

TO: James L. App, City Manager
FROM: Doug Monn, Public Works Director
SUBJECT: Adoption of Water Capacity Charges
DATE: March 17, 2009

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

- FACTS:**
1. Water consumption rates generate revenues to cover the costs of providing water service to existing customers, whereas water capacity charges are imposed on new development to help pay for existing and/or new public facilities that are of proportional benefit to those being charged.
 2. Improvements to the City water system are needed, primarily to improve water quality and supply reliability, to supplement the limited ground water supply, and also to provide adequate distribution, staffing, and water storage capacity for the existing community and new development.
 3. The planned improvements, as outlined in the 2007 Integrated Water Resources Plan and Capital Improvement Program, amount to approximately \$170 million through the year 2025, including the Nacimiento Water Project supply and treatment capital costs, as well as other distribution system capital costs.
 4. The revenues generated by the existing connection fees (water capacity charges) are inadequate to cover the costs of new development's share of the existing and future facilities set forth in the Integrated Water Resources and Capital Improvement Plan.
 5. On January 15, 2008, Council directed that studies of water consumption rates and water connection fees (water capacity charges) be prepared in light of both the Nacimiento Water Project and other planned water system improvements. The firm of HF&H Consultants, LLC, was retained to analyze the City's revenues and costs with respect to the water capacity charges.
 6. Based on HF&H's analysis, costs for the City's existing entitlement in the Nacimiento Water Project and the associated water treatment plant are to be borne equally between existing rate payers and new development. Future facilities such as tanks and pipelines identified in the City's master planned water system will have the capacity to serve both existing and future customers. Therefore the proposed capacity charges are based on the total cost of providing that capacity divided among the total units at build-out, to ensure that new development would pay its proportionate share of the capacity being provided. In addition, these proposed capacity fees include the full cost of obtaining future additional water from Nacimiento for new development.
 7. The City wishes to ensure the ability to produce water to meet peak demands, extend water reliability, and improve water quality. A phased connection fee will provide the necessary funding to provide a reliable, well-maintained, infrastructure system and reliable water resource to serve the needs of future customers; water consumption rates will provide the funds necessary to assure the same benefits for

existing customers. The timing of that proposed phasing is to coincide with the adopted water rate structure.

8. Beginning in July 2008, the City Council considered alternative water capacity charges, along with water consumption rate structures, and directed staff to return with a proposed resolution enacting the water capacity charges.
9. Staff has sustained dialogue with the Central Coast Homebuilders' Association since that time with regard to the proposed water capacity charges. On January 23, 2009, the Homebuilders' Association signaled their agreement with the proposed water capacity charges with the understanding that the charges are to be revisited two years hence.
10. On January 20, 2009, the City Council introduced for first reading an ordinance establishing a revised water rate structure. That ordinance was adopted by City Council on February 3, 2009.
11. Adoption of the proposed water capacity charges will balance the City's water fund revenues with anticipated costs and provide for more reliable, better quality water supply to Paso Robles residents.

**ANALYSIS &
CONCLUSION:**

The following table lists the proposed capacity charges by connection (meter) size as stated in the report dated January 23, 2009, by HF&H:

Water Capacity Charges

Connection Size	Current Charge as of July 1, 2008	Proposed Charge as of				
		January 1, 2010	January 1, 2011	January 1, 2012	January 1, 2013	January 1, 2014
5/8" and 3/4"	\$9,119	\$12,000	\$14,870	\$17,750	\$20,620	\$23,500
1"	\$15,226	\$20,040	\$24,830	\$29,640	\$34,440	\$39,250
1-1/2"	\$30,364	\$39,960	\$49,520	\$59,110	\$68,660	\$78,260
2"	\$48,601	\$63,960	\$79,260	\$94,610	\$109,900	\$125,260
3"	\$97,292	\$120,000	\$148,700	\$177,500	\$206,200	\$235,000
4"	\$152,002	\$200,040	\$247,880	\$295,890	\$343,740	\$391,750
6"	\$303,914	\$399,960	\$495,620	\$591,610	\$687,260	\$783,260
8'	\$486,280	\$639,960	\$793,020	\$946,610	\$1,099,660	\$1,253,260
10"	\$699,100	\$920,040	\$1,140,080	\$1,360,890	\$1,580,940	\$1,801,750

Details regarding the derivation of the proposed water capacity charges are addressed in the attached report, "Water Capacity Charge Study – Revised Final Report" by HF&H Consultants dated January 23, 2009.

