

**TO: Thomas Frutchey, City Manager**  
**FROM: Dick McKinley, Public Works Director**  
**SUBJECT: Water Rate Increases - Second Reading**  
**DATE: April 5, 2016**

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**NOTE:** THE CITY COUNCIL HELD A PUBLIC HEARING ON MARCH 15, 2016 DURING WHICH PROTESTS WERE COUNTED. WITH 639 UN-VALIDATED PROTESTS RECEIVED, THERE WAS NOT A MAJORITY PROTEST. THE CITY COUNCIL THEN INTRODUCED THE WATER RATE ORDINANCE (ORDINANCE No. XXX N.S.) AT FIRST READING. THE PROPOSED ACTION FOR THE APRIL 5, 2016 CITY COUNCIL MEETING IS TO ADOPT THE ORDINANCE (2ND READING) BY CONSENT. THE STAFF REPORT FROM THE MARCH 15, 2016 MEETING IS REPEATED BELOW FOR INFORMATION. NO SUBSTANTIVE CHANGES HAVE BEEN MADE TO THE PROPOSED ORDINANCE SINCE FIRST READING. A SUMMARY OF THE PROPOSED ORDINANCE, APPROVED BY THE CITY ATTORNEY, WAS PRINTED IN A NEWSPAPER OF GENERAL CIRCULATION.

**NEEDS:** For the City Council to conduct a public hearing, and if there is no majority protest, consider introduction of an ordinance establishing revised water rates effective January 1, 2017.

**FACTS:**

1. The City of Paso Robles owns and operates approximately 174 miles of waterlines, 4 storage facilities, and 7 booster stations to distribute potable water (i.e. drinking water) throughout the City. A system of 20 wells and water from Lake Nacimiento supplies drinking water, with the first of two surface water treatment plants now in operation.
2. As reported in the City's "Comprehensive Annual Financial Report" for, the Water Operations fund expended \$12.1 million for FY 2013-4 and \$7.6 million for FY 2014-5, and has a projected total operating expense of \$13 million for Fiscal Year 2015-6. Revenues are generated primarily from user fees and water facility charges (also referred to as connection fees). Current revenues are approximately \$9.6 million per year, thus falling short of meeting annual requirements.
3. Current water rates went into effect on January 1, 2012, with the latest annual water rate increase taking effect on January 1, 2016. All customers now pay \$4.40 per hundred cubic feet (HCF) of metered water usage<sup>1</sup>; i.e., an entirely consumption-based rate.

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<sup>1</sup> HCF = hundred cubic feet, or 748 gallons.

4. The current water facility charges were adopted in 2009 and are \$23,500 per “equivalent meter unit”.
5. On November 18, 2014 the City authorized the preparation and update of the City’s Water and Sewer Rates and Water Facility Charges (Resolution No. 14-159).
6. The October 22, 2015 “Water Rate and Revenue Analysis” prepared by Water Consultancy, Inc. /HDR, Inc. (“Rate Study”), detailed the need for increased water rates in order to help meet operating costs. (The Rate Study is available on the City’s web site at <http://www.prcity.com/government/departments/publicworks/water/index.asp>.) It also recommended including a fixed-rate component in the rate structure, as many water system operating costs do not fluctuate with water usage.
7. By Resolution No. 15-135, adopted on November 3, 2015, the City Council proposed increasing water rates and authorized initiation of Proposition 218 procedures.
8. The required notice of public hearing (corrected) was mailed to all property owners and customers of record receiving water service on January 25, 2016.

**ANALYSIS &**

**CONCLUSION:** The proposed water rates are as follows:

**Proposed Water Rates**

<b>All Customers</b>	<b>Rates now in effect</b>	<b>January 1, 2017</b>	<b>January 1, 2018</b>	<b>January 1, 2019</b>	<b>January 1, 2020</b>	<b>January 1, 2021</b>
<b>All Water Usage</b> (\$/HCF)	\$4.40	\$4.83	\$5.26	\$5.73	\$6.14	\$6.56
<b>Fixed Charge</b> (\$/Account/Month)	\$0	\$5	\$6.25	\$7.50	\$8.75	\$10

Note: Pricing increases to be effective January 1<sup>st</sup> of each year.

HCF = hundred cubic feet, or 748 gallons.

Water rates going out five years have been proposed, including significant increases, based on the City’s best predictions of the capital and operating expenditures that will be necessary to continue to offer residents and businesses an adequate and reliable water supply. However, the Council has the opportunity at any time during those five years to reconsider the proposals and adjust rates, by examining new assumptions or analyses. As long as rates higher than those posted in the notices are not adopted, the Council may make any future adjustments it sees fit.

