

**City of Pasadena
NOTICE OF PUBLIC HEARING TO RECEIVE PUBLIC COMMENT REGARDING
IMPLEMENTATION OF THE FORMULA TO THE WATER SYSTEM CAPITAL
IMPROVEMENTS CHARGE (CIC)**

Hearing Date and Time: January 11, 2016 at 7:00 p.m.

Hearing Location: 100 N. Garfield Avenue, Pasadena, California 91109, Room S228

Valued Property Owner / Customer:

The Pasadena City Council will hold a public hearing on January 11, 2016 at 7:00 p.m. in the City Council Chambers at 100 N. Garfield Avenue, Pasadena, CA 91109 to receive public comment regarding implementation of the formula to set the Water Capital Improvement Charge ("CIC") for Fiscal Years ("FY") 2016 and 2017 and adoption of the resulting CIC rate increase to be effective January 18, 2016 or as soon thereafter as practicable. The CIC is a component of the water rate applied to customer bills.

On April 1, 2015, California Governor Jerry Brown issued an Executive Order mandating a statewide water usage reduction; Pasadena's mandate is to reduce its water usage by 28%. Since the CIC is a charge per billing unit of water used, less revenue is being collected due to reduced sales. As a result, an increase to the CIC rate is necessary to provide sufficient revenues to maintain the City's investment in its water delivery infrastructure (water mains, reservoirs, treatment plants, etc.). A billing unit is equal to one hundred cubic feet or 748 gallons.

On April 27, 2015, the City Council adopted the fiscal year 2016 Water Fund Capital Improvement Budget. Based on the CIC formula as defined in the City of Pasadena Water Service Rate Ordinance (Pasadena Municipal Code Chapter 13.20.035) the approved level of expenditures in the FY 2016 adopted budget require an increase to the system average CIC rate of \$0.45 per billing unit. If approved by City Council on January 11, 2016, the increase to the average monthly water bill for most of Pasadena's customers will be approximately 10% – 11%.

This notification is provided in compliance with Article XIII D Section 6 of the California State Constitution, the Proposition 218 Omnibus Implementation Act. These are proposed changes only; final rate adjustments adopted by the Pasadena City Council may differ.

What is the Water Capital Improvement Charge (CIC)?

Under the Pasadena Water Service Rate Ordinance, Chapter 13.20.035 of the Pasadena Municipal Code, the CIC is based on a formula that is used to determine a rate; this rate is designed to fund capital expenditures contained in the approved FY 2016 Water Fund Capital Improvement Budget and to pay long term debt obligations. Typical Water Fund capital improvement projects are to replace aging pipelines, construct seismic and efficiency upgrades to the City's reservoirs, and other water infrastructure projects necessary to ensure continued high system reliability and water quality.

Why is the CIC necessary?

The CIC is how Pasadena Water and Power ("PWP") collects revenue that is necessary to fund the various capital expenditure projects and to pay the annual debt obligations. Revenues collected from the CIC rate are dedicated to the long-term investments in Pasadena's water distribution system that are necessary to ensure that customers receive the highest quality water delivered reliably to their homes and businesses.

Are the proposed adjustments to the CIC related to the drought and Governor Brown's Executive Order calling for a 25% statewide reduction in water use?

The proposed rate increase to the CIC is primarily due to Governor Brown's Executive order and is also partially due to increased funding that is necessary to invest in the water delivery system. In the past, the CIC has provided approximately \$8-\$9 million of annual revenue, but with passage of the Executive Order, CIC annual revenues are projected to decline by more than \$2 million. The proposed rate increase will provide revenues of approximately \$10.5 million each year which is the amount necessary to fund capital projects and to pay for the debt obligations of the Water System.

The CIC formula as defined in the Water Rate Ordinance:

$$\text{CIC} = ((\text{FTR} \times \text{CE}) + \text{DS}) / \text{WS} \text{ (express in the nearest } \$0.00001 \text{ per hundred cubic feet)}$$

Where:

- **FTR** ("Funding Target Ratio") = $(A) / (A+B)$
 - Where "A" is the five-year average annual cash required from current-year water rates to fund the CIP as projected by the department at the time the CIC calculation is made.
 - Where "B" is the five-year average annual revenue bond funds required to fund the CIP as projected by the department at the time the CIC calculation is made.
- **CE** ("Capital Expenditure") is the five-year average annual Water Fund capital expenditure as projected by the department at the time the CIC calculation is made.
- **DS** ("Debt Service") is the five-year average annual revenue CIC-related debt service payment as projected by the department at the time the CIC calculation is made.
- **WS** ("Water Sales") is the water system sales for the next twelve months stated in billing units, as projected by the department at the time the CIC calculation is made.

Table 1 shows the existing and proposed rates and Table 2 shows sample monthly customer bill impacts during the winter season.

