

TO: James L. App, City Manager
FROM: Doug Monn, Public Works Director
SUBJECT: Wastewater Facility Charges Review
DATE: October 15, 2013

NEED: For City Council to receive a report of an independent review of wastewater facility charges by Bartle Wells Associates.

- FACTS:
1. In November 2011, City Council adopted new wastewater facility charges (i.e., sewer connection fees) in conjunction with new sewer rates. City Council also requested a third-party review of the charges, in response to questions raised by members of the development community.
 2. In May 2012, City Council selected Bartle Wells Associates (BWA) of Berkeley for the review. In May 2013, City Council directed BWA to proceed with review of the wastewater facility charges report by Kennedy/Jenks, for a fee of \$8,400.
 3. BWA completed its review and submitted the attached report, *Independent Review of Wastewater Facility Charges*, dated September 27, 2013. Alex Handlers of BWA will be present at the City Council meeting to summarize his findings and address any questions.

ANALYSIS &

CONCLUSION: BWA's summarizes its findings:

"Overall, BWA finds that the Wastewater Facility Charges developed in the 2011 Study are reasonable and generally comply with Government Code. At the same time, BWA recognizes that there are legitimate alternative approaches for calculating capacity charges, valuing infrastructure, accounting for debt, and applying the fees that could result in higher or lower fees. BWA observes that there are some potential areas that may require additional evaluation to better ensure equitable fee recovery as described in the report. While the 2011 Study may include some costs that should probably be omitted from cost recovery, the fee also excludes some costs that could be included. Our analysis indicates that the wastewater capacity charge calculated in the 2011 Study falls in a middle range of charges calculated under different approaches based on the data provided. In aggregate, the fee does not exceed the maximum estimated reasonable cost of providing wastewater infrastructure capacity to new development."

Considering these findings, the existing wastewater facility charges can remain unchanged.

POLICY

REFERENCE: Economic Strategy, Integrated Water Resource Plan, 2007 Sewer Collection System Master Plan, Proposition 218

FISCAL IMPACT: None.

- OPTIONS:
- a. Receive and file Bartle Wells Associates' *Independent Review of Wastewater Facility Charges*, dated September 27, 2013;
 - b. Amend, modify, or reject the above option.

ATTACHMENT: Bartle Wells Associates' *Independent Review of Wastewater Facility Charges*, September 27, 2013

City of Paso Robles



Independent Evalution of Wastewater Facility Charges

September 27, 2013



BARTLE WELLS ASSOCIATES
INDEPENDENT PUBLIC FINANCE ADVISORS



BARTLE WELLS ASSOCIATES
INDEPENDENT PUBLIC FINANCE ADVISORS

1889 Alcatraz Avenue
Berkeley, CA 94703
510 653 3399 fax: 510 653 3769
www.bartlewells.com

September 27, 2013

City of Paso Robles
1000 Spring Road
Paso Robles, CA 93446

Attn: Matt Thompson, P.E., Wastewater Division Manager

RE: Independent Review of Wastewater Facility Charges

Bartle Wells Associates is pleased to submit our review of the City's Wastewater Facility Charges. The report presents our independent evaluation and observations regarding the fee methodology, asset valuation approaches, and fee calculations developed in Kennedy/Jenks Consultants' *2011 Wastewater Facility Charge Study*.

Overall, BWA finds that the Wastewater Facility Charges developed in the 2011 Study are reasonable and generally comply with Government Code. At the same time, BWA recognizes that there are legitimate alternative approaches for calculating capacity charges, valuing infrastructure, accounting for debt, and applying the fees that could result in higher or lower fees. The report highlights some of these alternative approaches and also identifies some aspects of the current fee calculation that should be reviewed and potentially remedied to ensure equitable cost recovery.

Our analysis indicates that the wastewater capacity charge calculated in the 2011 Study falls in a middle range of charges calculated under different approaches based on the data provided. In aggregate, the fee does not exceed the maximum estimated reasonable cost of providing wastewater infrastructure capacity to new development.

Please contact me anytime if you have questions about this report or related capacity fee issues.

Sincerely,

Alex Handlers, CIPFA
Principal/Vice President

CONTENTS

1. Background, Objectives, & Government Code..... 1

 Sewer System Overview..... 1

 Background & Objectives..... 1

 Summary of Findings..... 2

 Government Code 2

2. Independent Review of Current Fee Calculation 4

 Fee Methodology 4

 Wastewater System Valuation..... 5

 Debt Recovery 9

 Capacity Fee Structure & Application 12

 Regional Wastewater Capacity Fee Survey..... 14

Appendices

- Appendix A – Alternative Debt Service Estimates
- Appendix B – Government Code Pertaining to Water & Sewer Capacity Charges

1. Background, Objectives, & Government Code

Sewer System Overview

The City of Paso Robles provides wastewater service to customers located within the City and to a portion of the adjacent Templeton Community Services District. The City's wastewater system includes roughly 140 miles of sewer pipelines, approximately 2,900 manholes, two pipe bridges over the Salinas River, 14 lift stations, and a wastewater treatment plant with a capacity of 4.9 million gallons per day (mgd) of Average Day Maximum Month Flow. The City's wastewater treatment plant was originally built in 1954 and has an antiquated treatment process that does not consistently meet State and Federal water quality regulations, subjecting the City to periodic fines for wastewater permit violations. After treatment and disinfection, wastewater effluent is disposed into the Salinas River.