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

- a. That City Council approve and adopt the schedule of water connection fees (water capacity charges) reflected in the attached resolution as Exhibit 'A' March 17, 2009, to become effective January 1, 2010.
- b. That said water connection fees (water capacity charges) shall be reviewed no less than biennially (every two years) in conjunction with the update of the City's four-year financial plan to ensure that the water connection fees (water capacity charges) then in existence do not exceed the estimated reasonable cost of providing the public facilities and services for which they are imposed.

POLICY

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

FISCAL IMPACT: The need to implement new water capacity charges is directly related to the need for new development to pay for its share of the Nacimiento bond debt payments, treatment plant construction, and other conveyance system improvements. If capacity charge revenues are not sufficient to cover these costs, the General Fund will be required to cover the shortfall. Using General Fund Revenues to offset water costs will impact operations such as, library services, children's and senior programs, parks, as well as police and fire, and other City amenities.

- OPTIONS:**
- a. Approve Resolution No. 09-XX establishing the Water Capacity Charges (i.e. water connection fees).
 - b. Amend, modify, or reject the above option.

Attachments

- 1) "Water Capacity Charge Study – Revised Final Report" dated January 23, 2009, prepared by HF&H Consultants
- 2) Resolution No. 09-xx



2175 North California Boulevard, Suite 990
Walnut Creek, California 94596
Tel: (925) 977-6950
Fax: (925) 977-6955
www.hfh-consultants.com

Robert D. Hilton, CMC
John W. Farnkopf, PE
Laith B. Ezzet, CMC
Richard J. Simonson, CMC

January 23, 2009

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

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

Dear Mr. App:

Since submitting the August 27, 2008 draft of this report, HF&H received a revised Capital Improvement Plan from TJ Cross Engineers. We have revised the report based on the input received concerning project costs and allocations of the projects between existing and future rate payers.

1.0. INTRODUCTION

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

2.0. BACKGROUND

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

service”¹. Because the Act does not prescribe a formula or procedure for determining “the estimated reasonable cost,” it is the responsibility of the analyst to employ a method that yields a reasonable result.

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

Figure 1 summarizes the City’s current capacity charges, which became effective July 1, 2008. Residential connections pay the fees shown in Table A. For non-residential connections, the applicable fee is the higher of Table A or Table B. It is the City’s practice to conduct studies to periodically update its capacity charge calculations with the latest capital costs. The capacity charges are escalated annually between studies to reflect inflationary cost increases. The current fees reflect a consultants study conducted in 2004², and have been increased subsequently by the increase in the Engineering News Record’s (ENR) Construction Cost Inflation index.

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

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

3.0. APPROACH AND ANALYSIS

3.1. Approach

¹ Mitigation Fee Act Section 66013(a).

² This study also derived water capacity charges based on equivalent dwelling units; water capacity charges are now charged based on the size of the water service connection.

The reasonable cost of providing water service for growth was determined for existing and future facilities. Existing facilities form the backbone system to which future facilities will be added. The cost of existing facilities was therefore proportioned between existing and future rate payers on the basis of the number of existing and future connections. In this way, *all current and future customers participate equally* in the existing system capital. Because of this equal participation, *no discrimination occurs* against either growth or existing rate payers. Hence, *no subsidies* occur between growth and existing rate payers for the existing facilities.

Future facilities were allocated between existing and future rate payers by City staff and engineering consultants. The allocations vary based on the benefits received. In some cases, no cost is allocated to growth because growth receives no benefit. In the case of the additional water supply beyond the City's current 4,000 AFY Nacimiento entitlement, all of the cost is allocated to growth because the water is needed by growth only. In most cases, however, half of the cost is allocated to growth.

