



City Council Staff Report

Date: February 15, 2012 NEW BUSINESS

Subject: WASTEWATER CAPITAL REPAIR AND REHABILITATION PLAN, AND
WASTEWATER FINANCIAL PLAN AND RATE STUDY

From: David H. Ready, City Manager

Initiated by: Public Works and Engineering Department

SUMMARY

On July 7, 2010, the City concluded a Proposition 218 majority protest public hearing on the matter of increasing sewer rates. Although a majority protest did not occur, the City Council did not approve increased sewer rates, and requested the issue to be deferred for consideration at a later date.

This item requests the Council approve an updated and amended Wastewater Financial Plan and Rate Study, and that Council authorize staff to proceed with a Proposition 218 majority protest hearing to allow Council to reconsider increasing the City's sewer rates. An increase to the City's current sewer rates is necessary to fund required capital projects at the wastewater treatment plant, and to address future operation and maintenance costs of the City's wastewater utility.

RECOMMENDATION:

- 1) Provide direction on the draft 2012 Wastewater Financial Plan and Rate Study with regard to: A) funding the entire 20-Year WWTP CIP; or B) funding only the Priority 1 Projects of the 20-Year WWTP CIP; and
- 2) Authorize staff to proceed with Proposition 218 majority protest noticing, and schedule a Public Hearing for April 18, 2012, to consider the matter of increasing sewer rates in accordance with the 2012 Wastewater Financial Plan and Rate Study.

STAFF ANALYSIS:

History

On April 21, 2010, the City Council reviewed and approved a comprehensive 20-year, \$67,000,000 Capital Repair and Rehabilitation Plan, commonly referred to as a Capital Improvement Plan (“CIP”) for the City’s wastewater treatment plant (“WWTP”). The City Council also reviewed and approved the corresponding Wastewater Financial Plan and Rate Study (“Rate Study”), authorized staff to proceed with Proposition 218 majority protest noticing, and held Public Hearings on June 16 and July 7, 2010, to consider the matter of increasing sewer rates in accordance with the 2010 Rate Study.

At the conclusion of the Public Hearing held on July 7, 2010, the City Clerk tallied the protests received and determined a majority protest did not occur. In accordance with California law, the City Council was authorized to implement the proposed sewer rate increases, however, at that time the City Council tabled the item for consideration at a later date.

The Wastewater Treatment Process

Wastewater treatment is the process of removing contaminants from wastewater, and can include physical, chemical, and biological processes to remove various contaminants in it. The purpose is to improve the quality of the wastewater to meet certain limitations imposed by the state to produce a waste stream (or “effluent”) and a solid waste (or “sludge”) suitable for discharge or reuse back into the environment. The treatment process at the City’s WWTP involves two stages, called primary and secondary treatment. A third stage, or tertiary treatment, is provided by Desert Water Agency (“DWA”) at its off-site reclamation plant near Knott’s Soak City water park.

Pre-treatment of wastewater occurs by passing it through the headworks facility where a mechanical bar screen removes larger non-organic materials, such as rags, plastics, and debris; and where an aerated grit basin, consisting of concrete tanks, slow the rate of the wastewater flow to allow sand and grit to settle out of it. As a part of the primary treatment stage, the wastewater that is passed through the headworks facility enters into three large covered rectangular concrete tanks (or “primary clarifiers”) where it continues to pass through at a slower rate, allowing heavier solids to settle to the bottom; and where oils, grease and lighter solids (or “scum”) float to the surface. The settled solids and floating scum are removed from the wastewater and the remaining liquid (or “primary effluent”) passes onto the secondary treatment phase.

Secondary treatment is a process to remove the much smaller particles of dissolved and suspended biological matter within the primary effluent. Secondary treatment at the City’s WWTP begins by pumping primary effluent and distributing it around the top of four circular concrete tanks (called “trickling filters”) such that it filters down through rock media about 10 feet deep contained within the tanks, over and within which a layer of

algae slime grows. The process removes organic compounds within the primary effluent by trickling it over the algae slime which lives by consuming the organic compounds contained in the effluent.

As the algae slime grows into thicker layers on and within the rock media, it eventually grows to a layer too thick to maintain the process, and falls off. These algae growths in the trickling filters enter the wastewater flow and must be further separated by passing it through six open, rectangular tanks (or “secondary clarifiers”). The secondary clarifiers are similar to the primary clarifiers, in that wastewater flow passes through slowly, allowing the solids to be removed from the flow.

It is at this point that the effluent is passed to DWA to its reclamation plant for the third stage of treatment where DWA chlorinates and disinfects the effluent to meet state regulations for re-use as reclaimed water for irrigation purposes. In the 2010/2011 fiscal year, the City’s WWTP processed 2.0789 billion gallons of wastewater, of which 1.466 billion gallons (or 70.5%) was passed to DWA for reclaimed water re-use, and 613 million gallons was discharged into several percolation basins at the WWTP where it was evaporated into the air and percolated into the ground.

The treatment of solids removed from the wastewater flow from the primary and secondary clarifiers is thickened by a process called “gravity thickening”, and subsequently pumped into one of two anaerobic digesters for final treatment. This process is called anaerobic digestion, and is a series of biological processes in which microorganisms break down biodegradable material in the absence of oxygen (similar to how human digestion of food occurs). It is widely used to treat wastewater sludge and organic wastes because it significantly reduces the mass and volume of the original sludge material. Within the anaerobic digesters the solids are heated and mixed for about 20 days to further reduce the solids, where approximately half is converted into a methane and carbon dioxide rich biogas suitable for energy production.

The final treatment process pumps the reduced solids from the anaerobic digesters to 26 open-air drying beds and where it is dried for one to four months (depending upon the time of year – shorter in the summer and longer in the winter). Our desert environment allows sludge to be more thoroughly dried than at other facilities, and the process is capable of producing dried sludge that is defined as Class A “Exceptional Quality” bio-solids suitable for use as a fertilizer, which is hauled to agricultural users for beneficial re-use.

The process described above and used at the City’s WWTP is generally shown in Figure 1 on the following page:

20-Year WWTP Capital Repair and Rehabilitation Plan

The original WWTP was constructed in 1960, and is now over 50 years old. Major expansion of the WWTP to its current 10.9 million gallon per day ("MGD") capacity was completed in 1983. Over the last 5 years the City has completed rehabilitation of the two anaerobic digesters, construction of a new reclaimed water pump station, and improvements to the gravity thickeners. Construction of an entirely new electrical system is currently underway.

Operation and maintenance ("O&M") of the City's WWTP is provided for the City through a long term agreement with Veolia Operating Services West, Inc. ("Veolia"). In consultation with Veolia regarding on-going maintenance issues at the WWTP, primarily due to the age of the major mechanical equipment at the WWTP, staff prepared a comprehensive CIP for the WWTP, realizing the need to focus on major capital projects to replace aging equipment and improve inefficient wastewater treatment processes at the WWTP over the next 20 years.

The focus of the 20-year WWTP CIP is not on increasing the capacity of the WWTP; the current 10.9 MGD capacity will be more than adequate beyond a 20 year horizon. For the 2010/2011 fiscal year, wastewater flow into the WWTP was at annual average rate of 5.696 MGD, well below the 10.9 MGD capacity. Assuming a conservative projected future City growth rate of 1,000 people per year, the 10.9 MGD capacity will not be exceeded for over 30 years. The 20-year WWTP CIP considered repair and rehabilitation of the outdated equipment and processes used at the WWTP, and the need to appropriately plan for replacement of the equipment with current technology that will improve the City's ability to efficiently treat wastewater flows.

The CIP submitted to and approved by the Council on April 21, 2010, assessed all of the major unit processes at the City's WWTP, and recommended a 20 year program consisting of over 30 projects (some of which may be combined into single projects for better cost efficiencies) estimated to cost \$67,000,000. The most critical elements of the WWTP to be addressed in the near-term were:

- **Digester No. 1 Upgrade**

This project has been completed.

- **Wastewater Treatment Plant Perimeter Security Fence**

This project has been completed.

- **Electrical System Upgrade**

This project is currently under construction.

- **New Headworks**

By its nature of accepting raw sewage, the headworks facility is considered a Class I hazardous facility. It is critical to have reliability and redundancy in the headworks

facility due to the corrosive nature of its environment. The City's existing headworks facility is inadequate and does not provide the reliability or redundancy required. The headworks facility is considered in poor condition when compared to headworks facilities at other comparatively sized WWTP's. One significant factor with the headworks facility is the invert elevation into the WWTP; the invert is too high and the slope of the main sewer trunk line into the WWTP is flat causing surcharging within the sewer line. The invert into the WWTP must be lowered to improve the hydraulics into the WWTP, improving the gravity free-flow movement of wastewater into the headworks facility. As it exists, the surcharging of the main sewer trunk line has the potential to further corrode the headworks facility, cause sewage to back-up, and ultimately if unaddressed, to cause sewage overflows in the streets from upstream sewer manholes, as the volume of wastewater flow into the WWTP increases over the next 20 years.

Another significant factor with the existing headworks facility is the fact that it is not housed within an enclosed building; the headworks facilities are exposed to the air and are located within close proximity to Demuth Park. This is a major contributor to foul odor problems experienced in the area. More importantly, the fact that the headworks facility operation is exposed to the public is visually offensive, with raw sewage materials easily seen by the public at the entrance into the WWTP.

Construction of a complete new, enclosed headworks facility at a lower elevation is required to appropriately address these issues.

The preliminary construction estimate is \$5,920,000 (which includes a new building and odor control system) and has not been budgeted yet as part of the WWTP CIP.

- **New Primary Clarifiers**

The existing primary clarifiers are impacted by the surcharging into the WWTP through the headworks facility. The primary clarifiers are actually three separate adjacent long and narrow tanks, with a relatively shallow depth of 6.8 feet. The existing primary clarifiers require constant maintenance, and are inefficient given their shallow depth. Construction of new primary clarifiers will be required in conjunction with construction of a new headworks facility, given the need to lower the invert into the WWTP through the headworks and to allow free flow of the wastewater to the primary clarifiers at a lower elevation. It is recommended that the existing primary clarifiers be replaced with new circular clarifiers with a greater depth, providing for much improved primary treatment of wastewater.

The preliminary construction estimate, including new tanks, sludge pump station, covers and a new odor control system is \$9,050,000 and has not been budgeted yet as part of the WWTP CIP.

- **New Primary Effluent Pump Station**

The existing primary effluent pump station has old pumping and mechanical equipment which is unreliable and relatively inefficient, given the age of the pumps. The equipment

requires constant maintenance and is reaching the end of its design life. Construction of a new primary effluent pump station will be required in conjunction with construction of a new headworks facility and primary clarifiers, given the need to lower the water surface through the headworks facility and primary clarifiers and to allow free flow of the wastewater to the primary effluent pump station at a lower elevation. The wastewater flow from the primary effluent pump station is subsequently pumped to the top of the trickling filters as part of the next stage of the wastewater treatment process. A new primary effluent pump station will allow for installation of modern pumping and mechanical equipment, providing improved pumping efficiency and reducing energy requirements and utility costs.

The preliminary construction estimate for the new pump station is \$2,910,000 and has not been budgeted yet as part of the WWTP CIP.

- **Secondary Clarifier Upgrade**

The existing secondary clarifiers consist of 6 rectangular tanks that provide the final separation process of small particles of solids from the wastewater, immediately prior to releasing the effluent downstream to percolation ponds or Desert Water Agency for reclamation purposes. The existing secondary clarifier is reaching the end of its design life; the underwater portions of the equipment have corroded and most of the equipment requires replacement. Although not directly required with construction of a new headworks facility and primary clarifiers, a major overhaul and upgrade of the secondary clarifier is recommended to provide for improved efficiency and to eliminate the constant maintenance problems associated with the aging equipment. An overhaul will be necessary to address the corroded portions of the equipment.

The preliminary construction estimate is \$2,010,000 and has not been budgeted yet as part of the WWTP CIP.

- **Methane (Biogas) Recovery System and Co-Generation of Electricity**

Currently, the City's WWTP flares 100% of the methane produced by the wastewater treatment process. The methane itself is too "dirty" to use as an alternative to natural gas to operate any pumps, engines or other equipment, and in order to effectively use the methane as an alternative to natural gas, a gas treatment system is required. Additionally, the City's existing gas flare does not meet current South Coast Air Quality Management District ("AQMD") standards and is considered "legal non-conforming" equipment as long as the City makes no improvements to the WWTP that exceeds the capacity of the existing flare. After completing some of the projects recommended in the CIP, it will be necessary to construct a new flare meeting current AQMD standards.

Recovering the methane gas at the WWTP and using it for power co-generation purposes is a sustainable objective the City should meet. As part of this system, it is recommended the City invest in a Fats, Oils and Grease "FOG" receiving station, to take advantage of the local FOG generated by restaurants and capitalize on the FOG's

ability to increase the production of methane gas at the WWTP (and thereby increasing the amount of energy produced through co-generation). Accepting FOG also eliminates the practice of disposing it at landfills and composting facilities where the methane is released to the environment, affecting air quality. However, the capital costs associated with the system are high.

The Co-Generation System is broken into the following parts:

1. Fuel Cell for Power Co-Generation, estimate: \$4,060,000
2. Methane Gas Treatment System, estimate: \$2,000,000
3. FOG Receiving Station, estimate: \$1,600,000
4. New Gas Flare, estimate: \$1,000,000

The preliminary construction estimate for the complete power co-generation system is \$8,660,000 and has not been budgeted yet as part of the WWTP CIP.

• **Other Capital Improvements**

The CIP identifies other recommended projects at the WWTP, such as:

New primary signalized access from Gene Autry Trail;
New sludge/septage receiving station;
New domestic water system;
General sitework and asphalt pavement replacement;
Sludge drying bed repairs;
Trickling filter upgrades;
Gravity thickener upgrades;
New administration building;
New sludge centrifuge;
Sewer collection system upsizing

In total, the 20-year CIP identified \$58,000,000 in capital projects at the WWTP and \$9,000,000 in future collection system upsizing, for a total capital investment of \$67,000,000. Of that total, over \$12,000,000 has been funded from Wastewater Fund reserves, leaving a total of \$55,000,000 unfunded. The City Council previously directed staff to prioritize the 20-year CIP to identify Priority 1 projects as those projects that will directly reduce or eliminate the generation of odors at the WWTP, which are listed in the following Table:

Priority 1 Projects	
New Circular Primary Clarifiers w/Sludge Pump Station	\$9,050,000
New Headworks	\$5,920,000
New Primary Effluent Pump Station	\$2,910,000
New Sludge Centrifuge	\$1,490,000
Digester No. 2 Dome Replacement	\$1,050,000
<u>WWTP Facility Plan</u>	<u>\$250,000</u>
Priority 1 Total	\$20,670,000

Priority 2 Projects	
Secondary Clarifier Upgrades	\$2,010,000
FOG Receiving Station	\$1,600,000
Trickling Filter Upgrades	\$1,560,000
Gravity Thickener Upgrades	\$1,400,000
New Gas Flare	\$1,000,000
General Sitework Pavement Replacement	\$720,000
Pavement Replacement in Drying Beds 13-18 and 19-26	\$710,000
New Septage Receiving Station	\$500,000
New Access Rd w/ Signalized Access fr Gene Autry	\$500,000
Water System Upgrade for Fire Protection	\$500,000
Filtrate Pump Station Upgrade	\$500,000
Priority 2 Total	\$11,000,000

Priority 3 Projects	
Third Digester (Acid or Conventional)	\$7,200,000
Fuel Cell Purchase and Installation	\$4,060,000
<u>Digester Gas Treatment System</u>	<u>\$2,000,000</u>
Priority 3 Total	13,260,000

Priority 4 Projects	
Crossley Road Collection System Upsize	\$4,400,000
Indian Canyon Drive Collection System Upsize	\$2,400,000
Palm Canyon Drive Collection System Upsize	\$1,800,000
<u>New Administration Building</u>	<u>\$1,600,000</u>
Priority 4 Total	\$10,200,000

Total 20-Year CIP **\$55,130,000**

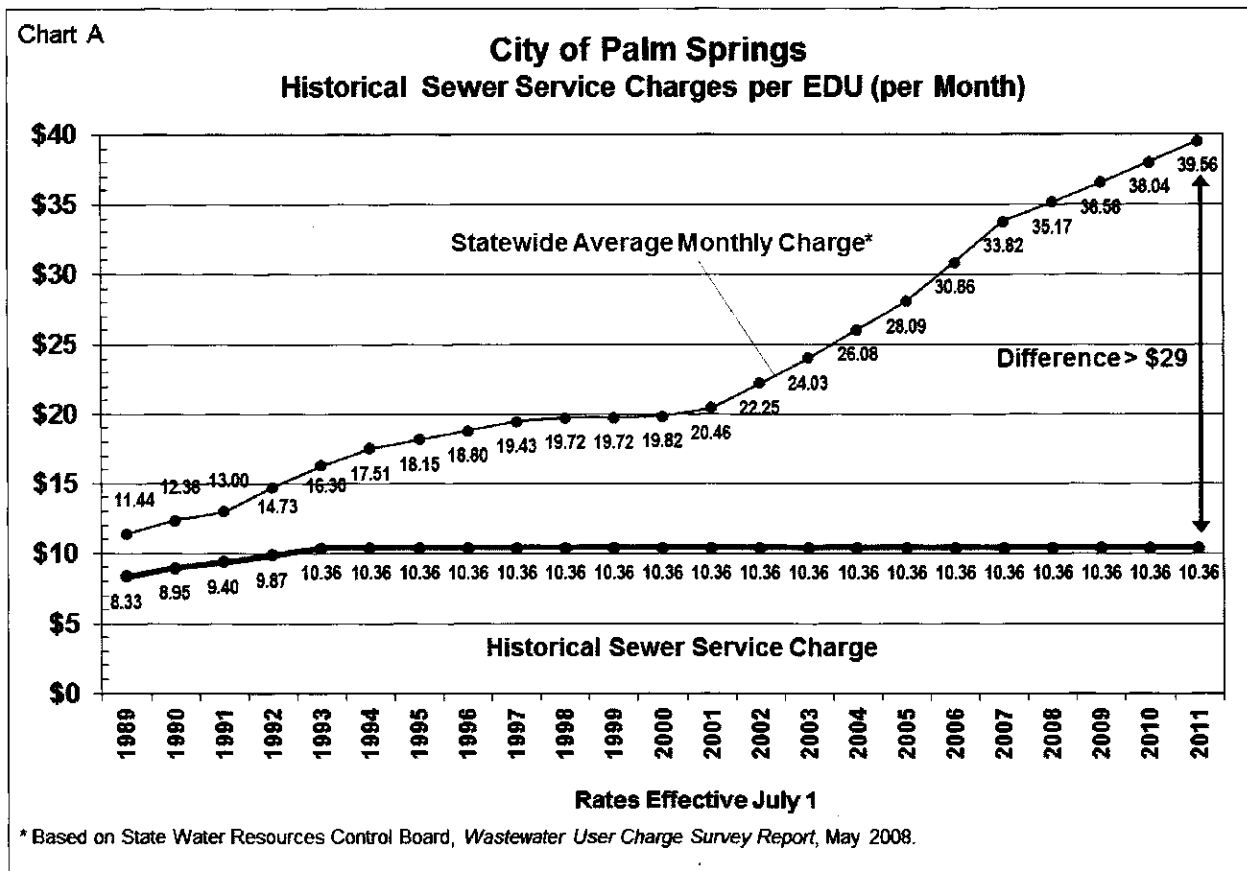
The list of projects above have been deemed critical to ensuring the City's ability to safely and adequately provide wastewater treatment of the sewage generated within the City. The list of projects cannot be funded from the City's current sewer rates, and an increase to the sewer rates will be necessary to fund the required capital improvements.

2012 Wastewater Financial Plan and Rate Study

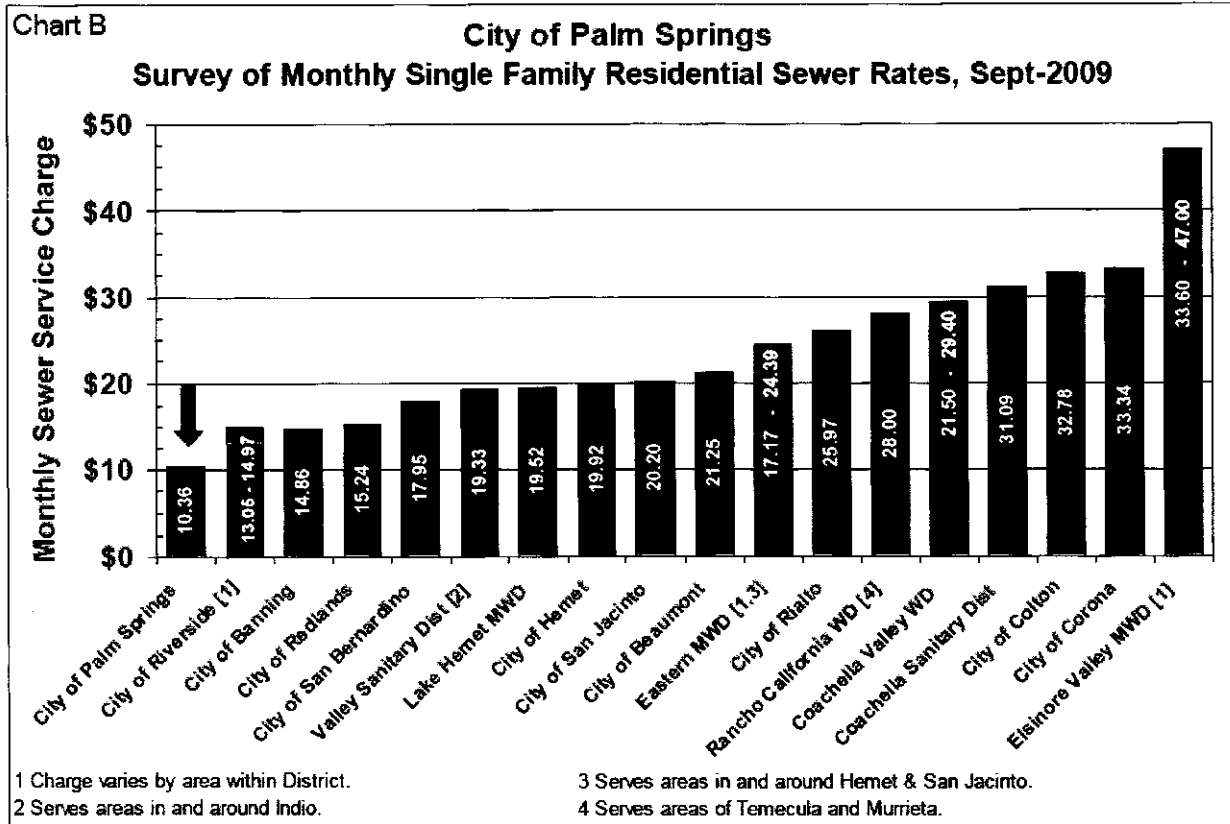
The City's current monthly sewer rate is \$10.36 per equivalent dwelling unit ("EDU") and has not changed since 1993. The following Table shows the City's existing sewer rate schedule:

TABLE 1 - SEWER SERVICE CHARGES		
<i>Rates Effective Since July 1, 1993</i>		
Customer Class	Monthly Charge	
Residential	\$10.36	Per unit
Commercial & Industrial	1.02	Per fixture unit
	10.36	Minimum charge
Hotel - Rooms Without Kitchens	10.36	Base charge +
	3.53	Per room
Hotel - Rooms With Kitchens	6.81	Per room
Mobile Home Parks	10.36	Per unit +
	1.02	Per fixture unit
Recreational Vehicle Parks	2.54	Per space +
	1.02	Per fixture unit
Septage Dumping Fee (for loads up to 1,000 gallons)		
Within City limits	35.00	Per load
Outside City limits	70.00	Per load
Properties Adjacent to City	Rates for customers outside of City limits are 150% of the standard established rates	
Sewer Permit Fee		
For discharging septage at the City's Wastewater Treatment Plant	1,000.00	Per application

The current statewide average monthly sewer rate is approximately \$40 per EDU, nearly 400% of the City's current sewer rate, which ranks among the lowest in the entire state. The following chart shows the City's sewer rates over the last 20 years with respect to the annual statewide average:



The following chart shows the City's current sewer rate in comparison to 2009 sewer rates charged by other agencies within the southern California region:



It should be noted that several agencies in the Coachella Valley, including Desert Water Agency, Coachella Valley Water District, and Mission Springs Water District have recently adopted increased sewer rates since 2009. The City's current sewer rate is insufficient to sustain future O&M expenses of the WWTP, escalating utility costs, and other Wastewater Fund expenses. For the 2010/2011 fiscal year, the Wastewater Fund had the following revenue and expenditures:

Total Revenue: \$6,200,771
 Total Expenditures: \$5,863,226
 Balance: \$337,545

The amount of Wastewater Fund revenue balance remaining at the end of the fiscal year has continued to decrease, limiting the Wastewater Fund's ability to finance additional increases in on-going O&M costs, or to effectively budget for future capital improvement projects. The following Table shows the revenue and expenditures for the Wastewater Fund for the previous four fiscal years:

HISTORICAL WASTEWATER REVENUES & EXPENSES				
	Fiscal Year 2007/08	Fiscal Year 2008/09	Fiscal Year 2009/10	Fiscal Year 2010/11
Revenues				
Charges for service	5,069,841	5,523,608	5,429,735	5,492,564
Sewer connection & main charges	937,268	483,204	499,092	532,645
Interest income & gains/losses	<u>789,375</u>	<u>460,231</u>	<u>207,749</u>	<u>175,562</u>
Total revenues	6,796,484	6,467,043	6,136,576	6,200,771
Expenses				
Contractual operating & other services	3,806,809	4,283,626	4,094,638	3,875,896
Utilities	181,565	209,047	213,087	171,823
Personnel services & administration	28,874	104,672	42,711	28,389
Capital Expenditures	<u>1,804,541</u>	<u>1,431,640</u>	<u>1,685,811</u>	<u>1,787,118</u>
Total expenses	5,821,789	6,028,985	6,036,247	5,863,226
Revenues less expenses	\$974,695	\$438,058	\$100,329	\$337,545

As of June 30, 2011, the net cash available (unrestricted funds) in the Wastewater Fund reserve was \$4,887,960. The Wastewater Fund reserve is not sufficient to cover any significant capital costs or major emergencies, and does not have sufficient reserves to fund the 20-year WWTP CIP. As seen by the annual revenue and expenditures from prior fiscal years, the sewer rate will need to be increased to ensure the Wastewater Fund is appropriately financed to continue funding on-going O&M expenditures, and to fund any of the recommended major capital projects outlined in the 20-year WWTP CIP.

