



Council Agenda Report

From: Christopher Alakel, Utilities Director
Kirk Gonzalez, Water Resources Manager

Subject: Public Hearing for Adoption of New Water Rates;

CEQA Determination: The adoption for water rates is statutorily exempt from the California Environmental Quality Act (“CEQA”). Public Resources Code Section 21080(b)(8) and State CEQA Guidelines Section 15273(a)

Date: December 20, 2022

Facts

1. The City of Paso Robles owns, operates, and maintains approximately 175 miles of water mains and pipelines, four storage facilities, seven booster pump stations, 19 wells, two arsenic removal systems and two membrane filtration plants to produce, treat, and distribute water to the City’s water customers.
2. Operation, maintenance and renewal of the City’s water system are entirely funded by the City’s Water Enterprise Fund. Financially, the water utility is operated as a self-supporting enterprise relying primarily on revenues from water rates to fund the cost of providing service and maintaining the water system.
3. In 2015 the City adopted a five-year rate plan that went into effect in January of 2017 with the last increase occurring in January of 2021.
4. The City is obligated by State regulations to maintain the integrity of its water production, treatment, and distribution systems. On September 20, 2022 the City Council adopted an updated [Water System Master Plan](#). The Master Plan recommends the City complete numerous rehabilitation, replacement, and improvement projects over the next five years with a cost of approximately \$20 million.
5. In March of 2022, the [City authorized Bartle Wells & Associates](#) (BWA), a public finance consulting firm with expertise in the areas of utility rates and finance, to prepare a new Water Rate Study (“Study”) that develops long-term financial projections for the water fund, analyzes the City’s current water rates, and recommends adjustments to water rates for the next five years. The Study was completed in October 2022 and complies with all requirements of the California Constitution regarding municipal utility rates.
6. The Study recommended modest increases in water rates to achieve an annual increase of 5 percent in revenue to fund water system operation, maintenance, and needed capital improvements.
7. The Study also recommended changes to the City’s water rates to improve revenue stability, better align the City’s water rate structure with the actual cost of providing service and industry standards. These changes include:
 - a. Gradual increases to fixed monthly service charges over the next five years to recover approximately 20-percent of total rate revenue from fixed service charges and provide greater revenue stability.
 - b. Transition to fixed monthly water rates calculated according to meter size and capacity to better align rates with costs of providing service to each meter size.
8. On October 18, 2022, City Council formally received the 2022 Water Rate Study, [directed staff to commence the Proposition 218 notification](#), public hearing, and protest process for water rate for the next five years; and declared a public hearing to be held on December 20, 2022 at the regular City Council meeting.

9. The City mailed the Proposition 218 Notice to all record owners and tenants of properties responsible for water charges on or about October 30, 2022. The notices were mailed not less than 45 days prior to the scheduled public hearing.

Options

1. Take no action;
2. If written protests are not filed for a majority of the 10,403 parcels affected by the proposed water rate increases, proceed with approval of a resolution to establish the new water rates;
3. If written protests have been filed for a majority of the parcels, then terminate the rate adjustment process and pursue alternative options to continue to provide water services in Paso Robles, such as utilizing General Funds to subsidize water rates (in lieu of providing other existing General Fund Services); or
4. Provide alternative direction to staff.

Analysis and Conclusions

Option 1: To take no action would result in significant financial challenges to the City's Water Fund. The City would be unable to properly support the ongoing operation and maintenance of the water system, meet debt obligations, complete planned repairs and improvements to the system that are needed to address aging and failing infrastructure and to safely and reliably provided water to our customers.

Option 2: Moving ahead with the proposed water rates adjustment process will enable the City to fund necessary water system operations, maintenance and improvements, and continue to meet debt obligations.