Growth's reasonable share of the cost of water service is the sum of the allocations of the existing and future facilities.

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

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

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

The combination of the existing and future facilities represents all water system infrastructure known at this time that will be required to meet demands at build-out.

There will no doubt be additional facilities that should be included in future updates. There will also be other facilities that are currently projected for future construction that are modified or replaced by other facilities. Changes like this can be reflected in future updates. We note that City staff has reviewed the list of existing and future facilities to ensure that there are no existing facilities that are also included in the future facilities.

3.2.1. Value of Existing Facilities

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

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

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

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

The City does not maintain records on which mains were contributed by developers. Nor does the City maintain records on which facilities were of only specific benefit to a

subdivision and do not provide additional capacity for infill, upstream development, or additional growth. Without such records, excluding developer contributions is highly judgmental.

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

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

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

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

³ As previously discussed, some analysts also use the incremental approach despite its limitations.

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

Including depreciation does not mean that growth subsidizes existing rate payers. Depreciation occurs on all facilities, both those that are used by existing rate payers as well as the unused portion provided for growth. Rates include the cost of renewal and replacement to offset depreciation. Growth benefits from renewal and replacement, which maintains the functional integrity of the surplus capacity for the convenience of growth when it occurs. Including depreciation in the capacity charge ensures that growth reimburses rate payers for bearing the cost of maintaining, renewing, and replacing system capacity.

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

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

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

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

3.2.2. Value of Future Facilities

The cost of future facilities was based on current engineering cost estimates escalated to the projected date of construction. It is our understanding that these cost estimates include all associated engineering and construction costs but may not include the cost of City overhead. As such, the costs may slightly under-estimate the total system cost. The projects fall into two categories: water supply (i.e., regional pipeline, treatment, and water supply entitlement) and other capital improvements (i.e. wells, distribution pipelines, metering, tanks, corporation yard, and pipelines). The allocation of each is described below.

The Nacimiento regional pipeline will be debt-financed and the City's obligation for bond payments commences in 2010. Financing costs were included in the value of the debt-financed future facilities. The Nacimiento Water Project financing costs that were provided with the cost estimates include interest payments and issuance costs. The City's participation in this project has been predicated on 50% participation by growth.

The cost of future water supply in addition to the City's current 4,000 acre-feet per year (AFY) of Nacimiento water was considered of benefit to growth only. Considerable analysis led to an estimated additional supply of water for growth of 1,400 AFY. The analysis reflects long-term residential conservation of 20% coupled with additional growth in the non-residential sector. The estimated 1,400 AFY is reduced from previous estimates of as much as 4,000 AFY. The cost of future water supply was based on \$15,000 per AF, which approximates the cost of Nacimiento water, but could be applied to other sources of supply in the event that Nacimiento water entitlements are fully subscribed to by FY 2021-22.

Future water treatment facility costs have been significantly reduced. Previous estimates for a 6 million gallon per day (MGD) full-scale treatment plant have been scaled back to a plant built in three phases at a cost of \$58.8 million. Funding for this plant in three phases is possible on a pay-as-you-go basis, rather than with debt financing, thereby further reducing the cost. Growth shares in 50% of this facility at a cost of \$29.4 million, rather than the \$44.9 million in principal and interest costs for the full 6 MGD facility.

The capital improvement program (CIP) is based on the 2007 Integrated Water Resources Plan. The CIP includes local distribution system projects that correct system deficiencies and provide capacity for growth. The projects are projected for completion over the next 17 years to buildout and can be constructed from cash without debt financing. Growth share of each project resulted in an overall allocation of 43%.

