

MEMORANDUM

TO: City Council

FROM: Bill Robeson, Assistant City Manager/Public Works Director
Nicole Valentine, Administrative Services Director
Shane Taylor, Utilities Manger

SUBJECT: Consideration of Draft Water and Wastewater Rate Study

DATE: December 14, 2021

SUMMARY OF ACTION:

Review and provide feedback on the Draft Water and Wastewater Rate Study (Study). The Study proposes water rate increases of 6.4% on April 19, 2022, and each January 1 through 2025-26. A wastewater rate increase of 8.3% annually over the next 5 years is also proposed. These increases reflect the anticipated costs of providing water and wastewater services. This Study also includes information about Water and Wastewater Drought Rates that can be used during a Stage 1 Water Shortage Emergency.

IMPACT ON FINANCIAL AND PERSONNEL RESOURCES:

The cost of the Study is approximately \$69,300, which was included in the FY 2019-20 through FY 2021-22 Budgets. An estimated 150 hours was required to complete the final draft report.

RECOMMENDATION:

It is recommended that the City Council review and provide feedback on the Draft Water and Wastewater Rate Study.

BACKGROUND:

Water and sewer services are a foundational aspect of City services and protect the public health, safety, and general welfare of the community. A shared water and sewer system allows for more efficient land use patterns, prevents water borne diseases, avoids conflicts between wells and septic systems, reduces individual large capital investments, and allows for consistently clean, treated and tested water to be delivered to all residents and businesses regardless of property geography. The water system also includes a citywide fire hydrant system.

In order to gain these foundational benefits, the water and wastewater systems and related infrastructure needs to be managed, maintained, and funded by the users of the

system through six utility bills per year. Approximately every 5 years, City staff produces a study of costs and needed revenue to operate the water and wastewater systems. Once completed, the City Council reviews the study and makes a determination of rates needed to operate the two systems during the next five years.

The previous Water and Wastewater Rate Study was completed in 2014 and set updated water rates for services for Fiscal Years 2014-15 through 2018-19. The wastewater rates were projected to maintain fiscal sustainability and solvency under the same rates established prior to the 2014 study and no rate adjustments were necessary at that time. The wastewater rates have not been adjusted since 2009.

On January 22, 2019, the City Council approved an agreement with Tuckfield & Associates to prepare a Water, Wastewater and Storm Water Rate Study Update. The study was intended to set rates for the next 5-year period, beginning in 2020.

On October 29, 2019, the City Council held a Special Study Session to receive a presentation of the draft study by Clayton Tuckfield from Tuckfield & Associates. The Study Session provided an opportunity for Council and the public to receive information, ask questions, and discuss the Water, Wastewater and Storm Water Rate Study.

Effective January 1, 2018, Senate Bill 231 classified storm water systems as part of the wastewater/sewer system and provided that storm water fees may be collected using a Proposition 218 rate setting process. A letter was sent to the City dated December 19, 2019, from the Howard Jarvis Taxpayers Association. The letter argued that Senate Bill 231 conflicts with case law interpreting the California Constitution and that the ability to propose a storm drainage fee is subject to a vote by the property owners or the voting residents of the affected area. The City Attorney confirmed this interpretation and recommended that staff remove the storm water component from the draft rate study.

Central Coast Blue

The City of Pismo Beach is the lead agency for the Central Coast Blue Project (CCB or Project). The Project has been a multi-agency effort between three of the four Northern Cities Management Area agencies (the Cities of Arroyo Grande, Grover Beach, and Pismo Beach) and the South San Luis Obispo County Sanitation District (SSLOCSD) to construct a regional recycled water project that will enhance supply reliability by injecting advanced purified water into the Santa Maria Groundwater Basin (SMGB). The Project will reduce vulnerability to drought and seawater intrusion by creating a seawater intrusion barrier and supplementing the naturally occurring groundwater. Phase 1 of the Project will treat wastewater from the City of Pismo Beach to an advanced purification level and inject the treated water into the SMGB at key locations near the coast, resulting in 900-1,000 acre-feet per year of additional water for use by the participating parties. Phase 2 is anticipated to treat wastewater from the SSLOCSD and will occur at a later date.

The Cities of Arroyo Grande, Grover Beach, and Pismo Beach have conducted several meetings and discussions regarding CCB and each party's share and role in the project.

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Through these discussions, the parties have arrived at an agreed-upon framework for sharing costs and operating the project, most recently revised in September 2021 and presented to each city council in September and October 2021. A draft cost-sharing agreement is underway, along with a Joint Powers Agreement that would form a Joint Powers Authority to operate the project following completion of construction and commissioning.

On November 16, 2021 the City of Pismo Beach evaluated whether it will subscribe to a greater share of the Project, which will result in a lower unsubscribed portion and therefore a lower cost share for the City of Arroyo Grande. At its meeting, the Pismo Beach City Council provided direction to staff to increase Pismo Beach's share of the Project from 20% to 39%. The cost-sharing agreement currently being developed by staff of the three cities will reflect the final percentages arrived at following that meeting.

Under the current framework, the City will seek a 25% share of the Project and the remaining shares of the Project are anticipated to be allocated as follows:

PROJECT Contributing Water Purveyors	Cost Share Percentage
Arroyo Grande	25%
Grover Beach	36%
Pismo Beach	39%
Total	100%

It is anticipated that the Project will be heavily funded by Federal and State grants. To date, \$4,496,094 in Federal and State grants have been awarded to the Project. On September 7, 2021, Water Systems Consulting, Inc. (WSC) submitted an application seeking approximately \$28.6 million in grant funding for the Project from the Proposition 1 Groundwater Grant Program (Prop 1 GWGP) administered by the State Water Resources Control Board. If awarded, these grant funds will provide funding for 50% of the costs of constructing the Project. Updated Project cost estimates were prepared as part of the Prop 1 GWGP application and WSC has supplied the following updated estimated total Project costs, as well as the total costs to participating agencies when accounting for previously-awarded grants, and the total potential grant funding opportunities for the Project:

Overall Costs			
	Total Project Costs	\$56,681,853	
	Grant or outside agency funding contributions spent to-date	\$2,489,576	Prop 1 GWGP (Round 1), Zone 3 Reserves, SSLOCSD EIR Contribution
	Awarded and Unspent Grant Funds	\$2,496,094	Title XVI WRRG
	Total Participating agency obligations	\$51,696,183	
Future Grant Opportunities			
	Prop 1 GWGP (Round 3)	\$28,625,746	Submitted concept proposal and waiting on invite to apply
	Title XVI WRRG	\$11,220,526	Project can apply to future funding opportunities and receive 25% cost share of eligible costs up to \$20Mil
	Total Future Grant Opportunities	\$39,846,272	
	Total Participating Agency Obligation after Potential Grant Funds	\$11,849,911	