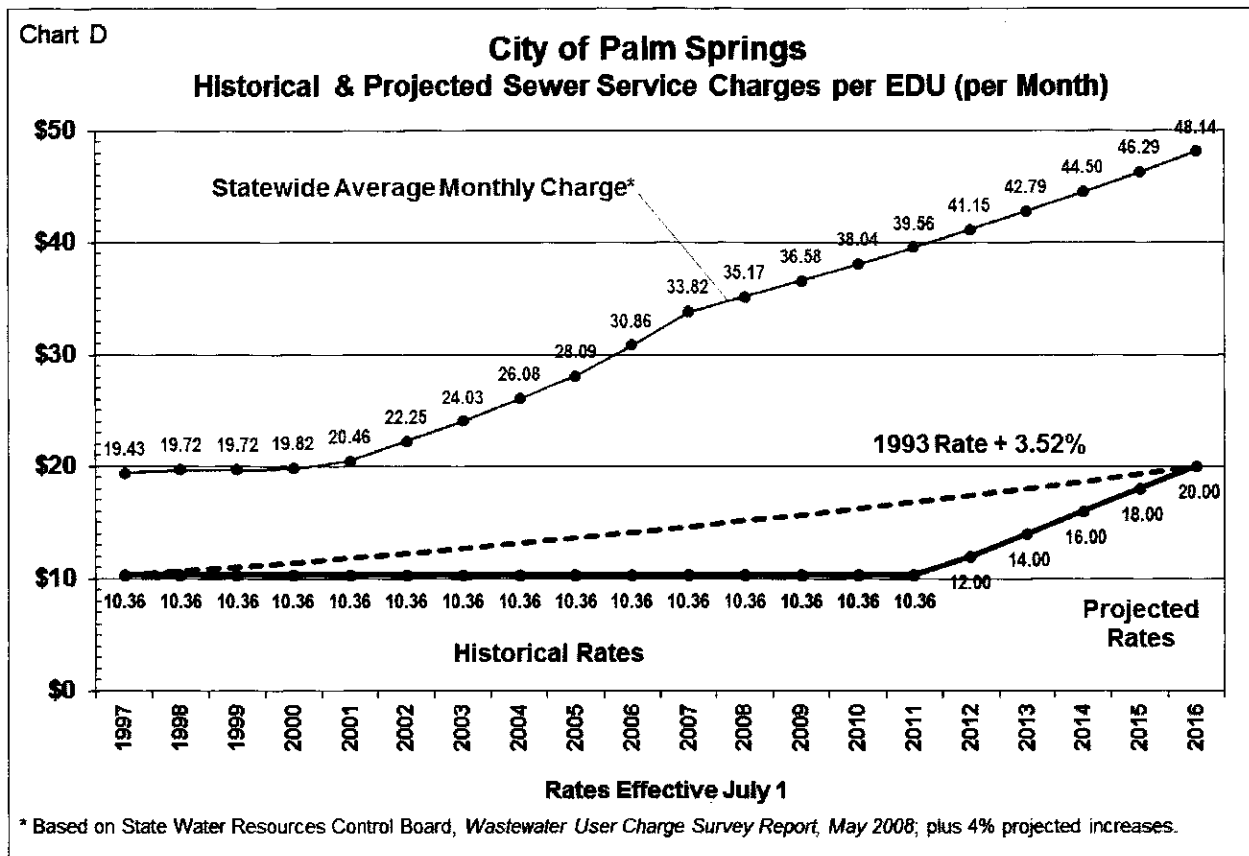
The Wastewater Financial Plan and Rate Study submitted to Council on April 21, 2010, has been updated and amended to reflect the revised project priority lists for the 20-year WWTP CIP. The 2010 Rate Study was also revised to lengthen the period of time for implementing the priority-phased projects from 5 years to overlapping periods of ten years. For example, implementing the Priority 1 project list would begin fiscal year 2012/13 and be completed by fiscal year 2021/22, whereas implementing the Priority 2 project list would begin fiscal year 2017/18 and be completed by fiscal year 2026/27. This allows the annual cost for capital expenditures to be reduced, but lengthens the 20-year CIP to a 25 year plan.

As the existing sewer rate of \$10.36 per EDU is significantly low, it will be necessary to implement slightly higher sewer rate increases over a shorter term to generate sufficient excess revenues to begin funding the Priority 1 projects, with more gradual increases over the long term to ensure sewer rates are sufficient to fund the entire 20-year CIP and can keep pace with inflation.

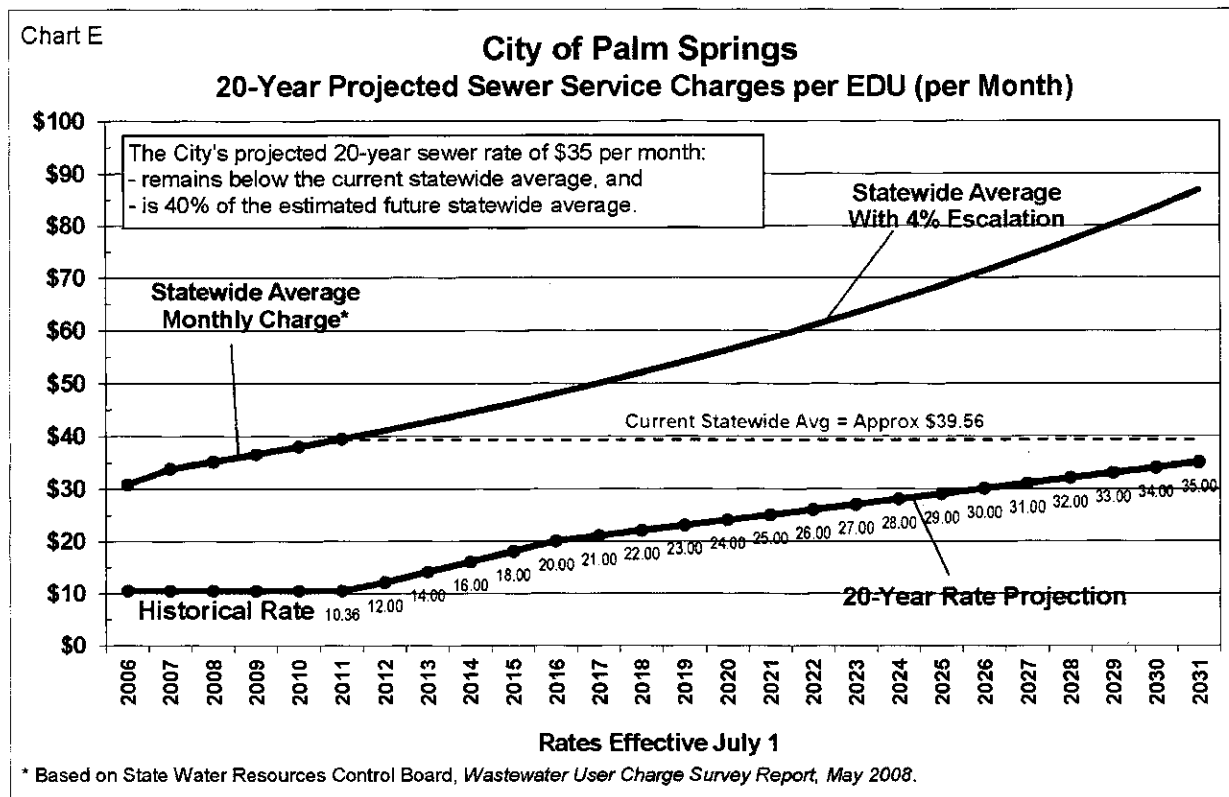
The 2010 Rate Study proposed a 3-year short term sewer rate increase from \$10.36 to \$20 per month, with annual increases of approximately \$1 to the monthly sewer rate extending 20 years as the 20-year CIP was implemented. Although the 2010 Rate

Study proposed a maximum monthly sewer rate of \$35 per EDU by 2028 (which is below the current statewide average monthly sewer rate of approximately \$40 per EDU), the initial 3-year short term sewer rate increases were considered too high by Council in 2010.

The attached draft 2012 Wastewater Financial Plan and Rate Study proposes a longer 5-year short term sewer rate increase from \$10.36 to \$20 per month, with annual increases of \$1 to the monthly sewer rate extending 20 years as the 20-year CIP is implemented. This will establish a maximum monthly sewer rate of \$35 per EDU by 2031, which is below the current statewide average monthly sewer rate of approximately \$40 per EDU – 40% of the future estimated statewide average monthly sewer rate of approximately \$90 per EDU. The proposed sewer rate increases would maintain the City's sewer rates at an amount significantly lower than sewer rates charged by other agencies, and would allow for funding of the 20-year WWTP CIP without the need to incur debt financing. The following chart shows the recommended initial 5-year phase in of the sewer rate increase in comparison to the annual statewide average:



The following chart shows the recommended long-term phase in of the monthly sewer rate increase to the suggested maximum of \$35 per EDU in comparison to the annual statewide average:



The Wastewater Fund currently carries no debt, and therefore, has no annual debt service payments. To determine how leveraging debt may reduce required sewer rate increases, the City's Financial Advisor, Suzanne Harrell, analyzed various funding alternatives. Focusing only on the \$20 Million cost of the Priority 1 list of projects, the two analyses considered "Pay As You Go" with no debt financing, or a \$13 Million bond issue (see Attachment 1).

The alternative analyses indicated that debt could be strategically used to result in a more gradual phase in of sewer rate increases in the short term. For example, sewer rates could be gradually increased to a level equal to \$20 per month over 6 years, as opposed to over 5 years without any debt financing. However, with debt financing higher sewer rate increases over the long term would be required to generate additional revenue for annual debt service payments until the debt was gradually paid off.

Given the results of the alternative analyses, it is not staff's recommendation that debt financing of the 20-year WWTP CIP be considered as it ultimately requires a higher sewer rate in the long term to cover annual debt service payments.

Staff requests Council direction on whether to structure the proposed sewer rate increase to fund either:

- A) The entire 20-Year WWTP CIP, with an unfunded cost of \$55 Million; or
- B) Limited to the Priority 1 Projects, with an unfunded cost of \$20 Million

The draft 2012 Rate Study represents Option “A”, in that it proposes a series of modest rate increases over a 20-year period sufficient to cover the entire \$55 Million unfunded cost of the WWTP CIP, plus future estimated costs for WWTP O&M. The suggested rate increases consist of an initial 5-year phase in of monthly sewer rate increases from \$10.36 to \$20 per EDU, with additional sewer rate increases of \$1 per EDU to a maximum of \$35 per EDU by 2031. The following chart specifically identifies the recommended sewer rate increases for the initial 5-year phase in period:

TABLE 10 - PROJECTED MONTHLY SEWER SERVICE CHARGES

Customer Class	Billing Unit	Effective Date July 1					
		Current	2012	2013	2014	2015	2016
Residential	Per unit	\$10.36	\$12.00	\$14.00	\$16.00	\$18.00	\$20.00
Commercial & Industrial	Per fixture unit	1.02	1.18	1.38	1.58	1.78	1.98
	Minimum charge	10.36	12.00	14.00	16.00	18.00	20.00
Hotel - Rooms Without Kitchens	Base charge +	10.36	12.00	14.00	16.00	18.00	20.00
	Per room	3.53	4.09	4.77	5.45	6.13	6.81
Hotel - Rooms With Kitchens	Per room	6.81	7.89	9.21	10.53	11.85	13.17
Mobile Home Parks	Per unit +	10.36	12.00	14.00	16.00	18.00	20.00
	Per fixture unit	1.02	1.18	1.38	1.58	1.78	1.98
Recreational Vehicle Parks	Per space +	2.54	2.94	3.43	3.92	4.41	4.90
	Per fixture unit	1.02	1.18	1.38	1.58	1.78	1.98
Septage Dumping Fee							
<i>For loads up to 1,000 gallons</i>							
Within City limits	Per load	35.00	40.54	47.30	54.06	60.82	67.58
Outside City limits	Per load	70.00	81.08	94.59	108.10	121.61	135.12
Properties Adjacent to City							
<i>Rates for customers outside of City limits are 150% of the standard established rates</i>							

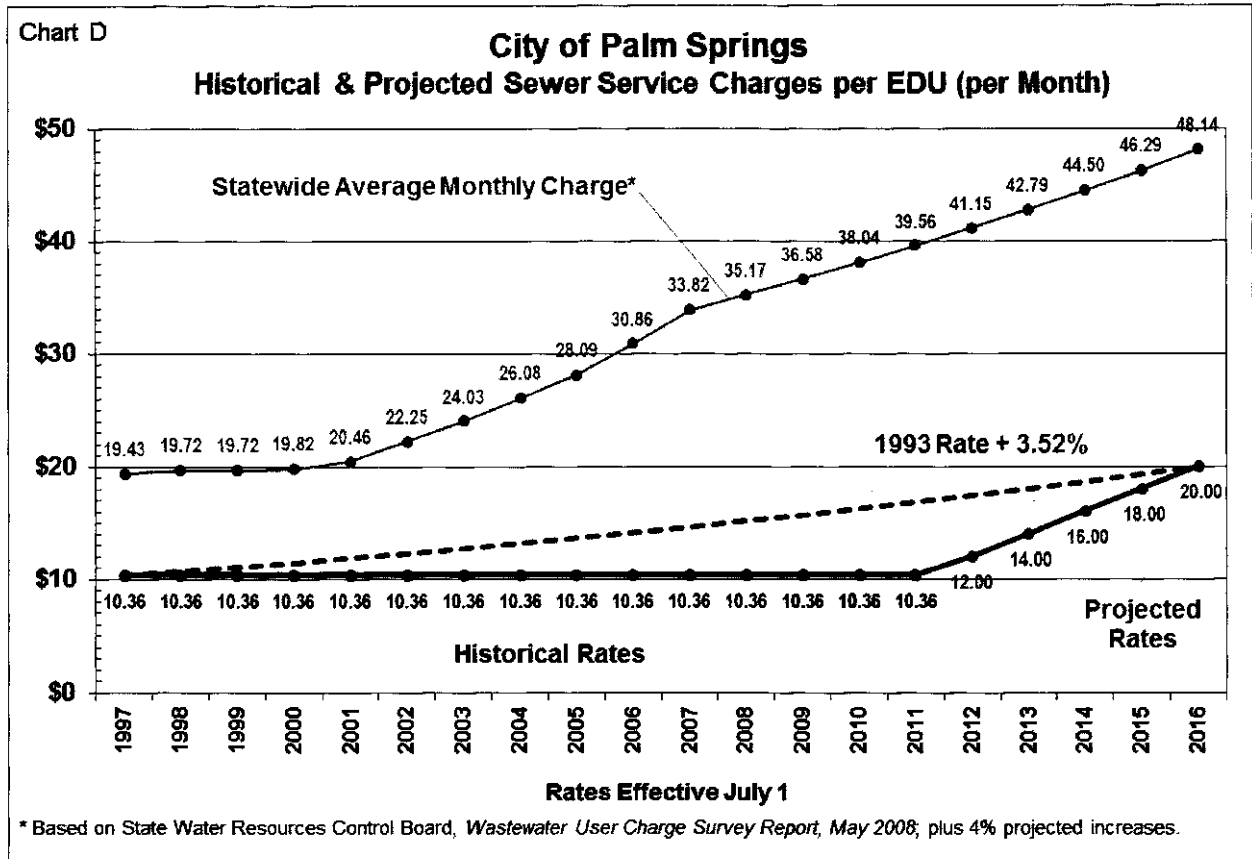
Subsequent small increases are recommended annually to the sewer rates, to the maximum monthly sewer rate of \$35 per EDU by 2031, as shown in the following Table:

TABLE 11 - LONG-TERM PROJECTION OF MONTHLY SEWER SERVICE CHARGES

Customer Class	Billing Unit	Monthly Rates Effective July 1									
		2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Residential	Per unit	\$ 12.00	\$ 14.00	\$ 16.00	\$ 18.00	\$ 20.00	\$ 21.00	\$ 22.00	\$ 23.00	\$ 24.00	\$ 25.00
Commercial & Industrial	Per fixture unit	1.18	1.38	1.58	1.78	1.98	2.08	2.18	2.28	2.38	2.48
	Minimum charge	12.00	14.00	16.00	18.00	20.00	21.00	22.00	23.00	24.00	25.00
Hotel - Rooms Without Kitchens	Base charge +	12.00	14.00	16.00	18.00	20.00	21.00	22.00	23.00	24.00	25.00
	Per room	4.09	4.77	5.45	6.13	6.81	7.15	7.49	7.83	8.17	8.51
Hotel - Rooms With Kitchens	Per room	7.89	9.21	10.53	11.85	13.17	13.83	14.49	15.15	15.81	16.47
	Per unit +	12.00	14.00	16.00	18.00	20.00	21.00	22.00	23.00	24.00	25.00
Mobile Home Parks	Per fixture unit	1.18	1.38	1.58	1.78	1.98	2.08	2.18	2.28	2.38	2.48
	Per space +	2.94	3.43	3.92	4.41	4.90	5.15	5.40	5.65	5.90	6.15
Recreational Vehicle Parks	Per fixture unit	1.18	1.38	1.58	1.78	1.98	2.08	2.18	2.28	2.38	2.48
	Septage Dumping Fee For loads up to 1,000 gallons Within City limits	40.54	47.30	54.06	60.82	67.58	70.96	74.34	77.72	81.10	84.48
Properties Adjacent to City Rates for customers outside of City limits are 150% of the standard established rates	Outside City limits	140.00	94.60	108.12	121.64	135.16	141.92	148.68	155.44	162.20	168.96
	Sewer Permit Fee For discharging septage at the City's Wastewater Treatment Plant	1,158.30	1,351.35	1,544.40	1,737.45	1,930.50	2,027.03	2,123.56	2,220.09	2,316.62	2,413.15

Customer Class	Billing Unit	Monthly Rates Effective July 1									
		2022	2023	2024	2025	2026	2027	2028	2029	2030	2031
Residential	Per unit	\$ 26.00	\$ 27.00	\$ 28.00	\$ 29.00	\$ 30.00	\$ 31.00	\$ 32.00	\$ 33.00	\$ 34.00	\$ 35.00
Commercial & Industrial	Per fixture unit	2.58	2.68	2.78	2.88	2.98	3.08	3.18	3.28	3.38	3.48
	Minimum charge	26.00	27.00	28.00	29.00	30.00	31.00	32.00	33.00	34.00	35.00
Hotel - Rooms Without Kitchens	Base charge +	26.00	27.00	28.00	29.00	30.00	31.00	32.00	33.00	34.00	35.00
	Per room	8.85	9.19	9.53	9.87	10.21	10.55	10.89	11.23	11.57	11.91
Hotel - Rooms With Kitchens	Per room	17.13	17.79	18.45	19.11	19.77	20.43	21.09	21.75	22.41	23.07
	Per unit +	26.00	27.00	28.00	29.00	30.00	31.00	32.00	33.00	34.00	35.00
Mobile Home Parks	Per fixture unit	2.58	2.68	2.78	2.88	2.98	3.08	3.18	3.28	3.38	3.48
	Per space +	6.40	6.65	6.90	7.15	7.40	7.65	7.90	8.15	8.40	8.65
Recreational Vehicle Parks	Per fixture unit	2.58	2.68	2.78	2.88	2.98	3.08	3.18	3.28	3.38	3.48
	Septage Dumping Fee For loads up to 1,000 gallons Within City limits	87.86	91.24	94.62	98.00	101.38	104.76	108.14	111.52	114.90	118.28
Properties Adjacent to City Rates for customers outside of City limits are 150% of the standard established rates	Outside City limits	175.72	182.48	189.24	196.00	202.76	209.52	216.28	223.04	229.80	236.56

Alternatively, if Council elects Option "B", and desires staff to focus on the Priority 1 Projects only to be completed within a 10 year period, the suggested rate increase would be limited to the initial 5-year phase in of monthly sewer rate increases from \$10.36 to \$20 per EDU, as shown in the following graph:



However, by freezing the sewer rate at a maximum of \$20 per EDU in 2016 will require Council to consider future sewer rate increases after 2016 to ensure the Wastewater Fund has sufficient revenue for future O&M expenses, and to fund the remaining projects from the 20-Year WWTP CIP. Without any future sewer rate increases, the draft 2012 Rate Study shows the Sewer Fund with a \$0 Fund Balance by 2030.

If Council's direction is to proceed with the draft 2012 Rate Study consistent with Option "B" (limited to funding only the Priority 1 Projects), staff will revise the draft 2012 Rate Study as appropriate for use in the Proposition 218 majority protest process.

