TO: City Council

FROM: Doug Monn, Public Works Director

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

DATE: April 6, 2010

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

FACTS:

1. Water demand exceeds supply.
2. $13 Million per year is required to meet water system debt obligations and operating costs. Current revenue is just $6.3 Million per year.
3. A water rate adjustment is necessary to cover the City's full cost of providing existing customers drinking water.
4. Even with rate increases, water will cost less than 1 cent per gallon.
5. Under the proposed rates, existing customers will pay their share of the Nacimiento Project and proposed water treatment plant costs as well as all other water system operations, maintenance and repair costs. New development will pay for its 50% share of the Nacimiento Project and proposed water treatment plant costs over time through connection fees adopted in 2009, as well as for any additional Nacimiento water allotment.

ANALYSIS & CONCLUSION: On February 2, 2010, City Council approved proposing a uniform water rate structure such that all customers would pay according to the amount of water used. The proposed rate structure is described in the "2010 Uniform Water Rate Study – Final Report" dated January 25, 2010, prepared by Kennedy/Jenks Consultants (attached).

Proposed Uniform Water Usage Rates**

User Class	Effective 1/1/11	Effective 1/1/12	Effective 1/1/13	Effective 1/1/14	Effective 1/1/15
All Customers	Usage Charge $/HCF*				
All Water Usage	$2.50	$3.20	$3.70	$4.10	$4.40

**HCF = hundred cubic feet = 748 gallons*

***Current $18 monthly fixed charge would be eliminated as of 1/1/11.*

Perhaps the best illustration of the effect of the proposed uniform rate structure is to show this in terms of typical customer bills.

Illustrative Water Bills

Description	Current Rate	Proposed Rate	
	Current	Year 1 Effective 1/1/11	Year 5 Effective 1/1/15
Single Family [(a)]			
9 Units (224 gal/day)	$29.88	$22.50	$39.60
13 Units (324 gal/day)	$35.16	$32.50	$57.20
20 Units (499 gal/day)	$44.40	$50.00	$88.00
Commercial [(b)]			
20 Units (499 gal/day)	$44.40	$50.00	$88.00
60 Units (1,496 gal/day)	$97.20	$150.00	$264.00

Notes:

(a) 9 units is the 1st quartile, 13 is the mean, and 20 the 75th percentile.

(b) 20 units is the median/average and 60 is the 75th percentile.

Notices regarding this public hearing were mailed on February 8, 2010, more than 45 days prior to tonight's hearing pursuant to the requirements of Proposition 218 and Article XIIID of the California Constitution.

There are an estimated combined 10,300 owners of record for parcel(s) plus tenants directly responsible for payment for water service in the City of Paso Robles. In the event that a majority (i.e. more than 50 %) of such owners and tenants submit valid written protests, then the proposed uniform rate structure cannot be adopted and another rate structure would have to be proposed.

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

FISCAL IMPACT: The City is contractually obligated to pay its share of the debt service payments for the bonds that were issued to pay for Nacimiento Water Project construction. The Nacimiento Water Project is a necessary and essential component of the City's water delivery system. Also, as noted in the attached Kennedy/Jenks Consultants report, the City has had to draw on reserves to pay for current operations for the last three years because operating expenses have exceeded revenues.

Without a water rate increase, the Water Fund will go broke by 2014.

In that event, the General Fund will ultimately have to make up any revenue shortfall. The General Fund pays for operations such as library services, children's and senior programs, parks, as well as police and fire. Serious budget cuts and significant reductions in services could result.

OPTIONS:

A. Close the public hearing and:

1. Establish number of valid written protests that have been submitted per Proposition 218/Article XIIID of the California Constitution; and
2. If there is no majority protest, introduce and read by title only Ordinance No. XXX N.S.; or
3. If there is a majority protest, direct staff to develop alternatives.

B. Amend, modify or reject the above option.

Attachments:

A – "2010 Uniform Water Rate Study – Final Report" dated January 25, 2010, prepared by Kennedy/Jenks Consultants
B – Ordinance No. XXX N.S.

Kennedy/Jenks Consultants

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Irvine, CA 92614
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City of Paso Robles

2010 Uniform Water Rate Study
Final Report

January 25, 2010

Prepared for

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

K/J Project No. 0883005_10

Kennedy/Jenks Consultants

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

25 January 2010

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

Subject: Final Report – 2010 Uniform Water Rate Study
K/J 0883005_10

Dear Mr. Monn:

Kennedy/Jenks Consultants is pleased to submit the Final Report of the 2010 Uniform Water Rate Study 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 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 work products and the City Council meeting of 19 January 2010. Most notably, this report integrates the current approach for the construction of a 4 MGD water treatment plant and associated facilities and integrates the need for a new $4 Million debt issuance in FY 11-12 to supplement available funds. 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.

Another important element of the 2010 Uniform Water Rate Study is the development of new all uniform water usage rates. The proposed water rates and rate structure are intended to be simple, fair for all customers, support water conservation, and promote public understanding and acceptance. By promoting conservation, the proposed rates are designed to support the City's current imbalance in water supply and demands and meet the projected financial shortfall in revenues in the next five years.

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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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 has been working on an implementation strategy that will meet the short and long-term financial obligations of the City's utility and provide for local program ratemaking objectives.

This water rate and revenue analysis is an update to previous studies performed by Kennedy/Jenks Consultants in September 2008 and on January 11, 2010. Many of the key issues, objectives, and conclusions identified in those studies remain in place today, although the water utility's financial condition has worsened from delays in the approval of increased water rates.

Consistent with prior studies, the primary factors facing the City's water utility are:

- The need to increase the City's ability to provide treated water to its existing customers; current demands exceed available water supply.
- The need to fully implement the financial and operational requirements of the new Nacimiento water supply. Based on current supply and demand conditions, a new 4 MGD water treatment plant is proposed to treat the City's current Nacimiento water supply entitlement. The City's financial obligation associated with the new regional supply pipeline is scheduled to begin in FY 10-11.
- The need to develop updated rates to fund the projected enterprise financial requirements and develop an appropriate rate structure to support various water conservation and cost recovery requirements.

Section 2: Historical and Current Conditions

2.1 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) for the last two years. The CAFR for Fiscal Year (FY) 08-09 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 two year period, this parameter has ranged from a negative 7% in FY 07-08 to a negative 38% in FY 08-09. This parameter reflects the fact that 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 also in important element of a financial assessment. While the City's water fund has generally experienced a drawdown over the last several years, the FY 08-09 CAFR indicates the fund has approximately $22.5 million in cash and cash equivalents. It is for this reason that the water fund has maintained its recent financial stability.

