

TO: City Council
FROM: Doug Monn, Director of Public Works
SUBJECT: Proposed Water Rate Methodology
DATE: October 21, 2008

NEEDS: For the City Council to consider selection of a revised water rate methodology and authorize staff to proceed with property owner and water customer notification.

- FACTS:**
1. The City Council has established a set of water resource goals to assure the security and adequacy of Paso Robles fresh water supply.
 2. The City's General Plan, Urban Water Management Plan, and Integrated Water Resource Plan include consideration of a variety of water sources to address community fresh water needs.
 3. Comprehensive analysis of water source options (including conservation, recycling, desalination, and new reservoirs), challenges, characteristics, availability, and costs indicated that the Nacimiento Water Project was and is the best first step to accomplishing community water resource goals.
 4. Infrastructure needs associated with the existing distribution system and the cost to deliver Nacimiento water result in user rates that reflect the increased expense.
 5. The rates and charges required for Nacimiento water, and other water system improvements and operations, are fiscally challenging to city water users.
 6. In July of 2008, a proposed water rate schedule was brought forward for public review. After review it was determined the proposed rate exceeded the amount users could assume given a ten year capital investment.
 7. On September 16, 2008, an alternative approach to Nacimiento-related, and other water system, improvements was presented to City Council. The proposed rate known as the 'pay-as-you-go' rate phases projects over 17 years rather than 10, and more aggressively uses fund balance, coupled with operating income and development revenue to cover debt and pay cash rather than finance projects offers a less costly rate and charge structure option. The alternative also provides that users pay for operations and improvements that serve the existing community, while new development pays for those improvements that offset their impacts [including 50% of the current 4,000 acre-foot per year (AFY) Nacimiento contract and future water treatment plant, plus 100% of added future supplies].
 8. Council action at the September 16th meeting included rescinding the July 1, 2008, rate alternative and a direction to staff that the 'pay-as-you-go' alternative be brought back to City Council on October 7, 2008, along information to support the proposed rate.

9. On October 7th staff provide Council with documentation supporting the pay-as-you-go concept and were directed to return October 21 for acceptance of the rate and authorization for staff to proceed with property owner and water customer notification.

ANALYSIS AND CONCLUSION:

To reduce and slow the increase in water rates, an alternative approach of “pay-as-you-go” phased improvements was presented for consideration to the City Council on September 16, 2008. Supporting financial documentation was presented at Council’s October 7th meeting. The presentation focused more closely on the financial basis of the proposed pay-as-you-go rate methodology.

The financial plan included coverage for the current Nacimiento Water Project debt service and estimated City share in operations and maintenance (O&M) cost. The rate is based on development paying 50% of the costs associated with the City’s current Nacimiento entitlement, 50% of the cost of the treatment plant, and 100% of the cost of additional water supply needed between now and build out. New development will pay its fair share of “buy in” to the existing system along with a share of the capital improvement program. Further, the pay-as-you-go rate methodology is consistent with the original July 1st proposal in that City park/facility and school water usage is billable and, in the case of City facilities, would be paid from the General Fund. The pay-as-you-go rate methodology also includes a lifeline rate which discounts the first 5 hundred cubic feet of water used by single family customers by 15%.

The pay-as-you-go approach (in particular phasing the water treatment plant and spreading the capital improvement program out to 17 years) results in a lower proposed rate structure. This is depicted below:

Meter Size (inches)	Current Rate	2009	2010	2011	2012	2013
July 1st Proposal – Monthly Fixed Rate						
5/8” & 3/4”	\$18	\$18.00	\$19.98	\$22.48	\$24.95	\$24.95
Escalates with larger meters						
Pay-as-you-go Proposal – Monthly Fixed Rates						
All	\$18	\$18	\$18	\$18	\$18	\$18
Rate applies to all meter sizes						
July 1st Proposed Consumption Charge (\$/HCF)						
Usage Rate	\$1.32	\$2.56	\$4.22	\$4.86	\$5.00	\$5.15
Pay-as-you-go Proposed Consumption Charge (\$/HCF)						
Usage Rate	\$1.32	\$1.36	\$1.75	\$2.00	\$2.25	\$2.50
Lifeline Rate for Households Provided						

Impacts on Ratepayers

While each customer’s usage is unique, here are some comparisons of monthly residential water bills under the former July 1st proposal and the pay-as-you-go rate methodology:

Comparative Water Bills 19 HCF Consumption (14,200 gallons per month)					
	Jan '09	Jan '10	Jan '11	Jan '12	Jan '13
Current	\$43.84	\$44.60	\$45.55	\$46.50	\$47.45
July 1 st Proposal	\$66.64	\$97.01	\$111.17	\$116.20	\$118.95
Pay-as-you-go Proposal	\$43.84	\$49.95	\$54.50	\$59.05	\$63.65
30 HCF Consumption (22,400 gallons per month)					
Current	\$57.60	\$58.80	\$60.00	\$61.50	\$63.00
July 1 st Proposal	\$94.80	\$143.43	\$164.63	\$171.20	\$175.60
Pay-as-you-go Proposal	\$58.80	\$69.20	\$76.50	\$83.80	\$91.15

Comparison of Monthly Water Bills
Single Family Residential
Based on 30 HCF Usage (22,400 gallons)

Community	Monthly Meter Fixed Rate	Water Usage / Quantity Rate	Calculated Monthly Bill
Cambria CSD ^a	\$12.15	\$6.17 to \$8.02	\$194.38
City of Morro Bay ^a	\$16.43	1.39 to \$12.62	\$179.93
City of San Luis Obispo ^b	\$0.00	\$3.71 to \$5.81	\$140.40
Oceano CSD	\$11.97	\$1.14 to \$4.09	\$119.52
Nipomo CSD ^c	\$16.98	\$1.81 to \$3.14	\$84.53
City of Pismo Beach	\$13.97	\$1.78 to \$2.31	\$80.09
City of Paso Robles – Proposed effective Jan '10	\$18.00	\$1.49 to 1.75	\$69.20
City of Grover Beach	\$6.75	\$1.82 to \$2.20	\$64.45
City of Paso Robles – Current	\$18.00	\$1.32	\$57.60
Atascadero Mutual Water Co. ^d	\$14.5	\$1.122 to \$2.543	\$55.63
City of Arroyo Grande	\$5.25	\$1.16 to \$1.77	\$42.39
Templeton CSD	\$12.19	\$1.17 to \$2.62	\$35.29

Community Average (Excluding City of Paso Robles) =	\$95.49
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Source Documentation:

Date of inquiry is June 2008; Basis is for 5/8 and/or 3/4 inch meter; HCF = hundred cubic foot.

a Monthly fixed charge includes 3 HCF.

b Current single family rate is a 3-tiered rate structure with no fixed service charge; a 5% utility user tax is also applied to the water portion of the bill (excluded from this comparison).

c Average of Town and Blacklake Subdivision rates

d Monthly fixed charge includes 2,000 gallons (2.67 HCF); quantity rates shown are per HCF

e Agencies define this in a wide variety of ways; common cost elements of such fees are tabulated here.