Option 3: If protests are filed for a majority of the City's parcels served by the City water system, the City may not proceed with the rate adjustment process. The Council should then terminate the process and direct staff to return with an analysis and fiscal impacts of one or mor alternative approaches. Note that even if protests are not filed for a majority of parcels, the City Council may choose to terminate the process. Alternative options to continue to provide water service in Paso Robles include utilizing General Funds to subsidize water rates (in lieu of providing other existing General Fund services).

Option 4: Should the City Council chose to provide alternative direction to staff, staff would provide recommendations for carrying out that direction at a later City Council meeting.

Community Outreach

California's Proposition 218 requires a specific public process for water rates (property-related fees) to be adjusted. (Cal. Const. Article XIII D, section 6.) The process includes mailing a notice of public hearing to each property owner and tenants of properties responsible for paying for water service detailing the reasons for the proposed rate change, the amounts of the proposed rate change, the basis for the calculation, the date, time and location for the public hearing and details as to how customers can get more information, make their opinion known, or protest against the proposed rate change ("Proposition 218 Notice").

The City identified the parcels upon which the rates would be imposed and mailed the Proposition 218 Notice to all record owners and tenants of properties responsible for water charges on or about October 30, 2022, at least 45 days prior to the noticed December 20th public hearing. A copy of the Proposition 218 Notice is included as Attachment 1, which sets forth the maximum proposed rates increases. The notice includes the date, time, and location for this public protest hearing. A total of 10,403 parcels are affected by the proposed water rate increases. As of the date this report was prepared on December 7, 2022, written protests have been filed for 157 parcels. The final count of protests received will be tallied and presented to the City Council following the conclusion of the public hearing.

If there is no majority protest, the Council may proceed with adoption and implementation of the proposed water rates up to the maximum rates identified in the attached Proposition 218 notice. The Council may set the rates by resolution (City Ordinance No. 1125). Pursuant to Health & Safety Code section 5471, the Council

may set the rates by either resolution or ordinance, but a four-fifths vote is required to pass the resolution or ordinance setting the rates.

CEQA

The proposed rate plan is statutorily exempt from the California Environmental Quality Act (“CEQA”). Public Resources Code Section 21080(b)(8) and State CEQA Guidelines Section 15273(a) provide that CEQA does not apply to the establishment, modification, structuring, restructuring, or approval of rates or other charges by a public agency that the public agency finds are for the purpose of (1) meeting operating expenses; (2) purchasing or leasing supplies, equipment, or materials; (3) meeting financial reserve needs and requirements; or (4) obtaining funds for capital projects necessary to maintain service within existing service areas. Here, as set forth above and in the Study, the approval of the rates for water service charges are necessary for these very purposes. Accordingly, the approval of the proposed rate plan for water service charges, and the implementation of such rates are exempt from CEQA pursuant to California Public Resources Code Section 21080(b)(8) and State CEQA Guidelines Section 15273(a).

Fiscal Impact

Consistent with the Water Rate Study, moving ahead with adopting the new water rates will maintain the financial health of the Water Fund. Delays in implementing rate increases or a reduction in the revenues received would have an adverse fiscal impact to the Water Fund, as the fund would need to draw down its reserves below acceptable amounts in the coming years and may fall short of meeting debt service coverage requirements.

Recommendation (Option 2)

Conduct the public hearing and, if written protests are not filed for a majority of the 10,403 parcels affected by the proposed water rate adjustments Approve Resolution 22-XXX to establish new water rates effective April 1, 2022.

Attachments

1. Proposition 218 Notice
2. Resolution 22-XXX establishing new water rates effective April 1, 2023



Notice of Public Hearing Regarding Proposed Water Rate Increases

The City of Paso Robles is proposing to gradually phase in water rate adjustments over the next five years to support water system operating and maintenance expenses, fund the City's share of debt service for the Nacimiento Water Project, and provide funding for capital improvements needed to support safe and reliable service. The City's water utility is a self-supporting enterprise that relies primarily on service charge revenues to meet annual funding needs. As such, water rates need to be set at levels adequate to fund the costs of providing service. The City will hold a public hearing on the proposed water rate increases as follows:

Date: December 20th, 2022

Time: 6:30 pm

Place*: Paso Robles City Hall, 1000 Spring Street, Paso Robles, CA 93446

* If the City determines to hold the Public Hearing solely via the internet or teleconferencing due to a state of emergency or public health concern pursuant to California Government Code 54953 or other applicable law, information will be posted on our website www.prcity.com as soon as possible and included in the meeting agenda.