In consideration of these factors, as well as the integration of looming debt costs of over $4.2 million per year, additional revenues from water rates are warranted 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.

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. As to be expected with the current economy, there has been little change in account activity (i.e. growth) since the 2008 study. Accordingly, the water utility remains to be predominantly base-level residential customers with 5/8" and 3/4" meters.

TABLE 1

HISTORICAL OPERATING REVENUES AND EXPENSES

Sources and Uses of Funds	FY 07-08	FY 08-09
Operating Revenues		
Charges for Service	$4,215,236	$3,957,618
Other	11,645	27,787
Total Operating Revenues	4,226,881	3,985,405
Operating Expenses		
Maintenance, Operations, & Administration	3,515,058	4,535,373
Depreciation and Amortization	884,228	947,305
Total Operating Expenses	4,399,286	5,482,678
Net Operating Income (Loss)	(172,405)	(1,497,273)
Net Op Rev as % of Total Op Rev	-4%	-38%
Non-Operating Revenue (Expense)		
Interest Revenue	925,180	787,756
Water Connection Fees	271,221	na
Nacimiento Water Fees	1,856,561	2,636,535
Total Non-Op Revenues (Exp.)	3,052,962	3,424,291
Net Income (Loss) Before Capital/Other Costs	2,880,557	1,927,018

Source: City of Paso Robles, CAFRs

The primary difference in account and demand activity from previous years is the City's need to implement mandatory water conservation in April 2009. This conservation was essential to address the imbalance in the City's peak summer time demands and available water supply to avoid potential water shortages. Through these efforts, the City's water usage from May through August 2009 was approximately 20% less than historical levels for these periods.

Table 2 summarizes the City's water demands by customer class for FY 08-09. A copy of the City's most recent annual report to the DWR for CY 2008 is provided in Appendix A for additional information. Note that the DWR report's monthly/annual usage values are in million gallons.

TABLE 2

CURRENT ACCOUNTS AND WATER CONSUMPTION

Customer Class	Accounts	FY 08-09 Usage (Hcf)
Single Family Residential	8,722	1,854,540
Multi-Family Residential	400	292,518
Commercial / Institutional	688	468,279
Industrial	71	62,293
Landscape Irrigation	347	396,191
Other	59	115,558
TOTAL	10,287	3,189,378

Source: City Water Department.
Hcf = hundred cubic feet = 748 gallons/hcf

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 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 provided below.

- FY 2010-11 25 Equivalent Meters[1]
- FY 2011-12 50 Equivalent Meters
- FY 2012-13 75 Equivalent Meters
- FY 2013-14 100 Equivalent Meters
- FY 2014-15 150 Equivalent Meters

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. As indicated previously, the City has implemented water conservation programs to improve the City's water supply/demand imbalance and to meet several new and upcoming water conservation related regulations. Some of the primary changes include the adoption of a new water efficient landscape ordinance in December 2009 to respond to the requirements of AB 1881 and the implementation of various demand management measures to reduce water usage 20% by 2020 in accordance with the City's Urban Water Management Plan and AB 49.

The City recognizes the need for additional conservation from conservation based pricing, and had planned to adopt tiered water rates as this pricing strategy is one of the Paso Robles Urban Water Management Plan and the California Urban Water Conservation Council's Best Management Practices. However, community input suggests that simplicity and customer class

[1] An equivalent meter is used to account for the typical demands associated with larger meters. A single family residence = 1 equivalent meter. A commercial project would equate to more than one equivalent meter.

equity associated with an all uniform rate structure best fits the needs of the City's ratepayers. Moreover, based on the magnitude of the anticipated increase, it is believed that a new all uniform rate will provide adequate pricing incentive to support the City's conservation goals and requirements

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/rates and other conservation programs, 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 have historically been accounted for 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 Division is responsible for the operation, maintenance, and management of the water system. To account for the labor and operational costs of the new water treatment plant, a new Water Treatment Operation Division has been established. The current estimated actual and projected water utility costs for these Divisions are shown in Table 3.

As shown, water fund operating costs are projected to increase considerably over the next five years to meet drinking water regulations, pay increasing power bills, and to integrate the new Nacimiento water supply. This cost increase has been 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 to meet current and projected needs.

It is important to note that in addition to the inclusion of new water supply costs, Table 3 also includes the funding of depreciation in the latter years of the five year period. Based on the City's chart of accounts, the estimated annual depreciation of water utility assets is approximately $1 Million, increasing to $1.7 Million/year in year five. Depreciation is included in the revenue requirements of the water fund based on funding availability, currently scheduled at $750,000 in FY 13-14 and $1.5 Million per year thereafter.

TABLE 3
CURRENT ESTIMATED ACTUAL AND PROJECTED WATER O&M EXPENSES

Description	Est Actuals FY 2009-10	Projected FY 2010-11	FY 2011-12	FY 2012-13	FY 2013-14	FY 2014-15
Utility Billing and Cashiering						
Dept. No. 140 - Division No. 127						
Department Salaries and Benefits	$498,800	$551,200	$562,400	$574,400	$591,600	$609,300
Maintenance & Operations	$592,500	$618,900	$621,800	$630,500	$649,400	$668,900
Misc. Capital Outlay (4-Year Average for FY 13-14)	$14,100	$8,000	$4,600	$14,100	$14,500	$14,900
New - Additional Transfer to Wastewater (a)	($200,000)	($206,000)	($212,200)	($218,600)	($225,200)	($232,000)
Charges to Other Departments (a)	($342,300)	($366,900)	($372,200)	($377,800)	($389,100)	($400,800)
Subtotal - Utility Billing and Cashiering	$563,100	$605,200	$604,400	$622,600	$641,200	$660,300
Water Production and Distribution						
Dept. No. 310 - Division No. 165						
Department Salaries and Benefits	$1,377,800	$1,314,700	$1,397,000	$1,438,900	$1,482,000	$1,526,500
Maintenance & Operations	$2,127,000	$2,614,400	$2,618,400	$2,677,900	$2,098,900	$2,161,900
Misc. Capital Outlay (4-Year Average for FY 13-14)	$640,900	$114,800	$23,800	$43,900	$50,000	$51,500
Subtotal - Water Production and Distribution	$4,145,700	$4,043,900	$4,039,200	$4,160,700	$3,630,900	$3,739,900
Water Production and Distribution - Div 165 Naci Program Costs						
Naci Regional O&M	$0	$0	$0	$325,000	$650,000	$1,300,000
Naci Debt Service	$0	$1,600,000	$4,200,000	$4,200,000	$4,200,000	$4,200,000
Subtotal - Naci Program Costs	$0	$1,600,000	$4,200,000	$4,525,000	$4,850,000	$5,500,000
Subtotal - All Water Production/Dis. Div 165 Costs	$4,145,700	$5,643,900	$8,239,200	$8,685,700	$8,480,900	$9,239,900
Water Treatment Operations						
Dept. No. 310 - Division No. 265						
Department Salaries and Benefits	$0	$0	$0	$300,400	$397,800	$409,700
Maintenance & Operations	$34,200	$100,000	$150,000	$317,500	$1,340,500	$1,400,700
Misc. Capital Outlay	$0	$0	$0	$50,000	$50,000	$51,500
Subtotal - Water Production and Distribution	$34,200	$100,000	$150,000	$667,900	$1,788,300	$1,861,900
Depreciation Funding (b)	$0	$0	$0	$0	$750,000	$1,500,000
Total Budgeted and Projected O&M Expenses	**$4,743,000**	**$6,349,100**	**$8,993,600**	**$9,976,200**	**$11,660,400**	**$13,262,100**