Notices regarding the public hearing were mailed more than 45 days prior to tonight’s hearing pursuant to the requirements of Proposition 218 and Article XIID of the California Constitution. There are an estimated

combined 10,626 owners or customers of record for parcel(s) directly responsible for payment for water service in the City of Paso Robles.<sup>2</sup> In the event that a majority (i.e. more than 50% of the parcels) of such owners/tenants submit valid written protests, then the proposed water rate increase 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 Entitlement Contract.

**FISCAL IMPACT:** The new water rates will enable operations and maintenance at the levels detailed in the master plan and Rate Study as approved by the City Council. Failure to put new water rates into effect by January 1, 2017 would deplete the Water Operations Fund by FY 22-23 such that the Water Operations Fund would fall short of meeting the City's Nacimiento bond debt requirements.

**OPTIONS:**

- A. After taking all public input, close the public hearing and:
  - 1. Establish number of valid written protests that have been submitted per Proposition 218 / Article XIID of the California Constitution; and
  - 2. If there is no majority protest, introduce and read by title only Ordinance No. XXX N.S. thereby setting new water rates to be effective January 1, 2017; or
  - 3. If there is a majority protest, direct staff to develop alternatives; or
- B. Amend, modify or reject the above option.

**ATTACHMENTS**

- 1. ORDINANCE NO. XXX N.S.

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<sup>2</sup> "City of Paso Robles Water System Statistics" as of December 31, 2014, as reported to the California Dept. of Water Resources

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  
REVISED WATER FEE STRUCTURE

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WHEREAS, on April 6, 2010, the City adopted Ordinance No. 967 N.S. thereby amending the Municipal Code of the City of El Paso de Robles to establish a uniform consumption-based water fee structure; and

WHEREAS, on November 18, 2014 the City authorized the preparation and update of the City's Water and Sewer Rates and Water Facility Charges (Resolution No. 14-159); and

WHEREAS, on November 3, 2015, staff presented to the City Council a water rate proposal, along with the consultant's report "City of Paso Robles Water Rate, Facility Charge, and Revenue Analysis" dated October 2015, prepared by Water Consultancy, Inc./HDR, Inc. ("Rate Study"); and

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

WHEREAS, also on November 3, 2015, City Council adopted Resolution No. 15-135, proposing increased water rates and authorizing initiation of Proposition 218 procedures, including the mailing of notices regarding a public hearing to consider a proposed ordinance to adopt a combined fixed-rate and consumption-based fee structure; and

WHEREAS, the City identified the parcels upon which the rates will be imposed, determined the proposed rates based on the findings in the Rate Study, and mailed notices on January 25, 2016, to all record owners and tenants of properties responsible for paying for water service, which notices provided information on the proposed rates, the basis for the calculation, the reasons for the proposed 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 March 15, 2016, and considered any and all property owner and tenant protests; and

WHEREAS, at the public hearing on March 15, 2016, 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

- (1) its contractual obligation to pay for a portion of the costs of construction of the Nacimiento Water Project;
- (2) a portion of the costs associated with water treatment; and
- (3) other necessary and essential ongoing costs of operation and maintenance of the City's water delivery system.

These findings are based upon the information contained in the notice, the October 2015 Water Consultancy, Inc./ HDR, Inc. 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, by including a fixed fee component, and then dividing the remainder of the total costs 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, 2017, 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, 2017 the monthly water usage fee shall be as follows:

All Customers	January 1, 2017	January 1, 2018	January 1, 2019	January 1, 2020	January 1, 2021
All Water Usage (\$/HCF)	\$4.83	\$5.26	\$5.73	\$6.14	\$6.56
Fixed Charge (\$/Account/Month)	\$5	\$6.25	\$7.50	\$8.75	\$10

Note: Rate increases to be effective January 1<sup>st</sup> of each year.  
HCF = hundred cubic feet, or 748 gallons.”

**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 March 15, 2016, and passed and adopted by the City Council of the City of El Paso de Robles on the \_\_\_\_\_ day of \_\_\_\_\_ 2016 by the following roll call vote, to wit:

AYES:

NOES:

ABSTAIN:

ABSENT:

\_\_\_\_\_  
Steven W. Martin, Mayor

ATTEST:

\_\_\_\_\_  
Dennis Fansler, City Clerk