POLICY

REFERENCE: General Plan, Urban Water Management Plan, Integrated Water Resource Plan, and Water Master Plan.

FISCAL

IMPACT: Payments for the Nacimiento Water Project are due beginning July 2010. Water treatment improvements need to be constructed to continue providing safe, secure and reliable water deliveries. Should new rates and charges not be adopted, the Water Fund balance will be quickly exhausted. Once exhausted, an alternative source of recurring funds would be required to cover debt and operating obligations.

- OPTIONS:**
- A. Endorse the pay-as-you-go rate methodology and authorize staff to proceed with property owner and water customer notification consistent with requirements of the Proposition 218 process (for property related fees).
 - B. Amend, Modify or Reject the Option Above.

Attachments:

- A – Revised Kennedy Jenks Consultants Rate Study
- B – Quick Guide to Table 5 – Projected Revenue Plan

Kennedy/Jenks Consultants

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City of Paso Robles
Water Rate and Revenue
Analysis
Pay-As-You-go Approach
Revised Final Report

September 29, 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

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29 September 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
Pay-As-You-Go-Approach
K/J 0883005

Dear Mr. Monn:

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

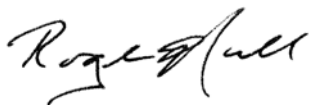
This Rate Study is a compilation of the analysis and findings of the City's water fund and incorporates the City's comments and direction obtained from previous draft work products. Most notably, this revised report integrates the alternative approach for a phased pay-as-you-go capital improvement program to minimize ratepayer impact. 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.

As demonstrated herein, the alternative approach phases capital improvement projects in over 17 years rather than 10, uses operating income, development revenue, and fund balance more aggressively to cover debt obligations, and utilizes a cash based pay-as-you-go approach rather than financing large capital projects. This approach results in a less costly rate and charge structure and is the basis for the capital, operational, and rate-related findings presented herein. It appears that within the next five to seven years 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



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Senior Technical Financial Consultant

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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 29,500 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.

It is important to note that this Revised Final Report integrates several important considerations that have affected the short and long-term financial obligations of the water fund. Specifically, since the original plan for treating water deliveries from the Nacimiento Water Project resulted in substantial increases in potential water rates and capacity charges, an alternative approach was developed to pay for Nacimiento-related and other water system improvements. The alternative approach phases the water treatment facility, the capital improvement projects in over 17 years rather than 10, uses operating income, development revenue, and fund balance more aggressively to cover debt obligations, and utilizes a cash based pay-as-you-go approach rather than financing large capital projects. This approach results in a less costly rate and charge structure and is the basis for the capital, operational, and rate-related findings presented herein.

Through the development of the phased pay-as-you-go plan, additional analysis was also performed to scrutinize long-term growth and water supply requirements in accordance with the City's adopted General Plan. While build out may not occur in precise accordance with this plan, a long-term financial plan has been prepared to support the level of planned growth as outlined, so that a framework for ongoing and future sources and uses of funds is established. Accordingly, projected growth, water system costs, and cash flow proforma have been prepared to coincide with a vision of build out in the year 2025 and corresponding 17-year capital improvement program (CIP) and are provided in this Revised Final Report.

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 \$1.32 per HCF, the sale of water is estimated to generate approximately \$4.36 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 \$6.6 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.

**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.

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 highlighted below, with long-term annualized growth estimates in accordance with the City's General Plan provided in the projected revenue section of this report.

- 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. Since the current pay-as-you-go approach results in less costly rate increases, projected reductions in water usage have been tempered from a projected reduction of 25% in year one, to a 20% reduction in water usage over the next three years. This projected level of conservation is consistent with national data related to 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.

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 over time 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 begin to switch from its local groundwater supply to a new high quality/reliable surface water supply over the next seventeen years.

It is important to note that one element of the City's operation and maintenance expenses not reflected 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 capital project costs. As such, a portion of this cost is implicitly recovered in the City's CIP.

To proactively plan for this activity like any private business, the City should consider integrating the full recovery of depreciation on an annual basis through its rates and charges to ensure adequate funds are available for future capital reinvestment in significant water fund assets. This activity could be accounted for through a new capital repair and replacement program reserve fund. The estimated annual depreciation associated with the City's existing and future water system assets is provided in the following capital improvement program section. Fund reserves are also further discussed in a subsequent section of this study.