Source: City of Paso Robles Finance Department budget data, T.J. Cross, & Kennedy Jenks. Subtotals are rounded.
Note: General inflation values for labor, material, & suplies used herein is = to 3%
(a) Charged to Wastewater Division, Fund 601, per Finance staff. Additional charges programmed for transfer based on proportion of utility labor costs.
(b) Depreciation is included herein based on projected funding availability, as derived and reflected in Table 5.

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 several 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 current water system CIP is separated into four basic categories. These are: Nacimiento Water Project Improvements, Well Improvements, Tank/Booster Station/Metering Project Improvements, and Pipeline Improvements. Consistent with the 2008 Rate Study, to minimize ratepayer impact as much as possible the water system capital improvement program is spread out over 16 years, rather than 10 years.

A summary of the five year plan for these primary project categories is provided in Table 4. A comprehensive listing of the specific projects included in the City's 16-year water system CIP is provided in Appendix A.

As previously discussed, a cornerstone element of the capital improvement program is the integration of needed water treatment facilities to utilize the new Nacimiento surface water supply. Given the current water supply/demand conditions, the CIP includes the construction of a new 4 MGD water treatment facility with the financial assistance of some debt financing, rather than constructing a smaller, modular plant under a pay-as-you-go approach. This approach is recommended for the following reasons:

- The 2 MGD Program – Considered in 2008, this smaller, modular approach to treatment would not provide enough treated water. It also placed little emphasis on taste and odor control/water quality consistency, provided little to no production reserves to mitigate peak season demands, supply disruptions, or declines in groundwater production,

- The 4 MGD Program – This approach meets demand and allows citizens to take full advantage of the 4,000 AFY Nacimiento entitlements. It also would be more reliable, provide more consistent water quality throughout the City, and better fulfill the goals outlined in the City's Adaptive Integrated Water Resource Plan (AIWRP).

- Financial Comparison – Under the proposed uniform rate structure, $4 million would be borrowed in FY 11-12, making the annualized costs associated with the 4 MGD Program comparable to the 2 MGD Program. In other words, the City may construct the larger plant at about the same cost as the smaller, modular plant.

In consideration of these factors, the 4 MGD Program has been recommended and integrated herein in the financial pro forma of the City's water fund.

TABLE 4

PROPOSED CAPITAL IMPROVEMENT & DEBT FINANCING PROGRAM

Description	PROJECTED				
	FY 2010-11	FY 2011-12	FY 2012-13	FY 2013-14	FY 2014-15
Water System Capital Improvement Program (a)					
Nacimiento/Water Treatment Plant	$3,588,000	$4,975,000	$16,817,000	$0	$0
Well Improvements	$1,044,000	$216,000	$225,000	$1,404,000	$243,000
Tank, Booster Station and Metering Projects	$187,000	$32,000	$34,000	$35,000	$36,000
Pipeline Improvements	$52,000	$54,000	$731,000	$58,000	$61,000
Total Water Fund CIP	**$4,871,000**	**$5,277,000**	**$17,807,000**	**$1,497,000**	**$340,000**
Water System Debt Financing Program					
New Debt Issuances	$0	$4,000,000	$0	$0	$0
New Annual Debt Service (b)	$0	$0	$0	$0	($281,000)

(a) CIP Source: City of Paso Robles/TJ Cross, December 2009.

(b) When applicable, new debt issuances are based on 30 years @ 5.5% per City staff. Nacimiento pipeline cost is include in O&M.

3.4 Projected Revenue Requirements Using Proposed Rates

To assess the financial implications of the water fund programs and costs, an annualized revenue plan has been prepared. This plan is developed by integrating water system operating and capital costs with projected growth and water criteria (Section 3.1).

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 the proposed average rates needed to fund the water system costs is shown in Table 5.

Consistent with prior rate study alternatives, the revenue plan integrates the use of existing funds to meet short term financial obligations. Under the uniform rate plan, a $4 Million debt issuance is proposed to supplement existing funds to construct the proposed water treatment plant improvements. Annual rate increases are proposed to raise rate-based revenues to the level to sustain the water utility's financial performance and meet new debt coverage covenant requirements. Fund balance is projected to drop to approximately $2 million in years three and four of the five year plan. While these values are below target reserve levels, they are believed to be adequate during this period of rate transition. However, prior to the issuance of this new debt, the City should examine the adequacy of this funding level on reserves and the impact of the associated level of debt service on rate/revenue requirements.

It should be noted that in addition to the increase in rates needed to fund the existing customers' share of system costs, the financial plan also integrates growth's share of system costs; most notably 50% of the Nacimiento pipeline and proposed water treatment plant costs. In recognition of growth's cost obligations, in March 2009, the City adopted new water system capacity charges (often referred to as connection fees). These fees more than doubled the costs for a new water system connection from approximately $9,100 for a base 5/8 inch meter to $23,500. Similar to the proposed rate increases, these charges are also phased in over time and are shown in the bottom of Table 5.

A cautionary note is warranted regarding the use and development of the financial planning findings. Since the magnitude of anticipated increases may vary based on unforeseen change in costs, demand conditions, or reserve requirements, additional review of cost components, revenue requirements, and debt issuance needs should be made during the annual budget development and review process. Accordingly the level of the required annual rate increases may differ from the rate and revenue projections derived herein based on those annual findings.

A discussion of the City's current and proposed rates and rate structure is provided in the following sections.