Water Rate Increases Needed to Fund Capital Improvements to Aging Facilities & Keep Up with Cost Inflation

The City's water system consists of 19 wells, water treatment facilities, 4 storage tanks, pump stations and approximately 175 miles of water mains. Many of these facilities are aging and require replacement. Based on a recent engineering evaluation of the water system and an updated Water System Master Plan, the City has identified over \$20 million of high-priority capital improvements needed over the next five years to rehabilitate and replace aging infrastructure, address deficiencies, and improve water system reliability. In addition, the proposed rate increases are needed to keep rates aligned with the cost of providing service and support funding important capital projects. To help minimize rate increases, the City plans to partially draw down water fund reserves over the next few years to help fund high-priority capital improvements.

Typical Residential Bills Are Projected to Remain in the Middle Range Compared to Regional Agencies

The proposed rates are designed to increase water rate revenues by 5% per year for each of the next 5 years. The proposed rates also include some modifications to the water rate structure designed to better align rates with the cost of providing service. Due to these rate structure modifications, the impacts to monthly water bills will vary based on each customer's water meter size and amount of water use. The City's water bills for a typical home are currently in the lower-middle range based on a survey of 18 regional agencies. With the proposed rate increases, typical residential water bills are projected to remain in the middle range.

100% of Water Rate Revenues Are Used to Fund Water System Expenses Only

As a public utility, the City's water enterprise does not profit from charges for water service. Pursuant to California law, all water rate revenues collected are used to pay for the costs of operating and maintaining the water system and investing in the City's aging water infrastructure.

Attachment 1

Proposed Water Rates

The City is proposing to gradually phase in water rate increases over the next five years and adopt a new water rate schedule shown below. The City's water rates include two components:

- Monthly Fixed Charges:** The City's current Monthly Fixed Charges are the lowest of 18 regional agencies surveyed and are very low by industry standards. The City is proposing to phase in increases to its Monthly Fixed Charges to better align rates with the costs of providing service. The proposed Monthly Fixed Charges would be billed based on water meter size, with larger meters paying higher fixed charges in proportion to the capacity of each meter size. *With full implementation of the proposed charges over the next 5 years, the City's fixed meter charges for residential customers will remain among the lowest in the region.*
- Usage Charges:** The City charges a uniform rate for all water use. Usage Charges are billed in units of one hundred cubic feet (1 unit = 1 hcf). One unit or one hcf equals approximately 748 gallons. Hence the proposed Usage Charges will increase over the next 5 years from the current equivalent level of \$0.88 per hundred gallons to \$0.98 per hundred gallons, or slightly less than 1 cent per gallon.

Proposed Water Rates						
	Current Water Rates	Proposed Water Rates Effective On or After				
		April 1 2023	January 1 2024	January 1 2025	January 1 2026	January 1 2027
Monthly Fixed Charges						
<i>Monthly charge billed based on meter size</i>						
Single Family 3/4 & 1-inch	\$10.00	\$13.00	\$16.00	\$19.00	\$22.00	\$25.00
3/4-inch Other	10.00	13.00	16.00	19.00	22.00	25.00
1-inch Other	10.00	16.33	22.67	29.00	35.34	41.67
1.5-inch	10.00	24.67	39.33	54.00	68.66	83.33
2-inch	10.00	34.67	59.33	84.00	108.66	133.33
3-inch	10.00	58.00	106.00	154.00	202.00	250.00
4-inch	10.00	91.33	172.67	254.00	335.34	416.67
6-inch & larger	10.00	174.67	339.33	504.00	668.66	833.33
Usage Charges						
<i>Billed based on metered water use in each billing period</i>						
Rate per unit (\$/hcf)	\$6.56	\$6.68	\$6.81	\$6.96	\$7.13	\$7.32

Note: 1 Unit = One hundred cubic feet (1 hcf), which equals approximately 748 gallons.