Proposition 218

Proposition 218, the "Right to Vote on Taxes Act", was approved by California voters in November 1996 and is codified as Articles XIIC and XIID of the California Constitution. Proposition 218 establishes requirements for imposing or increasing property related

taxes, assessments, fees and charges. For many years, there was no legal consensus on whether water and sewer rates met the definition of "property related fees". In July 2007, the California Supreme Court essentially confirmed that Proposition 218 applies to water rates. The prevailing legal consensus is that Proposition 218 also applies to sewer rates.

Proposition 218 establishes certain procedural requirements for adopting rate increases. These requirements include:

- **Noticing Requirement:** The City must mail a notice of proposed rate increases to all affected property owners. The notice must specify the basis of the fee, the reason for the fee, and the date/time/location of a public rate hearing at which the proposed rates will be considered for adoption.
- **Public Hearing:** The City must hold a public hearing prior to adopting the proposed rate increases. The public hearing must be held not less than 45 days after the required notices are mailed.
- **Rate Increases Subject to Majority Protest:** At the public hearing, the proposed rate increases are subject to majority protest. If more than 50% of affected property owners submit written protests against the proposed rate increases, the increases cannot be adopted by the City Council.

Proposition 218 also established a number of substantive requirements that are generally deemed to apply to utility service charges, including:

- **Cost of Service -** Revenues derived from the fee or charge cannot exceed the funds required to provide the service. In essence, fees cannot exceed the "cost of service".
- **Intended Purpose -** Revenues derived from the fee or charge can only be used for the purpose for which the fee was imposed.
- **Proportional Cost Recovery -** The amount of the fee or charge levied on any customer shall not exceed the proportional cost of service attributable to that customer.
- **No fee or charge may be imposed for a service unless that service is used by, or immediately available to, the owner of the property.** Standby charges shall be classified as "assessments" which are governed by Section 4 of Article 13D of the California Constitution.

Proposition 218 requires that the City ensure that its sewer rates reasonably reflect the cost of providing service to each customer. Consistent with this law, it is appropriate for sewer rates to recover costs for operations, capital needs, debt service, administration,

as well as costs related to the prudent long-term operational or financial management of the wastewater enterprise, such as maintaining adequate fund reserves and planning for contingencies.

The attached draft 2012 Wastewater Financial Plan and Rate Study has analyzed the current Wastewater Fund revenue and expenditures and has conservatively estimated future revenue, O&M expenditures, and the capital expenditures recommended in the 20-year WWTP CIP (consistent with Option "A"). The draft 2012 Rate Study recommends the City establish a minimum Wastewater Fund reserve target equal to 50% of annual O&M expenditures plus a \$2,000,000 emergency capital reserve. Wastewater Fund cash flow projections for the 20-year period are included, and the projections show that by the 2031/2032 fiscal year, with the recommended sewer rate increases, the Wastewater Fund is projected to have revenues and expenditures nearly balanced (a deficit of \$178,000 on a \$20,000,000 annual budget). The cash flow projections included in the attached draft 2012 Rate Study has appropriately demonstrated the required sewer rates necessary to adequately recover costs, in accordance with the provisions of Proposition 218.

The attached draft 2012 Rate Study considers funding the entire 20-Year WWTP CIP, and is very similar to the 2010 Rate Study previously adopted by Council and used in the Proposition 218 majority protest process completed in 2010 which resulted in limited protests, and would have allowed Council to legally adopt sewer rate increases at that time.

Staff requests Council direction on whether to structure the proposed sewer rate increase to fund either:

- A) The entire 20-Year WWTP CIP, with an unfunded cost of \$55 Million; or
- B) Limited to the Priority 1 Projects, with an unfunded cost of \$20 Million

Alternate – Tiered Sewer Rates

At the conclusion of the prior Proposition 218 majority protest hearing, staff had considered an option of implementing tiered sewer rates. Some agencies have a tiered rate structure that charges a discounted rate to multi-family apartment units, given the fact that apartments have vacancy rates higher than other residential units (single family residential or condominium units). Of the agencies that have a tiered rate structure (perhaps 25% of the agencies throughout California), the common discount is 25% from the single family residential rate.

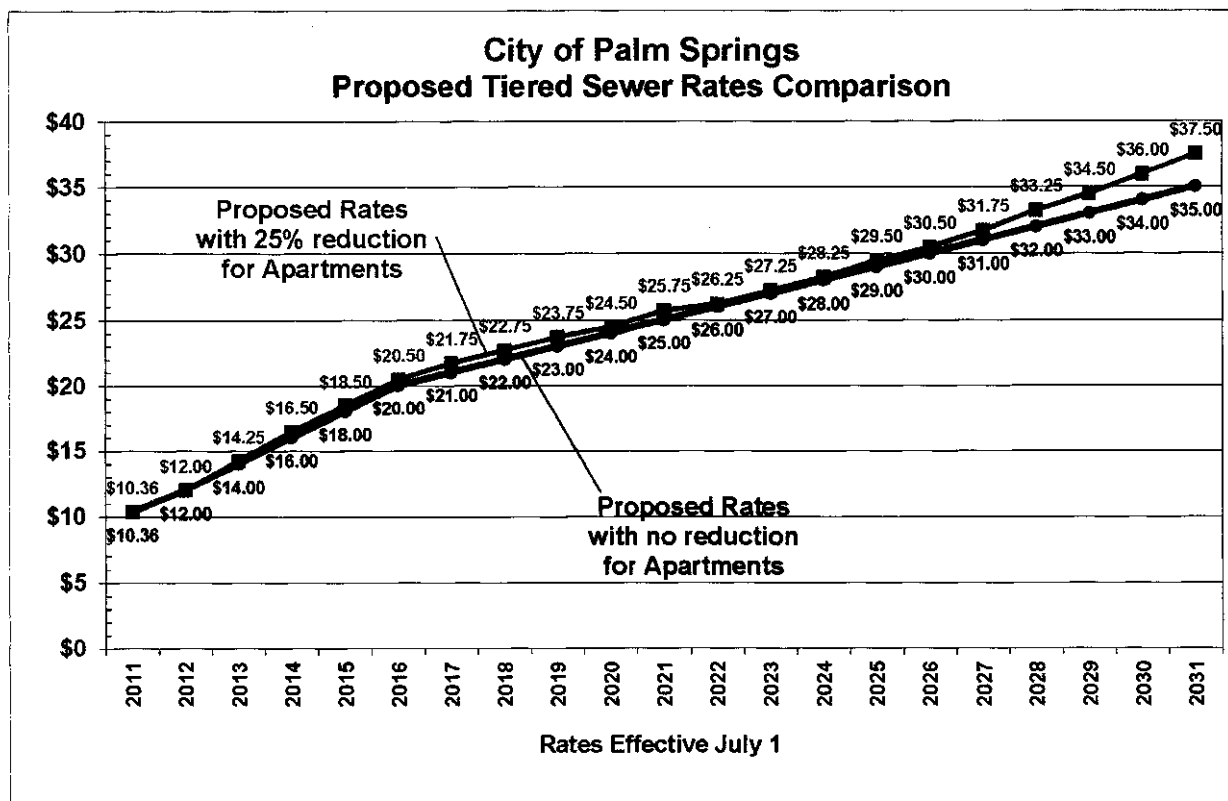
Staff has initiated discussions with the apartment owners association. In a meeting held February 6, 2012, staff presented the proposed sewer rate increase (pursuant to Option A). The association suggested a tiered sewer rate structure may help the association support the City's efforts to bring its sewer rates aligned with rates comparable to other agencies in order to fund its critical capital projects. A suggestion considered by staff is to bring all rates in the first year to the \$12 monthly rate, and thereafter, increase the rate for

multi-family apartment units by 75% of the increase for other residential units. For example, the proposed rate increase in the second year is \$2 (from a monthly rate of \$12 to \$14). Under the tiered rate proposal, the sewer rate increase for apartment units would be 75% of \$2, or \$1.50, bringing the monthly sewer rate for apartments to \$13.50 in lieu of the full monthly rate of \$14.

Staff has analyzed the impact of a special rate structure for apartment units on the overall Wastewater Fund. Initially the reduced rate for apartment units has a minimal impact on the Wastewater Fund (1.1% of total fees collected). At the end of the 20-year period, however, the reduced rate for apartment units has more of an impact on the Wastewater Fund (4.55% of total fees collected).

Given the net reduction in fees collected due to a special rate structure for apartment units, the Equivalent Dwelling Unit (“EDU”) rate would need to be slightly higher than proposed without a special rate structure. The following Table and Graph compare the rates with and without a tiered rate structure:

<u>Year</u>	<u>Rate without Tiering</u>	<u>SFR Rate with Tiering</u>	<u>Apartment Rate with Tiering</u>
2012	\$12.00	\$12.00	\$12.00
2013	\$14.00	\$14.25	\$13.69
2014	\$16.00	\$16.50	\$15.38
2015	\$18.00	\$18.50	\$16.88
2016	\$20.00	\$20.50	\$18.38
2017	\$21.00	\$21.75	\$19.31
2018	\$22.00	\$22.75	\$20.06
2019	\$23.00	\$23.75	\$20.81
2020	\$24.00	\$24.50	\$21.38
2021	\$25.00	\$25.75	\$22.31
2022	\$26.00	\$26.25	\$22.69
2023	\$27.00	\$27.25	\$23.44
2024	\$28.00	\$28.25	\$24.19
2025	\$29.00	\$29.50	\$25.13
2026	\$30.00	\$30.50	\$25.88
2027	\$31.00	\$31.75	\$26.81
2028	\$32.00	\$33.25	\$27.94
2029	\$33.00	\$34.50	\$28.88
2030	\$34.00	\$36.00	\$30.00
2031	\$35.00	\$37.50	\$31.13



Pursuant to direction received from Council regarding Option A or B (with or without a tiered rate structure), the draft 2012 Rate Study will be revised, and staff recommends Council authorize staff to proceed with the Proposition 218 majority protest process, to allow sewer rate increases to occur with the first year of the phased sewer rate increases starting July 1, 2012. It is necessary for Council to schedule a Public Hearing to consider and adopt sewer rate increases following a 45-day advance public notice mailed to all property owners. It is recommended that Council schedule a Public Hearing for April 18, 2012. A draft of the Proposition 218 majority protest public notice to be mailed to all property owners (consistent with Option "A" without a tiered rate structure) is attached to this staff report.

FISCAL IMPACT:

The Wastewater Fund does not have sufficient reserves to fund the significant capital improvements at the WWTP that are recommended over the next 20 years. On-going O&M expenditures will soon exceed annual revenue, requiring the General Fund (i.e. **"Measure J" funds**) to subsidize the Wastewater Fund in the absence of any increase to sewer rates.

If Council direction is to proceed with Option "A" (fund the entire 20-Year WWTP CIP), the attached draft 2012 Rate Study proposes a 5-year short term sewer rate increase from \$10.36 to \$20 per month, with annual increases of \$1 to the monthly sewer rate

extending 20 years as the 20-year CIP is implemented. This will establish a maximum monthly sewer rate of \$35 per EDU by 2031, which is below the current statewide average monthly sewer rate of approximately \$40 per EDU – and only 40% of the future estimated statewide average monthly sewer rate of approximately \$90 per EDU. These structured rate increases will ensure the City's Wastewater Fund remains solvent for the long-term.

If Council direction is to include a tiered rate structure for apartment units, the attached draft 2012 Rate Study will be revised to show the slightly higher rates necessary to ensure adequate funding for the Wastewater Fund as a result of a reduction in fees for apartment units.

If Council direction is to proceed with Option "B" (fund only the Priority 1 Projects), the attached draft 2012 Rate Study will be revised to show a limited series of sewer rate increases over 5 years from \$10.36 to \$20 per month. This will establish a maximum monthly sewer rate of \$20 per EDU by 2016, which is 50% of the current statewide average monthly sewer rate of approximately \$40 per EDU. However, the limited sewer rate increases only ensures the City's Wastewater Fund remains solvent for the short-term, and Council will be required to consider additional future sewer rate increases to appropriately fund future O&M costs, as well as funding for remaining critical WWTP projects.

Council should note that there is no difference in required sewer rates between Option "A" and "B" with regard to the required sewer rate of \$20 per EDU by 2016 (assuming no tiered rate structure). This is due to the fact that in either case, the Priority 1 Projects are to be funded, and the same series of rate increases are required. The difference between Option "A" and "B" (assuming no tiered rate structure) is whether or not to extend sewer rate increases another 15 years, by increasing the sewer rate \$1 annually to a maximum of \$35 per EDU in 2031.

SUBMITTED:

Prepared by:



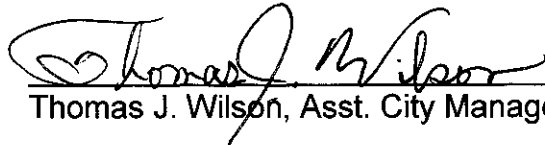

Marcus L. Fuller
Assistant Director of Public Works

Recommended by:



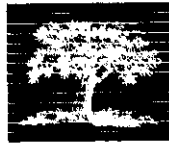
David J. Barakian
Director of Public Works/City Engineer

Approved by:


Thomas J. Wilson, Asst. City Manager
David H. Ready, City Manager

Attachments:

1. Memorandum from Harrell & Company
2. Draft 2012 Wastewater Financial Plan and Rate Study (Option "A")
2. Proposition 218 Public Notice



HARRELL & COMPANY
ADVISORS, LLC

January 25, 2012

To: Marcus Fuller

From: Suzanne Harrell

Re: Sewer CIP Funding

I have reviewed the comparison of rates required to fund the Priority 1 CIP for the Sewer System over a 10 year period either from rates only, or with 10-year bond financing.

Ultimately, at the end of the 10 year period, rates that include the financing option will be slightly higher per month by year 10 (2021/22) and produce a somewhat similar reserve balance, but would require a much larger increase in the earlier years (beginning 2013/14) to accommodate the requirements of bonding. So overall cost to ratepayers considering just Priority 1 paid over 10 years is higher with the bonding option. The bonding option would allow the projects to be completed sooner rather than later. With the rate-funded-only option, the City would need to build up enough funds to complete some of the larger projects on the list, and that will take time.

The same analysis holds true if the bond financing is extended to 20 years instead of 10 years. The ultimate rate required in year 20 would be slightly higher if bonds are issued to fund the projects compared to rates needed to fund the Priority 1 projects on a pay-as-you-go basis.

Either funding scenario would require rate increases in years 11-20 to deal with inflation of operating costs.



City of Palm Springs



Wastewater Financial Plan and Rate Study

February 15, 2012

TABLE OF CONTENTS

Executive Summary	ES-1
1 Wastewater Rate Study	1-1
1.1 Background & Objectives	1-1
1.2 Wastewater System.....	1-2
1.3 Current Wastewater Rates	1-2
1.4 Billing.....	1-3
1.5 Historical Sewer Rates	1-4
1.6 Regional Sewer Rate Survey	1-4
1.7 Wastewater Customers	1-5
1.8 Historical Wastewater Enterprise Finances	1-6
1.9 Fund Reserves	1-7
1.10 Minimum Fund Reserve Target	1-8
1.11 Capital Improvement Plan	1-8
1.12 Cost Reimbursement for Wastewater Support Services.....	1-13
1.13 Cash Flow & Rate Projections.....	1-13
1.14 Debt Financing	1-20
1.15 Proposition 218	1-22
1.16 AB3030.....	1-23
1.17 Multi-Year Rate Increase.....	1-23

Appendix A – Alternative Analyses with Debt Financing

LIST OF TABLES & CHARTS

Tables

Table 1 – Sewer Service Charges

Table 2 – Estimated Sewer EDUs Based on Revenues

Table 3 – Historical Wastewater Revenues & Expenses

Table 4 – Fund Reserves as of June 30, 2011

Table 5 – WWTP Capital Repair & Replacement Costs (Current \$)

Table 6 – Wastewater System 20-Year CIP (Current \$)

Table 7 – Wastewater System 20-Year CIP (Future \$)

Table 8 – Cash Flow Assumptions

Table 9 – Sewer Enterprise Cash Flow Projections

Table 10 – Projected Monthly Sewer Service Charges

Table 11 – Long-Term Projection of Monthly Sewer Service Charges

Charts

Chart A – Historical Sewer Service Charges Per EDU (per Month)

Chart B – Survey of Monthly Single Family Residential Sewer Rates

Chart C – Projected Wastewater 20-Year CIP (Current \$)

Chart D – Historical & Projected Sewer Service Charges Per EDU (per Month)

Chart E – 20-Year Projected Sewer Service Charges Per EDU (per Month)

Appendix – Alternative Analyses with Debt Financing

EXECUTIVE SUMMARY

Background & Objectives

The City of Palm Springs is a full-service City located approximately 110 miles east of Los Angeles in Riverside County, California. The City has a population of 44,552 according to the 2010 census, and experienced 4% growth over the last decade.

The City provides wastewater service to residential and commercial properties within the City and adjacent areas. The City's wastewater utility is a self-supporting enterprise that is funded primarily by revenues derived from sewer service charges. The City's sewer rates have not been increased since 1993 and are among the lowest in the state. The City's current residential sewer rate of \$124.32 per year (\$10.36 per month) is one-fourth of the California statewide average sewer rate of approximately \$40 per month.

In 2010 the City adopted an engineering evaluation report of the City's aging wastewater treatment plant prepared by Carollo Engineers. The report, or Capital Repair and Rehabilitation Plan, commonly referred to as a Capital Improvement Plan ("CIP") for the City's wastewater treatment plant ("WWTP") identified \$67 million (current \$) of capital repair and replacement projects needed over the next 20 years, including over \$45 million (current \$) of high-priority projects needed within the next 10 years. In order to proactively address these substantial capital needs, in 2010, the City retained Bartle Wells Associates to develop a long-term financial plan and rate recommendations supporting the City's sewer enterprise operating and capital programs. Although the Bartle Wells Associates financial plan and rate recommendations were approved by the City in 2010, following a Proposition 218 Majority Protest Hearing concluded on July 7, 2010, at which a majority protest did not occur, the City tabled adoption of increased sewer rates for consideration at a later date.

The City has updated and amended the Bartle Wells Associates previous financial plan and rate study to account for more recent financial data, and to reflect the City's completion of several of the highest priority wastewater capital improvement projects over the last several years. As the City has continued to draw down the wastewater fund reserves to pay for the high priority projects recently completed, it is the intent of this updated financial plan and rate study to identify recommendations for increased sewer rates that will accommodate on-going Operation and Maintenance ("O&M") costs, and to generate sufficient funding to complete the remaining projects identified in the 20-Year WWTP CIP.

Basic objectives of this updated and amended study include:

- Conduct a current review of the City's sewer rates and finances
- Consider debt financing alternatives for capital improvement needs;
- Develop long-range cash flow projections identifying the long-term operating and capital revenue requirements of the wastewater system;
- Recommend sewer rate increases needed to recover the cost of providing service and to maintain the sewer enterprise's long-term financial health;
- Phase in necessary rate adjustments over time, to minimize the annual impact on rate payers;
- Facilitate the Proposition 218 rate-increase process and rate implementation.

Summary of Findings & Recommendations

In the past, the wastewater enterprise accumulated sufficient fund reserves while maintaining low sewer rates, partially due to a high level of sewer connection fee revenue collected in the prior decade during high levels of economic development and construction within Palm Springs, coupled with a comparatively lower level of capital expenditures. However, the wastewater enterprise faces a number of financial challenges that now requires sewer rate increases, which includes:

Capital Needs

As noted above, the previously adopted 20-Year WWTP CIP evaluated the City's aging wastewater treatment plant and identified \$67 million (current \$) of capital repair and replacement projects needed over the next 20 years. These projects include over \$45 million (current \$) of high-priority improvements needed over the next 10 years. Using wastewater fund reserves, the City has already completed about \$12 million of these projects leaving approximately \$55 million of remaining capital needs. Accounting for 3% annual construction cost inflation and including a minimal amount for collection system improvements, the City will incur significant annual capital expenditures over the next two decades to complete the 20-Year WWTP CIP. At the end of the 2010/2011 fiscal year, wastewater enterprise revenues generated a minimal surplus of \$337,545. The current sewer rates are insufficient to generate revenues in amounts to cover the significant annual funding required to complete the 20-Year WWTP CIP.

Operating Cost-Inflation

The City's wastewater operating and maintenance costs have increased over the years. In particular costs for contractual operations with Veolia, which represent almost 75% of total operating and maintenance costs, have increased significantly in recent years. The City has also experienced increased costs for utilities, vehicle maintenance,

insurance, and other expenses. The City also faces potential new operating requirements related to new or upgraded equipment and facilities that will be constructed as part of the 20-Year WWTP CIP.

Although not contemplated by the 20-Year WWTP CIP, the City's wastewater treatment plant operates under a Waste Discharge Requirements ("WDR") Permit issued by the Regional Water Quality Control Board. The last WDR issued by the state for the City's wastewater treatment plant was in 1993, as Board Order No. 93-076. The City continues to operate its wastewater treatment plant consistent with the WDR, however, the state may issue a new WDR to the City at any time, which could require implementation of various new measures to address concentrations of various constituents in the wastewater effluent such as sulfate and chloride. The City's existing wastewater treatment plant does not have an ability to treat sulfate or chloride, and the potential exists in the future for the state to issue a new WDR to the City that would require investment of significant capital to implement new treatment processes. Increased sewer rates are necessary to generate sufficient fund reserves to eliminate the City's exposure to new requirements imposed by the state in the City's operation of its wastewater treatment plant.

Reimbursement for City-Provided Wastewater Support Services

The City provides a range of services required for the operation and administration of the wastewater system. These services include financial management, engineering, administration, legal, billing, customer service, planning and inspection, and other support functions. The City has not been fully recovering these operating costs from the wastewater enterprise due to historical interpretation of Section 205(c) of the City's Charter which states: *The City may not collect for its own general fund in-lieu taxes, fees or charges from the Department of Transportation, Wastewater Division for administration or any other purposes.*

This provision of the City's charter was enacted to prevent the City from using the wastewater enterprise as a means to subsidize other non-wastewater related General Fund operations, as some California cities had historically done, particularly via in-lieu fees, prior to the passage of Proposition 218 in November 1996. Consistent with this provision of the City's charter and state law, the City's General Fund is entitled to reimbursement for all costs incurred in support of the wastewater enterprise and transfers between the Wastewater Fund and General Fund are direct reimbursements, and do not represent an in-lieu tax, fee, or charge.

Financial & Rate Projections

Long-term cash flow projections were developed to evaluate the wastewater enterprise's financial position over the next 20 years and to identify sewer rate increases required to support the enterprise's long-term operating and capital needs. The financial projections are based on the City's adopted Wastewater Fund 2011/12 Budget and certain assumptions identified in this report. Because the City's 20-Year WWTP CIP extends capital costs over a period of more than 20 years, the base case projections consider that the City will fund all wastewater capital projects on a "Pay-As-You-Go" basis.

On November 8, 2011, the residents of Palm Springs approved "Measure J", a local initiative to enact a 1% transaction, sales and use tax for a period of 25 years. The additional tax revenue to be generated by Measure J has been identified for certain capital improvements City-wide, including downtown development, street maintenance, library, parks and other improvements. Although the additional tax revenue to be generated by Measure J could be used to fund some or all of the 20-Year WWTP CIP, this report assumes the City will not supplement the wastewater fund revenue with Measure J tax revenue, and the financial plan and rate study does not reflect any additional revenues outside of the wastewater fund itself.

The previous financial plan and rate study approved by the City in 2010 contemplated implementation of the various projects identified in the 20-Year WWTP CIP in certain 5-year periods, with Priority 1 projects being completed in the first 5 years of the CIP, Priority 2 projects being completed in the second 5 years of the CIP, Priority 3 projects being completed in the third 5 years of the CIP, and Priority 4 projects being completed in the fourth 5 years of the CIP. Completion of the significant amount of high priority projects in 5-year increments was aggressive, and resulted in significant annual capital costs being spread over a shorter time frame.

