



CITY OF MORRO BAY PUBLIC WORKS ADVISORY BOARD MEETING AGENDA

The City of Morro Bay is dedicated to the preservation and enhancement of the quality of life. The City shall be committed to this purpose and will provide a level of municipal service and safety consistent with and responsive to the needs of the public.

Thursday, April 16, 2015
Veteran's Memorial Building - 6:00 P.M.
209 Surf Street, Morro Bay, CA

Janith Goldman
Marlys McPherson
Stephen Shively
David Sozinho

Deborah Owen
Christopher Parker
Stewart Skiff

ESTABLISH QUORUM AND CALL TO ORDER
MOMENT OF SILENCE/PLEDGE OF ALLEGIANCE
ANNOUNCEMENTS
PRESENTATIONS – None

PUBLIC COMMENT PERIOD

Members of the audience wishing to address the Board on City business matters other than scheduled items may do so at this time. To increase the effectiveness of the Public Comment Period, the following rules shall be followed:

- When recognized by the Chair, please come forward to the podium and state your name and address for the record. Board meetings are audio and video recorded and this information is voluntary and desired for the preparation of minutes.
- Comments are to be limited to three minutes.
- All remarks shall be addressed to the Board, as a whole, and not to any individual member thereof.
- The Board respectfully requests that you refrain from making slanderous, profane or personal remarks against any elected official, commission and/or staff.
- Please refrain from public displays or outbursts such as unsolicited applause, comments or cheering.
- Any disruptive activities that substantially interfere with the ability of the Board to carry out its meeting will not be permitted and offenders will be requested to leave the meeting.
- Your participation in Board meetings is welcome and your courtesy will be appreciated.

In compliance with the Americans with Disabilities Act, if you need special assistance to participate in this meeting, please contact the Public Services Department at (805) 772-6264. Notification 24 hours prior to the meeting will enable the City to make reasonable arrangements to ensure accessibility to this meeting.

A. CONSENT CALENDAR

- A-1 Approval of Minutes of February 19, 2015 Meeting
Recommendation: Approve minutes.
- A-2 Director's Report
Recommendation: Receive and file.

B. OLD BUSINESS - None

C. NEW BUSINESS

- C-1 Water and Sewer (Wastewater) Rate Update
Recommendation: Receive Information.

D. ADJOURNMENT

Adjourn to the Public Works Advisory Board meeting at the Veteran's Memorial Building, 209 Surf Street, on **Thursday, June 18, 2015 at 6:00 p.m.**

This agenda is subject to amendment up to 72 hours prior to the date and time set for the meeting. Please refer to the agenda posted at the Public Services Department, 955 Shasta Avenue, for any revisions or call the department at 772-6264 for further information.

Materials related to an item on this Agenda are available for public inspection during normal business hours in the Public Services Department, at Mill's/ASAP, 495 Morro Bay Boulevard, or the Morro Bay Library, 695 Harbor, Morro Bay, CA 93442, or online at www.morro-bay.ca.us/pwab . Materials related to an item on this Agenda submitted to the Board after publication of the Agenda packet are available for inspection at the Public Services Department during normal business hours or at the scheduled meeting.

MINUTES - PUBLIC WORKS ADVISORY BOARD (PWAB)
REGULAR MEETING – FEBRUARY 19, 2015
VETERAN'S MEMORIAL HALL – 6:00 P.M.

PRESENT:	Marlys McPherson	Board Member
	Janith Golman	Board Member
	Deborah Owen	Board Member
	Steve Shively	Board Member
	David Sozinho	Board Member
	Stu Skiff	Board Member
	Chris Parker	Board Member
STAFF:	Rob Livick	Public Services Director
	Rick Sauerwein	Capital Projects Manager
	Bruce Keogh	WWTP Manager
	Kay Merrill	Administrative Utilities Technician
CONSULTANT:	Alex Handlers	Bartle Wells Associates

ESTABLISH QUORUM AND CALL TO ORDER
MOMENT OF SILENCE

The meeting was called to order at 6:02 p.m., and a quorum was present. New board member, Chris Parker, was introduced.

ANNOUNCEMENTS - None

PUBLIC PRESENTATIONS

<https://youtu.be/bmy95oON08U?t=1m10s>

Elizabeth Kavanaugh of SLO County Parks presented a power point slide show on the Morro Bay to Cayucos Connector. It is part of a 1,200 mile trail stretching along the California coastline.

ELECTION OF OFFICERS

<https://youtu.be/bmy95oON08U?t=14m5s>

MOTION:

Steve Shively moved to appoint Marlys McPherson as Chair. The motion was seconded by David Sozinho and carried unanimously, 6-0.

MOTION:

Marlys McPherson moved to appoint Steve Shively as Vice-Chair. The motion was seconded by Janith Golman and carried unanimously, 6-0.

PUBLIC COMMENT

<https://youtu.be/bmy95oON08U?t=15m3s>

The public comment period was opened.

Rose Morosin stated the water bill for her six unit complex is very low but the sewer bill is extremely high.

The public comment period was closed.

A. CONSENT AGENDA

A-1 APPROVAL OF MINUTES FROM THE SPECIAL PWAB MEETING OF JANUARY 29, 2015
<https://youtu.be/bmy95oON08U?t=21m33s>

MOTION:

Steve Shively moved to approve Item A-1. The motion was seconded by Deborah Owen and carried unanimously, 7-0.

