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Title: Actions pertaining to adopting a five year plan for water rates, pursuant to Proposition 218
1. ***RESOLUTION - Adopting a Five Year Water Rate Plan in Compliance with Proposition 218
2. ***RESOLUTION - 522nd amendment to the Master Fee Schedule ("MFS") Resolution No. 80-420 to adjust water fees in the Public Utilities Water Fee Section according to Proposition 218
3. ***RESOLUTION - Adopting a Water Affordability Credit Program ("Water ACP")

Sponsors: Department of Public Utilities

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Attachments: 1. Attachment 1 - Reso Adopting Five-Year Water Rate Plan.pdf, 2. Attachment 2 - Master Fee Schedule Reso.pdf, 3. Attachment 3- Reso Adopting a Water Affordability Credit Program.pdf, 4. Attachment 4 - SWRCB ltr to COF re SRF Loan.pdf, 5. Attachment 5 - DWR ltr to COF re Recharge January 2015.pdf, 6. Constituent's submission.pdf, 7. Letters of Support 15-123.pdf, 8. Staff Presentation.pdf, 9. letter.pdf, 10. Letter from California Water Boards.pdf, 11. Letter Received During Meeting File ID# 15-123.pdf

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REPORT TO THE CITY COUNCIL

February 26, 2015

FROM: THOMAS C. ESQUEDA, Director
Department of Public Utilities

SUBJECT

Actions pertaining to adopting a five year plan for water rates, pursuant to Proposition 218
1. ***RESOLUTION - Adopting a Five Year Water Rate Plan in Compliance with Proposition 218
2. ***RESOLUTION - 522nd amendment to the Master Fee Schedule ("MFS") Resolution No. 80-420 to adjust water fees in the Public Utilities Water Fee Section according to Proposition 218
3. ***RESOLUTION - Adopting a Water Affordability Credit Program ("Water ACP")

RECOMMENDATIONS

The Administration recommends that the Fresno City Council adopt a five-year water rate plan, adopt a Water ACP, and approve a Resolution amending the MFS to reflect the adopted rates and the

Water ACP.

EXECUTIVE SUMMARY

On July 31, 2014, the City Council rescinded the Department of Public Utilities' Water Division's ("Water Division's") four-year capital plan and schedule of rates, fees, and charges to finance the recommended capital plan ("rate plan"). City Council approved the capital and rate plans in August 2013, and they became effective in September 2013. Upon rescinding the Water Division's capital and rate plans, City Council directed the Administration to initiate a participatory roundtable process to foster and undertake serious discussions related to all aspects of a future proposed capital plan, including regional water issues, the scope of proposed projects, alternatives for financing capital costs, alternatives to the City's current policy on water, and an evaluation of subsidy options for low-income ratepayers. City staff was also directed to prepare findings and a summary of the discussions from the participatory roundtables.

On November 20, 2014, the Administration presented its findings and a summary of public input from the roundtable participatory process. Upon receiving and considering the Administration's recommended capital and rate plans on November 20, 2014, City Council authorized the Administration to initiate the Proposition 218 notification and protest processes for the proposed rates, fees, and charges for public water service provided by the City of Fresno. The Public Hearing date was set for February 5, 2015. Upon the direction of City Council, the Administration proceeded with a Proposition 218 process which was more comprehensive than prescribed by the California Constitution and Government Code.

The Notice of Public Hearing was mailed to property owners of record and ratepayers of record on December 22, 2014, noticing the public hearing for 5:00 pm on February 5, 2015. At the public hearing, City Council considered protests and comments from the public on the proposed rate plan. At the close of the public hearing on February 5, 2015, the City Clerk reported that a total 41,267 eligible protest ballots had been submitted. The total number of parcels identified as qualified to participate in the protest process was 133,347. For the protest to prohibit City Council from adopting the proposed rate plan, a total of 66,674 (50% of parcels, plus 1) protest ballots must have been received by the City Clerk by close of the public hearing on February 5, 2015. Insufficient protests were submitted to prohibit adoption of the proposed rate plan. On February 5, 2015, City Council adopted Resolution 2015-28 ratifying the Proposition 218 process in accordance with Article XIID of the California Constitution.

The five-year rate plan presented in the Proposition 218 Notice was calculated assuming the City would receive a \$50 million low-interest loan from the State's Drinking Water State Revolving Fund (2% interest rate for a 20 year term), based on an application submitted by the Administration in June 2014. The Administration has been in constant communication with the State Water Resources Control Board ("SWRCB"), Division of Financial Assistance ("DFA"), since June 2014 to determine the level of State financing available for the recommended capital plan. On Tuesday, February 17, 2015, the Administration received a letter from DFA staff describing the State Revolving Fund ("SRF") loan deemed to be appropriate for the City of Fresno for the construction of the Southeast Surface Water Treatment Facility ("SESWTF") (**Attachment 3**). Accordingly, the Administration has updated

the financial rate model to reflect the SRF loan principal, interest, and terms described in the DFA letter.

