Net operating revenues are an important financial parameter of a utility's performance. This financial parameter is generally desired to be at least 20% of total operating revenues to generate adequate capital improvement funding for new and replacement (depreciation-based) assets. As shown in Table 1, the water utility has historically fallen short of this parameter, in the last three years and there has been a steady decline in operating financial performance. During the three year period, this parameter has ranged from a positive 7% in FY 04-05 to a negative 7% in FY 06-07. In this last fiscal year, the utility fell short of the 20% benchmark parameter by approximately 27%. *As such, the utility currently is not generating sufficient funds to provide for future capital expenditures and increased water utility operating expenses.*

In addition to this operational performance, the impact of various non-operating revenues and capital expenditures is included so that an assessment of the annual ending cash fund balance can be derived. As indicated at the bottom of Table 1, the water fund has experienced a drawdown in cash reserves in the last two years. In FY 06-07, this drawdown was approximately $2.3 million, or 15% of the available water fund balance.

In consideration of these factors, additional revenues from water rates appear to be needed to improve the financial position of the water fund. The following sections of this study provide the supporting information for the level and timing of proposed rate adjustments to meet the water funds current and future financial requirements.

TABLE 1
HISTORICAL OPERATING REVENUES AND EXPENSES

Sources and Uses of Funds	Actuals FY 04-05	FY 05-06	FY 06-07
Operating Revenues			
Charges for Service	3,378,686	3,590,654	$4,312,130
Other	(11,898)	(4,507)	($31,781)
Total Operating Revenues	3,366,788	3,586,147	$4,280,349
Operating Expenses			
Maintenance, Operations, & Administration	2,690,697	3,045,284	$3,721,874
Depreciation and Amortization	452,106	688,798	$841,196
Total Operating Expenses	3,142,803	3,734,082	$4,563,070
Net Operating Income (Loss)	223,985	(147,935)	($282,721)
Net Op Rev as % of Total Op Rev	7%	-4%	-7%
Non-Operating Revenue (Expense)			
Interest Revenue	389,548	489,045	$800,945
Water Connection Fees	NA	1,745,683	$669,578
Nacimiento Water Fees	0	701,862	$573,706
Total Non-Op Revenues (Exp.)	389,548	2,936,590	$2,044,229
Net Income (Loss) Before Capital/Other Costs	613,533	2,788,655	$1,761,508
Net Increase (Decrease) in Cash (a)	$1,221,622	($1,111,385)	($2,275,728)
Beginning Cash and Equivalents	$15,108,839	$16,330,461	$15,219,076
Ending Cash and Equivalents	$16,330,461	$15,219,076	$12,943,348

Source: City of Paso Robles, CAFRs
(a) Includes the integration of capital expenditures and other non-operating costs.

2.2 Current Accounts and Water Demands

As noted in the City's annual report to the Department of Water Resources (DWR), the City provides water service for approximately 10,000 accounts. The City's Calendar Year (CY) 2007 customer information related to general customer types, number of accounts, and water demands are detailed in Table 2. As shown, the majority of these water accounts are represented by base-level residential customers with 5/8" and 3/4" meters.

Also shown in Table 2 is the utility's water consumption data. In CY 2007, the total annual water consumption was approximately 3,305,868 Hundred cubic foot (HCF) and the average consumption per account was approximately 315 HCF per year, or 26 HCF per month (640 gallons per day).

The City's water fund has two primary sources of revenue. These are the sale of water to its customers and the Nacimiento water charge that is assessed monthly to each account. At a current water rate of $1.28 per HCF, the sale of water is estimated to generate approximately $4.23 million per year based on CY 2007 usage. Similarly, applying the $18 monthly fixed charge per account to the City's 10,422 accounts generates approximately $2.25 million per year. Combined, these sources generate approximately $6.5 million per year.

It should be noted that the data in Table 2 has been updated from an earlier draft version of this Water Rate Study. The prior data was derived from an account-level user defined report that apparently did not include all of the City's accounts and some of the associated water consumption. Upon review, the customer characteristics derived in the DWR report appeared to accurately depict the CY 2007 data and has therefore been utilized as the source document for this information in the Final Report. System statistics, as well as the account consumption averages and revenues, have also been updated to reflect these data. A copy of the City's annual report to the DWR for CY 2007 is provided in Appendix A as supporting documentation.

Section 3: Future Revenue Requirements

An evaluation of future revenue requirements can be focused in the projection of four specific areas. These areas are customer growth, water supply costs, capital-related expenditures, and operating costs. The following sections discuss the impact of these factors on the City's water utility revenue requirements over the next five years.

3.1 Projected Customer Growth and Water Sales

Customer growth affects the revenue requirements of the City's water utility in two ways. First, it increases the customer base that is paying for more water usage through the water usage rate, is subject to the monthly service charge, and pays a connection fee to buy into to system capacity. Second, it increases the level of those costs that vary with the quantity of water used such as water supply, treatment, and pumping expenses. In financial planning, applying low to moderate growth factors provides a conservative assessment of future utility revenue requirements.

Based on discussions with City staff, current economic factors suggest a minimal level of additional growth in the next several years. Current growth estimates for the next five years are:

- FY 2008-09 No New Accounts
- FY 2009-10 60 Accounts
- FY 2010-11 100 Accounts
- FY 2011-12 150 Accounts
- FY 2012-13 225 Accounts

In addition to the projection of new account growth, it is also important to project changes in water sales that may affect the utility's financial performance. For the City, foremost among the factors that needs to be considered is the impact of reduced water usage associated with increased water costs and rates. National data indicates the City's water usage will drop as much as 30% as the City implements its new water rates. Based on discussions with City staff, a 25% reduction in water usage is projected herein as this value is comparable to the level of pricing-induced water conservation experienced by other communities. It is further projected that the City's water usage will gradually return to current levels through the addition of new water system customers.

It should be noted that predicting annual growth and water usage can not be derived as precise values. As such, the future growth and water demand values used herein are to be considered as estimates only and are intended to provide a realistic yet conservative forecast of new customers so that connection fee revenues are not overestimated. Similarly, while it can be assumed that water usage should decline with the forthcoming increase in water costs and rates, behavioral changes can not be quantified. Accordingly, the magnitude of future water conservation included in the Water Rate Study is only an estimate used for the purpose of projecting future water sales. All of these factors will be evaluated and integrated in the City's ongoing rate and budget review process to evaluate the financial performance of the City's water fund.

TABLE 2
CURRENT ACCOUNTS AND WATER CONSUMPTION

Customer Type	Metered Accounts	Total Usage (HCF)
Single Family Residential	8,788	1,996,359
Multi-Family Residential	399	307,114
Commercial/Institutional	759	456,430
Industrial	68	73,088
Landscape Irrigation	357	398,077
Other	51	74,800
Water System Totals	**10,422**	**3,305,868**

Source: City of Paso Robles; CY 2007 Department of Water Resources Report

Notes: Metered accounts are the average number of active meters; total usage is the amount of metered water consumption by customer type. Information has been updated from an earlier draft report.

3.2 Budgeted/Projected Operating Expenses

Costs associated with the management, administration, and operations of the City's water utility are contained primarily in two Departments/Divisions. Utility Billing and Cashiering is responsible for the billing, accounting, and administration of the water fund, while Water Production and Distribution is responsible for the operation, maintenance, and management of the water system. The budgeted and projected water utility costs for these Departments are shown in Table 3. These projections are primarily inflation driven, with the integration of some additional costs associated with anticipated future personnel and cost allocation adjustments. The line item detail of these programs as reflected in the City's budget is provided in Appendix A.

In addition to these base-level costs, an additional operational cost assessment is derived to forecast new water fund operation and maintenance expenses associated with the new Nacimiento water supply and with other planned system improvements. As shown in Table 3, water fund operating costs are projected to increase significantly to integrate the new water supply. This cost increase is expected, as the City has proactively determined the need to diversify its water portfolio, and switch from its local groundwater supply to a new high quality/reliable surface water supply. This new supply will be the primary water supply beginning in 2010 and will be supplemented with groundwater as needed to meet then current demand. A summary documentation of the City's water supply plan is provided as supporting information and is also included in Appendix A.

It is important to note that the largest line item in Table 3 is depreciation. While depreciation is a non-cash expense, it does represent the estimated costs associated with the annual wear and tear of the City's assets. Although the City currently does not specifically fund depreciation, it does fund an ongoing local capital improvement program (CIP) that includes specific repair and replacement project costs. As such, a portion of this cost is implicitly recovered in the City's CIP. To proactively plan for this activity, the City should consider integrating the full recovery of depreciation on an annual basis through rates so that adequate funds are available for future capital reinvestment in significant water fund assets. This activity can be accounted for through a new capital repair and replacement program reserve fund. Fund reserves are discussed in a subsequent section of this study.

3.3 Projected Capital Improvement & Debt Service Financing Program

Utility systems are by nature capital intensive operations. To evaluate system capacity and long range water supply reliability, the City has completed several water system studies in the last few years. These documents provided much of the basis for the development and subsequent adoption of the City's 10-year capital improvement program (CIP) for water, wastewater, and other City services.

The City's water system CIP is separated into four basic categories. These are: Nacimiento Water Project Improvements, Well Improvements, Tank/Booster Station/Metering Project Improvements, and Pipeline Improvements. A summary of the five year plan for these project categories is provided in Table 4. A comprehensive listing of the specific projects included in the City's 10-year water system CIP is provided in Appendix A.