The City has been planning a major upgrade and rehabilitation of its aging wastewater treatment plant. The project includes replacement of aging and outdated infrastructure and construction of an upgraded wastewater treatment process designed to ensure compliance with the City's regulatory and permit requirements. The planned upgrades are also designed to facilitate the future production of recycled water. The City currently estimates the cost of the upgrade project at \$49.6 million and plans to finance the project via a low-rate State Revolving Fund loan.

Background & Objectives

The City levies a Wastewater Facility Charge on new or expanded connections to the wastewater system. This charge is levied to recover the costs of wastewater system infrastructure and assets benefiting new development. The City periodically updates the charge with the goal of ensuring the fee adequately and equitably recovers the full costs of wastewater facilities benefiting growth. The City's charges were last updated in 2011 based on a *Wastewater Facility Charge Study* dated September 11, 2011 completed by Kennedy/Jenks Consultants (the "2011 Study"). During public proceedings adopting the study's recommended charges, questions were raised regarding the asset valuation and facility charge calculation methods underlying the updated charges.

In 2013, the City contracted Bartle Wells Associates to conduct an independent review and evaluation of the 2011 *Wastewater Facility Charge Study*. This report presents the findings of our independent evaluation and analysis.

Bartle Wells Associates (BWA) is an independent financial consulting firm that specializes in water and wastewater rates, fees, and finance. BWA was founded in 1964 and has consulted for over 500 public agencies throughout California and the western United States. BWA has extensive experience developing water and wastewater capacity charges for public agencies.

Summary of Findings

Overall, BWA finds that the Wastewater Facility Charges developed in the 2011 Study are reasonable and generally comply with Government Code. At the same time, BWA recognizes that there are legitimate alternative approaches for calculating capacity charges, valuing infrastructure, accounting for debt, and applying the fees that could result in higher or lower fees. BWA observes that there are some potential areas that may require additional evaluation to better ensure equitable fee recovery as described in the report. While the 2011 Study may include some costs that should probably be omitted from cost recovery, the fee also excludes some costs that could be included. Our analysis indicates that the wastewater capacity charge calculated in the 2011 Study falls in a middle range of charges calculated under different approaches based on the data provided. In aggregate, the fee does not exceed the maximum estimated reasonable cost of providing wastewater infrastructure capacity to new development.

Government Code

Development impact fees are governed by California Government Code Section 66000 et. seq. commonly known as AB1600. The Code refers to water and sewer impact fees as *capacity charges* since their purpose is to recover an equitable share of costs for capacity in infrastructure. The City's Wastewater Facilities Charge is a type of capacity charge and must meet the requirements of the Code.

Section 66013 of the Code specifically governs water and sewer capacity charges and states that the fee "*shall not exceed the estimated reasonable cost of providing the service for which the fee or charge is imposed*" unless approved by a two-thirds vote. The Code also states that "*Capacity charge means a charge for public facilities in existence at the time a charge is imposed or charges for new public facilities to be acquired or constructed in the future that are*

of proportional benefit to the person or property being charged.” The Code does not detail any specific method for determining an appropriate fee.

Section 66013 also identifies various accounting requirements for capacity fee revenues, notably that such revenues cannot be co-mingled with other City revenues and must be used solely for the purpose for which the fee was imposed. Section 66016 of the Code identifies the procedural requirements for adopting or increasing a water or sewer capacity charge and Section 66022 summarizes the general process by which the charges can be legally challenged. *The full text of Sections 66013, 66016 and 66022 are attached as an appendix to this report.*

2. Independent Review of Current Fee Calculation

Fee Methodology

The 2011 *Wastewater Facility Charge Study* uses a Capacity Buy-In Approach to calculate the City's current charges. Under this approach, the fee is calculated based on a) the total cost of existing and future facilities divided by b) the future build-out capacity that those facilities will serve. The unit cost per capacity derived by this calculation is then applied to the wastewater discharge characteristics of a standard single family residence or Equivalent Dwelling Unit (EDU).

The 2011 Study noted that this approach was selected because it was:

- Consistent with City policies and the methodology used for the Water Capacity Charges,
- Easy to understand,
- Provides a sound nexus between the cost of capacity and the charge, and
- Complies with Government Code.

The 2011 Study also noted this approach was discussed with staff and confirmed to be the appropriate method.

BWA Analysis:

Since Government Code does not specify any particular method for calculating capacity fees, public agencies have used a wide range of methodologies to determine appropriate charges. BWA believes that the general fee methodology used in the study is a legitimate, reasonable, and defensible approach. The same general approach has been widely used by many other California agencies to calculate water and sewer capacity charges. While the 2011 Study refers to the fee methodology as a *Capacity Buy-In Approach*, this approach can go by many names including *Total Cost /Total Capacity Approach*, *Average Cost Approach*, and others.