**TABLE 3
BUDGETED AND PROJECTED OPERATION AND MAINTENANCE EXPENSES**

Description	Projected											Add'l WTP							
	Adjusted Budget	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	FY 2018-19	FY 2019-20	FY 2020-21	FY 2021-22	FY 2022-23	FY 2023-24	FY 2024-25	FY 2025-26
Utility Billing and Cashing																			
Dept. No. 140 - Division No. 127																			
Department Salaries and Benefits	\$309,300	\$321,672	\$334,539	\$347,920	\$361,837	\$376,311	\$391,363	\$407,018	\$423,298	\$435,997	\$449,077	\$462,550	\$476,426	\$490,719	\$505,440	\$520,604	\$536,222	\$552,308	
Maintenance - Utilities	\$1,300	\$1,352	\$1,406	\$1,462	\$1,521	\$1,582	\$1,645	\$1,711	\$1,779	\$1,833	\$1,887	\$1,944	\$2,002	\$2,063	\$2,124	\$2,188	\$2,254	\$2,321	
Charges from Other Departments	\$23,100	\$24,024	\$24,985	\$25,984	\$27,024	\$28,105	\$29,229	\$30,398	\$31,614	\$32,862	\$33,539	\$34,545	\$35,582	\$36,649	\$37,749	\$38,881	\$40,048	\$41,249	
Other Expenses	\$221,400	\$230,256	\$239,466	\$249,045	\$259,007	\$269,367	\$280,142	\$291,347	\$303,001	\$312,091	\$321,454	\$331,098	\$341,031	\$351,261	\$361,799	\$372,653	\$383,833	\$395,348	
Subtotal - Utility Billing and Cashing	\$555,100	\$577,304	\$600,396	\$624,412	\$649,388	\$675,364	\$702,379	\$730,474	\$759,693	\$782,483	\$805,958	\$830,137	\$855,041	\$880,692	\$907,113	\$934,326	\$962,356	\$991,227	
Water Production and Distribution																			
Dept. No. 310 - Division No. 165																			
Department Salaries and Benefits (a)	\$1,181,600	\$1,228,864	\$1,278,019	\$1,329,139	\$1,382,305	\$1,437,597	\$1,495,101	\$1,554,905	\$1,617,101	\$1,665,614	\$1,715,583	\$1,767,050	\$1,820,062	\$1,874,663	\$1,930,903	\$1,988,830	\$2,048,495	\$2,109,950	
Maintenance - Utilities	\$940,000	\$977,600	\$1,016,704	\$1,057,372	\$1,099,667	\$1,143,654	\$1,189,400	\$1,236,976	\$1,286,455	\$1,325,049	\$1,364,800	\$1,405,744	\$1,447,916	\$1,491,354	\$1,536,094	\$1,582,177	\$1,629,643	\$1,678,532	
Charges from Other Departments	\$249,500	\$259,480	\$269,859	\$280,654	\$291,880	\$303,555	\$315,697	\$328,325	\$341,458	\$351,702	\$362,253	\$373,120	\$384,314	\$395,843	\$407,719	\$419,950	\$432,549	\$445,525	
Other Expenses	\$675,200	\$702,208	\$730,296	\$759,508	\$789,888	\$821,484	\$854,343	\$888,517	\$924,058	\$951,780	\$980,333	\$1,009,743	\$1,040,035	\$1,071,236	\$1,103,373	\$1,136,475	\$1,170,569	\$1,205,686	
Subtotal - Water Production and Distribution	\$3,046,300	\$3,168,152	\$3,294,878	\$3,426,673	\$3,563,740	\$3,706,290	\$3,854,541	\$4,008,723	\$4,169,072	\$4,294,144	\$4,422,968	\$4,555,657	\$4,692,327	\$4,833,097	\$4,978,090	\$5,127,433	\$5,281,256	\$5,439,693	
Charges to Other Departments	(310,200)	(322,608)	(335,512)	(348,933)	(362,890)	(377,406)	(392,502)	(408,202)	(424,530)	(437,266)	(450,384)	(463,896)	(477,812)	(492,147)	(506,911)	(522,118)	(537,782)	(553,916)	
Total Existing O&M Expenses	\$3,291,200	\$3,422,800	\$3,559,800	\$3,702,200	\$3,850,200	\$4,004,200	\$4,164,400	\$4,331,000	\$4,504,200	\$4,639,400	\$4,778,500	\$4,921,900	\$5,069,600	\$5,221,600	\$5,378,300	\$5,539,600	\$5,705,800	\$5,877,000	
Forecasted Changes in O&M Expenses (b)																			
Water Treatment Plant O&M	\$160,000	\$160,000	\$346,100	\$360,000	\$374,400	\$389,300	\$404,900	\$421,100	\$437,900	\$451,500	\$970,500	\$1,008,400	\$1,047,700	\$3,946,500	\$4,100,400	\$4,260,300	\$4,426,500	\$4,599,100	
Water Utility Staffing to Supplement Current Levels	\$417,000	\$417,000	\$610,300	\$731,200	\$760,500	\$955,900	\$994,100	\$1,033,900	\$1,075,200	\$1,118,200	\$1,163,000	\$1,209,500	\$1,257,900	\$1,308,200	\$1,360,500	\$1,414,900	\$1,471,500	\$1,530,400	
Regional Naciminto O&M Cost Share	\$350,000	\$350,000	\$1,100,000	\$1,300,000	\$1,352,000	\$1,406,100	\$1,462,300	\$1,520,800	\$1,581,600	\$1,644,900	\$1,710,700	\$1,779,100	\$1,850,300	\$2,886,500	\$3,002,000	\$3,122,100	\$3,247,000	\$3,376,900	
Subtotal New Water Supply O&M Costs	\$927,000	\$927,000	\$2,056,400	\$2,391,200	\$2,486,900	\$2,751,300	\$2,861,300	\$2,975,800	\$3,094,700	\$3,214,600	\$3,844,200	\$3,997,000	\$4,155,900	\$8,141,200	\$8,462,900	\$8,797,300	\$9,145,000	\$9,506,400	
Total New and Existing Forecasted Water Fund Costs	\$3,291,200	\$4,349,800	\$5,616,200	\$6,093,400	\$6,337,100	\$6,755,500	\$7,025,700	\$7,306,800	\$7,598,900	\$7,854,000	\$8,622,700	\$8,918,900	\$9,225,500	\$13,362,800	\$13,841,200	\$14,336,900	\$14,850,800	\$15,383,400	

Source: City of Paso Robles Finance Department budget for Department/Division Data; excludes depreciation (see Table 4).
(a) Source: City FY 08-09 Labor Budget adjusted to coincide with forecasted Nacimiento O&M cost estimates.
(b) Source: TJCross Ops Budget. Additional treatment costs projected in FY 18-19 and FY21-22. Values provided have been inflated and rounded herein.

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 of the City's capital improvement program (CIP) for water, wastewater, and other City services.

The City's water system CIP is separated into five basic categories. These are: Nacimiento Water Project Improvements, Water yard, Well Improvements, Tank/Booster Station/Metering Project Improvements, and Pipeline Improvements. As previously discussed, a comprehensive phased alternative capital improvement program has been prepared that phases projects in over 17 years, rather than 10. A comprehensive listing of the specific projects included in the City's revised 17-year water system CIP is provided in Appendix A. A summary of the seventeen year plan for these primary project categories is provided in Table 4.

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. Under the new phased pay-as-you-go approach, no additional debt is projected.

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 planning period, the City's assets will accrue an additional \$3 million per year of annual depreciation expense, for a total annual depreciation expense of approximately \$3.9 million per year. 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 fully implement the new water supply and capital improvement programs. To evaluate the impact of these changes, a projected revenue plan is developed to compare the water utility's revenues and revenue requirements for the seventeen-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:

**TABLE 4
PROPOSED CAPITAL IMPROVEMENT & DEBT FINANCING PROGRAM**

Description	PROJECTED																	
	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	FY 2018-19	FY 2019-20	FY 2020-21	FY 2021-22	FY 2022-23	FY 2023-24	FY 2024-25	FY 2025-26
Water System Capital Improvement Program (a)																		
Nacimiento Water Project	\$1,900,000	\$9,900,000	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$26,134,000	\$0	\$0	\$0	\$0
Water Yard	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$5,996,000	\$0	\$0	\$0	\$0
Well Improvements	\$211,000	\$1,336,000	\$235,000	\$5,822,000	\$1,568,000	\$276,000	\$291,000	\$1,842,000	\$324,000	\$342,000	\$360,000	\$2,281,000	\$1,404,000	\$423,000	\$446,000	\$2,826,000	\$497,000	\$524,000
Tank, Booster Station and Metering Projects	\$1,074,000	\$7,022,000	\$23,000	\$25,000	\$26,000	\$5,543,000	\$2,938,000	\$3,100,000	\$194,000	\$205,000	\$216,000	\$3,080,000	\$241,000	\$254,000	\$268,000	\$283,000	\$298,000	\$315,000
Pipeline Improvements	\$40,000	\$540,000	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$620,000	\$163,000	\$1,005,000	\$1,091,000	\$1,093,000	\$1,484,000	\$3,154,000	\$4,377,000
Total Water Fund CIP	\$3,225,000	\$18,798,000	\$258,000	\$5,847,000	\$1,594,000	\$5,819,000	\$3,229,000	\$4,942,000	\$518,000	\$547,000	\$22,100,000	\$5,524,000	\$2,650,000	\$33,898,000	\$1,807,000	\$4,593,000	\$3,949,000	\$5,216,000
Water System Debt Financing Program																		
New Debt Issuances (b)	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Existing Debt																		
Nacimiento Water Pipeline Project (c)	\$0	\$1,600,000	\$4,230,000	\$4,230,000	\$4,230,000	\$4,230,000	\$4,230,000	\$4,230,000	\$4,230,000	\$4,230,000	\$4,230,000	\$4,230,000	\$4,230,000	\$4,230,000	\$4,230,000	\$4,230,000	\$4,230,000	\$4,230,000
Subtotal Existing Annual Debt Service	\$0	\$1,600,000	\$4,230,000	\$4,230,000	\$4,230,000	\$4,230,000	\$4,230,000	\$4,230,000	\$4,230,000	\$4,230,000	\$4,230,000	\$4,230,000	\$4,230,000	\$4,230,000	\$4,230,000	\$4,230,000	\$4,230,000	\$4,230,000
Total Annual Debt Service	\$0	\$1,600,000	\$4,230,000	\$4,230,000	\$4,230,000	\$4,230,000	\$4,230,000	\$4,230,000	\$4,230,000	\$4,230,000	\$4,230,000	\$4,230,000	\$4,230,000	\$4,230,000	\$4,230,000	\$4,230,000	\$4,230,000	\$4,230,000
Estimated Depreciation																		
New Total CIP	\$3,225,000	\$18,798,000	\$258,000	\$5,847,000	\$1,594,000	\$5,819,000	\$3,229,000	\$4,942,000	\$518,000	\$547,000	\$22,100,000	\$5,524,000	\$2,650,000	\$33,898,000	\$1,807,000	\$4,593,000	\$3,949,000	\$5,216,000
Additional Depreciation per Year	\$139,300	\$80,600	\$470,000	\$6,500	\$146,200	\$39,900	\$145,500	\$80,700	\$123,600	\$13,000	\$13,700	\$552,500	\$138,100	\$66,300	\$847,500	\$45,200	\$114,800	\$98,700
Estimated Annual Depreciation	\$910,800	\$991,400	\$1,461,400	\$1,467,900	\$1,614,100	\$1,654,000	\$1,799,500	\$1,880,200	\$2,003,800	\$2,016,800	\$2,030,500	\$2,583,000	\$2,721,100	\$2,787,400	\$3,634,900	\$3,680,100	\$3,794,900	\$3,893,600

(a) CIP Source: TJ Cross September 2008-Pay-As-You-Go Approach;

Capital Facility Charge revenues are included in the financial projection tables as total Water Fund costs are included herein. Comprehensive 17-Year CIP and water supply summary is in Appendix A.

(b) When applicable, new debt issuances are based on 30 years @ 5% per City staff.

(c) Existing debt is net debt service obligation per SLO County Financing Authority debt schedule; actual costs are rounded.

- 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.) Long-term growth has been integrated to coincide with the criteria derived in the General Plan's 2025 projections.
- Water sales are projected to reduce by approximately 20% over the next three years; demands from future new accounts are projected at current levels.
- The improvements needed to fully implement the Nacimiento water project have been phased to coincide with available fund reserves generated from water rates and growth-related capital facility charges. The alternative phased plan is based on a pay-as-you-go approach so that no new additional debt is projected.
- Water Connection Fees (Capacity Charges) are based on a 2008 study by HF&H and are designed to recover the costs associated with growth's impact on the City's water system. The proposed fees derived in the Water Capacity Charge study are provided in Appendix A and utilized herein.
- 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.

To demonstrate the potential short and long-term implications of the phased alternative approach, a seventeen 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, alternative capital improvement program phasing, 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 needed to fund the phased capital improvement program is shown in Table 5.