TABLE 3

BUDGETED AND PROJECTED OPERATION AND MAINTENANCE EXPENSES

Description	Budgeted FY 2007-08	Budgeted FY 2008-09	Projected FY 2009-10	Projected FY 2010-11	Projected FY 2011-12	Projected FY 2012-13
Utility Billing and Cashiering						
Dept. No. 140 - Division No. 127						
Department Salaries and Benefits	$283,400	$309,300	$318,600	$328,200	$338,000	$348,100
Maintenance - Utilities	$1,300	$1,300	$1,400	$1,500	$1,600	$1,700
Charges from Other Departments	$23,400	$23,100	$23,800	$24,500	$25,200	$26,000
Other Expenses	$282,800	$221,400	$228,000	$234,800	$241,800	$249,100
Subtotal - Utility Billing and Cashiering	$590,900	$555,100	$571,800	$589,000	$606,600	$624,900
Water Production and Distribution						
Dept. No. 310 - Division No. 165						
Department Salaries and Benefits (a)	$929,800	$1,060,185	$1,092,000	$1,124,800	$1,158,500	$1,193,300
Maintenance - Utilities	$940,000	$940,000	$1,021,400	$1,082,700	$1,147,700	$1,216,600
Depreciation (b)	$845,000	$848,000	$1,192,557	$1,751,595	$2,090,812	$2,254,859
Charges from Other Departments	$184,800	$249,500	$347,000	$407,400	$419,600	$432,200
Other Expenses	$928,200	$675,200	$705,500	$726,700	$748,500	$771,000
Subtotal - Water Production and Distribution	$3,827,800	$3,772,885	$4,358,457	$5,093,195	$5,565,112	$5,867,959
Charges to Other Departments	(329,200)	(310,200)	($319,500)	($329,100)	($339,000)	($349,200)
Total Existing O&M Expenses	**$4,089,500**	**$4,017,785**	**$4,610,757**	**$5,353,095**	**$5,832,712**	**$6,143,659**
Forecasted Changes in O&M Expenses for Nacimiento Supply (c)						
New Nacimiento WTP O&M - Estimate			$1,041,000	$2,094,920	$2,220,600	$2,353,800
New Nacimiento Pipeline O&M Costs			$770,866	$1,341,731	$1,341,731	$1,341,731
Changes in Existing O&M Costs (Reductions)			(655,975)	(448,889)	(475,800)	(504,300)
Subtotal New Water Supply O&M Costs			$1,155,891	$2,987,762	$3,086,531	$3,191,231
Allowances for New Water Division Positions		$251,415	$942,671	$970,952	$1,341,918	$1,382,175
Net New Nacimiento Water Supply Costs		**$251,415**	**$2,098,562**	**$3,958,714**	**$4,428,449**	**$4,573,406**
Total New and Existing Forecasted Water Fund Costs		**$4,269,200**	**$6,709,319**	**$9,311,809**	**$10,261,161**	**$10,717,065**

Source: City of Paso Robles Finance Department budget for Department/Division Data
(a) Source: City FY 08-09 Labor Budget adjusted to coincide with forcasted Nacimiento O&M cost estimates.
(b) Source: Table 4 CIP Table, Depreciation Estimate.
(c) Source: TJCross Ops Budget. Values provided have been inflated herein.

TABLE 4

PROPOSED CAPITAL IMPROVEMENT & DEBT FINANCING PROGRAM

Description	FY 2007-08	PROJECTED FY 2008-09	FY 2009-10	FY 2010-11	FY 2011-12	FY 2012-13
Water System Capital Improvement Program (a)						
Proposed Water Treatment Plant		$3,789,830	$19,000,000	$11,400,000	$7,600,000	$0
Well Improvements	$2,796,241	$4,958,500	$1,335,630	$234,848	$247,765	$1,568,352
Tank, Booster Station and Metering Projects	$2,430,940	$2,817,862	$7,058,670	$4,720,450	$24,776	$26,139
Pipeline Improvements	$343,784	$90,673	$557,627	$605,527	$329,803	$823,281
Total Water Fund CIP	**$5,570,965**	**$11,656,865**	**$27,951,928**	**$16,960,826**	**$8,202,345**	**$2,417,772**
Water System Debt Financing Program						
New Debt Issuances (b)		**$43,660,000**	**$0**	**$0**	**$0**	**$0**
Existing Debt						
Nacimiento Water Pipeline Project		$0	$0	$1,587,995	$4,224,589	$4,225,889
Subtotal Existing Annual Debt Service		$0	$0	$1,587,995	$4,224,589	$4,225,889
New Annual Debt Service						
Initial New Debt Service Costs (c)		$0	$0	$0	$2,900,000	$2,900,000
Subtotal New Debt			$0	$0	$2,900,000	$2,900,000
Total Annual Debt Service		**$0**	**$0**	**$1,587,995**	**$7,124,589**	**$7,125,889**
New Total CIP	$5,570,965	$11,656,865	$27,951,928	$16,960,826	$8,202,345	$2,417,772
New Depreciation per Year		$111,419	$233,137	$559,039	$339,217	$164,047
Cumulative New Depreciation Per Year		$111,419	$344,557	$903,595	$1,242,812	$1,406,859

(a) CIP Source: TJ Cross July 2008; Does not include the cost of additional Nacimiento entitlements as its timing is unknown. Captial Facility Charge revenues are included in the financial projection tables as total Water Fund costs are included herein. Comprehensive 10-Year CIP and water supply summary is included in Appendix A.

(b) New Debt Issuances are based on 30 years @ 5% per City staff.

(c) New debt includes the capitalization of interest until FY11-12.

In addition to the CIP, Table 4 also reflects the projected water system debt financing program. Although debt funding of capital expenditures is common among utilities, the City has historically funded most of its water fund obligations from cash. However, in 2007 the City, as well as other regional water purveyors, entered into a contractual obligation with the San Luis Obispo County Flood Control & Water Conservation District to fund a regional water system pipeline project that will convey water from Lake Nacimiento to the City and nearby agencies. The City's proportional share of the debt obligation for this issuance is approximately $4.2 million per year. This debt is schedule to begin in FY 11-12, with a smaller payment due the preceding year. A copy of the comprehensive bond payment schedule is also provided in Appendix A.

To treat this new water supply to drinking water standards, the City must construct a new water treatment plant. The total estimated project costs are projected at approximately $43 million. Similar to the Nacimiento pipeline project, the financing program estimates that approximately $43.7 million in new debt will be needed to fund the construction of this critical facility. Annual debt service payments of approximately $2.9 million are programmed to being in FY 11-12.

It should be noted that funding the construction of the new water treatment plant is vital to the City as it is a cornerstone component of the City's water resources program. Since contractual commitments have been made to procure this new water supply and construct the pipeline, without a water treatment plant, the City will be paying over $5.5 million per year ($4.2 million in debt and $1.3 million in water supply O&M) for water it essentially can not use. Without additional funding and rate-related revenue increases, the new Nacimiento water supply can not be used as drinking water by the City and would have to be discharged into the river. Construction of the water treatment plant needs to begin in 2009 to utilize this valuable water resource.

Lastly, at the bottom of Table 4 is an estimate of the additional annual depreciation associated with the implementation of the capital improvement program. As shown, by the end of the five year planning period, the City's assets will accrue an additional $1.4 million per year of annual depreciation expense. As previously discussed, to account for depreciation funding and expenditures, this funding level should be programmed into an ongoing capital repair and replacement reserve fund.

3.4 Summary of Projected Revenue Requirements

As expected, the City's water fund is projected to experience significant increases in costs to implement the new water supply program. The magnitude of the new debt obligations and increased operating cost associated with the Nacimiento water supply are expected to increase significantly in the next five years to fully implement the City's comprehensive water system improvement program.

A projected revenue plan is developed to compare the water utility's revenues and revenue requirements for the five-year study period. The financial projection is based on the City's projected customer account characteristics, the projected O&M expenses and the inclusion of the City's comprehensive capital improvement program. Additionally, several ratemaking criteria were also integrated in the revenue plan. These key criteria include:

- Growth is conservatively estimated to be flat for the next couple of years, with a modest increase during the balance of the five year planning period. (Refer to Section 3.1.)

- Water sales are projected to reduce by approximately 25% in the first year after implementation of the proposed rates; demands from future new accounts are projected at current levels.

- A new $43.7 million debt issuance is projected in FY 08-09 to fund the construction of the Nacimiento water treatment plant; debt has been capitalized until FY 11-12 to better coincide with additional cash-flow from new water utility customer connections.

- Debt coverage covenants are to be met through utility rates, with additional Connection Fee (Capacity Charge) revenues used to pay down long term debt and fund identified capital improvements.

- Water Connection Fees (Capacity Charges) are based on a 2008 study by HF&H. These fees are designed to increase by the size of the water meter in accordance with published meter capacity ratios and the non-debt service components are scheduled to increase annually at a rate of 5.5%, the projected annual increase in the construction cost index. The proposed fees derived in the Water Capacity Charge study are provided in Appendix A.

- Target water fund reserves have been established based on the sum of the following financial criteria: Operating Reserve – 30% of operating expenses, Economic Uncertainty/ Rate Stabilization Reserve – 20% of Operating Expenses, and Capital Emergency Reserve – one year's average cash-based CIP ($2 million). Additionally, two new funds are recommended to manage and account for ongoing water supply and capital rehabilitation program activity. These funds are: a Water Supply Fund – to be used to account for the acquisition of new water supply rights and a Capital Repair/Replacement Fund – to be used to account for depreciation that is funded and ongoing/projected system renewal expenditures.

A five year revenue plan of the City's water utility is developed by integrating the ratemaking criteria with the projected water system costs and capital expenditures.