Stage 1 Water Shortage Emergency

At its October 12, 2021 regular meeting, Council conducted a continued Public Hearing and adopted a resolution declaring a Stage 1 Water Shortage Emergency and implementing Emergency Water Shortage Restrictions and Regulations in accordance with the California Water Code and the Arroyo Grande Municipal Code. The resolution imposes the following reduction requirements for Arroyo Grande water customers:

- For Single Family Residential (SFR) and Multi-Family Residential (MFR) customers using of 0-9 units, the reduction allocation is 0%
- For SFR and MFR customers using 10-18 units, the reduction allocation is 7%
- For SFR and MFR customers using 19 or more units, the reduction allocation is 14%
- Commercial customers are exempt from the overall water restrictions unless they have an irrigation meter
- Irrigation customers will be required to reduce water usage by 25%

Water and Sewer Fund Budgets

The following table shows the Beginning Fund Balance and Reserve Targets as of June 30, 2021, for the water and sewer funds as stated in the draft rate study:

Reserve Type	Water		Wastewater	
	Reserve Balance	Reserve Target	Reserve Balance	Reserve Target
Operating Fund Reserve	\$3,423,733	\$950,000	\$511,446	\$228,000
Capital Reserve	\$500,000	\$500,000	\$500,000	\$500,000
Facility Fund Reserve	\$202,040	\$0	\$334,917	\$0
Lopez Fund	\$1,703,434	\$1,280,100	\$0	\$0
Total	\$5,829,207	\$2,730,100	\$1,346,363	\$728,000

The Reserve Target balance for both of these funds is 90 days (25%) of the current annual operating expense budget, plus \$500,000 to fund CIP Projects.

During the FY 2021-22 and FY 2022-23 Biennial Budget, process the Water and Sewer fund revenue was shown as a flat amount to reflect that the updated Water and Wastewater Rate Study had not yet been adopted. The Biennial Budget included the following information regarding the Water and Sewer Funds:

Fund 640 Water FY 2021-22 and FY 2022-23 Biennial Budget

	2021-22 BUDGET	Increase/ (Decrease)	2022-23 BUDGET	Increase/ (Decrease)
Beginning Working Capital	\$ 3,923,733	(65,843)	\$ 2,873,883	(1,049,850)
Revenues:				
Revenues	6,882,488	-	6,882,488	-
Transfers In	-	(1,606,471)	232,750	232,750
Total Revenues	6,882,488	(1,606,471)	7,115,238	232,750
Expenses:				
Salaries and Benefits	795,100	(58,600)	778,000	(17,100)
Services and Supplies	753,945	60,553	736,940	(17,005)
Debt Service	13,500	(13,700)	-	(13,500)
Capital Outlay	67,500	57,000	1,200	(66,300)
Capital Improvement Program	366,040	(985,352)	470,250	104,210
Transfers Out	5,936,253	317,635	6,082,316	146,063
Total Expenditures	7,932,338	(622,464)	8,068,706	136,368
Ending Available Working Capital	\$ 2,873,883	(1,049,850)	\$ 1,920,414	(953,468)

This table shows beginning working capital of \$3,923,733 which is the total of the operating fund reserve (\$3,423,733) and capital reserve (\$500,000) totals added together. The FY 2022-23 Reserve Target for Fund 640 Water is \$2,716,600. At the end of FY 2022-23, the ending fund balance for Fund 640 is projected to be \$1,920,414, approximately \$796,100 under the Reserve Target without a rate increase.

Fund 612 Sewer FY 2021-22 and FY 2022-23 Biennial Budget

	2021-22 BUDGET	Increase/ (Decrease)	2022-23 BUDGET	Increase/ (Decrease)
Beginning Working Capital	\$ 1,011,446	(512,682)	\$ 801,521	(209,925)
Revenues:				
Revenues	947,000	(49,542)	947,000	-
Transfers In	-	-	-	-
Total Revenues	947,000	(49,542)	947,000	-
Expenses:				
Salaries and Benefits	245,000	(5,100)	239,800	(5,200)
Services and Supplies	168,045	827	172,040	3,995
Debt Service	8,500	(9,200)	-	(8,500)
Operating Equipment	3,500	(31,000)	2,500	(1,000)
Capital Improvement Program	243,140	(300,966)	260,412	17,272
Transfers Out	488,740	(6,860)	542,700	53,960
Total Expenditures	1,156,925	(352,299)	1,217,452	60,527
Ending Available Working Capital	\$ 801,521	(209,925)	\$ 531,069	(270,452)

This table shows beginning working capital of \$1,011,446, which is the total of the operating fund reserve (\$511,446) and capital reserve (\$500,000) totals added together. The Reserve Target for Fund 612 Sewer for FY 2022-23 is \$739,200. At the end of FY 2022-23 the ending fund balance for Fund 612 is projected to be \$531,069, approximately \$208,000 under the Reserve Target without a rate increase.

ANALYSIS OF ISSUES:

A number of issues impact funding needs in the enterprise system. These include: the ongoing infrastructure maintenance and upgrades identified in the Water Master Plan and the City's Capital Improvement Program; the recent economic downturn related to the Covid-19 pandemic and the resulting need to wait to increase rates; important capital needs that impact costs for operation of the Lopez Reservoir and treatment facility; the ongoing operational costs of City staff; and potential impacts of the current drought condition and from conservation efforts. The current rates adopted by the City Council have put the enterprise system in a solid financial position with each fund able to meet its minimum reserve policy. However, as operational costs continue to increase and with expenses arising from new regulations and mandates, without future revenue adjustments, the enterprise system is currently drawing down reserves to offset annual shortfalls. These challenges are not unique to the City of Arroyo Grande, as many agencies throughout the State face similar circumstances.

The goal of the Study is to determine water and wastewater rates for FY 2021-22 to FY 2025-26. The major objectives of the Study include the following:

- Review the current and future financial status of each of the water and wastewater enterprises

- Make any adjustments to the revenue being received to ensure that the financial obligations are being met now and in the future, including adequate reserves and debt service coverage
- Design water and wastewater rates that generate the required revenue for the cost of service while being proportionate and equitable for customers

Water Rates

The rate structure for water service has two components: (1) a fixed monthly charge; and (2) a variable (water consumption-based) charge. The first component is a fixed amount calculated to recover a portion of the City's fixed costs of operating and maintaining the City's water system and is established on the basis of the customer water meter size. The variable component of the rate structure is based on water consumption.