TABLE 5
PROJECTED REVENUE PLAN USING PROPOSED ALL UNIFORM USAGE RATE

Description	Est Actuals FY 2009-10	Projected FY 2010-11	FY 2011-12	FY 2012-13	FY 2013-14	FY 2014-15
Revenues						
Fixed Monthly Service Charges	$2,213,800	$1,108,900	$0	$0	$0	$0
Consumption Charges	$3,939,300	$5,593,600	$8,208,000	$9,825,600	$11,061,300	$12,044,600
Total Operating Revenues	$6,153,100	$6,702,500	$8,208,000	$9,825,600	$11,061,300	$12,044,600
Operating Expenses						
Utility Billing and Administration (Div 127)	$563,100	$605,200	$604,400	$622,600	$641,200	$660,300
Water Production and Distribution (Div 165)	$4,145,700	$4,043,900	$4,039,200	$4,160,700	$3,630,900	$3,739,900
Water Treatment Operations (Div 265)	$34,200	$100,000	$150,000	$667,900	$1,788,300	$1,861,900
Regional Naci O&M Cost Share	$0	$0	$0	$325,000	$650,000	$1,300,000
Existing Nacimiento Pipeline Debt Service	$0	$1,600,000	$4,200,000	$4,200,000	$4,200,000	$4,200,000
Depreciation Expense					$750,000	$1,500,000
Total Operating Expenses	$4,743,000	$6,349,100	$8,993,600	$9,976,200	$11,660,400	$13,262,100
Net Operating Revenue	$1,410,100	$353,400	($785,600)	($150,600)	($599,100)	($1,217,500)
Non-Operating Revenue (Expense)						
Interest Revenue	$665,900	$687,400	$583,700	$537,200	$61,000	$70,400
Water Connection Fee Revenues	$120,000	$371,800	$887,500	$1,546,500	$2,350,000	$3,525,000
New Debt Service			$0	$0	$0	($281,000)
Total Non-Op Revenues/Expenses	$785,900	$1,059,200	$1,471,200	$2,083,700	$2,411,000	$3,314,400
Net Income Before Capital Activity	$2,196,000	$1,412,600	$685,600	$1,933,100	$1,811,900	$2,096,900
Capital Expenditures	$1,480,000	$4,871,000	$5,278,000	$17,807,000	$1,497,000	$341,000
Capital Financing						
Proposed Debt Issuance		$0	$4,000,000	$0	$0	$0
Net Change in Funds Avail. After Capital Activity	$716,000	($3,458,400)	($1,549,400)	($15,873,900)	$314,900	$1,755,900
Beginning Cash Balance	$22,197,900	$22,913,900	$19,455,500	$17,906,100	$2,032,200	$2,347,100
Ending Cash Balance	$22,913,900	$19,455,500	$17,906,100	$2,032,200	$2,347,100	$4,103,000
Debt Svs Coverage Ratio (Excludes Connection Fee Revenues)		na	na	na	na	1.26

Description	Proposed Rates and Projected Changes in Accounts and Water Usage					
Proposed Base Level Fixed Rate ($/Account/Month) (12/09)	**$18.00**	**$0.00**	**$0.00**	**$0.00**	**$0.00**	**$0.00**
Proposed Average Usage Unit Rate ($/HCF) (12/09)	**$1.32**	**$2.50**	**$3.20**	**$3.70**	**$4.10**	**$4.40**
Connection Fee (1/09)	**$12,000**	**$14,870**	**$17,750**	**$20,620**	**$23,500**	**$23,500**
Growth Based Changes in Accounts/Demands						
Increase in Number of Accounts /Year	8	19	39	58	78	117
Increase in Number of Equivalent Mtrs/Yr (9,163 total)	10	25	50	75	100	150

Notes: O&M costs per Table 3; Capital expenditures/debt financing plan per Table 4. All costs and revenues have been rounded.
Assumes the fixed charge is eliminated in January 2011 and a uniform water usage rate structure is adopted.

Section 4: Current Water Rates

Historically, the City's water rates have been among the lowest in the State, as the public benefited from a low cost water supply and purposefully minimized capital and operational expenditures. Upon completing various comprehensive water studies, the City embarked on a proactive program aimed at long-term reliability and sustained quality of the City's water system.

Given this aim, water rate increases went into effect to fund capital projects 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 were last adjusted on July 1, 2008 with an inflationary increase to the usage charge. The current water rate consists of the following fixed and usage based rate elements.

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, regardless of the customer category or meter size.

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. This usage-based rate element supports a basic pay-for-use ratemaking philosophy. The City's current water usage rate is $1.32 per one hundred (100) cubic feet (HCF)[2]. The characteristics of the present rate structure are provided in Table 6.

TABLE 6

CURRENT WATER RATES

Meter Size (Inches)	Monthly Service Charges ($)
Monthly Charges (Fixed Nacimiento Charges)	
All Meter Sizes	$18
Usage Charges ($/Hundred Cubic Feet - HCF)	
$1.32 per HCF for all water usage	

Source: City of Paso Robles; Rates effective 7/1/08.

[2] One hundred cubic feet = 748 gallons

Section 5: Proposed Water Rates

Proposed rates have been developed to meet the revenue and rate restructuring requirements of the City's water utility. As stated in Section 3, revenues now generated from water rates are approximately $6.3 Million per year; however $13 Million is needed annually to continue water system operations. Development of the proposed service and usage charges, derivation of associated typical monthly bills, and a comparison of water charges in other communities follow.

5.1 Development of Proposed Rates

Water rates are proposed to support the financial health of the community's water system over the coming five years. Refer to Section 3 for future revenue requirements.

There is a wide range of pricing strategies that could be followed to generate the funds needed to meet the City's water fund obligations. Foremost among the rate and pricing strategies deemed important for the City's proposed rate structure is:

- Consideration of the amount of the fixed monthly service charge and its impact on low volume customers,
- Rate simplicity and community understanding, and
- Pricing to promote water conservation

In consideration of these needs, previous rate and rate structure alternatives concluded that a reduction in the current fixed charge for single family residential customers in combination with a tiered rate structure would provide a reasonable balance in meeting these two rate issues and enable low volume customers a way to keep their water bills relatively low. Upon further discussion and public input however, an all uniform rate is now proposed to meet the community's needs for a water rate structure at this time. A discussion of the basis of the proposed rates and rate structure follows.