3.5 Projected Revenue Requirements Using Proposed Rates

As expected, the results of the revenue plan indicate that additional revenues are needed to meet the current and future obligations of the water fund. Accordingly, a projected revenue plan using proposed rates is prepared to balance the water utility financial obligations and revenues and position the utility for a sustainable positive financial performance. Several cash flow evaluations and alternatives were prepared with City staff to balance financial performance with ratepayer impact. These alternatives varied the debt financing strategies, projected growth scenarios, water consumption levels, rate increase levels/phases, and rate structure elements such as fixed meter and water usage charges so that short term cash flow obligations were met and debt service coverage ratios were sustained above the level required by bond covenants. The resulting revenue plan using proposed rates is shown in Table 5.

TABLE 5
PROJECTED REVENUE PLAN USING PROPOSED RATES

	Adjusted Budget		Projected			
Description	**FY 2007-08**	**FY 2008-09**	**FY 2009-10**	**FY 2010-11**	**FY 2011-12**	**FY 2012-13**
Revenues						
Fixed Monthly Service Charges (As Modeled)	$2,251,152	$3,019,704	$2,709,805	$3,058,166	$3,464,575	$3,721,616
Consumption Charges (As Modeled)	$4,231,511	$3,967,042	$8,469,069	$11,468,871	$12,667,244	$13,378,176
Total Operating Revenues	$6,482,700	$6,986,700	$11,178,900	$14,527,000	$16,131,800	$17,099,800
Operating Expenses						
Department Salaries and Benefits	$1,213,200	$1,369,485	$1,410,600	$1,453,000	$1,496,500	$1,541,400
Maintenance - Utilities	$941,300	$941,300	$1,022,800	$1,084,200	$1,149,300	$1,218,300
Charges from Other Departments	$208,200	$272,600	$370,800	$431,900	$444,800	$458,200
Depreciation	$845,000	$848,000	$1,192,557	$1,751,595	$2,090,812	$2,254,859
Other Material, Services, and Maint. Expenses	$1,211,000	$896,600	$933,500	$961,500	$990,300	$1,020,100
Charges to Other Departments	($329,200)	($310,200)	($319,500)	($329,100)	($339,000)	($349,200)
Net New Nacimiento Water Supply Costs	$0	$251,415	$2,098,562	$3,958,714	$4,428,449	$4,573,406
Total Operating Expenses	$4,089,500	$4,269,200	$6,709,300	$9,311,800	$10,261,200	$10,717,100
Net Operating Revenue	$2,393,200	$2,717,500	$4,469,600	$5,215,200	$5,870,600	$6,382,700
Non-Operating Revenue (Expense)						
Interest Revenue	$85,100	$320,900	$1,167,800	$571,000	$323,500	$237,800
Water Connection Fee Revenues	$0	$0	$1,228,860	$2,761,700	$4,185,689	$6,346,800
Depreciation Adjustment (Non-Cash Expense)	$845,000	$848,000	$1,192,557	$1,751,595	$2,090,812	$1,691,144
Existing Debt Service				($1,587,995)	($4,224,589)	($4,225,889)
New Debt Service (a)					($2,900,000)	($2,900,000)
Total Non-Op Revenues/Expenses	$930,100	$1,168,900	$3,589,217	$3,496,301	($524,588)	$1,149,855
Net Income Before Capital Activity	$3,323,300	$3,886,400	$8,058,817	$8,711,501	$5,346,012	$7,532,555
Capital Expenditures	$5,570,965	$11,656,865	$27,951,928	$16,960,826	$8,202,345	$2,417,772
Capital Financing						
Proposed Debt Issuance		$43,660,000	$0	$0	$0	$0
Subtotal - Capital Financing Issuance Expenses		$7,660,000	$0	$0	$0	$0
Net Change in Funds Avail. After Capital Activity	($2,247,665)	$28,229,535	($19,893,111)	($8,249,325)	($2,856,333)	$5,114,783
Transfer to New Water Supply Fund					$0	$5,682,232
Ending Cash Balance - After Water Supply Fund Xfers	$10,695,683	$38,925,218	$19,032,107	$10,782,782	$7,926,449	$7,359,000
Target Reserve Fund Balance (b)	$4,045,000	$4,135,000	$5,355,000	$6,656,000	$7,131,000	$7,359,000
Development of New Capital Repair/Replacement Fund						
Annual Level of Depreciation Funding						$563,715
Cummulative Fund Balance for Capital R/R Fund						$563,715
Development of New Water Supply Fund						
Annual Level of Funding						$5,682,232
Cummulative Water Supply Acquisition Fund Balance						$5,682,232
Estimated Debt Service Coverage Ratio (Does Not Include Connection Fee Revenues)				4.75	1.16	1.17

(a) Per City staff, Debt is based on 30 years and 5% interest; interest is capitalized until FY 11-12
(b) Target Reserve based on 50% of annual operating expenses (30% ops reserve & 20% economic uncertainty), plus 1-Year's average cash CIP ($2.0 M)

Description	**Proposed Rates and Projected Changes in Accounts and Water Usage**					
Projected Increase in Revs (includes new demand)		**37%**	**51%**	**16%**	**6%**	**5%**
Proposed Fixed Rate Increase		**0.00%**	**11.00%**	**12.50%**	**11.00%**	**0.00%**
Proposed Usage Rate Increase		**100.00%**	**65.00%**	**15.00%**	**3.00%**	**3.00%**
Proposed Fixed Rate ($/Equivalent Meter/Month)	$18.00	**$18.00**	**$19.98**	**$22.48**	**$24.95**	**$24.95**
Proposed Average Usage Unit Rate ($/HCF)	$1.28	**$2.56**	**$4.22**	**$4.86**	**$5.00**	**$5.15**
Proposed Connection Fee (per HF&H, 8-27-08)	$9,119	$15,142	$20,481	$27,617	$27,905	$28,208
Water Conservation Factor	100.0%	75.0%	100.0%	100.0%	100.0%	100.0%
Increase in Number of Equivalent Meters/Year		0	60	100	150	225

As shown in Table 5, double digit rate-based revenue increases are proposed for the next three years so that water utility will generate adequate revenues to meet its increased operating cost and debt obligation in FY 11-12. However, inflationary level increases appear to be adequate in years four and five of the planning periods as the new water supply costs and debt obligations have stabilized. Additional water sales and connection fee revenues are projected to begin to support the water utility's financial obligations in a few years so that the water fund balance is projected to meet target reserve levels beginning in FY 11-12. If growth continues as projected, funds should be available for the acquisition of additional water supply in FY 12-13. These funds will have been generated from connection fee revenues and are to be accounted for in the new water supply fund.

It is recommended that projected rate increases be adopted for implementation in January of each year. While the magnitude of these increases may vary based on unforeseen change in costs, demand conditions, or reserve requirements, these values are projected to provide a reasonable estimate of the projected revenue requirements of the City's water fund for the next five years. As discussed with staff, additional review of the cost components and revenue requirements should be made during the annual budget development and review process. Accordingly the level of the required annual rate increases may differ from the rate and revenue projections derived herein based on those annual findings. A discussion of the City's current and proposed rates and rate structure is provided in the following sections.

Section 4: Current Water Rates

Historically, the City's water rates have been among the lowest in the State, as it benefited from a low cost water supply and purposefully minimized non-essential capital and operational expenditures. As previously discussed, upon completing various comprehensive studies of the City's water supplies and overall water system, the City has embarked on a proactive program to assure the long-term reliability and sustained quality of the City's water system.

Given this need, the City began to increase its water rates to fund the City's capital improvement program including the new Nacimiento water supply program. Additional increases are needed to meet the City's current and projected debt obligations.

The City's present water rates and rate structure went into effect on February 1, 2008. It consists of a fixed monthly service charge that is charged per account regardless of meter size, and a water volume charge that is charged uniformly for all water used by the City's customers. The characteristics of the present rate structure are provided in Table 6 and include:

Current Fixed Monthly Account Service Charge. Pursuant to a 2004 ordinance, the City adopted a fixed charge per account to begin to recover additional revenues for the new Nacimiento water supply. The current fixed monthly charge per account is $18.00, regardless of the customer class.

Current Usage Based Rates. The City's current usage based rates (or variable rates) are applied uniformly to all water usage. Uniform rates are commonly used to recover those costs in a water system that vary with volume of water produced. As such, this rate component correlates a customer's costs of service with the quantity of water consumed and therefore a customer's water bill will fluctuate in direct proportion to the variance in water usage. This usage based rate element supports a fundamental pay for use ratemaking philosophy. The City's current water quantity rate is $1.28 per one hundred cubic feet (HCF), as shown in Table 6.

Low and Fixed Income Lifeline Program. The City currently has a low and fixed income lifeline program in place to provide financial assistance for qualifying single family residential accounts. The current lifeline rate provides a 15% discount on the current volume-based commodity or water usage charge. Eligibility in the program is based on a single-family dwelling unit's participation in Pacific Gas & Electric's (PG&E) or Southern California Edison's (SoCalGas) lifeline programs. Currently, there are approximately 250 lifeline accounts served by the City's water utility.

TABLE 6
CURRENT WATER RATES

Meter Size (Inches)	Monthly Service Charges ($)
Monthly Charges (Fixed Nacimiento Charges)	
5/8" and 3/4"	$18.00
1"	$18.00
1 1/2"	$18.00
2"	$18.00
3"	$18.00
4"	$18.00
6"	$18.00
8"	$18.00
12	$18.00
Usage Charges ($/Hundred Cubic Feet - HCF)	
$1.28 per Hcf for all water usage	

Source: City of Paso Robles
Effective: February 1, 2008

Section 5: Proposed Water Rates

Proposed rates are developed to meet the revenue and rate restructuring requirements of the City's water utility. The proposed rate increases are developed as staged adjustments to both the fixed and variable water rates. To minimize ratepayer impact, annual increases are suggested to be implemented in January of each year, as this is a seasonal period when water usage is at its lowest. A discussion of the City's fixed and variable rates, development of the proposed service and usage charges, development of monthly bills, and a comparison of charges with other communities is provided in the following.