BWA further believes that the fee methodology used in the study is appropriate for the City's wastewater system. The City has previously made substantial investments in facilities that have capacity to serve growth and also needs substantial additional improvements to its treatment plant and collection system that will benefit both existing and future customers. As such, the fee methodology accounts for the average cost of both existing and future facilities that will benefit all customers through build-out and allocates cost-recovery to each new customer based on their proportionate share of capacity needs in the wastewater system.

Wastewater System Valuation

Existing Facilities

Tables 1 – 5 of the 2011 Study calculate the recoverable value of the City's existing wastewater system facilities. Facilities are subdivided into a few components including:

- **Existing Collection System Pipelines:** Asset valuation is based on a) an inventory of pipelines by diameter and material based on the City's GIS data from August 2009, b) an estimate of pipeline cost per linear foot based on the City's 2007 Sewer Collection System Master Plan adjusted into 2011 dollars using the ENR Construction Cost Index, and c) depreciation based on the age and estimated useful life of each pipeline.
- **Existing Lift Stations (pumping facilities):** Asset valuation is based on a) an inventory of facilities based the City's GIS and asset data from August 2009, b) engineering cost estimates of the replacement cost for each lift station as developed by Kennedy/Jenks Consultants, c) depreciation based on the age of each lift station as provided by the City, and engineering estimates of the useful life of equipment and structures. The value of facilities funded by the City's 2002 Installment Sale Revenue Bonds (the "2002 Bonds") are excluded.
- **Existing Wastewater Treatment Plant Facilities:** The 2011 Study recovers the value of existing treatment plant components that will be retained when the City completes its treatment plant upgrade project. Assets that will be replaced with the upgrade project are excluded to ensure no double-counting of these facilities and their replacement. The value of facilities funded by the 2002 Bonds are backed out of the calculation since the capacity charge instead recovers total debt service payments on the 2002 Bonds through final maturity.
- **Outstanding Debt:** The value of existing facilities that were financed by the City's 2002 debt issuance are excluded from the above valuations. Instead, to account for the cost of these facilities, the charges calculated in the 2011 Study recover the amount of the actual debt service payments (including principal and interest) due from Fiscal Year 2011 through Fiscal Year 2032 of the 2002 financing.

Future Facilities

Tables 6 and 7 of the 2011 Study calculate the recoverable cost of future wastewater system facilities including:

- **Future Collection System Pipelines:** The charge recovers the cost of future anticipated capital improvements predominantly based on the City's *2007 Sewer Collection System Master Plan*. The 2011 Study escalates costs into current dollars based on the ENR Construction Cost Index (20-Cities Average) and also accounts for an estimated 4% future construction cost inflation.
- **Future Debt for Wastewater Treatment Plant Upgrade Project:** The 2011 Study recovers costs for the value of all principal and interest payments due on debt the City anticipates issuing to finance the City's wastewater treatment plant upgrade project. The 2011 Study calculates wastewater capacity charges under two debt alternatives: a) issuance of a Clean Water State Revolving Fund (SRF) Loan with a 20-year repayment term and an average interest rate of 3.4% and b) issuance of conventional debt financing such as bonds or Certificates of Participation (COPs) assuming a 30-year repayment term and an average annual interest rate of 5.7%. The value of existing wastewater treatment plant assets that will be replaced by the planned capital upgrades are excluded from the fee calculation to ensure no double-counting. Both the cost and capacity of wastewater treatment facilities benefiting Templeton Community Services District are excluded from the fee calculation.

BWA Analysis:

BWA believes the study makes a good faith effort to recover costs for wastewater system assets without double-counting either a) existing assets and their replacement and b) existing assets and the debt service payments that financed those assets. At the same time, BWA makes the following observations on a range of issues that could impact the calculated charge.

- BWA believes the charge could also recover a share of costs for other facilities and assets benefiting new wastewater connections such as a share of costs for the City's administrative building, corporation yard, and land (if not already incorporated into the values of existing infrastructure). Some agencies also recover a share of wastewater fund reserves (funded by existing ratepayers) via their capacity fees so that new customers buy in to the financial assets of the wastewater system on parity with existing customers. Cost recovery for such additional assets would result in an increase in the City's wastewater capacity charge.
- BWA also recommends the City review the costs included on Table 6 of the 2011 Study to ensure there is no double-counting of both existing assets as well the replacement of those same assets. While there are circumstances under which such double-counting may be justified, BWA generally recommends that capacity charges exclude double-counting to ensure the fee does not exceed the estimated reasonable cost of facilities benefitting new development.

- As noted, the 2011 Study is careful to back out 9% of the costs of wastewater treatment plant improvements benefiting Templeton CSD as well as 9% of treatment plant capacity. However, the study does not back out Templeton CSD's share of the value of a) existing wastewater treatment plant assets and b) debt service on the 2002 Bonds. BWA recommends the City review if these costs should be excluded from the fee calculation.

Valuation Approach - The 2011 Study calculates the buy-in cost of existing assets based on a method known as Replacement Cost New Less Depreciation (RCNLD). This valuation method escalates the cost of each asset into current dollars based on the change in the Engineering News-Record (ENR) Construction Cost Index from each asset's original date. This ENR index is a widely-used index for determining construction cost inflation. The RCNLD approach then reduces the inflation-adjusted cost of each asset to account for estimated depreciation, thereby only requiring new connections to buy in to the inflation-adjusted, depreciated value of existing infrastructure.