5.1.1 Fixed Monthly Service Charge Discussion

As discussed in previous studies, since approximately 60% to 75% of a water system's expenses are fixed, the use of fixed charges are common practice for water utilities as it provides a stable source of revenue. While fixed revenue benefits a water utility's financial stability, it does have some negative aspects; this rate element typically inhibits low volume customers' ability to reduce their water bill and does not support water conservation. As such, reducing or eliminating the City's fixed charge would mitigate these rate issues. Eliminating the fixed charge however, means the variable charge will need to recover an additional $2 Million in annual revenue, thereby increasing price awareness and conservation effectiveness of the water commodity or usage rate. Similarly, without a fixed charge, low volume users no longer need the benefit of a lower priced tier to reduce their water bill. Proceeding in this way enables the City's water utility to recover a larger share of the required revenues from the water usage rate for water conservation and is consistent with the "pay for what you use" approach. Based on community sentiment, it is believed that an all uniform rate approach will both meet the

needs of the City's water customers and provide adequate funding for the operational needs of the water fund.

5.1.2 Development of Proposed Usage Charge

Consistent with the revenue requirements shown in Table 5, usage charges were based on projected 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 and has been commonly used throughout California and the United States.

Based on community input, it is proposed to continue the uniform block rate structure. The elimination of the fixed charge requires an adjustment of the usage rates to meet costs, and will also help promote water conservation. While uniform rates are not as conservation focused as tiered rate structures, it is believed that the magnitude of the additional rate increases over the next several years will meet the City's pricing-related conservation goals. These goals are needed for compliance with the requirements of new water conservation regulations AB 1881 and AB 49. The proposed usage charge water rates for the five-year rate period are shown in Table 7.

TABLE 7

PROPOSED UNIFORM WATER USAGE RATES

User Class	FY 10-11	FY 11-12	FY 12-13	FY 13-14	FY 14-15
All Customers		**Usage Charge $/HCF)**			
All Water Usage	$2.50	$3.20	$3.70	$4.10	$4.40

While a number of rate alternatives were evaluated for revenue adequacy, projected conservation, and customer impact, the proposed all uniform rate structure is believed to meet the diverse goals of the City ratepayers. Key features and benefits of the proposed structure are:

- While the proposed rates are not based on inclining priced tiers, the magnitude of price changes should incentivize customers to conserve water; especially large water users.

- By eliminating the fixed charge, low volume customers have a new opportunity to significantly reduce their monthly water bills. Charging based solely on water usage is the purest form of the "pay for what you use" approach. Discounted pricing is no longer needed to ensure that residential users can receive sufficient water to meet basic health requirements.

The rates outlined herein are intended to fund the essential water treatment plant and other capital needs to serve existing water customers, meet the water fund's debt service requirements, provide the necessary funds for ongoing system management and operation and return the water fund to a desired level of financial stability. The proposed rate structure also

supports the city's key goals of encouraging water conservation and is consistent with the "pay-for-what-you-use" philosophy. 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.

5.2 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 rates to both the monthly service charge and the usage charge components of the water rate schedule. Table 8 reflects the resulting impacts of the proposed rate increases over the five year planning period.

TABLE 8

TYPICAL WATER BILLS

Description	Current Bill	Typical Bill (January each year)	
	Current	**Year 1**	**Year 5**
Single Family (a)			
9 Units (3/4 inch meter)	$29.88	$22.50	$39.60
13 Units (3/4 inch meter)	$35.16	$32.50	$57.20
20 Units (3/4 inch meter)	$44.40	$50.00	$88.00
Commercial (b)			
20 Units (3/4 inch meter)	$44.40	$50.00	$88.00
60 Units (1 inch meter)	$97.20	$150.00	$264.00

Notes:
(a) Where 9 units is the 1st quartile, 13 is the mean, and 20 the 75th percentile.
(b) Where 20 units is the median/average and 60 is the 75th percentile.

As shown, the calculated typical bills for the small and medium sized single family customers are reduced under the proposed rates and all uniform rate structure. Consistent with the purpose and pricing strategy of an all commodity rate, the City's larger water users are expected to experience larger increases in their water bills as the proposed rate increases are implemented to recover the City's water system costs of service. These increases are less however than the tiered rate alternatives developed in previous reports.

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 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 this study.

5.3 Comparison of Monthly Bills with Other Communities

In addition to the development of typical bills for City customers, Table 9 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 20 HCF.

As shown, there is a wide range of charges among the surveyed communities. The City's current charges are in the lower range of, and the estimated bills throughout the five years under the proposed rates remain on the low end of comparable agency charges. It is interesting to note that even with the increase proposed five years from now, a Single Family Resident customer using 20 HCF per month in the City will still pay $25 to $30 per month less than the amount currently charged by several County water purveyors. The proposed rates for year 5 are still less than a penny for a gallon of water.

In addition, it should be noted that this rate survey does 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 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, the City's water rates are well in line with other local communities.

5.4 Summary of Proposed Rates

The proposed rates are intended to fund the essential water treatment plant and other capital improvements needed to serve existing water customers, meet the water fund's debt service requirements, provide the necessary funds for ongoing system management and operation and return the water fund to a desired level of financial stability. Since demand exceeds supply, the construction of new water treatment facilities is an important element of the City's water reliability program. With current revenues of approximately $6 million and costs in year five projected to exceed $13 million, an increase in rates is essential. The proposed rates are designed to meet this revenue shortfall. The proposed rate structure is designed to encourage water conservation and is consistent with the "pay-for-what-you-use" philosophy.

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.

TABLE 9
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) (c)	$11.91	$6.05 to $7.86	20	$118.29
City of Morro Bay (d)	$16.43	$5.56 to $13.68	20	$115.08
City of San Luis Obispo (g)	$0.00	$4.92 to $6.16	20	$111.50
City of Paso Robles - Proposed Year 5	**$0.00**	**$4.40**	**20**	**$88.00**
Oceano CSD (a) (c)	$11.97	$3.39 to $4.09	20	$74.85
City of Pismo Beach (a) (e)	$15.95	$2.30 to $2.99	20	$71.61
City of Grover Beach	$6.75	$2.28 to $2.76	20	$53.39
City of Paso Robles - Proposed Year 1	**$0.00**	**$2.50**	**20**	**$50.00**
Nipomo CSD (a)	$15.42	$1.64 to $2.80	20	$48.22
City of Arroyo Grande (a) (e)	$5.45	$1.78 to $2.71	20	$44.89
City of Paso Robles - Current	**$18.00**	**$1.32**	**20**	**$44.40**
Atascadero Mutual Water Co. (b) (f)	$15.00	$1.60 to $6.00	20	$38.32
Templeton CSD (d)	$12.19	$1.17 to $2.62	20	$32.08
Agency Average				**$70.82**

Source Documentation:

Basis: 5/8 &/or 3/4-inch meter, 20 Hcf per month. Agency average excludes the City's rates
(a) Bi-monthly bills. Fixed meter charge shown is a charge per month.
(b) Monthly fixed charge includes 2,000 gallons (2.67 HCF); Quantity rates shown are per HCF.
(c) Fixed charge includes 6 HCF per billing period.
(d) Fixed charge includes 3 HCF per billing period.
(e) Rates for 2011 are available and shown here.
(f) Drought rates shown (effective 6/15/2009).
(g) Rates and calculated monthly bill include a 5% utilitty user tax.