A-2 Director's Report
<https://youtu.be/bmy95oON08U?t=22m4s>

Rob Livick presented the Director's Report.

B. OLD BUSINESS

B-1 CONTINUED DISCUSSION OF PRELIMINARY WATER AND SEWER RATE STUDY
<https://youtu.be/bmy95oON08U?t=26m18s>

Alex Handlers gave a presentation on the water rate study.

The public comment period was opened.

Rose Morosin spoke about various ways to use ocean water to conserve water and lower costs.

Bob Keller commented the presentation is logical and would like to see the City off State Water.

The public comment period was closed.

MOTION:

Steve Shively moved to recommend approval of the modified tier rate structure. The motion was seconded by David Sozinho and carried unanimously, 7-0.

Alex Handlers presented a power point presentation on the sewer rate study.

The public comment period was opened.

Bob Keller recommended the sewer and water bill stay as is, do not put the sewer portion on property taxes.

Rose Morosin asked why they only have one meter for a six unit complex.

The public comment period was closed.

MOTION:

Steve Shively moved to recommend Council approve the sewer rate structures with the original structure which is a flat fee for both the single family and condo and the variable for the commercial aspects of it. The motion was seconded by Janith Golman and carried unanimously, 7-0.

C-1 REVIEW OF STOP SIGN REQUEST FOR THE INTERSECTION AT MAIN AND PACIFIC AVENUE
<https://youtu.be/bmy95oON08U?t=2h17m30s>

Rob Livick presented the staff report.

The public comment period was opened.

Cruz Reyes stated other community members signed the petition because they come to Morro Bay for doctor appointments and hotel owners, lawyers, and accountants signed the petition. He voiced how dangerous this part of town is and it needs a stop sign.

The public comment period was closed.

MOTION:

Chris Parker moved to recommend Council support the staff report, add crosswalks or update the crosswalks on both sides of Pacific and Main and only on the North side on Main. He also recommended Council direct staff to do an updated traffic study. The motion was seconded by Steve Shively and carried unanimously, 7-0.

ADJOURNMENT

The meeting adjourned at 8:50 p.m.

PUBLIC WORKS ADVISORY BOARD
 City of Morro Bay, Department of Public Works
Director's Report / Information Items
 Prepared: 4/6/2015