This report has revised the prior analysis to consider a longer time frame of 10 years to complete the various prioritized list of projects, as a means of reducing the annualized cost of the capital projects, thereby reducing the required sewer rate increases necessary to fund the 20-Year WWTP CIP. This report assumes implementation of the 20-Year WWTP CIP as follows:

Priority 1 Projects: 2012 to 2021
Priority 2 Projects: 2017 to 2026
Priority 3 Projects: 2022 to 2031
Priority 4 Projects: 2027 to 2036

This assumption extends the 20-Year CIP by 5 additional years.

The previous financial plan and rate study approved by the City in 2010 also contemplated a 3-year short term sewer service charge increase from \$10.36 to \$20 per month, with annual increases of approximately \$1 to the monthly rate extending 20 years as the 20-year CIP was implemented. Although the prior study proposed a maximum monthly rate of \$35 per equivalent dwelling unit (or “EDU”) by 2028 (which is below the current statewide average monthly rate of approximately \$40 per EDU), the initial rate increases were considered too severe. For example, the first year’s rate increase was proposed from \$10.36 to \$14 per month, representing a \$3.64 monthly increase (\$43.68 annually), but was equivalent to a 35% increase.

This report has revised the prior analysis and considers a 5-year short term sewer service charge increase from \$10.36 to \$20 per month, to further minimize the annual impact on ratepayers. With the proposed sewer rate increases, the City’s sewer rates will continue to be significantly lower than all other wastewater service providers in the area. The short term sewer rate increases are shown below:

5-YEAR RESIDENTIAL SEWER RATE PROJECTION					
Current Rate	Projected Rates Effective July 1				
Per EDU	2012	2013	2014	2015	2016
\$10.36	\$12.00	\$14.00	\$16.00	\$18.00	\$20.00

The cash flow projections also identify the need for small annual rate increases every year thereafter to a) keep revenues in line with cost inflation, and b) provide adequate funding for wastewater system capital needs over the next 20 years. Based on the financial projections, after the initial phase-in of sewer rate increases over the next five years, the City’s monthly residential sewer rate would gradually increase by \$1 to the monthly rate extending 20 years as the 20-year CIP is implemented. This will establish a maximum monthly rate of \$35 per EDU by 2031, which is below the current statewide average monthly rate of approximately \$40 per EDU – 40% of the future estimated statewide average monthly rate of approximately \$90 per EDU. The proposed rate increases would maintain the City’s wastewater rates at an amount significantly lower than rates charged by other agencies, and would allow for funding of the 20-year WWTP CIP without the need to incur debt financing.

Debt Financing

The wastewater enterprise currently carries no debt, and therefore, has no annual debt service payments. To determine how leveraging debt may reduce required sewer rate increases, the City’s Financial Advisor, Suzanne Harrell, analyzed various funding alternatives. Focusing only on the \$20 Million cost of the Priority 1 list of projects, the

four analyses considered “Pay As You Go” with no debt financing, a \$20 Million state revolving fund (“SRF”) loan, a \$20 Million bond issue, and partial debt financing with a \$10 Million bond issue. The length of the required short term phased rate increase and the required rate at the end of the short term phase-in for each of the alternatives is shown in the following Table:

<u>Alternative</u>	<u>Years of Initial Phased Rate Increase</u>	<u>Rate</u>
“Pay As You Go”	6	\$26.96
\$20 Million SRF Loan	8	\$19.59
\$20 Million Bond	8	\$20.30
\$10 Million Bond	7	\$24.56

The alternative analysis indicates that debt could be strategically used to result in a more gradual phase in of rate increases in the short term. For example, wastewater rates could be gradually increased to a level equal to \$20 per month over 8 years, as opposed to over 5 years without any debt financing. However, with debt financing higher rate increases would be required, particularly after completion of the 20-Year WWTP CIP when the wastewater fund would need to generate additional revenue for annual debt service payments until the debt was gradually paid off.

If the City opts to pursue debt financing to help fund a portion of its capital program, it is recommended the City maximize the use of state-subsidized funding programs such as the Clean Water State Revolving Fund Loans (SRF Loans). The SRF Loan program currently offers 20-year loans with interest rates in the 2.5% range. Under the program, the first debt service payment is not due until one year after the loan-funded project is complete. If conventional financing is ever used, the City should evaluate the cost-effectiveness of using bonds, Certificates of Participation, or bank loans to determine the lowest-cost option.

Minimum Fund Reserve Target

This report recommends that the City adopt a minimum fund reserve target for the wastewater enterprise equal to a) 50% of annual operating and maintenance costs, plus b) \$2 million for emergency capital repairs. Fund reserves provide a financial cushion for dealing with a) emergencies, b) unanticipated expenses, and c) mismatches in the timing between revenues and expenses. It is important for agencies that recover sewer billings on the tax rolls to maintain adequate reserves to fund operations for the time between the semi-annual payments from the County. It is acceptable for reserves to drop below the target level on a temporary basis provided action is taken to achieve the target over the longer run.

1 WASTEWATER RATE STUDY

1.1 Background & Objectives

The City of Palm Springs is a full-service City located approximately 110 miles east of Los Angeles in Riverside County, California. The City has a population of 44,552 according to the 2010 census, and experienced 4% growth over the last decade.

The City provides wastewater service to residential and commercial properties within the City and adjacent areas. The City's wastewater utility is a self-supporting enterprise that is funded primarily by revenues derived from sewer service charges. The City's sewer rates have not been increased since 1993 and are among the lowest in the state. The City's current residential sewer rate of \$124.32 per year (\$10.36 per month) is one-fourth of the California statewide average sewer rate of approximately \$40 per month.

In 2010 the City adopted an engineering evaluation report of the City's aging wastewater treatment plant prepared by Carollo Engineers. The report, or Capital Repair and Rehabilitation Plan, commonly referred to as a Capital Improvement Plan ("CIP") for the City's wastewater treatment plant ("WWTP") identified \$67 million (current \$) of capital repair and replacement projects needed over the next 20 years, including over \$45 million (current \$) of high-priority projects needed within the next 10 years. In order to proactively address these substantial capital needs, in 2010, the City retained Bartle Wells Associates to develop a long-term financial plan and rate recommendations supporting the City's sewer enterprise operating and capital programs. Although the Bartle Wells Associates financial plan and rate recommendations were approved by the City in 2010, following a Proposition 218 Majority Protest Hearing concluded on July 7, 2010, at which a majority protest did not occur, the City tabled adoption of increased sewer rates for consideration at a later date.

The City has updated and amended the Bartle Wells Associates previous financial plan and rate study to account for more recent financial data, and to reflect the City's completion of several of the highest priority wastewater capital improvement projects over the last several years. As the City has continued to draw down the wastewater fund reserves to pay for the high priority projects recently completed, it is the intent of this updated financial plan and rate study to identify recommendations for increased sewer rates that will accommodate on-going Operation and Maintenance ("O&M") costs, and to generate sufficient funding to complete the remaining projects identified in the 20-Year WWTP CIP.

Basic objectives of this updated and amended study include:

- Conduct a current review of the City's sewer rates and finances
- Consider debt financing alternatives for capital improvement needs;
- Develop long-range cash flow projections identifying the long-term operating and capital revenue requirements of the wastewater system;
- Recommend sewer rate increases needed to recover the cost of providing service and to maintain the sewer enterprise's long-term financial health;
- Phase in necessary rate adjustments over time, to minimize the annual impact on rate payers;
- Facilitate the Proposition 218 rate-increase process and rate implementation.

1.2 Wastewater System

The City's wastewater system includes approximately 230 miles of sewer pipelines, five pump stations, and a wastewater treatment plant. The treatment plant is permitted at 10.9 million gallons per day (mgd) of average dry weather flow (ADWF) capacity. For the 2010/2011 fiscal year, the annual average rate into the wastewater treatment plant was 5.696 mgd, well below the maximum capacity of the plant.

The City owns the wastewater system and contracts out operations to Veolia West Operating Services, Inc. ("Veolia"), previously named Veolia Water North America Operating Services, Inc. Historically, the City began contracting out operations in 1999 to US Filter Operating Services, Inc., which was acquired by Veolia in 2004. Veolia operates and maintains the City's wastewater collection system and treatment plant. The City provides financial and operational oversight and is responsible for coordinating engineering studies and implementation of the wastewater capital improvement program.

1.3 Current Wastewater Rates

Table 1 shows a schedule of current sewer service charges. The City charges for sewer service based on each customer's estimated wastewater discharge as denoted by equivalent dwelling units or EDUs.

An EDU is a standardized unit of measurement that represents the wastewater flow and loadings generated by a typical residential customer. All residential dwelling units are assigned 1 EDU and pay the same annual service charge.

The current rate per residence or EDU is \$124.32 per year, equivalent to a monthly rate of \$10.36. The City's sewer rates are among the lowest in the state and are less than one-fourth of the California statewide average. Customers located outside City boundaries pay rates that are 150% of inside-City rates.

Commercial and industrial customers are assigned EDUs based on the number of commercial plumbing fixture units per account with 1 EDU equivalent to approximately every 10.2 commercial fixture units. A fixture unit is a measure of flow capacity assigned to various plumbing fixtures, such as sinks and toilets, used in plumbing design. The amount of wastewater generated per commercial plumbing fixture unit is typically much higher, often twice as high, as sewer flow per residential fixture unit. Commercial customers pay a minimum charge equal to 1 EDU.

TABLE 1 - SEWER SERVICE CHARGES		
<i>Rates Effective Since July 1, 1993</i>		
Customer Class	Monthly Charge	
Residential	\$10.36	Per unit
Commercial & Industrial	1.02	Per fixture unit
	10.36	Minimum charge
Hotel - Rooms Without Kitchens	10.36	Base charge +
	3.53	Per room
Hotel - Rooms With Kitchens	6.81	Per room
Mobile Home Parks	10.36	Per unit +
	1.02	Per fixture unit
Recreational Vehicle Parks	2.54	Per space +
	1.02	Per fixture unit
Septage Dumping Fee (for loads up to 1,000 gallons)		
Within City limits	35.00	Per load
Outside City limits	70.00	Per load
Properties Adjacent to City		
Rates for customers outside of City limits are 150% of the standard established rates		
Sewer Permit Fee		
For discharging septage at the City's Wastewater Treatment Plant	1,000.00	Per application

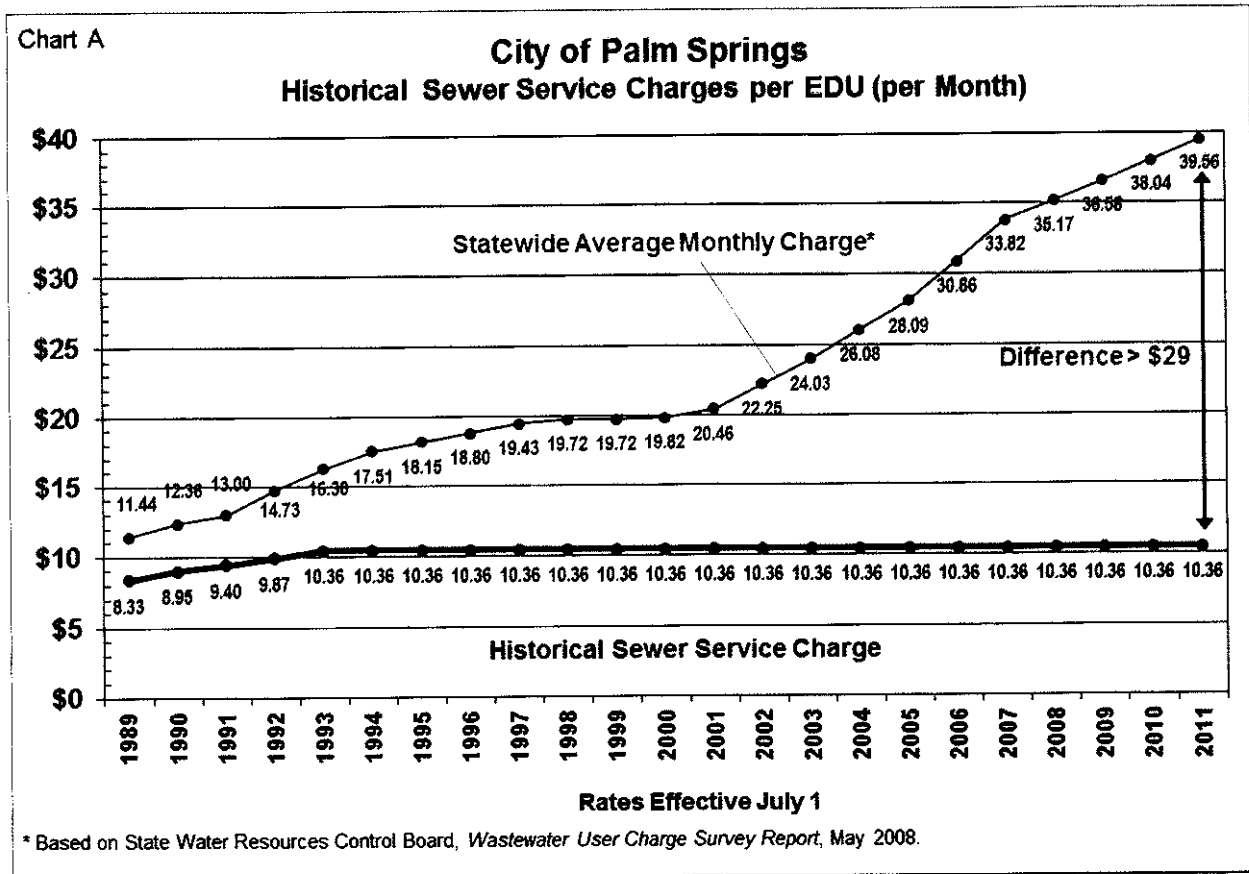
Rates effective since July 1, 1993.

1.4 Billing

Most ratepayers are billed for sewer service on the annual property tax rolls collected by Riverside County. The County is on the Teeter Plan and provides the City with 100% of its annual sewer billings, regardless of actual tax delinquencies. Several hundred parcels are billed separately; these properties are owned by tax-exempt or governmental agencies that do not pay property taxes to the County. Veolia, on behalf of the City, coordinates all billing functions for the wastewater enterprise.

1.5 Historical Sewer Rates

Chart A below shows a 20-year history of the City's sewer rates per residence or EDU. Rates were last adjusted on July 1, 1993 and have not been increased in almost 20 years. The chart also compares the City's historical rates to the California statewide average. Due to many years of no rate increases, the City's rates have gradually fallen further and further behind to less than one-fourth of the current statewide average.

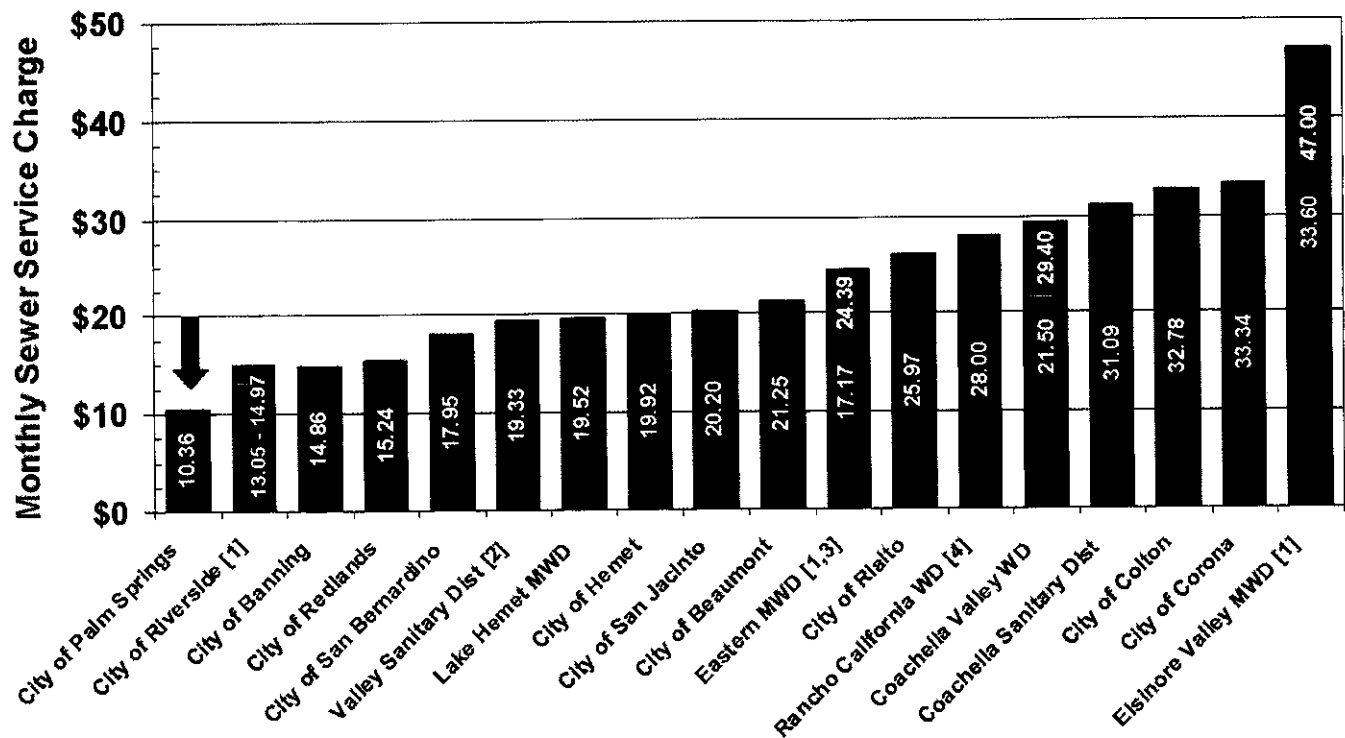


1.6 Regional Sewer Rate Survey

As shown on the following chart, the City's residential sewer rate is the lowest of 18 regional agencies surveyed and is less than half of the regional average, which itself is low compared to other areas of California. The information is presented for informational purposes only and does not necessarily reflect the relative cost-effectiveness of each agency. Rates can vary widely from agency to agency based on a wide range of factors.

Chart B

**City of Palm Springs
Survey of Monthly Single Family Residential Sewer Rates, Sept-2009**



1 Charge varies by area within District.
2 Serves areas in and around Indio.

3 Serves areas in and around Hemet & San Jacinto.
4 Serves areas of Temecula and Murietta.

1.7 Wastewater Customers

Table 2 estimates the total number of sewer EDUs billed by the City based on annual sewer service charge revenues divided by the rate per home or EDU. According to the data, the City currently provides sewer service to approximately 44,200 EDUs.

TABLE 2 - ESTIMATED SEWER EDUS BASED ON REVENUES					
	2006/07	2007/08	2008/09*	2009/10	2010/11
Annual sewer service charge revenues	\$4,807,701	\$5,023,253	\$5,449,473	\$5,411,064	\$5,492,564
Annual rate per EDU	\$124.32	\$124.32	\$124.32	\$124.32	\$124.32
Estimated sewer billing EDUs	38,672	40,406	43,834	43,525	44,181

* Note: The City completed an audit of new sewer connections in 2009 resulting in a nearly 10% increase in sewer revenue as a result of high development activity and construction of new housing over the previous four year period.

The City has a predominantly residential customer base. Based on historical data, residential dwelling units – including single family homes, condominiums, apartments and

a limited number of mobile homes – account for 95% of all customers and 80% of total billable EDUs. The City also provides sewer service to approximately 1,100 commercial and industrial customers, and over 130 hotels which have a total of over 7,000 guest rooms.

1.8 Historical Wastewater Enterprise Finances

Table 3 shows a 4-year financial history of the sewer enterprise based on audited financial statements. The table does not include depreciation, which is a non-cash accounting entry.

TABLE 3 - HISTORICAL WASTEWATER REVENUES & EXPENSES				
	Audited 2007/08	Audited 2008/09	Audited 2009/10	Audited 2010/11
Revenues				
Charges for service	5,069,841	5,523,608	5,429,735	5,492,564
Sewer connection & main charges	937,268	483,204	499,092	532,645
Interest income & gains/losses	<u>789,375</u>	<u>460,231</u>	<u>207,749</u>	<u>175,562</u>
Total revenues	6,796,484	6,467,043	6,136,576	6,200,771
Expenses				
Contractual operating & other services	3,806,809	4,283,626	4,094,638	3,875,896
Utilities	181,565	209,047	213,087	171,823
Personnel services & administration	28,874	104,672	42,711	28,389
Capital Expenditures	<u>1,804,541</u>	<u>1,431,640</u>	<u>1,685,811</u>	<u>1,787,118</u>
Total expenses	5,821,789	6,028,985	6,036,247	5,863,226
Revenues less expenses	974,695	438,058	100,329	337,545
Source: Based on Audited Financial Statements.				

Prior to the 2007/08 fiscal year, the wastewater enterprise ran budget surpluses and accrued fund reserves while maintaining low rates. This was partly due to a few temporary economic factors including:

- A high level of development activity and corresponding sewer connection charges. Development activity has significantly slowed since 2008 due to the on-going severe economic recession.
- Deferral of significant capital improvements in recent years resulting in a level of capital funding that was substantially lower than needed going forward.

Some notable changes include:

- Sewer service charge revenues have increased over the past four years due to the high level of construction activity that occurred from 2000-2008, resulting in the addition of new EDUs.
- The City has collected a substantial amount of sewer connection fees in recent years, averaging approximately \$2 million per year from 2003/04 to 2006/07, a period of significant economic activity. However, the amount of connection fee revenues has significantly declined in the past two years as development activity has slowed.

Development is expected to remain at historically low levels in upcoming years as the overall economy affects the demand for new residential and commercial development.

- Operating and maintenance expenses have increased primarily due to a) an amended contract with Veolia that took effect in 2006/07, b) higher costs for utilities and chemicals, which are variable costs that are passed through to the City pursuant to the contract with Veolia, and c) other miscellaneous increases including costs for vehicle maintenance and operation, insurance, and the addition of billing and auditing functions to Veolia's contract.
- Over the past four years, capital expenditures have averaged about \$1.7 million per year as the City has completed some of the most critical wastewater capital projects. These capital expenditures in recent years are substantially lower than the levels required to fully implement the 20-Year WWTP CIP. Revenues generated by current sewer rates will not be adequate to fund the capital needs of the wastewater enterprise.

1.9 Fund Reserves

As shown on Table 4, as of June 30, 2011, the wastewater enterprise had approximately \$4.9 million in net reserves available for operations. This level of operating reserves is less than the annual operating and maintenance expenses of approximately \$5.9 for the 2010/11 fiscal year. Most utility providers allow for sufficient operating reserves to sufficiently cover at least a full year's operation costs. Capital reserves on June 30, 2011 included approximately \$5.2 million in funds encumbered on previously budgeted capital projects and approximately \$2.8 million in reserves designated and budgeted for future wastewater enterprise costs.

Cash & Receivables	
Cash	\$13,161,615
Accounts Receivable	314,823
Sanitation Accts Receivable	23,418
Accrued Interest Receivable	<u>25,850</u>
Subtotal	13,525,706
Less Accounts Payable & Encumbered or Designated Reserves	
Accounts Payable	587,917
Accrued Wages Payable	402
Reserve for Encumbrances ¹	5,249,753
Reserve for Continuing Appropriations ²	<u>2,829,734</u>
Subtotal	8,667,806
Net Cash Available for Operations	4,857,900
1 Includes funds reserved for awarded contracts or purchase orders but not expended as of 06/30/11	
2 Includes funds budgeted for various items not yet initiated.	
Source: Based on information provided by City of Palm Springs Finance Department.	

