

TO: City Council

FROM: James L. App, City Manager
Joseph M. Deakin, Public Works Director
Mike Compton, Director of Administrative Services
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SUBJECT: Nacimiento Water Supply Project

DATE: February 3, 2004

NEEDS: For the City Council to review the City's participation in the Nacimiento Water Supply Project, and direct staff towards furthering the City's participation.

- FACTS:**
1. The City's adopted General Plan calls for 11,000 acre-feet of water supplies in the year 2025 to serve the estimated population of 42-44,000.
 2. The City's current Salinas River and groundwater basin use is approximately 7,500 acre-feet per year.
 3. During the past 13 years, the City has drilled 13 wells, 6 of which were not viable due to water quality or low production capacity. The City has 16 active wells, which lose over 50 percent of their design capacity due to seasonal groundwater level fluctuation.
 4. The Paso Robles Groundwater Basin has about 30 million acre feet storage capacity. Currently, all basin users consume 82,600 acre-feet per year, or 88% of estimated annual safe yield (of that consumption, the City's use equals 4%, while agriculture uses 69%).
 5. While the Paso Robles Basin is not in overdraft (source: Paso Robles Groundwater Basin Study, 2002, Fugro), the basin use is nearing annual safe yield.
 6. The Nacimiento supply will provide an additional 4,000 acre-feet bringing City supply totals to 11,500 acre-feet.
 7. The gross cost for the Nacimiento Project is \$170,000,000. The average per acre-foot unit cost is \$1,450.
 8. The City's 4,000 acre-feet allocation equates to an annualized cost of \$5,800,000 beginning in Fiscal Year 2007.
 9. The County Flood Control District is managing the Nacimiento Water Supply Project, and has requested potential participants to confirm their requested allocation of annual water deliveries by March 1, 2004.

**ANALYSIS
AND**

CONCLUSION: The General Plan, and the Council's adopted Goals, identify the need for a new source of water above and beyond current groundwater sources and capacities. Additionally, the City struggles to achieve a level of water quality sufficient to meet regulatory discharge requirements. In April, 2003, the City completed a formal assessment of new water source options. That report indicated that the Nacimiento Project is the best, most reliable option for the City in terms of both water quality and supply (see Table from Malcolm-Pirnie "Water Quality Strategy"). Given the growing demands on groundwater, continuing water quality concerns, expanding water consumption, and the relative cost of all other new water sources, the Nacimiento Project is a necessity.

Nacimiento water will cost approximately \$1450 per acre-foot. At 4,000 acre-feet, annual gross water production expense will be increased by \$5,800,000. The increase can be charged either or both to users (User Fees) and upon connection (Development Impact Fees).

The current average residential water bill is \$22.67 per month. Assuming the entire cost of Nacimiento water was to be paid from User Fee revenues, the \$5.8 million reoccurring annual expense would increase average User Fees by \$48.42 per month in FY 07. Using current water rates, an average monthly water bill would increase to \$71.09 per month.

Referring to the local costs for water in other cities (see attachment, "Area Water Rate Comparison" Table), the revised rate for water in Paso Robles would move rates from the lowest in the area to near the overall area average (which is approximately \$76 average per month). Note that other communities, however, are contemplating rate reviews for Nacimiento costs, or other costs, and in 2007, their rates are likely to have also substantially increased.

Development Impact Fees (DIF) might also be adjusted for water costs. It is not yet known whether the Nacimiento water contracts and/or bond indentures will permit the City to use DIF to partially fund the City's reoccurring annual expense. The participation agreement specifics will be provided to the City Council subsequently.

The City is currently studying DIF changes. Preliminary DIF analysis indicates that Nacimiento water could increase DIF fees for water service by \$2,400 per residential unit, assuming 25% of the capital cost is attributed to new development. At 300 estimated new residential units annually, revenues from DIF would be \$720,000. This DIF revenue increase would reduce the User Fees increase by \$9 per month (resulting in an average user's bill increasing to \$62/month). This preliminary DIF analysis is not yet reviewed or approved by the City Council, and is offered as an example of the options for revenue sources.

**FISCAL
IMPACT:** \$5,800,000 per year

- OPTIONS:**
- a.** Adopt Resolution 04-xx confirming the City's previous request for 4,000 acre-feet of water delivery annually from the prospective Nacimiento Water Supply Project, and notifying the County Flood Control District of the City's intent to participate at this rate.
 - b.** Amend, modify, or reject the above option.

Attachments (3)

- 1) Table from Malcolm-Pirnie "Water Quality Strategy"
- 2) Table – Area Water Rates Comparison
- 3) Resolution 04-xx