AGENDA NO.: **A-2**
 DATE: **4-16-2015**

Category	Information Item	Staff Contact	Status																																																																		
Water	Resource Management, Operations	Rob Livick, Jamie James, Damaris Hanson	<p>The City Council at its February 10, 2015, did approve Resolution XX-15 that continued the water allocation offset program provided for in the Morro Bay Municipal Code Chapter 13.20 for new development and requires WEUs of in-lieu fees be offset on a two to one basis. Council also continued the in-lieu fee of \$2,900/Required WEU for a total of \$5,800 per WEU</p> <p>Statistics</p> <table border="1" style="width: 100%; border-collapse: collapse; margin-left: 20px;"> <thead> <tr style="background-color: #e0e0e0;"> <th></th> <th>2014 Total</th> <th>Jan-15</th> <th>Feb-15</th> <th>Mar -15</th> <th>2015 YTD</th> </tr> </thead> <tbody> <tr> <td colspan="6" style="text-align: center;">Million Gallons</td> </tr> <tr> <td>Morro Basin</td> <td></td> <td></td> <td></td> <td></td> <td></td> </tr> <tr> <td>Chorro Basin</td> <td></td> <td></td> <td></td> <td></td> <td></td> </tr> <tr> <td>R/O</td> <td style="text-align: center;">13.25</td> <td style="text-align: center;">1.12</td> <td style="text-align: center;">0.48</td> <td style="text-align: center;">0.77</td> <td style="text-align: center;">2.37</td> </tr> <tr> <td>State Water</td> <td style="text-align: center;">371.65</td> <td style="text-align: center;">28.41</td> <td style="text-align: center;">24.52</td> <td style="text-align: center;">29.12</td> <td style="text-align: center;">82.4</td> </tr> <tr> <td>TOTAL</td> <td style="text-align: center;">384.90</td> <td style="text-align: center;">29.8</td> <td style="text-align: center;">25.00</td> <td style="text-align: center;">29.89</td> <td style="text-align: center;">84.8</td> </tr> <tr> <td colspan="6" style="text-align: center;">Average Daily City Use (including Commercial, Industrial and Irrigation) Gallons/Day</td> </tr> <tr> <td>Monthly Rain Total (calendar)</td> <td style="text-align: center;">12.35</td> <td style="text-align: center;">0.24</td> <td style="text-align: center;">1.67</td> <td style="text-align: center;">0</td> <td style="text-align: center;">1.91</td> </tr> <tr> <td>Overall Gal/person/day</td> <td style="text-align: center;">97.97</td> <td style="text-align: center;">92.6</td> <td style="text-align: center;">86.7</td> <td style="text-align: center;">93.6</td> <td style="text-align: center;">91</td> </tr> <tr> <td>Residential Only</td> <td style="text-align: center;">65.0</td> <td style="text-align: center;">56.04</td> <td style="text-align: center;">66.50</td> <td style="text-align: center;">52.6</td> <td style="text-align: center;">58.4</td> </tr> </tbody> </table>		2014 Total	Jan-15	Feb-15	Mar -15	2015 YTD	Million Gallons						Morro Basin						Chorro Basin						R/O	13.25	1.12	0.48	0.77	2.37	State Water	371.65	28.41	24.52	29.12	82.4	TOTAL	384.90	29.8	25.00	29.89	84.8	Average Daily City Use (including Commercial, Industrial and Irrigation) Gallons/Day						Monthly Rain Total (calendar)	12.35	0.24	1.67	0	1.91	Overall Gal/person/day	97.97	92.6	86.7	93.6	91	Residential Only	65.0	56.04	66.50	52.6	58.4
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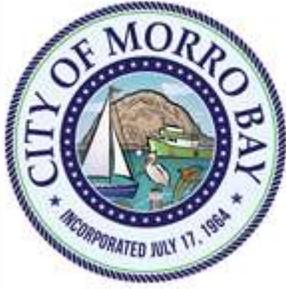
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Wastewater	NEW WRF	Bruce Keogh, Rob Livick	<p>Additional information on the WRF project is available on the City's website (www.morrobay.ca.us/newwrf).</p> <table border="1"> <thead> <tr> <th>Date</th> <th>Action</th> </tr> </thead> <tbody> <tr> <td>April 30, 2015</td> <td>Scheduled Joint Meeting of the CSD Board of Directors and Morro Bay City Council for continued discussion regarding the MOU for the New WRF</td> </tr> <tr> <td>April 8, 2015</td> <td>Rate Notices to be Mailed out to all City property owners and residents</td> </tr> <tr> <td>April 8, 2015</td> <td>WRFCAC Meeting to appoint members to WRF FMP review committee</td> </tr> <tr> <td>March 24, 2015</td> <td>City Council Approves Proposition 218 Notice for Water and Sewer Rate Adjustments and Schedules Public Hearing for May 26, 2015</td> </tr> <tr> <td>March 19, 2015</td> <td>Issued Contract to KMA not to exceed \$12,835 for Preliminary Biological Assessment of Rancho Colina site and pipeline corridor.</td> </tr> <tr> <td>March 19, 2015</td> <td>Release RFP for WRF Facilities Master Planning</td> </tr> <tr> <td>March 11, 2015</td> <td>Joint Meeting of Morro Bay City Council and Cayucos Sanitary District Board of Directors in Cayucos</td> </tr> <tr> <td>February 25, 2015</td> <td>JFR Contract Ammendment #4 for \$44,279.00 to assist with fatal flaw analysis</td> </tr> <tr> <td>February 25, 2015</td> <td>Facilities Master Plan RFP Completed for internal staff review</td> </tr> <tr> <td>February 23, 2015</td> <td>CSD Legal Council transmitted CSD DRAFT MOU to City</td> </tr> <tr> <td>February 19, 2015</td> <td>Letter from Ken Harris, RWQCB regarding the New WRF project and deadline for operations.</td> </tr> <tr> <td>February 19, 2015</td> <td>Public Works Advisory Board – Second Water and Sewer Rate Study Workshop</td> </tr> <tr> <td>February 11, 2015</td> <td>WRFCAC Meeting to review MOU for Now</td> </tr> <tr> <td>February 11, 2015</td> <td>Scheduled Joint Meeting of Morro Bay City Council and Cayucos Sanitary District Board of Directors in Cayucos was canceled</td> </tr> <tr> <td>February 5, 2015</td> <td>Meeting between Morro Bay Council Subcommittee and Cayucos Sanitary District Board Sub Committee to Discuss the MOU for Now</td> </tr> </tbody> </table>	Date	Action	April 30, 2015	Scheduled Joint Meeting of the CSD Board of Directors and Morro Bay City Council for continued discussion regarding the MOU for the New WRF	April 8, 2015	Rate Notices to be Mailed out to all City property owners and residents	April 8, 2015	WRFCAC Meeting to appoint members to WRF FMP review committee	March 24, 2015	City Council Approves Proposition 218 Notice for Water and Sewer Rate Adjustments and Schedules Public Hearing for May 26, 2015	March 19, 2015	Issued Contract to KMA not to exceed \$12,835 for Preliminary Biological Assessment of Rancho Colina site and pipeline corridor.	March 19, 2015	Release RFP for WRF Facilities Master Planning	March 11, 2015	Joint Meeting of Morro Bay City Council and Cayucos Sanitary District Board of Directors in Cayucos	February 25, 2015	JFR Contract Ammendment #4 for \$44,279.00 to assist with fatal flaw analysis	February 25, 2015	Facilities Master Plan RFP Completed for internal staff review	February 23, 2015	CSD Legal Council transmitted CSD DRAFT MOU to City	February 19, 2015	Letter from Ken Harris, RWQCB regarding the New WRF project and deadline for operations.	February 19, 2015	Public Works Advisory Board – Second Water and Sewer Rate Study Workshop	February 11, 2015	WRFCAC Meeting to review MOU for Now	February 11, 2015	Scheduled Joint Meeting of Morro Bay City Council and Cayucos Sanitary District Board of Directors in Cayucos was canceled	February 5, 2015	Meeting between Morro Bay Council Subcommittee and Cayucos Sanitary District Board Sub Committee to Discuss the MOU for Now
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	MMRP	Keogh/ Sauerwein/ Whelan	<p>Staff's focus has continued to be on developing and implementing work on the MMRP projects approved for the FY14/15 budget. The adopted FY14/15 budget contains \$1.221M in funding MMRP projects. The funds represent new MMRP projects as well as roll over from the FY13/14 budget for the headworks screening project and chlorine contact tank repairs. Additionally, in anticipation of the budget preparation process for the 2015/2016 fiscal year, staff is continuing to coordinate with City and District staff as well as MKN to identify priority projects and develop budgetary numbers for inclusion in the MMRP for the next fiscal year's budget for the WWTP. The goal in developing the budget for the MMRP is to recognize that the City has a goal to have the new WRF operational during the life of the next NPDES operational permit and insure prudent spending on this facility and still maintain the high quality effluent that is discharged to the Estero Bay.</p>																																

