



PISMO BEACH COUNCIL AGENDA REPORT

Agenda Item #11.C

SUBJECT/TITLE:

WATER, WASTEWATER, AND STORM WATER FEE RATE STUDY; PROPOSED WATER AND WASTEWATER RATE SCHEDULES FOR FISCAL YEARS 2019 THROUGH 2023; DIRECTION TO ISSUE PROPOSITION 218 NOTIFICATIONS AND SCHEDULE A PUBLIC HEARING FOR MARCH 19, 2019 TO CONSIDER AMENDING THE WATER AND WASTEWATER RATE SCHEDULE

RECOMMENDATION:

Adopt a **Resolution** adopting the City of Pismo Beach Water, Wastewater, and Storm Water Fee Rate Study; approving the proposed water and wastewater rate schedules for Fiscal Years 2019 through 2023; directing staff to issue Proposition 218 notifications; and directing the City Clerk to schedule a public hearing for March 19, 2019 to consider amending the water and wastewater rate schedule.

EXECUTIVE SUMMARY:

Through a competitive Request for Proposals process, the City of Pismo Beach engaged Tuckfield & Associates to conduct a comprehensive Water, Wastewater, and Storm Water Fee Rate Study (Study, **Attachment 1**) for the related enterprise systems. This Study includes development of appropriate rates to support water, wastewater, and storm water operating expenses and capital project needs, meet reserve requirements at or greater than target levels, and maintain debt service coverage ratios at or greater than the minimum required.

On November 27, 2018 in a Special Study Session, the City Council received information regarding the proposed water, wastewater, and storm water rates, and information regarding proposed water shortage/drought buffer rates. After discussion of the various options and Study methodology, Council directed staff as follows:

- Pursue updated and increased water rates as proposed with a 11.9% rate increase in May 2019 and each January thereafter through January 2023, including \$7.9 million of financing;
- Pursue increased wastewater (sewer) rates as proposed with a 3.2% revenue increase in May 2019 and each January thereafter through January 2023, including \$5.0 million of financing;
- Do not pursue creation of a new storm water fee at this time;
- Pursue the creation of water shortage/drought buffer fees intended to be collected in the event of a water shortage, in a manner that assesses a greater penalty upon the highest users of water;
- Return on January 15, 2019 with materials allowing the Council to give formal direction to proceed with necessary fee processes to implement the above.

This staff report provides information based on Council direction. Regarding the water shortage/drought buffer fees, Council directed staff to develop a penalty structure based on high water consumption, in particular for single-family residential tier 3 and tier 4 high water usage and high water usage for commercial customers. These penalties can be in the form of flat fees based on water consumption and are not a fee subject to the Proposition 218 process. Staff will continue to pursue this option and its feasibility with current staffing and financial billing system requirements and come back to Council with proposed penalties on March 19, 2019.

If Council approves the proposed water and wastewater rates, staff will move forward with mailing out the required Proposition 218 notices to all property owners in the City and all the rate payers of the water and wastewater system. Additional information is provided in Section VII, Timeline and Next Steps.

The following sections provide a summary of the Study; address the need for updated rates; provide a summary of water and wastewater operations and major capital projects; demonstrate the impact of the proposed rate changes on the typical customer; and illustrate how the City's rates compare to other communities in the area.

BACKGROUND:

I. Water and Wastewater Rate Study

Tuckfield & Associates conducted a Study to: develop a comprehensive long-range operating and capital financial plan that complies with City and State regulations for water and wastewater; develop financial plans to determine the costs to provide water and wastewater services; and design new rates and charges to support those costs. The Study:

- Reviews the current and future financial status of the water and wastewater enterprises including cost of service allocations following appropriate standards, regulations, and guidelines
- Adjusts the projected fee revenues to ensure that the financial obligations are being met now and in the future, including adequate reserves and debt service coverage
- Designs water and wastewater rates that generate the required revenue while being fair and equitable for its customers, including ease of understanding and administration

Staff has reviewed the Study (**Attachment 1.A**) and agrees with its methodology and supports the proposed rates. The Study and its proposed fees support water and wastewater operating expenses and capital project needs, meet reserve requirements, and maintain debt service coverage ratios.

II. Why are Rates Changing?

There are three major factors driving the need to change water and wastewater rates: operating expenses and capital improvement, Central Coast Blue project for water sustainability, Proposition 218 compliance.

A. Rising Operating Expenses and Capital Improvements

The first major factor driving changes in water and wastewater rates includes support for the overall financial plans for water and wastewater. These financial plans include increasing operating expenses including rising costs of benefits, electricity, chemicals, and purchased water.