Based on the updated financial rate model, the Administration recommends that the City Council adopt a rate plan that results in lower monthly water bill costs than the rate plan presented to the community during the Proposition 218 protest process. The Administration has consulted with the City Attorney, and the City Attorney has advised that Council may adopt a rate plan incorporating lower rates than those noticed during the Proposition 218 process. ***It is important to note that approximately two-thirds of revenue generated from the proposed rate plan is required to recover the costs for routine, day-to-day operations, maintenance, existing debt service payments, and mandated reserves. The remaining one-third of the revenue generated from the rate plan is to finance the recommended five-year capital plan.***

Summary of Actions Undertaken by the Administration

Since the Fresno City Council rescinded the Water Division's four-year rate plan on July 31, 2014, the Administration has:

- Completed the directed roundtable participatory process with the community
- Applied community input to modify the capital plan and rate plan to achieve lower monthly water bill costs than the capital plan and rate plan adopted by City Council August 2013
- Conducted an enhanced Proposition 218 process to promote and encourage greater awareness and participation
- Continued discussions with the State DFA to identify a more favorable SRF loan (principal, interest, and term) for the construction of the SESWTF to further lower monthly water bill costs
- Developed a new Water ACP to provide financial assistance to income-qualified individuals for their monthly water bill costs
- Initiated a Nexus Study to update the City's Water Capacity fees for new or modified connections to the City's public water system
- Prepared applications for submittal to the State DFA to receive financial support for the Friant-Kern Pipeline (\$25 million), Kings River Pipeline (\$75 million), and Finished Water Distribution Pipelines (\$55 million). These applications will be submitted to the DFA upon approval of the City Council

With the successful completion of these important efforts, the Administration recommends that the Fresno City Council adopt the five-year rate plan and amendments to the MFS implementing the

adopted rates and the Water ACP.

BACKGROUND

On July 31, 2014, the City Council rescinded the Water Division's four-year capital plan and schedule of rates, fees, and charges, which had been previously approved by City Council in August 2013 and in effect since September 2013. Upon rescinding the Water Division's four-year capital plan and schedule of rates, fees, and charges, the City Council directed the Administration to initiate a participatory roundtable process to foster and undertake serious discussions related to all aspects of the proposed capital plan, including regional water issues, the scope of proposed projects, alternatives for financing capital costs, alternatives to the City's current policy on water, and an evaluation of subsidy options for low-income ratepayers. Finally, the City Council directed staff to rely on feedback from the participatory roundtable process to develop a five-year rate plan to replace the previously adopted four-year rate plan, and delay enactment of the new five-year schedule of rates, fees, and charges until at least six months following the City Council's rescission of the previously adopted rates.

SUMMARY OF PARTICIPATORY ROUNDTABLE PROCESS

During the participatory roundtable process, the City publicized, sponsored, televised, and hosted a dedicated website (www.rechargefresno.org) for a series of four community forum meetings and one Water Utility Financing Summit. The community forum meetings allowed City leaders, water system ratepayers, taxpayers, taxpayer organizations, initiative proponents, water resource experts, media (radio, television, and print), and other interested parties to review and discuss the City's water supply system strengths, weaknesses, threats, and opportunities. Following is a brief description of the five community events:

Community Forum No. 1

Overview of Fresno's Water Supply Issues and Needs - Monday, September 29, 2014, 6:00 p.m. to 8:30 p.m. at Hoover High School. The purpose of the first community forum was to discuss regional water issues and provide information on the City's overall water system. 145 members of the public attended.

Community Forum No. 2

Alternative Water Supply Solutions: Fresno's Water Future - Monday, October 13, 2014, 6:00 p.m. to 8:30 p.m. at Orazo Elementary School. The purpose of the second community forum was to discuss possible solutions to the City's water challenges. Suggestions made by participants included increasing conservation, adding recharge basins, desalination, limiting growth, adopting an annual water budget agreed to by surrounding jurisdictions, recycling water, and securing state grant funds. 139 members of the public attended.

Water Utility Financing Summit

Monday, October 20, 2014, 10:30 a.m. to 4:00 p.m. at the Center for Irrigation Technology on the campus of the California State University at Fresno. The purpose of the Water Utility Financing Summit was to provide a small group of stakeholders, experts, and Measure W proponents with an opportunity to discuss in detail the various funding mechanisms available for the City's water program. 18 members of the community participated.