5.1 Fixed and Variable Rate Assessment

An important element of the City's rate structure evaluation is a financial assessment of its vulnerability to short-term revenue shortfalls. Depending on the utility's rate structure and water supply situation, short-term revenue shortfalls can occur during periods of drought, economic downturn, or wet or atypical weather conditions that reduce water sales.

Similar to most water utilities, the City's current rate structure includes a fixed and variable rate component. These rates are designed to provide a fixed revenue source based on the City's active accounts and a variable revenue source based on the amount of water used or consumed by the City's customers.

Fixed costs are defined as any costs that generally do not vary within a year if there is a variation in the level of water demand required. For example, City personnel costs should not vary during a one-year period, although it may vary over longer periods to reflect the level of personnel required to support changes in operating conditions. In contrast, variable costs are those costs that vary with the quantity of water used. Because water systems are capital and labor intensive, total system costs for most water systems are generally recognized as approximately 60 to 75% fixed. It is for this reason that most water agencies throughout the United States utilize a fixed and variable component in its water rate structure.

One method to evaluate the financial health or stability of a particular rate structure is to contrast the nature of the utility's costs with the source of its revenues. This assessment, while not intended to be precise, is developed to provide a framework for utility management decisions related to the balance of fixed versus variable revenues and rate stabilization related reserves. These elements are important because if the fixed and variable revenues are improperly balanced, the utility is financially vulnerable and revenue shortfalls may occur. A summary of the fixed and variable rate assessment for FY 11-12 is provided in Table 7. For this cost assessment, FY 11-12 is used as this fiscal year represents the first year of full debt service water system burden. Current revenues are used to demonstrate the current rate structure's effectiveness at recovering fixed costs and generating usage-based revenues.

TABLE 7
FIXED AND VARIABLE COST/REVENUE ASSESSMENT

Description	Cost Allocation Fixed %	Cost Allocation Variable %	Allocation Results Total	Allocation Results Fixed	Allocation Results Variable
System Expenses/Expenditures			**Costs (FY 2011-12)**		
Capital Expenditure	50%	50%	$602,345	$301,172	$301,172
Debt Service	100%	0%	$7,124,589	$7,124,589	
Operation and Maintenance Expenses					
Department Salaries and Benefits	80%	20%	$1,453,000	$1,162,400	$290,600
Maintenance - Utilities	20%	80%	$1,084,200	$216,840	$867,360
Charges from Other Departments	50%	50%	$431,900	$215,950	$215,950
Depreciation	50%	50%	$1,979,595	$989,798	$989,798
Other Material, Services, and Maint. Expenses	50%	50%	$961,500	$480,750	$480,750
Charges to Other Departments	80%	20%	($329,100)	($263,280)	($65,820)
Net New Nacimiento Water Supply Costs	50%	50%	$3,958,714	$1,979,357	$1,979,357
Total Expenses/Expenditures			$17,266,742	$12,207,576	$5,059,167
Allocation of System Costs			100%	71%	29%
			Revenues (FY 2007-08)		
System Revenues			**Total**	**Fixed**	**Variable**
Nacimiento Fixed Revenues (a)			$2,251,152	$2,251,152	
Consumption Based Revenues (a)			$4,231,511		$4,231,511
Total System Rate Based Revenues			$6,482,663		
Percentage of Fixed and Variable Revenues			100%	35%	65%

Notes: FY 11-12 is used for cost assessment as this represents the first year of full debt service burden; current revenues are used to demonstrate the current rate structure's effectiveness at recovering the percentage of fixed costs.
(a) Based on estimates for FY 07-08, Table 5.

Based on the allocation derived in Table 7, approximately 70% of the City's projected water utility costs are shown to be fixed and 30% are derived as variable costs. In contrast, approximately 34% of the current revenues are derived from the fixed Nacimiento account charge and 66% is collected from water usage consumption charges.

The implications of this assessment are twofold. First, the imbalance in the fixed/variable percentages of costs and revenues suggests a strong need to increase (and at a minimum continue) the fixed charge established in 2004. Second, this assessment demonstrates the need for a methodical rate stabilization/economic uncertainty fund reserve policy. This fund reserve is an integral element in managing the City's risk associated with financial shortfalls resulting from a short term reduction in water sales and inadequate fixed revenues. Accordingly, the City should perform a periodic review of the fund reserve and cost recovery effectiveness as an ongoing financial risk management activity of the water fund.

5.2 Development of Proposed Rates

Proposed water rates have been developed to support the financial health of the City's water system over the five year planning period. The charges proposed are based upon an analysis of future system costs and financial obligations. A discussion of the development of proposed monthly service charges and water usage rates is provided in this section of the study.

5.2.1 Development of Proposed Fixed Monthly Service Charge

As discussed extensively in the fixed and variable rate assessment section, fixed rates are an important component of a utility's water rates and are commonly used throughout the United States. Since the City's current $18 per account charge is its only substantial source of fixed revenue, it is recommended this charge be maintained in the City's schedule of rates and charges.

One important enhancement to the City's current fixed rate is the recommendation to convert this fixed monthly service charge from an account basis to a meter size basis. Since much of the water system's costs such as meter replacement/repair, fire protection, and the investment in system services and capacity are related to the size of the meter, it is recommended that the City's fixed monthly charge utilize meter size in its rate structure. Applying this approach will increase the monthly fixed charge for the larger meters in a manner commensurate with their potential use of the system, recover a designated portion of the utility's fixed costs and provide additional overall revenue stability.

The indexing that is recommended for this rate element is the equivalent meter service ratios developed by the American Water Works Association, Manual M1. Adoption of the monthly service charge based on these AWWA meter ratios will improve the equity in the City's rate structure and align the new fixed rates with the general purpose of this rate component; to support the recovery of the utility's fixed monthly (readiness-to-serve) costs. The documentation of these ratios and an estimate of the implications on annual revenues are provided as a supporting table in Appendix A.

5.2.2 Development of Proposed Usage Charge

Consistent with the revenue requirements derived in Table 6, usage charges are developed to bill customers for their metered water usage. The City currently charges $1.28 per HCF for all water used regardless of the type of customer or the amount of water used in any particular billing cycle. Charging for water on this consistent basis is referred to as a uniform block rate structure. Approximately 40 percent of all agencies in California utilize this billing method because it provides basic support for water conservation as a pay for what you use structure, is simple to understand, generally fosters public acceptance, and provides relatively predictable revenues. Continuation of a uniform rate structure to bill for a customer's water usage is the basic method proposed for the City at this time.

To meet the financial obligations of the utility, a series of several rate increases are needed. The proposed rates for the five year planning period are shown in Table 8. Implementation of these rates as reflected in the financial plan (Table 6) should fund the construction of the critically important water treatment plant, meet the anticipated debt covenants for the water fund debt, provide the necessary funds for ongoing system management and operation and return the water fund to a desired level of financial performance.

As previously noted, the City currently offers a low and fixed income lifeline program to qualifying single family customers in the City. While this program is consistent with the goals and objectives of many communities and public agencies, recent California legislation has made these types of community programs difficult to continue. Accordingly, it is recommended the City discontinue its current lifeline program and consider an alternative approach to providing financial support to its single family ratepayers.

An alternative to a focused lifeline program which requires no administrative effort is to implement a new inclining block rate structure that will provide water for the entire single family customer class at a reduced rate to meet basic health and sanitation needs. Base level sanitation needs are defined as the minimum amount of water required to provide for basic health requirements. This value is estimated on a per capita basis and typically ranges from 40 to 50 gallons per day (gpd) per person.

Given the City's population, household, and usage information, these values translate to approximately 4 to 5 HCF per dwelling unit per month. Based on this finding and discussions with City staff, it is recommended a base level usage block be implemented. Since this block is designed to reflect minimum/base level usage, the revenue derived from this block will be very consistent and for all practical purposes, can be considered as additional fixed revenues. Increasing the fixed revenues in this manner is consistent with other City pay-for-use goals and provides additional financial security for the water fund.

The proposed rate structure is based on providing the first 5 HCF per month at a unit rate equal to 85% of the price of the uniform rate. Utilizing this approach appears to enable the City to continue and broaden its community support goals and establish a mechanism to account for a portion of the City's water sales as a fixed revenue source. The proposed single family block rate structure is also shown in Table 8.

TABLE 8
PROPOSED WATER RATES

	Current Rates	Projected				
		FY 2008-09	FY 2009-10	FY 2010-11	FY 2011-12	FY 2012-13
Meter Size (inches)	**Current**	**Proposed Monthly Service Charges**				
5/8" and 3/4"	$18.00	$18.00	$19.98	$22.48	$24.95	$24.95
1"	$18.00	$25.20	$27.97	$31.47	$34.93	$34.93
1 1/2"	$18.00	$32.40	$35.96	$40.46	$44.91	$44.91
2"	$18.00	$52.20	$57.94	$65.18	$72.36	$72.36
3"	$18.00	$198.00	$219.78	$247.25	$274.45	$274.45
4"	$18.00	$252.00	$279.72	$314.69	$349.30	$349.30
6"	$18.00	$378.00	$419.58	$472.03	$523.95	$523.95
8"	$18.00	$522.00	$579.42	$651.85	$723.55	$723.55
		Proposed Usage Charges				
Volume Rate	$/HCF	$/HCF	$/HCF	$/HCF	$/HCF	$/HCF
All Customers Except Single Family						
All Usage	$1.28	$2.56	$4.22	$4.86	$5.00	$5.15
Single Family	$/HCF	$/HCF	$/HCF	$/HCF	$/HCF	$/HCF
0-5 HCF	$1.28	$2.18	$3.59	$4.13	$4.25	$4.38
Over 5 HCF	$1.28	$2.56	$4.22	$4.86	$5.00	$5.15

5.3 Comparison of Monthly Bills

Typical customer bills are often developed to evaluate the impact of a water rate schedule on a utility's customers. Current typical bills are derived by correlating the current schedule of charges shown in Table 7 with the average or typical consumption values for various customer types. Similarly, typical bills are calculated by applying the proposed increase to both the monthly service charge and the usage charge components of the water rate schedule. Table 9 reflects the resulting impacts of the proposed rate increases over the five year planning period.