3.3. Projected Equivalent Meter Units

Figure 2 shows the derivation of the total and growth-related equivalent meter units (EMUs⁴) at build-out. The number of accounts for each meter size for 2007 was updated based on December 2007 data from the City's billing system. The projection for build-out was based on an extrapolation of land use growth projections and shows an increase in EMUs from 13,158 to 22,325, an increment of growth of 9,163 EMUs.⁵

Figure 2. Equivalent Meter Units

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

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

(1) Meter Size	(2) EMU Multiplier ¹	(3) 2007		(5) Build-Out		(7) Growth Increment		
		(3) Accounts ²	(4) EMUs (2)*(3)	(5) Accounts (6)/(2)	(6) EMUs ²	(7) Accounts (5)-(3)	(8) EMUs (6)-(4)	
5/8" & 3/4"	1.00	9,145	9,145	15,344	15,344	6,199	6,199	
1"	1.67	606	1,012	1,019	1,702	413	690	
1 1/2"	3.33	169	563	302	1,007	133	444	
2"	5.33	275	1,466	494	2,631	219	1,165	
3"	10.00	28	280	50	499	22	219	
4"	16.67	27	450	47	786	20	336	
6"	33.33	1	33	1	48	0	15	
8"	53.33	4	213	6	308	2	95	
10"	76.67	0	0	0	0	0	0	
		10,255	13,162	17,263	22,325	7,008	9,163	
Growth's proportionate share							41.0%	

1. AWWA *Water Meters - Selection, Installation, Testing, and Maintenance*
 2. City of Paso Robles, "Basis for Fee Calculation", November 20, 2008.

3.4.1. Capacity Charges

Figure 3 summarizes the estimated costs associated with future projects and the existing facilities. Of the \$423 million in total costs, \$218 million (51%) are attributable to growth. **Figure 3** also itemizes the components of the existing and future facilities comprising the capacity charge, which shows that approximately \$5,000 per EMU (21%) is associated with the existing facilities and \$18,700 (79%) with future facilities; approximately 66% of the cost of future facilities is attributable to water supply costs. The total shows a capacity charge rounded to \$23,500 per EMU.

Figure 3. Facility Costs and Capacity Charge

	Total Estimated Cost	Allocation To Growth	Growth Share Of Cost	Component of Charge (\$/EMU)	Portion of Total Charge
Future Projects - Water Supply					
Water Treatment Plant (2 mgd)	\$58,838,001	50%	\$29,419,001	\$3,211	14%
Nacimiento Regional Pipeline	\$144,190,000	50%	\$72,095,000	\$7,868	33%
Additional Water Supply (1,400 AFY)	\$42,121,252	100%	\$42,121,252	\$4,597	19%
Subtotal	\$245,149,253	59%	\$143,635,253	\$15,676	66%
Future Projects - CIP					
	\$65,677,246	43%	\$27,935,920	\$3,049	13%
Existing Facilities					
	\$112,029,192	41%	\$45,980,092	\$5,018	21%
Total	\$422,855,691	51%	\$217,551,265	\$23,743	100%
				\$23,500 rounded	

4.0. RECOMMENDATIONS

The proposed capacity charges are significantly higher than the current charges. We recommend that the City phase in the new capacity charges over several years, as shown in **Figure 4**.

Figure 4. Phased-In Capacity Charges

Meter Size	Equivalent Meter Units	Current Fee as of 7/1/08	Escalated Fee as of 7/1/09	Proposed Charge as of:				
				1/1/2010	1/1/2011	1/1/2012	1/1/2013	1/1/2014
5/8" and 3/4"	1.00	\$9,119	To be determined based on annual inflation	\$12,000	\$14,870	\$17,750	\$20,620	\$23,500
1"	1.67	\$15,226		\$20,040	\$24,830	\$29,640	\$34,440	\$39,250
1 1/2"	3.33	\$30,364		\$39,960	\$49,520	\$59,110	\$68,660	\$78,260
2"	5.33	\$48,601		\$63,960	\$79,260	\$94,610	\$109,900	\$125,260
3"	10.00	\$97,292		\$120,000	\$148,700	\$177,500	\$206,200	\$235,000
4"	16.67	\$152,002		\$200,040	\$247,880	\$295,890	\$343,740	\$391,750
6"	33.33	\$303,914		\$399,960	\$495,620	\$591,610	\$687,260	\$783,260
8"	53.33	\$486,280		\$639,960	\$793,020	\$946,610	\$1,099,660	\$1,253,260
10"	76.67	\$699,100		\$920,040	\$1,140,080	\$1,360,890	\$1,580,940	\$1,801,750