Community Forum No. 3

Alternative Financing Options for Fresno's Water Needs - Monday, October 27, 2014, 6:00 p.m. to 8:30 p.m. at Rutherford B. Gaston Middle School. The purpose of the third community forum was to discuss options for paying for the City's water infrastructure, including cash (pay-as-you-go, or PAYGO), developer fees, grants, loans and bonds. 127 members of the public attended.

Community Forum No. 4

Summary of Participatory Roundtable Process and Recommended Path Forward - Monday, November 10, 2014, 6:00 p.m. to 8:30 p.m. at Fresno City Hall. The purpose of the fourth community forum was to summarize the information covered at the first three sessions and present preliminary recommendations from City staff to the Administration. 142 members of the public attended.

REVISED CAPITAL PLAN

Based on comments received from the public during the participatory roundtable process, the Administration developed a modified five-year capital plan totaling approximately \$429 million and a corresponding five-year rate plan. The Administration's objectives for the modified capital plan remain consistent with the original capital plan, including: providing a safe, reliable, and resilient water supply system for the community; enhancing water conservation; continuing intentional groundwater recharge; repairing and replacing aging pipelines and wells; complying with the requirements of the recently-enacted Sustainable Groundwater Management Act, and complying with soon-to-be-adopted groundwater quality regulations for 1,2,3-trichloropropane ("1,2,3-TCP" or "TCP").

Compared to the capital plan which was repealed in 2014, the proposed capital plan is modified in the following ways:

1. The capital plan and rate plan extend over five years, rather than four, to achieve lower monthly water bill costs;
2. The SESWTF will have an initial permitted capacity to process 54 million gallons per day ("mgd"), with the potential to be re-rated in the future to process 80 mgd. The original plan for the SESWTF was to construct a facility with an initial permitted capacity to process 80 mgd, with the potential to be re-rated to process approximately 110 mgd. The sizing adjustment was implemented to lower monthly water bill costs; and
3. The phasing plan is modified for finished water pipelines; groundwater recharge facilities; and rehabilitation, replacement, and renewal of aging water system assets, in order to achieve

lower monthly water bill costs.

Groundwater Supply System Vulnerability

The City's groundwater supply may no longer be able to serve as a safe, reliable, and resilient resource for the 5th largest city in California. Nearly half of the City's groundwater wells are at risk of failing because of water quality and water quantity issues. The City's existing groundwater well and pumping system consists of 266 active wells. As of December 31, 2014, the City has 23 wells with depth to water issues, and the pumps cannot be lowered further, so they will have to be removed from service as groundwater levels continue to decline. If the degree of groundwater level declines observed in 2014 are repeated in 2015, the City could lose the availability of an additional 21 wells (44 total wells).

During calendar year 2014, the City of Fresno had a total water system demand of approximately 128,000 acre-feet. Approximately 20,000 acre-feet of the total system demand was met with surface water, and 108,000 acre-feet was met with groundwater. While the City's groundwater system has served the community well for over 100 years, the groundwater system is severely strained and is approaching the tipping point at which the City's groundwater supply may no longer be able to serve as a safe, reliable, and resilient resource.

The Administration's recommended five-year capital plan and rate plan are designed to allow the City to implement a more robust conjunctive management strategy for the City's surface water and groundwater resources. The proposed capital plan will produce 110,000 acre-feet of surface water and reduce groundwater extractions to less than 20,000 acre-feet based on 2014 water demands. The Administration's recommended conjunctive management strategy will provide a safe, reliable, and resilient water supply system for the community for the long term, and allow the City to meet its public health and safety mission and obligations in an affordable manner.

Surface Water Supply Reliability

In response to concerns about surface water supply reliability, the Administration reviewed historic water allocation records for Millerton Lake and Pine Flat Reservoir for the last 50 years. Data was provided to the Administration by the Fresno Irrigation District and the Friant Water Authority. To assess long-term surface water supply reliability, the Administration modeled a scenario assuming the City had sufficient facilities in place to produce 110,000 acre-feet of treated surface water during each of the last 50 years, which is what would be expected if the City operated an 80 mgd SESWTF and a 30 mgd NESWTF based on the City's specific seasonal demand patterns.

Based on the past 50 years of water supply allocation records, if the City had sufficient facilities in place to produce 110,000 acre-feet of treated surface water during the past 50 years, there are three years (two different severe droughts periods) when the City's surface water supplies could not support the production of 110,000 acre-feet of treated surface water. Those years are 1976, 1977 and 2014 - and 2015 might be another year. Therefore, during 46 out of the last 50 years, the City would have had more surface water supply available than required to produce 110,000 acre-feet of treated surface water for the community. This analysis is commonly used by water utilities across

nation to assess the reliability of their water supply sources. Based on this preliminary analysis of surface water reliability, the City has a reliable surface water supply that is sufficient to support an 80 mgd SESWTF and a 30 mgd NESWTF.