Category	Information Item	Staff Contact	Status
Collection System Capital Projects	Collection System	Bruce Keogh Rob Livick Jarrod Whelan	Continue to work on Manhole and collection system rehab projects. A contract has been awarded to FRM for Lift Station #1 Repairs & Coating.
Storm Water (no change)	Storm Water Plan	Rob Livick	The City submitted its annual Stormwater report to the Water Board. This year the annual report is available for review on the City's website (http://ca-morrobay.civicplus.com/documents/9/78/80/112/NPDES%20Annual%20Report%20Year%204_201306031224323905.pdf) A new phase II small MS4 general permit was adopted on February 5, 2013 by the State Resources Control Board. The City's revised standards are referenced in the following two links: http://www.morrobay.ca.us/documents/9/78/80/MB%20Stormwater%20Mangement%20MAIN%20manual_201403211146061265.pdf http://www.morrobay.ca.us/documents/9/78/80/MB%20Stormwater%20Mangement%20EZ%20manual_201403211145250169.pdf
	Total Daily Maximum Load (TMDL) Program	Damaris Hanson	Waste Load Allocation Plan Update is in progress. Staff is continuing with water quality sampling near several outfalls in the bay and is testing for pathogens. Pathogens are the constituent for which the Regional Board has the most concern due to public contact and shellfish operations. See page 23 of the above referenced annual report for additional information. There has been no appreciable change in the bay pathogen levels

Category	Information Item	Staff Contact	Status
Streets/Sidewalks/ Storm Drain Maintenance	Local Street Maintenance Projects	Mike Wilcox	Street, Sidewalk, Street Tree and Storm drain maintenance has shifted Back to the newly reformed Public Works Department as of February 1, 2015. If you have street, street tree or storm drain maintenance issues please call 772-6261 so that it can be added to the list of work. The City will still be patching potholes and the best way to notify the City regarding a pothole that needs attention is to use our E-Notify – “Let us Know system (on the City's website www.morro-bay.ca.us , click on City Departments, then on Recreation and Parks to the E-Request Form or http://morro-bay.ca.us/erequest). Upon receipt, those E-Requests will be reviewed, cataloged and entered into our database. Finally, the repairs will be scheduled. In the future, the City will be adding to the website a list or "Street Maintenance Queue" so you will be able to monitor the progress and see when your pothole may be repaired.
	Pavement Management Plan	Rick Sauerwein Sauerwein/Whelan	Sidewalks will be repaired on the East side of Market St. across from DiStatio's The 2014/2015 PMP project is currently under way. All Pavement renovation and slurry sealing has been completed and signing and striping is scheduled for completion the week of April 13.
	Morro Creek Bridge	Sauerwein/Rands	The project is proceeding forward per the schedule. Construction is underway: piles have been installed, abutments are formed, and sidewalks are under construction. The ribbon cutting is tentatively scheduled for July 3, 2015.
Street Trees	Urban Forest Plan	Damaris Hanson	Was heard at City Council April 8, 2014, Going back for resolution adoption at a future meeting.
Solid Waste	Spring Clean Up Week	Burlingame	Spring Clean Up week is being held the week of April 13. Residents can put out up to 2 cubic yards of material for collection at no extra charge.
Transit	Trolley	Burlingame	MV Transportation is hiring and training drivers for the upcoming trolley season that will begin Memorial Day weekend.

Category	Information Item	Staff Contact	Status
Misc			<p>Notify Me: Sign up for Notify Me on the City's Website for notification of Council, Board's and Commission's agendas and minutes. Notify Me can be accessed from a link on the City's Homepage.</p> <p>Let Us Know: The City has added a new feature to the City's website, Let Us Know, where citizens can submit a compliment, request, or report a concern to the City for predetermined issues without the need to phone the City during business hours (for example: reporting a pothole).</p> <p>Staff can also add requests to Let Us Know for someone over the phone or in the office if they do not have access to a computer. Each category in Let Us Know is assigned to the appropriate staff member to handle so citizens don't have to figure out what department to contact for an issue they need to report on.</p>

*** Please contact individual staff members prior to the meeting if possible for more detailed information.**



AGENDA NO: C-1

MEETING DATE: April 16, 2015

Staff Report

TO: Public Works Advisory Board **DATE:** April 13, 2015
FROM: Rob Livick, PE/PLS – Public Services Director
SUBJECT: Water and Sewer (Wastewater) Rate Update

RECOMMENDATION

No action required.