Community Input, Written Protest Procedures & Statute of Limitations

Members of the public are invited to attend the Public Hearing and provide input. Property owners of record and customers liable for payment of water rates may submit a written protest against the proposed rates. Written protests must: a) identify the affected property or properties by Assessor's Parcel Number (APN) or address, b) include the name and original signature of the customer or property owner submitting the protest and c) indicate opposition to the proposed water rates. Written protests can be mailed or delivered to: Attn: City Clerk, City of Paso Robles, 1000 Spring Street, Paso Robles, CA 93446. Protests submitted by e-mail, facsimile or other electronic means are not counted. Pursuant to California law, one written protest will be counted per parcel. The proposed rates cannot be adopted if written protests are received from a majority of affected parcels. Written protests must be submitted prior to the close of the Public Hearing.

Pursuant to California Government Code 53759, there is a 120-day statute of limitations for challenging any new, increased, or extended fees, including the proposed water rates and any future changes to the City's water rates.

For more information or questions about the proposed water rate increases, please contact the Utilities Department at (805) 237-3864 or visit us at www.prcity.com/water

Attachment 2

RESOLUTION 22-XXX

RESOLUTION OF THE CITY COUNCIL OF THE CITY OF EL PASO DE ROBLES, ADOPTING INCREASES IN WATER SERVICE CHARGES AND TAKING OTHER ACTIONS RELATING THERETO INCLUDING FINDING THAT THE ACTION IS STATUTORILY EXEMPT FROM THE CALIFORNIA ENVIRONMENTAL QUALITY ACTION PURSUANT TO PUBLIC RESOURCES CODE SECTION 21080(b)(8) AND STATE CEQA GUIDELINES SECTION 15273(a)

WHEREAS, the City owns, operates, and maintains approximately 175 miles of water mains and pipelines, four storage facilities, seven booster pump stations, 19 wells, and two membrane filtration plants to produce, treat, and distribute water to the City's water customers; and

WHEREAS, Operation, maintenance, and renewal of the City's water system is entirely funded by the City's Water Enterprise Fund. Financially, the water utility is operated as a self-supporting enterprise relying primarily on revenues from water rates to fund the cost of providing service and maintaining the water system. Water rates we last adopted in 2015, with the last increase occurring in January of 2021; and

WHEREAS, on March 1, 2022 the City authorized the preparation and update of the City's Water Rates and Charges; and

WHEREAS, on October 4, 2022, the City adopted Ordinance No. 1125 amending Section 14.04.020 of the Paso Robles Municipal Code allowing rates for water service fees to be established by resolution; and

WHEREAS, on October 18, 2022 staff presented to the City Council a water rate proposal, along with the consultant's report "City of Paso Robles Water Rate Study" dated October 2022, prepared by Bartle Wells Associates. ("Rate Study"); and

WHEREAS, also on October 18, 2022, City Council adopted a resolution proposing increased water rates and authorizing initiation of Proposition 218 procedures, including the mailing of notices regarding a public hearing to consider a proposed resolution to adopt a combined fixed-rate and consumption-based fee structure; and

WHEREAS, the California Supreme Court determined in *Big Horn-Desert View Water Agency v. Verjil* (2006) 39 Cal. 4th 205, that fees for water delivery service are "property-related fees" subject to certain procedures set forth in Proposition 218 (Article XIIIID of the California Constitution); 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 not less than 45 days prior to December 20, 2022, 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 December 20, 2022, and considered any and all property owner and tenant protests; and

WHEREAS, at the public hearing on December 20, 2022, the City Clerk attested that written protests against the water rates had not been filed by a majority of property owners.

Attachment 2

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

Section 1. Recitals. The City Council hereby finds that the foregoing recitals are true and correct and incorporated herein as substantive findings of this Resolution.

Section 2. Findings. 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. The rates are calculated to allow the City to recover its costs associated with (i) projected costs to make improvements to the water system; (ii) repayment of existing and proposed debt; (iii) funding repair and replacement of system components; and (iv) the other necessary and essential ongoing costs of operation and maintenance of the City’s water system. This finding is based upon the information contained in the notice, the October 2022 Rate Study, the staff reports to the City Council on October 10, 2022 and at the public hearing, and 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 due to state drought and conservation requirements.

Section 3. The rates for water service are hereby adopted by the City Council in the amounts and on the effective dates set forth below.

Charge Type	April 1, 2023	January 1, 2024	January 1, 2025	January 1, 2026	January 1, 2027
Monthly Fixed Charges Based on meter size					
Single Family 3/4 & 1-inch	\$13.00	\$16.00	\$19.00	\$22.00	\$25.00
3/4-inch Other	\$13.00	\$16.00	\$19.00	\$22.00	\$25.00
1-inch Other	\$16.33	\$22.67	\$29.00	\$35.34	\$41.67
1.5-inch	\$24.67	\$39.33	\$54.00	\$68.66	\$83.33
2-inch	\$34.67	\$59.33	\$84.00	\$108.66	\$133.33
3-inch	\$58.00	\$106.00	\$154.00	\$202.00	\$250.00
4-inch	\$91.33	\$172.67	\$254.00	\$335.34	\$416.67
6-inch & larger	\$174.67	\$339.33	\$504.00	\$668.66	\$833.33
Monthly Usage Charges Based on metered water use					
Rate per unit (\$/hcf)	\$6.68	\$6.81	\$6.96	\$7.13	\$7.32

Attachment 2

Section 4. CEQA Compliance. The City Council finds that the administration, operation, maintenance, and improvements of the City's water system, which are to be funded by the Water Rates and Charges set forth herein, are necessary to maintain service within the City's existing water service areas as described herein. The City Council further finds that the administration, operation, maintenance, and improvements of the City's water system, to be funded by the Water Rates and Charges will not expand the City's water system. The City Council further finds that the adoption of the Water Rates and Charges is necessary and reasonable to fund the administration, operation, maintenance, and improvements of the City's water system. Based on these findings, the City Council determines that the adoption of the Water Rates and Charges established by this Resolution are exempt from the requirements of the California Environmental Quality Act ("CEQA") pursuant to section 21080(b)(8) of the Public Resources Code and section 15273(a) of the State CEQA Guidelines. The City Council is authorized to file a notice of exemption pursuant section 15062(a) of the California Code of Regulations. The documents and materials that constitute the record of proceedings on which these findings have been based are located at City Hall, located at 1000 Spring Street, Paso Robles, CA 93446. The custodian for these records is the City Clerk.

Section 5. Severability. Should any provision of this Resolution, 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 Resolution or the application of this Resolution to any other person or circumstance and, to that end, the provisions hereof are severable.

Section 6. Effective Date. This Resolution shall take effect immediately upon its approval by the City Council.

Section 7. Record of Proceedings. The documents and materials associated with this Resolution that constitute the record of proceedings on which these findings are based are located at 1000 Spring Street, 2nd Floor, Paso Robles, California, 93446. The City Clerk is the custodian of the record of the proceedings.

APPROVED by the City Council of the City of El Paso de Robles, California, at its regular meeting held on the 20th day of December, 2022, by the following vote:

AYES:
NOES:
ABSTAIN:
ABSENT:

Steven W. Martin, Mayor

ATTEST:

Melissa Boyer, City Clerk