As shown, the calculated typical bills reflect a steady climb in ratepayer impact as the proposed rate increases are implemented to recover the City's water system costs of service. With the conversion to a fixed monthly charge based on meter size, the customers with the large water meters will experience a higher percentage increase in their water bills in the first year after the proposed rate plan is adopted. Since the percentage increase in the monthly service charge and usage charge are not proposed to be the same, some fluctuation in account level impact will continue among the City's large and small water users over the next few years.

Given the projected level of ratepayer impact, the City should expect additional water usage awareness, experience a reduction in overall water demand, and incur an increase in customer requests for a water audit and/or capacity review in an effort to downsize reduce water usage or downsize to a smaller water meter. The City has budgeted for additional customer service programs and support to assist customers in their water conservation efforts over the next several years. These program costs and reduced water usage estimates have been integrated in the City's Water Rate Study.

5.4 Comparison of Monthly Bills with Other Communities

In addition to the development of typical bills for City customers, Table 10 provides a comparison of the City's current and proposed FY 08-09 monthly single-family bill with other local communities in San Luis Obispo County. The comparison is based on a monthly water usage of 30 HCF.

As shown, there is a wide range of charges among the surveyed communities, with the City's current bill in the lower range of costs and the estimated bill under the proposed rates at the mid-range of the agency comparison. It is interesting to note that even with the increase proposed for FY 08-09, a Single Family Resident customer using 30 HCF per month in the City will still pay $45 to $100 per month less than the upper range water purveyors in the County.

In addition to this finding, it should be noted that rate surveys often do not provide the full picture of the utility's position. For example, some of the agencies may have additional increases that are in process or being proposed, may have varying water supply program cost, quality, and reliability issues or objectives, and certainly there is often a wide range of variance in local level of service, capital reinvestment, and preventive maintenance considerations. Given the current condition and direction of the City's water utility and water resource requirements in the County, it appears the City's water rates are in line with other local communities.

TABLE 9
PROPOSED WATER RATES AND TYPICAL BILLS

	Current Rates	Projected FY 2008-09	FY 2009-10	FY 2010-11	FY 2011-12	FY 2012-13
Meter Size (inches)	**Current**	**Proposed Monthly Service Charges**				
5/8" and 3/4"	$18.00	$18.00	$19.98	$22.48	$24.95	$24.95
		Proposed Usage Charges				
Volume Rate	$/HCF	$/HCF	$/HCF	$/HCF	$/HCF	$/HCF
All Customers Except Single Family						
All Usage (a)	$1.28	$2.56	$4.22	$4.86	$5.00	$5.15
Single Family (a)	$/HCF	$/HCF	$/HCF	$/HCF	$/HCF	$/HCF
0-5 HCF	$1.28	$2.18	$3.59	$4.13	$4.25	$4.38
Over 5 HCF	$1.28	$2.56	$4.22	$4.86	$5.00	$5.15
Meter Size (inches)	**Current**	**Typical Monthly Bills**				
Single Family						
Low User - 5/mo	$24.40	$28.88	$37.93	$43.12	$46.21	$46.85
Medium User - 18/mo	$41.04	$62.16	$92.84	$106.27	$111.26	$113.85
High User - 45/mo	$75.60	$131.28	$206.89	$237.43	$246.35	$252.99
Commercial						
Low User - 15/mo	$37.20	$56.40	$83.34	$95.34	$100.00	$102.25
Medium User - 30/mo	$56.40	$94.80	$146.70	$168.21	$175.05	$179.55
High User - 60/mo	$94.80	$171.60	$273.42	$313.93	$325.15	$334.16

Note: All typical bills are based on one 3 /4 inch meter and the low, medium, and high usage/month indicated (in HCF).
(a) The "All Usage" rate is for all customer usage except for Single Family. Single Family block rate is as shown.

TABLE 10
COMPARISON OF MONTHLY WATER BILLS
SINGLE FAMILY RESIDENTIAL

Community	Monthly Meter Fixed Rate	Water Usage/ Quantity Rate	Water Usage (HCF)	Calculated Monthly Bill
Cambria CSD (a)	$12.15	$6.17 to $8.02	30	$194.38
City of Morro Bay (a)	$16.43	$1.39 to $12.62	30	$179.93
City of San Luis Obispo (b)	$0.00	$3.71 to $5.81	30	$140.40
Oceano CSD	$11.97	$1.14 to $4.09	30	$119.52
City of Paso Robles - Proposed	**$18.00**	**$2.56**	**30**	**$92.88**
Nipoma CSD (c)	$16.98	$1.81 to $3.14	30	$84.53
City of Pismo Beach	$13.97	$1.78 to $2.31	30	$80.09
City of Grover Beach	$6.75	$1.82 to $2.20	30	$64.45
City of Paso Robles - Current	**$18.00**	**$1.28**	**30**	**$56.40**
Atascadera Mutual Water Co. (d)	$14.50	$1.122 to $2.543	30	$55.63
City of Arroyo Grande	$5.25	$1.16 to $1.77	30	$42.39
Templeton CSD	$12.19	$1.17 to $2.62	30	$35.29
Agency Average (Excluding City of Paso Robles)				**$95.49**

Source Documentation:
Basis: 5/8 &/or 3/4-inch meter
(a) Monthly fixed charge includes 3 HCF.
(b) Current SFR rate is a three tiered rate structure, with no fixed service charge; a 5% utility user tax is also applied to the water portion of the bill (not included in this comparison).
(c) Average of Town and Blacklake Division rates
(d) Monthly fixed charge includes 2,000 gallons (2.67 HCF); Quantity rates shown are per HCF

5.5 Future Rate Review and Restructuring Considerations

In addition to the rate-related adjustments provided herein, the City should plan for the methodical review of system costs, water demands, and utility rates. Much of this work can be incorporated as an element of the annual budget process as additional information is being developed and evaluated.

One area that the City may want to consider as part of a focused rate and rate structure review is the development of a more comprehensive inclining block rate structure for all City customer classes. As previously mentioned, due to the magnitude of the rate increases necessary to meet the near-term water fund financial obligations, a conservation focused block rate structure for the City's customers is not recommended at this time. However, a new block rate structure may be appropriate as the new water supply program becomes integrated into the City's daily operation. A broader inclining block rate structure would enhance the City's support for resource management and sustainability through additional water conservation participation by all City water customers.

Proceeding in this direction, rates could be restructured through the development of pricing strategies that will increase usage awareness and influence customer behavior. This expanded conservation-based rate structure could support the City's water conservation goals while conforming to the City's water system revenue requirements and better align the City's rates and rate structure with California's Best Management Practices for Water Conservation.

Should the City pursue this rate restructuring direction, a partial listing of cornerstone elements that should be in place prior to undertaking this program include: predictable water supply costs/water sales, dedicated City water conservation support staff, documented water conservation, landscape, and drought contingency guidelines, and applicable municipal code provisions. The City may also want to consider an interruptible water rate for dedicated exterior water uses and potential customer class modification/consolidation as other elements of the rate restructuring and cost of service evaluation.

Appendix A

Miscellaneous Supporting Information

State of California | Department of Water Resources | The Resources Agency

PUBLIC WATER SYSTEM STATISTICS

Calendar Year 2007

Paso Robles, City of
Kelly Dunham, Interim Water Supervisor
1230 Paso Robles St.
Paso Robles, Ca. 93446
PWS# 4010007 SD

1. General Information

Please follow the provided instructions.