FISCAL IMPACT

Both the water and wastewater funds have current obligations and will require future expenses which are not adequately funded by the current rate structures. That situation has existed for quite some time, because the City has not increased water rates for the last 20 years and waste water rates since 2007. Additionally, the current rate structures of both revenue streams do not produce adequate funds to meet the City's obligations for debt coverage ratios for the bonds issued for capital improvements for those services. The Sewer and Water Study prepared by Bartle Wells Associates (BWA) recommends rate structures to correct those fiscal imbalances.

The direct costs for printing and mailing out the Proposition 218 notices is approximately \$8,500 and will be split between the water and sewer funds. That cost is included in the proposed increase for rates.

BACKGROUND?DISCUSSION

The City Council approved the proposed rates along with two of the three special rates. Additionally, the Council approved sending of the Proposition 218 notice. These approvals occurred at the March 24, 2015 Council meeting. That approval built upon the Water and Sewer Council Study Session on February 24, 2015 and the previous work and public comment from the Public Works Advisory Board. The below charts show a summary of the information regarding the proposed increases in those rates.

Prepared By: RL Dept Review: RL

City Manager Review: _____

City Attorney Review: _____

Proposed Water Rates							Proposed Sewer Rates							
	Current	Projected Water Rates					Current 2014/15	Proposed					5-Year Impact	
		2015/16	2016/17	2017/18	2018/19	2019/20		2015/16	2016/17	2017/18	2018/19	2019/20		
Fixed Monthly Charge	\$16.43	\$23.00	\$26.00	\$28.00	\$30.00	\$32.00								
Water Quantity Charges (\$/hcf)														
Tier 1	0 - 3 hcf	\$0.00	\$3.00	\$4.00	\$5.00	\$5.50	\$45.59	\$55.00	\$62.50	\$70.00	\$77.00	\$83.00	\$83.00	\$37.41
Tier 2	4 - 10 hcf	5.56 - 5.74	6.00	7.00	7.50	8.00	45.59	44.00	50.00	56.00	61.60	66.40	66.40	varies
Tier 3	11-50 hcf	5.77 - 7.81	9.00	9.50	10.00	10.50		80%	80%	80%	80%	80%	80%	
Tier 4	>50 hcf	7.85 - 13.68	12.00	12.50	13.00	13.50								
1 hcf = one hundred cubic feet = 748 gallons														
17							32							

The bulk of the Council discussion and deliberation then focused on the other rate issues, specifically three optional pass through charges and water shortage surcharges.

“Special” Water Rate Issues

As previously stated the Council approved two of the three special water rates, State Water Pass Through was not approved, are summarized in the following list:

- Temporary Surcharge for Desalination Facility Use
 - Only charged when desal is in use
 - Seawater treatment: about \$1600/AF less \$300/AF offset = \$3.00 per hcf
 - Brackish water treatment: about \$1,000/AF less \$300/AF = \$1.60 per hcf
- Water Shortage Emergency Rates
 - During times of severe mandatory numeric restrictions, i.e water rationing
- ~~Automatic Pass-Through for State Water Contract Costs~~
 - ~~Impact of \$25 Billion Bay Delta Conservation Plan~~

1. Temporary Surcharge for Desalination Facility Use

The City’s desalination plant was originally constructed in 1992 to provide water supply during a drought emergency and was subsequently upgraded in 2009. The plant served as the City’s primary source of water supply for a few months of 2010 and is currently used on a very limited basis to treat high-nitrate groundwater to supplement supply from the State Water Project. The plant provides a source of backup and emergency water supply in case of future State Water Project supply reductions or service outages. In future years, the plant may potentially be used as a primary source of supply.

The plant treats water via reverse osmosis to produce high-quality drinking water. The relatively high operating costs for running the plant during potential future water shortage emergencies are not factored into the proposed water rate increases. As such, BWA recommends adoption of a surcharge to recover the plant’s operating costs during periods of use. The surcharge would be billed based on a customer’s metered water use and would only be levied for periods when the desalination plant is in operation.

Because the cost of producing potable water can vary substantially depending on the source and quality of the untreated supply (e.g. seawater, brackish water, high-nitrate well water), BWA

recommends the City adopt a maximum allowable surcharge via the Proposition 218 process based on the most expensive cost of water production: untreated seawater. This would give the City authorization and flexibility to levy a surcharge up to the maximum allowable level as needed.

The proposed maximum surcharge is based on the cost of producing drinking water from seawater. These costs would be partially offset by reduced purchases from the State Water Project. A preliminary draft of the maximum surcharge based on treatment of seawater is as estimated as follows:

- Cost of seawater treatment totals approximately \$1,600 per AF or about \$3.70 per hcf. This total would be offset by a) roughly \$45 per AF in variable State Water Project expenses, and b) \$250 per AF of staffing expenses which are not incremental costs, but simply a transfer of existing staffing costs. This results in a total offset of about \$0.70 per hcf and a net maximum surcharge of \$3.00 per hcf.
- For comparison, the total cost of treating brackish water is about \$1,000 per AF, approximately \$600 per AF lower than seawater treatment. The incremental costs for treating brackish water, less applicable offsets, would result in a net surcharge of \$1.60 per hcf.

The Proposition 218 notice and Resolution adopting the surcharges should allow for automatic annual inflationary adjustments to keep the charge in line with future costs of water treatment, which include substantial costs for electricity and chemicals.

2. Water Shortage Emergency Rates

BWA recommends consideration of Water Shortage Emergency Rates designed to help the water enterprise remain financially stable during periods of emergency water shortages and reduced water sales. Water Shortage Emergency Rates can be phased in by future Council authorization in response to the escalating water shortage stages identified in the Water Shortage Contingency Plan of the 2010 UWMP.