For example, if a pipeline cost \$1,000,000 in 1990, the RCNLD would escalate the cost to current dollars by adjusting for construction cost inflation, such as to \$2,000,000, then reduce the inflation-adjusted value by 45% for example (roughly assuming a 50-year useful life), resulting in a buy-in cost of \$1,100,000 for the pipeline.

BWA Analysis:

A wide range of valuation methods can and have been used in the development of capacity fees. BWA believes that the RCNLD valuation method used in the study is a widely-used and reasonable approach for valuing existing assets. At the same time, BWA believes the RCNLD approach results in a conservative (low) estimate of costs for fee recovery.

One shortfall of RCNLD is that existing customers are never reimbursed for the full inflation-adjusted cost of facilities. For example, if an existing asset originally cost \$100,000 and had capacity to serve 100 EDUs, the average cost per connection would be \$1,000 per EDU regardless of when a new customer connects. However, if depreciation is factored in to the fee, future customers get a break since they buy-in for a reduced asset value that decreases over time, thereby shifting all depreciation onto the existing customer base. This results in an intergenerational inequity where existing customers are required to fund depreciation of assets that benefit future customers if future customers buy in for a depreciated asset value. For example, if the \$100,000 asset mentioned above had a 10-year useful life, someone connecting in year 2 would only have to buy in for the inflation-adjusted equivalent of \$800, while

someone connecting in year 5 would only buy in for the inflation-adjusted equivalent of \$500. If 10 customers connected per year, the District (aka existing ratepayers) would only recover the inflation-adjusted equivalent of \$50,000, half the original cost of the asset.

An alternative, less-conservative, approach to the RCNLD approach used in the study is calculating the buy-in cost of existing assets based on each asset's original cost escalated into current dollars without adjusting for depreciation. This approach is sometimes termed a Replacement Cost New valuation method or RCN. In the example described above, this would be the equivalent of requiring future connections to buy-in for the inflation-adjusted equivalent of \$1,000 (the average cost per EDU) regardless of when the connection occurred. In some respects, this approach is still a bit conservative in that existing customers are not reimbursed for lost interest earnings due to the implicit loan made to future customers, nor are future customers required to fund any share of the costs incurred by existing customers for maintaining capacity in existing assets for the future benefit of growth.

The following table compares a) the Wastewater Facility Charge calculated in the 2011 Study using the RCNLD valuation method for existing assets with b) the hypothetical charge if existing system assets were valued using the RCN approach. As shown on the table, the RCN approach results in a charge that is \$2,680 (almost 25%) higher per single family home or EDU. This calculation assumes all other assumptions of the 2011 Study are held equal.

Comparison of Wastewater Facility Charge With Alternative Asset Valuation		
	2011 Study	Alternative
Valuation Approach for Existing Assets	RCNLD	RCN
Value of City's Wastewater System		
Existing Facilities/Assets	\$146,956,481	\$205,982,481
Future Facilities	92,517,300	92,517,300
Total	239,473,781	298,499,781
Total City Discharge (1,000 gpd)	4,397	4,397
Wastewater Facility Charge (rounded)		
System Capacity Cost per 1,000 gpd	\$54,500	\$67,900
System Capacity Cost (\$/EDU at 200 gpd)	10,900	13,580

Debt Recovery

Public agencies have used a wide variety of approaches to account for debt service when calculating capacity charges. In the City's case, the outstanding and projected debt issues fund infrastructure improvements that benefit all customers through build-out based on each customer's proportional capacity-needs in the wastewater system. In such cases, a wide range of approaches have been used to develop capacity fees.

BWA Analysis:

The debt recovery approach used in the 2011 Study is what can be termed a **Total Debt Recovery** approach in that the costs of total debt service through final maturity are included in the fee calculation. This approach results in a higher fee than many other approaches for accounting for debt. A complaint from developers under this approach is that the developer must buy-in for a full share of total debt service through final maturity and subsequently, once connected, the ratepayer will also be funding a portion of debt service, hence there is a potential for double-counting via cost recovery for debt from both capacity fees and rates. However, this hypothetical double-counting is not an inherent double-counting within the capacity charge calculation.

Some other general approaches for accounting for debt financing are listed below.

- **Incremental Debt Recovery:** Under this approach, the fee only recovers costs for debt service payments made prior to the year the new connection is made, and excludes cost recovery for future debt payments. Under this approach, new connections would only buy in for a share of debt service payments already paid by the existing ratepayers. Subsequently, these new connections would become ratepayers and would hypothetically fund their share of future debt service via ongoing wastewater service charges. Under this approach the capacity fee would recover minimal debt service costs in early years, but would gradually escalate in future years as more and more debt payments were made. A similar, but more conservative, approach is calculating the fee to recover the full cost of the asset being financed, and then backing out the amount of future principal due on the debt.
- **Average Debt Recovery:** Under this approach, the fee is set to recover the *average* amount of debt service estimated to be funded by ratepayers on behalf of new development over the term of the financing. This is similar to the Incremental Debt Recovery approach listed above, but accounts for the estimated debt service payments made prior to an *average* new connection over the term of the financing. For example, fees under this approach might recover 50% of total projected debt service assuming the *average* new connection will

become a ratepayer half way through the debt repayment term. Once they become a ratepayer they would hypothetically fund their share of remaining debt service via sewer service charges. This approach is sort of a middle-ground or compromise between the Total Debt Recovery and Incremental Debt Recovery approaches summarized above.