Contact : Kelly Dunham
Title: Interim Water Supervisor
Phone: 805-237-3866
Fax: 805-2376596
E-mail: kdunham@prcity.com
Website: www.prcity.com
County: **San Luis Obispo**
Population served: **29500**
Names of communities served: City of Paso Robles

2. Active Service Connections

Customer Class	Potable Water		Recycled Water	
	Metered	Unmetered	Metered	Unmetered
Single Family Residential	8788			
Multi-family Residential	399			
Commercial/Institutional	759			
Industrial	68			
Landscape Irrigation	357			
Other	51			
Agricultural Irrigation				
TOTAL	10422			

3. Total Water Into the System - Units of production:

☐ acre-feet ☑ million gallons ☐ hundred cubic feet

		Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Total
Potable	*Wells*	128.272	100.8322	157.6083	217.255	280.4382	305.8952	336.9941	317.952	275.135	222.0009	175.3551	130.2617	2648
	Surface													
	Purchased 1/													
	Total Potable	128.272	100.8322	157.6083	217.255	280.4382	305.8952	336.9941	317.952	275.135	222.0009	175.3551	130.2617	2648
Untreated Water														
Recycled 2/														

1/ Potable wholesale supplier(s):

2/ Recycled wholesale supplier(s):
Level of treatment:

4. Metered Water Deliveries - Units of delivery:

☐ acre-feet ☐ million gallons ☑ hundred cubic feet

If recycled is included, ✓box ↓	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Total
A.SingleFamilyResidential ☐	142544	78464	106318	146546	181300	252693	239696	228192	248909	140733	129690	101274	1996359
B.Multi-family Residential ☐	19086	18090	20378	24860	25534	34503	31564	30760	36098	21914	23558	20769	307114
C.Commercial/Institutional ☐	41093	16567	21701	31315	40660	58551	53612	49062	55213	32605	30674	25377	456430
D.Industrial ☐	5068	5032	9959	5687	5649	7533	6297	6143	7717	4998	4385	4620	73088
E.Landscape Irrigation ☐	17677	5854	12160	33091	42348	56755	55538	45010	58086	32133	25012	14413	398077
F.Other ☐	4923	2709	5966	5839	20620	3200	2102	1269	9704	6310	9024	3134	74800
Total Urban Retail (A thru F)	230391	126716	176482	247338	316111	413235	388809	360436	415727	238693	222343	169587	3305868
Agricultural Irrigation ☐													
Wholesale(*to other agencies*) ☐													

APPENDIX A - WATER FUND EXPENSE BUDGET DETAILS

	PUBLIC WORKS	**Water Production & Distribution**		
	Department No. 310	**Division No. 165**		
	Funding Source:	**Fund 600 - Water Operations Fund**		
		Current Budget FY 2006-07	**Adopted Budget FY 2007-08**	**Adopted Budget FY 2008-09**
	EMPLOYEE SERVICES			
	Total Employee Services	**807,900**	**929,800**	**1,311,600**
	MAINTENANCE & OPERATIONS			
5212	Materials & Services	234,600	234,600	234,600
5216	Utilities	940,000	940,000	940,000
5221	Facility Maintenance	71,500	165,500	105,500
5222	Equipment Maintenance	4,000	4,000	4,000
5223	Vehicle Maintenance	40,400	42,600	44,700
5224	Professional Services	65,400	115,000	55,000
5225	Legal Services	38,000	43,700	43,700
5226	Education, Travel & Meetings	8,700	8,700	8,700
5229	Depreciation	833,600	845,000	848,000
5236	Franchise Fees	-	-	-
5235	Special Projects	15,000	109,600	117,100
5238	Charges from Other Departments	297,200	184,800	249,500
	Other M&O Expenses	477,600	723,700	613,300
	Total Maintenance & Operations	**2,548,400**	**2,693,500**	**2,650,800**
	CAPITAL OUTLAY			
5451	Buildings		100,000	
5454/5	Equipment	19,000	104,500	61,900
	Total Capital Outlay	**19,000**	**204,500**	**61,900**
	DIVISION SUBTOTAL	**3,375,300**	**3,827,800**	**4,024,300**
	PUBLIC WORKS	**Utility Billing/Cashiering**		
	Department No. 140	**Division NO. 127**		
	Funding Source:	**Fund 600 - Water Operations**		
	EMPLOYEE SERVICES			
	Total Employee Services	**288,000**	**283,400**	**309,300**
	MAINTENANCE & OPERATIONS			
5212	Materials & Services	51,700	105,700	103,600
5216	Utilities	1,300	1,300	1,300
5221	Facility Maintenance			
5222	Equipment Maintenance	300	300	300
5223	Vehicle Maintenance			
5224	Professional Services	136,300	114,800	108,300
5225	Legal Services			
5226	Education, Travel & Meetings	12,700	7,500	7,500
5229	Equipment Replacement	9,600	1,700	1,700
5230	Insurance Prop./Liability			
5235	Special Projects		30,000	
5238	Charges from Other Departments	32,800	23,400	23,100
	Other M&O Expenses	210,600	260,000	221,400
	Total Maintenance & Operations	**244,700**	**284,700**	**245,800**
	CAPITAL OUTLAY			
5454/5	Equipment	14,000	22,800	-
	Total Capital Outlay	**14,000**	**22,800**	**-**
	DIVISION SUBTOTAL	**546,700**	**590,900**	**555,100**
5239	Charges to Other Departments	(174,400)	(329,200)	(310,200)
	DIVISION TOTAL	**3,747,600**	**4,089,500**	**4,269,200**

Source: City of Paso Robles Finance Department

DATE: June 24, 2008

TO: Roger Null, Kennedy Jenks Consultants

FROM: Christine Halley, TJCross Engineers

cc: Doug Monn

SUBJECT: **2008 Water Rate Study**
Revised Draft Projected Water Supply Plan and 10-Year CIP

A fundamental component of the City of Paso Robles' water rate study is a forecast of capital expenditures accompanied by a water supply plan outlining the manner in which the City plans to meet increasing community water needs. I am writing to summarize City plans along both veins.

10-Year Capital Improvement Plan

The City provided financial reports for water operations in recent years such that you have a good idea of actual expenditures – both operational and capital. The City also adopted a 10-year Capital Improvement Program (CIP) for water, wastewater, and other City services as part of the Integrated Water Resources Plan dated February 2007. Attached is the updated water utility CIP dated June 2008.

Under the Nacimiento Water Project category, it is noted that both Paso Robles' share in the regional project and the proposed water treatment plant are to be debt-financed. I understand that you captured the bond payments elsewhere and I have not repeated those figures here. Operations and maintenance costs were approached in a similar manner.

After dialogue with the San Luis Obispo County Flood Control & Water Conservation District staff, additional buy-in of Nacimiento water in addition to the City's current 4,000 AFY entitlement is estimated at $15,000/acre-foot. The City's Urban Water Management Plan and Potable Water System Master Plan point to the need for an additional 4,000 AFY supply to meet General Plan build-out needs. Thus, a $60 million placeholder is listed under the Nacimiento Water Project category representing that forecasted water supply cost.

Next listed are Well Improvements. The $4.7 million Ronconi filtration system cost is an estimate at this time and makes up a portion of the $14.2 million capital needs forecasted over the coming decade.

I verified projected costs for tanks and booster stations with both the City capital projects engineer and Boyle Engineering Corp. You will see a line item scheduled for FY 10/11 to convert to remote-read water meters. I spoke to Doug Monn briefly about this and understood that a $4 million '08 estimate applies.

The City Engineer guided me on the waterline list, particularly in assigning priorities. He also provided the "Percent Allocated to New Development" figures for all entries. For example, water

rates must generate 50% of the revenues needed to fund the well improvements with the balance coming from new connection fees.

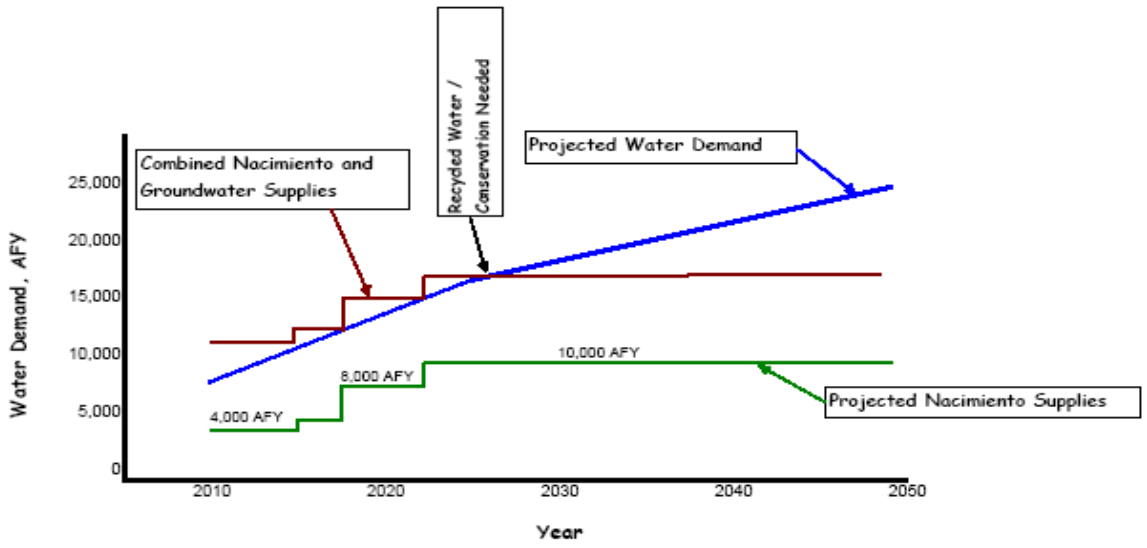
Staffing Plan

The staffing plan was submitted on March 31, 2008, and later reconciled to City budget projections.

Water Supply Plan

City water supplies are 100% well water now, pumping from both the Salinas River underflow and the Paso Robles Groundwater Basin. When Nacimiento deliveries begin in 2010, the City will operate such that the full 4,000 AFY of Nacimiento entitlement will be utilized. River wells will supplement Nacimiento deliveries such that the City pumps its full allocation and groundwater wells will make up any remaining difference.

A simplified graphic of anticipated demand vs. supply is:



Paso Robles - Conceptual Water Supply Needs

Notes:
Based on Paso Robles successful in securing +6,000 AFY of Reserve Water from Nacimiento Water Project.
Estimated 7,500 AFY yield available from groundwater.
Projected water demand illustrated without offset from successful conservation or recycled water program.

PlantCapacityAnalysisRev01.xls

Sept 11, 2007
C. Halley

You will see that over the next 10 years that the initial 4,000 AFY of Nacimiento deliveries, increasing to as much as 8,000 AFY for new development, in addition to groundwater will be needed to meet demand.

Costs to Secure Additional Nacimiento Entitlement

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.

