



## Paso Robles & Nacimiento Water

Is ½ cent per gallon too much?

Paso Robles is raising its water rates to pay for a new source of fresh water. The Nacimiento Water Project will deliver 4,000 acre feet, that's 1,303,413,600 gallons, of water annually. The pipeline, pump stations and treatment plant needed to deliver the water will cost, and those costs are greater than existing systems. So why do it?

Historically, Paso Robles' water has come from underground sources – the Paso Robles Groundwater Basin and the Salinas River underflow – about 8,000 acre feet per year. Using well water has been cost effective – in fact, Paso Robles water rates have been among the very lowest in the State. But, like so many communities in semi-arid areas, Paso Robles faces challenges that will impact those costs.

**Competition** - Groundwater is limited and vulnerable to overuse. Across the North County, groundwater is used for agriculture, residents, commerce, and industry. Recent studies of the Basin indicate that it may soon reach the point when pumping will meet and exceed the natural replenishment rate. This is not just theory - some areas east of the City already report significant well water level declines.

In addition to the Basin, the City is permitted to pump up to 4,600 acre-feet per year of Salinas River underflow. But river water is fully-allocated; no more can be taken (by public agencies).

As groundwater use increases, or as drought reduces replenishment, competition for water increases. Competition for limited supplies can lead to the uncertainty and expense of litigation, as occurred in Santa Maria. It is important to learn from the experiences of others. Nacimiento water presents an opportunity for water that reduces competition for supply.

**Quality** - The City's underground water supplies contain significant levels of minerals and total dissolved solids (TDS), a condition many call "hard water". Hard water increases demand for in-home and industrial water softening; that softening adds salt to the City's wastewater flows. Higher salt levels means significantly higher wastewater treatment, discharge, and reuse costs, and can lead to groundwater quality declines.

The City has a permit to discharge treated wastewater to the Salinas River, provided it meets strict quality criteria. But TDS and salts from water softeners make it difficult to comply with permit limits. Exceeding those limits can lead to substantial fines and possibly even a prohibition against River discharge. Either outcome is expensive.

Nacimiento water has TDS levels far lower than underground sources. These lower concentrations mean better quality water at the tap, and reduce the need for in-home water softening - thus improving discharge quality.

**Summertime Demands** - City water use varies widely throughout the year, peaking during hot summer months. The existing water system cannot keep pace with high demand periods. More water is needed to meet peak demands and provide reserve water for fire-fighting.

**Nacimiento** - Nacimiento provides 4,000 acre-feet per year, improved drinking water quality, and significantly reduced groundwater basin dependence. The markedly softer water will encourage elimination of household water softeners, directly reducing salt loading into the waste stream. The improvement in wastewater quality will enable the City to recycle treated water to meet future water needs and lessens the risk of degrading groundwater.

These benefits, of course, come at a price; a price that needs to be financed. Municipal bonds are the financing mechanism. Like a mortgage, bonds carry interest costs over a term of 20-30 years and, as with mortgages, the rate of interest is a function of the market and security of the "loan." The source of payment and security for bond financing is the City's water charges. The better the security, the lower the interest rate - and the lower the cost to customers.

Some months ago, the City reviewed water rate options and concluded that a fixed monthly flat rate on every water account would attract the best bond interest rates. The flat rate was presented to all 10,200 water customers. Only 107 protest ballots were filed, and so the City Council approved the flat rate. The strategy worked; bonds were sold at 4.7% rather than 5.0%; the savings are \$300,000 per year.

Additionally, at the time flat rates were set, the City stated its intent to convert to consumption-based rates (pay only for what is used) after the Nacimiento bonds sold. On October 2<sup>nd</sup>, the City Council will consider these alternative rate structures. Any new rate structure will (again) be presented to rate payers to allow protest (as required by Proposition 218).

Once new rates are fully implemented (mid-2010), water will cost about ½ cent per gallon delivered to the tap. Compare that to the cost of bottled water! With this convenience comes improved water quality, reduced need for in-home softening, increased reliability, less impact on local groundwater, and lessened after-use water treatment costs – all for ½ cent per gallon.

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