

TO: City Council

FROM: Doug Monn, Director of Public Works

SUBJECT: Water Rates

DATE: February 1, 2011

NEEDS: For the City Council to consider confirming a water rate method.

FACTS:

1. City Council adopted Ordinance No. 967 on April 6, 2010, establishing a uniform, consumption-based water rate.
2. Ordinance No. 967 was challenged in court (Borst *et al.* v. City of Paso Robles) claiming that the water user fees were "special taxes," thus requiring a different approval process.
3. The Court ruled that water user fees are not special taxes, but that more information as to the basis for the rates should have been provided in the water rate notice.
4. The rate method, i.e. uniform and consumption-based, and the resulting rates under consideration tonight are exactly the same as those adopted in April 2010 by Ordinance No. 967, the only change is to postpone the effective date to January 1, 2012.

ANALYSIS &

CONCLUSIONS: The City has secured needed water supply from the Nacimiento Water Project, updated its capital improvement program, and designed a community water treatment plant. The annual cost to operate, maintain, repair, replace, and service debt for all system components, as well as treat water currently exceed annual revenues, and is projected to reach \$14.4 million in 2018. Current water rate revenues total \$5.6 million.

In March 2009, City Council increased water capacity charges for new development from \$9,119 to \$23,500 per residence. The increased charge is being phased in over 5 years.

Six different user rates have been considered since 2004. City Council adopted a uniform, consumption-based water rate in April 2010, Ordinance No. 967. That adopted rate structure would have taken effect on January 1, 2011, however; a legal challenge was filed in San Luis Obispo County Superior Court. Borst *et al.* v. City of Paso Robles claimed that the water user fees were "special taxes" and that Proposition 218 (Article XIIID of the California Constitution) required the City to use a different approval process. The Court ruled that the water user fees are not special taxes but that more information should have been provided in the notice of public hearing. Therefore, the City is distributing a new notice to include more detailed information as to the basis for the rates and to once again allow the opportunity for protest. The proposed rates are the same as contained in Ordinance No. 967, but implementation of the new rates is being delayed one year.

The basis for the proposed rates is explained in the "2010 Uniform Water Rate Study" prepared by Kennedy/Jenks Consultants dated January 25, 2010. In summary, rates are necessary for the City of Paso Robles to continue to provide safe and reliable water service to its citizens due to increasing water supply, operational, maintenance, and repair costs. Several factors contribute to increasing costs including, but not limited to, necessary supplemental water supply from the Nacimiento Water Project including debt service payments for the City's share of construction as well as operation costs; construction, operation and maintenance of a proposed water treatment plant; replacement of the failing 21st Street Reservoir; the rising cost of electricity and other commodities necessary to operate the water system; increased costs associated with the operation of utility vehicles, wells, pumps, water meters, generators and motors; ongoing maintenance of infrastructure; increased labor costs; and increased costs associated with meeting more stringent State and Federal regulations for water quality. **Exhibit A**, Supplemental Report Section dated November 22, 2010, describes the proposed change in implementation date.

The delayed implementation of water rates will trigger a delay in the proposed water treatment plant construction to perhaps 2016.

**POLICY
REFERENCE:**

General Plan, Economic Strategy, Urban Water Management Plan, Integrated Water Resource Plan, Water Master Plan, and City Council goals.

**FISCAL
IMPACT:**

The City is contractually obligated to pay its share of the debt service for the bonds that have been issued to pay for the Nacimiento Water Project. Additionally, the City has had to draw upon water repair and replacement funds to pay for current operations for the past four years because operating expenses have exceeded revenues.

Current rates generate \$5.6 million per year and do not cover operating expenses. Projected operating expenses are \$9.7 million in 2011-12, increasing to \$14.4 million in 2017-18. A new rate structure is needed to help bridge this gap.

If new water rates are not adopted to pay for the costs of water service, the Water Operations Fund will exhaust all of its repair and replacement fund by 2014 and begin deficit spending. The deficit spending would have to be covered by the General Fund.

The General Fund pays for operations such as library services, children's and senior programs, parks, as well as police and fire. The General Fund is already operating with a significant recurring deficit requiring use of its reserves to cover operating costs. An additional \$4+ million per year expense for water costs will require elimination of a broad array of public services.

OPTIONS:

- a. Reconsider Ordinance No. 967 with the only change being a change in the effective date to January 1, 2012, thereby confirming the uniform, consumption based rate method; authorize initiation of the Proposition 218 (Article XIID of the California Constitution) water rate notice, protest, and public hearing procedures, and; instruct staff to send out public notices regarding the proposed water rate structure with a public hearing date of April 5, 2011; or,
- b. Amend, modify, or reject the above option.

EXHIBITS:

- A. Letter Dated November 22, 2010, from Kennedy/Jenks Consultants regarding "Supplemental Report Section – 2010 Uniform Water Rate Study"

Kennedy/Jenks Consultants

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November 22, 2010

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

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

Dear Mr. Monn:

In accordance with your request, Kennedy/Jenks Consultants is submitting this Supplemental Report Section to the January 25, 2010, "2010 Uniform Water Rate Study" to the City of Paso Robles (City). By way of process, we have submitted this supplemental section as a digital ".pdf" file for the City's distribution as appropriate. The purpose of this supplemental documentation is to support the City's notification and adoption of the proposed water rates.

As you are aware, on January 25, 2010, Kennedy/Jenks Consultants prepared and submitted its "2010 Uniform Water Rate Study Final Report". This report documented the water rate and revenue requirements of the City's Water Fund and proposed new water rates be adopted over the course of the next five years. The new water rates were scheduled to be effective as on January 1, 2011. Given current conditions, a revised initial effective date of January 1, 2012 is now proposed.

It is important to note that the only change to our January 25, 2010 Final Report is the proposed effective date of new water rates. As such, these rates are based on our prior report, as well as the costs and demand projections developed at that time. While it is recognized that some of these conditions may have changes, it is believed by all parties that the prior analysis and recommendations provide an appropriate financial plan for implementation at this time. The revised implementation schedule and proposed water rates are provided in the following tables.

REVISED WATER RATE IMPLEMENTATION SCHEDULE

PROPOSED UNIFORM WATER USAGE RATES

User Class	Jan 1, 2012	Jan 1, 2013	Jan 1, 2014	Jan 1, 2015	Jan 1, 2016
<u>All Customers</u>	<u>Usage Charge \$/HCF</u>				
All Water Usage	\$2.50	\$3.20	\$3.70	\$4.10	\$4.40

Effective Date is January 1 of each year noted.

Mr. Doug Monn
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PROPOSED RATES AND PROJECTED CHANGES IN NEW ACCOUNTS

Description	FY 2010-11	FY 2011-12	FY 2012-13	FY 2013-14	FY 2014-15	FY 2015-16
Proposed Base Level Fixed Rate (\$/Account/Month)	\$18.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Proposed Average Usage Unit Rate (\$/HCF)	\$1.32	\$2.50	\$3.20	\$3.70	\$4.10	\$4.40
Connection Fee	\$14,870	\$17,750	\$20,620	\$23,500	\$23,500	\$23,500
<u>Growth Based Changes in Accounts</u>						
Increase in Number of Accounts/Year	19	19	39	58	78	117
Increase in Number of Equivalent Mtrs/Yr.	25	25	50	75	100	150

Notes: Effective date of initial unit rate increase is January 1, 2012.

Assumes the fixed charge is eliminated in January 2012 and a uniform water usage rate structure becomes effective thereafter.

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