Table 1
Existing and Proposed CIC Rates

	Existing Rates	Proposed Rates
Water delivered April 1 st – September 30 th (Summer)		
Area A	\$0.62429	\$1.06715
Area B	\$0.84274	\$1.44056
Water delivered October 1 st – March 31 st (Winter)		
Area A	\$0.58896	\$1.00676
Area B	\$0.79504	\$1.35902

Table 2
Sample Winter Monthly Customer Bill Impacts

Customer Type by Meter Size	Billing Units (BU)	Pasadena - Existing	Pasadena - Proposed	\$ Change	% Change
5/8"	5	\$27.19	\$29.28	\$2.09	7.7%
3/4"	12	\$46.95	\$51.96	\$5.01	10.7%
1"	25	\$101.80	\$112.25	\$10.45	10.3%
1 1/2"	100	\$389.65	\$431.43	\$41.78	10.7%
2"	125	\$518.99	\$571.22	\$52.23	10.1%
3"	300	\$1,251.03	\$1,376.37	\$125.34	10.0%
4"	600	\$2,334.85	\$2,585.53	\$250.68	10.7%
6"	1,400	\$5,017.95	\$5,602.87	\$584.92	11.7%
8"	2,400	\$9,075.38	\$10,078.10	\$1,002.72	11.0%

Any property owner or interested person may appear and be heard on any matter relating to the Water Capital Improvement Charge increase. In accordance with Article XIII D Section 6 of the California State Constitution, written protests to the proposed Water Capital Improvement Charge increase will be considered if submitted prior to the public hearing. Written protests must be submitted on or before 5:00 p.m. January 11, 2016 to the Office of the City Clerk located at 100 N. Garfield Ave. Room S228, Pasadena, California 91109. Please include the parcel or billing address and write "**Implementation of the Water System CIC formula**" on the written comments.

Information regarding the proposed increase to the Water Capital Improvement Charge is available at:
Office of the City Clerk or online at www.pwpweb.com

IF THE PARCEL OR BILLING ADDRESS ON THIS NOTICE DOES NOT RECEIVE WATER SERVICES FROM THE CITY OF PASADENA, THIS NOTICE DOES NOT APPLY TO YOU.

Attachment B

Table B-I summarizes the annual and the five-year average capital expenditure work plan for the water system for fiscal years 2016 through 2020. It is important to note that there are several funding sources for capital expenditures, including revenues from the CIC rate, customer-funded improvements, the Reclaimed Water project and projected grants and reimbursements from other agencies.

Table B-I
Calculation of the 5-year average Capital Improvement Charge
Capital Expenditures (\$ millions)

	Description	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020
(A)	Five Year Capital Forecast	\$15.3	\$18.1	\$17.6	\$18.1	\$12.1
	Less:					
(B)	Non CIC Projects	\$1.0	\$1.3	\$1.2	\$0.5	\$0.4
(C)	Reclaimed Water	\$1.0	\$1.0	\$1.0	\$1.0	\$1.0
(D)	Reimbursements and Grants	\$2.3	\$2.3	\$2.3	\$2.3	\$2.3
(E)	Customer Driven	\$1.2	\$1.2	\$1.2	\$1.2	\$1.2
(F)	CIC Formula Capital Projects	\$9.8	\$12.4	\$11.9	\$13.2	\$7.2
	Five Year Average CIC Capital Spending	\$10.9				

- (A) - The published FY 2016 5-year CIP Budget
- (B) - Projects that are not CIC related and are excluded from the CIC calculation
- (C) - Reclaimed water project will not be funded by the CIC.
- (D) - Assumption is based on current expectation of external funding and reimbursements.
- (E) - Excludes Customer funded projects
- (F) - Net CIC Formula eligible projects

Attachment B

Table B-II summarizes annual debt service from existing and proposed revenue bonds for each fiscal year from 2016 through 2020. The debt service for the proposed bond issue should be considered an estimate only. The actual debt service would be based on the number of bonds issued, market interest rates and other associated costs of issuance.

Table B-II
Calculation of the 5-year average Capital Improvement Charge
Debt Service (\$ millions)

Bond Series	FY2016	FY2017	FY2018	FY2019	FY2020	Five-Year Average
2007	\$1.33	\$1.33	\$1.33	\$1.33	\$1.33	
2010 A	\$1.79	\$1.79	\$1.79	\$1.79	\$1.79	
2010 B	\$0.74	\$0.75	\$0.75	\$0.76	\$0.77	
2011 A	\$3.23	\$3.40	\$3.24	\$3.23	\$1.83	
Proposed	\$0.00	\$1.10	\$1.70	\$1.73	\$3.46	
Total	\$7.09	\$8.36	\$8.80	\$8.83	\$9.17	\$8.45
85% of Total	\$6.02	\$7.11	\$7.48	\$7.51	\$7.79	\$7.18

- The table above shows the annual debt service amounts (Principal and Interest) for each of the existing and proposed Revenue Bond issues.
- 85% of the outstanding and proposed debt service is attributable to CIC project investment; the remaining 15% of the debt service is associated with non-CIC capital expenditures such as technology projects, customer-requested projects, vehicle replacements, and potential recycled water project construction costs.
- \$7.18 million is the 5-year average of the actual and expected debt service for CIC formula use.