Appendix A

Miscellaneous Supporting Information

State of California | DEPARTMENT OF WATER RESOURCES | California Natural Resources Agency

PUBLIC WATER SYSTEM STATISTICS

Calendar Year 2008

City of Paso Robles
1230 Paso Robles St.
Paso Robles, Ca. 93446

PWS# 4010007 SD

1. General Information

Please follow the provided instructions.

Contact : Kelly Dunham
Title: Water MS III
Phone: 805-237-3866
Fax: 805-237-6596
E-mail: kdunham@prcity.com
Website: www.prcity.com
County: **San Luis Obispo**
Population served: **29,500**
Names of communities served: City of Paso Robles

2. Active Service Connections

Customer Class	Potable Water		Recycled Water	
	Metered	Unmetered	Metered	Unmetered
Single Family Residential	8722			
Multi-family Residential	400			
Commercial/Institutional	688			
Industrial	71			
Landscape Irrigation	347			
Other	59			
Agricultural Irrigation				
TOTAL	10287			

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

☐ acre-feet ☑ million gallons ☐ hundred cubic feet

		Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Total
Potable	*Wells*	109.5248	102.1763	158.2068	203.5834	264.9693	297.8652	320.1588	320.855	282.0022	242.5217	154.0693	115.332	2571.265
	Surface													
	Purchased 1/													
	Total Potable	109.5248	102.1763	158.2068	203.5834	264.9693	297.8652	320.1588	320.855	282.0022	242.5217	154.0693	115.332	2571.265
Untreated Water														
Recycled 2/														

1/ Potable wholesale supplier(s):

2/ Recycled wholesale supplier(s):

Level of treatment:

4. Metered Water Deliveries - Units of delivery:

☐ acre-feet ☑ million gallons ☐ hundred cubic feet

If recycled is included, ✓box ↓	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Total
A.SingleFamilyResidential ☐	49.827	64.796	67.431	104.830	151.548	163.489	154.050	194.470	140.776	136.307	90.892	68.876	1387.292
B.Multi-family Residential ☐	11.483	16.036	14.219	17.737	21.400	23.041	21.978	27.296	21.098	21.373	16.108	7.048	218.8184
C.Commercial/Institutional ☐	14.412	24.560	18.010	26.567	38.166	36.857	35.840	48.295	35.371	33.252	21.150	17.818	350.2974
D.Industrial ☐	3.480	4.002	3.263	3.468	4.557	4.466	4.106	5.409	4.351	4.708	4.115	0.675	46.59816
E.Landscape Irrigation ☐	4.557	5.499	9.030	20.354	31.680	37.820	39.171	49.745	37.865	32.964	19.839	7.847	296.3711
F.Other ☐	1.063	1.394	2.228	3.125	7.870	2.127	21.560	10.484	4.115	22.040	9.815	0.623	86.44337
Total Urban Retail (A thru F)	84.82096	116.2871	114.1807	176.0807	255.2213	267.8005	276.7039	335.6987	243.5757	250.6443	161.9203	102.8867	2385.821
Agricultural Irrigation ☐													
Wholesale *(to other agencies)* ☐													

DWR 38 (Rev. 1/09)

City of el Paso de Robles Water Utility
2009/2010 Alternative Water Rate Analysis

APPENDIX A
16-YEAR CAPITAL IMPROVEMENT PROGRAM (C.I.P.) BUDGET
Updated CIP for Alternate Water Rate Analysis
4 --> 8 MGD Treatment Plant Phasing

		0	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17
	Project[1]	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[3]
Water Projects:																			
Nacimiento Water Project																			
1	Phase I - 4 MGD Facility; consists of membrane system housed in prefab building, pretreatment, treated water reservoir and pump station, Main East Pipeline, backwash recovery system, dedicated standby generators, and Thunderbird Well modifications.		$3,588,000	$4,975,360	$16,816,717														$25,380,000
2	Phase II - Expand to 8 MGD; consists of expanded filtration capacity, more plate settlers, ozonation, and dedicated generator.											$7,367,916	$15,325,265	$7,969,138					$30,662,000
Subtotal Nacimiento Water Project =		**$0**	**$3,588,000**	**$4,975,000**	**$16,817,000**	**$0**	**$0**	**$0**	**$0**	**$0**	**$0**	**$7,368,000**	**$15,325,000**	**$7,969,000**	**$0**	**$0**	**$0**	**$0**	**$56,042,000**
Well Improvements																			
7	Annual well rehabilitation	$200,000	$208,000	$216,320	$224,973	$233,972	$243,331	$253,064	$263,186	$273,714	$284,662	$296,049	$307,891	$320,206	$333,015	$346,335	$360,189	$374,596	$4,739,502
8	Sherwood Well #11 Reconfiguration		$835,567																$835,567
9	New well drilling program (Olsen Beechwood, Charolais, and underflow wells)	$1,000,000				$1,169,859					$1,423,312				$1,665,074			$1,872,981	$7,131,225
Subtotal Well Improvements =		**$1,200,000**	**$1,044,000**	**$216,000**	**$225,000**	**$1,404,000**	**$243,000**	**$253,000**	**$263,000**	**$274,000**	**$1,708,000**	**$296,000**	**$308,000**	**$320,000**	**$1,998,000**	**$346,000**	**$360,000**	**$2,248,000**	**$12,706,000**
10	21st Street Reservoir Replacement	$200,000					$0	$0	$5,136,693	$5,342,161									$10,678,854
11	Water Tanks - regular program of coating repairs	$30,000	$31,200	$32,448	$33,746	$35,096	$36,500	$37,960	$39,478	$41,057	$28,466	$29,605	$30,789	$32,021	$33,301	$34,634	$36,019	$37,460	$579,778
12	12th Street booster generator replacement		$156,135																$156,135
14	Water Meters - ongoing meter replacement program of the proposed meter reading devices								$131,593	$136,857	$142,331	$148,024	$153,945	$160,103	$166,507	$173,168	$180,094	$187,298	$1,580,000
Subtotal Tank and Booster Station Projects =		**$230,000**	**$187,000**	**$32,000**	**$34,000**	**$35,000**	**$36,000**	**$38,000**	**$5,308,000**	**$5,520,000**	**$171,000**	**$178,000**	**$185,000**	**$192,000**	**$200,000**	**$208,000**	**$216,000**	**$225,000**	**$12,995,000**
Pipeline Improvements																			
15	W14 - 8" waterline in Highland Park Zone from West 12th St to 17th St										$518,570								$518,570
16	W16 - Highland Park Booster Upgrade				$674,918														$674,918
17	Annual Valve Replacement Program	$50,000	$52,000	$54,080	$56,243	$58,493	$60,833	$63,266	$65,797	$68,428	$71,166	$74,012	$76,973	$80,052	$83,254	$86,584	$90,047	$93,649	$1,184,876
19	W13 - 8" waterline in 15th St from Terrace Hill Dr to Hillcrest Dr										$129,642								$129,642
20	W17 - 12" waterline in Nacimiento Lake Dr and Fairview Ave														$762,016				$762,016
21	W4 - 10" waterline in 36th St from Spring St to WWTP														$667,689				$667,689
22	W5 - 8" waterline in 22nd St from Oak St to Spring St												$112,861						$112,861
23	W6 - 10" waterline in 22nd St from Olive St to Oak St													$232,973					$232,973
24	W10 - 8" waterline in Olive St from 19th St to 23rd St														$469,786				$469,786
25	W7 - 10" waterline in 24th St and Riverside Ave															$578,984			$578,984
26	W8 - 8" waterline in Oak St from 4th St to 7th St; and on 5th and 6th Sts Oak to Spring															$577,060			$577,060
27	8" waterline in 3rd St from Vine St to Olive														$393,955				$393,955
28	W1 - 12" waterline in Spring St from 24th St to 36th St																$2,422,577		$2,422,647
30	W18 - 14" waterline in Pine St, 23rd St, and Spring St																	$1,491,715	$1,491,715
31	Linne Rd pipeline extension for Vina Robles connection										$711,656								$711,656
32	FE6 - 16" waterline in Linne Rd from Airport Rd to Tract 2526																	$1,560,371	$1,560,371
Subtotal Pipeline Improvements =		**$50,000**	**$52,000**	**$54,000**	**$731,000**	**$58,000**	**$61,000**	**$63,000**	**$66,000**	**$68,000**	**$1,431,000**	**$74,000**	**$190,000**	**$313,000**	**$2,377,000**	**$1,243,000**	**$2,513,000**	**$3,146,000**	**$12,490,000**
	Totals =	**$1,480,000**	**$4,871,000**	**$5,277,000**	**$17,807,000**	**$1,497,000**	**$340,000**	**$354,000**	**$5,637,000**	**$5,862,000**	**$3,310,000**	**$7,916,000**	**$16,008,000**	**$8,794,000**	**$4,575,000**	**$1,797,000**	**$3,089,000**	**$5,619,000**	**$94,233,000**