**TABLE 5
PROJECTED REVENUE PLAN USING PROPOSED RATES - PAY-AS-YOU-GO APPROACH**

Description	Projected												Add'l WTP						
	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	FY 2018-19	FY 2019-20	FY 2020-21	FY 2021-22	FY 2022-23	FY 2023-24	FY 2024-25	FY 2025-26	
Revenues																			
Fixed Monthly Service Charges \$18/Account	\$2,251,200	\$2,261,300	\$2,278,200	\$2,303,400	\$2,337,100	\$2,379,200	\$2,429,800	\$2,488,800	\$2,556,100	\$2,679,500	\$2,802,800	\$2,926,200	\$3,049,500	\$3,172,800	\$3,296,200	\$3,419,500	\$3,542,800	\$3,666,200	
Consumption Charges (As Modeled)	\$4,094,100	\$4,402,400	\$5,431,800	\$5,696,600	\$6,504,400	\$7,379,100	\$8,331,600	\$9,372,900	\$10,248,900	\$11,080,500	\$11,787,500	\$12,494,500	\$13,201,500	\$13,908,500	\$14,615,500	\$15,322,500	\$16,029,500	\$16,736,500	
Total Operating Revenues	\$6,345,300	\$6,663,700	\$7,710,000	\$8,000,000	\$8,841,500	\$9,758,300	\$10,761,400	\$11,861,700	\$12,805,000	\$13,760,000	\$14,590,300	\$15,420,700	\$16,251,000	\$17,081,300	\$17,911,700	\$18,742,000	\$19,572,300	\$20,402,700	
Operating Expenses																			
Existing Water Utility O&M/Administration/Xfers	\$3,291,200	\$3,422,800	\$3,559,800	\$3,702,200	\$3,850,200	\$4,004,200	\$4,164,400	\$4,331,000	\$4,504,200	\$4,639,400	\$4,778,500	\$4,921,900	\$5,069,600	\$5,221,600	\$5,378,300	\$5,539,600	\$5,705,800	\$5,877,000	
Water Treatment Plant O&M	\$160,000	\$346,100	\$374,400	\$360,000	\$374,400	\$389,300	\$404,900	\$421,100	\$437,900	\$451,500	\$470,500	\$1,008,400	\$1,047,700	\$3,946,500	\$4,100,400	\$4,260,300	\$4,426,500	\$4,599,100	
Water Utility Staffing to Supplement Current Levels	\$417,000	\$610,300	\$610,300	\$731,200	\$760,500	\$955,900	\$984,100	\$1,033,900	\$1,075,200	\$1,118,200	\$1,163,000	\$1,209,500	\$1,257,900	\$1,308,200	\$1,360,500	\$1,414,900	\$1,471,500	\$1,530,400	
Regional Naciminto O&M Cost Share	\$350,000	\$350,000	\$1,100,000	\$1,300,000	\$1,352,000	\$1,406,100	\$1,462,300	\$1,520,800	\$1,581,600	\$1,644,900	\$1,710,700	\$1,779,100	\$1,850,300	\$2,886,500	\$3,002,000	\$3,122,100	\$3,247,000	\$3,376,900	
Depreciation						\$1,654,000	\$1,799,500	\$1,880,200	\$2,003,800	\$2,016,800	\$2,030,500	\$2,583,000	\$2,721,100	\$2,787,400	\$3,634,900	\$3,680,100	\$3,794,900	\$3,893,600	
Total Operating Expenses	\$3,291,200	\$4,349,800	\$5,616,200	\$6,093,400	\$6,337,100	\$8,409,500	\$8,825,200	\$9,187,000	\$9,602,700	\$9,870,800	\$10,653,200	\$11,501,900	\$11,946,600	\$16,150,200	\$17,476,100	\$18,017,000	\$18,645,700	\$19,277,000	
Net Operating Revenue	\$3,054,100	\$2,313,900	\$2,093,800	\$1,906,600	\$2,504,400	\$1,348,800	\$1,936,200	\$2,674,700	\$3,202,300	\$3,889,200	\$3,937,100	\$3,918,800	\$4,304,400	\$931,100	\$435,600	\$725,000	\$926,600	\$1,125,700	
Non-Operating Revenue (Expense)																			
Interest Revenue	\$840,000	\$835,600	\$258,100	\$373,100	\$204,000	\$269,800	\$170,600	\$242,100	\$325,100	\$657,000	\$1,345,700	\$1,201,800	\$1,714,300	\$2,377,800	\$1,683,000	\$2,224,100	\$2,687,100	\$3,202,400	
Water Connection Fee Revenues	\$0	\$1,212,600	\$2,380,000	\$3,570,000	\$4,760,000	\$5,950,000	\$7,140,000	\$8,330,000	\$9,520,000	\$17,448,000	\$17,448,000	\$17,448,000	\$17,448,000	\$17,448,000	\$17,448,000	\$17,448,000	\$17,448,000	\$17,448,000	
Existing Pipeline Debt Service			(\$1,600,000)	(\$4,230,000)	(\$4,230,000)	(\$4,230,000)	(\$4,230,000)	(\$4,230,000)	(\$4,230,000)	(\$4,230,000)	(\$4,230,000)	(\$4,230,000)	(\$4,230,000)	(\$4,230,000)	(\$4,230,000)	(\$4,230,000)	(\$4,230,000)	(\$4,230,000)	
Total Non-Op Revenues/Expenses	\$840,000	\$2,048,200	\$1,038,100	(\$286,900)	\$734,000	\$1,989,800	\$3,080,600	\$4,342,100	\$5,615,100	\$13,875,000	\$14,563,700	\$14,419,800	\$14,932,300	\$15,595,800	\$14,901,000	\$15,442,100	\$15,905,100	\$16,420,400	
Net Income Before Capital Activity	\$3,894,100	\$4,362,100	\$3,131,900	\$1,619,700	\$3,238,400	\$3,338,600	\$5,016,800	\$7,016,800	\$8,817,400	\$17,764,200	\$18,500,800	\$18,338,600	\$19,236,700	\$16,526,900	\$15,336,600	\$16,167,100	\$16,831,700	\$17,546,100	
Capital Expenditures	\$3,225,000	\$18,798,000	\$258,000	\$5,847,000	\$1,594,000	\$5,819,000	\$3,229,000	\$4,942,000	\$518,000	\$547,000	\$22,100,000	\$5,524,000	\$2,650,000	\$33,898,000	\$1,807,000	\$4,593,000	\$3,949,000	\$5,216,000	
Net Change in Funds Avail. After Capital Activity	\$669,100	(\$14,435,900)	\$2,873,900	(\$4,227,300)	\$1,644,400	(\$2,480,400)	\$1,787,800	\$2,074,800	\$8,299,400	\$17,217,200	(\$3,599,200)	\$12,814,600	\$16,586,700	(\$17,371,100)	\$13,529,600	\$11,574,100	\$12,882,700	\$12,330,100	
Beginning Cash Balance	\$20,220,000	\$20,889,100	\$6,453,200	\$5,327,100	\$5,099,800	\$6,744,200	\$4,263,800	\$6,051,600	\$8,126,400	\$16,425,800	\$33,643,000	\$30,043,800	\$42,858,400	\$59,445,100	\$42,074,000	\$55,603,600	\$67,177,700	\$80,060,400	
Ending Cash Balance	\$20,889,100	\$6,453,200	\$9,327,100	\$5,099,800	\$6,744,200	\$4,263,800	\$6,051,600	\$8,126,400	\$16,425,800	\$33,643,000	\$30,043,800	\$42,858,400	\$59,445,100	\$42,074,000	\$55,603,600	\$67,177,700	\$80,060,400	\$92,390,500	

Description	Proposed Rates and Projected Changes in Accounts and Water Usage																		
	0.0%	3.1%	0.0%	32.6%	18.0%	\$1.32	\$16,700	10,422	11,823	7,589	3,305,868	100%	0	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Proposed Fixed Rate Increase	0.0%	3.1%	0.0%	32.6%	18.0%	\$1.32	\$16,700	10,422	11,823	7,589	3,305,868	100%	0	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Proposed Usage Rate Increase	0.0%	0.0%	14.3%	0.0%	12.5%	\$2.00	\$23,800	10,547	11,965	6,887	3,000,171	100%	60	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Proposed Fixed Rate (\$/Account/Month) (9-16-08)	\$18.00	\$18.00	\$2.00	\$17.50	\$18.00	\$2.50	\$23,800	10,469	11,877	6,887	3,000,171	90%	47	\$18.00	\$18.00	\$18.00	\$18.00	\$18.00	\$18.00
Proposed Average Usage Unit Rate (\$/HCF) (9-16-08)	\$3.33	\$3.33	\$2.00	\$2.00	\$2.25	\$23,800	\$20,210	11,877	11,877	6,887	3,000,171	100%	47	\$3.33	\$3.33	\$3.33	\$3.33	\$3.33	\$3.33
Estimated Connection Fee (9-11-08)	\$23,800	\$23,800	\$23,800	\$23,800	\$23,800	\$23,800	\$23,800	\$23,800	\$23,800	\$23,800	\$23,800	\$23,800	\$23,800	\$23,800	\$23,800	\$23,800	\$23,800	\$23,800	\$23,800
Growth Based Changes in Accounts																			
Number of Water Meters	10,422	10,469	10,547	10,664	10,820	11,015	11,249	11,522	11,834	12,405	12,976	13,547	14,118	14,689	15,260	15,831	16,402	16,973	17,544
Number of Equivalent Water Meters (Capacity Basis)	11,823	11,877	11,965	12,098	12,275	12,496	12,761	13,071	13,425	14,073	14,721	15,368	16,016	16,664	17,312	17,960	18,607	19,255	19,903
Net Water Sales/Consumption (AF)	7,589	6,887	6,954	6,458	6,591	6,757	7,189	7,455	7,455	7,942	8,430	8,917	9,404	9,892	10,379	10,867	11,354	11,842	12,330
Net Water Sales/Consumption (HCF)	3,305,868	3,000,171	3,029,132	2,812,933	2,870,854	2,943,255	3,030,137	3,131,499	3,247,342	3,459,655	3,671,969	3,884,282	4,096,596	4,308,910	4,521,223	4,733,537	4,945,850	5,158,164	5,370,478
Water Conservation Factor	100%	90%	100%	91%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%
Increase in Number of Equivalent Meters/Year (Capacity Basis)	0	60	100	150	200	250	300	350	400	450	500	550	600	650	700	750	800	850	900
Increase in Number of Accounts/Year	0	47	78	117	156	195	234	273	312	351	390	429	468	507	546	585	624	663	702