1.10 Minimum Fund Reserve Target

Maintaining adequate fund reserves is an important component of prudent financial management. Fund reserves provide a financial cushion for dealing with a) emergencies, b) unanticipated expenses, and c) mismatches in the timing between revenues and expenses. Agencies that recover sewer billings on the tax rolls need to maintain adequate reserves to fund operations for the time between the semi-annual payments from the County.

It is recommended that the City adopt a minimum fund reserve target for the wastewater enterprise equal to a) 50% of annual operating and maintenance costs, plus b) \$2 million for emergency capital repairs. A fund reserve target provides long-term policy guidance for financial planning. It is acceptable for reserves to drop below the target on a temporary basis provided action is taken to achieve the target over the longer run.

1.11 Capital Improvement Plan

In 2010 the City adopted an engineering evaluation report of the City's aging wastewater treatment plant prepared by Carollo Engineers. The report, or Capital Repair and Rehabilitation Plan, commonly referred to as a Capital Improvement Plan ("CIP") for the City's wastewater treatment plant ("WWTP") identified \$67 million (current \$) of capital repair and replacement projects needed over the next 20 years, including over \$45 million (current \$) of high-priority projects needed within the next 10 years. Of that total, over \$12 million has been funded from Wastewater Fund reserves, leaving approximately \$55 million of remaining capital needs.

The City Council previously directed staff to prioritize the 20-year CIP to identify Priority 1 projects as those projects that will directly reduce or eliminate the generation of odors at the WWTP. The list of prioritized projects is summarized on Table 5, which breaks out capital costs into overlapping 10 year increments.

TABLE 5 - WWTP CAPITAL REPAIR & REPLACEMENT COSTS (CURRENT \$)

Project Description	Priority 1 1-10 Years	Priority 2 5-15 Years	Priority 3 10-20 Years	Priority 4 15-25 Years
PRIORITY 1				
New Circular Primary Clarifiers w/Sludge Pump Station	\$9,050,000			
New Headworks	5,920,000			
New Primary Effluent Pump Station	2,910,000			
New Sludge Centrifuge	1,490,000			
Digester No. 2 Dome Replacement	1,050,000			
WWTP Facility Plan	<u>250,000</u>			
Subtotal	20,670,000			
Less Funds Currently Available		0		
Remaining Priority 1 Funding Needs	20,670,000			
<i>Priority 1 Average Annual Funding</i>	<i>2,067,000</i>			
PRIORITY 2				
Secondary Clarifier Upgrades		\$2,010,000		
FOG Receiving Station		1,600,000		
Trickling Filter Upgrades		1,560,000		
Gravity Thickener Upgrades		1,400,000		
New Gas Flare		1,000,000		
General Sitework Pavement Replacement		720,000		
Pavement Replacement in Drying Beds 13-18 and 19-26		710,000		
New Septage Receiving Station		500,000		
New Access Rd w/ Signalized Access fr Gene Autry		500,000		
Water System Upgrade for Fire Protection		500,000		
Filtrate Pump Station Upgrade		<u>500,000</u>		
Subtotal		11,000,000		
<i>Priority 2 Average Annual Funding</i>		<i>1,100,000</i>		
PRIORITY 3				
Third Digester (Acid or Conventional)			\$7,200,000	
Fuel Cell Purchase and Installation			4,060,000	
Digester Gas Treatment System			<u>2,000,000</u>	
Subtotal			13,260,000	
<i>Priority 3 Average Annual Funding</i>			<i>1,326,000</i>	
PRIORITY 4				
Crossley Road Collection System Upsize				\$4,400,000
Indian Canyon Drive Collection System Upsize				2,400,000
Palm Canyon Drive Collection System Upsize				1,800,000
New Administration Building				<u>1,600,000</u>
Subtotal				10,200,000
<i>Priority 4 Average Annual Funding</i>				<i>1,020,000</i>
Subtotal by Priority	20,670,000	11,000,000	13,260,000	10,200,000
Cumulative Total	20,670,000	31,670,000	44,930,000	55,130,000
Cumulative Annual Average	2,067,000	2,111,000	2,247,000	2,205,000
Source: Carollo Engineers; <i>Palm Springs Wastewater Treatment Plant Capital Repair & Replacement Costs</i> ; Oct-2009.				

The City owns approximately 230 miles of sanitary sewer pipelines, some of which were installed over 50 years ago. Although the City has required minimal budgeting for maintenance of its sewer collection system in recent years, it is recommended that the City budget substantially more in future years as various pipelines reach the end of their useful life. Conservatively, if only 1% of the City’s sewer collection system requires replacement in any given year, the City will need to replace over 2 miles of pipeline, with an expected cost of \$1 - \$2 million annually. The financial plan developed in this report assumes the City continues funding collection system repairs and improvements at a low level of \$250,000 annually for the next 10 years, as it addresses higher priority capital improvement projects. For long-term planning purposes only, the report also assumes the City increases funding for collection system repairs and replacements to an average of \$500,000 annually during the subsequent decade.

Table 6 on the following page shows a 20-year capital improvement plan (CIP) that includes a) Carollo Engineers’ cost estimates for the wastewater treatment plant improvements, plus b) an estimate of costs for future collection system repairs, replacements, and improvements. Table 6 shows costs in current dollars. These costs are shown graphically on Chart C. For financial planning purposes, Table 7 projects the future cost of projects by escalating current cost estimates at the annual rate of 3% to account for estimated construction cost inflation. With cost inflation, the 20-year CIP totals over \$77 million including over \$30 million of projects slated for the next 10 years. These cost-inflated amounts are incorporated into the long-term cash flow projections.

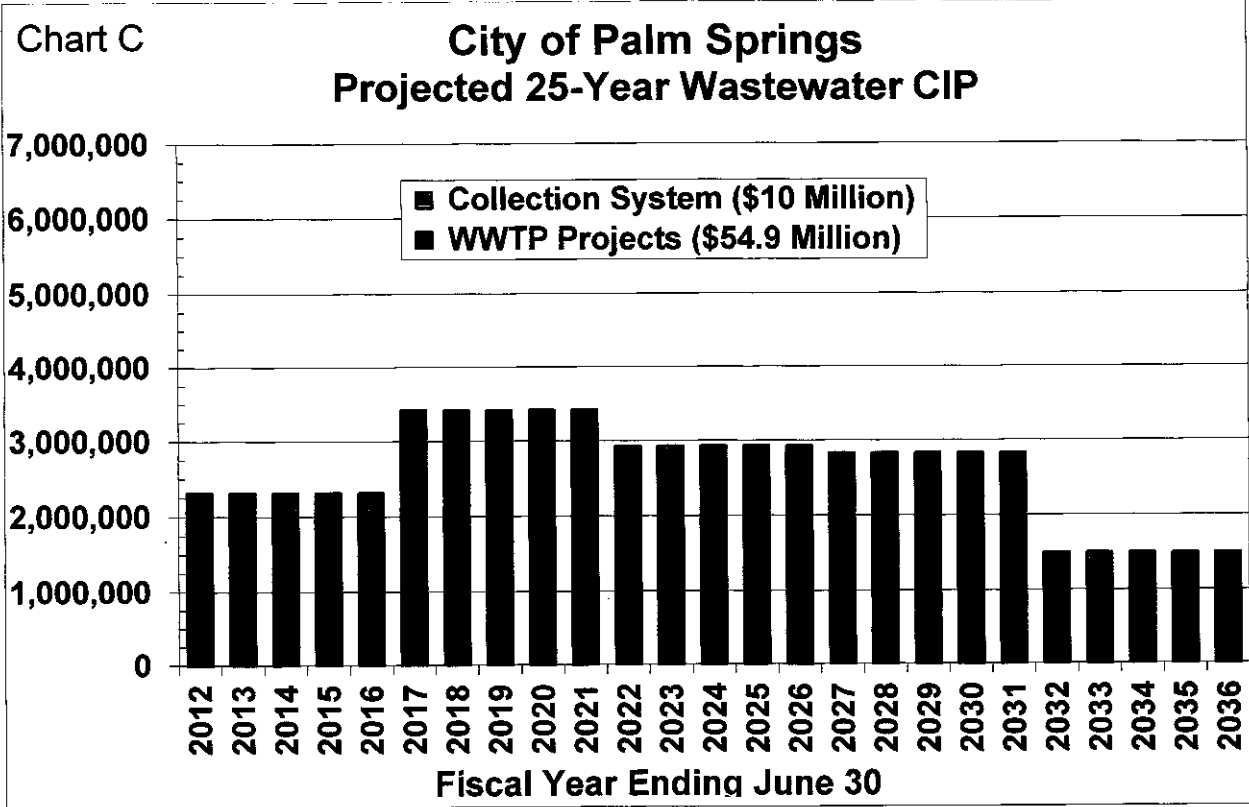


TABLE 6 - WASTEWATER SYSTEM 20-YEAR CIP (CURRENT \$)												
YEARS 1 - 10	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22		
Wastewater Treatment Plant Improvements¹												
Priority 1 Projects	2,067,000	2,067,000	2,067,000	2,067,000	2,067,000	2,067,000	2,067,000	2,067,000	2,067,000	2,067,000	2,067,000	2,067,000
Priority 2 Projects						1,100,000	1,100,000	1,100,000	1,100,000	1,100,000	1,100,000	1,100,000
Total WWTP CIP	2,067,000	2,067,000	2,067,000	2,067,000	2,067,000	3,167,000	3,167,000	3,167,000	3,167,000	3,167,000	3,167,000	3,167,000
Collection System Repairs & Replacements²												
Capital Improvements	250,000	250,000	250,000	250,000	250,000	250,000	250,000	250,000	250,000	250,000	250,000	250,000
Total	2,317,000	2,317,000	2,317,000	2,317,000	2,317,000	3,417,000	3,417,000	3,417,000	3,417,000	3,417,000	3,417,000	3,417,000
Cumulative	2,317,000	4,634,000	6,951,000	9,268,000	11,585,000	15,002,000	18,419,000	21,836,000	25,253,000	28,670,000		
YEARS 11 - 20	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30	2030/31	2031/32		
Wastewater Treatment Plant Improvements¹												
Priority 2 Projects	1,100,000	1,100,000	1,100,000	1,100,000	1,100,000	1,326,000	1,326,000	1,326,000	1,326,000	1,326,000	1,326,000	1,326,000
Priority 3 Projects	1,326,000	1,326,000	1,326,000	1,326,000	1,326,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000
Priority 4 Projects						2,326,000	2,326,000	2,326,000	2,326,000	2,326,000	2,326,000	2,326,000
Total WWTP CIP	2,426,000	2,426,000	2,426,000	2,426,000	2,426,000	4,652,000	4,652,000	4,652,000	4,652,000	4,652,000	4,652,000	4,652,000
Collection System Repairs & Replacements²												
Capital Improvements	500,000	500,000	500,000	500,000	500,000	500,000	500,000	500,000	500,000	500,000	500,000	500,000
Total	2,926,000	2,926,000	2,926,000	2,926,000	2,926,000	5,152,000	5,152,000	5,152,000	5,152,000	5,152,000	5,152,000	5,152,000
Cumulative	31,596,000	34,522,000	37,448,000	40,374,000	43,300,000	46,126,000	48,952,000	51,778,000	54,604,000	57,430,000		

1 Based on Carollo Engineers, Palm Springs Wastewater Treatment Plant Capital Repair and Replacement Costs; updated October 2009, assumes average annual expenditures for each 5-year Priority period and excludes previously funded projects.

2 Source: Placeholder estimate.

3 The additional 5 years of the CIP (2032/33 through 2036/37) are not shown.

TABLE 7 - WASTEWATER SYSTEM 20-YEAR CIP (FUTURE \$)												
YEARS 1 - 10	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22		
Cost Escalator	1,000	1,030	1,061	1,093	1,126	1,159	1,194	1,230	1,267	1,306		
Wastewater Treatment Plant Improvements¹												
Priority 1 Projects	2,067,000	2,129,000	2,193,000	2,259,000	2,326,000	2,396,000	2,468,000	2,542,000	2,618,000	2,697,000		
Priority 2 Projects						1,275,000	1,313,000	1,353,000	1,393,000	1,435,000		
Total WWTP CIP	2,067,000	2,129,000	2,193,000	2,259,000	2,326,000	3,671,000	3,781,000	3,895,000	4,011,000	4,132,000		
Collection System Repairs & Replacements²												
Capital Improvements	250,000	258,000	265,000	273,000	281,000	290,000	299,000	307,000	317,000	326,000		
Total	2,317,000	2,387,000	2,458,000	2,532,000	2,607,000	3,961,000	4,080,000	4,202,000	4,328,000	4,458,000		
<i>Cumulative</i>	2,317,000	4,704,000	7,162,000	9,694,000	12,301,000	16,262,000	20,342,000	24,544,000	28,872,000	33,330,000		
YEARS 11 - 20	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30	2030/31	2031/32		
Cost Escalator	1,344	1,384	1,426	1,469	1,513	1,558	1,605	1,653	1,702	1,754		
Wastewater Treatment Plant Improvements¹												
Priority 2 Projects	1,478,000	1,523,000	1,568,000	1,615,000	1,664,000							
Priority 3 Projects	1,782,000	1,835,000	1,891,000	1,947,000	2,006,000	2,066,000	2,128,000	2,192,000	2,257,000	2,325,000		
Priority 4 Projects						1,558,000	1,605,000	1,653,000	1,702,000	1,754,000		
Total WWTP CIP	3,260,000	3,358,000	3,459,000	3,562,000	3,670,000	3,624,000	3,733,000	3,845,000	3,959,000	4,079,000		
Collection System Repairs & Replacements²												
Capital Improvements	672,000	692,000	713,000	734,000	756,000	779,000	802,000	826,000	851,000	877,000		
Total	3,932,000	4,050,000	4,172,000	4,296,000	4,426,000	4,403,000	4,535,000	4,671,000	4,810,000	4,956,000		
<i>Cumulative</i>	37,262,000	41,312,000	45,484,000	49,780,000	54,206,000	58,609,000	63,144,000	67,815,000	72,625,000	77,581,000		

1 Based on Carollo Engineers, Palm Springs Wastewater Treatment Plant Capital Repair and Replacement Costs, updated October 2009;

assumes average annual expenditures for each 5-year Priority period and excludes previously funded projects.

2 Source: Placeholder estimate.

3 The additional 5 years of the CIP (2032/33 through 2036/37) are not shown.

1.12 Cost Reimbursement for Wastewater Support Services

The City provides a range of services required for the operation and administration of the wastewater system. These services include financial management, engineering, administration, legal, billing, customer service, planning and inspection, and other support functions. The City has not been fully recovering these operating costs from the wastewater enterprise due to historical interpretation of Section 205(c) of the City's Charter which states: *The City may not collect for its own general fund in-lieu taxes, fees or charges from the Department of Transportation, Wastewater Division for administration or any other purposes.*

This provision of the City's charter was enacted to prevent the City from using the wastewater enterprise as a means to subsidize other non-wastewater related General Fund operations, as some California cities had historically done, particularly via in-lieu fees, prior to the passage of Proposition 218 in November 1996. Consistent with this provision of the City's charter and state law, the City's General Fund is entitled to reimbursement for all costs incurred in support of the wastewater enterprise and transfers between the Wastewater Fund and General Fund are direct reimbursements, and do not represent an in-lieu tax, fee, or charge.

1.13 Cash Flow & Rate Projections

Long-term cash flow projections were developed to project wastewater enterprise revenue requirements and rates over the next 20 years. The financial projections are based on the City's 2011/12 Wastewater Fund budget and incorporate a number of slightly conservative assumptions listed on Table 8.

Due to the distribution of capital funding needs over the next 10 to 20 years, the cash flow projections assume all capital projects are funded on a "Pay As You Go" basis. Actual capital funding needs may vary from year to year. For example, instead of funding \$4 - \$5 million of projects every year, the sewer enterprise may need to fund \$2 million one year and \$7 million the next. The projected rate increases will allow the City to do this assuming fund reserves can be accumulated during years of lower-than-average capital expenditures, and drawn down during years of higher levels of funding.

Table 9 presents 20-year financial and rate projections of the sewer enterprise. The rate projections are designed to fund the wastewater enterprise's operating and capital programs while maintaining minimum fund reserve targets. The projections assume that the sewer enterprise will run deficits through 2013/14, including a planned drawdown of encumbered capital fund reserves, as the City transitions to a higher level of capital improvement funding while rate increases are initially phased in over five years.

TABLE 8 - CASH FLOW ASSUMPTIONS

GENERAL ASSUMPTIONS

- 1 Assumes the City bills 44,200 Equivalent Dwelling Units (EDUs) as of July 1, 2012.
- 2 Growth is projected at 100 new EDUs per year including combined residential and commercial development.
- 3 Sewer Facility Fees are projected to remain at the current level of \$3,000 per EDU.
- 4 Interest rate on investments projected to gradually increase from 0.75% in 2011/12 to 2% over the following 3 fiscal years.

REVENUE ASSUMPTIONS

- 1 Sewer service charge revenues for each year are calculated based on the number of existing EDUs at the beginning of the fiscal year, plus one half of new EDUs that connect during the year, multiplied by the projected rate per EDU.
- 2 Future sewer connection fee revenues are based on the projected number of new EDUs each year multiplied by the fee per EDU.
- 3 Interest earnings estimated based on beginning fund balances multiplied by the projected annual interest rate.

EXPENSE ASSUMPTIONS

- 1 Contractual wastewater operating costs are based on the 2011/12 Budget and escalate at the annual rate of 6% (accounting for cost inflation, growth, and new operating and maintenance needs related to capital improvements) for the first 10 years, and 5% for the subsequent 10 years.
- 2 Insurance expenses based on 2011/12 Budget and escalate at the annual rate of 6%.
- 3 Other operating and maintenance costs based on 2011/12 Budget and escalate at the annual rate of 4%.
- 4 Includes \$150,000 of direct cost reimbursements to the General Fund beginning 2012/13 for wastewater administration and other services provided by the City in support of the wastewater enterprise. This level of funding is based on the *2004 Citywide Cost Allocation Study*.
- 5 Projections do not include net savings from new cogeneration facilities; the amount of savings would be relatively minor and could be offset by new equipment and other purchases.
- 6 WWTP capital improvement expenses based on *Carollo Engineers, Palm Springs Wastewater Treatment Plant Capital Rehabilitation and Repair Plan; October 2009* with 3% cost inflation.
- 7 Collection system repairs & replacements estimated at \$250,000 (current \$) per year escalating at the annual rate of 3% for the next 10 years. Collection system funding projected to increase to the level of \$500,000 (current \$) adjusted for 3% cost inflation in the outer 10 years.

Table 9 - Sewer Enterprise Cash Flow Projections (Years 1 - 10)

	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	Esc.
Monthly Rate per EDU	\$12.00	\$14.00	\$16.00	\$18.00	\$20.00	\$21.00	\$22.00	\$23.00	\$24.00	\$25.00	
Beginning EDUs	44,200	44,300	44,400	44,500	44,600	44,700	44,800	44,900	45,000	45,100	
New Connections, EDUs	100	100	100	100	100	100	100	100	100	100	
Est. Growth %	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%	
Sewer Facility Fee per EDU	\$3,000	\$3,000	\$3,000	\$3,000	\$3,000	\$3,000	\$3,000	\$3,000	\$3,000	\$3,000	
Interest Rate	0.75%	1.0%	1.5%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	
Beginning Fund Balance + Reserved for CIP Projects	\$4,858,000	\$3,611,000	\$3,026,000	\$3,117,000	\$3,876,000	\$5,283,000	\$5,516,000	\$5,764,000	\$6,002,000	\$6,203,000	0
REVENUES											
Sewer Service Charges	6,372,000	7,451,000	8,534,000	9,623,000	10,716,000	11,277,000	11,840,000	12,406,000	12,974,000	13,545,000	
Sewer Connection Fees	300,000	300,000	300,000	300,000	300,000	300,000	300,000	300,000	300,000	300,000	
Interest Income	58,000	36,000	45,000	62,000	78,000	106,000	110,000	115,000	120,000	124,000	
Other	15,000	15,000	15,000	15,000	15,000	15,000	15,000	15,000	15,000	15,000	
Total Revenues	6,745,000	7,802,000	8,894,000	10,000,000	11,109,000	11,698,000	12,265,000	12,836,000	13,409,000	13,984,000	
EXPENSES											
Operating & Maintenance											
Contractual Operating Services	4,320,000	4,579,000	4,854,000	5,145,000	5,454,000	5,781,000	6,128,000	6,496,000	6,886,000	7,299,000	6.0%
Personnel Costs	56,200	58,000	60,000	62,000	64,000	67,000	70,000	73,000	76,000	79,000	4.0%
Electricity	212,000	220,000	228,000	238,000	248,000	258,000	268,000	279,000	290,000	302,000	4.0%
Other Contractual Services	122,000	127,000	132,000	137,000	142,000	148,000	154,000	160,000	166,000	173,000	4.0%
Direct Cost Reimb to Gen'l Fund	150,000	156,000	162,000	168,000	175,000	182,000	189,000	197,000	205,000	213,000	4.0%
Insurance	632,000	670,000	710,000	753,000	798,000	846,000	897,000	951,000	1,008,000	1,068,000	6.0%
Vehicle Repair & Maintenance	158,000	164,000	171,000	178,000	185,000	192,000	200,000	208,000	216,000	225,000	4.0%
Other Operating Expenses	25,000	26,000	27,000	28,000	29,000	30,000	31,000	32,000	33,000	34,000	4.0%
Subtotal	5,675,200	6,000,000	6,345,000	6,709,000	7,095,000	7,504,000	7,937,000	8,396,000	8,880,000	9,393,000	
Capital/Other Non-Operating											
WWTP Capital Improvements	2,067,000	2,129,000	2,193,000	2,259,000	2,326,000	3,671,000	3,781,000	3,895,000	4,011,000	4,132,000	
Encumbered WWTP Capital Improvements	0	0	0	0	0	0	0	0	0	0	
Collection System Repairs/Repls	250,000	258,000	265,000	273,000	281,000	290,000	299,000	307,000	317,000	326,000	
Subtotal	2,317,000	2,387,000	2,458,000	2,532,000	2,607,000	3,961,000	4,080,000	4,202,000	4,328,000	4,458,000	
Total Expenses	7,992,200	8,387,000	8,803,000	9,241,000	9,702,000	11,465,000	12,017,000	12,598,000	13,208,000	13,851,000	
Revenues Less Expenses	(1,247,200)	(585,000)	91,000	759,000	1,407,000	233,000	248,000	238,000	201,000	133,000	
Ending Fund Balance + Reserved for CIP Projects	3,610,800	3,026,000	3,117,000	3,876,000	5,283,000	5,516,000	5,764,000	6,002,000	6,203,000	6,336,000	0
Minimum Fund Reserve Target	4,837,600	5,000,000	5,172,500	5,354,500	5,547,500	5,752,000	5,968,500	6,198,000	6,440,000	6,696,500	
50% O&M + \$2M emergency capital											

Table 9 - Sewer Enterprise Cash Flow Projections (Years 11 - 20)