In determining the cost to provide water service, the total cost is analyzed by function and then equitably distributed to the various classes of customers. In this case, the costs of service are broken down into functional components of base cost, extra capacity or peaking cost, and customer-service related costs. Some of these are fixed and do not change regardless of the amount of water used by a customer; others are variable and depend on the amount of water consumed.

For example, meter reading and billing are done for every account, regardless of how much water is used by the customer; these are categorized as fixed costs. However, chemicals and water treatment costs increase or decrease depending on the amount of water that is used by customers; these are categorized as variable costs. The City's current fixed water charge generates approximately 40% of the total revenue. The proposed rate structure maintains a similar percentage of revenue from the fixed monthly charge to preserve the current level of revenue stability (37% fixed / 63% variable).

The variable component is structured in such a way as to capture the costs of providing water while also deterring waste and encouraging conservation. For residential customers, the variable charges are further apportioned between three distinct tiers. The goal of the first tier is to provide for basic indoor water use; the second tier is to provide for outdoor irrigation; and the third tier is for excessive use, capturing certain peaking costs attributed to that level of use. Together, the components are calculated to recover the proportionate cost of providing water service attributable to parcels within each customer class.

Customer classes are groups of customers with similar use characteristics. In the City's case, these have been determined to be: Single-family Residential (SFR), Multifamily Residential (MFR), non-residential, and irrigation. While there can be differences in use within a customer class (i.e. not all SFR customers use the same amount of water each month), the class overall shares similar characteristics. The cost of providing water service is allocated to each customer class, which determines how much revenue should be generated by each class. Rates are then

derived based on the number of accounts, fixed and variable cost components, and usage characteristics, of each class.

The recommended water rate structure includes maintaining the fixed charge structure, but modifying the variable rate structure to revise the tier break points for residential customers. It is proposed that the current three-tier rate structure be maintained for SFR and MFR customers, however the tier break points are proposed to be modified. The restructuring of the tiers is based on a decline in overall consumption, resulting in a reduction of water sold in all tiers. For SFR and MFR customers, Tier 1 is defined as consumption to provide basic indoor water use and is based on 2.39 persons per household (pph) using 55 gallons per capita per day (gpcd), utilizing the standards recommended by the California Department of Finance and the California Water Board. These criteria result in a Tier 1 breakpoint of 10 Hundred Cubic Feet (HCF) per billing period.

$$\text{Tier 1} = 2.31 \text{ pph} * 55 \text{ gpcd} * \frac{365 \text{ days}}{\text{year}} * \frac{1 \text{ HCF}}{748 \text{ gal}} * \frac{1 \text{ year}}{6 \text{ bills}} = \sim 10 \text{ HCF}$$

pph = persons per household from California Department of Finance estimates for 2021
gpcd = gallons per capita per day

Tier 2 is defined as consumption related to outdoor water use up to the average SFR summer peak demand which was determined from billing information to be 22 HCF. Tier 3 is defined as water use above Tier 2.

Single-family Residential Current and Proposed Tiers

Tier	Current SFR Tiers	Current MFR Tiers	Proposed SFR and MFR Tiers
Tier 1	0 - 18 HCF	0 - 18 HCF	0 - 10 HCF
Tier 2	19 - 36 HCF	11 - 27 HCF	11 - 22 HCF
Tier 3	Over 36 HCF	Over 27 HCF	Over 22 HCF

For the water system, the anticipated revenue needs were determined with and without the CCB Project to ensure that the Council and the public are provided the most complete information possible. As the City Council has directed that staff negotiate agreements necessary to enable the City to participate in the CCB Project, all information provided in this staff report will focus on anticipated water rates with CCB. As indicated in the Background section above, the Project is anticipated to be heavily funded by grants from the Federal and State governments. However, it is currently unknown how much will ultimately be awarded to the Project. As a result, proposed water rates have been developed to support the City's participation in the Project without additional grant funding. Increases in the City's water rates may be reduced as additional grants are received.

As presented, the CCB Project is currently estimated to cost \$51,696,183. The three participating cities will incur new debt service to finance the construction portion of the project totaling \$43,407,577 from loan proceeds to fund Phase 1 construction of the CCB Project. It is assumed that this amount is financed at 1% for 30 years and will have an annual debt service payment for the City will be approximately \$424,692 beginning in FY 2024-25. The remaining \$8,288,606 in CCB project costs represents pre-construction costs which will be spent before the debt service is issued and the City's portion is included in the regular CIP schedule of the draft rate study found in Attachment 1 Table 10.

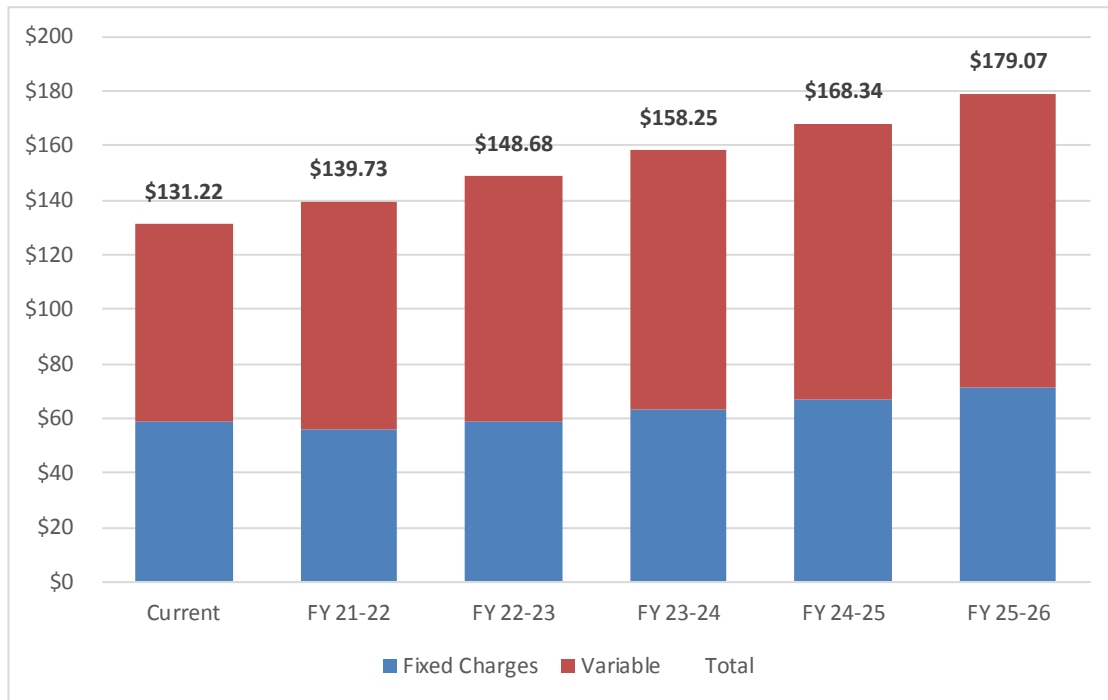
The proposed water rate structure and rates with CCB are provided in the table below:

Proposed Water Fixed and Variable Charges with Central Coast Blue

	Current Rate	April 19, FY 21-22	January 1, FY 22-23	January 1, FY 23-24	January 1, FY 24-25	January 1, FY 25-26
Meter Size		Fixed Charge (\$ per month)				
5/8"	\$29.51	\$27.83	\$29.61	\$31.51	\$33.53	\$35.68
3/4"	\$31.67	\$30.57	\$32.53	\$34.61	\$36.83	\$39.19
1"	\$38.12	\$38.78	\$41.26	\$43.90	\$46.71	\$49.70
1.5"	\$46.73	\$49.73	\$52.91	\$56.30	\$59.90	\$63.73
2"	\$70.41	\$79.83	\$84.94	\$90.38	\$96.16	\$102.31
3"	\$244.74	\$301.53	\$320.83	\$341.36	\$363.21	\$386.46
4"	\$309.31	\$383.64	\$408.19	\$434.31	\$462.11	\$491.69
6"	\$459.96	\$575.23	\$612.04	\$651.21	\$692.89	\$737.23
8"	\$632.14	\$794.19	\$845.02	\$899.10	\$956.64	\$1,017.86
Service Fee per Add'l Unit	\$7.99	\$8.12	\$8.64	\$9.20	\$9.78	\$10.40
Fireline Size						
2"	\$3.74	\$4.40	\$4.84	\$5.32	\$5.64	\$5.64
3"	\$10.88	\$12.79	\$14.07	\$15.48	\$16.41	\$16.41
4"	\$23.18	\$27.25	\$29.98	\$32.98	\$34.96	\$34.96
6"	\$67.33	\$79.16	\$87.08	\$95.79	\$101.54	\$101.54
8"	\$143.48	\$168.69	\$185.56	\$204.12	\$216.37	\$216.37
10"	\$258.03	\$303.37	\$333.71	\$367.08	\$389.10	\$389.10
		Variable Charge (\$ per HCF)				
Single-Family						
Tier 1 - 0 to 18 units	\$3.78					
Tier 2 - 19 to 36 units	\$4.16					
Tier 3 - Over 36	\$5.55					
Tier 1 - 0 to 10 units		\$4.06	\$4.32	\$4.60	\$4.89	\$5.20
Tier 2 - 11 to 22 units		\$4.83	\$5.14	\$5.47	\$5.82	\$6.19
Tier 3 - Over 22		\$4.94	\$5.26	\$5.60	\$5.96	\$6.34
Multifamily						
Tier 1 - 0 to 18 units	\$3.78					
Tier 2 - 19 to 27 units	\$4.16					
Tier 3 - Over 27	\$5.55					
Tier 1 - 0 to 10 units		\$4.06	\$4.32	\$4.60	\$4.89	\$5.20
Tier 2 - 11 to 22 units		\$4.83	\$5.14	\$5.47	\$5.82	\$6.19
Tier 3 - Over 22		\$4.94	\$5.26	\$5.60	\$5.96	\$6.34
Commercial	\$3.95	\$4.40	\$4.68	\$4.98	\$5.30	\$5.64
Irrigation	\$4.21	\$4.97	\$5.29	\$5.63	\$5.99	\$6.37
Hydrant	\$6.13	\$7.92	\$8.43	\$8.97	\$9.54	\$10.15
Wheeling	\$2.04	\$2.37	\$2.52	\$2.68	\$2.85	\$3.03

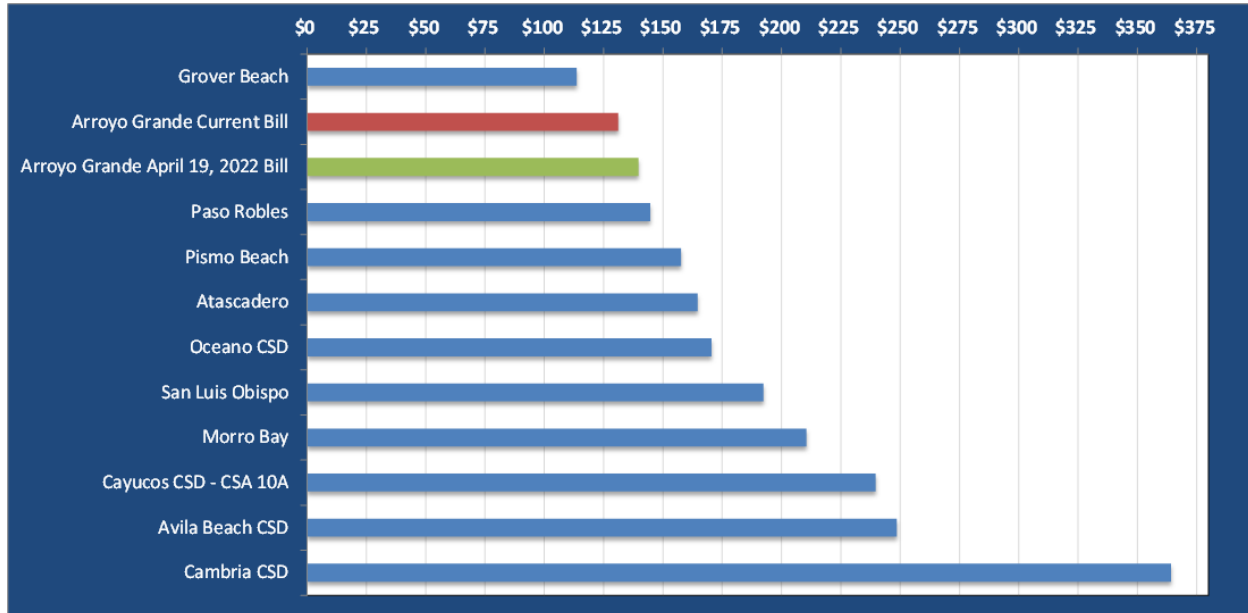
The following table shows the impacts to SFR bills water rates with a 5/8-inch meter using 19 HCF bi-monthly over time with the implementation of the proposed water rates from the previous table with CCB:

**SFR Bi-monthly Water Bill Impacts at 19 HCF Bi-Monthly
 With Central Coast Blue**



SFR Charges	Current	Proposed				
		FY 21-22	FY 22-23	FY 23-24	FY 24-25	FY 25-26
Fixed Charges	\$59.02	\$55.66	\$59.22	\$63.02	\$67.06	\$71.36
Variable Charges	\$72.20	\$84.07	\$89.46	\$95.23	\$101.28	\$107.71
Total Charges	\$131.22	\$139.73	\$148.68	\$158.25	\$168.34	\$179.07
Dollar Change		\$8.51	\$8.95	\$9.57	\$10.09	\$10.73
Percent Change		6.5%	6.4%	6.4%	6.4%	6.4%

The following chart compares Arroyo Grande's average SFR water bill with those of other communities at the same consumption, assuming adoption of the proposed water rate increases:



Wastewater Rates

The current wastewater rates consist of fixed and variable charges to residential and non-residential customers. All customers are charged the same fixed charges bi-monthly. Residential and Non-Residential customers are charged different variable rates.

Proposed Stage 1 Drought Wastewater Fixed and Variable Charges

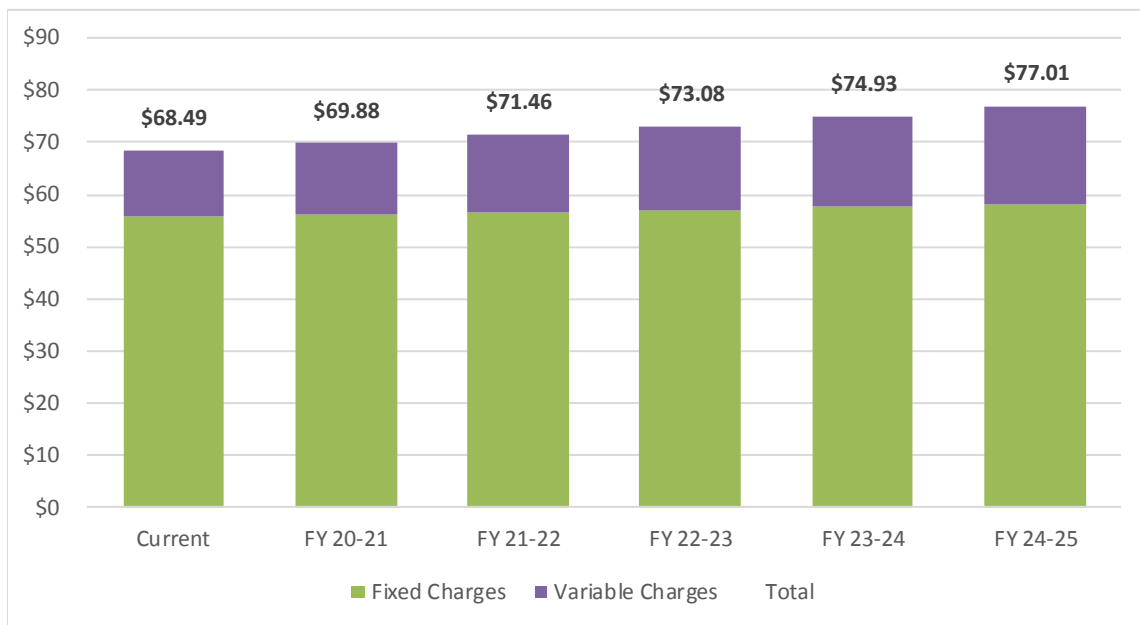
	Current Rate	April 19, FY 21-22	January 1, FY 22-23	January 1, FY 23-24	January 1, FY 24-25	January 1, FY 25-26
Fixed Charge (\$ per month)						
All Customers [1]	\$2.40	\$2.62	\$2.84	\$3.08	\$3.34	\$3.62
Variable Charge (\$ per HCF) [2]						
Single-family Residential	\$0.67	\$0.72	\$0.78	\$0.84	\$0.91	\$0.99
Multifamily Residential	\$0.94	\$1.04	\$1.12	\$1.21	\$1.31	\$1.42
Non-Residential	\$1.32	\$1.40	\$1.52	\$1.65	\$1.79	\$1.94

[1] Fixed charge per month per account and to each additional unit.

[2] Charged on the basis of water consumption read through the meter.

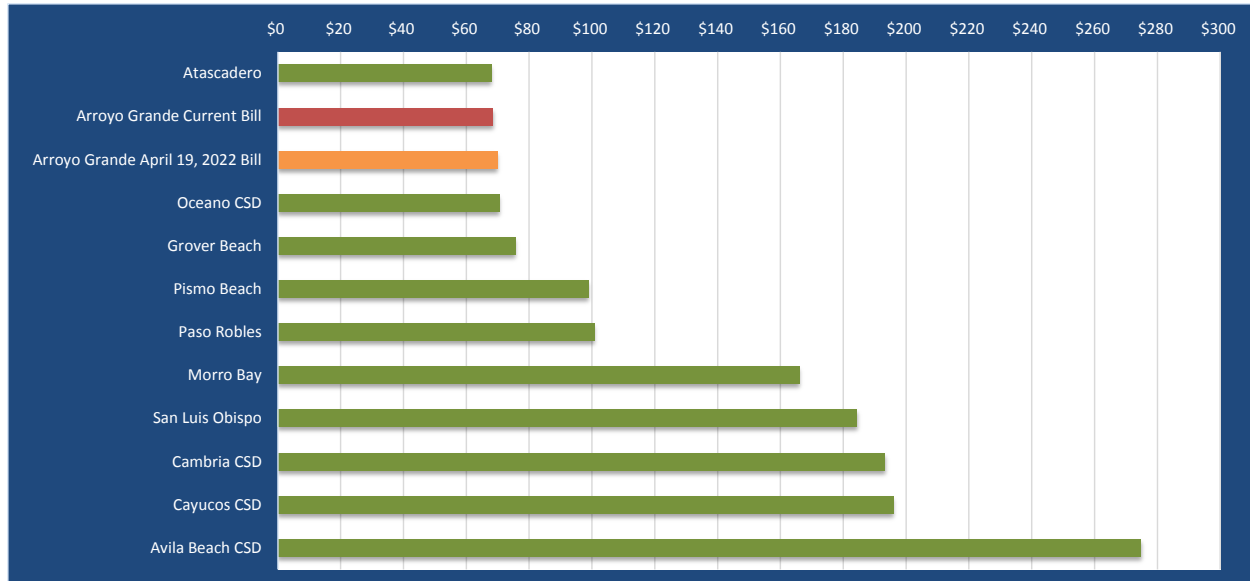
The impact to an average SFR customer (using 19 HCF) will be an increase of \$1.39 bi-monthly as shown in the following table. Wastewater Rates are increasing due to expenditure increases related to inflation and personnel services. The current and proposed bills include the current South San Luis Obispo County Sanitation District (SSLOCSD) wastewater treatment charge of \$25.48 monthly.