Updated estimates of buy-in costs from the Flood Control District are such that to double the City's entitlement to a total of 8,000 AFY, costs may be on the order of an additional $60 million in capital. This is shown on the attached CIP table. The approach used in HF&H's Water Capacity Charge analysis is to calculate a portion of the charge to purchase of additional water supply, and to build reserves designated for such purchase.

Regarding the cost to provide additional capacity at the water treatment plant, if the plant were operated to take additional entitlement during the peak Summer months, the treatment plant process would require a capacity increase as well as construction of the second planned treated water storage tank and increased pumping capacity at the treated water pump station. As previously discussed, the plant expansion may not be needed concurrent with the purchase of additional entitlement, thus the expansion costs are not included in the 10-year rate study planning window.

Closing

There are voluminous documents that provide backup for estimated yield from wells, forecasted demand, and other water supply aspects. Please let me know the level of detail that you seek from Paso Robles and I would be happy to embellish this summary.

APPENDIX A - PROPOSED CAPITAL IMPROVEMENT PROGRAM (C.I.P.) BUDGET

Water Utility

FY 2007-08 to 2017-18

Inflationary adjustment = *5.50%* *per year*

	Project[1]	Group[1]	FY 2007-08	FY 2008-09 (1)	FY 2009-10 (2)	FY 2010-11 (3)	FY 2011-12 (4)	FY 2012-13 (5)	FY 2013-14 (6)	FY 2014-15 (7)	FY 2015-16 (8)	FY 2016-17 (9)	FY 2017-18 (10)	TOTAL PROJECT COST[2]	COMMENT
Water Projects:															
Nacimiento Water Project															
3	Design and construct Nacimiento Water Treatment Plant, 6 MGD membrane filtration plant, located at Thunderbird well field ***Planned to be financed***	WS		$3,789,830	$19,000,000	$11,400,000	$7,600,000							$41,789,830	Paso's planned water treatment plant is projected to be debt financed; but reflected here as a capital project
	Forecasted purchase of additional Nacimiento entitlement:														
4	Secure +4,000 AFY Nacimiento entitlement	WS			$60,000,000									$60,000,000	Est. $15 million per 1,000 AFY buy-in; timing of purchase to pace with development
5	Defer expansion of treatment plant and treated water pump station	WS										$0		$0	
Subtotal Nacimiento Water Project =			**$0**	**$3,789,830**	**$79,000,000**	**$11,400,000**	**$7,600,000**	**$0**	**$0**	**$0**	**$0**	**$0**	**$0**	**$101,789,830**	
Well Improvements															
6	New Sherwood Well #11 installation	WS	$500,000											$500,000	Confirm source of estimate
7	Sherwood Well arsenic treatment system (2 at $1 million each)	WS	$2,096,241											$2,096,241	Get actual cost data
8	Ronconi filtration relocation	WS		$4,747,500										$4,747,500	Estimate based on initial vendor quotes
9	Osborne Well #14 rehabilitation	WS												$0	Included in annual budget stated below
10	Sherwood Well #19 rehabilitation	WS												$0	Included in annual budget stated below
11	Annual well rehabilitation	WS	$200,000	$211,000	$222,605	$234,848	$247,765	$261,392	$275,769	$290,936	$306,937	$323,819	$341,629	$2,916,700	Annual budget - compare to historic
12	New well drilling program (Olsen Beechwood, Charolais, and underflow wells)	WS			$1,113,025			$1,306,960			$1,534,687			$3,954,672	Revised 3/12/08 per D Monn edits
Subtotal Well Improvements =			**$2,796,241**	**$4,958,500**	**$1,335,630**	**$234,848**	**$247,765**	**$1,568,352**	**$275,769**	**$290,936**	**$1,841,624**	**$323,819**	**$341,629**	**$14,215,113**	
Tank, Booster Station and Metering Projects															
13	FE7 - 21st Street Reservoir construction	W	$2,410,940	$2,543,541	$5,366,872									$10,321,353	Nov 05 Prelim Eng Design Report by Boyle. Latest opinion available as of 2/08.
14	Acquire water tank site (Vina Robles, Chandler, S. Vine or other)	W			$1,669,538									$1,669,538	Estimate to acquire single tank site, 1+ acre with access road.
15	Water Tanks - regular program of coating repairs	W	$20,000	$21,100	$22,261	$23,485	$24,776	$26,139	$27,577	$29,094	$30,694	$32,382	$34,163	$291,670	Annual budget - compare to historic
16	W16 - install fire pump at Highland Park Booster Station along with 8" waterline	W		$253,221										$253,221	CA concurs with estimate 2/08
17	Transfer to remote read meter system	W				$4,696,966								$4,696,966	Activity in planning through Finance Dept.
	Software and integration	W				$2,935,603								$2,935,603	Shared costs w/ exist and new development
	Meters	W				$1,761,362								$1,761,362	To be charged to existing customers
18	Water Meters - ongoing meter replacement program of the proposed meter reading devices	W										$161,909	$170,814	$332,724	
Subtotal Tank and Booster Station Projects =			**$2,430,940**	**$2,817,862**	**$7,058,670**	**$4,720,450**	**$24,776**	**$26,139**	**$27,577**	**$29,094**	**$30,694**	**$194,291**	**$204,977**	**$17,565,471**	

Revised July 29, 2008

	Project[1]	Group[1]	FY 2007-08	FY 2008-09	FY 2009-10	FY 2010-11	FY 2011-12	FY 2012-13	FY 2013-14	FY 2014-15	FY 2015-16	FY 2016-17	FY 2017-18	TOTAL PROJECT COST[2]	COMMENT
Pipeline Improvements														$0	
19	W14 - 8" waterline in Highland Park Zone from West 12th St to 17th St	W	$343,784											$343,784	x
20	E4 - 12" waterline in Miller Ct from Lombardo Ct to end of cul-de-sac	W									$202,676			$202,676	x
21	W13 - 8" waterline in 15th St from Terrace Hill Dr to Hillcrest Dr	W		$90,673										$90,673	x
22	W17 - 12" waterline in Nacimiento Lake Dr and Fairview Ave	W			$480,633									$480,633	x
23	W4 - 10" waterline in 36th St from Spring St to WWTP	W				$444,300								$444,300	x
24	W5 - 8" waterline in 22nd St from Oak St to Spring St	W			$76,995									$76,995	x
25	W6 - 10" waterline in 22nd St from Olive St to Oak St	W				$161,228								$161,228	x
26	W10 - 8" waterline in Olive St from 19th St to 23rd St	W					$329,803							$329,803	x
27	W7 - 10" waterline in 24th St and Riverside Ave	W						$412,325						$412,325	x
28	W8 - 8" waterline in Oak St from 4th St to 7th St; and on 5th and 6th Sts Oak to Spring	W						$410,956						$410,956	x
29	W9 - 8" waterline in 2nd St from Vine St to Orcutt Rd	W							$307,826					$307,826	x
30	W1 - 12" waterline in Spring St from 24th St to 36th St	W								$1,846,387				$1,846,387	x
31	W2 - 8" waterline in Oak St from 30th to 32nd St	W									$398,917			$398,917	x
32	W18 - 14" waterline in Pine St, 23rd St, and Spring St	W										$1,216,753		$1,216,753	x
33	FE6 - 16" waterline in Linne Rd from Airport Rd to Tract 2526	W											$1,342,756	$1,342,756	x
Subtotal Pipeline Improvements =			**$343,784**	**$90,673**	**$557,627**	**$605,527**	**$329,803**	**$823,281**	**$307,826**	**$1,846,387**	**$601,593**	**$1,216,753**	**$1,342,756**	**$8,066,011**	
	Totals =		**$5,570,965**	**$11,656,865**	**$87,951,928**	**$16,960,826**	**$8,202,345**	**$2,417,772**	**$611,172**	**$2,166,416**	**$2,473,910**	**$1,734,864**	**$1,889,362**	**$141,636,425**	

[1] W = Water; WS = Water Supply Component'

[2] Total Project Costs have both been adjusted to current dollars using ENR 20 Cities Construction Cost Indexes and adjusted for inflation at the rate shown.

APPENDIX A - EXISTING DEBT SERVICE SCHEDULE

NET DEBT SERVICE
SLO County Financing Authority
City of El Paso de Robles
Series 2007 A Revenue Boards
(Nacimiento Water Project)
Insured Market Conditions as of 9/10/2007
TAX-EXEMPT
FINAL PRICING

Date	Total Debt Service	General Fund	Capitalized Interest Through 9/1/2010	Debt Service Reserve Fund	Net Debt Service
3/1/2008	1,451,521.18		1,451,521.18		0.00
9/1/2008	1,685,637.50		1,685,637.50		0.00
3/1/2009	1,685,637.50		1,685,637.50		0.00
9/1/2009	1,685,637.50		1,685,637.50		0.00
3/1/2010	1,685,637.50		1,685,637.50		0.00
9/1/2010	1,685,637.50		1,685,637.50		0.00
3/1/2011	1,685,637.50			97,642.94	1,587,994.56
9/1/2011	2,755,637.50			97,642.94	2,657,994.56
3/1/2012	1,664,237.50			97,642.94	1,566,594.56
9/1/2012	2,779,237.50			97,642.94	2,681,594.56
3/1/2013	1,641,937.50			97,642.94	1,544,294.56
9/1/2013	2,801,937.50			97,642.94	2,704,294.56
3/1/2014	1,620,187.50			97,642.94	1,522,544.56
9/1/2014	2,825,187.50			97,642.94	2,727,544.56
3/1/2015	1,596,087.50			97,642.94	1,498,444.56
9/1/2015	2,851,087.50			97,642.94	2,753,444.56
3/1/2016	1,570,987.50			97,642.94	1,473,344.56
9/1/2016	2,885,987.50			97,642.94	2,788,344.56
3/1/2017	1,538,112.50			97,642.94	1,440,469.56
9/1/2017	2,918,112.50			97,642.94	2,820,469.56
3/1/2018	1,503,612.50			97,642.94	1,405,969.56
9/1/2018	2,953,612.50			97,642.94	2,855,969.56
3/1/2019	1,467,362.50			97,642.94	1,369,719.56
9/1/2019	2,992,362.50			97,642.94	2,894,719.56
3/1/2020	1,429,237.50			97,642.94	1,331,594.56
9/1/2020	3,034,237.50			97,642.94	2,936,594.56
3/1/2021	1,389,112.50			97,642.94	1,291,469.56
9/1/2021	3,074,112.50			97,642.94	2,976,469.56
3/1/2022	1,346,987.50			97,642.94	1,249,344.56
9/1/2022	3,121,987.50			97,642.94	3,024,344.56
3/1/2023	1,302,612.50			97,642.94	1,204,969.56
9/1/2023	3,162,612.50			97,642.94	3,064,969.56
3/1/2024	1,256,112.50			97,642.94	1,158,469.56
9/1/2024	3,216,112.50			97,642.94	3,118,469.56
3/1/2025	1,207,112.50			97,642.94	1,109,469.56
9/1/2025	3,262,112.50			97,642.94	3,164,469.56

