

TO: City Council

FROM: James L. App, City Manager

SUBJECT: Nacimiento Water – Reconsideration of Water Rate Options

DATE: October 2, 2007

Needs: For the City Council to consider alternative Nacimiento water user rate structures.

- Facts:
1. On July 20, 2004, the City executed the Nacimiento Project Water Delivery Entitlement Contract.
 2. In August 2004, the Council adopted water user fees to pay for the Project (Ordinance No. 882). Rather than implement the adjustment in a single lump sum, it was phased in annual increments of \$6/month to reach \$36/month as of July 2010.
 3. In 2007, the rate structure required adjustment for a projected annual debt service cost increase.
 4. It was proposed that the NW flat rate increase incrementally to \$60 per month, up from the earlier approved \$36.
 5. A written notice of rate adjustment was distributed to every water customer (10,200) with a formal request to submit protest ballots if opposed (pursuant to the provisions of Proposition 218). Following a 45-day protest period, 107 protest ballots (1%) were received.
 6. At a July 17, 2007 hearing, the City Council adopted the proposed rate structure (Ordinance No. 935). Concurrently, the Council requested that other rate options be presented for consideration once NW bond interest rates were confirmed.
 7. Subsequent to the July 2007 directives, citizens initiated and submitted a referendum petition opposing the NW adjusted phased flat rate of Ordinance No. 935.
 8. The County Clerk has certified that the referendum petition contains enough valid signatures to qualify for an election.
 9. The validated petition suspends Ordinance No. 935. The City Council may repeal it or call a special election on Ordinance No. 935.
 10. By law, the election must be held at least 88 days from the date it is called.
 11. An election will cost approximately \$40,000.

Analysis &
Conclusion:

NW Project financing costs are now known. Maintenance and operational costs are estimated.

The construction cost for the pipeline project is \$175,157,695. There are certain cost components being paid in cash. The net amount to be financed for construction is \$169,278,553. An additional \$33,502,134 is to be financed (for the cost of design, property acquisition, project management, etc.) for a total of \$202,780,687.

The \$202M is divided into taxable and non-taxable components; the taxable portion is for the Atascadero Mutual Water Company's share as it may not issue tax exempt debt. The tax-exempt portion is \$164,215,687 issued at a net interest cost of 4.72%. Paso Robles' share of the \$164,215,687 is \$72,294,877; at 4.7% the annual average debt service cost is \$4,378,637. Therefore, the adjusted annual cost of the NW project and P.R. treatment plant project is:

NW pipeline average annual debt service requirement	\$4,378,700
NW pipeline estimated M&O (net ad valorem property taxes)	916,600
NW treatment plant estimated M&O only*	<u>1,500,000</u>
TOTAL ANNUAL NW COSTS FOR RATE SETTING (rounded)	<u>\$6,800,000</u>

* *The City plans to pay cash for treatment plant construction provided the rate structure produces sufficient revenue*

The cost estimates on which the 7/17/07 NW rate adjustment was based totaled \$7,100,000. The actual \$6,800,000 reflects a \$300,000/year decrease due to favorable interest rates.

The City planned to impose a flat rate for NW of \$24 per month beginning 10/1/07 (per Ord. No. 935) plus a consumption rate of \$1.28 per unit (748 gallons). Options to modify the rate structure include:

- A. Consumption basis only (rate per gallon consumed).
- B. Combined flat rate/consumption basis - fixed costs equally incurred by all and the balance based on consumption.

NOTE: Certain costs are fixed regardless of consumption – including debt service, depreciation, meter reading, billing, etc

Option A –

A consumption-based rate divides total costs by number of units consumed. Typically, as rates rise, the number of units consumed decreases, but costs do not. Accordingly, rates phased in over time should include adjustment factors for annual inflation and decreased consumption. The calculation follows:

CALCULATION FOR CONSUMPTION ONLY OPTION:

UB/Customer Service Budget – FY 2008:	\$ 596,100
-less operating capital	\$ (28,000)
-less allocation to sewer operations	<u>\$ (328,400)</u>
	\$ 239,700
Field Service Budget – FY 2008:	\$ 3,758,200
-add operating transfers out	\$ 51,200
-add operating capital	<u>\$ (214,100)</u>
	<u>\$ 3,595,300</u>
TOTAL CURRENT COSTS	\$ 3,835,000
-add average annual debt service for pipeline	\$ 4,378,700
-add operating cost of treatment facility	\$ 1,500,000
-add operating cost of pipeline	<u>\$ 916,600</u>
TOTAL ALL COSTS	<u>\$ 10,630,300</u>
Base Consumption Rate (a)	<u>\$ 3.20</u>
Phased Rate Adjustment Factor (b)	<u>\$ 4.00 per unit</u>

(a) Total costs divided by 3,319,000 units

(b) Includes adjustment for inflation and consumption decrease

Option B -

A combination flat rate/consumption basis divides fixed costs by the number of customers and variable costs by the number of units consumed. As with Option A, as rates rise, the number of units consumed decreases, but costs do not. Accordingly, consumption rates phased in over time should include adjustment factors for annual inflation and decreased consumption.

Fixed Rate Component (a)	<u>\$ 36.00/mo +</u>
Base Consumption Rate (b)	<u>\$ 1.88</u>
Phased Adjusted Consumption Rate (c)	<u>\$ 2.34/unit</u>

(a) Phased fixed rate per Ord. No. 882.

(b) Total residual costs divided by 3,319,000 units

(c) Includes adjustment for inflation and consumption decrease

Either rate structure may be phased beginning 2008 through July 2010 as provided below:

<u>Option</u>	<u>2/08</u>	<u>7/08</u>	<u>7/09</u>	<u>7/10</u>
A – Consumption Only	\$2.25/unit	\$2.75/unit	\$3.50/unit	\$4.00/unit
B – Fixed	\$18.00/mo	\$24.00/mo	\$30.00/mo	\$36.00/mo*
plus	+	+	+	+
Consumption	\$1.60/unit	\$1.85/unit	\$2.10/unit	\$2.34/unit**

* Fixed rate already established per Ord.No. 882.

** Unit = 748 gallons

Regardless of the option chosen, it is recommended that the NW fee component continue to be accounted for separate from regular operations.

Fiscal

Impact:

On or about July 1, 2010, the construction of the pipeline and the City's treatment facility will be complete and operational. Debt service payments on the bonds will begin as well as the ongoing fixed operational and maintenance costs of both components. These fixed costs are estimated at \$6.8 million annually. It does not matter how much water is delivered or consumed. The costs are fixed and the City must have a permanent, reoccurring revenue stream in place.

Options:

- a. City Council:
 1. Introduce Ordinance Repealing Ordinance No. 935 **OR** Adopt Resolutions Calling a Special Election to Consider the Referendum Petition & Consolidating the Special Election with the Statewide Primary Election on February 5, 2008; and
 2. Authorize Staff to Initiate Preparation of Consumption Based Rate (Option A) **OR** Combined Flat/Consumption Based Rate (Option B); or
- b. Amend, modify, or reject the above option.

ORDINANCE NO. _____ N.S.

AN ORDINANCE OF THE CITY OF EL PASO DE ROBLES
REPEALING ORDINANCE NO. 935 N.S.

WHEREAS, on August 7, 2007, the City Council of the City of El Paso de Robles adopted Ordinance No. 935 N.S., which increased water usage rates to fund the Nacimiento Water Project; and

WHEREAS, subsequent to the adoption of Ordinance No. 935 N.S., citizens initiated and submitted a referendum petition against the ordinance; and

WHEREAS, the County of San Luis Obispo Clerk-Recorder has certified that the petition contains the requisite number of valid signatures pursuant to Elections Code section 9237; and

WHEREAS, the petition therefore suspends the effective date of the ordinance and requires the City Council to reconsider the ordinance; and

WHEREAS, pursuant to Elections Code section 9241, the City Council is required either to repeal the ordinance entirely or to submit the ordinance to the voters.

NOW, THEREFORE, THE CITY COUNCIL OF THE CITY OF EL PASO DE ROBLES DOES ORDAIN AS FOLLOWS:

SECTION 1. Ordinance No. 935 N.S. is hereby repealed in its entirety.

Introduced at a regular meeting of the City Council held on October 2, 2007, and passed and adopted by the City Council of the City of El Paso de Robles on the ____ day of _____ by the following vote:

AYES:

NOES:

ABSTAIN:

ABSENT:

Frank R. Mecham, Mayor

ATTEST:

Deborah Robinson, Deputy City Clerk

ORDINANCE NO. 935 N.S.

AN ORDINANCE OF THE CITY OF EL PASO DE ROBLES
AMENDING SECTIONS 14.04.020 AND 14.16.020 OF THE CITY OF EL PASO DE ROBLES MUNICIPAL
CODE TO ADJUST WATER USER FEES

WHEREAS, the City Council has approved participation in the Nacimiento Water Project to help assure a high quality and continuous supply of water to its citizens; and

WHEREAS, as the Nacimiento Water Project including the City's Water Treatment Facility will, based upon current construction costs, result in a new reoccurring annual cost of \$7.1 million; and

WHEREAS, the City Council proposes to collect said annual cost from a combination of user and impact fees; and

WHEREAS, it has been determined that it is necessary to raise fixed rate water user fees from \$36.00 per month to \$60 per month; and

WHEREAS, in order to mitigate the impact upon the City's water customers, the City Council desires to raise monthly rates by \$12.00 October 1, 2007 and every subsequent July 1st until the total rate reaches \$60 per month.

NOW, THEREFORE, THE CITY COUNCIL OF THE CITY OF EL PASO DE ROBLES DOES ORDAIN AS FOLLOWS:

SECTION 1. Subdivision C of Section 14.04.020 of the Paso Robles Municipal Code is hereby amended to read as follows:

“C. FEES—WATER USAGE RATES. The monthly rates to be charged and collected by the water department for all water consumption including private fire lines, bulk water delivery, or fire hydrant usage from every person, school, firm, or corporation shall be charged at rates established by ordinance of the City Council. Other than as expressly set forth herein, such water usage rates may only be established or amended by a two-thirds vote of the city council in favor of such establishment or amendment of water usage rates.

Effective October 1, 2007, the base water usage fee in place at the time shall be increased by \$12.00 per customer per month and shall be further adjusted every July 1st thereafter through July 1, 2010 by an additional \$12.00 per customer per month.

Unless otherwise specifically adjusted by subsequent action of the City Council or by the annual inflationary adjustment provided for below, the variable consumption rate shall remain unchanged at \$1.28 per 100 cubic feet.

The base water usage fee and variable consumption rate established in this section shall be modified annually by the increase in the Consumer Price Index for the San Francisco-Oakland-San Jose Region as reported by the Bureau of Labor Statistics for the year ending April of each year and shall be applied to all billing statements calculated, generated and distributed beginning July 1st of each fiscal year.

The water usage fees shall further be reviewed no less than bi-annually in conjunction with the update of the City's budget to ensure that the sewer and water connection fees then in existence do not exceed the costs of providing water service within the City.”

SECTION 3. Severability

If any action, subsection, sentence, clause or phrase of this ordinance is, for any reason, held by a court of competent jurisdiction to be invalid or unconstitutional, such decision shall not affect the validity of the remaining portions of this ordinance.

Introduced at a regular meeting of the City Council held on July 17, 2007 for first reading by the City Council of the City of El Paso de Robles, and adopted on the 7th day of August, 2007 by the following vote:

AYES: Hamon, Nemeth, Picanco, Strong, and Mecham
NOES:
ABSTAIN:
ABSENT:

Frank R. Mecham, Mayor

ATTEST:

Deborah Robinson, Deputy City Clerk

RESOLUTION NO. 07-_____

RESOLUTION OF THE CITY COUNCIL OF THE CITY OF EL PASO DE ROBLES
CALLING A SPECIAL ELECTION TO BE HELD IN THE CITY ON FEBRUARY 5,
2008, FOR THE PURPOSE OF SUBMITTING A REFERENDUM TO THE VOTERS
TO RATIFY OR REJECT THE CITY COUNCIL'S APPROVAL OF ADJUSTMENTS
TO WATER USER FEES AS SET FORTH IN ORDINANCE NO. 935 N.S., AS
ADOPTED BY THE CITY COUNCIL ON AUGUST 7, 2007

WHEREAS, pursuant to Elections Code section 9240, a petition for referendum seeking the repeal of Ordinance No. 935 N.S. was found to be sufficient, and the City Clerk certified the results of the examination to the City Council at its October 2, 2007, meeting; and

WHEREAS, pursuant to Elections Code section 9241, if the City Council does not entirely repeal the ordinance against which the petition is filed, the City Council shall submit the ordinance to the voters; and

WHEREAS, pursuant to Elections Code sections 1410 and 9241, the election shall be held at the next regular election occurring not less than 88 days after the date of the order of election, or at a special election called for that purpose not less than 88 days after the date of the order of election.

THE CITY COUNCIL OF THE CITY OF EL PASO DE ROBLES DOES HEREBY RESOLVE AS FOLLOWS:

SECTION 1. Calling of the Special Election. Pursuant to the laws of the State of California relating to municipal referenda and municipal elections, including municipal elections consolidated with other elections, the City Council of the City of El Paso de Robles hereby calls and orders held a special municipal election to be held in the City of El Paso de Robles, County of San Luis Obispo, State of California on February 5, 2008, for the purpose of placing on the ballot the following measure:

"MEASURE _____

Shall the City Council's approval of Ordinance No. 935 N.S., increasing water user rates by \$12 per month effective October 1, 2007, and each subsequent July 1st through July 2010 until they reach \$60 per month, to fund the Nacimiento Water Project, be ratified?
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Yes: _____ No: _____"

A full and complete copy of Ordinance No. 935 N.S. is attached hereto as Exhibit 1 and incorporated herein by this reference.

SECTION 2. Said special election shall be held on February 5, 2008. In all particulars not recited in this Resolution, said special election shall be conducted as provided by law for the holding of municipal elections in the City and the consolidation of municipal elections with other elections. Said special election shall be consolidated with all other elections to be held within the City on February 5, 2008.

SECTION 3. The City Council hereby directs the City Attorney to prepare an impartial analysis of the measure in accordance with section 9280 of the Election Code showing the effect of the measure on existing law and the operation of the measure.

SECTION 4. As the City Council has requested the consolidation of the special municipal election with the statewide primary election, the County of San Luis Obispo elections official shall set the dates for submittal of arguments concerning the measure and rebuttal arguments.

SECTION 5. Rebuttal arguments may be submitted as provided for in section 9285 of the Elections Code of the State of California. The provisions of said section 9285 are hereby adopted and shall apply to this election.

PASSED AND ADOPTED by the City Council of the City of El Paso de Robles this 2nd day of October, 2007, by the following roll call vote:

AYES:
NOES:
ABSTAIN:
ABSENT:

Frank Mecham, Mayor

ATTEST:

Deborah Robinson, Deputy City Clerk

RESOLUTION NO. 07-_____

RESOLUTION OF THE CITY COUNCIL OF THE CITY OF EL PASO DE ROBLES
REQUESTING THE BOARD OF SUPERVISORS OF THE COUNTY OF SAN LUIS
OBISPO TO CONSOLIDATE A SPECIAL ELECTION HELD ON FEBRUARY 5,
2008, WITH THE STATEWIDE PRIMARY ELECTION TO BE HELD ON THAT
DATE PURSUANT TO § 10403 OF THE ELECTIONS CODE

WHEREAS, the City Council of the City of El Paso de Robles HAS called a special election for the purpose of submitting a referendum to the voters of the City of El Paso de Robles, to be held on February 5, 2008; and

WHEREAS, it is desirable that the special election be consolidated with the statewide primary election to be held on the same date and within the City, that the precincts, polling places, and election officers of the City and the State elections be the same, and that the County Election Department of the County of San Luis Obispo canvass the returns of the special election and that the election be held in all respects as if there were only one election.

NOW, THEREFORE, THE CITY COUNCIL OF THE CITY OF EL PASO DE ROBLES DOES RESOLVE, DECLARE, DETERMINE AND ORDER AS FOLLOWS:

SECTION 1. Pursuant to section 10403 of the Elections Code, the Board of Supervisors of the County of San Luis Obispo is hereby requested to consent and agree to the consolidation of municipal special election with the statewide primary election on Tuesday, February 5, 2008, for the purpose of the submission of a municipal referendum to the voters. A full and complete copy of the Resolution calling the special election is attached hereto as Exhibit 1 and incorporated herein by this reference.

SECTION 2. The Board of Supervisors is hereby authorized and directed to canvass the returns of the election. The election shall be held in all respects as if there were only one election and only one form of ballot shall be used.

SECTION 3. The Board of Supervisors is requested to issue instructions to the County elections official to take any and all steps necessary for the holding of the consolidated election.

SECTION 4. The City of El Paso de Robles shall reimburse the County of San Luis Obispo for all costs and expenses incurred by the County in conducting said election upon presentation of a bill to the City.

SECTION 5. The City Clerk is hereby directed to file a certified copy of this Resolution with the Board of Supervisors and the County election official of the County of San Luis Obispo no later than [REDACTED], 2007.

PASSED AND ADOPTED by the City Council of the City of El Paso de Robles this 2nd day of October, 2007, by the following roll call vote:

AYES:

NOES:

ABSTAIN:

ABSENT:

Frank Mecham, Mayor

ATTEST:

Deborah Robinson, Deputy City Clerk