Sustainable Groundwater Management Act

The rate of groundwater level decline is accelerating in Fresno and throughout the State of California. Based on historical records, the groundwater levels in the City have fallen at an annual average rate of approximately 1.0 to 1.5 feet per year for the last 50 years. However, during calendar year 2014, with a 0% allocation from Millerton Lake, a reduced allocation from the Kings River, and a record dry year, the City's groundwater levels fell an alarming 4.0 feet. The City of Fresno is located within Kings Sub-basin of the Tulare Lake Hydrologic Region. In January 2015, the State Department of Water Resources ("DWR") scored the Tulare Lake Hydrologic Region as the No. 17 worst overdrafted groundwater basin in California, out of 515 groundwater basins. This high score makes the Tulare Lake Hydrologic Region a high-priority groundwater basin for corrective action.

During 2014, the City used 19,683 acre-feet of the City's surface water entitlements to produce treated surface water at the City's Northeast Surface Water Treatment Facility ("NESWTF"), and 40,469 acre-feet in City-owned recharge basins, as well as recharge basins owned and operated by other public agencies. As with each year since the NESWTF came on-line in 2004, in 2014 the City supplemented the City's surface water supply with groundwater to meet the City's water demands. The groundwater basin underneath Fresno has been over-drafted annually for over 100 years, and in 2014, the City over drafted the aquifer by approximately 68,000 acre-feet (groundwater extractions minus intentional groundwater recharge). ***Relying on a severely compromised aquifer which is continually overdrafted is not a safe or sustainable water supply strategy for the 5th largest City in California, and a Top 40 City in the United States.***

On September 14, 2014, the Governor of California signed into law three bills that are collectively referred to as the Sustainable Groundwater Management Act ("SGMA"). The SGMA recognizes that excessive groundwater extraction can cause overdraft, failed wells, deteriorated water quality, environmental damage, and irreversible land subsidence - all of which require corrective action. The SGMA also recognizes that sustainable groundwater management depends upon creating more opportunities for robust conjunctive management of surface water and groundwater resources. The SGMA defines "sustainable groundwater management" as the management and use of groundwater in a manner that can be maintained during the planning and implementation horizon without causing undesirable results, and "sustainable yield" as the maximum quantity of water that can be withdrawn annually from a groundwater supply without causing an undesirable result. For the purposes of the SGMA, "undesirable result" includes (a) chronic lowering of groundwater levels, (b) significant and unreasonable reduction of groundwater storage, and (c) significant and unreasonable degraded water quality, including the migration of contaminant plumes that impair water supplies - all of which exist in the City of Fresno.

The Administration's recommended five-year capital plan and rate plan are designed to allow the City to implement a more robust conjunctive management strategy for the City's surface water and groundwater resources consistent with the SGMA. As stipulated by the SGMA (Water Code §

10720.7), ***all high-priority basins, as designated by the California DWR, that are subject to critical overdraft conditions shall be managed under a groundwater sustainability plan or coordinated groundwater sustainability plans by January 31, 2020 (~5 years).*** The Administration's recommended capital plan is scheduled to have the SESWTF placed into service by September 2018 - 16 months in advance of the January 31, 2020 deadline for compliance with the SGMA.

In accordance with Water Code § 10735, and subsequent subsections, if the City fails to adopt a groundwater sustainability plan or adopts an inadequate groundwater sustainability plan, by January 31, 2020, DWR may place the City on a probationary status and prepare an interim groundwater sustainability plan for the City. The interim plan prepared by DWR for the City may include restrictions on the City's groundwater extractions; physical solutions; and principles and guidelines for the administration of the City's surface water supplies. On January 21, 2015, the Administration received a letter from the Director of DWR (**Attachment 4**) confirming that in the event a local agency, such as the City of Fresno, fails to exercise its responsibilities as stipulated in the SGMA, the State will step in on an interim basis.

Groundwater Contamination

Existing groundwater contamination plumes become more problematic for the City with increased groundwater pumping and increased rates of decline in groundwater levels. The groundwater contamination issues in the City of Fresno are significant, and the contaminants currently known to exist in the City's groundwater supply system include, but are not limited to: 1,1-DCE; 1,2-DCP; 1,2,3-TCP; 1,2-DCE; DBCP; EDB; MTBE; PCE; TCE; nitrates, and arsenic.

Since the 1980s, the City has been working to address and correct industrial and non-point source groundwater contamination plumes that have dramatically impacted the safety, reliability, and resiliency of the City's groundwater supply. The City has pursued legal action against parties responsible for creating contamination plumes when such parties were identifiable, and the City has been successful in securing settlements to compensate the City for a portion of the costs associated with remediating contamination plumes. However, while the City has made progress toward controlling the migration of contamination plumes, the continued overdraft of the aquifer and rapid fluctuations in the hydraulic gradient, have made plume management and control more difficult.