	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30	2030/31	2031/32	Esc.
Monthly Rate per EDU	\$26.00	\$27.00	\$28.00	\$29.00	\$30.00	\$31.00	\$32.00	\$33.00	\$34.00	\$35.00	
Beginning EDUs	45,200	45,300	45,400	45,500	45,600	45,700	45,800	45,900	46,000	46,100	
New Connections, EDUs	100	100	100	100	100	100	100	100	100	100	
Est. Growth %	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%	
Sewer Facility Fee per EDU	\$3,000	\$3,000	\$3,000	\$3,000	\$3,000	\$3,000	\$3,000	\$3,000	\$3,000	\$3,000	
Interest Rate	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	
Beginning Fund Balance	\$6,336,000	\$7,112,000	\$7,879,000	\$8,614,000	\$9,288,000	\$9,871,000	\$10,489,000	\$10,962,000	\$11,255,000	\$11,333,000	
+ Reserved for CIP Projects	0	0	0	0	0	0	0	0	0	0	
REVENUES											
Sewer Service Charges	14,118,000	14,693,000	15,271,000	15,851,000	16,434,000	17,019,000	17,606,000	18,196,000	18,788,000	19,383,000	
Sewer Connection Fees	300,000	300,000	300,000	300,000	300,000	300,000	300,000	300,000	300,000	300,000	
Interest Income	127,000	142,000	158,000	172,000	186,000	197,000	210,000	219,000	225,000	227,000	
Other	15,000	15,000	15,000	15,000	15,000	15,000	15,000	15,000	15,000	15,000	
Total Revenues	14,560,000	15,150,000	15,744,000	16,338,000	16,935,000	17,531,000	18,131,000	18,730,000	19,328,000	19,925,000	
EXPENSES											
Operating & Maintenance											
Contractual Operating Services	7,664,000	8,047,000	8,449,000	8,871,000	9,315,000	9,781,000	10,270,000	10,784,000	11,323,000	11,889,000	5.0%
Personnel Costs	82,000	86,000	89,000	92,000	96,000	100,000	104,000	108,000	112,000	116,000	4.0%
Electricity	314,000	327,000	340,000	354,000	368,000	383,000	398,000	414,000	431,000	448,000	4.0%
Other Contractual Services	180,000	187,000	194,000	202,000	210,000	218,000	227,000	236,000	245,000	255,000	4.0%
Direct Cost Reimb to Gen'l Fund	222,000	231,000	240,000	250,000	260,000	270,000	281,000	292,000	304,000	316,000	4.0%
Insurance	1,121,000	1,177,000	1,236,000	1,298,000	1,363,000	1,431,000	1,503,000	1,578,000	1,657,000	1,740,000	5.0%
Vehicle Repair & Maintenance	234,000	243,000	253,000	263,000	274,000	285,000	296,000	308,000	320,000	333,000	4.0%
Other Operating Expenses	35,000	36,000	37,000	38,000	40,000	42,000	44,000	46,000	48,000	50,000	4.0%
Subtotal	9,852,000	10,333,000	10,837,000	11,368,000	11,926,000	12,510,000	13,123,000	13,766,000	14,440,000	15,147,000	
Capital/Other Non-Operating											
WWTP Capital Improvements	3,260,000	3,358,000	3,459,000	3,562,000	3,670,000	3,624,000	3,733,000	3,845,000	3,959,000	4,079,000	
Encumbered WWTP Capital Improvements	0	0	0	0	0	0	0	0	0	0	
Collection System Repairs/Repls	672,000	692,000	713,000	734,000	756,000	779,000	802,000	826,000	851,000	877,000	
Subtotal	3,932,000	4,050,000	4,172,000	4,296,000	4,426,000	4,403,000	4,535,000	4,671,000	4,810,000	4,956,000	
Total Expenses	13,784,000	14,383,000	15,009,000	15,664,000	16,352,000	16,913,000	17,658,000	18,437,000	19,250,000	20,103,000	
Revenues Less Expenses	776,000	767,000	735,000	674,000	583,000	618,000	473,000	293,000	78,000	(178,000)	
Ending Fund Balance	7,112,000	7,879,000	8,614,000	9,288,000	9,871,000	10,489,000	10,962,000	11,255,000	11,333,000	11,155,000	
+ Reserved for CIP Projects	0	0	0	0	0	0	0	0	0	0	
Minimum Fund Reserve Target	6,926,000	7,166,500	7,418,500	7,684,000	7,963,000	8,255,000	8,561,500	8,883,000	9,220,000	9,573,500	
50% O&M + \$2M emergency capital											

The cash flow projections indicate the need for rate increases over the next five years as summarized on Table 10 below. The projections assume across-the-board increases with rates for all customer classes escalating by the same percentage each year. The initial necessary rate increases are phased in over five years to minimize the annual impact on ratepayers. Table 11 on the following page shows a long-term 20-year rate projection.

TABLE 10 - PROJECTED MONTHLY SEWER SERVICE CHARGES							
Customer Class	Billing Unit	Effective Date July 1					
		Current	2012	2013	2014	2015	2016
Residential	Per unit	\$10.36	\$12.00	\$14.00	\$16.00	\$18.00	\$20.00
Commercial & Industrial	Per fixture unit	1.02	1.18	1.38	1.58	1.78	1.98
	Minimum charge	10.36	12.00	14.00	16.00	18.00	20.00
Hotel - Rooms Without Kitchens	Base charge +	10.36	12.00	14.00	16.00	18.00	20.00
	Per room	3.53	4.09	4.77	5.45	6.13	6.81
Hotel - Rooms With Kitchens	Per room	6.81	7.89	9.21	10.53	11.85	13.17
Mobile Home Parks	Per unit +	10.36	12.00	14.00	16.00	18.00	20.00
	Per fixture unit	1.02	1.18	1.38	1.58	1.78	1.98
Recreational Vehicle Parks	Per space +	2.54	2.94	3.43	3.92	4.41	4.90
	Per fixture unit	1.02	1.18	1.38	1.58	1.78	1.98
Septage Dumping Fee <i>For loads up to 1,000 gallons</i>							
Within City limits	Per load	35.00	40.54	47.30	54.06	60.82	67.58
Outside City limits	Per load	70.00	81.08	94.59	108.10	121.61	135.12
Properties Adjacent to City <i>Rates for customers outside of City limits are 150% of the standard established rates</i>							

Small annual rate increases of roughly \$1 per month per residence or EDU projected for future years.

The cash flow projections also identify the need for small annual rate increases every year thereafter to a) keep revenues in line with cost inflation, and b) provide adequate funding for wastewater system capital needs over the next 20 years. Based on the financial projections, after the initial phase-in of sewer rate increases over the next five years, the City's monthly residential sewer rate would gradually increase by \$1 to the monthly rate extending 20 years as the 20-year CIP is implemented. This will establish a maximum monthly rate of \$35 per EDU by 2031, which is below the current statewide average monthly rate of approximately \$40 per EDU – 40% of the future estimated statewide average monthly rate of approximately \$90 per EDU.

Chart D shows historical monthly sewer rates along with the initial 5-year phase in of sewer rate increases to a level of \$20 per month. The proposed rate increases would maintain the City's wastewater rates at an amount significantly lower than rates charged by other agencies, and would allow for funding of the 20-year WWTP CIP without the need to incur debt financing. From a longer-term perspective, the projected rate increases over the next five years to a level of \$20 per month will result in a sewer rate that is equal to the 1993 rate escalated at the annual rate of 3.52%. Chart E shows a long-term projection of sewer rates in comparison to the current statewide average.

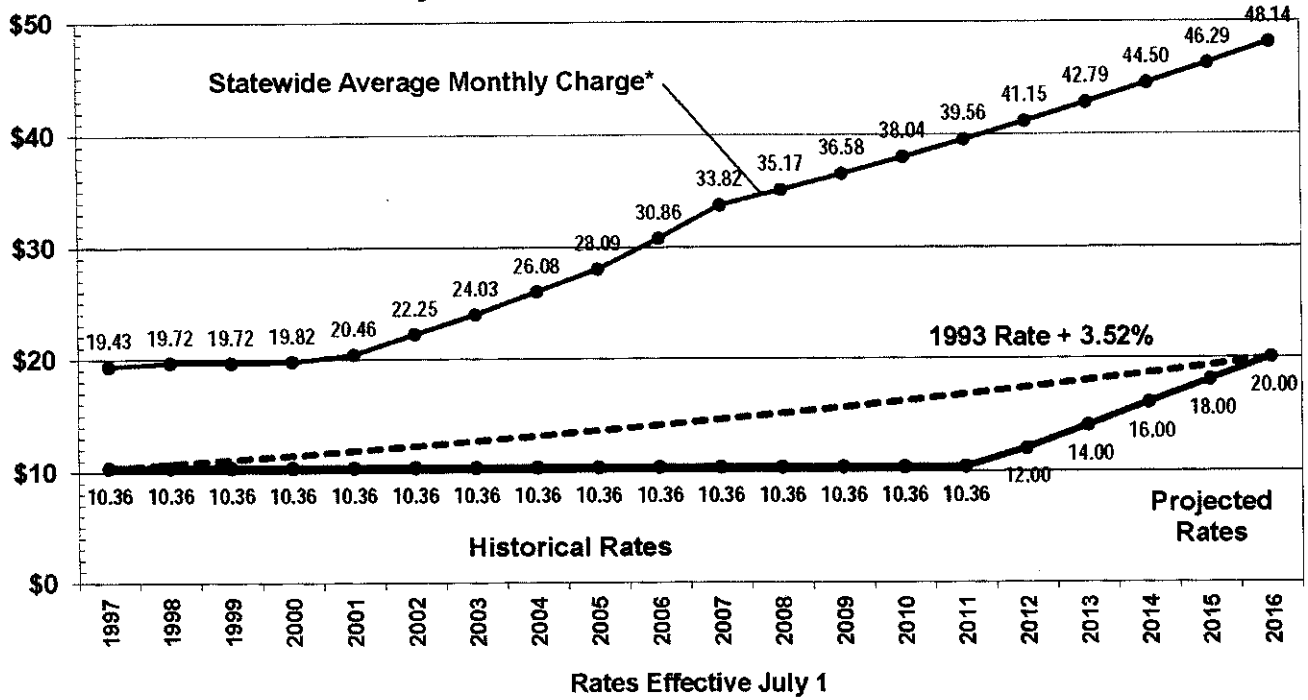
TABLE 11 - LONG-TERM PROJECTION OF MONTHLY SEWER SERVICE CHARGES

Customer Class	Billing Unit	Monthly Rates Effective July 1									
		2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Residential	Per unit	\$12.00	\$14.00	\$16.00	\$18.00	\$20.00	\$21.00	\$22.00	\$23.00	\$24.00	\$25.00
Commercial & Industrial	Per fixture unit	1.18	1.38	1.58	1.78	1.98	2.08	2.18	2.28	2.38	2.48
	Minimum charge	12.00	14.00	16.00	18.00	20.00	21.00	22.00	23.00	24.00	25.00
Hotel - Rooms Without Kitchens	Base charge +	12.00	14.00	16.00	18.00	20.00	21.00	22.00	23.00	24.00	25.00
	Per room	4.09	4.77	5.45	6.13	6.81	7.15	7.49	7.83	8.17	8.51
Hotel - Rooms With Kitchens	Per room	7.89	9.21	10.53	11.85	13.17	13.83	14.49	15.15	15.81	16.47
	Per unit +	12.00	14.00	16.00	18.00	20.00	21.00	22.00	23.00	24.00	25.00
Mobile Home Parks	Per fixture unit	1.18	1.38	1.58	1.78	1.98	2.08	2.18	2.28	2.38	2.48
	Per space +	2.94	3.43	3.92	4.41	4.90	5.15	5.40	5.65	5.90	6.15
Recreational Vehicle Parks	Per fixture unit	1.18	1.38	1.58	1.78	1.98	2.08	2.18	2.28	2.38	2.48
	Septage Dumping Fee										
For loads up to 1,000 gallons	Per load	40.54	47.30	54.06	60.82	67.58	70.96	74.34	77.72	81.10	84.48
	Within City limits	140.00	94.60	108.12	121.64	135.16	141.92	148.68	155.44	162.20	168.96
	Outside City limits										
Properties Adjacent to City											
Rates for customers outside of City limits are 150% of the standard established rates											
Sewer Permit Fee	Per application	1,158.30	1,351.35	1,544.40	1,737.45	1,930.50	2,027.03	2,123.56	2,220.09	2,316.62	2,413.15
For discharging septage at the City's Wastewater Treatment Plant											

Customer Class	Billing Unit	Monthly Rates Effective July 1									
		2022	2023	2024	2025	2026	2027	2028	2029	2030	2031
Residential	Per unit	\$26.00	\$27.00	\$28.00	\$29.00	\$30.00	\$31.00	\$32.00	\$33.00	\$34.00	\$35.00
Commercial & Industrial	Per fixture unit	2.58	2.68	2.78	2.88	2.98	3.08	3.18	3.28	3.38	3.48
	Minimum charge	26.00	27.00	28.00	29.00	30.00	31.00	32.00	33.00	34.00	35.00
Hotel - Rooms Without Kitchens	Base charge +	26.00	27.00	28.00	29.00	30.00	31.00	32.00	33.00	34.00	35.00
	Per room	8.85	9.19	9.53	9.87	10.21	10.55	10.89	11.23	11.57	11.91
Hotel - Rooms With Kitchens	Per room	17.13	17.79	18.45	19.11	19.77	20.43	21.09	21.75	22.41	23.07
	Per unit +	26.00	27.00	28.00	29.00	30.00	31.00	32.00	33.00	34.00	35.00
Mobile Home Parks	Per fixture unit	2.58	2.68	2.78	2.88	2.98	3.08	3.18	3.28	3.38	3.48
	Per space +	6.40	6.65	6.90	7.15	7.40	7.65	7.90	8.15	8.40	8.65
Recreational Vehicle Parks	Per fixture unit	2.58	2.68	2.78	2.88	2.98	3.08	3.18	3.28	3.38	3.48
	Septage Dumping Fee										
For loads up to 1,000 gallons	Per load	87.86	91.24	94.62	98.00	101.38	104.76	108.14	111.52	114.90	118.28
	Within City limits	175.72	182.48	189.24	196.00	202.76	209.52	216.28	223.04	229.80	236.56
	Outside City limits										
Properties Adjacent to City											
Rates for customers outside of City limits are 150% of the standard established rates											

Chart D

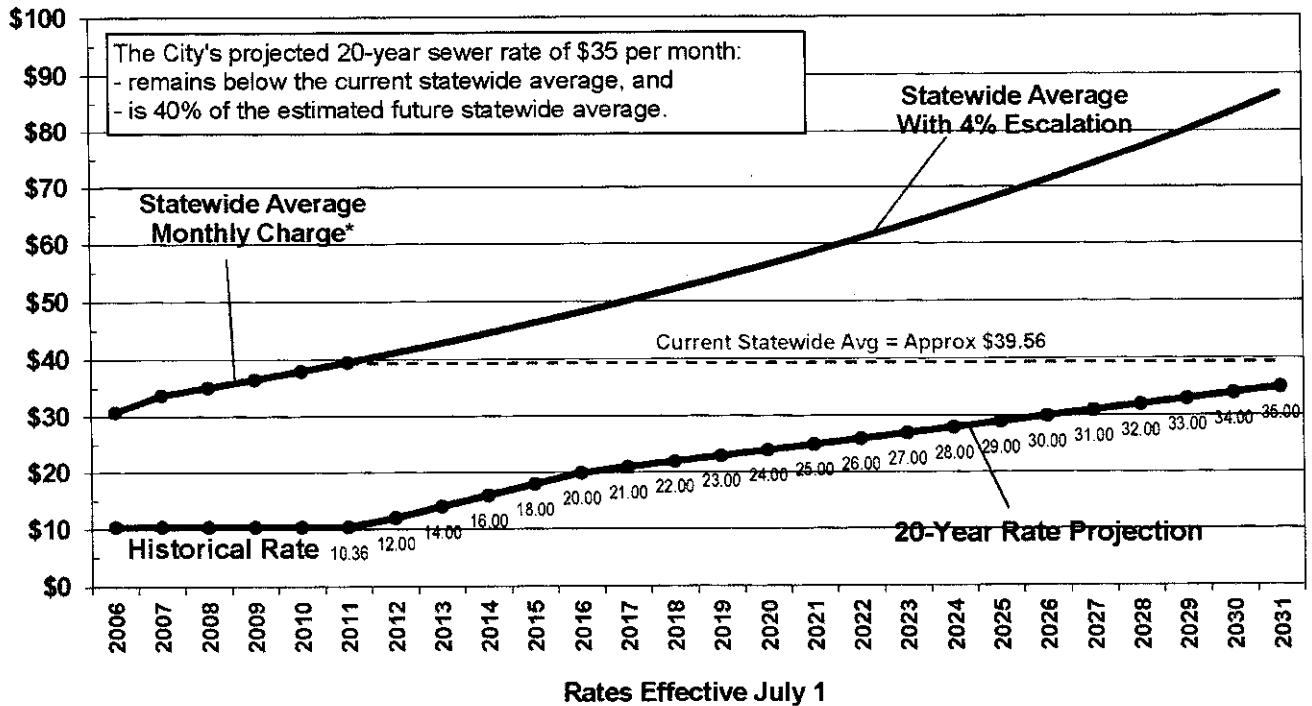
City of Palm Springs Historical & Projected Sewer Service Charges per EDU (per Month)



* Based on State Water Resources Control Board, *Wastewater User Charge Survey Report, May 2008*; plus 4% projected increases.

Chart E

City of Palm Springs 20-Year Projected Sewer Service Charges per EDU (per Month)



* Based on State Water Resources Control Board, *Wastewater User Charge Survey Report, May 2008*.

1.14 Debt Financing

The wastewater enterprise currently carries no debt, and therefore, has no annual debt service payments. To determine how leveraging debt may reduce required sewer rate increases, the City's Financial Advisor, Suzanne Harrell, analyzed various funding alternatives. Focusing only on the \$20 Million cost of the Priority 1 list of projects, the four analyses considered "Pay As You Go" with no debt financing, a \$20 Million state revolving fund ("SRF") loan, a \$20 Million bond issue, and partial debt financing with a \$10 Million bond issue. The length of the required short term phased rate increase and the required rate at the end of the short term phase-in for each of the alternatives is shown in the following Table:

<u>Alternative</u>	<u>Years of Initial Phased Rate Increase</u>	<u>Rate</u>
"Pay As You Go"	6	\$26.96
\$20 Million SRF Loan	8	\$19.59
\$20 Million Bond	8	\$20.30
\$10 Million Bond	7	\$24.56

The alternative analysis indicates that debt could be strategically used to result in a more gradual phase in of rate increases in the short term. For example, wastewater rates could be gradually increased to a level equal to \$20 per month over 8 years, as opposed to over 5 years without any debt financing. However, with debt financing higher rate increases would be required, particularly after completion of the 20-Year WWTP CIP when the wastewater fund would need to generate additional revenue for annual debt service payments until the debt was gradually paid off.

If the City opts to pursue debt financing to help fund a portion of its capital program, it is recommended the City maximize the use of state-subsidized funding programs such as the Clean Water State Revolving Fund Loans (SRF Loans). The SRF Loan program currently offers 20-year loans with interest rates in the 2.5% range. Under the program, the first debt service payment is not due until one year after the loan-funded project is complete. If conventional financing is ever used, the City should evaluate the cost-effectiveness of using bonds, Certificates of Participation, or bank loans to determine the lowest-cost option.

A summary of basic sewer-revenue-supported financing options is listed below.

- State Revolving Fund (SRF) Loan Program – The Clean Water State Revolving Fund Loan program administered by the State Water Resources Control Board offers 20-year fixed-rate loans for eligible wastewater projects. The program can currently be used to fund up to \$50 million of projects per year. The interest rate is set at roughly one half of the state's general obligation bond rate; current interest rates are

approximately 2.5%. Another advantage of the SRF Loan program is that the first debt service payment is not due until one year after the project is completed, giving agencies more time to get their rates in place to support debt repayment. The program does not fund the replacement of facilities that were previously grant-funded. Debt repayment is typically secured by an agency's legal pledge to raise rates and fees as needed to repay debt service.

- Other Grant & Loan Programs – There are a number of other state and federal funding programs available to fund projects that meet each program's eligibility requirements. Grants are hard to come by and often only provide a relatively small amount of funding if awarded; wastewater grants are generally only available to small agencies serving economically disadvantaged areas. Most other subsidized loan programs offer interest rates that are higher than the SRF Loan program.
- Revenue Bonds & COPs– Revenue bonds and Certificates of Participation (COPs) are the most common types of debt financing used by utility enterprises, such as water and wastewater agencies. Although there are some technical differences between bonds and COPs, both function almost exactly the same from the issuer's standpoint. Debt repayment is secured by an agency's binding legal pledge to raise rates and charges necessary to repay debt and achieve a specified debt service coverage ratio. Revenue bonds and COPs are typically issued with terms of up to 30 years and offer relatively low tax-exempt municipal interest rates. Current interest rates vary by the underlying credit quality of the issuing agency. For financial planning purposes, the average annual interest rate is estimated at 5.25% for a 25-year revenue bond or COP, and 5% for a 20-year bond.
- Bank Loans, Private Placements, Leases, & Lines of Credit – Bank loans, private placements, and leases typically offer slightly higher interest rates than bonds, but also have lower costs of issuance. This generally makes bank loans a cost-effective option for smaller borrowings, historically under \$5 million. Currently, only a very limited number of banks are considering making loans with terms extending 15-20 years. Interest rates can vary from month to month. The interest rate for a 20-year bank loan is currently estimated at 5.75%. Short-term bank loans and lines of credit are sometimes used to provide interim financing that will eventually be taken out with long-term debt. For example, agencies with limited fund reserves may use a line of credit to fund project design and preliminary engineering costs prior to issuing long-term bonds when construction bids are received. The legal covenants securing loans and lines of credit are generally similar to those of bonds or COPs.

1.15 Proposition 218

Proposition 218, the “Right to Vote on Taxes Act”, was approved by California voters in November 1996 and is codified as Articles XIII C and XIII D of the California Constitution. Proposition 218 establishes requirements for imposing or increasing property related taxes, assessments, fees and charges. For many years, there was no legal consensus on whether water and sewer rates met the definition of “property related fees”. In July 2007, the California Supreme Court essentially confirmed that Proposition 218 applies to water rates. The prevailing legal consensus is that Proposition 218 also applies to wastewater rates.

Proposition 218 establishes certain procedural requirements for adopting rate increases. These requirements include:

- **Noticing Requirement:** The City must mail a notice of proposed rate increases to all affected property owners. The notice must specify the basis of the fee, the reason for the fee, and the date/time/location of a public rate hearing at which the proposed rates will be considered/adopted.
- **Public Hearing:** The City must hold a public hearing prior to adopting the proposed rate increases. The public hearing must be held not less than 45 days after the required notices are mailed.
- **Rate Increases Subject to Majority Protest:** At the public hearing, the proposed rate increases are subject to majority protest. If more than 50% of affected property owners submit written protests against the proposed rate increases, the increases cannot be adopted.

Proposition 218 also established a number of substantive requirements that are generally deemed to apply to utility service charges, including:

- **Cost of Service** - Revenues derived from the fee or charge cannot exceed the funds required to provide the service. In essence, fees cannot exceed the “cost of service”.
- **Intended Purpose** - Revenues derived from the fee or charge can only be used for the purpose for which the fee was imposed.
- **Proportional Cost Recovery** - The amount of the fee or charge levied on any customer shall not exceed the proportional cost of service attributable to that customer.

- No fee or charge may be imposed for a service unless that service is used by, or immediately available to, the owner of the property. Standby charges shall be classified as “assessments” which are governed by Article 13D Section 4.

Proposition 218 requires that the City ensure that its wastewater rates reasonably reflect the cost of providing service to each customer. Generally, wastewater rates can recover costs for operations, capital needs, debt service, administration, as well as costs related to the prudent long-term operational or financial management of the utility enterprise, such as maintaining adequate fund reserves and planning for contingencies. While Proposition 218 places a number of limitations on the City’s rates, the City retains substantial latitude to determine actual utility charges provided they do not exceed the cost of providing service.