ORDINANCE NO. XXX N.S.

AN ORDINANCE OF THE CITY OF EL PASO DE ROBLES
AMENDING SECTION 14.04.020 OF THE CITY OF EL PASO DE ROBLES
MUNICIPAL CODE TO ESTABLISH A
UNIFORM CONSUMPTION-BASED WATER FEE STRUCTURE

WHEREAS, the City of Paso Robles has traditionally relied upon the Paso Robles Groundwater Basin and the Salinas River underflow as sources of water for its citizens; and

WHEREAS, recent studies have indicated that the Paso Robles Groundwater Basin is rapidly reaching safe annual yield due to heavy usage and demand; and

WHEREAS, continuously increasing use of well water is associated with further diminishment of groundwater quality, which in turn results in higher costs to treat wastewater discharged to the City's wastewater system in order to meet State water quality standards; and

WHEREAS, beginning in 1991, the City Council studied a variety of possible alternative water sources that might be available to provide a good, continuous and reliable source of water for the citizens of Paso Robles and to decrease dependence upon well water; and

WHEREAS, the City Council, after much study and public discussion, determined several years ago that the City should participate, along with other cities and public entities in San Luis Obispo County and the County of San Luis Obispo, in the Nacimiento Water Project (the "Project"); and

WHEREAS, the City's well water supply, and its uses and softening thereof, create constituent loads that exceed wastewater discharge limits, and Nacimiento Water presents lower initial constituent loads that, when blended with well water, reduce the overall loading thus diminishing the frequency of constituent limit breaches; and

WHEREAS, in July 2004, the City executed the Nacimiento Project Water Delivery Entitlement Contract (the "Contract") in which the City committed to pay for its proportionate share of the costs of the Project and for the delivery of water; and

WHEREAS, the Project will serve both existing City water customers as well as future water customers; and

WHEREAS, on August 17, 2004, the City Council adopted Ordinance No. 882 N.S. which enacted certain increases in City water fees in order to help pay for the City's share of the estimated costs of the Project for existing water customers; and

WHEREAS, the City's Integrated Water Resource Plan adopted on May 1, 2007 includes the construction of a proposed water treatment plant (the "Proposed WTP"), the purpose

of which is to process water delivered through the Project and blend it with well water before delivering it into the City's water distribution system; and

WHEREAS, the Project and the related Proposed WTP are necessary components of the City's water delivery system; and

WHEREAS, to ensure that existing water customers would pay only for their share of the Project and the Proposed WTP costs, the City retained the firm of HF&H Consultants to help determine the appropriate water connection fees that should be charged to new development in order to assure that new development would pay for its fair share, i.e., fifty percent (50%) of the costs of the Project and the Proposed WTP; and

WHEREAS, on March 17, 2009, the City Council adopted Resolution No. 09-032 which increased connection fees that would be charged for new development in the City (the "New Development Connection Fees") and which established that New Development Connection Fees would pay for fifty percent (50%) of the costs of the Project and the Proposed WTP over time; and

WHEREAS, any additional water supply needed above the current 4,000 acre-feet allotment of Nacimiento Water will be paid for by new development; and

WHEREAS, the California Supreme Court determined in *Bighorn-Desert View Water Agency v. Verjil* (2006) 39 Cal. 4th 205, that fees for water delivery service are "property-related fees" subject to the procedures set forth in Proposition 218; and

WHEREAS, these procedures include the mailing of notices to all property owners of record and ratepayers notifying them of the date, time and place of a public hearing on a proposed rate increase, the purpose of the fee, the calculation of the fee, and the right to file a written protest to the fee; and

WHEREAS, on August 7, 2007, after following the procedures required for property-related fees under Proposition 218, and because written protests were not filed by a majority of the property owners, the City Council adopted Ordinance No. 935 N.S., establishing new water rates, which ordinance was subsequently repealed by Ordinance No. 939 N.S. after a referendum petition with a sufficient number of signatures from registered voters was submitted; and