The financial plans also include several critical capital improvement projects to support the water and wastewater systems. The City has two water reservoirs that need to be replaced to continue to serve the public, the cost of which will range from \$1.66 million to \$1.80 million. The water rates would also support plans to install a new waterline from Atlantic Avenue to Five Cities Drive, which is estimated to cost \$1.55 million.

Additionally, the Study establishes some new reserves and maintains some existing reserves to provide a means to meet unanticipated reductions in revenues, changes in the costs of providing services, fixed asset repair and replacement, natural disasters, or other unanticipated events. Finally, the Study ensures that debt service coverage ratios either required as part of existing debt or loan requirements are met.

B. Central Coast Blue Project for Water Sustainability

The second major factor driving the need for changes in water and wastewater rates is financial support for Central Coast Blue. Central Coast Blue is a regional water sustainability project that is proposed to create a new, high-quality, and reliable water supply for the Five Cities communities, including Arroyo Grande, Pismo Beach, Grover Beach, and Oceano Community Services District. Agencies representing the Five Cities communities are designing and building a new advanced water purification facility to create a high-quality water source to supplement local groundwater supplies, with Pismo Beach serving as the lead agency. This project will allow these communities to have sufficient supplies even in times of water shortage or drought.

More specifically, the Central Coast Blue project is a regional recycled water project that will develop a sustainable water supply and protect the Santa Maria Groundwater Basin (SMGB). The recent unprecedented and ongoing drought drastically impacted water resources for the Five Cities communities and



highlighted the need for a sustainable, drought-proof source to ensure that reliable water supplies will be available for future extended droughts. Currently, water from the Pismo Beach Wastewater Treatment Plant (WWTP) and the South San Luis Obispo County Sanitation District (SSLOCSD) WWTP is being treated and discharged to the ocean. Central Coast Blue will provide an opportunity to capture this lost water and

use it to recharge the SMGB to create a drought-resistant, sustainable water supply for the community.

The project will include construction of an Advanced Treatment Facility to treat water from the City of Pismo Beach's WWTP in phase I and treat water from the SSLOCSD WWTP in phase II to produce purified water that is more pure than most bottled water. The purified water will be pumped to injection wells and injected into the groundwater basin to supplement the natural groundwater supply and to create a seawater intrusion barrier.

Adding purified water enhances local supply reliability and helps protect the communities from droughts by diversifying supply sources and keeping communities from becoming too reliant on any one source of water or imported water. The Central Coast Blue project could provide local citizens confidence that they will have a sustainable and environmentally-friendly water source to fuel their daily lives and those of their children and grandchildren.

Central Coast Blue Project Costs

The cost of the Central Coast Blue project is broken into two phases: phase I and phase II. Phase I of the project treats Pismo Beach WWTP effluent (discharged water) and will provide 900 acre feet per year (AFY) of purified water for groundwater injection and 657 AFY after extraction from the groundwater basin. This phase is projected to cost \$37 million in addition to the \$2.02 million that the City of Pismo Beach has funded to date. Phase II of the project treats SSLOCSD WWTP effluent and provides 2,630 AFY of total additional purified water for injection and 1,920 AFY after extraction from the groundwater basin. This phase is estimated to cost an additional \$43 million.

Although a formal cost-sharing agreement is not yet in place, all agencies, including SSLOCSD, have been meeting to discuss the agencies' respective shares of the project. From those meetings, the City would likely need to support 16% to 20% of the overall project and accordingly receive 16% to 20% of the additional water, leaving 80% to 84% to be supported by the other agencies. In order to support the Central Coast Blue project in the City's water and wastewater rates, staff have assumed a conservative 20% share and benefit of the project, of which 33% is supported by the water enterprise fund and 67% is supported by the wastewater enterprise fund. The water share of the project supports the pipelines and storage of the recycled water while the wastewater share of the project supports the advance treatment, recycled water pump station, and injection wells.

The City of Pismo Beach is working with Water Systems Consulting, Inc. (WSC) to apply for various grants that could help support the Central Coast Blue project. So far, the City has been awarded a Proposition 1 Planning Grant in the amount of \$1.15 million and has been notified this will increase to \$2.00 million, with a \$1.64 million City required match. The Study and proposed rates assume the full \$2.00 million grant is awarded. Another grant the City applied for, which is pending approval, is a Federal Title XVI Water Reclamation & Reuse Grant in the amount of \$1.75 million with a \$0.80

million matching requirement. The City will also apply for a Proposition 1 Round 3 grant of \$12.50 million with a \$12.50 million matching requirement. If the remaining two grants are awarded, this will reduce the overall cost of the project, with about 16% to 20% benefit to the City of Pismo Beach. If the Proposition 1 Round 3 Groundwater grant is awarded, staff may need to come back to Council to reduce or modify future annual rate increases depending on the financial status of the water and wastewater enterprise funds.