Plume management and control requires maintaining steady-state conditions of the groundwater aquifer in terms of the direction and rate of groundwater flow. While it is understood that the direction and rate of groundwater flow will fluctuate seasonally based on natural conditions, rapid and significant changes in the direction and rate, as caused by excessive groundwater pumping, can make plume management and control difficult. The City currently has 29 wells that have active treatment systems installed because of groundwater contamination, and 82 wells where the presence of contaminants have been detected. The City has worked with other local agencies in the region to construct and calibrate a groundwater model for the regional groundwater system. With the continued overdraft of the aquifer, the Administration is rightfully concerned that continued overdraft of the aquifer will result in (a) the migration of existing contamination plumes, (b) an increase in the number of wells requiring treatment, and (c) an increase in the number of wells that will need to be

removed from service.

The Administration's recommended five-year capital plan and rate plan are designed to allow the City to implement a more robust conjunctive management strategy to (a) reduce groundwater pumping (replace groundwater with surface water) and (b) continue intentional groundwater recharge to reestablish some measure of plume management and control. Failure to implement the five-year capital plan and rate plan, resulting in continued overdrafting of the aquifer, will cause contaminant plumes to spread, and negatively impact the safety, reliability, and resiliency of the City's groundwater system.

1,2,3 - Trichloropropane (TCP)

In 1999, TCP was added to the list of chemicals known to the State of California to cause cancer. The State is currently developing a maximum contaminant level ("MCL") water quality standard for TCP, which is expected to be released for public comment in 2015, with the water quality standard adopted in 2016.

Based on water quality sampling, the presence of TCP has been identified in 73 of the City's active groundwater wells at and above the public health goal of 0.0007 parts per billion ("ppb"). The total production of these 73 wells is approximately 123.8 mgd, nearly one-third of the City's active water supply wells. If the water quality standard is set at 0.005 ppb, the notification level, the City could lose the use of 44 wells with a production capacity of approximately 73.4 mgd. Wellhead treatment for TCP will require the installation of granulated activated carbon ("GAC") vessels at each well site to reduce the concentration of TCP in the drinking water. The current estimated cost to install new GAC vessels at well sites contaminated with TCP could be as much as \$300 million.

The Administration's recommended five-year capital plan and rate plan are designed to allow the City to remove the TCP contaminated wells from service once the State's new water quality standard for TCP becomes effective and subject to regulatory compliance. Once the TCP-contaminated wells are removed from service, the City will be able pursue legal action for the TCP-contaminated wells as it has in the past with other contamination conditions (i.e. DBCP), and still meet the water demands of the community by using surface water treated at the SESWTF. The Administration's recommended capital plan is scheduled to have the SESWTF placed into service by September 2018. Therefore, until the necessary legal action can be brought to closure for the TCP-contaminated wells, the City will use treated surface water from the SESWTF to accommodate for the potential loss of 44 wells impacted by the water quality standard for TCP.

Revised Capital Plan Components

The revised capital investment plan totals \$429 million over a five-year period. The revised capital investment plan includes the following categories of projects:

1. Intentional Groundwater Recharge Facilities = \$6.4 million

The City plans to coordinate our recharge endeavors with the Fresno Irrigation District and the Fresno Metropolitan Flood Control District to increase the number and effectiveness of

recharge facilities in the community. These efforts will require the acquisition of property to construct recharge basins that will reduce the continuing decline of the groundwater aquifer, which is mandated by the recently enacted Sustainable Groundwater Management Act.

2. Raw Water Supply Facilities = \$98.4 million

This project calls for the installation of 18 miles of pipeline that will be used to supply surface water allocations from the Kings River and Friant/Kern Canal to the existing 30 mgd NESWTF and the proposed new 80 mgd SESWTF. The original rate plan called for constructing improvements to an existing open canal to the SESWTF, but concerns from the SWRCB related to potential contamination and environmental impacts resulted in this recommended change.

3. Surface Water Treatment Facilities = \$186.4 million

This project is a 54-mgd mgd surface water treatment facility, which will allow the City to more effectively use its existing surface water allocations and entitlements from Millerton Lake and Pine Flat Reservoir. This facility will allow the City to mitigate the impacts associated with existing groundwater contamination, decades of aquifer overdrafting, and compliance with the recently enacted Sustainable Groundwater Management Act. The initial facility will be constructed with a permitted capacity of 54 mgd, and the City will petition the State to allow the facility to be re-rated to 80 mgd through a one-year performance demonstration testing procedure.

4. Finished Water Distribution Pipelines = \$55.4 million

These facilities will connect the treated water produced at the Surface Water Treatment Facility to the existing water distribution system.