The City is currently in a Stage 3 Water Shortage and has implemented conservation requirements for “Severely Restricted Water Supply Conditions”. More severe water shortage stages could require additional cutbacks in customer demand and result in future revenue shortfalls. As such, the City could adopt Water Shortage Emergency Rates that could be triggered with a Stage 4 or 5 Water Shortage.

Water Shortage Emergency Rates can be adopted along with regular water rate increases via the Proposition 218 process in order to give the City authority to implement emergency rates when needed. If adopted, the City can opt to phase in emergency rates as needed provided the rates do not exceed the maximum levels noticed and adopted via the Proposition 218 process.

If ever implemented, Water Shortage Emergency Rates should be gradually phased out as water sales return to normal levels. Emergency Rates should not immediately be rescinded when a water shortage stage is declared over as it typically takes additional time for water sales to return to normal-year levels.

The City has already taken substantial steps to help ensure adequate water supply during periods of drought. According to the 2010 Urban Water Management Plan (UWMP), “it is not anticipated that

the City will face a chronic shortage condition at which the City would need to implement any additional measures to reduce the demand” other than basic conservation measures outlined in the UWMP. The UWMP only foresees the need for more extreme measures, such as water rationing, during catastrophic interruptions that would reduce water supplies by 50% or more.

Low-Income/Lifeline Rate Subsidy:

The City can provide a Low-Income Discount or rebate program. While rates paid by other customers cannot be used to fund such a program, there are other mechanisms to provide for funding. Those include the General Fund, fines, forfeitures and penalty fees, *i.e.* late fees and the like. Based on statistics provided by BWA, roughly 25% of California agencies have a low-income discount. If Council desires such a program, then we recommend eligibility of customers to use that program piggy-back on other “lifeline” determinations, such as the PG&E CARE program or Federal assistance programs. That way the City does not have the administrative burden and added costs to verify income. This will be discussed further with Council at future meetings

CONCLUSION

The current water and sewer funds are not fiscally sustainable given the capital, maintenance needs and bond obligations for both funds. The rate structures proposed by Bartle Wells would resolve those needs and allow the City to be in compliance with its bond covenants.

ATTACHMENTS

1. Proposition 218 Notice



**NOTICE OF PUBLIC HEARING
ON PROPOSED WATER & SEWER RATE INCREASES**

**7:30 p.m.
May 26, 2015
Veterans' Memorial Building
209 Surf Street, Morro Bay, CA 93442**

The City of Morro Bay is proposing to increase water and sewer rates over the next five years. Water rates have not been increased in 20 years and have fallen behind the cost of providing service and are not adequate to meet current and future funding needs. Sewer rate increases are needed to help fund a new wastewater treatment facility. Proposed rates were developed by an independent rate consultant with input from the City's *Public Works Advisory Board*, a 7-member community advisory group that provides input to the City on a range of public works issues. The proposed rates are designed to recover the City's costs of providing water and sewer services. The City is concerned about the financial burden of the proposed charges and will also be considering implementation of a low-income discount program.

The City's water and sewer utilities are self-supporting enterprises that rely primarily on revenues from service charges to fund the costs of providing service. As such, water and sewer rates must be set at levels adequate to fund the costs of operating, maintaining, making necessary capital investments in each utility and meeting other financial obligations. The City's water and sewer utilities are both currently facing substantial financial challenges that will require significant rate increases in upcoming years.

Water Rates

The City is proposing to phase in a series of water increases over the next five years. Key factors driving the need for water rate increases include:

- **Restore balanced budgets.** After 20 years of no rate increases, the City's water utility is operating in deficit mode with a projected deficit of roughly \$900,000 in the current fiscal year. Adjusted for inflation, current rates are 36% lower than they were in 1995. Water rate increases are needed to restore balanced budgets, meet State Water Contract funding requirements, and keep revenues aligned with annual funding needs.
- **Fund high-priority water system infrastructure needs.** The City has identified \$6.5 Million of water system capital improvements needed within the next 5 years to address existing system deficiencies. Projects include new water storage tanks and pipeline improvements to improve reliability and fire flow, desalination plant rehabilitation and upgrades, and conversion to Automatic Meter Reading.

Longer-term, funding will be needed for rehabilitation and replacement of old, substandard pipelines. The City anticipates seeking low-rate subsidized financing to help fund high-priority near-term needs.

- **Long-term water supply.** The City relies on imported water from the State Water Project for most of the community’s water supply. State Water Contract expenses currently account for over half of the water utility’s operating costs. Future costs may rise substantially due to planned implementation of the State’s \$25 billion Bay-Delta Conservation Plan. The City will continue evaluating water supply alternatives including use of local sources such as recycled water from the new treatment plant, to reduce future reliance on potentially more-expensive imported water.

Proposed Water Rates

The City is proposing to phase in a series of water rate increases over the next five years as shown on the table on the next page. The proposed water service charges include both 1) a fixed monthly Service Charge levied on each account regardless of water use, plus 2) Water Quantity Charges billed based on metered water use each billing period. The proposed Water Quantity Charges are billed via four inclining rate tiers with water purchased first in Tier 1 and then subsequently in higher tiers as water use increases.