SFR Bi-monthly Wastewater Bill Impacts at 19 HCF



SFR Charges	Current	Proposed				
		FY 21-22	FY 22-23	FY 23-24	FY 24-25	FY 25-26
Fixed Charges	\$4.80	\$5.24	\$5.68	\$6.16	\$6.68	\$7.24
Variable Charges	\$12.73	\$13.68	\$14.82	\$15.96	\$17.29	\$18.81
SSLOCSD Charge	\$50.96	\$50.96	\$50.96	\$50.96	\$50.96	\$50.96
Total Charges	\$68.49	\$69.88	\$71.46	\$73.08	\$74.93	\$77.01
Dollar Change		\$1.39	\$1.58	\$1.62	\$1.85	\$2.08
Percent Change		2.0%	2.3%	2.3%	2.5%	2.8%

The following chart compares Arroyo Grande's average Single-family Residential wastewater bill with those of other communities at the same consumption:



Water and Wastewater Drought Rates

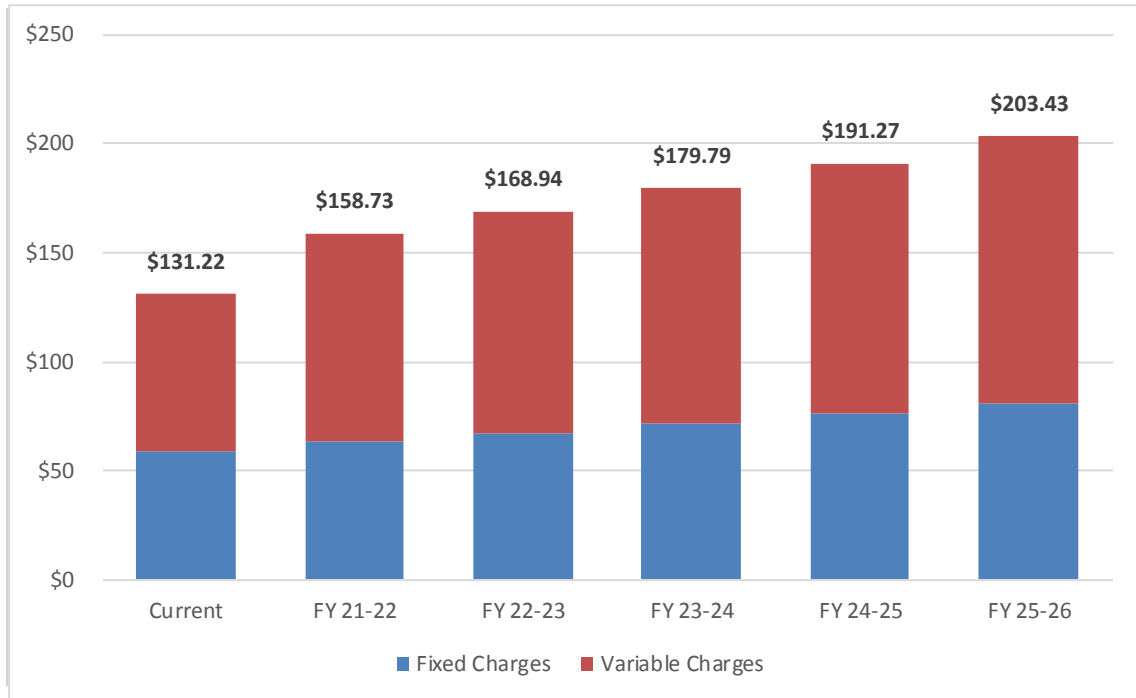
The City's rate consultant has developed potential water and wastewater rates for review and consideration to address the City's implementation of the Stage 1 Water Shortage Emergency declaration. The City's Stage 1 Water Shortage Emergency declaration requires residential and irrigation customers to reduce consumption from calendar year 2020 levels by 10 percent overall and 25 percent respectively. To compensate for the revenue decline that will occur with usage cutbacks, Stage 1 drought rates for the water and wastewater systems were calculated to recover the lost revenue and to restore the City's water and wastewater funds to the same sustainability as provided with the normal rates presented in the earlier sections of this report assuming a sustained drought. The Stage 1 drought rates were calculated for a five-year period with the same implementation dates of the normal water and wastewater rates with April 19, 2022 for the first year and subsequent increases each January 1. The following table shows Stage 1 drought water rates with the CCB Project:

Proposed Stage 1 Drought Water Fixed and Variable Charges
with Central Coast Blue