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

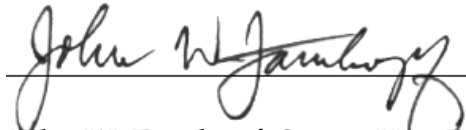
Mr. Jim App
January 23, 2009
Page 11

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

Please do not hesitate to call if you have any questions.

Very truly yours,

HILTON FARNKOPF & HOBSON, LLC

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

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

Attachments:

Water Capacity Charge Model.

Basis for Fee Calculation. Prepared by City of Paso Robles, November 20, 2008.

RESOLUTION NO. 09-XX

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

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

WHEREAS, the planned improvements as outlined in the 2007 Integrated Water Resources Plan and Capital Improvement Program and subsequent capital improvement plan updates amount to approximately \$170 million through the year 2025, including Nacimiento supply and treatment capital costs as well as other distribution system capital costs plus financing and operations costs; and

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

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

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

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

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

WHEREAS, notices and information regarding the March 17, 2009, public hearing on the adoption of the proposed capacity charges, in compliance with the requirements of Government Code section 66016, were sent to interested parties.

THEREFORE, BE IT RESOLVED AS FOLLOWS:

SECTION 1. The City Council of the City of El Paso de Robles hereby finds and determines that the proposed water connection and capacity charges do not exceed the estimated reasonable cost of providing the service for which the fee is to be charged. This finding is based on the

study conducted by HF&H, dated January 23, 2009, as amended to date, and incorporated herein by reference, the staff report and other testimony and information presented at the public hearing.

SECTION 2. The City Council of the City of El Paso de Robles does hereby approve and adopt the schedule of water connections fees (water capacity charges) attached hereto as Exhibit 'A' and incorporated herein by reference, to become effective January 1, 2010.

SECTION 3. That said water connection fees (water capacity charges) shall be reviewed no less than biennially (every two years) in conjunction with the update of the City's four-year financial plan to ensure that the water connection fees (water capacity charges) then in existence do not exceed the estimated reasonable cost of providing the public facilities and services for which they are imposed.

PASSED AND ADOPTED by the City Council of the City of Paso Robles this 17th day of March 2009 by the following votes:

AYES:

NOES:

ABSTAIN:

ABSENT:

ATTEST:

Duane Picanco, Mayor

Cathy M. David, Deputy City Clerk

EXHIBIT 'A'
TO RESOLUTION 09- XX

Water Connection and Capacity Charges

Connection Size	Current Charge as of July 1, 2008	Proposed Charge as of				
		January 1, 2010	January 1, 2011	January 1, 2012	January 1, 2013	January 1, 2014
5/8" and 3/4"	\$9,119	\$12,000	\$14,870	\$17,750	\$20,620	\$23,500
1"	\$15,226	\$20,040	\$24,830	\$29,640	\$34,440	\$39,250
1-1/2"	\$30,364	\$39,960	\$49,520	\$59,110	\$68,660	\$78,260
2"	\$48,601	\$63,960	\$79,260	\$94,610	\$109,900	\$125,260
3"	\$97,292	\$120,000	\$148,700	\$177,500	\$206,200	\$235,000
4"	\$152,002	\$200,040	\$247,880	\$295,890	\$343,740	\$391,750
6"	\$303,914	\$399,960	\$495,620	\$591,610	\$687,260	\$783,260
8"	\$486,280	\$639,960	\$793,020	\$946,610	\$1,099,660	\$1,253,260
10"	\$699,100	\$920,040	\$1,140,080	\$1,360,890	\$1,580,940	\$1,801,750