- **Excluding Interest:** Another middle-ground approach is to set the fee to fund the full cost of all assets, including assets to be funded by future debt service, but exclude the interest payments due on debt issued to fund the assets.
- **Adjusting Debt into Current Dollars:** The amount of debt service included in the fee calculation can be adjusted into current dollars to account for past and estimated future inflation. For example, a prior debt payment would be escalated into current dollars while future debt payments would be discounted by 3%, for example, to account for an estimate of future inflation.

To provide an example of the impact on the City's wastewater capacity charge under an alternative debt recovery approach, the following table compares a) the Wastewater Facility Charge calculated in the 2011 Study with a Total Debt Recovery approach with b) the hypothetical capacity charge under an Average Debt Recovery approach that recovers only 50% of outstanding debt service. As shown on the table, the Average Debt Recovery approach results in a charge that is \$9,260 (approximately 15%) lower per single family home or EDU. This calculation assumes all other assumptions of the 2011 Study are held equal.

Comparison of Wastewater Facility Charge With Alternative Debt Accounting		
	2011 Study	Alternative
Cost Recovery for Debt Service	Total Debt Svc	Avg Debt Svc
Value of City's Wastewater System		
Existing Facilities/Assets*	\$146,956,481	\$146,956,481
Less 50% of Outstanding 2002 Debt Payments	-	(5,789,541)
Future Facilities*	92,517,300	92,517,300
Less 50% of Projected Debt for WWTP Project	-	(30,303,000)
Total	239,473,781	203,381,241
Total City Discharge (1,000 gpd)	4,397	4,397
Wastewater Facility Charge (rounded)		
System Capacity Cost per 1,000 gpd	\$54,500	\$46,300
System Capacity Cost (\$/EDU at 200 gpd)	10,900	9,260

* 2011 Study data recovers full debt repayment through final maturity.

Other BWA observations include:

- The 2011 Study recovers all debt financing costs of the City's 2002 Bonds including principal and interest payments from Fiscal Year 2011 through Fiscal Year 2032. However, there appears to be no cost recovery for prior debt service payments through Fiscal Year 2010. These additional debt service payments would increase the total recoverable amount for the 2002 Bonds by about \$7 million, from \$11,750,081 as shown on Table 5 of the 2011 Study to \$18,831,664 based on the Official Statement for the 2002 Bonds. All other things held equal, this would result in a fee increase of approximately \$320 per EDU.
- As noted earlier, the 2011 Study calculates wastewater capacity charges under two debt alternatives: a) issuance of a Clean Water State Revolving Fund (SRF) Loan with a 20-year repayment term and an average interest rate of 3.4% and b) issuance of conventional debt financing such as bonds or Certificates of Participation (COPs) assuming a 30-year repayment term and an average annual interest rate of 5.7%. BWA believes the 2011 Study prudently used reasonable and conservative (on the high side) assumptions of future interest rates. To evaluate the impact of lower interest rates on the fee calculation, BWA developed independent debt financing estimates for the wastewater treatment plant upgrade project. These estimates are detailed in the appendix to this report and are based on an SRF interest rate of 2.25% and a 30-year conventional financing rate for of 5.5% for bonds or COPs along with lower estimates of the costs of issuing debt. The following tables

compare the fee calculation in the 2011 Study with fees under the alternative, lower debt financing estimates, all other things held equal.

Comparison of Wastewater Facility Charge With Alternative WWTP Debt Service Estimates				
	2011 Study		Alternative Debt Estimates	
Type of Debt Financing	SRF Loan	Bonds/COPs	SRF Loan	Bonds/COPs
Value of City's Wastewater System				
Existing Facilities/Assets	\$146,956,500	\$146,956,500	\$146,956,500	\$146,956,500
City Collection System CIP	31,911,300	31,911,300	31,911,300	31,911,300
WWTP Debt Financing	60,606,000	105,713,800	57,857,800	92,067,400
Total	239,473,800	284,581,600	236,725,600	270,935,200
Total City Discharge (1,000 gpd)	4,397	4,397	4,397	4,397
Wastewater Facility Charge (rounded)				
System Capacity Cost per 1,000 gpd	\$54,500	\$64,700	\$53,800	\$61,600
System Capacity Cost (\$/EDU at 200 gpd)	10,900	12,900	10,800	12,300

Capacity Fee Structure & Application

Residential: The 2011 Study develops a wastewater capacity charge for a single family residential dwelling unit (or EDU) based on an assumed wastewater discharge of 200 gallons per day. The wastewater flow per EDU is based on a) flow per capita calculated at 74 gallons per person per day, multiplied by b) an average of 2.7 people per home based on data provided by the City's Community Development Department. This equates to a monthly flow of a little over 8 hundred cubic feet per EDU per month. A reduced fee is calculated for multi-family residential dwelling units assuming the wastewater discharge per multi-family unit is approximately 90% of the flow of a standard single family home or EDU.