WHEREAS, the City retained the firm of Kennedy/Jenks Consultants to undertake a comprehensive review of the City's water rate revenues and costs of water delivery operations, which was presented to the City Council on July 1, 2008; and

WHEREAS, upon further consideration and study and public input, the City Council determined on September 16, 2008 that the proposed water rate structure would be unduly burdensome upon water customers, and directed staff to consider an alternative approach; and

WHEREAS, Kennedy/Jenks Consultants presented a revised study, dated September 29, 2008, analyzing an alternative "pay-as-you–go" approach that would both phase in the Proposed WTP expansion over a longer period of time and cover existing operational costs without incurring any additional long-term debt; and

WHEREAS, after again following the required procedures under Proposition 218 and because written protests were not filed by a majority of the property owners, on February 3, 2009, the City Council adopted Ordinance No. 953 N.S., to adopt a combined fixed and variable water rate structure; and

WHEREAS, a referendum petition containing the requisite number of qualified voter signatures was submitted to the City challenging Ordinance No. 953 N.S.; and

WHEREAS, a special election was held on November 3, 2009, and Ordinance No. 953.N.S. was not ratified; and

WHEREAS, at the City's request, Kennedy/Jenks Consultants prepared additional studies and reports in connection with a revised water rate structure based on water consumption; and

WHEREAS, as documented in the Kennedy/Jenks Consultants study, dated January 25, 2010, current water rates generate approximately $6.3 million per year, while water rate revenues of $13 million are needed to pay for the City's costs of operating the water system, which includes the City's contractual obligations for the Project and the costs of the Proposed WTP; and

WHEREAS, bonds were issued by the San Luis Obispo Flood Control and Water Conservation District to pay for the cost of the Project and the City is obligated under the Contract to pay for its share of the debt service on the bonds and other Project costs upon completion of the Project; and

WHEREAS, the Project is expected to be completed and begin water deliveries in 2010; and

WHEREAS, the Court of Appeal in *Paland v. Brooktrails Township Community Services District* (Dec. 3, 2009, Case No. A122630) confirmed that revenues from water service rates can pay both for fixed operating and maintenance costs as well as capital costs, including those for improvements to increase capacity that will serve already-connected customers; and

WHEREAS, also on February 2, 2010, staff presented to the City Council a water rate proposal, along with the consultant's reports, based on consumption; and

WHEREAS, the proposed water rates are set at levels to ensure that existing water customers will pay for one-half of the City's share of the Project and Proposed WTP

costs, while the New Development Connection Fees will pay for one-half of the City's share of the Project and Proposed WTP costs over time; and

WHEREAS, after considering proposed rates and hearing public testimony, the City Council directed staff to take the necessary steps under Proposition 218, including the mailing of notices regarding a public hearing to consider a proposed ordinance to adopt a consumption-based fee structure; and

WHEREAS, the City identified the parcels upon which the rates will be imposed, calculated the amount of the rates, and mailed notices on February 8, 2010 to all record owners and tenants of properties responsible for water charges, which notices provided information on the proposed rates, the basis for the calculation, the reason for the rates, and the date, time, and location for a public hearing which was not less than 45 days after the date of mailing; and

WHEREAS, the City Council held the duly noticed public hearing on April 6, 2010 and considered any and all property owner and tenant protests; and

WHEREAS, at the public hearing on April 6, 2010, the City Clerk attested that written protests against the water rates had not been filed by a majority of property owners;

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

SECTION 1. In accordance with Article XIII D, Section 6(b), of the California Constitution, the City Council makes the following findings:

A. The revenues derived from the water rate increase do not exceed the funds required to provide water service because the rates are calculated to allow the City to recover its costs associated with (i) its contractual obligation to pay for a portion of the costs of construction of the Nacimiento Water Project; (ii) to the extent possible, a portion of the costs of the design and construction of the Proposed WTP; and (iii) the other necessary and essential ongoing costs of operation and maintenance of the City's water delivery system. This finding is based upon the information contained in the notice, the January 2010 Kennedy/Jenks Consultants study, the staff report to the City Council at the public hearing and the testimony presented at the public hearing.

B. The revenues derived from the water charges will not be used for any purpose other than that for which the charge is imposed. This finding is based on the fact that all revenues collected from water customers are deposited into a designated fund for such water operations purpose.

C. The charges do not exceed the proportional cost of the water service attributable to each parcel. This finding is based on the fact that the proposed rates are based upon the City's actual total cost of providing water service to its customers, divided by the actual amount of water used on such parcel.

D. The proposed increases in the rates are intended to balance the anticipated increases in the costs of delivering water and the possible reductions in the amount of water used.

SECTION 2. Effective January 1, 2011, paragraph C. of Section 14.04.020 of the Paso Robles Municipal Code is hereby revised in its entirety to read as follows:

"14.04.020 Fees

….

"C. Fees – Water Usage Rates. The monthly rates to be charged and collected for all water consumption, including private fire lines, bulk water delivery or fire hydrant usage, from every water customer, including, but not limited to, any person, school, business entity or corporation, shall be charged at rates established by ordinance of the City Council.

The water usage rates shall be reviewed no less than annually in conjunction with the update of the city's budget to ensure that water user fees then in existence do not exceed the costs of providing water service within the City."

Beginning on January 1, 2011 the monthly water usage fee to be charged for each unit of water, or 748 gallons, used shall be as follows:

January 1, 2011:	$2.50/unit
January 1, 2012:	$3.20/unit
January 1, 2012:	$3.70/unit
January 1, 2014:	$4.10/unit
January 1, 2015	$4.40/unit"

SECTION 3. Severability. Should any provision of this Ordinance, or its application to any person or circumstance, be determined by a court of competent jurisdiction to be unlawful, unenforceable or otherwise void, that determination shall have no effect on any other provision of this Ordinance or the application of this Ordinance to any other person or circumstance and, to that end, the provisions hereof are severable.

SECTION 4. Effective Date. This Ordinance shall take effect thirty (30) days after adoption as provided by Government Code section 36937.

SECTION 5. Publication. The City Clerk will certify to the passage of this Ordinance by the City Council of the City of El Paso de Robles, California and cause the same to be published once within fifteen (15) days after its passage in a newspaper of general circulation, printed, published and circulated in the City in accordance with Government Code section 36933.

Introduced at a regular meeting of the City Council held on April 6, 2010, and passed and adopted by the City Council of the City of El Paso de Robles on the 20th day of April, 2010 by the following roll call vote, to wit:

AYES:
NOES:
ABSTAIN:
ABSENT:

_____
Mayor, Duane Picanco, Mayor

ATTEST:

_____
Lonnie Dolan, Deputy City Clerk