C. Proposition 218

The third major factor causing the need for rate changes is compliance with Proposition 218. A recent appellate court decision regarding the legality of tiered water rate structures in the City of San Juan Capistrano suggests that, under Proposition 218, the rates not only need to be proportional to cost of service, but they need to be proportional to cost of service within rate tiers of such rate structures as well. The rates proposed in this study conform to the *San Juan Capistrano* decision's mandate.

The proposed water rate structure keeps the fixed charge structure by meter size applicable to all customers but modifies the single-family residential four-tiered variable charge such that tier break points are designed, and prices in the tiers are justified, through documentation in the Study. All other customers will continue to be charged the uniform rate structure.

III. Water Rates

Water rates are established to support the operation and maintenance of the water system, support capital improvements and system replacements, and provide adequate reserves. The water rates are restructured to comply with new findings related to Proposition 218, American Water Works Association (AWWA) requirements, and State water conservation requirements. Water rates include a flat rate service charge based on meter size and a variable rate based on water source, customer class peaking, and delivery costs.

Proposed Rate Structure: The proposed rates are restructured to comply with Proposition 218, keeping the flat rate service charge based on meter size, but modifying the Single-family residential (SFR) four-tiered variable charge so that each tier represents various water uses. For SFR:

- Tier 1 represents basic indoor water use for 2.2 persons per household
- Tier 2 represents outdoor water use and represents summer peak water demand
- Tier 3 represents excessive use beyond tier 2 but less than tier 4, allowing two times the consumption of Tiers 1 and 2
- Tier 4 represents excessive use beyond tier 3

| Rate | Existing | Proposed |
|----------------|---------------------------|---------------------------|
| Water Fixed | Recovers 30% of all costs | Recovers 20% of all costs |
| Water Variable | Recovers 70% of all costs | Recovers 80% of all costs |

Proposed Revenue Increases: The proposed rates are increased to cover critical water capital system improvements, including the Central Coast Blue project. The proposed water revenue increases on average across all customer types, will be 11.9% starting in May 2019, then 11.9% annual increases in each January thereafter through 2023. Of the 11.9% increase,

- 30% is related to the critical water system capital projects,
- 27% reflects the cost of the Central Coast Blue project,
- 25% is related to the cost of State water and Lopez water;
- 11% is related to operations and maintenance expenses
- 7% is related to financial reserves and system requirements

As a point of clarification, this is the average across all account types (commercial, single-family mobile home, etc.). Based on consumption, certain ratepayers who use lower amounts of water will see decreases. The average single-family user will see an increase of 3.6% in the first year.

| Date of Proposed Change | Average Water Revenue increases |
|-------------------------|---------------------------------|
| May 2019 | 11.9% |
| January 2020 | 11.9% |
| January 2021 | 11.9% |
| January 2022 | 11.9% |
| January 2023 | 11.9% |

Water Current and Proposed Bi-Monthly Fixed and Variable Charges

Based on the above proposed rate structure changes and revenue increases, the following table illustrates the current and proposed bi-monthly fixed and variable charges for all the various customer classifications. These rates provide sufficient revenues to support the City's water operations and capital needs, including establishing adequate reserves. The proposed rates could generate additional revenues above the current rate revenue received, ranging from \$610,150 to \$2,381,739 from FY 2020 to FY 2023, to support the Water Enterprise Fund.