Non-Residential: Non-residential charges for new connections with water meters up to 3-inches are based on meter size. The charge for a 5/8-inch or 3/4-inch meter is equivalent to the capacity charge per EDU while fees for other meter sizes are based on the flow capacity of each meter size in relation to that of the base meter size. Fees for larger non-residential connections with meters over 3-inches are based on wastewater flows estimated based on plumbing fixture units and standard wastewater generation factors, with the charge per EDU applicable to each 200 gpd of estimated discharge.

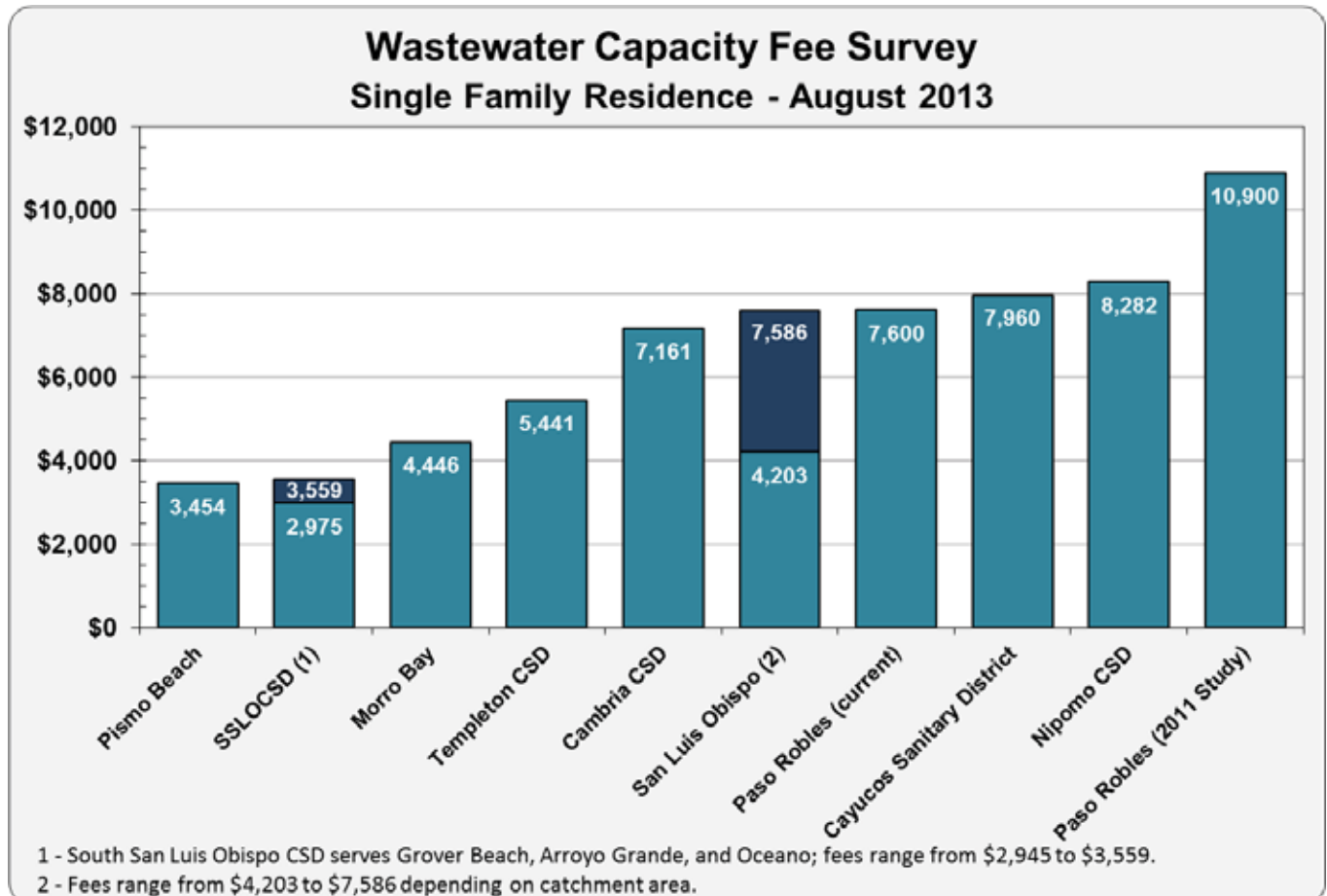
BWA Analysis:

Public agencies use a wide range of capacity fee structures in an attempt to equitably recover costs from new development. BWA finds the fee structure used in the study to be a generally reasonable and equitable approach. However, there are some aspects of the fee structure that may warrant additional consideration.

- The proposed fees are based on solely on wastewater flow, with no component to account for wastewater strength. While there are other agencies that use similar approaches, BWA often recommends that wastewater capacity charges include a strength-based component so that the fee better reflects the wastewater discharge from each new connection. For example, a restaurant discharges substantially higher strength wastewater than a typical office building and could potentially be charged a higher fee accordingly. Some agencies have numerous commercial fee categories while others establish fees for a few general categories of wastewater strength (e.g. high-strength, moderate-strength, low strength).
- BWA also recommends that the City establish a clearly-documented appeal process for challenging the application of the City's capacity charges. This will provide both new connections and the City with a process for evaluating and resolving fee disputes.