Notes:
 Pay-as-you-go approach based on expanding water treatment facilities to 4,000 AF in FY 18-19 and to 6,000 AF in FY 21-22; costs and revenues have been rounded.
 Consumption charge revenues include an adjustment for reduced charge for Single Family block 1 water usage; Fixed revenue is based on per account, regardless of meter size.
 Existing debt service coverage requirement is based on Annual Net Income Before Capital Activity must be positive, per SLO County Financing Authority.
 Target reserves based on 50% of annual operating expenses (30% ops reserve & 20% economic uncertainty), plus 1-Year's average cash CIP (estimated at \$2 M current, \$5 M at 2025))

In contrast to the previous debt financing plan that resulted in double digit rate-based revenue increases for several years, Table 5 indicates that only modest incremental increases in water rates are needed to meet the capital and operational requirements of the alternative pay-as-you-go phased capital improvement program. As shown, following an increase in the usage rate to \$1.75 per HCF in FY 09-10, annual increases of only \$.25 per HCF are proposed over the next five to seven years. The resulting rates are substantially less than the rates associated with debt financing of the full water treatment plant and funding the additional capital improvement program requirements in a ten year planning period.

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 several 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.

Since the proposed financial plan is based on a more aggressive use of fund reserves, an increased focus on annual cash flow will be integral to future planning and budgeting of water fund program requirements. To aid in this process, a time phased reconciliation schedule has been prepared to demonstrate the potential use of fund balance over the seventeen year buildout period. This schedule is provided in Appendix A.

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 \$1.32 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)	
All Meter Sizes	\$18.00
Usage Charges (\$/Hundred Cubic Feet - HCF)	
\$1.32 per Hcf for all water usage	

Source: City of Paso Robles
Effective: July 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		Allocation Results	
	Fixed %	Variable %	Total	Variable
<u>System Expenses/Expenditures</u>				
Capital Expenditure	50%	50%	\$5,847,000	\$2,923,500
Debt Service	100%	0%	\$4,230,000	\$4,230,000
<u>Operation and Maintenance Expenses</u>				
Existing Water Utility O&M/Administration/Xfers	70%	30%	\$3,702,200	\$2,591,540
Water Treatment Plant O&M	50%	50%	\$360,000	\$180,000
Regional Naciminto O&M Cost Share	50%	50%	\$731,200	\$365,600
Total Expenses/Expenditures			\$14,870,400	\$10,290,640
Allocation of System Costs			100%	70%
<u>System Revenues</u>				
Naciminto Fixed Revenues (a)			\$2,251,200	\$2,251,200
Consumption Based Revenues (a)			\$4,094,100	\$4,094,100
Total System Rate Based Revenues			\$6,345,300	
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 08-09, 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 35% of the current revenues are derived from the fixed Nacimiento account charge and 65% 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 continue assessing a fixed charge as 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.

During the conduct of this study, consideration was given to converting the existing fixed monthly service charge from an account basis to a meter size basis. Based on discussions with City staff and public input, it is recommended the fixed monthly charge continued to be charged on a per account basis and maintained at the current \$18 per month level. However, the City may desire to reassess the appropriateness of this recommendation in future water rate evaluations.

5.2.2 Development of Proposed Usage Charge

Consistent with the revenue requirements derived in Table 5, usage charges are developed to bill customers for their metered water usage. The City currently charges \$1.32 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 5) 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 and typically ranges from 40 to 50 gallons per day (gpd) per person.

Given the City's population, household, and water 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.

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 6 with the average or typical consumption values for various customer types. Similarly, projected 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. 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 several years.

**TABLE 8
PROPOSED WATER RATES**

		Projected				
		July 1, 2009	FY 2009-10	FY 2010-11	FY 2011-12	FY 2012-13
Current Rates						
Meter Size (inches)	Current					
All Meter Sizes	\$18.00	\$18.00	\$18.00	\$18.00	\$18.00	\$18.00
		<u>Proposed Monthly Service Charges</u>				
		<u>Proposed Usage Charges</u>				
Volume Rate	<u>\$/HCF</u>	<u>\$/HCF</u>	<u>\$/HCF</u>	<u>\$/HCF</u>	<u>\$/HCF</u>	<u>\$/HCF</u>
<u>All Customers</u>	\$1.32	\$1.36	\$1.75	\$2.00	\$2.25	\$2.50
<u>Single Family</u>	<u>\$/HCF</u>	<u>\$/HCF</u>	<u>\$/HCF</u>	<u>\$/HCF</u>	<u>\$/HCF</u>	<u>\$/HCF</u>
0-5 HCF	\$1.32	\$1.36	\$1.49	\$1.70	\$1.91	\$2.13

Notes: Projected rates are proposed to be effective in January each year, except the July 1, 2009 rate noted. First five units are at a 15% discount rate for the Single Family customer class.

Given the projected level of short-term 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 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 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 \$65 to \$120 per month less than the upper range water purveyors in the County, and less than the overall County average cost of water.

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.

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.