Table 1: Current and Proposed Water Fixed and Variable Rates

| | Current Rate | April 1, FY 18-19 | January 1, FY 19-20 | January 1, FY 20-21 | January 1, FY 21-22 | January 1, FY 22-23 |
|-------------------------|--------------|--------------------------------|---------------------|---------------------|---------------------|---------------------|
| | | Fixed Charge (\$ per bi-month) | | | | |
| Meter Size | | | | | | |
| 5/8" | \$29.02 | \$24.37 | \$27.28 | \$30.53 | \$34.17 | \$38.24 |
| 3/4" | \$29.02 | \$24.37 | \$27.28 | \$30.53 | \$34.17 | \$38.24 |
| 1" | \$58.03 | \$37.21 | \$41.64 | \$46.60 | \$52.15 | \$58.36 |
| 1.5" | \$96.62 | \$68.87 | \$77.07 | \$86.25 | \$96.52 | \$108.01 |
| 2" | \$154.66 | \$107.59 | \$120.40 | \$134.73 | \$150.77 | \$168.72 |
| 3" | \$290.17 | \$216.89 | \$242.71 | \$271.60 | \$303.93 | \$340.10 |
| 4" | \$483.70 | \$332.70 | \$372.30 | \$416.61 | \$466.19 | \$521.67 |
| 6" | \$1,160.67 | \$777.65 | \$870.20 | \$973.76 | \$1,089.64 | \$1,219.31 |
| | | Variable Charge (\$ per HCF) | | | | |
| Single Family | | | | | | |
| Tier 1 - 0 to 10 units | \$2.97 | | | | | |
| Tier 2 - 11 to 20 units | \$3.67 | | | | | |
| Tier 3 - 21 to 35 units | \$4.34 | | | | | |
| Tier 4 - Over 35 units | \$5.93 | | | | | |
| Tier 1 - 0 to 10 units | | \$3.55 | \$3.97 | \$4.45 | \$4.98 | \$5.58 |
| Tier 2 - 11 to 16 units | | \$4.04 | \$4.53 | \$5.07 | \$5.68 | \$6.36 |
| Tier 3 - 17 to 32 units | | \$4.64 | \$5.19 | \$5.81 | \$6.51 | \$7.29 |
| Tier 4 - Over 32 units | | \$6.21 | \$6.96 | \$7.79 | \$8.72 | \$9.76 |
| Multifamily | \$3.67 | \$4.12 | \$4.62 | \$5.17 | \$5.79 | \$6.48 |
| Mobile Home | \$3.67 | \$4.19 | \$4.69 | \$5.25 | \$5.88 | \$6.58 |
| Commercial [1] | \$3.67 | \$5.13 | \$5.75 | \$6.44 | \$7.21 | \$8.07 |
| Irrigation [1] | \$4.34 | \$4.54 | \$5.09 | \$5.70 | \$6.38 | \$7.14 |
| Construction | \$7.34 | \$5.23 | \$5.86 | \$6.56 | \$7.35 | \$8.23 |

[1] Includes Municipal customers.

Water Capital Improvement Projects

The Study incorporates the City of Pismo Beach’s 10-Year Capital Improvement Plan for water capital improvements, including updates to reflect current budgets and the City’s portion of the Central Coast Blue project. The major projects include: Central Coast Blue, a new production well, Shell Beach 1 Reservoir Replacement, Charles Street Reservoir Replacement, and Shell Beach Road Waterline Replacement.

The Study proposes that the City issue \$7.90 million of bond proceeds in FY 2022 to finance the Central Coast Blue project and the related new production well. The financing is proposed to keep water rates lower than without financing while developing a \$400,000 capital replacement reserve and a \$300,000 emergency reserve. At this point, the Study

assumes a traditional lease revenue bond financing with a 30 year term and 6% interest rates.

The following table lists the major water capital projects, including the proposed fiscal year of expenditure, a brief description of the project, and the estimated cost (including a 3% annual inflator).

Table 2: Water Major Capital Improvement Projects

| Project Title | Project Description | Fiscal Year(s) | Estimated Cost |
|--|---|----------------|----------------|
| Central Coast Blue | Local water sustainability project that is proposed to create a new, high-quality, and reliable water supply for the Five Cities communities. Includes construction of an Advanced Treatment Facility to treat effluent from the City of Pismo Beach's WWTP to produce purified water, which is pumped to injection wells and injected into the groundwater basin to supplement the natural groundwater supply. | 2018-22 | \$3,505,958 |
| New Production Well | New well to extract water from the groundwater basin. Allows City to fully utilize water produced from Central Coast Blue. Includes purchase of land and all infrastructure to deliver water to City's water system. | 2021-22 | \$5,463,600 |
| Shell Beach Road Waterline Replacement | As part of the Shell Beach Streetscape project, this project upgrades 3,700' to 12-inch PVC (plastic) waterline from Terrace Avenue to the pressure-reducing valve (PRV) tie in just beyond Cliff Avenue. | 2018-19 | \$1,900,000 |
| Shell Beach 1 Reservoir Replacement | Perform replacement and structural repairs to Shell Beach 1 Reservoir and OSHA upgrades to all water reservoirs. Current reservoir is failing and not replacing it could lead to a complete failure of the reservoir and associated flooding of downstream properties. | 2018-19 | \$1,661,864 |
| Charles Street Reservoir Replacement | Perform replacement and repairs to Charles Street Reservoir. Current reservoir is failing and not replacing it could lead to a complete failure of the reservoir and associated flooding of downstream properties. | 2020-21 | \$1,803,500 |
| 4 th Street Waterline | Installation of new waterline from Atlantic Avenue (Grover Beach) to Five Cities Drive. Current fire flow distribution system is limited in the Five Cities area. Improved conveyance from the Charles Street reservoir is needed to meet fire flow standards and upon completion of the Central Coast Blue project distribution into the City's Main Zone reservoirs. | 2022-23 | \$1,549,600 |