APPENDIX A - EXISTING DEBT SERVICE SCHEDULE

NET DEBT SERVICE
SLO County Financing Authority
City of El Paso de Robles
Series 2007 A Revenue Boards
(Nacimiento Water Project)
Insured Market Conditions as of 9/10/2007
TAX-EXEMPT
FINAL PRICING

Date	Total Debt Service	General Fund	Capitalized Interest Through 9/1/2010	Debt Service Reserve Fund	Net Debt Service
3/1/2026	1,155,737.50			97,642.94	1,058,094.56
9/1/2026	3,315,737.50			97,642.94	3,218,094.56
3/1/2027	1,101,737.50			97,642.94	1,004,094.56
9/1/2027	3,376,737.50			97,642.94	3,279,094.56
3/1/2028	1,044,862.50			97,642.94	947,219.56
9/1/2028	3,434,862.50			97,642.94	3,337,219.56
3/1/2029	985,112.50			97,642.94	887,469.56
9/1/2029	3,495,112.50			97,642.94	3,397,469.56
3/1/2030	922,362.50			97,642.94	824,719.56
9/1/2030	3,562,362.50			97,642.94	3,464,719.56
3/1/2031	856,362.50			97,642.94	758,719.56
9/1/2031	3,631,362.50			97,642.94	3,533,719.56
3/1/2032	786,987.50			97,642.94	689,344.56
9/1/2032	3,706,987.50			97,642.94	3,609,344.56
3/1/2033	713,987.50			97,642.94	616,344.56
9/1/2033	3,783,987.50			97,642.94	3,686,344.56
3/1/2034	637,237.50			97,642.94	539,594.56
9/1/2034	3,867,237.50			97,642.94	3,769,594.56
3/1/2035	556,487.50			97,642.94	458,844.56
9/1/2035	3,951,487.50			97,642.94	3,853,844.56
3/1/2036	471,612.50			97,642.94	373,969.56
9/1/2036	4,036,612.50			97,642.94	3,938,969.56
3/1/2037	382,487.50			97,642.94	284,844.56
9/1/2037	4,127,487.50			97,642.94	4,029,844.56
3/1/2038	288,862.50			97,642.94	191,219.56
9/1/2038	4,233,862.50			97,642.94	4,136,219.56
3/1/2039	190,237.50			97,642.94	92,594.56
9/1/2039	4,325,237.50			97,642.94	4,227,594.56
3/1/2040	97,200.00	-442.94		97,642.94	0.00
9/1/2040	4,417,200.00	442.94		4,521,722.94	-104,965.88
	144,190,933.68	0.00	9,879,708.68	10,282,656.40	124,028,568.60

APPENDIX A - PROPOSED WATER CONNECTION FEES

		Proposed Charge as of:		
Meter Size	**Current 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

Source: HF&H Water Capacity Charge Study, 8/2008

Note: Fees are phased in over the three year period shown and adjusted in accordance with published construction cost indices thereafter.

APPENDIX A - MONTHLY FIXED METER CHARGE RATIO ASSESSMENT

Meter Size (Inches)	Number of Meters	Meter Service Ratios (a)	Number of Equivalent Meters	Resulting Service Charges	Service Charge Revenue
5/8 & 3/4	9,461	1.0	9,461	$18	$2,043,576
1	527	1.4	738	$25	$159,365
1.5	151	1.8	272	$32	$58,709
2	233	2.9	676	$52	$145,951
3	25	11.0	275	$198	$59,400
4	21	14.0	294	$252	$63,504
6	1	21.0	21	$378	$4,536
8	3	29.0	87	$522	$18,792
Totals	10,422		11,823		$2,553,833
			Revenues Derived From Current $18/Account Charge		**$2,251,152**
			Additional Revenues from Equivalent Meter Charge Approach		**$302,681**

(a) Source: American Water Works Association (AWWA) Manual M1

ORDINANCE NO. XXX N.S.

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

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

WHEREAS, current water rates and water capacity charges generate revenues to provide drinking water to residents and businesses from ground water with an allowance for a portion of initial Nacimiento Water Project expenditures; and

WHEREAS, the existing water rates were set before the costs of the Nacimiento Water Project were fully known; and

WHEREAS, the water to be provided by the Nacimiento Water Project and the associated improvements to the City water system are necessary to improve quality and supplement the limited ground water supply especially during peak summertime demand periods, and also to provide adequate distribution, treatment, and water storage capacity; and

WHEREAS, the Nacimiento Water Project infrastructure is designed to have the capacity to serve both existing City water customers as well as those resulting from new development; and

WHEREAS, the City hired the firm of Kennedy/Jenks Consultants to undertake a comprehensive review of the City's water rate revenues and costs of water operations (the "Water Rate Study") ; and

WHEREAS, the Water Rate Study recommends that the costs of capital improvements and water utility operating expenses be paid for with a combination of (i) water rates that are charged to existing customers and (ii) water connection fees/capacity charges that are charged for new development; and

WHEREAS, the City Council believes a combination of a fixed and variable rate structure is the most equitable method of helping pay for a reliable, well-maintained, infrastructure system and reliable water source; and

WHEREAS, the City Council, on July 1, 2008, authorized staff to mail the notices required by Proposition 218 to all property owners and water customers and on August 19, 2008, set September 2, 2008, as the date for a public hearing on the proposed adoption of new water rates; and

WHEREAS, notices were mailed to all property owners and water customers on July 2, 2008; and

WHEREAS, at the public hearing on September 2, 2008, the Deputy City Clerk attested that

written protests by the owners of a majority of the affected properties had not been presented; and

WHEREAS, the staff report and the Water Rate Study, and other public and written testimony presented at the public hearing are incorporated herein by reference;

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

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

"C. FEES—WATER USAGE RATES. The monthly rates to be charged and collected for all water consumption including bulk water delivery, or fire hydrant usage from every person, school, firm, or corporation shall be charged at rates established by ordinance of the City Council and adopted in accordance with the procedures required by law.

Effective January 1, 2009, the rate for water users shall be a combination of a fixed rate, based on meter size, and a variable rate, based on consumption. The fixed and variable rate components shall be further adjusted every January 1st thereafter as set forth in the following table:

	Fixed Rate Component				
Meter Size (inches)	1/1/2009	1/1/2010	1/1/2011	1/1/2012	1/1/2013
5/8" & 3/4"	$18.00	$19.98	$22.48	$24.95	$24.95
1"	$25.20	$27.97	$31.47	$34.93	$34.93
1-1/2"	$32.40	$35.96	$40.46	$44.91	$44.91
2"	$52.20	$57.94	$65.18	$72.36	$72.36
3"	$198.00	$219.78	$247.25	$274.45	$274.45
4"	$252.00	$279.72	$314.69	$349.30	$349.30
6"	$378.00	$419.58	$472.03	$523.95	$523.95
8"	$522.00	$579.42	$651.85	$723.55	$723.55
	Variable Rate Component Consumption Charge ($/hundred cubic feet ("HCF"))				
0-5 HCF	$2.18	$3.59	$4.13	$4.25	$4.39
> 5 HCF	$2.56	$4.22	$4.86	$5.00	$5.15

Beginning January 1, 2014 and each January 1 thereafter, the fixed and variable rate components established in this section each shall be modified annually by the increase in the Consumer Price Index for All Urban Consumers (CPI-U) for the San Francisco-Oakland-San Jose Region as reported by the Bureau of Labor Statistics for the 12-month period ending the prior October 31st.

The water usage fees shall further be reviewed no less than biennially in conjunction with the update of the City's budget to ensure that the water capacity charges then in existence do not

exceed the costs of providing water service within the City.

SECTION 3. Severability

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

SECTION 4. Publication

The City Clerk will certify to the passage of this Ordinance by the City Council of the City of El Paso de Robles, California, and cause the same to be published once in a newspaper of general circulation, published and circulated in the City of El Paso de Robles.

SECTION 5. Effective Date.

This Ordinance will take effect thirty (30) days after its final passage.

Introduced at a regular meeting of the City Council held on September 2, 2008 for first reading by the City Council of the City of El Paso de Robles, and adopted on the 16th day of September, 2008 by the following vote:

AYES:
NOES:
ABSTAIN:
ABSENT:

_____
Frank R. Mecham, Mayor

ATTEST:

_____
Deborah Robinson, Deputy City Clerk