PROPOSED WATER RATES							
		Effective on bills sent on or after					
	Current Rates	July 1 2015	July 1 2016	July 1 2017	July 1 2018	July 1 2019	
Fixed Monthly Charge	\$16.43	\$23.00	\$26.00	\$28.00	\$30.00	\$32.00	
Water Quantity Charges							
<i>Billed per 100 cubic feet of metered water use (\$/hcf)</i>							
<u>Tier</u>	<u>Use in Tier</u>						
Tier 1	0 - 3 hcf	\$0.00	\$3.00	\$4.00	\$5.00	\$5.50	\$6.00
Tier 2	4 - 10 hcf	5.56 - 5.74	6.00	7.00	7.50	8.00	8.50
Tier 3	11- 50 hcf	5.77 - 7.81	9.00	9.50	10.00	10.50	11.00
Tier 4	>50 hcf	7.85 - 13.68	12.00	12.50	13.00	13.50	14.00

1 hcf = 100 hundred cubic feet = 748 gallons

Temporary Surcharge for Desalination Facility Operations

The City’s desalination plant was originally constructed in 1992 to provide water supply during a drought emergency and was subsequently upgraded in 2009. The plant served as the City’s primary source of water supply for a few months of 2010 and is currently used on a very limited basis to treat high-nitrate groundwater to supplement supply from the State Water Project. The plant provides a source of backup and emergency water supply in case of future State Water Project supply reductions or service outages. In future years, the plant may potentially be used as a primary source of supply.

The plant treats water via reverse osmosis to produce high-quality drinking water. The relatively high operating costs for running the plant during potential future water shortage emergencies are not factored into the proposed water rate increases. As such, a surcharge to recover the plant’s operating costs during periods of use is needed. The surcharge would be billed based on a customer’s metered water use and would only be levied for periods when the desalination plant is in operation.

The proposed maximum surcharge is based on the cost of producing drinking water from seawater. The surcharge is reduced to account for a corresponding reduction in water purchases from the State Water Project. The proposed maximum surcharge for desalination facility operations is \$3.00 per hcf (hundred cubic feet). This equates to slightly over \$0.40 per 100 gallons, or 4/10ths of a cent per gallon.

The proposed maximum surcharge will be subject to an automatic inflationary adjustment to keep the charge aligned with cost inflation. The inflationary adjustment will be based on the change in the U.S. City Average Consumer Price Index (CPI) for All Urban Consumers from the January 2015 index of 233.707.

Water Shortage Emergency Rates

Proposed Water Shortage Emergency Rates are designed to help the water enterprise remain financially stable during periods of emergency water shortages and reduced water sales. The City’s 2010 Urban Water Management Plan includes a Water Shortage Contingency Plan that identifies a staged response plan for responding to water supply shortages. The plan includes five stages of water demand cutbacks that would be triggered by the City in response to escalating levels of water supply shortages.

The City is currently in a Stage 3 Water Shortage and has implemented conservation requirements for “Severely Restricted Water Supply Conditions”. The City has already taken substantial steps to help ensure adequate water supply during periods of drought and does not anticipate needing to take more extreme measures at this time. However, more severe water shortages could require additional cutbacks in customer demand and result in future revenue shortfalls.

The following table shows proposed maximum Water Shortage Emergency Rates effective on or after July 1, 2015. These emergency rates can be phased in by City Council authorization in response to an escalating water shortage emergency and would apply to metered water use. Pursuant to California law, any future Water Shortage Emergency Rates implemented will not exceed the City’s cost of providing service. *The City will only implement Water Shortage Emergency Rates as needed to support financial stability under a more-severe Stage 4 or Stage 5 water shortage emergency.*

PROPOSED MAXIMUM WATER SHORTAGE EMERGENCY RATES					
Water Shortage Contingency Plan Stages¹	Stage 1	Stage 2	Stage 3	Stage 4	Stage 5
Water Supply Shortage	Normal	Moderate	Severe	Critical	Emergency
Water Shortage %	< 5%	5% - 15%	15% - 25%	25% - 50%	> 50%
Maximum Water Shortage Emergency Rates²					
<u>Tier</u> <u>Use in Tier</u>					
Tier 1 0 - 3 hcf	-	-	-	\$8.18	\$12.85
Tier 2 4 - 10 hcf	-	-	-	11.59	18.20
Tier 3 11- 50 hcf	-	-	-	15.00	23.56
Tier 4 >50 hcf	-	-	-	19.09	29.98

1 Based on Water Shortage Contingency Plan from 2010 Urban Water Management Plan.

2 Can be implemented by City Council authorization in response to a Stage 4 or Stage 5 water shortage emergency.

Sewer Rates

The City is proposing to phase in a series of sewer rate increases over the next five years. Key factors driving the need for sewer rate increases include:

- **New \$75 Million wastewater treatment plant.** After substantial community input and comprehensive evaluation of alternatives, project planning is underway for a new Water Reclamation Facility at the preferred Rancho Colina site along State Route 41. The facility will replace the City's existing treatment plant which is now 62 years old and at the end of its useful life. Based on preliminary engineering estimates, the City anticipates the new facility will be designed and constructed over approximately the next 5 years at a cost of \$75 Million. The treatment plant will be designed to support future recycled water operations. The City plans to seek grants and subsidized loans to help minimize the financial burden on customers.
- **Fund high-priority sewer system infrastructure needs.** The City has identified \$7.6 Million of sewer system infrastructure improvements needed within the next 5 years, mainly for rehabilitation and replacement of aging sewer pipelines, many of which are over 60-years old. In addition, the City faces over \$2 Million of deferred maintenance and rehabilitation at the existing wastewater treatment plant. That work is needed in order for the current plant to remain in compliance with state permit requirements until the new treatment facility becomes operational.