Reserves

The Study establishes Water Enterprise Fund reserves to provide a means to meet unanticipated reductions in revenues, changes in the costs of providing services, fixed asset repair and replacement, natural disasters, or other unanticipated events. The following table lists the types of reserves, the reserve balance (what the Fund has now) and the reserve target (what the reserve balance should be). The Water Enterprise Fund has sufficient reserves to meets its targets, with additional balances to support construction and expansion of the water system, as illustrated in the following table. While this balance seems substantial, it assumed this is used to pay for necessary projects and

therefore reduces overall borrowing costs, which in turn requires less rate increases in the future.

Table 3: Water Enterprise Fund Reserves

| Reserve Type | Reserve Balance | Reserve Target |
|------------------------------|---------------------|--------------------|
| Operating Fund Reserve | \$1,126,000 | \$1,126,000 |
| Capital Replacement Reserve | \$400,000 | \$400,000 |
| Construction Fund Reserve | \$8,091,449 | n/a |
| Expansion Fund Reserve | \$462,179 | n/a |
| Emergency Reserve | \$0 | \$268,000 |
| State Water Tax Fund Reserve | \$1,154,356 | \$452,900 |
| Total | \$11,233,984 | \$2,246,900 |

IV. Wastewater Rates

Wastewater rates are established to support the operation and maintenance of the wastewater system, support capital improvements and system replacements, and provide adequate reserves. The goal of the design of rates is to achieve fairness while ensuring that each customer class pays its fair share of costs. Rates should be simple to administer, easy to understand, and comply with regulatory requirements. Wastewater rates include a flat rate service charge based on meter size and a variable rate based on water consumption.

Proposed Rate Structure: Based on the Study, staff proposes to use the current rate structure as the basis for the proposed wastewater rates for the next five years. The rate structure consists of fixed charges by meter size, residential fixed consumption charges, and non-residential variable charges based on water consumption.

| Rate | Existing | Proposed (no change) |
|---------------------|---------------------------|---------------------------|
| Wastewater Fixed | Recovers 22% of all costs | Recovers 22% of all costs |
| Wastewater Variable | Recovers 78% of all costs | Recovers 78% of all costs |

Proposed Revenue Increases: The proposed rates are increased to cover critical wastewater capital system improvements, including the Central Coast Blue project. The proposed average wastewater revenue increases across all ratepayer types is 3.2% starting in May 2019, then 3.2% annual increases on in each January thereafter through 2023. *The average single-family ratepayer will see an increase of 2.4% in the first year.*

| Date of Proposed Change | Wastewater Revenue increases |
|-------------------------|------------------------------|
| May 2019 | 3.2% |
| January 2020 | 3.2% |
| January 2021 | 3.2% |
| January 2022 | 3.2% |
| January 2023 | 3.2% |

Wastewater Current and Proposed Bi-Monthly Fixed and Variable Charges

Based on the above proposed rate structure changes and revenue increases, the following table illustrates the current and proposed bi-monthly fixed and variable charges

for all the various customer classifications. These rates provide sufficient revenues to support the City's wastewater operations and capital needs, including establishing adequate reserves and maintaining debt service coverage ratios. The proposed fee could generate additional revenues above the current rate revenue received ranging from \$196,802 to \$677,049 from FY 2020 to FY 2023 to support the Wastewater Enterprise Fund.

Table 4: Current and Proposed Wastewater Fixed and Variable Rates

Fixed Charges by Meter Size

| Meter Size | Current July 1, 2017 | April 1, FY 18-19 | January 1, FY 19-20 | January 1, FY 20-21 | January 1, FY 21-22 | January 1, FY 22-23 |
|------------|--------------------------------|----------------------|------------------------|------------------------|------------------------|------------------------|
| inches | Fixed Charge (\$ per bi-month) | | | | | |
| 5/8" | \$26.92 | \$27.53 | \$28.41 | \$29.32 | \$30.26 | \$31.22 |
| 3/4" | 37.94 | 39.63 | 40.90 | 42.20 | 43.55 | 44.95 |
| 1" | 59.98 | 63.83 | 65.87 | 67.98 | 70.15 | 72.40 |
| 1.5" | 115.06 | 124.33 | 128.31 | 132.42 | 136.65 | 141.03 |
| 2" | 181.19 | 196.94 | 203.24 | 209.74 | 216.45 | 223.38 |
| 3" | 335.47 | 390.54 | 403.04 | 415.94 | 429.25 | 442.99 |
| 4" | 555.85 | 608.36 | 627.82 | 647.91 | 668.65 | 690.04 |
| 6" | 1,327.23 | 1,455.40 | 1,501.97 | 1,550.03 | 1,599.63 | 1,650.82 |