5. Pipeline and Well Rehabilitation and Replacement = \$82.5 million

Historically, the City has not fully funded a capital replacement program. The funding is needed to begin the process of replacing existing pipelines, wells, etc., some of which are more than 80 years old. The current pipeline replacement schedule is over 400 years, and the proposed funding will reduce that to approximately 200 years. The industry standard is 90 years.

REVISED WATER RATE PLAN

Much of the discussion during the participatory roundtable process was focused on whether to move forward with the SESWTF. It is understandable that the SESWTF has been the primary focus of discussion because the facility is the single largest cost item in the capital plan; and is, therefore, assumed to be the cause of the entire rate increase. However, it is important to note that when reviewing the overall rate, ***that approximately two-thirds of revenue generated from proposed rate plan is required to recover the costs for routine, day-to-day operations, maintenance, existing debt service payments, and mandated reserves.*** Therefore, even without the capital program, the City's water rates would need to be increased to recover normal and routine annual cost increases for electricity, chemicals, personnel, fuel, operating reserves, and similar.

Basis for Calculating Rates, Fees, and Charges

The Administration retained a rate consultant to complete the City's "Water Utility Financial Plan and Rates Study" ("Fee Study"), which includes a five-year schedule of rates, fees, and charges to recover the Water Division's five-year forecast of capital, operations and maintenance expenditures. In developing a five-year schedule of rates, fees, and charges, the City must comply with the California Constitution by establishing rates, fees, and charges that recover the actual costs associated with the level, quality, and quantity of service delivered to individual users of the system. Accordingly, the City's proposed five-year rate structure is based on common and well-established cost-of-service principles that promote equity among system users, whereby individual users of the system pay rates, fees and charges directly proportional to the level, quality, and quantity of service received by individual users.

Water Conservation Considerations

The City of Fresno has been actively engaged in promoting water conservation practices since 1981, and we have taken aggressive actions since 2008 to reduce per capita usage. The City currently uses a four-stage Water Shortage Contingency Plan that escalates water conservation measures based on supply, demand and emergency conditions. The City of Fresno had been operating under year-around Stage 1 water conservation measures since 1993, and from 2008 to 2013, community water conservation efforts resulted in reducing average daily water usage in the community from about 310 gallons per person per day to less than 250 gallons per person per day. In 2014, the City adopted Stage 2 water conservation measures, and the City's water consumption dropped to approximately 222 gallons per person per day.

While Fresno has achieved significant water use reductions, we are committed to adopting and enforcing additional measures to further reduce water use. The recommended rate plan is designed to further promote and encourage water conservation through water pricing. For a single-family residential ("SFR") account using 18 hundred cubic feet ("HCF") of water per month, the City's current schedule of rates, fees and charges for water service allocates 45 percent of the monthly water bill cost to the consumption charge and 55 percent of the monthly water bill cost to the fixed monthly charge. The recommended rate plan is designed to allocate 64 percent of the monthly water bill cost to the consumption charge and 36 percent of the water bill cost to the fixed monthly charge (again, SFR customer class using 18 HCF per month). The Administration believes this new pricing structure will continue to improve water efficiency, and reduce per-person consumption in the City of Fresno.

State Financing Considerations

The five-year rate plan presented to the community during the Proposition 218 protest process was based on receiving a \$50 million low-interest loan from the State's Drinking Water State Revolving Fund (2% interest rate, 20 year term) using an application that was submitted by the Administration June 2014. The Administration has been in communication with the SWRCB, DFA, since June 2014 to determine the level of funding that might be possible for the City's recommended capital plan. On Tuesday, February 17, 2015, the Administration received a letter from DFA staff describing the SRF loan deemed to be appropriate for the City of Fresno for the construction of the SESWTF

(Attachment 3). Accordingly, the Administration has updated the financial rate model to reflect the SRF loan principal, interest, and term described in the DFA letter. Based on the updated financial rate model, the Administration recommends that the City Council adopt a rate plan that results in lower monthly water bill costs than the rate plan presented to the community during the Proposition 218 protest process. The Administration has consulted with the City Attorney, and the City Attorney has advised that Council may adopt a rate plan incorporating lower rates than those noticed as part of the Proposition 218 process.

The financial benefit of the revised SRF loan to the City's ratepayers is an estimated savings of approximately \$104 million in interest payments over the term of the loan. In addition, with the use of SRF financing rather than private revenue bond financing, the interest payments on the loan will remain in the State of California for use by the City and other public agencies for other important water infrastructure projects. On March 5, 2015, the Fresno City Council will be requested to approve submitting additional financing applications to the SWRCB, DFA, for the Raw Water Pipelines (\$98.4 million) and the Finished Water Distribution Pipelines (\$55.4 million). Based on these new application submittals to the State for financial assistance, the Administration anticipates the City of Fresno will receive additional low- or no-interest funds from the State of California, and the Administration will again update the financial rate model to reflect the reduced revenue requirements for the rate plan and present a corresponding rate reduction recommendation to City Council once these additional loans are approved by the State.