Proposed Sewer Rates

The City is proposing to phase in sewer rate increases over the next five years as shown on table on the following page. Under the proposed rates, single-family residential customers pay a fixed monthly charge per each dwelling unit for wastewater service, similar to current rates except without the current excess use charges. The City is proposing to levy a reduced fixed monthly charge for multi-family residential and condominium dwelling units. Sewer rates for non-residential customers will be based on customer class and wastewater strength subject to a minimum monthly charge, and will continue to be billed based on metered water use. The minimum monthly charge for non-residential accounts will be reduced from the current level to a level set at the proposed reduced charge for multi-family residential dwelling units.

The proposed rates assume the City can obtain low-interest-rate financing from the Clean Water State Revolving Fund Financing Program to fund the planned new \$75 Million Water Reclamation Facility. If the facility ends up costing significantly more than estimated or state-subsidized financing is not available, then the City may need to re-evaluate rate increases in future years. Likewise, if the City is able to obtain significant grant funding or the project comes in at a lower cost than currently estimates, then the City can potentially reduce the charges shown. The City will continue to evaluate sewer utility finances and rates in future years to ensure rates continue to reflect the cost of providing wastewater service.

PROPOSED SEWER RATES						
	Current Rates	Effective on bills sent on or after				
		July 1 2015	July 1 2016	July 1 2017	July 1 2018	July 1 2019
RESIDENTIAL SEWER RATES						
<i>Fixed monthly charge per residential dwelling unit</i>						
Single Family	\$45.59	\$55.00	\$62.50	\$70.00	\$77.00	\$83.00
Multi-Family/Condominium	45.59	45.59	50.00	56.00	61.60	66.40
NON-RESIDENTIAL SEWER RATES						
<i>Billed per 100 cubic feet of metered water use (\$/hcf)</i>						
Class A - Low Strength	\$4.63	\$6.50	\$7.95	\$9.37	\$10.57	\$11.40
Class B - Domestic Strength	5.82	7.98	9.65	11.29	12.67	13.61
Class C - Moderate Strength	8.03	10.19	11.86	13.50	14.89	15.82
Class D - Mod-High Strength	10.45	12.55	14.18	15.78	17.13	18.03
Class E - High Strength	13.38	15.89	17.84	19.75	21.36	22.46
<i>Minimum Monthly Charge</i>	<i>\$51.77</i>	<i>\$45.59</i>	<i>\$50.00</i>	<i>\$56.00</i>	<i>\$61.60</i>	<i>\$66.40</i>

1 hcf = 100 hundred cubic feet = 748 gallons

Class A - Low Strength includes schools, laundromats, carwashes, city and public facilities, & water softener accounts.

Class B - Domestic Strength includes professional offices, retail stores, mobile home parks, and all other standard-strength commercial accounts.

Class C - Moderate Strength includes motels, retirement homes with dining facilities, and mortuaries.

Class D - Mod-High Strength includes hotels with dining rooms or restaurants, and mixed-use accounts where high-strength sewage accounts for between an estimated 25% to 75% of total wastewater flow.

Class E - High Strength includes restaurants, bakeries, and seafood processors.

Note: The City reserves the right to estimate wastewater strength and assign customer class.

How to Submit a Written Protest

Property owners and customers may file written protests against the proposed rate increases. Pursuant to California law, protests must be submitted in writing and must a) identify the affected property or properties, such as by address, Assessor's Parcel Number, or customer account number, b) include the name and signature of the customer or property owner submitting the protest and c) indicate opposition to the proposed water and/or sewer rate increases. Protests submitted by e-mail, facsimile or other electronic means will not be accepted. The proposed rates cannot be adopted if written protests are received from a majority of affected parcels with one written protest counted per parcel. Written protests can be mailed or delivered to: City Clerk, City of Morro Bay, 595 Harbor Street, Morro Bay, CA 93442. All protests must be submitted prior to the close of the Public Hearing.

What is the City Doing to Control Costs?

The City has taken a number of measures in recent years to reduce costs including:

- Deferred wage increases until the current labor contract expires.
- Reduced Public Employee Retirement benefits in accordance with PEPRA.
- Deferred maintenance and system upgrades due to funding limitations.
- Obtained grant funding for upgrades to the reverse osmosis system for brackish water treatment at the City's desalination facility.

The City remains committed to cost-effectively operating its water and wastewater utilities. In upcoming years, the City plans to seek grants and low-interest-rate loans to help fund future infrastructure improvement needs including the new \$75 Million wastewater treatment plant. The water utility also plans to invest in Automatic Meter Reading equipment to reduce future costs of monthly meter reading. Additionally, completion of the new wastewater treatment plant will facilitate the use of purified, recycled water to help meet the community's future water supply needs. That may allow the City to reduce its future reliance on imported water from the State Water Project. The City will continue evaluating water supply alternatives in future years with goal of providing safe, reliable, and cost effective service.

*For additional information or questions, please contact the City of Morro Bay's
Public Works Department at (805) 772-6261.*