Regional Wastewater Capacity Fee Survey

The following chart compares regional wastewater capacity charges for a new single family home.



APPENDIX A

Alternative Debt Service Estimates

Estimated Debt Service for WWTP Project: SRF Loan	
	20-Year SRF
WWTP Project Funding Target	\$47,757,000
SRF Loan Amount	
Eligible Project Costs ¹	47,757,000
Accrued Interest During Construction ²	597,000
Accrued Interest for One Year After Completion ³	<u>1,209,000</u>
Total Loan Amount	49,563,000
Loan Terms	
Term (years)	20
Estimated Interest Rate	2.50%
Annual Loan Payment	3,179,000
Total Payments Over Term of Loan	63,580,000
Less TCSD Share (9%)	<u>(5,722,200)</u>
Net Paso Robles Share	57,857,800
<i>2011 Study Estimate (from Table 7)</i>	60,606,000
<p>1 Note: Some costs may not be eligible for SRF Loan funding.</p> <p>2 Assumes steady gradual drawdown of loan funds over one year.</p> <p>3 First debt service payment due one year following completion of project.</p> <p>4 Total net interest rate estimated for financial planning purposes; actual rate may vary.</p>	

Estimated Debt Service for WWTP Project: Conventional Financing		
	Assumptions	30-Year Debt
WWTP Project Funding Target		
		\$47,757,000
Total Debt Issue		
		\$52,050,000
Proceeds for Project Fund		
		\$47,757,000
Issuance Costs & Reserve Requirement		
Underwriter Discount	1.00%	\$521,000
Issuance Costs		175,000
Debt Service Reserve Fund		3,581,000
Bond Insurance	none	0
Contingency/Rounding		<u>16,000</u>
Total		4,293,000
Financing Terms		
Term (Years)		30
Est. Average Annual Interest Rate		5.50%
Annual Debt Service		
Annual Debt Service		3,581,300
Less Interest on Reserve Fund	2.50%	<u>(89,500)</u>
Net Annual Debt Service		3,491,800
Total Debt Service Over Term of Financing		
Gross Debt Service		107,439,000
Less Interest on Reserve Fund		(2,685,000)
Less Reserve Fund Withdrawal		<u>(3,581,000)</u>
Net Total Debt Service		101,173,000
Less TCSD Share (9%)		<u>(9,105,600)</u>
Net Paso Robles Share		92,067,400
<i>2011 Study Estimate (from Table 12)</i>		<i>105,713,800</i>

APPENDIX B

Government Code

California Government Code

Key Sections Pertaining to Water & Sewer Capacity Charges

Government Code Sections 66013, 66016, & 66022

66013

(a) Notwithstanding any other provision of law, when a local agency imposes fees for water connections or sewer connections, or imposes capacity charges, those fees or charges shall not exceed the estimated reasonable cost of providing the service for which the fee or charge is imposed, unless a question regarding the amount of the fee or charge imposed in excess of the estimated reasonable cost of providing the services or materials is submitted to, and approved by, a popular vote of two-thirds of those electors voting on the issue.

(b) As used in this section:

(1) "Sewer connection" means the connection of a structure or project to a public sewer system.

(2) "Water connection" means the connection of a structure or project to a public water system, as defined in subdivision (f) of Section 116275 of the Health and Safety Code.

(3) "Capacity charge" means a charge for public facilities in existence at the time a charge is imposed or charges for new public facilities to be acquired or constructed in the future that are of proportional benefit to the person or property being charged, including supply or capacity contracts for rights or entitlements, real property interests, and entitlements and other rights of the local agency involving capital expense relating to its use of existing or new public facilities. A "capacity charge" does not include a commodity charge.

(4) "Local agency" means a local agency as defined in Section 66000.

(5) "Fee" means a fee for the physical facilities necessary to make a water connection or sewer connection, including, but not limited to, meters, meter boxes, and pipelines from the structure or project to a water distribution line or sewer main, and that does not exceed the estimated reasonable cost of labor and materials for installation of those facilities.

(6) "Public facilities" means public facilities as defined in Section 66000.

(c) A local agency receiving payment of a charge as specified in paragraph (3) of subdivision (b) shall deposit it in a separate capital facilities fund with other charges received, and account for the charges in a manner to avoid any commingling with other moneys of the local agency, except for investments, and shall expend those charges solely for the purposes for which the charges were collected. Any interest income earned from the investment of moneys in the capital facilities fund shall be deposited in that fund.

(d) For a fund established pursuant to subdivision (c), a local agency shall make available to the public, within 180 days after the last day of each fiscal year, the following information for that fiscal year:

(1) A description of the charges deposited in the fund.

(2) The beginning and ending balance of the fund and the interest earned from investment of moneys in the fund.

(3) The amount of charges collected in that fiscal year.