	Current Rate	April 19, FY 21-22	January 1, FY 22-23	January 1, FY 23-24	January 1, FY 24-25	January 1, FY 25-26
Meter Size	Fixed Charge (\$ per month)					
5/8"	\$29.51	\$31.61	\$33.64	\$35.80	\$38.09	\$40.53
3/4"	\$31.67	\$34.73	\$36.95	\$39.32	\$41.84	\$44.52
1"	\$38.12	\$44.05	\$46.87	\$49.87	\$53.06	\$56.46
1.5"	\$46.73	\$56.49	\$60.11	\$63.96	\$68.05	\$72.40
2"	\$70.41	\$90.69	\$96.49	\$102.67	\$109.24	\$116.22
3"	\$244.74	\$342.54	\$364.46	\$387.78	\$412.61	\$439.02
4"	\$309.31	\$435.82	\$463.70	\$493.38	\$524.96	\$558.56
6"	\$459.96	\$653.46	\$695.28	\$739.77	\$787.12	\$837.49
8"	\$632.14	\$902.20	\$959.94	\$1,021.38	\$1,086.74	\$1,156.29
Service Fee per Add'l Unit	\$7.99	\$9.22	\$9.82	\$10.46	\$11.12	\$11.82
Fireline Size						
2"	\$3.74	\$5.10	\$5.43	\$5.78	\$6.16	\$6.55
3"	\$10.88	\$14.84	\$15.78	\$16.79	\$17.87	\$19.02
4"	\$23.18	\$31.60	\$33.63	\$35.77	\$38.07	\$40.50
6"	\$67.33	\$91.81	\$97.68	\$103.93	\$110.59	\$117.67
8"	\$143.48	\$195.65	\$208.18	\$221.51	\$235.69	\$250.77
10"	\$258.03	\$351.85	\$374.38	\$398.34	\$423.83	\$450.96
Variable Charge (\$ per HCF)						
Single-Family						
Tier 1 - 0 to 18 units	\$3.78					
Tier 2 - 19 to 36 units	\$4.16					
Tier 3 - Over 36	\$5.55					
Tier 1 - 0 to 10 units		\$4.61	\$4.91	\$5.23	\$5.56	\$5.91
Tier 2 - 11 to 22 units		\$5.49	\$5.84	\$6.21	\$6.61	\$7.03
Tier 3 - Over 22		\$5.61	\$5.98	\$6.36	\$6.77	\$7.20
Multifamily						
Tier 1 - 0 to 18 units	\$3.78					
Tier 2 - 19 to 27 units	\$4.16					
Tier 3 - Over 27	\$5.55					
Tier 1 - 0 to 10 units		\$4.61	\$4.91	\$5.23	\$5.56	\$5.91
Tier 2 - 11 to 22 units		\$5.49	\$5.84	\$6.21	\$6.61	\$7.03
Tier 3 - Over 22		\$5.61	\$5.98	\$6.36	\$6.77	\$7.20
Commercial	\$3.95	\$5.00	\$5.32	\$5.66	\$6.02	\$6.41
Irrigation	\$4.21	\$5.65	\$6.01	\$6.40	\$6.80	\$7.24
Hydrant	\$6.13	\$9.00	\$9.58	\$10.19	\$10.84	\$11.53
Wheeling	\$2.04	\$2.69	\$2.86	\$3.04	\$3.24	\$3.44

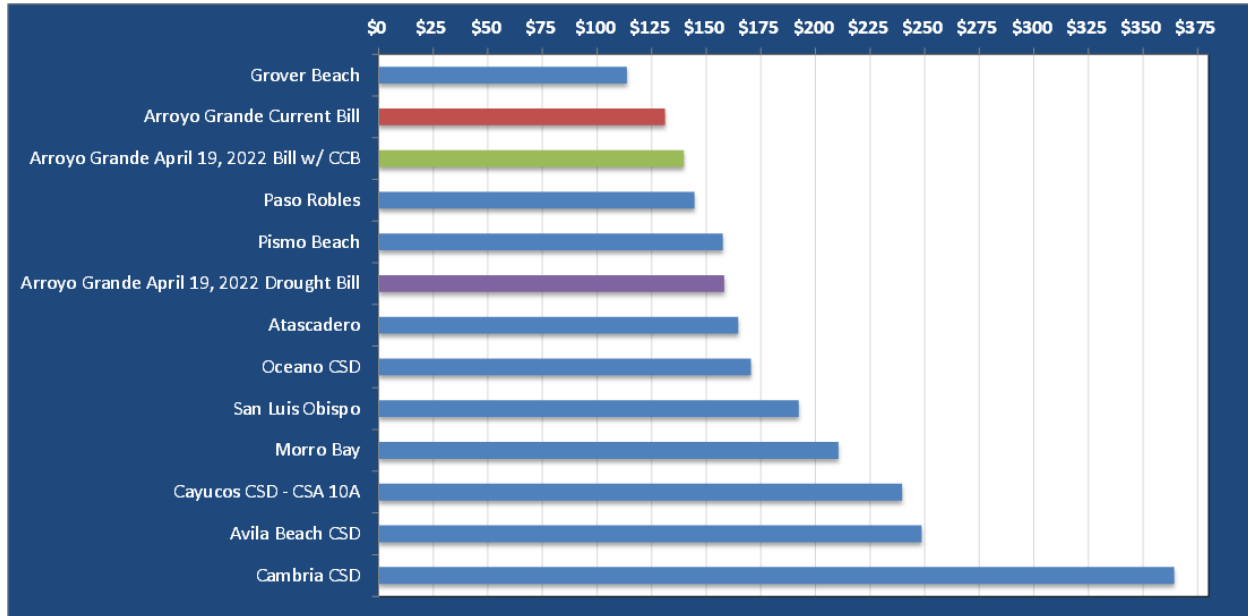
The following table shows the impacts to SFR bills with the implantation of the drought water rates identified above for customers with a 5/8-inch meter using 19 HCF bi-monthly:

**SFR Bi-monthly Water Bill Impacts with Drought Rates at 19 HCF
 with Central Coast Blue**



SFR Charges	Proposed					
	Current	FY 21-22	FY 22-23	FY 23-24	FY 24-25	FY 25-26
Fixed Charges	\$59.02	\$63.22	\$67.28	\$71.60	\$76.18	\$81.06
Variable Charges	\$72.20	\$95.51	\$101.66	\$108.19	\$115.09	\$122.37
Total Charges	\$131.22	\$158.73	\$168.94	\$179.79	\$191.27	\$203.43
Dollar Change		\$27.51	\$10.21	\$10.85	\$11.48	\$12.16
Percent Change		21.0%	6.4%	6.4%	6.4%	6.4%

The following chart compares Arroyo Grande's average SFR drought rate water bill with those of other communities at the same consumption:



Wastewater rates under a Stage 1 drought declaration are provided in the following table:

Proposed Stage 1 Drought Wastewater Fixed and Variable Charges

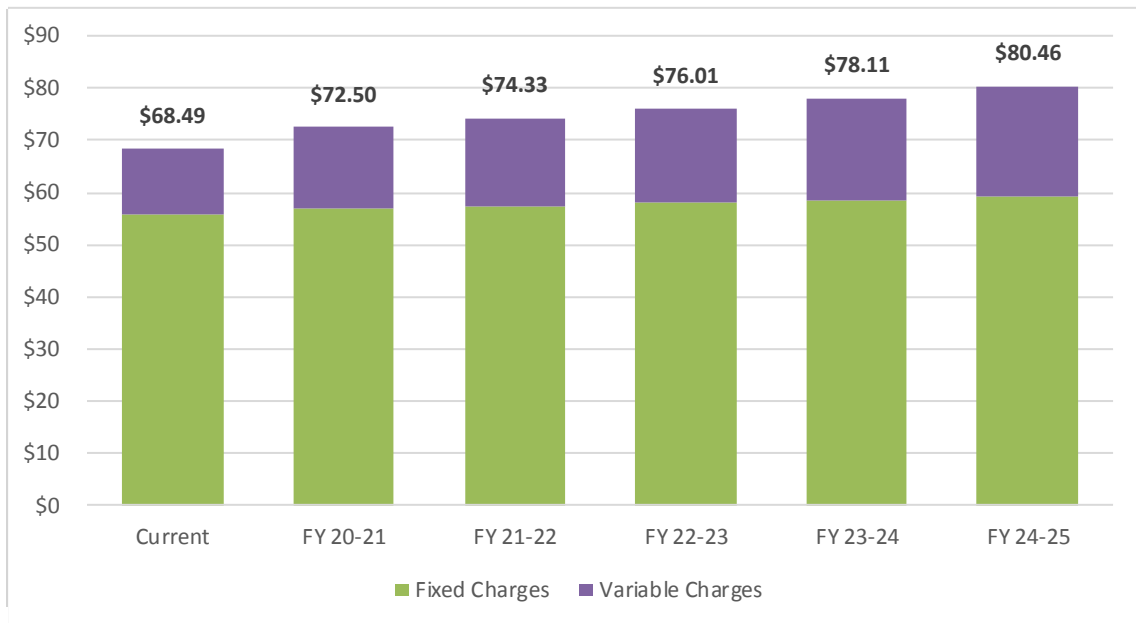
	Current Rate	April 19, FY 21-22	January 1, FY 22-23	January 1, FY 23-24	January 1, FY 24-25	January 1, FY 25-26
Fixed Charge (\$ per month)						
All Customers [1]	\$2.40	\$2.98	\$3.23	\$3.50	\$3.79	\$4.11
Variable Charge (\$ per HCF) [2]						
Single-family Residential	\$0.67	\$0.82	\$0.89	\$0.95	\$1.03	\$1.12
Multifamily Residential	\$0.94	\$1.18	\$1.27	\$1.37	\$1.49	\$1.61
Non-Residential	\$1.32	\$1.60	\$1.73	\$1.87	\$2.03	\$2.20

[1] Fixed charge per month per account and to each additional unit.

[2] Charged on the basis of water consumption read through the meter.

The drought rate impact to an average SFR wastewater customer (Using 19 HCF) will be an increase of \$4.01 bi-monthly as shown in the following table. The current and proposed bills include the current South San Luis Obispo County Sanitation District (SSLOCSD) wastewater treatment charge of \$25.48 monthly.

SFR Bi-monthly Wastewater Bill Impacts with Drought Rates at 19 HCF



SFR Charges	Current	Proposed				
		FY 21-22	FY 22-23	FY 23-24	FY 24-25	FY 25-26
Fixed Charges	\$4.80	\$5.96	\$6.46	\$7.00	\$7.58	\$8.22
Variable Charges	\$12.73	\$15.58	\$16.91	\$18.05	\$19.57	\$21.28
SSLOCSD Charge	\$50.96	\$50.96	\$50.96	\$50.96	\$50.96	\$50.96
Total Charges	\$68.49	\$72.50	\$74.33	\$76.01	\$78.11	\$80.46
Dollar Change		\$4.01	\$1.83	\$1.68	\$2.10	\$2.35
Percent Change		5.9%	2.5%	2.3%	2.8%	3.0%

The following chart compares Arroyo Grande's average drought wastewater bill with those of other communities at the same consumption:



Next Steps

The Draft Water and Wastewater Rate Study is being presented at this time for review and discussion. Feedback received during the discussion will be incorporated into the final Study, which will be presented to the City Council for approval at a future meeting as described below. During the next few months, next steps for the Water and Wastewater Rate Study will include:

- January 11, 2022 – Presentation of the Final Water and Wastewater Rates Study for approval for Fiscal Year 2021-22 through Fiscal Year 2025-26, and set the Proposition 218 public hearing
- January 22, 2022 - Deadline for mailing the 45-day public hearing notice in compliance with Proposition 218
- March 8, 2022 – Conduct a public hearing to consider protests regarding the proposed rate adjustments identified in the Proposition 218 hearing notice and outlined in the approved Water and Wastewater Rate Study
- April 19, 2022 – If approved, new rates go into effect

ALTERNATIVES:

1. Review and provide feedback on the Draft Water and Wastewater Rate Study and provide direction on preferred rate options, which are:
 - a. Proposed Water Rates with CCB and Proposed Wastewater Rates
 - b. Proposed Water Rates with CCB and Proposed Drought Wastewater Rates
 - c. Proposed Drought Water Rates with CCB and Proposed Wastewater Rates
 - d. Proposed Drought Water Rates with CCB and Proposed Drought Wastewater Rates
 - e. Proposed Water Rates without CCB and Proposed Wastewater Rates

- f. Proposed Water Rates without CCB and Proposed Drought Wastewater Rates
 - g. Proposed Drought Water Rates without CCB and Proposed Wastewater Rates
 - h. Proposed Drought Water Rates without CCB and Proposed Drought Wastewater Rates; or
2. Review and provide feedback on the Draft Water and Wastewater Rate Study and do not provide direction on preferred rate options, which will instead be selected at the time that the Final Water and Wastewater Rate Study is presented for approval;
3. Provide other direction to staff.

ADVANTAGES:

Review and discussion of the Draft Water and Wastewater Rate Study will provide the City Council and residents with the most up-to-date and comprehensive information regarding the revenue needs for the City's water and wastewater systems, as well as the rate adjustments necessary to ensure ongoing and reliable service to City customers.

DISADVANTAGES:

There are no disadvantages to reviewing the Draft Water and Wastewater Rate Study. However, the Study describes increased water and wastewater rates that are necessary to continue ensuring ongoing and reliable water and wastewater services to the City's customers, which will increase costs to the public.

ENVIRONMENTAL REVIEW:

No environmental review is required for this item.

PUBLIC NOTIFICATION AND COMMENTS:

The Agenda was posted at City Hall and on the City's website in accordance with Government Code Section 54954.2.

Attachments:

1. Draft Water and Wastewater Rate Study