**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 July 1, 2008	\$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 Paso Robles - Sept. 08 Pay-As-You-Go Approach, Effective January 2010	\$18.00	\$1.49 to \$1.75	30	\$69.20
City of Grover Beach	\$6.75	\$1.82 to \$2.20	30	\$64.45
City of Paso Robles - Current	\$18.00	\$1.32	30	\$57.60
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)				\$93.56

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

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

APPENDIX A - ANNUAL DWR REPORT

The Resources Agency

Department of Water Resources

Calendar Year 2007

State of California

PUBLIC WATER SYSTEM STATISTICS

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

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

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:

	Units of production:												Total
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	
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:

	Units of delivery:												Total
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	
A. Single Family Residential	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 Department No. 310 Funding Source:		Water Production & Distribution Division No. 165 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 Department No. 140 Funding Source:		Utility Billing/Cashiering Division NO. 127 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

APPENDIX A: 17-YEAR CAPITAL IMPROVEMENT PROGRAM (C.I.P.) BUDGET
Includes Phased-In Water Treatment Plant

Project	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	FY 2018-19	FY 2019-20	FY 2020-21	FY 2021-22	FY 2022-23	FY 2023-24	FY 2024-25	FY 2025-26	TOTAL PROJECT COST
Nacimiento Water Project																			
Phase I - 2 MGD filtration system to accept initial deliveries plus treated water pump station	\$1,900,000	\$9,900,000																	\$0
Phase II - Add 2 additional trailers and transmission main east, housing for ops and membranes, solids removal, etc.											\$20,904,272								\$11,800,000
Phase III - Provide permanent housing for ops building and membrane units; 6 MGD capacity, add ozone, full chemical feed system, more pumping capacity, full site improvements														\$26,133,730					\$26,133,730
Secure additional Nacimiento entitlement (not listed as capital project)	\$1,900,000	\$9,900,000	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$20,904,000	\$0	\$0	\$26,134,000	\$0	\$0	\$0	\$0	\$58,838,000
Subtotal Nacimiento Water Project =	\$1,900,000	\$9,900,000	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$20,904,000	\$0	\$0	\$26,134,000	\$0	\$0	\$0	\$0	\$58,838,000
Water Yard																			
Replace City's corporation yard for water facility operations. One-third of cost allocated to Water Dept														\$5,995,592					\$5,995,592
Subtotal Water Yard =	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$5,995,592	\$0	\$0	\$0	\$0	\$5,995,592
Well Improvements																			
New Sherwood Well #11 installation													\$1,002,887						\$1,002,887
Sherwood Well arsenic treatment system (2 at \$1 million each)				\$5,574,711										\$0					\$0
Koncon filtration relocation																			\$5,574,711
Osborne Well #14 rehabilitation																			\$0
Sherwood Well #19 rehabilitation	\$211,000	\$222,005	\$234,848	\$247,765	\$261,392	\$275,769	\$290,936	\$306,937	\$323,819	\$341,629	\$360,418	\$380,241	\$401,155	\$423,218	\$446,495	\$471,053	\$496,960	\$524,293	\$6,220,534
New well drilling program (Olsen Beechwood, Charolais, and underflow wells)		\$1,113,025			\$1,306,960		\$1,534,687		\$1,842,000		\$2,281,000		\$1,901,207	\$2,355,263		\$2,826,000	\$497,000	\$524,000	\$8,211,142
Subtotal Well Improvements =	\$211,000	\$1,336,000	\$235,000	\$5,822,000	\$1,568,000	\$276,000	\$291,000	\$1,842,000	\$324,000	\$342,000	\$360,000	\$2,281,000	\$1,404,000	\$423,000	\$446,000	\$2,826,000	\$497,000	\$524,000	\$21,009,000
Tank, Booster Station and Metering Projects																			
FE7 - 21st Street Reservoir construction	\$800,000					\$5,515,371													\$13,315,371
Acquire water tank site (Vina Robles, Chandler, S. Vine or other)												\$2,851,811							\$2,851,811
Water Tanks - regular program of coating repairs	\$21,100	\$22,261	\$23,485	\$24,776	\$26,139	\$27,577	\$29,094	\$30,694	\$32,382	\$34,163	\$36,042	\$38,024	\$40,115	\$42,322	\$44,650	\$47,105	\$49,696	\$52,429	\$622,053
W16 - install fire pump at Highland Park Booster Station along with 8" waterline	\$259,221																		\$259,221
Transfer to remote read meter system							\$2,909,358	\$3,089,373											\$5,978,731
Software and integration							\$1,818,349	\$1,918,358											\$3,736,707
Meters							\$1,091,009	\$1,151,015											\$2,242,024
Water Meters - ongoing meter replacement program of the proposed meter reading devices								\$161,909	\$170,814	\$180,814	\$180,209	\$190,121	\$200,577	\$211,609	\$223,248	\$235,526	\$248,480	\$262,147	\$2,084,641
Subtotal Tank and Booster Station Projects =	\$1,074,000	\$7,022,000	\$23,000	\$25,000	\$26,000	\$5,543,000	\$2,938,000	\$3,100,000	\$194,000	\$205,000	\$216,000	\$3,080,000	\$241,000	\$254,000	\$268,000	\$283,000	\$298,000	\$315,000	\$25,106,000
Pipeline Improvements																			
W14 - 8" waterline in Highland Park Zone from West 12th St to 17th St											\$619,530								\$619,530
E4 - 12" waterline in Miller Ct from Lombardo Ct to end of cul-de-sac																		\$946,199	\$946,199
W13 - 8" waterline in 15th St from Terrace Hill Dr to Hillcrest Dr												\$163,401							\$163,401
W17 - 12" waterline in Nacimiento Lake Dr and Fairview Ave													\$866,145						\$866,145
W4 - 10" waterline in 36th St from Spring St to WWTTP													\$800,689						\$800,689
W5 - 8" waterline in 22nd St from Oak St to Spring St													\$138,751						\$138,751
W6 - 10" waterline in 22nd St from Olive St to Oak St													\$290,547						\$290,547
W10 - 8" waterline in Olive St from 19th St to 23rd St													\$594,336						\$594,336
W7 - 10" waterline in 24th St and Riverside Ave															\$743,048				\$743,048
W8 - 8" waterline in Oak St from 4th St to 7th St; and on 5th and 6th Sts Oak to Spring															\$740,580				\$740,580
W9 - 8" waterline in 2nd St from Vine St to Orcutt Rd											\$498,400								\$498,400
W1 - 12" waterline in Spring St from 24th St to 36th St																	\$3,153,895		\$3,153,895
W2 - 8" waterline in Oak St from 30th St to 32nd St																			\$580,300
W18 - 14" waterline in Pine St, 23rd St, and Spring St	\$40,000	\$540,300																	\$1,970,039
FE6 - 16" waterline in Linne Rd from Airport Rd to Tract 2526																			\$2,060,710
Subtotal Pipeline Improvements =	\$40,000	\$540,000	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$620,000	\$163,000	\$1,005,000	\$1,091,000	\$1,093,000	\$1,484,000	\$3,154,000	\$4,377,000	\$13,567,000
Totals =	\$3,225,000	\$18,796,000	\$258,000	\$5,847,000	\$1,594,000	\$5,819,000	\$3,229,000	\$4,942,000	\$518,000	\$547,000	\$22,100,000	\$5,524,000	\$2,650,000	\$33,898,000	\$1,807,000	\$4,593,000	\$3,949,000	\$5,216,000	\$124,515,592