Revised Water Rates

The table below presents a comparison of the estimated monthly water bill costs for each of the five years for each of the rate plans that have been evaluated by the Administration based on a consumption rate of 18 HCF per month (13,464 gallons per month). Based on the City's water billing data for calendar year 2014, the average and median water consumption rate for the SFR class are approximately 21.7 and 18 HCF per month, respectively. The 18 HCF is used as the basis of comparison as it represents the approximate midpoint of consumption for the City's 112,000 SFR accounts (i.e. 50 percent of the City's SFR accounts use more than 18 HCF on an annual monthly average basis, and 50 percent of the City's 112,000 SFR accounts use less than 18 HCF on an annual monthly average basis).

Rate Plan Revisions	Current	Year 1	Year 2	Year 3	Year 4	Year 5
Original Rate Plan (approved 2013)	\$24.49	\$33.28	\$41.42	\$44.70	\$48.34	\$52.26
Proposition 218 Rate Plan (Nov 20 th)	\$24.49	\$28.30	\$34.12	\$39.62	\$47.26	\$52.18
Revised Rate Plan (<i>new SRF loan</i>)	\$24.49	\$27.76	\$31.92	\$36.84	\$42.80	\$49.22

Water Affordability

During the City Council discussions on November 20, 2014, to initiate the Proposition 218 process, City Council members expressed concern regarding the impact of the proposed water rate increases on water affordability in the community. Accordingly, the City Council requested that the Administration review and evaluate opportunities to create mechanisms to provide financial assistance to qualified utility customers.

Prior to conducting the review and evaluation of financial assistance options, the Administration reviewed SWRCB's criteria for evaluating water affordability in a community. Within the Drinking Water State Revolving Fund Policy Handbook and associated appendices and Intended Use Plan, DFA establishes a target consumer rate ("TCR") for residential water rates in a water system's permitted service area. The current TCR is 1.5% of the median household income ("MHI") of a water system's permitted service area. For the period of record from 2009 to 2013, the U.S. Census Bureau reported the MHI in the City of Fresno as \$42,015. Accordingly, using the State's affordability criteria, an affordable water bill in the City of Fresno would be \$52.52 per month.

The proposed rate plan anticipates that water consumption by the SFR customer class will decline below the current average consumption rate of 21.7 HCF per month during the five-year period as a result of increased water conservation by SFRs. If the proposed rate plan is adopted, the annual monthly average water bill for SFR will be \$49.22 per month in fiscal year 2019 for an annual monthly average consumption rate of 18 HCF per month (i.e. ~17 percent reduction versus current demand). Accordingly, the Administration has designed a rate plan that meets the State's water affordability criteria for the entire five-year rate plan period. This analysis is based on MHI data for the period 2009 to 2013; the affordability value is expected to change by 2019, when additional MHI data is available.

Water ACP

In addition to designing a rate plan that meets the State's water affordability criteria for the entire five-year period, the Administration has also completed the preliminary design of a financial assistance program for qualified low-income water utility accountholders. The financial assistance program will be referred to as the Water Affordable Credit Program, or "Water ACP."

The objective of the recommended Water ACP is to provide financial assistance to accountholders based on demonstrated financial need. The proposed discount for water service is intended to mitigate the impact of the water rate increase for accountholders that use an annual monthly average of 18 HCF of water per month. If the proposed rate plan is adopted, the first 12 months of the rate plan increase will result in an annual monthly average water bill impact of \$5.96 per month (based on annual monthly average usage of 18 HCF). Accordingly, the proposed value of the Water Affordability Credit is up to \$5 per month, which translates to up to \$60 for a 12-month period.

Proposed ACP Impact on Monthly Water Service Bills (18 HCF/month)	
Monthly Water Bill Cost (18 HCF per month, <i>current rates</i>)	\$24.49
Monthly Water Bill Cost (18 HCF per month, <i>first 12-months of rate plan</i>)	\$30.45
Monthly Water Bill Impact (18 HCF per month, <i>first 12-months of rate plan</i>)	\$5.96
Water Affordability Credit	(\$5.00)
Net Monthly Water Bill Impact (18 HCF per month, <i>first 12-months of rate plan</i>)	\$0.96

The proposed Water ACP will be funded with an annual appropriation of \$1 million, providing financial assistance for approximately 16,700 income-qualified accountholders per year. The proposed source of funding for the Water ACP is revenue collected by the City Utility Billing and Collections Division as late payments and delinquency charges (Revenue Code 35103 - Penalties). To qualify for the Water ACP, accountholders can submit documentation that they qualify for PG&E's California Alternate Rates for Energy ("CARE") Program or one of Fresno County's human services program such as the Supplemental Nutrition Assistance Program ("SNAP"), the Women, Infants, and Children ("WIC") Program, the National School Lunch Program ("NSLP"), or the Medi-Cal Program. If an individual qualifies for one of the programs listed above that are administered by PG&E or Fresno County, using the same name and address as on the individual's utility account with the City, then the individual could submit an application to receive the City's Water ACP.