Residential Fixed Consumption Charges

| Classification | Current July 1, 2017 | April 1, FY 18-19 | January 1, FY 19-20 | January 1, FY 20-21 | January 1, FY 21-22 | January 1, FY 22-23 |
|--------------------------------|--------------------------------|----------------------|------------------------|------------------------|------------------------|------------------------|
| | Fixed Charge (\$ per bi-month) | | | | | |
| Single-family [1] | \$64.51 | \$65.25 | \$67.34 | \$69.49 | \$71.72 | \$74.01 |
| Apartments/Multifamily [1] [2] | 43.50 | 41.19 | 42.51 | 43.87 | 45.27 | 46.72 |
| Mobile Homes [1] [2] | \$38.93 | \$28.55 | \$29.46 | \$30.41 | \$31.38 | \$32.38 |

Variable Rates

| Classification | Current July 1, 2017 | April 1, FY 18-19 | January 1, FY 19-20 | January 1, FY 20-21 | January 1, FY 21-22 | January 1, FY 22-23 |
|-------------------------------|------------------------------|----------------------|------------------------|------------------------|------------------------|------------------------|
| | Variable Charge (\$ per HCF) | | | | | |
| Commercial | \$6.57 | \$7.99 | \$8.25 | \$8.51 | \$8.78 | \$9.06 |
| Dual Residential/Restaurant | 9.99 | 11.27 | 11.63 | 12.00 | 12.38 | 12.78 |
| Dual Residential/Commercial | 6.33 | 7.71 | 7.96 | 8.22 | 8.48 | 8.75 |
| Grocery | 13.22 | 14.30 | 14.76 | 15.23 | 15.72 | 16.22 |
| Hotel | 6.12 | 6.62 | 6.84 | 7.06 | 7.28 | 7.51 |
| Hotel w/Restaurant | 10.03 | 10.75 | 11.09 | 11.45 | 11.81 | 12.19 |
| School w/ Cafeteria | 6.56 | 6.58 | 6.79 | 7.01 | 7.23 | 7.47 |
| School | 4.75 | 4.23 | 4.37 | 4.51 | 4.65 | 4.80 |
| Shopping Center | 6.74 | 5.73 | 5.91 | 6.10 | 6.30 | 6.50 |
| Shopping Center w/ Restaurant | 10.10 | 13.89 | 14.34 | 14.80 | 15.27 | 15.76 |
| Trailer/RV | 4.43 | 3.58 | 3.70 | 3.81 | 3.94 | 4.06 |
| Service Station | 6.04 | 6.40 | 6.61 | 6.82 | 7.04 | 7.26 |
| Restaurant / Bakery | 13.61 | 14.40 | 14.86 | 15.33 | 15.82 | 16.33 |
| Municipal | \$6.57 | \$5.56 | \$5.74 | \$5.92 | \$6.11 | \$6.31 |

[1] Residential customers are charged a fixed charge per bi-month for consumption.

[2] Apartments, Multifamily, and Mobile Homes are charged by the dwelling unit.

Wastewater Capital Improvement Projects

The Study incorporates the City of Pismo Beach's 10-year plan for wastewater capital improvements, including updates to reflect current budgets and the City's portion of the Central Coast Blue project. The major projects include: Central Coast Blue, Five Cities lift station, Sludge Dewatering, Energy Efficiency, Wastewater Maintenance and Improvement, Trestle Rehabilitation. The Five Cities lift station and Sludge Dewatering projects are supported by State Revolving Fund loans and the Energy Efficient project is supported by New Clean Renewable Energy Bonds.

The Study proposes that the City issue \$5.00 million of bond proceeds in FY 2022 to finance the wastewater related portion of the Central Coast Blue project. The financing assists in keeping rates lower than they would be without financing, while increasing the capital replacement reserves to \$350,000 and the emergency reserve to \$1.10 million. At this point, the Study assumes a traditional lease revenue bond financing with a 30 year term and 6% interest rate.

The following table lists the major wastewater capital projects, including the proposed fiscal year of expenditure, a brief description of the project, and the estimated cost (including a 3% annual inflator).