1.16 AB3030

AB3030, which added Section 53756 to the California Government Code, went into effect on January 1, 2009. The new code clarifies that agencies that provide water, sewer, or refuse collection service may authorize a) automatic rate adjustments for inflation, and/or b) automatic rate pass throughs for wholesale water charge increases. Pursuant to AB3030, these automatic increases cannot exceed five years and must be clearly defined in the Prop. 218 notice, such as by a formula explaining how the adjustment will be calculated. Additionally, notice of any automatic increase must be sent to ratepayers at least 30 days prior to implementation.

1.17 Multi-Year Rate Increase

In order to minimize the effort and cost of going through the Proposition 218 process year after year, this report considers a multi-year wastewater rate increase as previously indicated in this report. The multi-year wastewater rate increase to a maximum monthly rate of \$35 per EDU is consistent with the Proposition 218 requirements, in that the Noticing specifically identifies the maximum rate by 2031, and the manner in which specific rate increases in each year are to be implemented.

By adopting a specific 20-year maximum allowable rate, the provisions of AB3030 do not apply as the propose rate increases in each year have been specifically established pursuant to the Proposition 218 Noticing and Majority Protest. The City may able to gradually adjust future rates pursuant to whatever guidelines it sets provided that rates do not exceed the cost of providing service as mandated by Proposition 218.

Appendix A
Financial & Rate Projections with Partial Debt Financing

PALM SPRINGS WASTEWATER TREATMENT PLANT –RATE CHANGE

FY	No Debt			SRF Loan			Bonds			Bonds (partial)		
	Monthly	Cumulative	Total	Monthly	Cumulative	Total	Monthly	Cumulative	Total	Monthly	Cumulative	Total
2011			10.36			10.36			10.36			10.36
2012	3.34	3.34	13.70	2.84	2.84	13.20	3.39	3.39	13.75	3.39	3.39	13.75
2013	3.62	6.96	17.32	2.12	4.96	15.32	2.37	5.76	16.12	2.37	5.76	16.12
2014	4.16	11.11	21.47	0.66	5.61	15.97	0.66	6.41	16.77	2.41	8.16	18.52
2015	4.45	15.56	25.92	0.55	6.17	16.53	0.70	7.11	17.47	2.20	10.36	20.72
2016	0.45	16.01	26.37	0.59	6.76	17.12	0.54	7.65	18.01	2.23	12.59	22.95
2017	0.59	16.60	26.96	0.78	7.54	17.90	0.59	8.24	18.60	0.78	13.37	23.73
2018	(3.18)	13.42	23.78	0.82	8.36	18.72	0.82	9.06	19.42	0.82	14.20	24.56
2019	(3.13)	10.29	20.65	0.87	9.23	19.59	0.87	9.94	20.30	(1.63)	12.57	22.93
2020	(4.00)	6.29	16.65	-	9.23	19.59	-	9.94	20.30	(2.00)	10.57	20.93
2021	(1.00)	5.29	15.65	-	9.23	19.59	-	9.94	20.30	(2.00)	8.57	18.93
2022	-	5.29	15.65	-	9.23	19.59	-	9.94	20.30	(1.75)	6.82	17.18



PALM SPRINGS WASTEWATER TREATMENT PLANT – RATE COMPARISON

FY	No Debt		Pay-Go Monthly Difference		Pay-Go Annual Difference		No Debt	Bonds		Pay-Go Monthly Difference		Pay-Go Annual Difference		
	No Debt	SRF Loan	No Debt	SRF Loan	No Debt	SRF Loan		No Debt	Bonds (Partial)	No Debt	Bonds (Partial)	No Debt	Bonds (Partial)	
2011	10.36	10.36	-	-	-	-	10.36	10.36	-	-	10.36	10.36	-	-
2012	13.70	13.20	0.50	6.00	13.70	13.75	(0.05)	(0.60)	13.70	13.75	(0.05)	(0.60)	13.70	14.40
2013	17.32	15.32	2.00	24.00	17.32	16.12	1.20	14.40	17.32	16.12	1.20	14.40	17.32	35.40
2014	21.47	15.97	5.50	66.00	21.47	16.77	4.70	56.40	21.47	18.52	2.95	35.40	21.47	62.40
2015	25.92	16.53	9.39	112.71	25.92	17.47	8.45	101.40	25.92	20.72	5.20	62.40	25.92	40.98
2016	26.37	17.12	9.25	111.00	26.37	18.01	8.35	100.26	26.37	22.95	3.41	38.69	26.37	(9.31)
2017	26.96	17.90	9.06	108.72	26.96	18.60	8.35	100.26	26.96	23.73	3.22	(27.31)	26.96	(51.31)
2018	23.78	18.72	5.06	60.72	23.78	19.42	4.35	52.26	23.78	24.56	(0.78)	(9.31)	23.78	(39.31)
2019	20.65	19.59	1.06	12.72	20.65	20.30	0.35	4.26	20.65	22.93	(2.28)	(27.31)	20.65	(18.31)
2020	16.65	19.59	(2.94)	(35.28)	16.65	20.30	(3.65)	(43.74)	16.65	20.93	(4.28)	(51.31)	16.65	(18.31)
2021	15.65	19.59	(3.94)	(47.28)	15.65	20.30	(4.65)	(55.74)	15.65	18.93	(3.28)	(39.31)	15.65	(18.31)
2022	15.65	19.59	(3.94)	(47.28)	15.65	20.30	(4.65)	(55.74)	15.65	17.18	(1.53)	(18.31)	15.65	(18.31)
2023	15.65	19.59	(3.94)	(47.28)	15.65	20.30	(4.65)	(55.74)	15.65	17.18	(1.53)	(18.31)	15.65	(18.31)
2024	15.65	19.59	(3.94)	(47.28)	15.65	20.30	(4.65)	(55.74)	15.65	17.18	(1.53)	(18.31)	15.65	(18.31)
2025	15.65	19.59	(3.94)	(47.28)	15.65	20.30	(4.65)	(55.74)	15.65	17.18	(1.53)	(18.31)	15.65	(18.31)
2026	15.65	19.59	(3.94)	(47.28)	15.65	20.30	(4.65)	(55.74)	15.65	17.18	(1.53)	(18.31)	15.65	(18.31)
2027	15.65	19.59	(3.94)	(47.28)	15.65	20.30	(4.65)	(55.74)	15.65	17.18	(1.53)	(18.31)	15.65	(18.31)
2028	15.65	19.59	(3.94)	(47.28)	15.65	20.30	(4.65)	(55.74)	15.65	17.18	(1.53)	(18.31)	15.65	(18.31)
2029	15.65	19.59	(3.94)	(47.28)	15.65	20.30	(4.65)	(55.74)	15.65	17.18	(1.53)	(18.31)	15.65	(18.31)
2030	15.65	19.59	(3.94)	(47.28)	15.65	20.30	(4.65)	(55.74)	15.65	17.18	(1.53)	(18.31)	15.65	(18.31)
2031	15.65	19.59	(3.94)	(47.28)	15.65	20.30	(4.65)	(55.74)	15.65	17.18	(1.53)	(18.31)	15.65	(18.31)
2032	15.65	19.59	(3.94)	(47.28)	15.65	20.30	(4.65)	(55.74)	15.65	17.18	(1.53)	(18.31)	15.65	(18.31)
2033	15.65	19.59	(3.94)	(47.28)	15.65	20.30	(4.65)	(55.74)	15.65	17.18	(1.53)	(18.31)	15.65	(18.31)
Total	4,879.63	5,027.73		(148.10)	4,879.63	5,219.38		(339.75)	4,879.63	5,035.29		(155.66)		



PALM SPRINGS WASTEWATER TREATMENT PLANT – OPERATIONS 1

SCHEDULE 1 : INCREASE FOR CAPITAL PAY AS YOU GO; INFLATIONARY INCREASE FOR OPERATING COSTS

FY	EDU	Operating Revenue, Expense and Debt Service											Total Monthly Charge				
		Existing Service Charge \$10.36	Monthly Service Chg Increase for Capital	Cumulative Monthly Service Chg Incr for Capital	\$ Service Chrg Increase for Capital	Monthly Service Chg Increase for Operations	Cumulative Monthly Service Chg Incr for Operations	\$ Service Chrg Increase for Operations	Operating Expense Per Study	Net Operating Income	Financing	Remaining Revenue		Debt Coverage Ratio			
2011																	10.36
2012	43,800	5,451,000	2.75	2.75	1,445,000	0.59	0.59	309,000	(5,712,000)	1,184,000	-	1,184,000	-	1,184,000	-	13.70	
2013	43,900	5,451,000	3.00	5.75	3,022,000	0.50	1.21	634,000	(6,037,000)	3,070,009	-	3,070,009	-	3,070,009	-	17.32	
2014	44,000	5,464,000	3.50	9.25	4,873,000	0.66	1.86	979,000	(6,382,000)	4,934,013	-	4,934,013	-	4,934,013	-	21.47	
2015	44,100	5,476,000	3.75	13.00	6,864,000	0.70	2.56	1,345,000	(6,748,000)	6,937,017	-	6,937,017	-	6,937,017	-	25.92	
2016	44,200	5,488,000	-	13.00	6,880,000	0.45	3.01	1,581,000	(7,134,000)	6,816,013	-	6,816,013	-	6,816,013	-	26.37	
2017	44,300	5,501,000	-	13.00	6,895,000	0.59	3.60	1,890,000	(7,543,000)	6,743,014	-	6,743,014	-	6,743,014	-	26.96	
2018	44,400	5,514,000	(4.00)	9.00	4,784,000	0.82	4.42	2,323,000	(7,976,000)	4,645,006	-	4,645,006	-	4,645,006	-	23.78	
2019	44,500	5,526,000	(4.00)	5.00	2,664,000	0.87	5.29	2,781,000	(8,434,000)	2,537,002	-	2,537,002	-	2,537,002	-	20.65	
2020	44,500	5,538,000	(4.00)	1.00	534,000	-	5.29	2,781,000	(8,434,000)	418,997	-	418,997	-	418,997	-	16.65	
2021	44,500	5,538,000	(1.00)	-	-	-	5.29	2,781,000	(8,434,000)	(115,001)	-	(115,001)	-	(115,001)	-	15.65	
2022	44,500	5,538,000	-	-	-	-	5.29	2,781,000	(8,434,000)	(115,000)	-	(115,000)	-	(115,000)	-	15.65	
2023	44,500	5,538,000	-	-	-	-	5.29	2,781,000	(8,434,000)	(115,000)	-	(115,000)	-	(115,000)	-	15.65	
2024	44,500	5,538,000	-	-	-	-	5.29	2,781,000	(8,434,000)	(115,000)	-	(115,000)	-	(115,000)	-	15.65	
2025	44,500	5,538,000	-	-	-	-	5.29	2,781,000	(8,434,000)	(115,000)	-	(115,000)	-	(115,000)	-	15.65	
2026	44,500	5,538,000	-	-	-	-	5.29	2,781,000	(8,434,000)	(115,000)	-	(115,000)	-	(115,000)	-	15.65	
2027	44,500	5,538,000	-	-	-	-	5.29	2,781,000	(8,434,000)	(115,000)	-	(115,000)	-	(115,000)	-	15.65	
2028	44,500	5,538,000	-	-	-	-	5.29	2,781,000	(8,434,000)	(115,000)	-	(115,000)	-	(115,000)	-	15.65	
2029	44,500	5,538,000	-	-	-	-	5.29	2,781,000	(8,434,000)	(115,000)	-	(115,000)	-	(115,000)	-	15.65	
2030	44,500	5,538,000	-	-	-	-	5.29	2,781,000	(8,434,000)	(115,000)	-	(115,000)	-	(115,000)	-	15.65	
2031	44,500	5,538,000	-	-	-	-	5.29	2,781,000	(8,434,000)	(115,000)	-	(115,000)	-	(115,000)	-	15.65	
2032	44,500	5,538,000	-	-	-	-	5.29	2,781,000	(8,434,000)	(115,000)	-	(115,000)	-	(115,000)	-	15.65	
2033	44,500	5,538,000	-	-	-	-	5.29	2,781,000	(8,434,000)	(115,000)	-	(115,000)	-	(115,000)	-	15.65	



PALM SPRINGS WASTEWATER TREATMENT PLANT – CAPITAL 1

SCHEDULE 1 : INCREASE FOR CAPITAL PAY AS YOU GO; INFLATIONARY INCREASE FOR OPERATING COSTS

Capital Projects Funding

FY	Beginning Balance	Less 3 Months Op Reserve	Remaining Revenue	Upfront Design	Bond Proceeds	Project Costs	Repair and Maint	Connection Charges	Add to Reserve for Depreciation	Cumulative Balance
2011										6,410,000
2012	6,410,000	(1,428,000)	1,184,000	(500,000)	-	-	(258,000)	300,000	(100,000)	5,608,000
2013	5,608,000	(81,250)	3,070,000	(500,000)	-	(6,250,000)	(265,000)	300,000	(200,000)	1,681,750
2014	1,681,750	(86,250)	4,934,000	-	-	(6,250,000)	(273,000)	300,000	(300,000)	6,500
2015	6,500	(91,500)	6,937,000	-	-	(6,250,000)	(281,000)	300,000	(400,000)	221,000
2016	221,000	(96,500)	6,816,000	-	-	(6,250,000)	(289,000)	300,000	(500,000)	201,500
2017	201,500	(102,250)	6,743,000	-	-	-	(298,000)	300,000	(500,000)	6,344,250
2018	6,344,250	(108,250)	4,645,000	-	-	-	(307,000)	300,000	(500,000)	10,374,000
2019	10,374,000	(114,500)	2,537,000	-	-	-	(316,000)	300,000	(500,000)	12,280,500
2020	12,280,500	-	419,000	-	-	-	(325,000)	300,000	(500,000)	12,174,500
2021	12,174,500	-	(115,000)	-	-	-	(325,000)	-	(500,000)	11,234,500
2022	11,234,500	-	(115,000)	-	-	-	(325,000)	-	(500,000)	10,294,500
2023	10,294,500	-	(115,000)	-	-	-	(325,000)	-	(500,000)	9,354,500
2024	9,354,500	-	(115,000)	-	-	-	(325,000)	-	(500,000)	8,414,500
2025	8,414,500	-	(115,000)	-	-	-	(325,000)	-	(500,000)	7,474,500
2026	7,474,500	-	(115,000)	-	-	-	(325,000)	-	(500,000)	6,534,500
2027	6,534,500	-	(115,000)	-	-	-	(325,000)	-	(500,000)	5,594,500
2028	5,594,500	-	(115,000)	-	-	-	(325,000)	-	(500,000)	4,654,500
2029	4,654,500	-	(115,000)	-	-	-	(325,000)	-	(500,000)	3,714,500
2030	3,714,500	-	(115,000)	-	-	-	(325,000)	-	(500,000)	2,774,500
2031	2,774,500	-	(115,000)	-	-	-	(325,000)	-	(500,000)	1,834,500
2032	1,834,500	-	(115,000)	-	-	-	(325,000)	-	(500,000)	894,500
2033	894,500	-	(115,000)	-	-	-	(325,000)	-	(500,000)	(45,500)
		(2,108,500)		(1,000,000)		(25,000,000)	(6,837,000)		(10,000,000)	



PALM SPRINGS WASTEWATER TREATMENT PLANT – OPERATIONS 2

SCHEDULE 2 : INCREASE FOR CAPITAL (SRF); INFLATIONARY INCREASE FOR OPERATING COSTS

FY	EDU	Operating Revenue, Expense and Debt Service										Debt Coverage Ratio	Total Monthly Charge						
		Existing Service Charge \$10.36	Monthly Service Chg Increase for Capital	Cumulative Monthly Service Chg Incr for Capital	\$ Service Chrg Increase for Capital	Monthly Service Chg Increase for Operations	Cumulative Monthly Service Chg Incr for Operations	\$ Service Chrg Increase for Operations	Operating Expense Per Study	Net Operating Income	SRF Loan			Remaining Revenue					
2011																		10.36	13.20
2012	43,800	5,451,000	2.25	2.25	1,183,000	0.59	0.59	309,000	(5,712,000)	922,000	-	922,000	1,359,006	139.7%	15.32				
2013	43,900	5,451,000	1.50	3.75	1,971,000	0.50	1.21	634,000	(6,037,000)	2,019,006	(660,000)	1,377,004	305.9%	15.97					
2014	44,000	5,464,000	-	3.75	1,976,000	0.66	1.86	979,000	(6,382,000)	2,037,004	(660,000)	618,004	149.8%	16.53					
2015	44,100	5,476,000	-	3.75	1,980,000	0.55	2.42	1,270,000	(6,748,000)	1,978,004	(1,360,000)	561,004	145.4%	17.12					
2016	44,200	5,489,000	-	3.75	1,985,000	0.59	3.01	1,581,000	(7,134,000)	1,921,004	(1,360,000)	577,005	141.3%	17.90					
2017	44,300	5,501,000	-	3.75	1,989,000	0.78	3.79	1,990,000	(7,543,000)	1,937,005	(1,360,000)	595,005	142.4%	18.72					
2018	44,400	5,514,000	-	3.75	1,994,000	0.82	4.61	2,423,000	(7,976,000)	1,955,005	(1,360,000)	611,005	143.8%	19.59					
2019	44,500	5,526,000	-	3.75	1,998,000	0.87	5.48	2,881,000	(8,434,000)	1,971,005	(1,360,000)	628,004	144.9%	19.59					
2020	44,500	5,538,000	-	3.75	2,003,000	-	5.48	2,881,000	(8,434,000)	1,988,004	(1,360,000)	628,004	146.2%	19.59					
2021	44,500	5,538,000	-	3.75	2,003,000	-	5.48	2,881,000	(8,434,000)	1,988,004	(1,360,000)	628,004	146.2%	19.59					
2022	44,500	5,538,000	-	3.75	2,003,000	-	5.48	2,881,000	(8,434,000)	1,988,004	(1,360,000)	628,004	146.2%	19.59					
2023	44,500	5,538,000	-	3.75	2,003,000	-	5.48	2,881,000	(8,434,000)	1,988,004	(1,360,000)	628,004	146.2%	19.59					
2024	44,500	5,538,000	-	3.75	2,003,000	-	5.48	2,881,000	(8,434,000)	1,988,004	(1,360,000)	628,004	146.2%	19.59					
2025	44,500	5,538,000	-	3.75	2,003,000	-	5.48	2,881,000	(8,434,000)	1,988,004	(1,360,000)	628,004	146.2%	19.59					
2026	44,500	5,538,000	-	3.75	2,003,000	-	5.48	2,881,000	(8,434,000)	1,988,004	(1,360,000)	628,004	146.2%	19.59					
2027	44,500	5,538,000	-	3.75	2,003,000	-	5.48	2,881,000	(8,434,000)	1,988,004	(1,360,000)	628,004	146.2%	19.59					
2028	44,500	5,538,000	-	3.75	2,003,000	-	5.48	2,881,000	(8,434,000)	1,988,004	(1,360,000)	628,004	146.2%	19.59					
2029	44,500	5,538,000	-	3.75	2,003,000	-	5.48	2,881,000	(8,434,000)	1,988,004	(1,360,000)	628,004	146.2%	19.59					
2030	44,500	5,538,000	-	3.75	2,003,000	-	5.48	2,881,000	(8,434,000)	1,988,004	(1,360,000)	628,004	146.2%	19.59					
2031	44,500	5,538,000	-	3.75	2,003,000	-	5.48	2,881,000	(8,434,000)	1,988,004	(1,360,000)	628,004	146.2%	19.59					
2032	44,500	5,538,000	-	3.75	2,003,000	-	5.48	2,881,000	(8,434,000)	1,988,004	(1,360,000)	628,004	146.2%	19.59					
2033	44,500	5,538,000	-	3.75	2,003,000	-	5.48	2,881,000	(8,434,000)	1,988,004	(700,000)	1,288,004	284.0%	19.59					



PALM SPRINGS WASTEWATER TREATMENT PLANT – CAPITAL 2

SCHEDULE 2 : INCREASE FOR CAPITAL (SRF); INFLATIONARY INCREASE FOR OPERATING COSTS

Capital Projects Funding

FY	Beginning Balance	Less 3 Months Op Reserve	Remaining Revenue	Upfront Design	Loan Proceeds	Project Costs	Repair and Maint	Connection Charges	Add to Reserve for Depreciation	Cumulative Balance
2011										6,410,000
2012	6,410,000	(1,428,000)	922,000	(500,000)	-	-	(258,000)	300,000	(100,000)	5,346,000
2013	5,346,000	(81,250)	1,359,000	(500,000)	10,000,000	(6,250,000)	(265,000)	300,000	(200,000)	9,708,750
2014	9,708,750	(86,250)	1,377,000	-	-	(6,250,000)	(273,000)	300,000	(300,000)	4,476,500
2015	4,476,500	(91,500)	618,000	-	10,000,000	(6,250,000)	(281,000)	300,000	(400,000)	8,372,000
2016	8,372,000	(96,500)	561,000	-	-	(6,250,000)	(289,000)	300,000	(500,000)	2,097,500
2017	2,097,500	(102,250)	577,000	-	-	-	(298,000)	300,000	(500,000)	2,074,250
2018	2,074,250	(108,250)	595,000	-	-	-	(307,000)	300,000	(500,000)	2,054,000
2019	2,054,000	(114,500)	611,000	-	-	-	(316,000)	300,000	(500,000)	2,034,500
2020	2,034,500	-	628,000	-	-	-	(325,000)	300,000	(500,000)	2,137,500
2021	2,137,500	-	628,000	-	-	-	(325,000)	-	(500,000)	1,940,500
2022	1,940,500	-	628,000	-	-	-	(325,000)	-	(500,000)	1,743,500
2023	1,743,500	-	628,000	-	-	-	(325,000)	-	(500,000)	1,546,500
2024	1,546,500	-	628,000	-	-	-	(325,000)	-	(500,000)	1,349,500
2025	1,349,500	-	628,000	-	-	-	(325,000)	-	(500,000)	1,152,500
2026	1,152,500	-	628,000	-	-	-	(325,000)	-	(500,000)	955,500
2027	955,500	-	628,000	-	-	-	(325,000)	-	(500,000)	758,500
2028	758,500	-	628,000	-	-	-	(325,000)	-	(500,000)	561,500
2029	561,500	-	628,000	-	-	-	(325,000)	-	(500,000)	364,500
2030	364,500	-	628,000	-	-	-	(325,000)	-	(500,000)	167,500
2031	167,500	-	628,000	-	-	-	(325,000)	-	(500,000)	(29,500)
2032	(29,500)	-	628,000	-	-	-	(325,000)	-	(500,000)	(226,500)
2033	(226,500)	-	1,288,000	-	-	-	(325,000)	-	(500,000)	236,500
		(2,108,500)		(1,000,000)		(25,000,000)	(6,837,000)		(10,000,000)	