On a periodic basis, the Administration will review the water consumption records of Water ACP participants. If a Water ACP participant is identified as having an annual monthly average water consumption rate that is greater than 18 HCF per month, then Water Division staff will contact the participant and offer to conduct a voluntary water efficiency assessment to determine if there are opportunities for the Water ACP participant to reduce their water use through water efficiency improvements and thereby further reduce their monthly water costs. If opportunities for water efficiency improvements are identified, then the Water Division will make water efficiency rebates available to the Water ACP participant at a higher rate of reimbursement to improve the water efficiency of the residence. The decision to implement water efficiency improvements shall be at the discretion of the Water ACP participant based on their ability to finance the recommended improvements.

CONCLUSION AND RECOMMENDATIONS

Since the Fresno City Council rescinded the Water Division's four-year rate plan on July 31, 2014, the Administration has:

- Completed the requested roundtable participatory process with the community
- Applied community input to modify the water capital plan and rate plan to achieve lower

monthly water bill costs than the adopted by City Council August 2013

- Conducted an enhanced Proposition 218 process to promote and encourage greater awareness and participation by affected parties
- Continued discussions with the State DFA to identify a more favorable SRF loan (principal, interest, and term) for the construction of the SESWTF to further lower monthly water bill costs
- Developed a new Water ACP to provide financial assistance to income-qualified individuals for their monthly water bill costs
- Initiated a Nexus Study to update the City's Water Capacity Charge for new or modified connections to the City's public water system
- Prepared applications for State financial support for the Friant-Kern Pipeline (\$25 million), Kings River Pipeline (\$75 million), and Finished Water Distribution Pipelines (\$55 million). These applications will be submitted to the State upon approval of the City Council

With the successful completion of these important efforts, the Administration recommends that the Fresno City Council adopt resolutions:

- Adopting a Five Year Water Rate Plan in Compliance with Proposition 218 (Attachment 1)
- Amending the MFS, Resolution No. 80-420, to adjust fees in the Public Utilities Water Fee Section
- Adopting a Water ACP

SCHEDULE

The proposed implementation schedule for the Administration's recommended rate plan for public water services is as follows:

- **February 26, 2015** - Administration presents recommended five-year rate plan to Fresno City Council for consideration and adoption incorporating planned State funding awards for the Administration's recommended capital plan
- **February 26, 2015** - Fresno City Council adopts Administration's recommended five-year rate plan
- **March 5, 2015** - Fresno City Councils authorizes the Administration to submit applications to the State DFA for Friant-Kern Pipeline (\$25 million), Kings River Pipeline (\$75 million), and Finished Water Distribution Pipelines (\$55 million)

- **March 30, 2015** - Utilities Billing and Collection bills new rates
- **May/June 2015** - City Council approves Loan Agreement with State DFA for SESWTF
- **May/June 2015** - Council receives tentative financing package from State DFA for the Friant-Kern Pipeline (\$25 million), Kings River Pipeline (\$75 million), and Finished Water Distribution Pipelines (\$55 million)
- **July 2015** - Qualified low-income residents begin receiving Water Affordability Credit
- **June/July 2015** - Solicit construction bids for the SESWTF
- **October/November 2015** - Council awards construction contract for SESWTF
- **September 2018** - The SESWTF placed into service

ENVIRONMENTAL FINDINGS

This is not a “project” for the purposes of CEQA pursuant to CEQA Guidelines § 15378(b)(5), as it is an administrative action that will not result in direct or indirect physical changes to the environment.

LOCAL PREFERENCE

Local preference was not considered because the resolutions do not include a bid or award of a construction or services contract.

FISCAL IMPACT

As this is an enterprise operation, there is no impact to the General Fund. Other fiscal impacts are addressed within the rate tables above.

Attachments:

1-RESOLUTION - Adopt a Five-Year Water Rate Plan in Compliance with Proposition 218

2-RESOLUTION - 522nd amendment to the MFS Resolution No. 80-420 to adjust water rates, fees, and charges in the Public Utilities Water Fee Section according to Proposition 218

3-RESOLUTION - Adopting a Water ACP

4-Letter from SWRCB, DFA, regarding update SRF Loan principle, interest, and term for SESWTF

5-Letter from DWR regarding Sustainable Groundwater Management Act