(4) An identification of all of the following:

(A) Each public improvement on which charges were expended and the amount of the expenditure for each improvement, including the percentage of the total cost of the public improvement that was funded with those charges if more than one source of funding was used.

(B) Each public improvement on which charges were expended that was completed during that fiscal year.

(C) Each public improvement that is anticipated to be undertaken in the following fiscal year.

(5) A description of each interfund transfer or loan made from the capital facilities fund. The information provided, in the case of an interfund transfer, shall identify the public improvements on which the transferred moneys are, or will be, expended. The information, in the case of an interfund loan, shall include the date on which the loan will be repaid, and the rate of interest that the fund will receive on the loan.

(e) The information required pursuant to subdivision (d) may be included in the local agency's annual financial report.

(f) The provisions of subdivisions (c) and (d) shall not apply to any of the following:

(1) Moneys received to construct public facilities pursuant to a contract between a local agency and a person or entity, including, but not limited to, a reimbursement agreement pursuant to Section 66003.

(2) Charges that are used to pay existing debt service or which are subject to a contract with a trustee for bondholders that requires a different accounting of the charges, or charges that are used to reimburse the local agency or to reimburse a person or entity who advanced funds under a reimbursement agreement or contract for facilities in existence at the time the charges are collected.

(3) Charges collected on or before December 31, 1998.

(g) Any judicial action or proceeding to attack, review, set aside, void, or annul the ordinance, resolution, or motion imposing a fee or capacity charge subject to this section shall be brought pursuant to Section 66022.

(h) Fees and charges subject to this section are not subject to the provisions of Chapter 5 (commencing with Section 66000), but are subject to the provisions of Sections 66016, 66022, and 66023.

(i) The provisions of subdivisions (c) and (d) shall only apply to capacity charges levied pursuant to this section.

(Amended by Stats. 2007, Ch. 94, Sec. 1. Effective January 1, 2008.)

66016

(a) Prior to levying a new fee or service charge, or prior to approving an increase in an existing fee or service charge, a local agency shall hold at least one open and public meeting, at which oral or written presentations can be made, as part of a regularly scheduled meeting. Notice of the time and place of the meeting, including a general explanation of the matter to be considered, and a statement that the data required by this section is available, shall be mailed at least 14 days prior to the meeting to any interested party who files a written request with the local agency for mailed notice of the meeting on new or increased fees or service charges. Any written request for mailed notices shall be valid for one year from the date on which it is filed unless a renewal request is filed. Renewal requests for mailed notices shall be filed on or before April 1 of each year. The legislative body may establish a reasonable annual charge for sending notices based on the estimated cost of providing the service. At least 10 days prior to the meeting, the local agency shall make available to the public data indicating the amount of cost, or estimated cost, required to provide the service

for which the fee or service charge is levied and the revenue sources anticipated to provide the service, including General Fund revenues. Unless there has been voter approval, as prescribed by Section 66013 or 66014, no local agency shall levy a new fee or service charge or increase an existing fee or service charge to an amount which exceeds the estimated amount required to provide the service for which the fee or service charge is levied. If, however, the fees or service charges create revenues in excess of actual cost, those revenues shall be used to reduce the fee or service charge creating the excess.

(b) Any action by a local agency to levy a new fee or service charge or to approve an increase in an existing fee or service charge shall be taken only by ordinance or resolution. The legislative body of a local agency shall not delegate the authority to adopt a new fee or service charge, or to increase a fee or service charge.

(c) Any costs incurred by a local agency in conducting the meeting or meetings required pursuant to subdivision (a) may be recovered from fees charged for the services which were the subject of the meeting.

(d) This section shall apply only to fees and charges as described in Sections 51287, 56383, 65104, 65456, 65584.1, 65863.7, 65909.5, 66013, 66014, and 66451.2 of this code, Sections 17951, 19132.3, and 19852 of the Health and Safety Code, Section 41901 of the Public Resources Code, and Section 21671.5 of the Public Utilities Code.

(e) Any judicial action or proceeding to attack, review, set aside, void, or annul the ordinance, resolution, or motion levying a fee or service charge subject to this section shall be brought pursuant to Section 66022.

(Amended by Stats. 2006, Ch. 643, Sec. 19. Effective January 1, 2007.)

66022

(a) Any judicial action or proceeding to attack, review, set aside, void, or annul an ordinance, resolution, or motion adopting a new fee or service charge, or modifying or amending an existing fee or service charge, adopted by a local agency, as defined in Section 66000, shall be commenced within 120 days of the effective date of the ordinance, resolution, or motion.

If an ordinance, resolution, or motion provides for an automatic adjustment in a fee or service charge, and the automatic adjustment results in an increase in the amount of a fee or service charge, any action or proceeding to attack, review, set aside, void, or

annul the increase shall be commenced within 120 days of the effective date of the increase.

(b) Any action by a local agency or interested person under this section shall be brought pursuant to Chapter 9 (commencing with Section 860) of Title 10 of Part 2 of the Code of Civil Procedure.

(c) This section shall apply only to fees, capacity charges, and service charges described in and subject to Sections 66013, 66014, and 66016.

(Amended by Stats. 2006, Ch. 643, Sec. 20. Effective January 1, 2007.)