Source TJCross: September 2008

APPENDIX A - PROPOSED WATER CONNECTION FEES

Proposed Charge as of:

Meter Size	Current Charge as of July 1, 2008	January 1, 2009 ^a	January 1, 2010 ^b	January 1, 2011 ^c
5/8" & 3/4"	\$9,119	\$16,700	\$20,210	\$23,800
1"	\$15,226	\$27,900	\$33,800	\$39,700
1 1/2"	\$30,364	\$55,600	\$67,300	\$79,300
2"	\$48,601	\$89,000	\$107,700	\$126,900
3"	\$97,292	\$167,000	\$202,100	\$238,000
4"	\$152,002	\$278,400	\$336,900	\$396,700
6"	\$303,914	\$556,600	\$673,600	\$793,300
8"	\$486,280	\$890,600	\$1,077,800	\$1,269,300
10"	\$699,100	\$1,280,400	\$1,549,500	\$1,824,700

Source: HF&H, September 11, 2008

- ^a *Proposed water capacity charges in year 1 would omit the water treatment plant and additional future water supply components.*
- ^b *In year 2, the water treatment plant component would be included.*
- ^c *In year 3, the full proposed capacity charges would be in effect; annual increases for non-debt service components thereafter would be escalated according to published construction cost indices.*

Water Fund Balance 2009 Through Build General Plan Build Out 2025

Fund Balance		
FY 25/26	\$92,390,500	
Funded Depreciation		
FY 25/26	\$34,479,800	
Projected Revenue FY		
25/26	\$126,870,300	
Fund Encumbrance		
FY 25/26	-\$39,600,000	Nacimiento Debt - 50% of New Development's Share
	-\$30,000,000	Cost of additional 2000 AF for Development
	-\$41,270,300	Asset repair/replacement (\$2,427,664.71 over 17 years)
	-\$16,000,000	Operating Reserves (50% of annual plus one year project reserves)
Unencumbered Balance FY		
25/26	\$0	

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TABLE 5

PROJECTED REVENUE PLAN USING PROPOSED RATES - PAY-AS-YOU-GO APPROACH

Description	Budgeted		Projected			
	FY 2008-09	FY 2009-10	FY 2010-11	FY 2011-12	FY 2025-26	
Revenues						
Fixed Monthly Service Charges \$18/Account		\$1,200	\$2,278,200	\$2,303,400		\$3,666,200
Consumption Charges (As Modeled)		\$4,100	\$4,402,400	\$5,431,800	\$5,696,600	\$16,736,500
Total Operating Revenues		\$5,300	\$6,663,700	\$7,710,000	\$8,000,000	\$20,402,700
Operating Expenses						
Existing Water Utility O&M/Administration/Xfers			\$3,559,800	\$3,702,200		\$5,877,000
Water Treatment Plant O&M			\$346,100	\$360,000		\$4,599,100
Water Utility Staffing to Supplement Current Levels			\$610,300	\$731,200		\$1,530,400
Regional Naciminto O&M Cost Share			\$1,100,000	\$1,300,000		\$3,376,900
Depreciation						\$3,893,600
Total Operating Expenses		\$3,291,200	\$4,349,800	\$5,616,200	\$6,093,400	\$19,277,000
Net Operating Revenue		\$3,054,100	\$2,313,900	\$2,093,800	\$1,906,600	\$1,125,700
Non-Operating Revenue (Expense)						
Interest Revenue		\$0,000	\$835,600	\$258,100	\$373,100	\$3,202,400
Water Connection Fee Revenues		\$0	\$1,212,600	\$2,380,000	\$3,570,000	\$17,448,000
Existing Pipeline Debt Service				(\$1,600,000)	(\$4,230,000)	(\$4,230,000)
Total Non-Op Revenues/Expenses		\$840,000	\$2,048,200	\$1,038,100	(\$286,900)	\$16,420,400
Net Income Before Capital Activity		\$3,894,100	\$4,362,100	\$3,131,900	\$1,619,700	\$17,546,100
Capital Expenditures		\$3,000,000	\$3,000,000	\$258,000	\$5,847,000	\$5,216,000
Net Change in Funds Avail. After Capital Activity		\$669,100	(\$14,435,900)	\$2,873,900	(\$4,227,300)	\$12,330,100
Beginning Cash Balance			\$889,100	\$6,453,200	\$9,327,100	\$80,060,400
Ending Cash Balance			\$453,200	\$9,327,100	\$5,099,800	\$92,390,500

Data for Fiscal Years 12/13 to 24/25

Description	Proposed Rates and Projected Changes in Accounts and Water Usage				
Proposed Fixed Rate Increase	0.0%	0.0%	0.0%	0.0%	0.0%
Proposed Usage Rate Increase	3.1%	32.6%	14.3%	12.5%	0.0%
Proposed Fixed Rate (\$/Account/Month) (9-16-08)	\$18.00	\$18.00	\$18.00	\$18.00	\$18.00
Proposed Average Usage Unit Rate (\$/HCF) (9-16-08)	\$1.32	\$1.75	\$2.00	\$2.25	\$3.33
Estimated Connection Fee (9-11-08)	\$16,700	\$20,210	\$23,800	\$23,800	\$23,800
Growth Based Changes in Accounts					
Number of Water Meters	10,422	10,469	10,547	10,664	16,973
Number of Equivalent Water Meters (Capacity Basis)	11,823	11,877	11,965	12,098	19,255
Net Water Sales/Consumption (AF)	7,589	6,887	6,954	6,458	11,842
Net Water Sales/Consumption (HCF)	3,305,868	3,000,171	3,029,132	2,812,933	5,158,164
Water Conservation Factor	100%	90%	100%	91%	100%
Increase in Number of Equivalent Meters/Year (Capacity Bas	0	60	100	150	733
Increase in Number of Accounts /Year	0	47	78	117	571

Data for Fiscal Years 12/13 to 24/25

Notes:

Pay-as-you-go approach based on expanding water treatment facilities to 4,000 AF in FY 18-19 and to 6,000 AF in FY 21-22; costs and revenues have been rounded.
 Consumption charge revenues include an adjustment for reduced charge for Single Family block 1 water usage; Fixed revenue is based on per account, regardless of meter size.
 Existing debt service coverage requirement is based on Annual Net Income Before Capital Activity must be positive, per SLO County Financing Authority.
 Target reserves based on 50% of annual operating expenses (30% ops reserve & 20% economic uncertainty), plus 1-Year's average cash CIP (estimated at \$2 M current, \$5 M at 2025)