

TO: James L. App, City Manager
FROM: Doug Monn, Public Works Director
SUBJECT: Water Rate Study
DATE: January 15, 2008

NEEDS: For the City Council to consider contracting T. J. Cross Engineers, Inc. and Kennedy/Jenks Consultants to perform a water needs assessment and rate study.

FACTS:

1. The City Council determined that additional sources of potable water are required to improve water quality, decrease pumping from the Paso Robles Groundwater Basin, diversify supply, and increase reliability. To this end, the City Council entered into a contract to receive 4,000 acre feet (1,303,413,600 gallons) annually of water from Nacimiento Lake.
2. To cover the cost of this new, higher quality source of fresh water, utility rates require adjustment.
3. In 2004, water user fee increases were put in place to cover the estimated costs of the Nacimiento Water Project. Water development impact fees (connection fees) were also increased in 2004 to ensure that new development would pay its share of the Nacimiento Water Project.
4. In July 2007, the Nacimiento Water Project portion of the water rates was set to be increased incrementally to \$60 per month (Ordinance No. 935). At that time, a number of residents requested that the City Council consider a fee structure based on actual water consumption, which the Council agreed to do once the actual costs of the Nacimiento Water Project were determined.
5. In October 2007, City Council repealed Ordinance No. 935 in response to public input and authorized staff to initiate preparation of an ordinance establishing a consumption-based water user fee. Staff returned with Ordinance No. 940, a proposed consumption-based water user fee on December 4, 2007, with proposed monthly consumption-based water rates starting at \$2.25/unit increasing to \$4.00/unit.
6. On December 18, 2007, City Council deferred adoption of Ordinance No. 940 to consider retaining an independent expert to comprehensively review the water rates and establish a rate structure that would generate funds to address planned water resource and system operations.

**ANALYSIS &
CONCLUSION:**

Pending debt service on the Nacimiento Water Project, and the associated public health need for surface water treatment plant, demands prompt action to generate revenue to fulfill contractual and financial obligations and complete needed improvements on time. City Council directed staff to return in January 2008 with a proposed third party, independent water user rate study.

The City sought the input of Mrs. Christine Halley, PE, of TJCross Engineers, Inc. Mrs. Halley is a 27-year practitioner in public works with extensive background in area utility (especially water) planning, operations, and management. TJCross authored the City's 2006 *Water Resources Plan Integration and 10-Year Capital Improvement Program*, the document that serves as the foundation for the revenue needs portion of the water user rate study. Mrs. Halley sought qualifications statements from California-based rate specialists and conducted interviews on January 2, 2008. Based on qualifications, understanding of Paso Robles' water rate history and need, and proposed approach to the City's analysis, Kennedy/Jenks Consultants is well-qualified to lead the proposed independent water user rate study with supporting revenue need (capital, operations and maintenance costs) provided by TJCross Engineers.

Mr. Roger Null, Vice President & Director of Kennedy/Jenks Consultants, will manage the Paso Robles water user rate study. Mr. Null's 29-year career includes over 100 utility system financial plans, master plans, and utility staffing plans. He managed water utility rate studies/revenue plans/financing programs/cost of service analyses for the cities of Santa Barbara, Tustin, Santa Paula, Santa Monica, Tracy, Ontario, Manhattan Beach, Oxnard, and other cities as well as Montecito Water District, Westborough Water District, North Coast Water District, Yucca Water Company and others. Mr. Null has performed similar financial analyses and rate studies for wastewater and storm water utilities.

Kennedy/Jenks Consultants and TJCross Engineers would approach the water user rate study in the following manner:

- Update the 10-year water system capital improvement program
- Assess operations staffing for water distribution, production (including Nacimiento), and water treatment plant and incorporate the staffing plan into overall 10-year system operations and maintenance cost projection.
- Develop a 10-year Revenue Plan of the projected water costs and revenues. Include an allowance for new water accounts and water usage trends. Describe basis for capital project funding (pay-as-you-go vs. bond financing or other) and reserve accrual.
- Examine alternatives for Rate Restructuring and Cost of Service to include an all fixed rate, base rate with consumer rate, and a tiered rate system using a fixed rate or base rate with consumer pricing.
- Present findings in a report to the City, meet with City over course of the rate study to gather data, integrate comments, and present findings to City Council and the public.

Based on a notice to proceed in early February 2008, the draft water user rate study could be issued in May 2008.