PALM SPRINGS WASTEWATER TREATMENT PLANT – OPERATIONS 3

SCHEDULE 3 : INCREASE FOR CAPITAL (BONDS); INFLATIONARY INCREASE FOR OPERATING COSTS

FY	EDU	Operating Revenue, Expense and Debt Service											Total Monthly Charge					
		Existing Service Charge \$10.36	Monthly Service Chg Increase for Capital	Cumulative Monthly Service Chg Incr for Capital	\$ Service Chrg Increase for Capital	Monthly Service Chg Increase for Operations	Cumulative Monthly Service Chg Incr for Operations	\$ Service Chrg Increase for Operations	Operating Expense Per Study	Net Operating Income	Bonds Debt Service	Remaining Revenue		Debt Coverage Ratio				
2011																		10.36
2012	43,800	5,451,000	2.80	2.80	1,472,000	0.59	0.59	309,000	(5,712,000)	1,211,000	-	1,211,000					13.75	
2013	43,900	5,451,000	1.75	4.55	2,391,000	0.50	1.21	634,000	(6,037,000)	2,439,007	(925,000)	1,514,007	130.9%				16.12	
2014	44,000	5,464,000	-	4.55	2,397,000	0.66	1.86	979,000	(6,362,000)	2,458,005	(925,000)	1,533,005	263.7%				16.77	
2015	44,100	5,476,000	-	4.55	2,402,000	0.70	2.56	1,345,000	(6,748,000)	2,475,005	(1,850,000)	625,005	132.9%				17.47	
2016	44,200	5,489,000	-	4.55	2,408,000	0.54	3.10	1,631,000	(7,134,000)	2,394,005	(1,850,000)	544,005	133.8%				18.01	
2017	44,300	5,501,000	-	4.55	2,413,000	0.59	3.69	1,940,000	(7,543,000)	2,311,005	(1,850,000)	461,005	129.4%				18.60	
2018	44,400	5,514,000	-	4.55	2,419,000	0.82	4.51	2,373,000	(7,976,000)	2,330,005	(1,850,000)	480,005	124.9%				19.42	
2019	44,500	5,526,000	-	4.55	2,424,000	0.87	5.39	2,831,000	(8,434,000)	2,347,005	(1,850,000)	497,005	125.9%				20.30	
2020	44,500	5,538,000	-	4.55	2,430,000	-	5.39	2,831,000	(8,434,000)	2,365,005	(1,850,000)	515,005	126.9%				20.30	
2021	44,500	5,538,000	-	4.55	2,430,000	-	5.39	2,831,000	(8,434,000)	2,365,005	(1,850,000)	515,005	127.8%				20.30	
2022	44,500	5,538,000	-	4.55	2,430,000	-	5.39	2,831,000	(8,434,000)	2,365,005	(1,850,000)	515,005	127.8%				20.30	
2023	44,500	5,538,000	-	4.55	2,430,000	-	5.39	2,831,000	(8,434,000)	2,365,005	(1,850,000)	515,005	127.8%				20.30	
2024	44,500	5,538,000	-	4.55	2,430,000	-	5.39	2,831,000	(8,434,000)	2,365,005	(1,850,000)	515,005	127.8%				20.30	
2025	44,500	5,538,000	-	4.55	2,430,000	-	5.39	2,831,000	(8,434,000)	2,365,005	(1,850,000)	515,005	127.8%				20.30	
2026	44,500	5,538,000	-	4.55	2,430,000	-	5.39	2,831,000	(8,434,000)	2,365,005	(1,850,000)	515,005	127.8%				20.30	
2027	44,500	5,538,000	-	4.55	2,430,000	-	5.39	2,831,000	(8,434,000)	2,365,005	(1,850,000)	515,005	127.8%				20.30	
2028	44,500	5,538,000	-	4.55	2,430,000	-	5.39	2,831,000	(8,434,000)	2,365,005	(1,850,000)	515,005	127.8%				20.30	
2029	44,500	5,538,000	-	4.55	2,430,000	-	5.39	2,831,000	(8,434,000)	2,365,005	(1,850,000)	515,005	127.8%				20.30	
2030	44,500	5,538,000	-	4.55	2,430,000	-	5.39	2,831,000	(8,434,000)	2,365,005	(1,850,000)	515,005	127.8%				20.30	
2031	44,500	5,538,000	-	4.55	2,430,000	-	5.39	2,831,000	(8,434,000)	2,365,005	(1,850,000)	515,005	127.8%				20.30	
2032	44,500	5,538,000	-	4.55	2,430,000	-	5.39	2,831,000	(8,434,000)	2,365,005	(1,850,000)	515,005	127.8%				20.30	
2033	44,500	5,538,000	-	4.55	2,430,000	-	5.39	2,831,000	(8,434,000)	2,365,005	(925,000)	1,440,005	255.7%				20.30	



PALM SPRINGS WASTEWATER TREATMENT PLANT – CAPITAL 3

SCHEDULE 3 : INCREASE FOR CAPITAL (BONDS); INFLATIONARY INCREASE FOR OPERATING COSTS

Capital Projects Funding

FY	Beginning Balance	Less 3 Months Op Reserve	Remaining Revenue	Reserve Fund Earnings	Upfront Design	Bond Proceeds	Project Costs	Repair and Maint	Connection Charges	Add to Reserve for Depreciation	Cumulative Balance
2011											6,410,000
2012	6,410,000	(1,428,000)	1,211,000	-	(500,000)	-	-	(258,000)	300,000	(100,000)	5,635,000
2013	5,635,000	(81,250)	1,514,000	7,000	(500,000)	10,000,000	(6,250,000)	(265,000)	300,000	(200,000)	10,159,750
2014	10,159,750	(86,250)	1,533,000	9,000	-	-	(6,250,000)	(273,000)	300,000	(300,000)	5,092,500
2015	5,092,500	(91,500)	625,000	28,000	-	10,000,000	(6,250,000)	(281,000)	300,000	(400,000)	9,023,000
2016	9,023,000	(96,500)	544,000	37,000	-	-	(6,250,000)	(289,000)	300,000	(500,000)	2,768,500
2017	2,768,500	(102,250)	461,000	37,000	-	-	-	(298,000)	300,000	(500,000)	2,666,250
2018	2,666,250	(108,250)	480,000	46,000	-	-	-	(307,000)	300,000	(500,000)	2,577,000
2019	2,577,000	(114,500)	497,000	56,000	-	-	-	(316,000)	300,000	(500,000)	2,499,500
2020	2,499,500	-	515,000	65,000	-	-	-	(325,000)	300,000	(500,000)	2,554,500
2021	2,554,500	-	515,000	74,000	-	-	-	(325,000)	-	(500,000)	2,318,500
2022	2,318,500	-	515,000	74,000	-	-	-	(325,000)	-	(500,000)	2,082,500
2023	2,082,500	-	515,000	74,000	-	-	-	(325,000)	-	(500,000)	1,846,500
2024	1,846,500	-	515,000	74,000	-	-	-	(325,000)	-	(500,000)	1,610,500
2025	1,610,500	-	515,000	74,000	-	-	-	(325,000)	-	(500,000)	1,374,500
2026	1,374,500	-	515,000	74,000	-	-	-	(325,000)	-	(500,000)	1,138,500
2027	1,138,500	-	515,000	74,000	-	-	-	(325,000)	-	(500,000)	902,500
2028	902,500	-	515,000	74,000	-	-	-	(325,000)	-	(500,000)	666,500
2029	666,500	-	515,000	74,000	-	-	-	(325,000)	-	(500,000)	430,500
2030	430,500	-	515,000	74,000	-	-	-	(325,000)	-	(500,000)	194,500
2031	194,500	-	515,000	74,000	-	-	-	(325,000)	-	(500,000)	(41,500)
2032	(41,500)	-	515,000	999,000	-	-	-	(325,000)	-	(500,000)	647,500
2033	647,500	-	1,440,000	37,000	-	-	-	(325,000)	-	(500,000)	1,299,500
		(2,108,500)			(1,000,000)		(25,000,000)	(6,837,000)		(10,000,000)	



PALM SPRINGS WASTEWATER TREATMENT PLANT – OPERATIONS 4

SCHEDULE 4 : INCREASE FOR CAPITAL (PARTIAL BOND FUNDING); INFLATIONARY INCREASE FOR OPERATING COSTS

FY	EDU	Operating Revenue, Expense and Debt Service																	
		Existing Service Charge \$10.36	Monthly Service Chg Increase for Capital	Cumulative Monthly Service Chg Incr for Capital	\$ Service Chrg Increase for Capital	Monthly Service Chg Increase for Operations	Cumulative Monthly Service Chg Incr for Operations	\$ Service Chrg Increase for Operations	Operating Expense Per Study	Net Operating Income	Bonds Debt Service	Remaining Revenue	Debt Coverage Ratio	Total Monthly Charge					
2011																			
2012	43,800	5,451,000	2.80	2.80	1,472,000	0.59	0.59	309,000	(5,712,000)	1,211,000	-	1,211,000						13.75	
2013	43,900	5,451,000	1.75	4.55	2,391,000	0.50	1.21	634,000	(6,037,000)	2,439,007	(925,000)	1,514,007	130.9%					16.12	
2014	44,000	5,464,000	1.75	6.30	3,319,000	0.66	1.86	979,000	(6,382,000)	3,380,009	(925,000)	2,455,009	263.7%					18.52	
2015	44,100	5,476,000	1.50	7.80	4,118,000	0.70	2.56	1,345,000	(6,748,000)	4,191,010	(925,000)	3,266,010	365.4%					20.72	
2016	44,200	5,489,000	1.50	9.30	4,922,000	0.73	3.29	1,731,000	(7,134,000)	5,008,012	(925,000)	4,083,012	453.1%					22.95	
2017	44,300	5,501,000	-	9.30	4,933,000	0.78	4.07	2,140,000	(7,543,000)	5,031,010	(925,000)	4,106,010	541.4%					23.73	
2018	44,400	5,514,000	-	9.30	4,944,000	0.82	4.90	2,573,000	(7,976,000)	5,055,010	(925,000)	4,130,010	543.9%					24.56	
2019	44,500	5,526,000	(2.50)	6.80	3,623,000	0.87	5.77	3,031,000	(8,434,000)	3,746,005	(925,000)	2,821,005	546.5%					22.93	
2020	44,500	5,538,000	(2.00)	4.80	2,563,000	-	5.77	3,031,000	(8,434,000)	2,698,003	(925,000)	1,773,003	405.0%					20.93	
2021	44,500	5,538,000	(2.00)	2.80	1,495,000	-	5.77	3,031,000	(8,434,000)	1,630,001	(925,000)	705,001	291.7%					18.93	
2022	44,500	5,538,000	(1.75)	1.05	561,000	-	5.77	3,031,000	(8,434,000)	696,999	(925,000)	(229,001)	176.2%					17.18	
2023	44,500	5,538,000	-	1.05	561,000	-	5.77	3,031,000	(8,434,000)	696,001	(925,000)	(228,999)	75.2%					17.18	
2024	44,500	5,538,000	-	1.05	561,000	-	5.77	3,031,000	(8,434,000)	696,001	(925,000)	(228,999)	75.2%					17.18	
2025	44,500	5,538,000	-	1.05	561,000	-	5.77	3,031,000	(8,434,000)	696,001	(925,000)	(228,999)	75.2%					17.18	
2026	44,500	5,538,000	-	1.05	561,000	-	5.77	3,031,000	(8,434,000)	696,001	(925,000)	(228,999)	75.2%					17.18	
2027	44,500	5,538,000	-	1.05	561,000	-	5.77	3,031,000	(8,434,000)	696,001	(925,000)	(228,999)	75.2%					17.18	
2028	44,500	5,538,000	-	1.05	561,000	-	5.77	3,031,000	(8,434,000)	696,001	(925,000)	(228,999)	75.2%					17.18	
2029	44,500	5,538,000	-	1.05	561,000	-	5.77	3,031,000	(8,434,000)	696,001	(925,000)	(228,999)	75.2%					17.18	
2030	44,500	5,538,000	-	1.05	561,000	-	5.77	3,031,000	(8,434,000)	696,001	(925,000)	(228,999)	75.2%					17.18	
2031	44,500	5,538,000	-	1.05	561,000	-	5.77	3,031,000	(8,434,000)	696,001	(925,000)	(228,999)	75.2%					17.18	
2032	44,500	5,538,000	-	1.05	561,000	-	5.77	3,031,000	(8,434,000)	696,001	(925,000)	(228,999)	75.2%					17.18	
2033	44,500	5,538,000	-	1.05	561,000	-	5.77	3,031,000	(8,434,000)	696,001	-	696,001						17.18	



PALM SPRINGS WASTEWATER TREATMENT PLANT – CAPITAL 4

SCHEDULE 4 : INCREASE FOR CAPITAL (PARTIAL BOND FUNDING); INFLATIONARY INCREASE FOR OPERATING COSTS

Capital Projects Funding

FY	Beginning Balance	Less 3 Months Op Reserve	Remaining Revenue	Reserve Fund Earnings	Upfront Design	Bond Proceeds	Project Costs	Repair and Maint	Connection Charges	Add to Reserve for Depreciation	Cumulative Balance
2011											6,410,000
2012	6,410,000	(1,428,000)	1,211,000	-	(500,000)	-	-	(258,000)	300,000	(100,000)	5,635,000
2013	5,635,000	(81,250)	1,514,000	7,000	(500,000)	10,000,000	(6,250,000)	(265,000)	300,000	(200,000)	10,159,750
2014	10,159,750	(86,250)	2,455,000	9,000	-	-	(6,250,000)	(273,000)	300,000	(300,000)	6,014,500
2015	6,014,500	(91,500)	3,266,000	14,000	-	-	(6,250,000)	(281,000)	300,000	(400,000)	2,572,000
2016	2,572,000	(96,500)	4,083,000	19,000	-	-	(6,250,000)	(289,000)	300,000	(500,000)	(161,500)
2017	(161,500)	(102,250)	4,106,000	19,000	-	-	-	(298,000)	300,000	(500,000)	3,363,250
2018	3,363,250	(108,250)	4,130,000	23,000	-	-	-	(307,000)	300,000	(500,000)	6,901,000
2019	6,901,000	(114,500)	2,821,000	28,000	-	-	-	(316,000)	300,000	(500,000)	9,119,500
2020	9,119,500	-	1,773,000	32,000	-	-	-	(325,000)	300,000	(500,000)	10,399,500
2021	10,399,500	-	705,000	37,000	-	-	-	(325,000)	-	(500,000)	10,316,500
2022	10,316,500	-	(229,000)	37,000	-	-	-	(325,000)	-	(500,000)	9,299,500
2023	9,299,500	-	(229,000)	37,000	-	-	-	(325,000)	-	(500,000)	8,282,500
2024	8,282,500	-	(229,000)	37,000	-	-	-	(325,000)	-	(500,000)	7,265,500
2025	7,265,500	-	(229,000)	37,000	-	-	-	(325,000)	-	(500,000)	6,248,500
2026	6,248,500	-	(229,000)	37,000	-	-	-	(325,000)	-	(500,000)	5,231,500
2027	5,231,500	-	(229,000)	37,000	-	-	-	(325,000)	-	(500,000)	4,214,500
2028	4,214,500	-	(229,000)	37,000	-	-	-	(325,000)	-	(500,000)	3,197,500
2029	3,197,500	-	(229,000)	37,000	-	-	-	(325,000)	-	(500,000)	2,180,500
2030	2,180,500	-	(229,000)	37,000	-	-	-	(325,000)	-	(500,000)	1,163,500
2031	1,163,500	-	(229,000)	37,000	-	-	-	(325,000)	-	(500,000)	146,500
2032	146,500	-	(229,000)	962,000	-	-	-	(325,000)	-	(500,000)	54,500
2033	54,500	-	696,000	-	-	-	-	(325,000)	-	(500,000)	(74,500)
		(2,108,500)			(1,000,000)		(25,000,000)	(6,837,000)		(10,000,000)	





City of Palm Springs
 3200 East Tahquitz Canyon Way
 Palm Springs, CA 92262

NOTIFICATION OF PUBLIC HEARING ON PROPOSED SEWER RATE INCREASES

NOTIFICATION OF PUBLIC HEARING ON PROPOSED SEWER RATE INCREASES

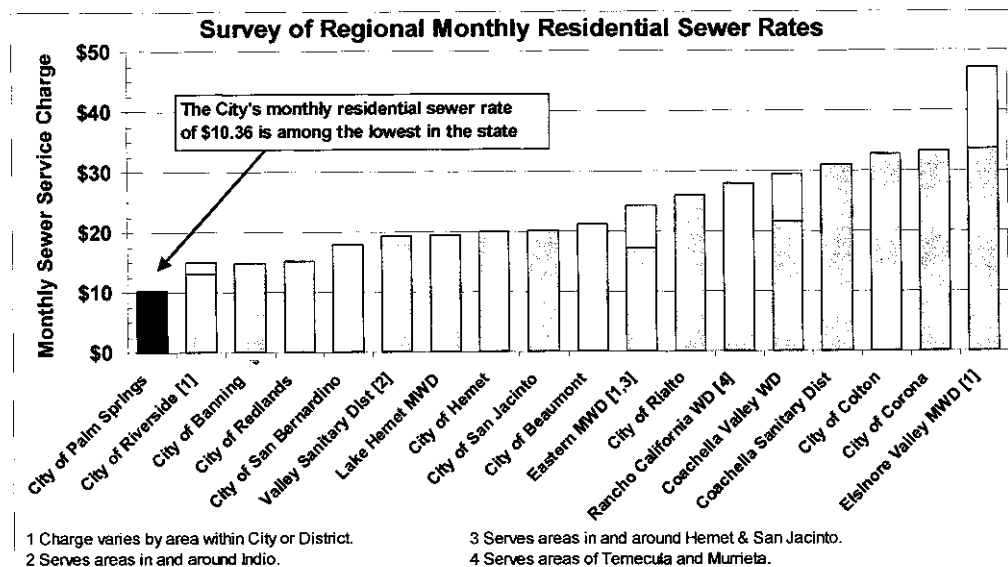
Dear Property Owner or Tenant,

The City of Palm Springs' sewer rates have not been increased since 1993 and are currently among the lowest in California. After nearly 20 years of no rate increases, the City is proposing to phase in sewer service rate increases in upcoming years to provide adequate funding for wastewater system operations and critical wastewater treatment plant capital projects. Residential customers currently pay a sewer rate of \$10.36 per month (\$124.32 per year), which is one-quarter of the statewide average. This notice provides information on the proposed sewer rate increases, why they are needed, and information about a public hearing scheduled by the City Council to consider adoption of the increased sewer rates.

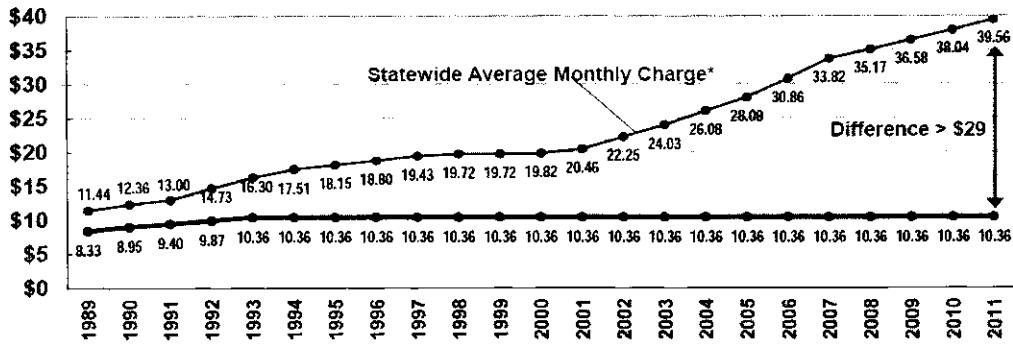
WHY ARE RATE INCREASES REQUIRED?

The City's wastewater treatment plant was originally built in 1960 and is now over 50 years old. A recent engineering study identified the need for substantial rehabilitation of the treatment plant including replacing aging equipment and systems, and improving outdated and inefficient treatment processes. The engineering study identified over \$67 million of capital improvements required over the next 20 years. Although the City has completed some of these projects, over \$55 million of these high-priority projects are cannot be funded by the City's current sewer service rates.

Additionally, the City's operating and maintenance costs have risen over the past 20 years with no corresponding rate increases. The City's wastewater utility is a self-supporting enterprise funded entirely by sewer service charges. **The City's wastewater utility is NOT funded by general property taxes or special assessments, or is intended to be funded by future "Measure J" funds.** A financial rate study of the wastewater utility has demonstrated that the City's current sewer rates will not generate the funding to cover the full cost of providing wastewater service in the near future, and cannot fund the critical wastewater capital improvements that are required.



Historical Monthly Sewer Rates per EDU



The City's residential sewer rates are currently more than \$29 below the California statewide average.

CITY PROPOSING TO PHASE IN SEWER RATE ADJUSTMENTS

The City is proposing to phase in a series of annual sewer rate increases to provide adequate funding for wastewater system operations and critical wastewater treatment plant projects. The first five years of rate increases will bring rates in line with the cost of providing service and provide an appropriate level of annual funding to support rehabilitation of the City's aging wastewater treatment plant. After five years, small annual rate adjustments each year will keep sewer rates aligned with the cost of providing service and will generate funding to complete the sewer utility's 20-year capital improvement program. **The proposed maximum monthly sewer rate by 2031 is \$35 per residential dwelling unit or equivalent ("EDU"), and is below today's statewide average monthly sewer rate of approximately \$40 per EDU.**

Customer Class	Billing Unit	Current	2012	2013	2014	2015	2016	2031
Residential	Per unit	\$10.36	\$12.00	\$14.00	\$16.00	\$18.00	\$20.00	\$35.00
Commercial & Industrial	Per fixture unit	1.02	1.18	1.38	1.58	1.78	1.98	3.48
	Minimum charge	10.36	12.00	14.00	16.00	18.00	20.00	35.00
Hotel - Rooms Without Kitchens	Base charge +	10.36	12.00	14.00	16.00	18.00	20.00	35.00
	Per room	3.53	4.09	4.77	5.45	6.13	6.81	11.91
Hotel - Rooms With Kitchens	Per room	6.81	7.89	9.21	10.53	11.85	13.17	23.07
Mobile Home Parks	Per unit +	10.36	12.00	14.00	16.00	18.00	20.00	35.00
	Per fixture unit	1.02	1.18	1.38	1.58	1.78	1.98	3.48
Recreational Vehicle Parks	Per space +	2.54	2.94	3.43	3.92	4.41	4.90	8.65
	Per fixture unit	1.02	1.18	1.38	1.58	1.78	1.98	3.48
Septage Dumping Fee (For loads up to 1,000 gallons)								
Within City limits	Per load	35.00	40.54	47.30	54.06	60.82	67.58	118.28
Outside City limits	Per load	70.00	81.08	94.59	108.10	121.61	135.12	236.56

*Sewer rates for customers outside of City limits are 150% of the rates identified above.
In 2017, monthly rate increases of \$1 shall occur annually until 2031 when the maximum monthly rate of \$35 is established.*

With the proposed sewer rate adjustments, the City's sewer rates will remain significantly lower when compared to other wastewater service providers throughout southern California.

CITY MAINTAINING FOCUS ON COST-EFFICIENCY

The City remains committed to providing high-quality sewer service as cost-efficiently as possible. The City contracts its wastewater system operations to a private operator and anticipates funding its wastewater capital improvement program on a prudent "pay as you go" basis. The sewer utility currently has no outstanding debt, and the City does not propose incurring significant debt as a means of funding its wastewater systems operations. To help phase in sewer rate increases over time, the City will be using wastewater fund reserves as they become available for funding critical wastewater capital projects. The City will only implement future rate increases as financially necessary. Pursuant to California law, the City's sewer rates cannot exceed the cost of providing service.

NOTIFICATION OF A PUBLIC HEARING ON PROPOSED RATE INCREASES

The City Council will conduct a Public Hearing on the proposed sewer rate increases at **6:00 P.M. on April 18, 2012, at City Hall, 3200 East Tahquitz Canyon Way, Palm Springs, CA 92262**. Property owners or tenants wishing to protest the proposed sewer rate increases may mail or deliver written protests to the City Clerk at this address. If written protests against the rate increases are submitted on behalf of more than 50% of the affected properties, the proposed sewer rate increases will not be adopted. Protests must be made in writing and must a) identify the property owner or tenant, b) identify the property (by address or Assessor's Parcel Number), and c) include the signature of the property owner or tenant. Written protests must be received prior to the close of the Public Hearing on **April 18, 2012**.