Table 5: Wastewater Capital Improvement Projects

| Project Title | Project Description | Fiscal Year(s) | Estimated Cost |
|--|---|----------------|----------------|
| Central Coast Blue | Local water sustainability project that is proposed to create a new, high-quality, and reliable water supply for the Five Cities communities. Includes construction of an Advanced Treatment Facility to treat effluent from the City of Pismo Beach's WWTP to produce purified water, which is pumped to injection wells and injected into the groundwater basin to supplement the natural groundwater supply. | 2018-22 | \$7,118,344 |
| Five Cities lift station | Construct a new lift station to replace the current Five Cities Lift Station. | 2018-19 | \$2,476,175 |
| Sludge Dewatering | Construct a new solids handling process to replace the City's aged belt press. | 2018-19 | \$3,748,283 |
| Energy Efficiency | New energy efficient improvements for the wastewater system including new solar panels and energy storage equipment, LED lighting, Heating Ventilation Air Conditioning (HVAC), Variable Frequency Drive, and Electric Vehicle Charging Station upgrades. | 2018-19 | \$3,017,507 |
| Wastewater Maintenance and Improvement | Rehabilitate aging clarifier to ensure proper operation of the Wastewater Treatment Plant. | 2018-19 | \$824,137 |
| Trestle Rehabilitation | Rehabilitate sewer trestle below Toucan Terrace. The Trestle or bridge is showing signs of corrosion. Rehabilitation now will prevent the need from a full replacement. | 2019-20 | \$412,000 |

Reserves

The Study establishes Wastewater Enterprise Fund reserves to provide a means to meet unanticipated reductions in revenues, changes in the costs of providing services, fixed asset repair and replacement, natural disasters, or other unanticipated events. The following table lists the types of reserves, the reserve balance (what the Fund has now) and the reserve target (what the reserve balance should be). The Wastewater Enterprise Fund has sufficient reserves to meet its targets, with additional balances to support construction and expansion of the wastewater system, as illustrated in the following table. As with the water fund, these reserves help reduce overall borrowing costs.

Table 6: Wastewater Enterprise Fund Reserves

| Reserve Type | Reserve Balance | Reserve Target |
|-----------------------------|--------------------|--------------------|
| Operating Fund Reserve | \$1,384,000 | \$1,384,000 |
| Capital Replacement Reserve | \$320,000 | \$320,000 |
| Construction Fund Reserve | \$5,003,682 | \$0 |
| Expansion Fund Reserve | \$980,627 | \$0 |
| Emergency Reserve | \$0 | \$605,000 |
| Total | \$7,688,309 | \$2,309,000 |

V. Impacts to Rate Payers

What is the impact on a typical single-family residential (SFR) customer?

- **Water Fee Impact:** An impact analysis was performed to evaluate the change in SFR customer bills that would occur from the implementation of the proposed water rates for the proposed May 2019 rate structure implementation. For our most common SFR customer with a 3/4-inch meter size using the average consumption of 14 hundred cubic feet (HCF) bi-monthly, the bi-monthly bill will increase from \$73.40 to \$76.03, an increase of \$2.63 or 3.6 percent.
- **Wastewater Fee Impact:** Since the SFR wastewater charges are fixed charges per bi-month, the impact to the wastewater bill is determined by adding the fixed charge by meter size with the fixed consumption charge. For our average SFR customer with a 3/4-inch meter, the wastewater bill will increase from \$102.45 (\$37.94 + \$64.51) to \$104.88 (\$39.63 + \$65.25), an increase of \$2.43, or 2.4 percent.

The following table summarizes the bi-monthly impact on a typical SFR customer for the proposed May 2019 fees using the average consumption of 14 HCF.

Table 7: Bi-Monthly Impact on a Typical SFR Customer

| SFR Fee | Before | After | Change | % Change |
|------------|----------|----------|--------|----------|
| Water | \$73.40 | \$76.03 | \$2.63 | 3.6% |
| Wastewater | \$102.45 | \$104.88 | \$2.43 | 2.4% |

Impacts to other customer types by meter size and water consumption are provided in **Attachment 2**, Water Rate Schedule Impacts to Customers.

What if a low income resident cannot afford these rates? Is there assistance for them?

- Yes! The City of Pismo Beach offers a low-income discount program to qualified households. You must be currently enrolled in PG&E or The Gas Company's CARE program and provide a copy of your most recent statement proving your enrollment. The program is also subject to annual verification. The low-income discount gives the customer a credit on each bill for both the water and sewer service charges (varies based on the meter size) and all water usage is billed at the Tier 1 rate of \$2.97/unit.

VI. Comparison of Rates to Other Communities

It is important to ensure our rates remain competitive with other communities and that our costs are held accountable. As such, a water rate survey was conducted for neighboring communities to the City of Pismo Beach. Chart 1 compares the Pismo Beach SFR estimated bi-monthly water bill with those of neighboring communities at the same consumption of 14 HCF bi-monthly. The rate survey includes rate schedules in effect October 2018. Water bills for Pismo Beach are shown using the current rates and the proposed rates for implementation on May 2, 2019. The chart indicates that with the May 2019 water rate structure change, a Pismo Beach SFR customer using the average bi-monthly consumption of 14 HCF will experience a bill that is in the mid-range of the communities listed.