POLICY

REFERENCE: Economic Strategy; Integrated Water Resource Plan; Nacimiento Water Project Entitlement Contract.

FISCAL IMPACT: The estimated combined fee for Kennedy/Jenks Consultants and TJCross Engineers, Inc. to provide the services outlined is \$83,800, the cost for this undertaking would be paid from the Water Enterprise Fund.

- OPTIONS:**
- a.** Adopt Resolution No. 08-xx appropriating \$83,800 from Water Enterprise Fund (No. 600) to perform a water user rate study and authorizing the City Manager to enter into contractual arrangements with Kennedy/Jenks Consultants and TJCross Engineers in that amount.
 - b.** Amend, modify, or reject the above option.

Prepared by: Christine Halley, Water & Utility Consultant,
TJ Cross Engineers, Inc.

Attachments (2)

- 1) Resolution
- 2) Resume; Roger Null, Kennedy/Jenks

Key Project Team Resumes

Roger D. Null

Vice President, Management Consulting Services Practice Leader

Education

University of Oklahoma, B.S. Industrial Engineering

Professional Affiliations

American Public Works Association

American Water Works Association

Professional Summary

Mr. Null's 29-year career spans a broad range of management consulting and engineering activities. He has conducted, managed, and directed projects requiring investigation of systems, procedures, and services for both private and municipal clientele. He Null has performed a variety of consulting-related method/task evaluations, development of work standards and job descriptions, cost/benefit analysis for capital expenditures, price/cost analysis for miscellaneous operating fees, billing system analysis, work place efficiency design, staffing evaluations, and life cycle economic analysis. He has specialized municipal experience in infrastructure planning and control systems, fixed asset inventory and depreciation studies, financial planning, asset management, capital improvement planning, cost allocation and recovery evaluations, utility rate studies, economic alternative analysis, and operational procedures, staffing, and efficiency studies.

Mr. Null has managed over 100 utility system master planning, financial planning, and utility staffing planning projects for local communities. Through these projects, he has developed, administered, and facilitated public participation programs and public workshops to promote community understanding, consensus, and acceptance. This management consulting experience has effectively served Mr. Null as a Project Director and Project Manager of numerous projects, including:

- ◆ Project Manager - Water Utility Rate Studies, Revenue Plans, Financing Programs, Cost of Service Analyses, Rate Design and Capacity Charge Studies for the Cities of Santa Barbara, Tustin, Santa Paula, Santa Monica, Tracy, Ontario, Manhattan Beach, San Jacinto, Calexico, Port Hueneme, Oxnard, the Santa Barbara Airport Authority, the Elsinore Valley Municipal Water District, Montecito Water District, Rincon Del Diablo Water District, Hi-Desert Water District, Westborough Water District, North Coast Water District, the San Antonio Water Company, and the Yucca Water Company. Most of these studies included a review/assessment of utility billing system capabilities and the development and conduct of public participation workshops.
- ◆ Project Manager - Wastewater Utility Rate Studies, Revenue Plans, Financing Programs, Cost of Service Analyses, Rate Design and Capacity Charge Studies for the Glendale, Santa Barbara, Solana Beach, Redondo Beach, Huntington Beach, Manhattan Beach, Santa Monica, Tracy, Ontario, Colton, San Jacinto, Calexico, Burbank, Simi Valley, the Elsinore Valley Municipal Water District, Susanville San District, East Palo Alto San District, and Goleta West Sanitary District, Westborough Water District, and for NadBank (Calexico and Heber communities).

**KENNEDY/JENKS CONSULTANTS
REPRESENTATIVE FINANCIAL
PLANNING PROJECTS**

Revenue Requirements
Rate Structure Design
Demand Forecasting
Public Presentations
Supply Cost Projection
Cost of Service Calc's
Debt Financing Plan
Connection Charges
Ordinance Charges
Billing System Support
Enterprise Formation

<u>WATER UTILITY</u>										
City of Santa Barbara	•	•	•	•	•	•	•			•
City of Santa Monica	•	•	•	•	•	•		•		•
City of Santa Paula	•	•	•	•	•		•	•		•
City of Ontario	•	•	•	•	•	•	•	•		•
City of Oxnard	•	•	•	•	•		•			•
City of Manhattan Beach	•	•	•	•	•	•	•			•
City of Calexico	•	•	•	•	•		•			
N. Amer. Dev. Bank - Calexico	•	•				•	•			
N. Amer. Dev. Bank - Heber	•	•				•	•			
North Coast County Water Dist.	•	•	•	•	•	•		•		•
City of Tracy	•	•	•	•	•	•	•	•		•
Board of Water Supply, Honolulu	•						•		•	
City of Manteca	•	•	•		•		•	•		
City of San Jacinto	•	•	•	•	•					
Lakehaven Utility District, WA	•		•				•	•		
Hi Desert Water District	•	•	•	•	•	•	•	•		•
Yucca Water Company	•	•	•	•	•	•	•	•		•
Washoe County, Nevada	•	•	•		•		•	•		
<u>WASTEWATER UTILITY</u>										
City of Glendale	•	•	•	•		•	•	•	•	•
City of Santa Monica	•	•	•	•		•	•	•		•
City of Solana Beach	•	•		•		•	•	•		•
City of Santa Barbara	•	•	•			•	•		•	•
City of Redondo Beach	•	•		•		•	•	•	•	•
City of Huntington Beach	•	•		•		•	•	•	•	•
City of Manhattan Beach	•	•	•	•		•	•	•		•
City of Burbank		•				•		•	•	•
East Palo Alto Sanitary District	•	•	•	•		•		•	•	•
N. Amer. Dev. Bank - Calexico	•	•	•				•			
N. Amer. Dev. Bank - Heber	•	•	•			•	•			
City of Ontario	•	•				•	•	•	•	•
City of Colton	•	•		•			•	•		•
City of San Jacinto	•	•		•						•
City of Tracy		•	•			•	•	•		
Washoe County, Nevada	•	•	•				•	•		•
Douglas County, Nevada	•	•		•			•	•	•	•
Susanville Cons. San. District	•	•		•		•	•	•		•
<u>STORMWATER UTILITY</u>										
City of Santa Monica	•	•		•		•		•	•	•
City of Glendale	•	•				•	•		•	•
City of Santa Cruz	•	•		•		•	•		•	•
City of Richmond	•	•					•			
City of Ontario	•	•				•		•	•	•
City of Colton	•	•		•		•		•	•	•
City of Manhattan Beach	•	•		•		•		•	•	•

RESOLUTION NO. 08-XX

A RESOLUTION OF THE CITY COUNCIL OF THE
CITY OF EL PASO DE ROBLES
AUTHORIZING PREPARATION OF A WATER USER RATE STUDY

WHEREAS, the City Council of the City of El Paso Robles has previously entered into a delivery entitlement contract with the San Luis Obispo County Flood Control & Water Conservation District for construction of a pipeline and delivery system from Lake Nacimiento; and

WHEREAS, the City's estimated annual cost of participation in the Nacimiento Water Project is \$4.8 million; and

WHEREAS, the City will be required to treat Lake Nacimiento water prior to distribution in order to comply with state and federal drinking water quality standards; and

WHEREAS, the City adopted the *Water Resources Plan Integration and 10-Year Capital Improvement Program* on May 1, 2007, outlining a 10-year capital improvement program for the water distribution, production, and treatment system; and

WHEREAS, the City must have water user rates in place that meet the revenue requirements of the full range of water utility operations including Nacimiento Water Project participation, surface water treatment, distribution, well water production, and related system replacement/operations; and

WHEREAS, a comprehensive revenue plan, cost of service study and rate restructuring analysis is needed to analyze alternative water user rate structures that would generate revenues needed to provide this vital public service; and

WHEREAS, the City determined that retaining an independent, third party professional would provide an objective evaluation of the City's water system financial needs; and

WHEREAS, the City researched qualified firms to assist with the comprehensive water user rate study with the aid of the professional engineering services of TJ Cross Engineers, Inc., authors of the *Water Resources Plan Integration and 10-Year Capital Improvement Program* and determined that Kennedy/Jenks Consultants offers qualified staff to perform this analysis, having performed over 100 similar utility rate analyses for other California cities and water purveyors.

THEREFORE BE IT HEREBY RESOLVED by the City Council of the City of El Paso de Robles to approve the appropriation of up to \$83,800 from Water Enterprise Fund (No. 600) to perform a water user rate study and authorizing the City Manager to enter into contractual arrangements with Kennedy/Jenks Consultants and TJCross Engineers in that amount.

PASSED AND ADOPTED by the City Council of the City of Paso Robles, this 15th day of January 2008 by the following vote:

AYES:
NOES:
ABSTAIN:
ABSENT:

Frank R. Mecham, Mayor

ATTEST:

Deborah D. Robinson, Deputy City Clerk