Chart 1
Single-family Residential Bi-Monthly Water Bills Using 14 HCF
For Rates in Effect October 2018



Note: Above table uses water rates in effect October 2018. Pismo Beach July 2019 bill is based on the rate structure and rates in Table 1 and includes the State Water parcel tax prorated at \$62.98 bi-monthly.

A wastewater rate survey was conducted for neighboring communities to the City of Pismo Beach. Chart 2 compares the Pismo Beach SFR bi-monthly wastewater bill with those of neighboring communities. The rate survey includes rate schedules in effect October 2018. Wastewater bills for Pismo Beach are shown using the current rates and the proposed rates for implementation May 2, 2019. The chart indicates that a Pismo Beach SFR customer will experience a bill that is in the mid-range of the communities listed.

Chart 2
Single-family Residential Bi-Monthly Wastewater Bills
For Rates in Effect October 2018



Note: Above table uses wastewater rates in effect October 2018. Pismo Beach July 2019 bill is based on the rate structure and rates in Table 4.

VII. Timeline and Next Steps

January 15, 2019 Council Meeting for Council consideration of amending rates: After receiving initial feedback from the November 27, 2018 Special Council meeting Study Session, staff will present the propose rate schedule amendments to Council at its January 15, 2019 meeting. At this time, Council can determine whether or not to adopt the Study and the proposed rates, and will determine whether or not to move forward with mailing out the Proposition 218 notices to all residents and rate payers.

January 16-20, 2019 Proposition 218 Notifications: To comply with Proposition 218 requirements, staff will notify property owners and rate payers of the proposed rates, hold a public hearing scheduled for March 19, 2019, and if, approved without a majority protest vote, implement the new rates.

Community Workshops: Staff will hold two public workshops to receive feedback on the proposed rate structure.

- Non-Residential Rate Structure Workshop: One public workshop is proposed to be held for staff to receive feedback on the non-residential rate structure in February 2019.
- Residential Rate Structure Workshop: Another public workshop is proposed to be held for staff to receive feedback on the residential rate structure in February 2019.

March 19, 2019 Public Hearing: Based on the input from the Council and the public workshops, staff will bring the Study back to Council for Council's approval of creating

new rates in a public hearing on March 19, 2019, which is more than 45 days from the mailing of the Proposition 218 notices. Council will determine whether or not to introduce (conduct a first reading of) various Ordinances implementing the new rates.

April 2, 2019 Public Hearing: Council will determine whether or not to adopt (conduct a second reading of) the various ordinances implementing the new rates.

Effective Date of New Rates: The proposed date of the amended rates would be effective on or around May 2, 2019, which would be 30 days after the adoption of the ordinance(s). Rate payers would see the rates on the July and August 2019 billings.

Conclusion and Recommendation

Staff recommends that Council receive information in the staff report and the Study; and then adopt a Resolution (**Attachment 1**) adopting the comprehensive Water, Wastewater, and Storm Water Fee Rate Study; approving the proposed water and wastewater rate schedules for Fiscal Years 2019 through 2023; directing staff to issue Proposition 218 notifications; and directing the City Clerk to schedule a public hearing for March 19, 2019 to consider amending the water and wastewater rate schedule.

FISCAL IMPACT:

The fiscal impact of approving the proposed water rate schedule is additional revenues above the current rate revenue received, ranging from \$610,150 to \$2,381,739 from FY 2020 to FY 2023, to support the Water Enterprise Fund and related critical capital improvement projects, the Central Coast Blue project, the cost of State and Lopez water, maintaining water operations, and supporting reserves.

The fiscal impact of approving the proposed wastewater rate schedule is additional revenues above the current rate revenue received ranging from \$196,802 to \$677,049 from FY 2020 to FY 2023 to support the Wastewater Enterprise Fund and related critical capital improvement projects, the Central Coast Blue project, maintaining wastewater operations, building reserves, and ensuring adequate debt service coverage ratios.

ALTERNATIVES:

1. Modify the capital projects.
2. Provide alternate direction to staff or request additional information.

ATTACHMENTS:

1. Resolution
 - 1.A. Exhibit A to Resolution: City of Pismo Beach Water, Wastewater, and Storm Water Rate Study
2. Water Rate Schedule Impacts to Customers

Submitted by:
Nadia Feeser, Administrative Services Director

Meeting Date: January 15, 2019

City Manager Approval:

