

**PUBLIC NOTICE
SUMMARY OF ORDINANCE FOR PUBLICATION
(GOV'T CODE §36933)
ORDINANCE NO. 1046B**

AN ORDINANCE OF THE CITY OF LINCOLN AMENDING
CHAPTER 13.04.360 OF THE LINCOLN MUNICIPAL CODE
ESTABLISHING WATER CONNECTION CHARGES

Date of First Reading: June 14, 2022, with approval by the following vote: AYES: 5 (Silhi, Lauritsen, Joiner, Karleskint, Andreatta); NOES: 0; ABSENT: 0.

Date of Second Reading: June 28, 2022.

The City Council of the City of Lincoln will hold a public meeting and public hearing at 6:00PM on June 28, 2022 at the City Hall, located at 600 Sixth Street, Lincoln, California 95648. The Public Hearing is to allow citizens or interested parties to address the Council on the proposed revisions to source water capacity connection charges; and proposed changes to the Municipal Code Section 13.04.160 regarding the source water connection charge

A copy of the proposed Public Facilities Element Fee Update Nexus Study and Municipal Code Sections are available at Lincoln City Hall located at 600 Sixth Street, Lincoln, California 95648 and on the City's website [www.lincolnca.gov](http://www.lincol inca.gov) .

Please direct your questions to Ray Leftwich, Coastland Civil Engineering by email at leftwich@coastlandcivil.com.

Gwen Scanlon, City Clerk
Date: June 15, 2022
Publish Date: June 23, 2022

ORDINANCE 1046B

AN ORDINANCE OF THE CITY OF LINCOLN AMENDING CHAPTER 13.04.360 OF THE LINCOLN MUNICIPAL CODE ESTABLISHING WATER CONNECTION CHARGES

Recitals

WHEREAS, there is a need to review and modify the water connection fees charged within the City of Lincoln; and

WHEREAS, City Council recognizes that source water capacity connection charges for service should be in accordance with the anticipated demand of each customer class; and

WHEREAS, a comprehensive nexus rate study was completed in 2019 that identified the proper capacity charges for each customer class based on size of residential lots, proper charge per gallon of peak day capacity for the surplus source water capacity currently within the inventory of the City of Lincoln, and allowable expenses for water connection charges; and

WHEREAS, the City continues to hold a reserve balance of Regulated Capacity to be charged based on the methodology of the nexus rate study; and

WHEREAS, the nexus study recommends adjusting the cost of Regulated capacity annually by the change in the San Francisco Construction Cost Index (CCI) as reported by the Engineering News Record (ENR) for the 12-month period beginning April 1; and

WHEREAS, the City no longer possesses a reserve balance of Unregulated Capacity; and

WHEREAS, all future service connections for Unregulated Capacity shall be charged at the rate charged by Placer County Water Agency for Zone 6 – City of Lincoln; and

WHEREAS, the charge for service connections for Regulated Capacity shall continue to be adjusted annually as recommended by the nexus study until such time that the City's surplus Regulated Capacity has been fully utilized; and

WHEREAS, adjustment of the source water capacity connection charges with conforming changes to the City's Municipal Code are therefore necessary and appropriate.

NOW, THEREFORE, BE IT RESOLVED, the City Council of the City of Lincoln does hereby ordain as follows:

Section 1. The City Council hereby incorporates by reference the recitals set forth above.

Section 2. This Ordinance is not subject to the California Environmental Quality Act ("CEQA"), as codified at Public Resources Code §§ 21000, *et seq.*, and as further governed by 14 California Code of Regulations §§ 15000, *et seq.*, because it is not a project as contemplated by 14 C.C.R. § 15378. In addition, even if this Ordinance were subject to CEQA, the City Council finds this Ordinance would be exempt from the requirements of CEQA pursuant to 14 C.C.R. § 15061(b)(3), because there is no possibility it will have a significant effect on the environment.

Section 3. If any section, sub-section, sentence, clause, phrase or portion of this Ordinance is for any reason held to be invalid or unconstitutional by the decision of any court of competent jurisdiction, such decision shall not affect the validity of the remaining portions of the Ordinance. City Council hereby declares that it would have adopted the Ordinance and each section, sub-section, sentence, clause, phrase or portion thereof, irrespective of the fact that any one or more sections, sub-sections, sentences, clauses, phrases or portions to be declared invalid or unconstitutional.

Section 4. Within fifteen days of passage of this Ordinance, the City Clerk shall cause the full text of the Ordinance, with the names of those City Councilmembers voting for and against the Ordinance, to be published in the Lincoln News Messenger. In lieu of publishing the full text of the Ordinance, the City Clerk, if so directed by the City Attorney and within fifteen days, shall cause a summary of the Ordinance, prepared by the City Attorney and with the names of the City Councilmembers voting for and against the Ordinance, to be published in the Lincoln News Messenger, and shall post in the office of the City Clerk a certified copy of the City Councilmembers voting for and against the Ordinance. The publication of a summary of the Ordinance in lieu of the full text of the Ordinance is authorized only where the requirements of Government Code § 36933(c)(1) are met.

Section 5. Section 13.04.360 is hereby amended to the Lincoln Municipal Code to read as follows:

13.04.360 Established – Apportionment - Purpose.

(a) There shall be a charge for a new service connection or for a change in size or location for the customer's benefit which shall be paid before work is started. Water connection fees shall include the City's water connection charge pursuant to Section 13.04.160.

(b) Rate of charge for source water capacity for Regulated Capacity shall be as set forth in the Lincoln Nexus Study Report – Water Connection Charge Study, adopted by Ord. 1003B on January 28, 2020, of the peak day demand. The water connection charge set forth herein shall be subject to an annual adjustment up to the change in the San Francisco Construction Cost Index (CCI) as reported by the Engineering News Record (ENR) for the 12-month period beginning April 1 as determined by resolution of the City Council. The annual adjustments shall be effective each July 1.

(c) Rate of charge for source water capacity for Unregulated Capacity of the peak day demand shall be in accordance with the cost to the City in accordance with service connections for Regulated Capacity by Placer County Water Agency for Zone 6 – City of Lincoln. Annual adjustments to the source water capacity charges by Placer County Water Agency shall be as determined by resolution of the City Council effective each July 1.

(d) Connection fees for every service connection to the city water system are established for the purpose of providing funds for the payment of the costs for design and construction of the City's water system, to purchase source water capacity from wholesale water providers, and for those purposes authorized by Resolution 78-77.

(e) Source water capacity shall be based on the peak day demand for Non-Residential Facilities by the methods for calculation of required connection specified in Section 13.04.160 and shall be based on gallons per day.

(f) Source water capacity for Residential Facilities shall be on the basis of gallons per day as follows:

Lot Size (sqft)	Source Water Connection (gpd)
MDU (1)	214
≤2,900.99	214
2,901≤4,400.99	442
4,401≤5,500.99	576
5,501≤7,000.99	679
7,001≤10,000.99	862
10,001≤17,000.99	1,201
17,001≤35,000.99	2,407
>35,001	5,155

(1) Multi-Dwelling Unit (MDU) source water connection assessment is per unit and for indoor water use only. A separate metering for outdoor water use is required.

Section 7. Publication and Effective Date. This Ordinance shall become effective thirty (30) days after its adoption and within fifteen (15) days of the passage of this Ordinance, a copy shall be published once in the newspaper for general circulation in the City.

INTRODUCED this 14TH day of June, 2022.

AYES: COUNCILMEMBERS:

NOES: COUNCILMEMBERS:

ABSENT: COUNCILMEMBERS:

Holly Andreatta, Mayor

ATTEST:

Gwen Scanlon, City Clerk

Attachment A

13.04.360 Established – Apportionment - Purpose.

- (a) There shall be a charge for a new service connection or for a change in size or location for the customer’s benefit which shall be paid before work is started. Water connection fees shall include the City’s water connection charge pursuant to Section 13.04.160.
- (b) set forth in the Lincoln Nexus Study Report – Water Connection Charge Study, adopted by Ord. 1003B on January 28, 2020.of the peak day demand. The water connection charge set forth herein shall be subject to an annual adjustment up to the change in the San Francisco Construction Cost Index (CCI) as reported by the Engineering News Record (ENR) for the 12-month period beginning April 1 as determined by resolution of the City Council. The annual adjustments shall be effective each July 1.
- (c) Rate of charge for source water capacity for Unregulated Capacity of the peak day demand shall be in accordance with the cost to the City in accordance with service connections for Regulated Capacity by Placer County Water Agency for Zone 6 – City of Lincoln. Annual adjustments to the source water capacity charges by Placer County Water Agency shall be as determined by resolution of the City Council effective each July 1.
- (d) Connection fees for every service connection to the city water system are established for the purpose of providing funds for the payment of the costs for design and construction of the City’s water system, to purchase source water capacity from wholesale water providers, and for those purposes authorized by Resolution 78-77.
- (e) Source water capacity shall be based on the peak day demand for Non-Residential Facilities by the methods for calculation of required connection specified in Section 13.04.160 and shall be based on gallons per day.
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10,001≤17,000.99	1,201
17,001≤35,000.99	2,407
>35,001	5,155

- (2) Multi-Dwelling Unit (MDU) source water connection assessment is per unit and for indoor water use only. A separate metering for outdoor water use is required.

Attachment B

Lincoln Nexus Study Report

WATER CONNECTION CHARGE STUDY

Report Date: June 28, 2019

Published: August 16, 2019

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Section I. EXECUTIVE SUMMARY

The City of Lincoln authorized water connections charges in 1978 with Resolution 78-77. Elements of the resolution later became part of its Municipal Code, notably at Section 13.04.360. There are two connection charges performing similar functions for the City: one is a charge related to the City's wells, storage, transmission, and distribution infrastructure; the second is a charge related to the City's costs of acquiring capacity from the Placer County Water Agency (PCWA). The latter charge, referred to as the WCC herein, is the topic of this nexus report, which is a comprehensive examination of the City's WCC, including the methodology used to determine the charge and the manner in which the charge is assessed to those requesting connections to the City's water system.

The City had not conducted a nexus study for the WCC prior to this report. In preparing this report, we reviewed: information related to the City's purchases of capacity from PCWA from at least 1991 to present; the City's 2017 Master Plan; recent customer demand data; relevant City resolutions and ordinances; audited financial reports; and recent analyses conducted by the City related to capacity requirements by residential lot sizes. Additionally, we reviewed two reports issued in 2019, one by the Office of the State Auditor and another by the Placer County Grand Jury. Both reports discuss, among other things, various concerns about the City's WCC.

Based on our review of the information made available for us, we have determined that the costs the City incurred to acquire its current level of 18.9 million gallons per day (MGD) from PCWA was approximately \$98 million. After adjusting for inflation, the cost is more accurately estimated at \$156 million.

The City's total maximum-daily demand (MDD) is estimated at 15.53 MGD based on our review of the Master Plan and monthly usage data from the City's peak year of 2013. Therefore, of the 18.90 MGD, the City has approximately 3.37 MGD of unused, reserve capacity remaining from its most recent acquisitions.

Of the \$156 million total costs of acquired capacity, approximately \$33.5 million is related to the unused capacity available for the use of future customers. The costs are further divided into categories of regulated and unregulated capacity. Unregulated capacity costs more than regulated capacity because PCWA provides more infrastructure to serve the unregulated zones in the City, which are at higher elevations. We estimate the \$33.5 million includes \$32.1 million for 3.27 MGD of regulated capacity and \$1.4 million for 0.10 MGD of unregulated capacity based on the capacity remaining from the City's most recent purchases from PCWA.

ES 1: Summary of WCC Findings

Item Description	Regulated Capacity	Unregulated Capacity
Cost of Unused Capacity (\$M)	\$32.1	\$1.4
Amount of Unused Capacity (MGD)	3.27	0.10
Raw Cost per GPD	\$9.81	\$13.99
Financial Carrying Costs at Present Value	\$2.99	\$2.06
Total Cost per GPD	\$12.79	\$16.05

The raw cost per unit of capacity is \$9.81 per gallon per day (GPD) for regulated capacity. It is \$13.99 per GPD for unregulated capacity. Because dollars today are worth more than dollars collected in the future, the full cost above also includes a carrying cost for the time value of money (TVM). We estimated the TVM cost with some basic assumptions that included an estimated three percent annual growth, no future adjustments to the WCC, and an average cost of capital of seven percent. The resulting adjustment adds \$2.99 per GPD to the raw cost of regulated capacity, and \$2.06 per GPD to the unregulated capacity. Also, based on the foregoing growth rates, the City can conservatively expect its regulated capacity to last approximately seven years, while the unregulated capacity will last about four years, by which time development within the unregulated zone should be complete. As of the Report Date, the City anticipates no need to acquire more unregulated capacity from PCWA.

The City recently passed an Ordinance assessing a different WCC for residential accounts based on lot size. Each lot size in the City’s current schedule has an expected capacity in GPD associated with it based on an evaluation of maximum-monthly demands. In preparing this report, we developed revised maximum-month calculations based on monthly water demand and findings from the City’s 2017 Master Plan. The 2017 Master Plan indicates that the representative maximum-daily demand should be calculated as either: a) the average-day during the maximum-month, plus a ten percent factor for system losses, times a peaking factor of 1.1; or b) the average-daily demand times a peaking factor of 2.1. The 2017 Master Plan also states that the maximum-day demand will continue to be refined as water planning efforts are updated. Based on our evaluation of the data and information described in this Report, we have used the former of the two methods to estimate maximum-daily demands. We reviewed monthly demand data from the City’s 2013, 2017, and 2018-meter readings of residential customers by lot size. From those data, we determined the revised GPD values summarized below in Table ES 2. Multiplying the values in Table ES 1 by the revised GPD values, we arrive at the proposed fee for each lot size.

ES 2: Proposed WCC Schedule with Revised GPD Values by Lot Size

Lot Size (SF)	GPD Values from City Ordinance	Revised GPD Values from this Report ¹	Regulated WCC (\$12.70/GPD)	Unregulated WCC (\$16.05/GPD)
<2900	250	214	\$2,739	\$3,436
2901 <4400	450	442	\$5,653	\$7,092
4401 <5500	550	576	\$7,366	\$9,241
5501 <7000	700	679	\$8,684	\$10,895
7001 <10000	850	862	\$11,032	\$13,841
10,001 <17,000	1,200	1,201	\$15,363	\$19,275
17,001 <35,000	1,725	2,407	\$30,802	\$38,645
> 35,000	2,875	5,155	\$65,960	\$82,755

California’s Mitigation Fee Act, Code Section 66000, requires that local governments conduct a nexus study to document certain aspects of fees like the WCC. This report addresses the requirements of the Act which we’ve summarized below.

The purpose of the WCC and use of fee revenues

The City’s 1978 resolution, Resolution 78-77, establishes the purpose of the water connection charges, generally, as:

Section 1 – Purpose. Each Commercial or Industrial business and each family living unit must have a separate connection to the City Water System. Connection fees for every service connection to the City Water system are established for the purpose of providing funds for the payment of the costs of construction, maintenance and operation of the City water system and in order that such costs be shared by those receiving the benefits.

The same purposes are repeated in the municipal code. However, the resolution also specifies how the funds collected may be used. This last section, Section 2 of the resolution, is not repeated

¹ Calculated as maximum-month from the 2013 residential meter data x 1.10 for system losses x 1.10 peaking factor from 2017 Master Plan

elsewhere in the municipal code and appears to be the only documentation of the City's intentions for how the funds from the WCC are to be used.

“Section 2 – Use. Amounts collected pursuant to Section 3² shall be set aside in a separate fund and used for the purposes enumerated in Section 1 at the following percentage rates: 10% of the connection for General Maintenance; 20% of the connection for Capital Improvement; 70% of the connection fee to the City Water Fund.”

Taken together, Section 1 of the resolution states that the purpose of the fees is to provide funds for the City water system. Meanwhile, Section 2 explains more specifically how the funds collected from the fees shall be used within the City water system. The City does not currently have a fund called the “City Water Fund.” However, the City does have an enterprise fund called “Water” which accounts for the activities related to the operations of the City's water system. The City's water system is, in our opinion, synonymous with the City's Water enterprise fund. The City also has a Water Connections Funds, but its purpose is more aligned with the requirement in Resolution 78-77 to set aside the fees collected “in a separate fund.” Indeed, the Water Connections Fund is used precisely for this purpose.

As funds are received from the WCCs, they are deposited into the Water Connections Fund. From there, by Resolution 78-77, they could be used for most any purpose of the Water enterprise fund. Using the funds to offset capital projects for the water system would reduce pressures on monthly user charges. Indeed, the WCC is designed to reimburse the City for its cost to acquire PCWA capacity. The City must acquire capacity in advance of future connections and, accordingly, has already raised the funds and paid for the capacity it holds today. New customers connecting to the system pay the WCC as reimbursement. Once the fees are paid, there is no need for the City to acquire more capacity for the same customers. The result is a positive and growing fund balance. Using the funds collected, as prescribed in Resolution 78-77, results in a net decrease in the revenue required from monthly user charges – i.e. the funds can and should be used to reduce rates.

Relationship between the WCC and types of development paying the fee

The WCC applies to anyone requesting a connection to the City's Water System, regardless of the type of development. Only those who pay the WCC receive City water service. Therefore, the fee is broadly applicable to all types of development requesting water service from the City.

The costs the WCC are intended to recover are those the City incurred in acquiring water supply and treatment capacity from PCWA, absent which the City would not be able to provide water service to the same extent. Therefore, the purpose of the fee – to recover the costs of PCWA capacity – is directly applicable to all types of development.

² Section 3 of Resolution 78-77 is a schedule of connection fees applicable at that time.

The use of fee revenue is specified by the City's resolution No. 78-77, which restricts the use of funds for the benefit of the water system. All development types benefit from the water system, and all those who pay the WCC receive water service from the City's water system.

Reasonable relationship between the costs and the WCC

The City has incurred approximately \$98 million to acquire capacity in the PCWA system. After adjusting for inflation, the figure is more accurately stated at \$156 million. Approximately 3.37 of 18.9 MGD currently remains available for the use of future customers (approximately 18%). Based on the findings in this report, the maximum cost per GPD for regulated capacity is \$12.79, and the maximum cost per GPD of unregulated capacity is \$16.05. Both values include the present value of financial carrying costs expected between now and the time the City finally recovers the WCC revenue. Including the carrying costs implies that no future adjustments to the WCC would be made to account for inflation (such adjustment would not be necessary).

Section II. BACKGROUND

This report is a comprehensive examination of the City's WCC, including the methodology used to determine the charge and the manner in which it is assessed to those requesting connections to the City's water system. We reviewed data and information made available by the City and PCWA concerning the City's: costs of acquiring capacity in the PCWA system; its planned capital improvements; the maximum available capacity the City owns in the PCWA system; the amount of capacity currently used by the City's customers on a maximum-day; financial records and reports; and other relevant information concerning the WCC. We also received and reviewed data from PCWA concerning the cost and amount of capacity purchased by the City, going back as far as 1991.

The WCC recovers the costs the City has incurred or may incur in acquiring capacity in the PCWA system. No other costs have been considered. Specifically, this report excludes any calculations or findings related to the City's other connection-related charges. Costs related to the City's distribution system, including the cost of its wells, are part of a separate connection charge, the CITY-WCC. Such costs and related fees are excluded from this report and its findings. Due to rounding, numbers presented throughout this report may not add up precisely to the totals indicated, and percentages may not precisely reflect the absolute figures for the same reason.

Report Date

The date of this report is June 28, 2019 (Report Date). Our review and analysis included only that information and data available prior to the Report Date and, even then, was further limited to a reasonable historical period. Any information or events relevant to the calculation of the WCC or its assessment becoming available after the Report Date is, by definition, not included in our review or analysis.

We relied on plans, documents, data, and information made available to us by the City. While we evaluated all such evidence and applied reasonable judgment to everything we reviewed, we did not conduct an exhaustive examination, nor did we attempt to verify any of the information we received independently.

Intended Use and Users

This Report has been prepared pursuant to a professional services agreement between the City and FCS GROUP, Inc, incorporated herein by reference. It is written for the City's exclusive use to establish the nexus between the costs the City has incurred to acquire capacity in the PCWA system and the fees it charges to recover those costs via the WCC. No other uses or users are intended or implied.

II.A. THE CITY OF LINCOLN

The City of Lincoln (Lincoln, or the City), located in Placer County, California, is in the northeastern part of the California Central Valley, which borders the foothills of the Sierra Nevada mountains. According to the City's web page, it currently has a population of approximately 48,000.

Lincoln was first incorporated in 1890 and has a five-member elected City Council and a City Manager. The title of Mayor and related responsibilities are rotated among the Council members who serve staggered four-year terms. The City's Water Division is part of the Public Works Department, which also includes Solid Waste, Wastewater, Airport, Fleet, Parks, Facilities, Engineering, and Streets.

II.A.1. Summary of the Lincoln Water System

Lincoln has two sources of water: surface water delivered through the Placer County Water Agency (PCWA), and groundwater taken from the City's wells. Treated surface water is delivered through the PCWA water system at the Lincoln Metering Station. PCWA deliveries include both regulated and unregulated capacity. Contractually, regulated deliveries are those where PCWA may control the rate of flow and limit peak rates, as needed. Unregulated deliveries have no such controls, and PCWA provides additional storage capacity to support these deliveries at additional cost to the City. Regulated capacities are used to supply the City's lower elevations, while the higher elevations areas receive unregulated capacity. A 16-inch diameter pipe leads out of the Lincoln Metering Station to supply water to the unregulated areas, while a 30-inch diameter pipe delivers water to the regulated service areas.

PCWA deliveries are the primary water supply for Lincoln. The City's wells supplement its PCWA deliveries by providing capacity for unusually high peaks, to increase water pressure in the western portion of the City during periods of high demand, and for backup purposes. In its 2008 General Plan, the City established a policy to meet 10 percent of its total annual demand with its own groundwater supplies (i.e., the City's wells), and it has managed to do so on an annual basis for the five years up to 2017.

By contract, the City pays a service rate for all deliveries it receives from PCWA, which includes a fixed component based on the amount of capacity the City has acquired from PCWA. The fixed component of the service rate is charged whether the capacity is used or not. It follows that the City pays a service fee even for the portion of PCWA capacity that is unused. In addition to the service rate, the City also acquires capacity on the PCWA system through separate, contractual agreements. Within these agreements, the City receives an allotment of regulated and/or unregulated capacity in exchange for a Water Connection Charge (PCWA-WCC). The PCWA-WCC is the rate the City pays for each unit of capacity acquired. For example, in 2004, the City acquired 2,956 EDU (equivalent dwelling units) equal to 3,399,400 gallons per day of capacity for the price of \$20.15 million. Currently, the City owns a total of regulated and unregulated capacity of approximately 18.9 million gallons per day (MGD) in the PCWA system, paying approximately \$98 million in exchange. When adjusted for inflation, the City's cost of its PCWA capacity is approximately \$156.2 million.

Apart from its wells, the City also owns and maintains its own water distribution system. The Distribution system transports water supplies from PCWA and the City's wells to various storage tanks located throughout the City. From the tanks, the City's distribution network conveys water to individual customers.

II.A.2. Average Daily Water Demand

The City currently serves approximately 18,800 water connections, comprised of 96% residential and 4% non-residential accounts. According to the City's 2017 Master Plan completed by the firm of

Tully & Young, average daily demand (ADD) reached a high in 2013 at 218.6 gallons per capita per day (GPCD). The City began reducing water demand after 2013 to meet mandated reductions in water usage in response to historic droughts in the state. Since its high in 2013, GPCD levels have fallen to as low as 148.6 GPCD as of 2015, the last year of reported data in the Master Plan.

Table 1: Summary of Historic Water Usage in Lincoln (Source: 2017 Master Plan)

Year	Population	Gross Water Use (acre-ft./yr) ³	Gross Water Use (MG/yr) ⁴	Gallons /Capita per Day
2010	42,819	9,203	2,999	191.9
2011	43,142	9,481	3,089	196.2
2012	43,915	10,091	3,288	205.1
2013	44,336	10,858	3,538	218.6
2014	45,259	8,948	2,916	176.5
2015	45,837	7,628	2,486	148.6

The Master Plan goes on to conclude that, because of mandatory reductions and related external factors since 2013, the *representative demand* used for infrastructure planning purposes is approximately 10,075 acre-feet per year (3,316 MG). The representative demand also includes a 10% factor for system losses. Note that the representative demand is higher than the demand levels in more recent years. The Master Plan recommends using such representative demands for the purposes of infrastructure planning, meaning the City’s water system is designed with the representative demands as the basis rather than lower, more recent levels.

³ One “acre-foot” is equal to approximately 325,850 gallons.

⁴ “MG” is millions of gallons

Table 2: Summary of Master Plan "Representative Demands" by Customer Class, with 10% System Loss Factor

Customer Class	Customer Count	Representative Demand (MG/Yr)	Average Daily Demand per Account (Gal./Day/Acct.)	Average Daily Demand per Account w/ 10% System Loss (Gal./Day/Acct)	Total Demands (MG/Yr)
Multi-Family	1,873	183	268	295	201.4
Single Family	16,486	2,471	411	452	2,718.4
Commercial	247	80	886	974	87.8
Industrial	7	5	1,913	2,104	5.4
Public	23	19	2,290	2,519	21.1
Parks	186	226	3,331	3,664	248.8
TOTAL (MG)					3,283
TOTAL (Acre-Ft)					10,075

II.A.3. Maximum Daily Water Demand per Residential Account

The representative ADD summarized in Table 2 are only partly useful to describe the City’s demand for the purposes of water supply planning. When the City acquires capacity from PCWA, it does so on the basis of peak demand rather than ADD. The Master Plan discusses the system’s relevant peak demand as its maximum-daily demand (MDD), described in a few different contexts:

- For 2017 and later, a factor of 2.1 times the ADD, or
- Before 2017, a value of 2.5 times the ADD, or
- For 2017 and later, a factor of 1.1 times the ADD occurring during the peak month

Based on the representative demands in Table 2, the MDD could be estimated using either the 2.1 or 2.5 multipliers multiplied by the ADD. The two multipliers lead to different outcomes: the 2.1 multiplier applies to 2017 and afterward, whereas the 2.5 multiplier applies to periods prior to 2017. The Master Plan discusses the use of these multipliers in more detail, including the reasons for reducing the factor for 2017 to 2.1.

Alternatively, the MDD could be estimated using the 1.1 factor multiplied by the average day in the peak month. The Master Plan does not provide data regarding the City’s maximum month but states that the authors had reviewed such data, provided by the City, and had concluded that the system’s MDD was “about 10 percent greater than the average day during the peak month.”

The City provided us with an analysis of residential demand for peak months (July and August) in 2013, 2017, and 2018. Based on this data, we concluded the average peak-month for the three years was 608 gallons per day/account. 2013 had the highest peak month at 698 gallons/day/account.

Applying the 1.1 factor to these values, the MDD for a single-family customer could be stated as between 669 (608 GPD x 1.1) and 768 (698 GPD x 1.1) gallons/day/account. We did not have access to the data necessary to convert all customer classes in a similar fashion.

Table 3: Representative Maximum Daily Demands by Class

Customer Class	ADD	MDD 2017 and After (ADD x 2.1)	MDD Prior to 2017 (ADD x 2.5)	MDD (Max. Mo. x 1.1)
Multi-Family	295	619	737	n/a
Single Family	452	949	1,129	768 ⁵
Commercial	972	2,046	2,435	n/a
Industrial	2,111	4,419	5,261	n/a
Public	2,524	5,290	6,298	n/a
Parks	3,663	7,695	9,160	n/a

II.A.4. Maximum Daily Water Deliveries from PCWA

The City receives most, but not all of its water supply from PCWA. Increased demand for City-owned PCWA resources reduces the amount of PCWA capacity the City has available for growth on its system. The demand already used can be called the *subscribed* portion of the City’s PCWA capacity; the unused portion we call the *reserve capacity*. The Master Plan lists the water supplies delivered to the City from PCWA. Table 4, below, summarizes the total PCWA deliveries for the years 2011 to 2015, along with calculations for MDD. Because we were given monthly PCWA deliveries, we can calculate the estimated MDD using the average day during the peak month (x 1.1).

⁵ Based on a max-monthly demand of 698 GPD (Aug. 2013). Data was only available for single-family residential accounts.

Table 4: PCWA Deliveries to City of Lincoln with Computed MDD (2011-2015)

Year	Total Water Delivered (MG)	Max Month (MG)	MDD Based on Max-Month x 1.1 (MGD)
2011	2,214	312.2	11.1
2012	2,434	342.0	12.1
2013	3,175	437.8	15.5
2014	2,690	402.1	14.3
2015	2,255	262.6	9.3

II.A.5. PCWA Service Level Capacity for Use in this Report

While the historical data provide perspective and context, the key question is, “What level of demand best represents the City’s MDD relative to deliveries from PCWA?”

To provide a consistent and reliable level of service for its residents, the City *must* obtain enough capacity through a combination of its resources to meet MDD during even the most challenging situations. A constant water supply is essential. Droughts are common in California and pose difficult challenges to water supplies. Treatment facilities and other physical infrastructure pose their own challenges in terms of reliability. The City must plan for all such risk factors to ensure clean, reliable, and uninterrupted water supplies for its residents.

If the City were to examine the data in Table 4 and base all its future supply planning decisions on the lowest MDD value there, it would do so with the risk that the value is in fact too low and not representative of a true MDD. If it used those lower values as a measure of current demand compared to the PCWA supply capacity it owns, it might conclude that the City has ample reserve capacity for future growth – nearly twice as much as the 2015 demands indicate is needed to meet the City’s then-current needs. The safer conclusion is to use the highest value; doing so would imply that a smaller amount of PCWA supply capacity remains available because existing customers may, at some time, under conditions observed in the recent past, use substantially more water than the lowest values indicate. The risk with using the higher values is that it overstates MDD and causes the City to acquire PCWA capacity that it may not truly need. Still, the risk of acquiring more capacity is less, by modern standards of living, than creating a situation where water is not available.

Based on available information, we recommend that the City consider basing its MDD on the PCWA deliveries from 2013 since this was the year when total water delivered was highest. Moreover, in considering the MDD factors derived from the ADD vs. the peak-month demands, we consider the peak-month data to be more accurate than the ADD calculations. We believe it to be more accurate, in part, because the computed MDD in 2013 using the ADD values came to 18.3 MGD. At that time, the City owned just 17.7 MGD of regulated capacity which makes an MDD of 18.3 MGD difficult to accept as anything other than theoretical. Meanwhile, PCWA provided monthly data from the Lincoln Metering Station, indicating an ADD during the peak month (August 2013) at 14.2 MGD.

With the Master Plan-recommended, 1.1x factor applied, the estimated MDD for 2013 comes to just over 15.5 MGD, which is within the maximum PCWA capacity owned by the City at that time. Moreover, the total PCWA deliveries in 2013 came very close to the representative demand level discussed in the Master Plan.

II.A.6. Summary of Demand Values Used in this Report

There are two demand values from the preceding discussion important for this report: the total MDD the City uses relative to its total PCWA capacity, and the MDD that typical residential units place on the City’s water system. The former determines the amount of capacity the City owns and still has available to meet the needs of future connections to its water system. The latter determines how much capacity out of the City’s reserve each new connection will require. The two measurements are aligned based on the maximum-month demand x a 1.1 peaking factor.

Table 5: Summary of Key Demand Factors Used for This Report

Description	Total MDD on PCWA Deliveries	One Single-Family Equivalent MDD
Used in this Report	15.5 MGD	768 GPD ⁶
Reference	Section II.A.4 and Section II.A.5	Section II.A.3
Notes	From 2013 record of PCWA deliveries calculated as the ADD during the max-month of 437.8 MGD x 1.1 (see Table 4)	From the 2017 Master Plan. Representative Max-month from Aug. 2013 of 669 GPD x 1.1. (see Table 3)

II.B. THE WATER CONNECTION CHARGES

The City currently charges two different fees for customers requesting new or upsized connections to the water system: The City’s Water Connection Charge (CITY-WCC) and the PCWA Connection Charge (WCC). The CITY-WCC is charged to reimburse the City for capital expenditures related to storage and well infrastructure. The WCC is charged to pay for capacity acquired from PCWA.

This Nexus Report addresses only the WCC.

⁶ “GPD” refers to gallons per day.

II.B.1. The Current PCWA Connection Charge

Historically, the City has charged new connections to its system based on the schedule of connection charges published by PCWA (PCWA-WCC). The fee schedule from PCWA has five components designed to recover PCWA’s capital costs of providing different types of capacity. The capacity components include treatment, transmission, groundwater, storage, and planning.

- The treatment plant component is for capital costs related to conveying raw water to the treatment plant, the treatment plant, and related infrastructure and Clearwell storage facilities.
- The transmission component is intended to recover the capital costs of providing regional transmission facilities.
- The groundwater component recovers the capital costs of groundwater pumping and related well facilities.
- The storage component is for capital costs of distribution storage facilities.
- The planning component is intended to recover the costs of regional planning efforts.

The fee schedule in Table 6 below, reflects the latest fees from PCWA for each of the five components discussed above, effective January 1, 2019.

Table 6: PCWA Fee Schedule for 1 Unit of Capacity (1 EDU = 1,150 GPD)

Component	Regulated Meter per EDU	Unregulated Meter per EDU
Treatment	\$8,959	\$8,959
Transmission	\$6,638	\$6,638
Groundwater	\$0	\$583
Storage	\$0	\$2,998
Planning	\$80	\$161
Total WCC	\$15,677	\$19,339

To acquire new capacity in the PCWA system, Lincoln would pay PCWA based on the above schedule. Units of capacity are measured in equivalent dwelling units (EDU), and one EDU in the above schedule is equal to 1,150 GPD. Thus, the City pays PCWA for every 1,150 GPD, or fraction thereof. The PCWA charge differs depending on whether the City requests regulated or unregulated capacity. The City usually acquires multiple EDU at the same time, by agreement with PCWA. For example, in 1998, the City acquired 412,850 GPD of regulated capacity at a total cost of \$1.8M; the equivalent of 359 EDU. The standard of one EDU per 1,150 GPD has been a PCWA standard going

back to at least 1996. Some earlier records indicate the EDU value had been as high as 1,440 GPD prior to 1996.

II.B.2. Ordinance 981B and Municipal Code 13.04.360(d)

Ordinance 981B, adopted in January 2019, amends Section 13.04.360(d) of the City’s Municipal Code, which deals specifically with the WCC. Prior to the Ordinance, the WCC had been charged based on the schedule published by PCWA, a recent example of which is provided above in Table 6. Ordinance 981B provides for a revised schedule applicable for residential facilities based on lot size. Table 7, below, summarizes the GPD values and WCC for each lot size; an “MDU” refers to a multi-dwelling unit, a single dwelling unit with only indoor water demands. The City published the WCC schedule below in February of 2019.

Table 7: Current WCC Schedule Published by the City of Lincoln as of February 2019

Lot Size (sq ft)	Source Water Connection Fee (GPD)	WCC for Regulated Capacity	WCC for Unregulated Capacity
MDU	250	\$3,408	\$4,204
<= 2,900.99	250	3,408	4,204
>2,901 <= 4,400.99	450	6,134	7,567
>4,401 <= 5,500.99	550	7,498	9,249
>5,501 <= 7,000.99	700	9,542	11,772
>7,001 <=10,000.99	850	11,587	14,294
>10,001 <=17,000.99	1,200	16,358	20,180
>17,001 <=35,000.99	1,725	23,515	29,008
>35,001	2,875	39,192	48,347

What the ordinance now provides for is a scalable method for assessing the WCC to residential customers based on lot sizes. The basic rationale is that larger lot sizes require greater water service capacity due primarily to irrigation demands. Based on Table 6, the cost per EDU is \$15,677 for regulated capacity and \$19,339 for unregulated. Because one EDU is equal to 1,150 GPD (PCWA standard), then one GPD is \$13.63 and \$16.82, respectively. The values in Table 7 are determined by multiplying the \$/GPD by the GPD per lot size (e.g. 250 GPD x \$13.63 = \$3,408).

II.C. HISTORY OF LINCOLN'S PURCHASES FROM PCWA

The City pays for all capacity it acquires from PCWA. The costs incurred for such acquisitions are relevant to the WCC because, based on California law and generally accepted water ratemaking standards, the level of the WCC should be reasonably related to the costs of providing the intended service. In the case of the WCC, the service provided, specifically, is access to PCWA water deliveries either on a regulated or unregulated basis. Therefore, the costs the City has incurred to gain sufficient access to PCWA deliveries represent the reasonable cost of service relative to the WCC.

We requested records from both the City and PCWA of all transactions in which the City acquired PCWA capacity. We received many records, including copies of individual agreements between PCWA and the City recording the nature of past transactions and, in most cases, providing us with details concerning the amount of capacity acquired and the total amount paid for the capacity. However, not all purchase contracts were available. Other records, including correspondence between the City and PCWA and other supporting documents, were also provided as a record of the purchase cost and amount of capacity acquired.

Even with all the information we received, there were a few notable gaps. Where such gaps occurred, we used the best information available to make reasonable estimates. For example, the earliest records we received were dated to 1991. At that time, the records show that the City already owned 3.055 MGD of PCWA capacity. It was obvious that the 3.055 MGD had been acquired sometime before 1991, but the records did not include the amount paid in those earlier periods. We, therefore, estimated the cost of the initial 3.055 MGD by matching the capacity to the next known purchase cost of \$4.36 per GPD, resulting in an estimated cost of \$13.3 million. Figure 1 and Figure 2, below show the history of Lincoln's PCWA capacity purchases for regulated and unregulated capacity, respectively. Table 8, below, shows the costs for all PCWA capacity purchased since 1991. The total original purchase cost is \$97.9 million for a total of 18.9 MGD of capacity, as of 2019.

At present, the unregulated area is being back-fed using capacity from the regulated area. In 2006, the City purchased 0.4 MGD of unregulated capacity, which cannot be used until next year (mid-2020) when a new metering station will be in place and the booster pump that currently back-feeds the unregulated system with regulated deliveries can be taken offline. We have factored the new unregulated capacity into our calculations as if it were currently in place.

Figure 1: City of Lincoln PCWA Purchases 1991-2019 - Regulated Capacity

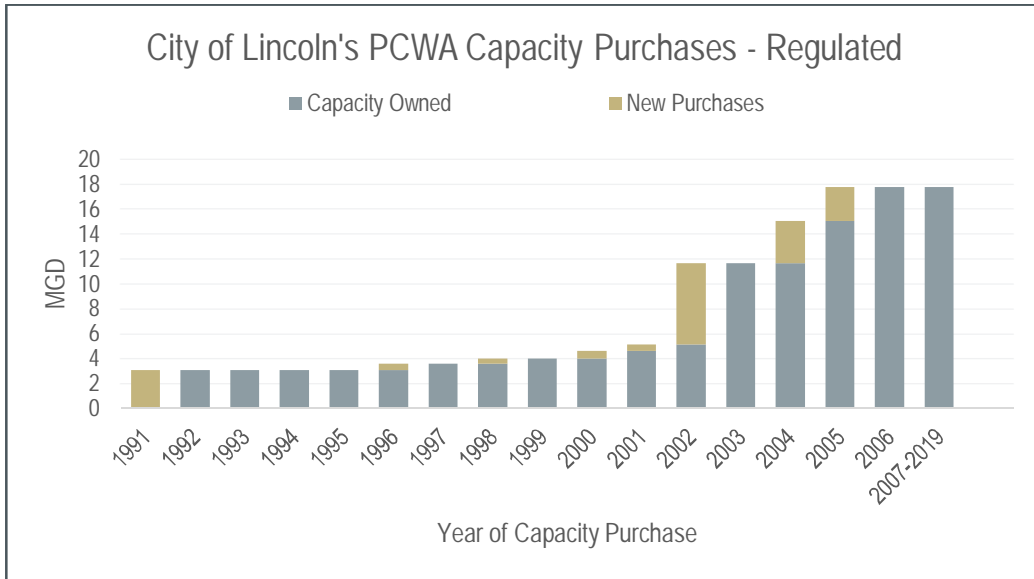


Figure 2: City of Lincoln PCWA Purchases 1991-2019 - Unregulated

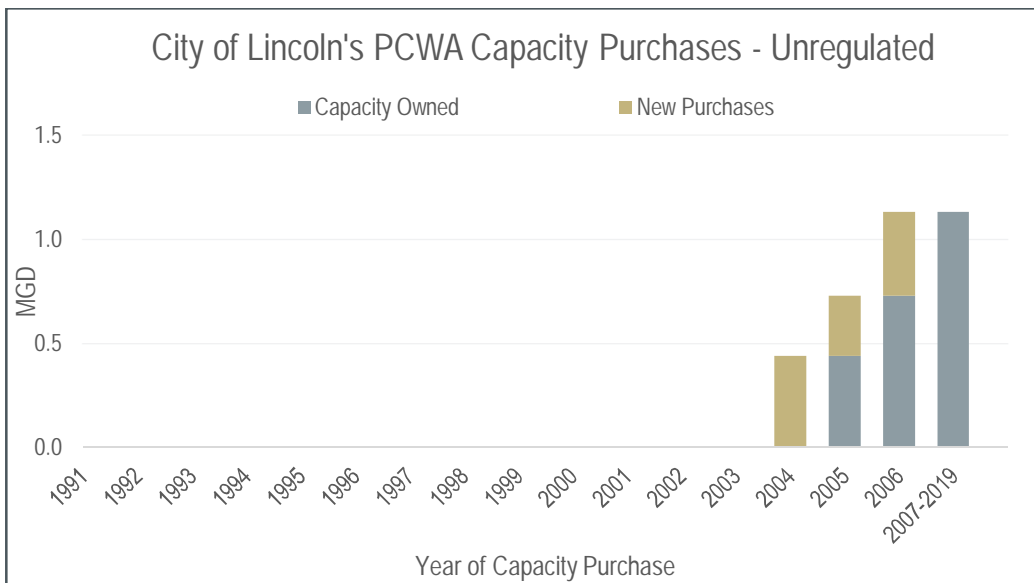


Table 8: Cost of Capacity Purchased from PCWA

Line No.	Approx. Purchase Date	Amount Paid	Regulated Capacity Acquired (MGD)	Unregulated Capacity Acquired (MGD)	Source Document
1	1991	\$ 13,313,159	3.06	-	No cost information. Capacity taken from Table received from PCWA titled, "History of PERC Purchases City of Lincoln 1-14-02"
2	1996	\$ 182,215	0.07	-	Table received from PCWA titled, "History of PERC Purchases City of Lincoln 1-14-02"
3	1996	\$ 1,196,340	0.45	-	Table received from PCWA titled, "History of PERC Purchases City of Lincoln 1-14-02"
4	1998	\$ 1,800,339	0.41	-	PCWA - City of Lincoln Calc's for Max Gals per Day for Period 2-24-98 to 12-31-98
5	2000	\$ 1,754,025	0.40	-	Letter dated Feb. 18, 2000 from PCWA to City Manager, City of Lincoln
6	2000	\$ 902,070	0.21	-	PCWA - City of Lincoln Calc's for Max Gals per Day for Period Ending 3-31-00, Rev 6-19-00
7	2000	\$ 4,800,000	-	-	Letter from PCWA to Dir. Public Works, City of Lincoln, dated Feb. 26, 2002, Contribution to Penryn/Lincoln Pipeline indicates payment from Lincoln in exchange for future capacity (added in subsequent years)
8	2001	\$ 125,353	0.03	-	List received from PCWA, marked Construction Credits
9	2001	\$ 2,139,900	0.49	-	PCWA - City of Lincoln Calc's for Max Gals per Day for Period 1-1-01 to 12-31-01
10	2002	\$ 243,250	0.06	-	Letter from PCWA to Dir. Public Works, City of Lincoln dated Feb. 26, 2002
11	2002	\$ 5,321,218	1.72	-	Letter from City of Lincoln to Int. Dir. Financial Services, PCWA, dated March 30, 2002
12	2002	\$ 2,032,905	0.66	-	Letter from City of Lincoln to General Manager, PCWA, dated October 23, 2002
13	2002	\$ 8,058,492	1.85	-	Letter from City of Lincoln to General Manager, PCWA, dated October 23, 2002
14	2002	\$ 6,565,065	1.51	-	Supplement to PCWA – Lincoln Water Supply Contract, effective November 7, 2002
15	2002	\$ 1,580,983	-	-	Recap of Lincoln PERC Payments and Credits Penryn/Lincoln Pipeline, Letter from PCWA to City Manager, City of Lincoln dated December 17, 2004. The document is proof of payment made but the credit for capacity is entered in subsequent years in this table.

Line No.	Approx. Purchase Date	Amount Paid	Regulated Capacity Acquired (MGD)	Unregulated Capacity Acquired (MGD)	Source Document
16	2002	\$ -	0.77	-	FCS GROUP added this value to reconcile to the maximum capacity noted in the various 2002 contracts; the total was off by approximately 0.77 MGD, so we added it to the regulated capacity for 2002 with no additional cost.
17	2004	\$ -	-	0.01	PCWA Memo to Bd. of Directors from Director, Technical Services, dated June 9, 2004
18	2004	\$ 873,115	-	0.12	PCWA Memo to Bd. of Directors from Director, Technical Services, dated June 9, 2004
19	2004	\$ 20,145,140	3.40	-	Letter from PCWA to City Manager, City of Lincoln, dated December 17, 2004
20	2004	\$ 2,125,121	-	0.30	Letter from PCWA to City Manager, City of Lincoln, dated December 17, 2004
21	2005	\$ 18,467,105	2.70	-	PCWA Memo to Bd. of Directors from Director, Technical Services, dated August 5, 2005
22	2005	\$ 2,321,500	-	0.29	PCWA Memo to Bd. of Directors from Director, Technical Services, dated August 5, 2005
23	2006	\$ 4,000,000	-	0.40	Supplement to PCWA – Lincoln Water Supply Contract, dated December 11, 2006
24	Total	\$ 97,947,295	17.77	1.13	

Section III. PURPOSE OF THE WCC

The WCC is within a category of utility fees generally described as “development charges” although there is a myriad of terms that would be equally descriptive. *Tap fees, plant investment fees, connection charges, development fees, system development charges, impact fees, and capacity charges* are all examples of different terms for the same kind of fee. Simply stated: a development charge is a one-time fee assessed to those who request a connection to a utility system. The fee is generally meant to defray some or all of the costs related to the growth of the system, and thus they are the vehicle by which policymakers implement “growth-pays-for-growth” or similar policies.

In a very general sense, a development fee reimburses the utility for its investments in facilities necessary to serve not the existing customer base, but future customers. Since the utility must construct sufficient capacity *before* any future customers can connect to the system, it follows that the utility expends its funds in advance and can seek reimbursement only once the future customers request connections to the system.

III.A. INDUSTRY METHODOLOGIES TO DETERMINE WCC

There are three commonly used approaches to calculating a connection charge. While each approach has its own strengths and weaknesses, the same general methodology is always used; allocating certain costs across some measure of capacity as summarized in Equation 1.

Equation 1.

$$\text{Connection Charge} = \frac{\text{Costs}}{\text{Units of Capacity}}$$

Existing industry standards provide for three main approaches for determining fees: the *buy-in approach*, the *incremental approach*, and the *hybrid approach*. These approaches are commonly used throughout the U.S. in one form or another, although sometimes by different names than described here. The following briefly describes each of the common approaches and several considerations the City may wish to evaluate in forming its selected policies and corresponding fees.

III.A.1. Buy-in Approach

The buy-in approach is based on the concept of reimbursement of past investment in capacity that is currently available to serve new connections. The capacity available for new users as a result of past investment by the utility is often called the system’s *reserve capacity*. The design capacity is typically used as the basis for determining the amount of reserve capacity, but rated capacity is also appropriate in cases where there is a difference between the two.

The first step in calculating the fees under the buy-in approach is to determine the sum of investments made in the system's physical assets. There are four generally accepted methods to determine the value of the existing assets:

- Net book value (NBV);
- Original cost (OC);
- Reproduction cost less deterioration (RCLD); and
- Full reproduction cost (RC).

Of the four, full reproduction cost will always result in the highest value, and net book value the lowest. The original cost of an asset is the historical cost at which the asset was acquired. For example, an asset acquired in 2002 at the cost of \$100,000 would be valued at \$100,000 under the OC method. In accounting, assets depreciate as they age; deducting the accumulated amount of depreciation from the original cost will result in the net book value for the asset. For example, if the \$100,000 asset above had a ten-year expected life and were 5-years old, then the book value would be \$50,000 (\$100,000 original cost, less five years x \$10,000/year in depreciation). Because OC and NBV are based on historical costs not reflective of inflation, it is often appropriate to consider adjusting the value to reflect today's dollars. Reproduction cost is the equivalent of OC indexed for inflation, and RCLD is the equivalent of NBV using the same index. A typical inflation index for making these adjustments is the Construction Cost Index (CCI) as regularly published by the Engineering News Record, although there are others.

The second step is to apportion the asset value between the capacity already used by existing customers and the reserve capacity. Next, divide by the total reserve capacity to arrive at an average cost per unit of available capacity. Note that one unit of capacity can be any relevant unit. If the calculation is relevant to costs of hydraulic capacity, the units in question may be MGD, GPD, or some other hydraulic capacity unit. The equation below summarizes the calculations.

Equation 2.

$$\text{Connection Charge} = \frac{\text{Costs of the Existing System} \times \left(1 - \frac{\text{Used Capacity}}{\text{Total Capacity}}\right)}{\text{Reserve Capacity}}$$

The buy-in approach is perhaps the most conservative of the three discussed here. The strength of the approach is that all asset investment costs and capacity values are known and measured at the time the fee is calculated, thus increasing the accuracy of the calculations. The weakness is that the approach has limited to no consideration for future capital investments, even those expected in the short-run. As a result, to approach full cost recovery, the fee should be recalculated as new assets are placed into service. This approach is "backward-looking" by its nature leading to the slowest recovery of expansion-related costs of the three. For this reason, the best application of a pure buy-in approach is for those utilities that have already acquired most of the capacity needed to accommodate expected growth and have limited expectations for future capacity investments.

III.A.2. Incremental Approach

The incremental approach is based on the concept that new connections will pay for a portion of the proposed future investment in capacity. Under this approach, the cost basis is the sum of the estimated capital improvement costs for those projects that will specifically expand the capacity of the utility system. Determining these costs is usually a matter of reviewing each project in the CIP to identify the projects as “expansion-related” or not. In some cases, projects may contain elements of expansion but are not completely expansion-related. In these cases, the projects may be allocated to reflect the proportionate cost of expansion (e.g., Project A is 40% expansion, 60% repair). Capital improvements related to renewal and replacements, repair of the system, or operational enhancements are usually ignored unless there is a clear nexus that these investments are connected to maintaining or preserving the system’s (expanded) capacity (e.g., absent the investment, system capacity would be lost).

The capacity measure under the incremental approach is the sum of the incremental capacity added to the system as a result of completing the proposed capital projects. If the CIP projects together add 10 MGD to the system capacity, for example, then the incremental approach will match the CIP costs specifically related to the addition with the 10 MGD to derive an average cost per unit of incremental capacity. Let’s say the CIP projects related to the 10 MGD of expansion summed to \$50 million; the average cost per unit of incremental capacity would be \$5 million/MGD or \$5/GPD. The equation below summarizes the calculations for determining a connection fee using the incremental approach.

Equation 3.

$$\text{Connection Charge} = \frac{\text{Costs of Future Expansion}}{\text{Units of Future Capacity}}$$

The strength of the incremental approach is its focus on future investment costs, which, in turn, allows the utility to start the recovery of those costs ahead of its expenditures. The weakness of the approach is that it does not consider the cost of the reserve capacity, which most likely still exists to some extent. Another weakness is that the future costs of expansion-related projects are only estimated at the time of the fee calculation, exposing the utility to the risk of either over or under-estimating the costs. The incremental approach is best implemented in situations where a utility has little to no reserve capacity but expects additional growth in the future.

III.A.3. Hybrid Approach

The hybrid approach combines both the buy-in and incremental approaches. It is based on the concept that investments in capacity have taken place historically and will continue to take place in the future while all the capacity created by those investments will be equally available for new connections. In other words, both the reserve and incremental capacities are relevant for the growth of the system, and therefore, the investment in both reserve and incremental capacities should be recovered in any kind of connection fee. Calculating a fee under the hybrid approach is a matter of

adding the costs and dividing by the sum of the reserve and incremental capacities, as demonstrated in the below equation. It results in an average cost of reserve and incremental capacity together.

Equation 4.

$$\text{Connection Charge} = \frac{\text{Cost of Existing and Future}}{\text{Reserve Capacity} + \text{Future Capacity}}$$

The hybrid approach is often the best fit for most utilities because most utilities have both historical and planned future capacity investments at any given time. The hybrid approach recognizes both time frames and all related capacity, averaging them together to a single fee. Additionally, this approach eliminates the weaknesses inherent in the buy-in approaches but retains some of the weaknesses of the incremental approach. For example, in recognizing the cost of future investment in the system, the hybrid approach has equal exposure to the utility for over or under-estimating the cost of future capacity.

III.B. LEGAL CONSIDERATIONS

Connection fees like the WCC are litigated more often than many other types of rates, charges, or fees imposed by utilities in the United States. There have been several federal cases at the US Supreme Court relative to such fees.

The following is a brief description of key cases and statutes most relevant to the WCC. Our summary does not include discussion of the US Supreme Court cases because those cases focus on constitutional questions where property, usually real estate, is required to be granted to a government entity as a condition of a land use permit. The 5th Amendment of the US Constitution prohibits such *takings*, and the cases before the US Supreme Court all dealt with this constitutional question, which is of limited relevance to utility fees like the WCC. However, interested readers may wish to refer to the following:

- *Nollan v. California Coastal Commission*
- *Dolan vs. City of Tigard*
- *Koontz v. St. John's River Water Management*

III.B.1. California's Legal Considerations

III.B.1.a Propositions 13, 26 and 218

The ability for local governments to impose fees for services is constrained under California law in various ways. Proposition 13, enacted in 1978, limits the collection of property taxes and required two-thirds majority votes in the State Assembly to increase State tax rates, as well as a two-thirds majority in local elections in order to increase special taxes. Proposition 13 defined special taxes as those devoted to a specific purpose but did not clearly define the issue. The idea of what constitutes a tax and what constitutes a fee is a recurring theme regarding subsequent propositions.

In Proposition 218, the definition of what constitutes a tax was further refined. Prop. 218 deals with exactions, whether they are called taxes, fees, or charges, that are directly associated with property

ownership. The passage of Prop. 218 in 1996 added these latter categories of local government charges to the definition of a tax. With respect to property-related fees and charges, Prop. 218 defined them as those imposed “upon a parcel or upon a person as an incident of property ownership, including a user fee for a property related service.” Thus, Prop. 218 made local fees, like water rates and charges, subject to voter approval processes. However, Prop. 218 specifically excludes land use fees from its provisions.

Proposition 26 expanded still further the types of local government charges or levies requiring voter approval. It defines a tax as any levy, charge or exaction of any kind imposed by a local government except the following:

1. A charge imposed for a specific benefit conferred or privilege granted directly to the payor that is not provided to those not charged, and which does not exceed the reasonable costs to the local government of conferring the benefit or granting the privilege.
2. A charge imposed for a specific government service or product provided directly to the payor that is not provided to those not charged, and which does not exceed the reasonable costs to the local government of providing the service or product.
3. A charge imposed for the reasonable regulatory costs to a local government for issuing licenses and permits, performing investigations, inspections, and audits, enforcing agricultural marketing orders, and the administrative enforcement and adjudication thereof.
4. A charge imposed for entrance to or use of local government property, or the purchase, rental, or lease of local government property.
5. A fine, penalty, or other monetary charge imposed by the judicial branch of government or a local government, as a result of a violation of the law.
6. A charge imposed as a condition of property development
7. Assessments and property-related fees imposed in accordance with the provisions of art. XIII D.

In general, charges like the WCC fall under the 2nd exception listed above because the WCC is a charge for a specific government service – water service – that is not provided to anyone not paying the fee.

III.B.1.b Mitigation Fee Act

After Proposition 13, communities began implementing impact fees as a means to fund local improvements and, after some years, concern grew from inconsistencies in the implementation of such fees across the State. The Mitigation Fee Act was meant to address these concerns. Starting as Assembly Bill 1600, the Mitigation Fee Act (Act) eventually became law codified in California Government Code Section 66000. Among other provisions, the Act requires local governments to document certain aspects of their impact fees within a so-called “nexus study.” The required elements include:

- Identify the purpose of the fee,
- Identify the use of fee revenues,

- Determine a reasonable relationship between the use of the fee revenue and the type of development paying the fee,
- Determine a reasonable relationship between the purpose of the fee and the type of development paying the fee,
- Determine a reasonable relationship between the amount of the fee and the cost of the facilities needed to serve the development paying the fee.

This report documents all the above.

III.B.2. Local policies

III.B.2.a Resolution 78-77 Adopting Water Connection Charges

Resolution No. 78-77, adopted by City Council in December 1978, established a water connection fee. Section 1 of the resolution establishes the purpose of the fees:

“Each Commercial or Industrial business and each family living unit must have a separate connection to the City Water System. Connection fees for every service connection to the City Water system are established for the purpose of providing funds for the payment of the costs of construction, maintenance and operation of the City water system and in order that such costs be shared by those receiving the benefits.”

Section 2 of the Resolution describes how the funds collected from the fees should be used:

“Amounts collected pursuant to Section 3 shall be set aside in a separate fund and used for the purposes enumerated in Section 1 at the following percentage rates: 10% of the connection for General Maintenance; 20% of the connection for Capital Improvement; 70% of the connection fee to the City Water Fund.”

Section 3 of the Resolution established the initial schedule of charges per Table 9, below. The initial schedule of fees has, of course, been amended over time.

Table 9: Water Connection Fee from 1978 Resolution No. 78-77

Meter Size	Fee
5/8"	\$250.00
¾"	350.00
1"	550.00
1-½"	1,050.00
2"	1,650.00
3"	3,250.00
4"	6,250.00
6"	10,250.00

It seems clear from the 1978 resolution that early on, the City determined that it would recover a portion of its water system costs from a connection charge. At the time, there would have been no

difference between what the City now calls its CITY-WCC and the WCC. All such connection charges were authorized by the resolution.

Additionally, the resolution accomplishes other objectives. First, it causes all funds recovered from the fees to be set aside separately, apart from other funds of the City. Once separated, the funds are further restricted as to their use in the percentages indicated in Section 2. A fair summary of the resolution is:

- Funds received in payment for any water connection charge should be deposited in a separate account, and
- The separate account is intended to provide funds for payment of construction costs, maintenance, and operation of the City Water System, and
- Within the City Water System, the funds may be used in a proportion of 10% for general maintenance, 20% for capital improvements, and 70% for general purposes of the City Water Fund.

There are no other restrictions to the use of funds noted and, based on our review of subsequent resolutions and ordinances, there are no amendments to Resolution 78-77 that change any of its original restrictions.

III.B.2.b The Water Connections Fund

The City has a separate Water Connections Fund. According to the City's 2018 audited financial report:

These funds are used to account for water connection fees collected from developers and property owners that are required by California Government Code to be expended for capacity expansion...

It is not clear the exact citation of California Code is implied in the above statement from the 2018 audited financial report. However, the relevant portion of the California Code dealing with connection fees and charges is Section 66013. With respect to any restrictions on the use of funds received, Section 66013(C) states that:

A local agency receiving payment of a charge as specified in paragraph (3) of subdivision (b) shall deposit it in a separate capital facilities fund with other charges received, and account for the charges in a manner to avoid any commingling with other money of the local agency...and shall expend those charges solely for the purposes for which the charges were collected...

Resolution 78-77 defines the purposes for which the City's connections charges are collected. Further, the Resolution requires the funds to be deposited in a separate account, which is the Water Connection Fund. The use of the funds, however, is not restricted in Resolution 78-77 solely for the purposes of "capital expansion" as stated in the 2018 audit. Instead, the Resolution clearly allows for wider use of the funds as described earlier, including 10% for general maintenance, 20% of capital improvements, and 70% for the general purposes of the City Water Fund.

In addition to the Water Connections Fund, the City also maintains a separate enterprise fund called the Water Fund. The Water Fund accounts for all normal operations of the City's water system. It

seems clear that the Water Fund is one and the same as the “City Water Fund” referred to in Resolution 78-77, meaning that up to 70% of the water connection fees authorized by the resolution may be used for the “general purposes of the City Water Fund.”

III.C. THE INTENDED PURPOSE OF THE WCC - SUMMARY

The purpose of the WCC in general, based on the City’s Resolution 78-77, is to provide funds for the payment of the costs of construction, maintenance and operation of the City water system, and in order that such costs be shared by those receiving the benefits.” The City has two types of connection charges. With respect to the WCC, the construction costs involved relate to the costs of acquiring capacity on the PCWA system. The City’s other charges address other costs without duplication.

The City must acquire PCWA capacity in advance of the arrival of future customers whom each pay the WCC as a condition of connecting to the City water system. Payment of the required fees, including the WCC, is necessary in order to receive service. Those not paying the WCC do not receive service.

Because the payment of the WCC is a reimbursement of the City’s costs, it follows that the revenues earned from the WCC may be spent on needs other than acquiring yet more PCWA capacity. Resolution 78-77 specifies the manner in which WCC revenues may be spent, including 10% toward general maintenance of the water system, 20% toward capital improvements of the water system; and 70% for any general needs of the City Water Fund.

Therefore, the purpose of the WCC is to cause future customers to reimburse the City for its costs of acquiring the PCWA capacity needed to serve them which, in turn, provides revenue that may be used for any purpose specified in Resolution 78-77.

Section IV. RECOMMENDED WCC

The City has never performed a nexus study concerning its WCC in the past. As we have shown in previous sections, the City has historically relied on the PCWA-WCC schedule as the basis for its own WCC. This section of the report discusses our calculations related to the costs the City has incurred for its capacity on the PCWA system, and the level of the fee charged relative to those costs.

IV.A.1. Selected Approach

Earlier in this report, we discussed three different approaches for calculating the WCC. The three most common approaches as used throughout the industry are the Buy-In, Incremental, and Hybrid approaches. Although we considered all three approaches, we selected The Buy-In approach for the following reasons:

- All the costs relative to the City’s acquisition of PCWA capacity occurred in the past, and no new acquisitions were identified in any of the planning documents we received,
- Given that all costs were incurred in the past, and because there were no planned acquisition, the Incremental and Hybrid approaches were unnecessary,
- Of the three approaches, the Buy-In is the simplest.

The equation for the Buy-In approach is presented below. The capacity available for new users as a result of past investment by the utility is called the system’s *reserve capacity*. The Buy-In approach formula divides the cost of reserve capacity by the units of reserve capacity. The resulting \$/GPD is multiplied by the number of GPD required from a given service connection to arrive at the WCC for that connection.

Equation 4.

$$\text{Connection Charge} = \frac{\text{Costs of the Reserve Capacity}}{\text{Reserve Capacity}} \times \text{GPD}$$

IV.B. THE WCC CALCULATION

IV.B.1. The Denominator: Reserve Capacity

The denominator for the WCC calculation is the quantity of PCWA capacity in reserve. Recall that reserve capacity is simply another way of saying *unused*. In other words, the City acquired a certain amount of capacity, and some of it is still available, unused, for the benefit of future customers wishing to connect to the City’s water system.

IV.B.1.a Total capacity

The total capacity from PCWA is documented in the 2012 Water Supply Agreement between PCWA and the City. In this agreement, the City is said to own 17.8 MGD of regulated capacity and 0.73 MGD of unregulated capacity. However, an additional 0.40 MGD was purchased in 2006, pending completion of Phase III of the Penryn-Lincoln-Sunset Pipeline. When this project is complete, as is expected within the next year, the 0.40 MGD will be added to the City's unregulated capacity. In the meantime, the unregulated area is currently served from a small portion of the City's regulated capacity.

For the purposes of our report, the pending 0.40 MGD is included as part of the current capacity from PCWA⁷ bringing total capacity to 17.8 MGD for regulated and 1.13 for unregulated capacity, and to a total of 18.91 MGD for both.

IV.B.1.b Subscribed and Reserve Capacity

The subscribed capacity from PCWA is equivalent to the City's MDD from PCWA, as discussed in the earlier sections (see Table 4). In summary, the MDD of 15.5 MGD from Table 4 is the ADD observed during the max month of PCWA deliveries to the City multiplied by a 1.1 peak factor. The max month in question comes from observations in 2013, the highest observed water demand from the data available to us. We recommended using the peak year for this calculation for the sake of conservative planning.

Most of the 15.5 MGD of subscribed capacity is regulated capacity. The City provided consumption data from August 2017, the maximum month in 2017, demonstrating a subscribed capacity of 1.03 MGD for the unregulated area. Subtracting this from the total subscribed capacity of 15.5 MGD leaves 14.5 MGD as the subscribed capacity in the regulated area.

Table 10 summarizes the calculations to reach the total estimated maximum and reserve capacity for regulated and unregulated services.

⁷ The 0.4 MGD has been added to our analysis based on the fact that the City has already substantially paid out the construction costs of the pipeline. Our analysis includes both the costs of the capacity, as well as the capacity itself.

Table 10: Determination of Reserve Capacity for Regulated and Unregulated Services

Description	Regulated Capacity	Unregulated Capacity	Total
Max Capacity	17.77	1.13	18.91
Used Capacity	14.50	1.03	15.53
Total Reserve Capacity	3.27	0.10	3.37

IV.B.1.c Capacity per EDU

Based on this reserve capacity, an approximation can be made for the number of EDUs in reserve for both regulated and unregulated meters. Table 11 shows the estimated EDUs in reserve, based on the GPD per EDU value from Table 5. The resulting reserve depends on which EDU definition is used.

Table 11: Calculated EDUs in Reserve

EDU Definition	Calculated EDUs in Reserve - Regulated	Calculated EDUs in Reserve - Unregulated
Reserve Capacity	3.27	0.10
GPD Demand per EDU	768	768
No. of EDU in Reserve	4,262	127

IV.B.2. The Numerator: The Cost of Reserve Capacity

IV.B.2.a Cost of PCWA Capacity Acquisitions

It is recommended the City use the most recent PCWA purchases for the WCC calculation, similar to a “First In, First Out” (FIFO) inventory cost accounting approach. The reason for doing so is simple: as the City acquires capacity, it sells that capacity on a first-come, first-serve basis, acquiring new capacity only when needed. It follows that the City’s first purchases of PCWA capacity from pre-1991 have already been used and not available for new customers today. For illustration, the pre-1991 capacity level was 3.055 MGD, whereas the City’s total MDD today is approximately 15.5 MGD. Clearly, the City sold its 3.055 MGD to new connections long ago. As the City acquires new capacity, it does so at increasingly higher costs per unit. For example, the cost of a unit of capacity in 1991 was approximately \$4.36 per GPD. The same unit of capacity today would cost \$13.63.

Lincoln has 3.27 MGD of PCWA regulated capacity in reserve. The City’s last purchase of regulated capacity occurred in 2005 for 2.70 MGD. Therefore, all the 2005 purchase remains in reserve. The remaining 0.57 MGD is what remains from a 2004 acquisition of 3.4 MGD in total. Accordingly, 0.57 of 3.4 MGD from the 2004 acquisition remains in reserve, about 17%. None of the City’s

acquisitions prior to 2004 are available to provide service to future customers at this point and, therefore, none of the cost of those earlier acquisitions should be included in the cost basis for the WCC. Table 12 summarizes the capacity and the costs for regulated capacity relevant for the WCC as of the Report Date.

Table 12: Original Costs of Regulated Reserve Capacity

Yr. of Purchase	Amount Paid in Original Costs ⁸	Capacity Purchased, MGD	Allocation to Current Reserve Capacity	Reserve Capacity	Original Costs Applicable to the Regulated Reserve
2004	\$20,145,140	3.40	16.8%	0.57	\$3,375,945
2005	\$18,467,105	2.70	100%	2.70	\$18,467,105
TOTAL				3.27	\$21,843,050

Likewise, Lincoln has 0.10 MGD of PCWA capacity in reserve for unregulated meters. Therefore, 24% of the 2006 purchase of \$4.0 Million is included in the cost basis.

Table 13: Original Costs of Unregulated Reserve Capacity

Yr. of Purchase	Amount Paid in Original Costs	Capacity Purchased, MGD	Allocation to Current Reserve Capacity	Reserve Capacity	Original Costs Applicable to the Unregulated Reserve
2006	\$4,000,000	0.40	24%	0.10	\$966,392
TOTAL				0.10	\$966,392

IV.B.2.b Other Carrying Costs

PCWA User Charges for Unused Capacity

The City pays PCWA a user fee separate from the connection charges which includes a fixed rate for all used and unused capacity the City owns. These PCWA charges are currently recovered through the City's user rates and not the WCC, meaning that user charges are higher to compensate for the unused capacity. The City's past payments for the unused capacity could be considered additional carrying costs for the unused capacity as these costs have been incurred in addition to the acquisition

⁸ Original costs shown in the tables reflects dollars paid in historical periods without adjustment for inflation.

costs already discussed. However, because other carrying costs we included may be duplicative (with the PCWA user charges) and because we could not reasonably match the past payments with the remaining reserve capacity, we have excluded the PCWA user charges from our proposed WCC.

Inflation

Because original cost does not reflect the impact of inflation, it is customary to consider adjusting the cost of past investments to reflect today’s dollars.

Reproduction cost is an estimate of past costs adjusted to today’s dollars. To get the estimate, one multiplies the original cost of the asset by an inflation index as described in Equation 5, below. There are numerous indexes that measure inflation, but the most common ones used for purposes of obtaining reproduction costs for water supply assets are the Engineering News Record’s (ENR) Construction Cost Index and the Handy Whitman Index of Public Utility Construction Costs. In various agreements between PCWA and the City, there is a frequent reference to the ENR index for the San Francisco area, and we used this index to adjust all past purchases made by the City to current values.

Equation 5.

$$\text{Reproduction Cost Index} = \frac{\text{Current Year Index}}{\text{Past Year Index}}$$

Table 14: Inflation-Adjusted Costs of Regulated Reserve Capacity

Yr. of Purchase	Original Costs of Regulated Reserves	ENR Reproduction Cost Index	Adjusted Costs of Regulated Reserves
2004	\$3,375,945	1.48	\$5,001,327
2005	\$18,467,105	1.47	\$27,094,197
TOTAL Rounded	\$21,843,050		\$32,095,524 \$32,096,000

Table 15: Inflation-Adjusted Costs of Unregulated Reserve Capacity

Yr. of Purchase	Original Costs of Regulated Reserves	ENR Reproduction Cost Index	Adjusted Costs of Regulated Reserves
2006	\$966,392	1.41	\$1,366,942
TOTAL Rounded	\$966,392		\$1,366,942 \$1,367,000

Once the 2019 reproduction cost has been accounted for, the total cost of reserve capacity in Table 14 and Table 15 is divided by the amount of reserve capacity (Equation 4). The result is a WCC in terms of dollars per GPD. The result can be converted to dollars per EDU by multiplying by 768 GPD/EDU.

Table 16: WCC Unit Costs

Description	Regulated	Unregulated
Investment in Reserve Capacity	\$32,096,000	\$1,367,000
Amount of Reserve Capacity (MGD)	3.27	0.10
WCC per GPD	\$9.81	\$13.99
WCC per EDU (768 GPD)	\$7,530	\$10,744

Deterioration and Obsolescence (Depreciation)

The original cost of an asset is the historical cost at which the asset was acquired. For example, an asset acquired in 2002 at the cost of \$100,000 would be valued at \$100,000. In accounting, assets depreciate as they age; deducting the accumulated amount of depreciation from the original cost will result in the net book value for the asset. For example, if the \$100,000 asset above had a ten-year expected life and were 5-years old, then the book value would be \$50,000 (\$100,000 original cost, less five yrs. x \$10,000/yr. in depreciation).

In the case of a physical asset, its book value usually diminishes over time. However, purchased capacity like the rights the City has acquired from PCWA is an intangible right to the use of an asset rather than a physical asset. As an intangible asset, the City has the same right to capacity in the PCWA system today as it had in the past; the effects of depreciation do not change the City's rights to the capacity in any way.

Financial Carrying Cost

In financial contexts, the time value of money (TVM) is a term that simply says that money in hand today is worth more than an identical sum in the future. Different factors affect the future value of money. We already discussed inflation as one of those factors – we made an adjustment to account for inflation only up to the present day. TVM is relevant in this case because the City will not receive reimbursement for its investment in the reserve capacity until sometime in the future when new connections are charged for the capacity via the WCC. Depending on the rate of growth, the level of the WCC at any point in the future, and whether we are talking about regulated or unregulated capacity, the City may incur more or less cost related to TVM. Basically, the longer the City has to wait to receive reimbursement for its investments, the greater its TVM costs.

It costs the City money, a rate of interest, to borrow funds to finance its operations. The most recently acquired bonds that the City holds are Lincoln Public Financing Authority Revenue Refunding Bonds Series 2016 A&B, which have an average debt cost of 3.35%. The City also uses cash from the rates it has charged to its customers as a portion of its financing. These cash portions are correctly termed as *equity* financing because the funds come from the City's retained earnings, which is an equity account on the City's balance sheet. Like debt, equity also has a cost even though it is not explicitly stated like an interest rate on a bond. Instead, equity costs are economic costs that

represent lost opportunities to use the cash funds for other needs. The total cost of capital, therefore, properly includes both the cost of debt and equity, and it is this total cost of capital that is best used to estimate the TVM for the City.

If we assume three percent annual growth rate, and a total cost of capital of seven percent (our estimate of the City’s total average cost of capital), we can estimate the expected TVM costs for the City as summarized in Table 17.

Table 17: TVM Cost Estimate for Inclusion in Proposed WCC

Description	Regulated	Unregulated
Unadjusted WCC per EDU	\$7,530	\$10,744
# EDUs to reach full capacity	4,262	127
Present Value of Costs	\$32,096,000	\$1,367,000
Present Value of Unadjusted WCC Revenue	\$24,597,290	\$1,191,336
Revenue Shortfall	\$7,498,710	\$175,664
TVM per GPD ⁹	\$2.99	\$2.06

The TVM costs from the above table would be added to the total WCC. Importantly, the above table assumes no future increase to the WCC. By adding the amounts shown, all else being equal, no future increases would be needed. If future increases are adopted for any reason, the TVM would be reduced from the levels shown above.

IV.C. CONNECTION CHARGE UNIT COST

With each of the elements of the numerator and denominator determined, we can combine them to calculate the WCC as of the Report Date.

⁹ The TVM value is solved to cause the present value of expected future revenue to be equal to the present value of the costs. It requires multiple steps not shown here.

Table 18: WCC per GPD

Description	Regulated Capacity	Unregulated Capacity
Reproduction Cost of Reserve Capacity	\$32,096,000	\$1,367,000
Reserve Capacity	3.27 MGD	0.10 MGD
Gross Cost per GPD	\$9.81	\$13.99
TVM Adjustment per GPD	\$2.99	\$2.06
Total Cost per GPD	\$12.79	\$16.05

IV.D. CONNECTION CHARGE SCHEDULE

The City adopted a sliding assessment schedule with Ordinance 981B in January 2019. Recall from the earlier discussion that the schedule included a GPD allotment to individual lots based on square footage. We reviewed the GPD values from Ordinance 981B compared to recent meter readings provided by the City for 2013, 2017, and 2018. We determined the ADD during the maximum-month for each lot size, applied a loss factor of 10 percent, and then multiplied by the 1.1 peaking factor recommended in the 2017 Master Plan. The results from our calculations are summarized below in Table 19.

Table 19: Proposed WCC Using a Revised GPD Value by Lot Size

Lot Size (SF)	GPD	Regulated WCC	Unregulated WCC
<2900	214	\$2,739	\$3,436
2901 <4400	442	\$5,653	\$7,092
4401<5500	576	\$7,366	\$9,241
5501<7000	679	\$8,684	\$10,895
7001<10000	862	\$11,032	\$13,841
10,001<17,000	1,201	\$15,363	\$19,275
17,001<35,000	2,407	\$30,802	\$38,645
> 35,000	5,155	\$65,960	\$82,755

Section V. FINDINGS

This final section of our report addresses our major findings from our review of the City's WCC. Moreover, the City requested that we review the findings from the 2019 Grand Jury report regarding the WCC's as well as findings from a 2019 report of the California State Auditor.

- 1) The purpose of the WCC is to recover the City's costs of acquiring capacity in the PCWA system from future customers who benefit directly from the availability of said capacity.
- 2) Customers who do not pay the WCC do not receive water service from the City. It follows that the WCC is reasonably related to all types of development requesting connections to the City's water system.
- 3) The current value of the City's unrecovered investment in PCWA capacity as of the Report Date is approximately \$33.5 million.
- 4) The amount of capacity remaining in the PCWA system is approximately 3.37 MGD in total. Approximately 3.27 MGD of the total is in regulated capacity, and approximately 0.10 MGD is unregulated.
- 5) The raw cost per GPD of the remaining capacity is \$9.81 and \$13.99 for regulated and unregulated capacity, respectively.
- 6) The City must acquire sufficient capacity from PCWA to meet the needs of future customers before those customers arrive.
- 7) Because the City must wait until future customers to connect to the system and pay the WCC, it absorbs a financial carrying cost that we determined to be worth approximately \$8 million in total assuming 3 percent annual growth, a 7 percent cost of capital, and no future increases to the WCC.
- 8) Financial carrying costs add \$2.99 to the cost per GPD of regulated capacity bringing the total cost to \$12.79 per GPD. The addition for unregulated capacity is \$2.06, bringing the total to \$16.05 per GPD.
- 9) The WCC fee revenues may be used for any purpose authorized in the City's Resolution 78-77. All uses of revenue described in the Resolution are directly related to the City's water system, including 10% of the revenue available for general maintenance, 20% for capital improvements, and 70% for the Water Fund.
- 10) The WCC may be charged to customers based on the GPD values by lot size adopted by Ordinance.

Responses to the Report of the State Auditor

The following are claims made in the State Auditor's report of March 2019 that we are able to respond to, based on information we reviewed in preparing this nexus report.

...state law requires Lincoln to spend revenue in the water connections fund only for expanding its access to water capacity (Pg. 5).

There is a statement in the City's audited financial statements that more or less mirrors this statement from the Grand Jury Report. However, the relevant state law related to fees like the WCC is California Code 66013 and that section of code merely says such revenues must be expended "solely for the purposes for which the charges were collected." The City defined the purpose of the water connection fees in 1978 with Resolution 78-77. The Resolution authorizes the funds collected from such charges to be spent for the benefit of the water system, including 10% for general maintenance, 20% for capital improvements, and 70% for the needs of the water fund. We were unable to find any citation in California Code or in local resolutions or ordinances that restricts the funds specifically to "expanding its access to water capacity."

From fiscal years 2013-14 through 2016-17, Lincoln used surpluses from the water connections fund to offset negative cash balances in the airport, fire, drainage, parks, and regional sewer funds at the end of each fiscal year (Pg. 9).

Although it seems clear that the loans were made as stated, the notion that the water connection fund was holding any kind of "surpluses" is a misleading statement. A balance in the water connection fund would be expected given that the City acquired the PCWA capacity in the past and is recovering WCC revenue only after the fact. Whether the funds collected exceeded the costs paid in total for all relevant periods is not a question we were able to answer in the course of our work. However, we did conclude that the City paid nearly \$100 million in the past for PCWA capacity; a figure that translates to over \$156 million when adjusted for relevant inflation. Records related to the total amount received since the City's first acquisition of PCWA capacity were not available.

The water connections fund includes water capacity charges that the city collects from developers and property owners, and the fund has accumulated a surplus because Lincoln overcharged these fees (Pg. 12).

We were unable to determine whether the WCC charges exceeded the City's costs in any past periods. With respect to the findings in this report: we note that 1,150 GPD of regulated capacity costs approximately \$14,714 which compares to a current WCC of \$15,677, indicating an overcharge of \$963 per 1,150 GPD. With respect to the unregulated capacity, the finding from this report is that the cost is \$18,460 versus a current WCC charge of \$19,339, indicating an overcharge of \$879. Additionally, suggesting that the fund has "accumulated a surplus" is misleading; a positive fund balance is expected for reasons already offered, and a positive fund balance is not necessarily an indication of overcharging.

Lincoln overcharged developers and builders for the cost of water infrastructure and capacity. Because its capacity charges were not commensurate with the amounts it pays for water infrastructure and capacity; the city had accumulated a fund balance of nearly \$41 million as of June 2017. (Pg. 19)

Whether overcharges occurred in the past or not is not a question we were able to answer in the scope of our study. However, accumulating a fund balance is to be expected given the payment of the WCC is a reimbursement for costs the City occurs prior – sometimes long before – future customers even connect to the water system. The City is currently holding about 3.37 MGD of capacity in the PCWA system, and with an assumed 3 percent growth rate would have enough capacity for approximately seven more years with respect to the regulated capacity, and four years with respect to the unregulated capacity.

An average dwelling in Lincoln uses only 650 gallons per day... (Pg. 20)

The relevant demand for supply planning purposes is the maximum-daily demand rather than average daily demand. The 2017 Master Plan, which we reviewed, recommends a maximum daily demand that includes the avg. day during the max month, plus 10 percent loss factor, times a peaking factor of 1.1. Using these inputs, we arrived at the maximum daily demand of 768 GPD for a typical single-family dwelling unit. Historically, both PCWA and the City had used a value of 1,150 GPD to represent the maximum daily demand for a single-family residence. PCWA still uses this value.

Response to Claims Made in the Grand Jury Report

The following are our comments relative to claims in the report of the Grand Jury for 2018-19.

Fees collected for water connections are deposited in the WCF [water connection fund] and must only be used for specific purposes as set forth in the following city and state laws...(Pg. 3)

Based on our review of available information, it seems clear that the WCC revenues are deposited into a separate fund, the Water Connection Fund. The City's Resolution 78-77 sets forth the intended purpose of the water connection fees as well as the authorized uses of the revenue received. The intended purpose is repeated, verbatim, in Municipal Code 13.04.360, but the code leaves out the provisions in the resolution that discuss the authorized uses of funds recovered from the water connection charges. Our review indicates that Resolution 78-77 is the only council action that documents both the purpose of the water connection charges as well as the use of funds collected.

Per the Twelve Bridges agreement, the maximum the city can charge is \$45,833 [for a WCC] (Pg. 4)

We did not review the Twelve Bridges Agreement. However, our understanding of State law is that fees are valid provided they are related to the reasonable costs incurred to provide a government service. Based on the findings in this report, the largest lot sizes in the City may be charged as much as \$82,755 for unregulated capacity and \$65,960 for unregulated, barring any other contractual limitations.

It seems clear that Lincoln has unlawfully collected water connection fees in excess of its reasonable cost for providing such service...as a result, the citizens of Lincoln have been charged unjustified and excessive water connection fees. (Pg. 5)

We were unable to determine whether any over- or undercharging occurred at any point in the past. To demonstrate such overcharging, one would need to compare the total receipts from all WCC charges compared to the total costs incurred from the procurement of capacity from PCWA. We have been able to reasonably determine that the City has paid about \$100 million to acquire capacity from PCWA, a value that is approximately \$156 million in today's dollars, after making relevant adjustments for inflation. Data concerning past receipts of WCC charges was not readily available. Based on the findings of this report, however, we note that 1,150 GPD of regulated capacity costs approximately \$14,714 which compares to a current WCC of \$15,677, indicating an overcharge of \$963 per 1,150 GPD. With respect to the unregulated capacity, the finding from this report is that the cost is \$18,460 versus a current WCC charge of \$19,339, indicating an overcharge of \$879.

Section VI. APPENDIX

List of References for Lincoln's Purchase Cost of Capacity from PCWA

1. "AA" - Table received from PCWA titled, "History of PERC Purchases City of Lincoln 1-14-02"
2. PCWA - City of Lincoln Calc's for Max Gals per Day for Period 2-24-98 to 12-31-98
3. Letter dated Feb. 18, 2000, from PCWA to City Manager, City of Lincoln
4. PCWA - City of Lincoln Calc's for Max Gals per Day for Period Ending 3-31-00, Rev 6-19-00
5. Letter from PCWA to Dir. Public Works, City of Lincoln, dated Feb. 26, 2002, Contribution to Penryn/Lincoln Pipeline
6. "A" - List received from PCWA, marked Construction Credits
7. PCWA - City of Lincoln Calc's for Max Gals per Day for Period 1-1-01 to 12-31-01
8. Letter from the City of Lincoln to Int. Dir. Financial Services, PCWA, dated March 30, 2002
9. Letter from City of Lincoln to General Manager, PCWA, dated October 23, 2002
10. Supplement to PCWA – Lincoln Water Supply Contract, effective November 7, 2002
11. Recap of Lincoln PERC Payments and Credits Penryn/Lincoln Pipeline, Letter from PCWA to City Manager, City of Lincoln dated December 17, 2004
12. PCWA Memo to Bd. of Directors from Director, Technical Services, dated June 9, 2004
13. Letter from PCWA to City Manager, City of Lincoln, dated December 17, 2004
14. PCWA Memo to Bd. of Directors from Director, Technical Services, dated August 5, 2005
15. Supplement to PCWA – Lincoln Water Supply Contract, dated December 11, 2006

APPENDIX

List of References for Lincoln's Purchase Cost of Capacity from PCWA

1. "AA" - Table received from PCWA titled, "History of PERC Purchases City of Lincoln 1-14-02"

1. "AA" - Table received from PCWA titled, "History of PERC Purchases City of Lincoln 1 14 02"

HISTORY OF
PERC
PURCHASES
CITY OF
LINCOLN
1-14-02

DATE	AMOUNT PURCHASED	PERC PURCHASED	GPD MAXIMUM	COMMENTS
1991			3,055,000	1991 CONTRACT WITH LINCOLN
1992	\$0		3,055,000	
1993	\$0		3,055,000	
1994	\$0		3,055,000	
1995	\$0		3,055,000	
1996	\$182,215	VARIOUS	3,055,000	INDIVIDUAL CONTRACTORS
1997	\$1,196,340	VARIOUS	3,112,016	INDIVIDUAL CONTRACTORS
1998	\$1,800,339	350-5/8"	3,470,246	INDIVIDUAL CONTRACTORS & LINCOLN
1999	\$0		3,883,096	
1Q 2000			3,883,096	
2/1/00	\$1,754,025	350-5/8"		CITY OF LINCOLN
4/15/00			4,285,596	14" PIPELINE LIMIT IS 4,000,396 GPD
2Q 2000				
6/30/00	\$902,070	180-5/8"		CITY OF LINCOLN
7/15/00			4,492,596	14" PIPELINE LIMIT IS 4,000,396 GPD
3Q 2000	\$0		4,492,596	14" PIPELINE LIMIT IS 4,000,396 GPD
4Q 2000	\$0		4,492,596	14" PIPELINE LIMIT IS 4,000,396 GPD
2001	\$2,139,900	427-5/8"	4,983,646	14" PIPELINE LIMIT IS 4,000,396 GPD

APPENDIX

List of References for Lincoln's Purchase Cost of Capacity from PCWA

2. PCWA - City of Lincoln Calc's for Max Gals per Day for Period 2-24-98 to 12-31-98

2. PCWA - City of Lincoln Calc's for Max Gals per Day for Period 2-24-98 to 12-31-98

CITY OF LINCOLN
CALCULATIONS FOR MAXIMUM GALLONS PER DAY
per February 24, 1998 contract, Article 5.c

PERC RECEIVED FOR PERIOD 2-24-98 - 12-31-98

1. TOTAL PERC PAID IN PERIOD = \$ 1,800,339

2. THE ABOVE AMOUNT (1.) IS TO BE DIVIDED BY THE FOLLOWING

A. 100% OF THE TREATMENT COMPONENT FOR A 5/8" METER	<u>\$ 3,519</u>
B. 100% OF THE TRANSMISSION COMPONENT FOR A 5/8" METER	<u>\$ 1,445</u>
C. 50% OF THE PLANNING COMPONENT FOR A 5/8" METER	<u>\$ 47.50</u>

TOTAL OF COMPONENTS \$ 5011.50

3. LINE 1. \$ 1,800,339 DIVIDED BY THE TOTAL OF LINE 2. \$ 5011.50 = 359

4. THE QUOTIENT FROM LINE 3, SHALL BE MULTIPLIED BY 1150 GALLONS TO CALCULATE THE ADDITIONAL GALLONS PER DAY FOR THE NEW PERIOD.

LINE 3 QUOTIENT 359 TIMES 1150 GALLONS = 412,850 GPD

5. THE AMOUNT FROM LINE 4, SHALL BE ADDED TO THE PREVIOUS PERIOD (1998) OF MAXIMUM GALLONS PER DAY

PREVIOUS (1998) MAXIMUM GPD 3,470,246 PLUS LINE 4. 412,850 GPD

THIS AMOUNT EQUALS THE NEW MAXIMUM GPD TO 3,883,096 GPD

6. DETERMINE THE PERCENT INCREASE FROM LAST PERIOD TO THE CURRENT PERIOD.

ADDITIONAL GPD FROM LINE 4 412,850 GPD DIVIDED BY THE PREVIOUS PERIOD OF MAXIMUM GALLONS PER DAY 3,470,246 EQUALS AN INCREASE OF 11.9*

*If increase is over 7% see page 8 of the 1998 contract

Dated 1/4/99 Prepared By [Signature]

cc: Planning and Marketing, Finance & Engineering
Customer Service

APPENDIX

List of References for Lincoln's Purchase Cost of Capacity from PCWA

3. Letter dated Feb. 18, 2000, from PCWA to City Manager, City of Lincoln

Placer County Water Agency

Business Center: 144 Ferguson Rd. • Mail: P.O. Box 6570 • Auburn, California 95604
(530) 823-4850 800-464-0030 TDD (530) 823-4966

February 18, 2000
File No.



received
2/22/00 DR

A Public Agency

BOARD OF DIRECTORS

Pauline Roccucci • Alex Ferreira

Otis Wollan • Lowell Jarvis

W. Bruce Lee

David A. Breninger, General Manager

Ed Tiedemann, General Counsel

Bill Malinen, City Manager
City of Lincoln
1390 First Street
Lincoln, CA 85648

Subject: PERC payment for Contract Between City of Lincoln and PCWA

Dear Bill:

In consideration of the our email correspondence, which clarified the City's intentions in regards to the application of the \$1,754,025 received on February 8, 2000, I am writing this letter for the purpose of revising a portion of my previous letter on this subject, dated February 10, 2000.

It is my understanding that the City is holding bond proceeds, separate from the PERC payment delivered to the Agency on February 8, 2000, that it has specifically designated for use in satisfying the City's obligation to the Agency to participate in the funding of Phase 2 of the Penryn-Lincoln-Sunset Pipeline. Accordingly, and at the City's request, the Agency will not apply the transmission component portion (\$505,750) of the \$1,754,025 towards the City's obligation to fund the Phase 2 pipeline.

With this clarification/revision, the remaining provisions of my letter of February 10, 2000 remain as written.

Sincerely,

PLACER COUNTY WATER AGENCY

Einar L. Maisch, P.E.
Director of Planning & Marketing

ELM/jmg

cc: David Breninger
Don Reighley
Patti Anders
Barbara Jarne
Harley Lukenbill
Ed Tiedemann

file Lincoln

APPENDIX

List of References for Lincoln's Purchase Cost of Capacity from PCWA

4. PCWA - City of Lincoln Calc's for Max Gals per Day for Period Ending 3-31-00,
Rev-6-19-00

**PLACER COUNTY WATER AGENCY
CUSTOMER SERVICE**

**CITY OF LINCOLN
CALCULATIONS FOR MAXIMUM GALLONS PER DAY
1ST QUARTER 2000**
per February 24, 1998 contract, Article 5.c,d

PERC RECEIVED FOR PERIOD 1-1-00 TO 3-31-00 **REVISED 6-19-00**

1. TOTAL PERC PAID IN PERIOD = \$ 1,754,025

2. THE ABOVE AMOUNT (1.) IS TO BE DIVIDED BY THE FOLLOWING

A. 100% OF THE TREATMENT COMPONENT FOR A 5/8" METER	<u>\$ 3,519</u>
B. 100% OF THE TRANSMISSION COMPONENT FOR A 5/8" METER	<u>\$ 1,445</u>
C. 50% OF THE PLANNING COMPONENT FOR A 5/8" METER	<u>\$ 47.50</u>
TOTAL OF COMPONENTS	<u>\$ 5011.50</u>

3. LINE 1. \$1,754,025 DIVIDED BY THE TOTAL OF LINE 2. \$ 5011.50 = 350 (102)¹
¹ DUE TO 14" PIPELINE CAPACITY ONLY 102 PERC'S (\$511,173) CAN BE ADDED TO THE MAXIMUM GPD, AN ADDITIONAL 248 PERC'S (\$1,242,852) WILL BE ADDED TO THE MAXIMUM UPON THE COMPLETION OF PHASE 1B BY LINCOLN, TO BE MONITORED IN 2ND QUARTER 2000.

4. THE QUOTIENT FROM LINE 3, SHALL BE MULTIPLIED BY 1150 GALLONS TO CALCULATE THE ADDITIONAL GALLONS PER DAY FOR THE NEW PERIOD.

LINE 3 QUOTIENT 102 TIMES 1150 GALLONS = 117,300 GPD

5. THE AMOUNT FROM LINE 4, SHALL BE ADDED TO THE PREVIOUS PERIOD (12-31-99) OF MAXIMUM GALLONS PER DAY.
PREVIOUS (12-31-99) MAXIMUM GPD 3,883,096 PLUS LINE 4. 117,300 GPD
THIS AMOUNT EQUALS THE NEW MAXIMUM GPD OF 4,000,396 GPD²
² MAXIMUM 14" PIPELINE CAPACITY, MINUS 19,033 GPD FOR 12 BRIDGES, PER ENGINEERING. THIS AMOUNT WILL BE INCREASED TO 4,285,596 UPON COMPLETION OF PHASE 1B BY LINCOLN.

Handwritten notes:
7% = 4,154,913
4,154,913 - 4,000,396 = 154,517
154,517 ÷ 1150 = 134 units
156 more * 1150 = 172,500
4,172,846 ÷ 3,883,096 = 1.075 = 7.5%

6. DETERMINE THE PERCENT INCREASE FROM LAST PERIOD TO THE CURRENT PERIOD.

ADDITIONAL GPD FROM LINE 4 117,300 GPD, DIVIDED BY THE PREVIOUS PERIOD (12-31-99) WITH A MAXIMUM GALLONS PER DAY 3,883,096 EQUALS AN INCREASE OF 3.02% **⁴ If increase is over 7% see page 8 of the 1998 contract**

Dated 5-9-2000 Prepared By H. Lukenbill

cc: B. Jarne, D. Reighley, Planning and Marketing, Finance & Engineering, Customer Service

APPENDIX

List of References for Lincoln's Purchase Cost of Capacity from PCWA

5. Letter from PCWA to Dir. Public Works, City of Lincoln, dated Feb. 26, 2002, Contribution to Penryn/Lincoln Pipeline

RECEIVED FEB 27 2002 3:40Z MOR

D. Breninger

Placer County Water Agency

Business Center: 144 Ferguson Rd. • Mail: P.O. Box 6570 • Auburn, California 95604-6570
(530) 823-4850 800-464-0030 TDD (530) 823-4966



A Public Agency

BOARD OF DIRECTORS
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Otis Wollan • Lowell Jarvis
Michael R. Lee
David A. Breninger, General Manager
Ed Tiedemann, General Counsel

February 26, 2002
File No.

John Pedri, P.E., Director of Public Works
City of Lincoln
640 Fifth Street
Lincoln, CA 95648

DISTR: • Bld of Directors
• Ed Tiedemann, Jan Goldsmith
• Einar, Mal, Patti, Don
F-Y-F-
DOB
3-3-02

SUBJECT: Payment and Fee Issues per Your Letter Dated February 11, 2002

Dear John:

Thank you for your letter dated February 11, 2002, recapping my letter of January 18, 2002, and requesting PCWA agree to four proposed items to facilitate Lincoln receiving the proper amount of PERC credits from the construction of the Penryn/Lincoln pipeline project.

Your requests are as follows:

“Provide a written statement documenting the interest due to the City on the \$4.8 million advance with 30 days of this transmittal.”

I have attached an accounting of the monthly expenditures and accrued interest on the \$4.8 million advance. The amount due Lincoln is \$243,250.40. ✓

Provide single cash payment for the interest due to the City within 30 days after the final reconciliation. Final reconciliation will require written approval of PCWA and Lincoln City Council.

Patti Anders, Director of Financial Services, has assured me that within 30 days of her receipt of a copy of the notices of completion for all phases of the Penryn/Lincoln pipeline project and the reconciliation statement signed by you and myself, that she can have a check processed through our Board and mailed to you.

Provide the City with an updated allotment and transmission credits statement as of final reconciliation of Phase 1b and Phase 2 projects based on the current transmission component (\$1,445) of PERC.

On February 19, 2002, PCWA’s Board of Directors held a workshop to discuss the various components of the Agency’s PERC charge and generally discussed the method of going about raising the present PERC fee. Additionally, staff was instructed to look at the various portions of PERC and update each. Finally, the Board instructed staff to have another workshop on March 4, 2002, regarding this subject.

Because staff time is needed to approach these issues it is anticipated that a final vote to raise PERC and to what amount it should be raised will not be held until sometime in May or June. If this is the

Contract with the City of Lincoln - Project #99-0929
Interest earnings calculation - Simple Interest

	Monthly Expenses Paid by PCWA	City of Lincoln Deposit Balance at Month-end	# of Days	Monthly Interest Rate *	Monthly Interest Earned	Cumulative Interest Earned
City of Lincoln Deposit - 7/27/00		4,800,000.00				
Accumulated excess expenses paid by PCWA over payments made by the City of Lincoln for Projects #98-8232 and #99-0929:						
98-8235 City of Lincoln's share of expenses as of 6/30/00	(63,647.53)					
98-8235 Payments made by the City of Lincoln as of 6/30/00	79,600.00					
Excess deposit from Project #98-8235 applied to Project #99-0929	15,952.47					Additional unbilled expenses of \$283.19 deducted from deposit of \$16,235.66
99-0929 City of Lincoln's share of expenses as of 6/30/00	(689,256.70)					
99-0929 Payments made by the City of Lincoln as of 6/30/00	444,770.20					
Net excess City of Lincoln's share of expenses over deposit - as of 6/30/00	(228,534.03)	4,571,465.97	5	0.09%	4,039.87	4,039.87
99-0929 July 2000	(13,340.37)	4,558,125.60				
99-0929 August 2000	(42,536.99)	4,515,588.61	31	0.55%	24,813.47	28,853.34
99-0929 September 2000	(27,965.20)	4,487,623.41	30	0.53%	23,864.32	52,717.66
99-0929 October 2000	(8,933.53)	4,478,689.88	31	0.55%	24,800.90	77,518.56
99-0929 November 2000	20,786.77	4,499,476.65	30	0.54%	24,112.26	101,630.82
99-0929 December 2000	3,716.91	4,503,193.56	31	0.55%	24,936.59	126,567.41
99-0929 January 2001	(3,527.43)	4,499,666.13	31	0.52%	23,541.27	150,108.68
99-0929 February 2001	(14,255.44)	4,485,410.69	28	0.47%	21,195.72	171,304.40
99-0929 March 2001	(152,228.22)	4,333,182.47	31	0.52%	22,670.26	193,974.66
99-0929 April 2001	(390,727.11)	3,942,455.36	30	0.44%	17,238.79	211,213.45
99-0929 May 2001	(1,259,394.38)	2,683,060.98	31	0.45%	12,123.03	223,336.47
99-0929 June 2001	(571,261.71)	2,111,799.27	30	0.44%	9,234.06	232,570.53
99-0929 July 2001	(668,037.14)	1,443,762.13	31	0.38%	5,481.15	238,051.69
99-0929 August 2001	(402,148.94)	1,041,613.19	31	0.38%	3,954.42	242,006.11
99-0929 September 2001	(702,934.80)	338,678.39	30	0.37%	1,244.30	243,250.40
99-0929 October 2001	(644,147.30)	(305,468.91)			0.00	243,250.40
99-0929 November 2001	(25,068.78)	(330,537.69)			0.00	243,250.40
99-0929 December 2001	(733,971.38)	(1,064,509.07)			0.00	243,250.40

* Source for Interest Rates:
 LAIF quarterly statement-for the quarter ended: 12/31/01 3.52%
 LAIF quarterly statement-for the quarter ended: 9/30/01 4.47%
 LAIF quarterly statement-for the quarter ended: 6/30/01 5.32%
 LAIF quarterly statement-for the quarter ended: 3/31/01 6.16%
 LAIF quarterly statement-for the quarter ended: 12/31/00 6.52%
 LAIF quarterly statement-for the quarter ended: 9/30/00 6.47%

5. Letter from PCWA to Dir. Public Works, City of Lincoln, dated Feb. 26, 2002, Contribution to Penryn/Lincoln Pipeline, page 3 of 4.

- B. Prior to July, 2000 the City paid \$544,370 in various payments toward associated Phase 1b and Phase 2 costs with the intent to receive transmission credits for this amount at the time of payment as described in the contract.
- C. In October, 2001 the City made a single payment of \$2,139,900 to PCWA with the intent to purchase 600 additional PERC (\$3,566.50 per unit). **The payment included the use of 600 transmission credits by the City.** PCWA questioned the use of the transmission credits.

Also, according to your interpretation of the City/PCWA contract, it follows that:

- After the NOC is filed, the City and PCWA will meet to determine the final approved project costs, and,
- Transmission credits resulting from the final reconciliation for the project will be applied to the City's contract limit.

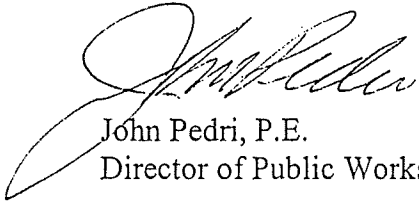
In conclusion, we will concur with your analysis of the situation regarding the City payments/credits, if PCWA agrees to:

1. Provide a written statement documenting the interest due to the City on the \$4.8 million advance within 30 days of this transmittal.
2. Provide single cash payment for the interest due to the City within 30 days after the final reconciliation. Final reconciliation will require written approval of PCWA and the Lincoln City Council.
3. Provide the City with an updated allotment and transmission credits statement as of final reconciliation of Phase 1b and Phase 2 projects based on the current transmission component (\$1,445) of PERC.
4. Allow the City to use the corresponding transmission credits identified in #3 above with cash to purchase additional PERC at the current rate (\$5,011.50 - \$1,445.00 = \$3,566.50) for a period of up to 45 days after receipt of #3 above.

Since PCWA has scheduled the February workshop regarding a PERC increase, we would appreciate your response to this letter prior to a City presentation at this public forum.

Thank you for your continued cooperation in this matter. Please call me at (916) 645-8576 if you have any questions.

Sincerely,

A handwritten signature in cursive script, appearing to read "John Pedri".

John Pedri, P.E.
Director of Public Works

cc: Jerry Johnson, City Manager
Randy Graham, Administrative Services Director
Frank Bradham, Water Consultant
Steve Ambrose, Accounting Consultant
file

APPENDIX

List of References for Lincoln's Purchase Cost of Capacity from PCWA

6. "A" - List received from PCWA, marked Construction Credits

6. "A" - List received from PCWA, amount marked Construction Credit

Date	Amount	EDU's by Meter Size		Accumulated EDU's	Supporting Doc Reference
		18"	8"		
4/1/1998	Original Contract	3,017.61	-	3,017.61	AA (no support for this but old spreadsheet, need research)
1998	Adjustment	9.00	-	3,026.61	A
12/30/1998	1,754,025.00	350.00	-	3,376.61	A
2/1/2000	1,754,025.00	350.00	-	3,726.61	B
6/26/2000	902,070.00	180.00	-	3,906.61	C
Construction Credit	125,353.00	25.01	-	3,931.62	?
Interest earned	243,250.40	48.54	-	3,980.16	D
10/21/2001	2,139,900.00	427.00	-	4,407.16	E
3/27/2002	5,321,218.00	1,492.00	-	5,899.16	F
10/29/2002	10,091,397.00	2,178.00	-	8,077.16	G
12/5/2002	6,565,065.00	1,310.00	-	9,387.16	H - Only can find system receipt
7/23/2004	873,115.00	-	107.50	9,494.66	I
	Transfer PLX 1652	-	13.00	9,507.66	I
12/15/2004	22,270,261.30	2,956.00	261.65	12,725.31	J
9/2/2005	20,788,605.00	2,351.00	250.00	15,326.31	K
12/6/2006	4,000,000.00	-	351.70	15,678.01	L
	76,828,284.70	14,694.16	983.85		
	Total EDU's			15,678.01	

2015 Water Supply Master Agreement sets the City of Lincoln agreed upon capacity as determined and agreed by both the City of Lincoln and PCWA.

APPENDIX

List of References for Lincoln's Purchase Cost of Capacity from PCWA

7. PCWA - City of Lincoln Calc's for Max Gals per Day for Period 1-1-01 to 12-31-01

**PLACER COUNTY WATER AGENCY
CUSTOMER SERVICE**

**CITY OF LINCOLN
CALCULATIONS FOR MAXIMUM GALLONS PER DAY
4th QUARTER 2001**

per February 24, 1998 contract, Article 5.c,d

PERC RECEIVED FOR PERIOD 1-1-01 TO 12-31-01

1. TOTAL PERC PAID IN PERIOD = \$ 2,139,900

2. THE ABOVE AMOUNT (1.) IS TO BE DIVIDED BY THE FOLLOWING

A. 100% OF THE TREATMENT COMPONENT FOR A 5/8" METER	\$ <u>3,519</u>
B. 100% OF THE TRANSMISSION COMPONENT FOR A 5/8" METER	\$ <u>1,445</u>
C. 50% OF THE PLANNING COMPONENT FOR A 5/8" METER	\$ <u>47.50</u>
TOTAL OF COMPONENTS	\$ <u>5011.50</u>

3. LINE 1. \$ 2,139,900 DIVIDED BY THE TOTAL OF LINE 2. \$ 5011.50 = 427

4. THE QUOTIENT FROM LINE 3, SHALL BE MULTIPLIED BY 1150 GALLONS TO CALCULATE THE ADDITIONAL GALLONS PER DAY FOR THE NEW PERIOD.

LINE 3 QUOTIENT 427 TIMES 1150 GALLONS = 491,050 GPD

5. THE AMOUNT FROM LINE 4, SHALL BE ADDED TO THE PREVIOUS PERIOD (2ND QUARTER 2000), MAXIMUM GALLONS PER DAY.

PREVIOUS MAXIMUM GPD 4,492,596 PLUS LINE 4. 491,050 GPD

THIS AMOUNT EQUALS THE MAXIMUM GPD OF 4,983,646 GPD

6. DETERMINE THE PERCENT INCREASE FROM LAST PERIOD TO THE CURRENT PERIOD.

ADDITIONAL GPD FROM LINE 4 491,050 GPD, DIVIDED BY THE PREVIOUS PERIOD (2ND QUARTER 2001) WITH A MAXIMUM GALLONS PER DAY 4,492,596 EQUALS AN INCREASE OF 10.9%. If increase is over 7% see page 8 of the 1998 contract

Dated 1-14-02 Prepared By H. Lukenbill

cc: M. Cooper, D. Reighley, E. Maisch, M. Toy, P. Anders, Customer Service

APPENDIX

List of References for Lincoln's Purchase Cost of Capacity from PCWA

8. Letter from the City of Lincoln to Int. Dir. Financial Services, PCWA, dated March 30, 2002

CITY OF LINCOLN



Administration City Hall - (916) 645-3314
Fax - (916) 645-9502
Community Development - (916) 645-3320
Fax - (916) 645-3552
Public Works - (916) 645-8576
Fax - (916) 645-6152

640 FIFTH STREET - LINCOLN, CALIFORNIA 95648

March 30, 2002

Mr. Michael Cooper
Interim Director of Financial Services
Placer County Water Agency
144 Ferguson Road
P.O. Box 6570
Auburn, California 95604-6570

Re: PERC Payment of \$5,321,218

Dear Mr. Cooper,

Enclosed please find check # 28832 in the amount of \$5,321,218. This check represents a payment from the City of Lincoln for 1,492 PERC, with the transmission component of these PERC coming from the previous City payments related to the Penryn-Lincoln Pipeline project.

This payment is being made in the anticipation of the City needing approximately 6.7 mgd from PCWA to meet the maximum day demands expected in June, 2002.

The requested PERC payment is understood to represent 1,492 PERC (\$3,566.50 per PERC). The balance of the full PERC payment of \$1,445 (\$5,011.50 - \$3,566.50) is assumed to be recognized from the previous City payments related to the Penryn-Lincoln Pipeline project as identified in previous City/PCWA correspondence.

$\$1,445 = 3321$
 $\frac{4.8m}{1.445}$

The City recognizes the need for PCWA audit/acceptance of the Penryn-Lincoln Pipeline project as related to PCWA recognition of City PERC transmission component credits. However, the City/PCWA contract does not identify or require any such audit or PCWA mechanism to withhold use of transmission credits from the advance funding of the Penryn-Lincoln Pipeline.

PCWA staff has indicated the audit of the Penryn -Lincoln Pipeline project is expected to be complete by May/June, 2002. Since the transmission credits requested to be used with this payment are less than one-half of the potential transmission credits available, and our projected demands are expected to exceed the current PCWA contract limit, the City would appreciate your quick confirmation of the new contract limit of 6.7 mgd.

If you have any questions please call me at (916) 645-3314.

Sincerely,

Jerry Johnson
City Manager

cc: Mayor & City Council
Randy Graham, Director of Finance and Administrative Services

COPY

APPENDIX

List of References for Lincoln's Purchase Cost of Capacity from PCWA

9. Letter from City of Lincoln to General Manager, PCWA, dated October 23, 2002



640 5th Street
Lincoln, CA 95648

City Manager's Office

Gerald F. Johnson
City Manager
916-645-4070 x211

Jill Thompson
Administrative Analyst
916-645-4070 x217

fax: 916-645-8903

October 23, 2002

Mr. Dave Breninger
General Manager
Placer County Water Agency
144 Ferguson Road
P.O. Box 6570
Auburn, California 95604-6570

*Re: Application for Increasing City Maximum Water Delivery
Per 1998 City-PCWA Water Supply Contract/Supplement.*

Dear Dave,

Based on recent contact with PCWA representatives, the City of Lincoln is following the Agency's new procedure for increasing the City's water delivery limit. This application for increased water delivery represents 2,178 PERC, with the transmission component of 570 units of these PERC coming from the previous City payments related to the Penryn-Lincoln Pipeline project. Within 10 working days of PCWA Board approval of this request, on October 29, 2002, the City will render a check to PCWA totaling \$10,091,397.00.

The PERC request and proposed payment represents:

- 570 PERC using transmission component credits (\$3,566.50 per PERC) and,
- 1,608 PERC at the full PERC of \$5,011.50 per 1,150 gallons per day.

The City, would appreciate your acknowledgement of receipt of this transmittal.

If you have any questions please call me at (916) 645-3314.

Sincerely,

Gerald F. Johnson

Gerald F. Johnson
City Manager

cc: Mayor & City Council
Randy Graham, Director of Finance and Administrative Services
John Pedri, Director of Public Works/City Engineer

APPENDIX

List of References for Lincoln's Purchase Cost of Capacity from PCWA

10. Supplement to PCWA – Lincoln Water Supply Contract, effective November 7, 2002

SUPPLEMENT TO WATER SUPPLY CONTRACT BETWEEN
PLACER COUNTY WATER AGENCY AND
THE CITY OF LINCOLN

This Supplement, which shall be effective November 7, 2002, is by and between the Placer County Water Agency (“Agency”) and the City of Lincoln (“Lincoln”).

RECITALS

WHEREAS, pursuant to the provisions of Lincoln’s water supply contract with the Agency dated February 24, 1998, as amended on July 13, 1999, (the “Contract”) the maximum delivery of water which Lincoln was entitled to receive as of November 6, 2002, was 10,165,406 million gallons per day (mgd); and

WHEREAS, on November 7, 2002, Lincoln requested the Agency increase Lincoln’s maximum delivery to 11,671,906 mgd; and

WHEREAS, the Agency’s ability to increase deliveries in its Zone No. 1 is severely limited until a permanent 100 cubic foot per second capacity American River Pump Station (the “Pump Station”) is completed:

NOW THEREFORE, THE PARTIES AGREE AS FOLLOWS:

1. The Agency shall increase Lincoln’s maximum delivery to 11,671,906 mgd if Lincoln pays the Agency \$6,565,065 on or before December 6, 2002, under the following terms and conditions. The parties concur with the attached Recap sheet giving Lincoln 9,171.48 full PERC credits and 978 restricted WCC credits until completion of the Pump Station or earlier as provided for herein in order to increase the maximum delivery to the 11,671,906-mgd. However, in order to enable the Agency to equitably apportion the remaining capacity in its Zone 1 water system until the completion of the

Pump Station, the maximum delivery to Lincoln shall be limited to 10,547,206 mgd until such completion; provided that if at any time after January 1, 2004, Lincoln believes it may need to have its maximum deliveries increased above this amount before the expected completion of the Pump Station, Lincoln and the Agency shall reevaluate the limit on the maximum deliveries to Lincoln. In determining whether to increase Lincoln's maximum above the 10,547,206 mgd the parties shall consider:

- A. Lincoln's current usage and its projected demand during the next summer peak period and the construction progress of the ongoing subdivisions in Lincoln.
- B. The Agency's uncommitted water supply and the projected demand of its other Zone No. 1 customers during the next summer peak period.
- C. The status of the Pump Station.

2. Upon completion of the Pump Station, or sooner if the parties agree, the maximum delivery to Lincoln shall be increased to the 11,671,906 mgd, provided Lincoln has paid the \$6,565,065 on or before December 6, 2002.

3. Until the completion of the Pump Station, the Agency shall limit the amount of connections any one party can purchase to the amount that it can use within the estimated time period before the completion of the Pump Station.

4. The Agency and Lincoln agree it is in their mutual benefit to try to increase the water supply to Lincoln from the Nevada Irrigation District and will work together to develop such supply.

5. The Agency and Lincoln agree it is in their mutual benefit to increase the available water supply in the Agency's service area through the aggressive use of integrated resources, including reclaimed water and will work together to develop this

supply. The Agency will assist the City in it's endeavor to acquire additional grant funds necessary to construct City reclamation facilities, as defined by the City's Reclamation Study recently completed by ECO:LOGIC.

6. The Agency has engaged the services of Montgomery Watson Harza to develop a water system infrastructure master plan consistent with the Agency's Water Forum Agreement to seek to develop its additional water supplies from the Sacramento River. The City of Lincoln will assist PCWA in the planning process.

7. The Agency agrees to allow Lincoln to design and construct the Phase 3 thirty inch diameter pipeline by June 1, 2006, in accordance with Article 4(c) of the Contract. The Agency agrees to credit Lincoln the full amount of the WCC, and not just the transmission component, for the construction costs of the Phase 3 pipeline, if requested by the City.

8. Any additional payments from Lincoln for increased delivery capacity, or credits given for the construction of the Phase 3 pipeline, shall be restricted in the same way and under the same conditions as the 978 credits identified in Article 1 of this agreement.

PLACER COUNTY WATER AGENCY

CITY OF LINCOLN

By: Dwelle M. Jarvis 12.05.02
Chair, Board of Directors

By: [Signature] 12/13/02
City Manager

APPENDIX

List of References for Lincoln's Purchase Cost of Capacity from PCWA

11. Recap of Lincoln PERC Payments and Credits Penryn/Lincoln Pipeline, Letter from PCWA to City Manager, City of Lincoln dated December 17, 2004

**RECAP OF CITY OF LINCOLN PERC PAYMENTS AND CREDITS
PENRYN/LINCOLN PIPELINE CONTRIBUTIONS AND CASH PAYMENTS**

ITEM	AMOUNT PAID	COMMENT	MAX CONTRACT DELIVERY RATE	FULL PERC. CREDITED	WTP/Planning CREDIT	TRANSMISSION CREDITS	Cumulative Trans Credits
A		1/1/2001	4,492,596	3,906.61			
B-1	\$4,800,000	Contribution to Agency const.				(3,321.80)	(3,321.80)
B-2	\$1,580,983	Lincoln const costs for Phase 1b				(1,094.11)	(4,415.91)
B-3	\$243,250	interest on Agency held funds	48.54			0.00	(4,415.91)
B-4	\$544,370	Const costs billed to Lincoln	25.01			(289.99)	(4,705.89)
B-5	\$2,139,900	10/12/2001		600.00		600.00	(4,105.89)
B-6	\$5,321,218	3/30/2002		1,492.00		1,492.00	(2,613.89)
B-7	\$10,091,397	10/29/2002		153.44	2,613.89	2,613.89	0.00
Subtotal Item B	\$24,721,118		5,672,810	4,932.88			
Total of Items A & B only		10/29/2002	10,165,406	8,839.48			
C	\$6,565,065	11/7/2002		332.00			
		Full		978.00			
		Restricted					
Total Of Items A, B, & C			10,547,206	9,171.48			
	\$31,286,183	Full	1,124,700	978.00			
		Restricted					

The City PERC rate per EDU in effect during this period was:

Transmission Component	\$ 1,445.00
Treatment & 1/2 Planning Component	\$ 3,566.50
Total Lincoln PERC	\$ 5,011.50

Increase in Maximum Contract Delivery rate in gpd per EDU \$ 1,150.00

Negative () credit amounts indicate the amount owed by the Agency to Lincoln.
Positive amounts indicate the amount used by Lincoln to increase its maximum contract delivery rate.

B-1,2,3,4 - Transmission credits related to construction of Penryn-Lincoln Pipeline.
B-5,6 - City payments to PCWA to go with transmission credits to increase City maximum delivery limit.
B-7 - City Payment to PCWA as Full PERC credit to increase City maximum delivery limit.
C - City payment to PCWA as Full PERC credit to increase City maximum delivery limit with restricted availability of 1.1 mgd until American River Pump Station is on-line.

APPENDIX

List of References for Lincoln's Purchase Cost of Capacity from PCWA

12. PCWA Memo to Bd. of Directors from Director, Technical Services, dated June 9, 2004

BOB 7/15/04

F.1.

PLACER COUNTY WATER AGENCY
MEMO

June 29, 2004
File No. General Information

TO: Board of Directors and General Manager
FROM: Brian Martin, Director of Technical Services *Ben*
SUBJECT: Request for Water – Additional Water Connections for the City of Lincoln

BACKGROUND

On July 13, 1999, the Agency entered into a supplement to the 1998 Water Supply Contract with the City of Lincoln. This supplement, among other things, outlined the provision for service to high elevation lots within the City of Lincoln. The high service lots are located in the ridge west of the Agency's Whitney Reservoir and are at an elevation that is too high for Lincoln to service from its storage system. Consequently, these high services will be serviced directly from PCWA's system and these lots will utilize PCWA storage facilities. As a result, the high service lots will pay full WCC charges.

The Verdera Development has developed a three year build out plan (2004 – 2006) for the high service lots. This schedule is shown on Exhibit C to the letter from John Pedri dated May 4, 2004. Lincoln is requesting to purchase up to a maximum of 123,625 gallons per day (107.5 EDU's x 1150 gpd) for delivery to their high service area. This equates to 70 acre feet on an annual basis. Pursuant to the water supply contract, Lincoln shall pay the Agency's full WCC per 1,150 gpd (currently \$8,122 per EDU) because this area is above Lincoln's storage facilities and will therefore utilize the Agency's storage facilities. The total payment required for this service is \$873,115 (107.5 x \$8,122) which is due within 10 of the Board's approval.

In other issues, the City has requested approval for water for fire protection and construction. This is being handled administratively by our Customer Services Department.

The City has requested that temporary water service be available through a booster pump station off Twelve Bridges Drive. This will remain in place until the Phase 3 Penryn to Lincoln Pipeline and Metering Station is completed in June of 2006. The Agency does not have an objection to this, however, we will require that the pump station have a meter installed so the Agency can track the quantity of water served to the high service area.

The City has also requested that PCWA recognize the full PERC (now WCC) charges paid to PCWA by Placer Holdings, Inc. for metered services off the old 14 inch pipeline running through the golf courses. The City is requesting that these services be transferred to the high service area. The WCC (PERC) charges for these services were paid through PLX 1652 in July of 1995. The PLX included two – 1 inch meters and one 2 inch meter with an equivalent dwelling unit total of 13. Agency staff has no problem transferring these services to the high service areas.

RECOMMENDATION

Staff recommends Board approval of the following:

1. Transfer 13 EDU's to the high service area within the City of Lincoln.
2. Approve 107.5 EDU's to serve the high service area of the City of Lincoln subject to the City of Lincoln providing a check to the Agency in the amount of \$873,115 within ten days of the Board meeting
3. Approve the increase in the number of high service lots to be served from PCWA's system from 300 to 593 and direct the Director of Technical Services to notify the City of Lincoln of this in writing.
4. Approve service to Lincoln's High Service Area Lots in Villages 18 and 19 via a temporary pump station until Phase 3 of the Penryn/Lincoln pipeline and metering station is completed in June of 2006. Approval shall be subject to Lincoln operating and maintaining said pump station and providing a meter to measure the flow of water into the high service area and reporting on a monthly basis to PCWA.
5. Approve, after payment of WCC charges, that Lincoln shall be limited to a maximum daily flow of 138,575 gallons $([13 + 107.5] \times 1,150 \text{ gpd/edu})$ for the high service area.

BCM:bb

Enclosures

APPENDIX

List of References for Lincoln's Purchase Cost of Capacity from PCWA

13. Letter from PCWA to City Manager, City of Lincoln, dated December 17, 2004

Placer County Water Agency

Business Center: 144 Ferguson Rd. • Mail: P.O. Box 6570 • Auburn, California 95604-6570
(530) 823-4850 800-464-0030 www.pcwa.net



A Public Agency

BOARD OF DIRECTORS
Pauline Rocucci • Alex Ferreira
Otis Wollan • Lowell Jarvis
Michael R. Lee
David A. Breninger, General Manager
Ed Tiedemann, General Counsel

BOD 12/2/04

December 17, 2004
File No. Facilities File

Gerald F. Johnson, City Manager
City of Lincoln
540 Fifth Street
Lincoln, CA 95648

SUBJECT: Increase in City of Lincoln Maximum Water Delivery

Dear Mr. Johnson:

On December 15, 2004, Placer County Water Agency received payment from the City of Lincoln in the amount of \$22,270,261.30 for additional treated water capacity. The amount of payment received was less than the total amount approved by the PCWA Board of Directors on December 2, 2004.

Based on the actual amount of payment received, the new maximum delivery entitlements for the City of Lincoln are revised as follows:

1. Regulated Deliveries: Increased to provide service for an additional 2,956 EDU's for an increase in maximum daily delivery of 3,399,400 gallons. This will increase the total maximum daily delivery from 11,671,906 to 15,071,306 gallons per day. (WCC paid = \$20,145,140)
2. Unregulated Deliveries: Increased to provide service for an additional 261.65 EDU's for an increase in maximum daily delivery of 300,897.5 gallons. This will increase the total maximum daily delivery from 138,575 to 439,472.5 gallons per day. (WCC paid = \$2,125,121.30)

If you have any questions, please call me at (530) 823-4886.

Sincerely,

R. Brent Smith, P.E.
Deputy Director of Technical Services

RBS:bb

pc: John Pedri, P.E., Director of Public Works

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bpc:

D. Breninger
B. Martin
Ginny B
Harley L
W. Cable
J. Davis

APPENDIX

List of References for Lincoln's Purchase Cost of Capacity from PCWA

14. PCWA Memo to Bd. of Directors from Director, Technical Services, dated August 5, 2005

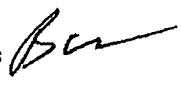
BOD 8/18/05

G-2

14. PCWA Memo to Bd. of Directors from Director, Technical Services, dated August 11, 2005, page 1 of 2.

**PLACER COUNTY WATER AGENCY
MEMO**

August 11, 2005
File No. Facilities File

TO: Board of Directors and General Manager
FROM: Brian Martin, Director of Technical Services 
SUBJECT: Request form the City of Lincoln for Increasing Maximum Water Delivery

BACKGROUND

The Agency has received a letter from the City of Lincoln (Lincoln) requesting an increase in maximum water delivery to Lincoln (see attached letter dated August 10, 2005). In the letter, Lincoln requests an increase in the water delivery by 2,601WCC's (EDU's). Specifically, Lincoln breaks down the 2,601 EDU's requested in the following manner:

- 2,351 WCC's (EDU's) at a rate of \$7,855 per 1,150 gallons per day for a total flow increase of 2,703,650 gallons per day. This represents an annual quantity of 1,539 acre feet. This reflects Lincoln's customers that are served from Lincoln's storage facilities.
- 250 WCC's (EDU's) at the full WCC of \$9,286 per 1,150 gallons per day for a total flow increase of 287,500 gallons per day. This also presents an annual quantity of 164 acre feet. These EDU's are for Lincoln's customers that are in the high elevation lots. Lincoln is charged full WCC for these EDU's because these Lincoln customers utilize the Agency's storage facilities.

In its request, the City agrees to defer delivery of these WCC's until June 1, 2006. The City has been informed that this is up for negotiations due to the Agency's current status of water availability.

The City further requested that a minimum of \$15,000,000 of the fees be directly allocated towards the Penryn/ Lincoln Phase III Pipeline and the new Foothill 2 Water Treatment Plant. The WCC funds that are collected by PCWA are not directed to specific projects based on who is paying. The Agency funds WCC projects based on the schedule to complete the facilities. In the case of the Foothill Phase 2 Water Treatment Plant Project the Agency has been working on the project for two years. The Phase 3 construction of the Penryn Lincoln Pipeline Project is spelled out in the water supply contract. The City of Lincoln is to construct this pipeline under a Facilities Agreement and after completion and acceptance by the Agency, Lincoln will receive credits for funding Phase 3.

RECOMMENDATION

Staff recommends the Board approve the following:

1. Approve 2,351 EDU's for an increase in maximum day delivery of 2,703,650 gallons. This will increase the total maximum day flow from 15,071,306 gpd to 17,774,956 gpd. This is contingent on the City of Lincoln providing a check to the Agency in the amount of \$18,467,105 (2,351 EDU's x \$7,855/EDU = \$18,467,105) within twelve (12) days of the Board approval; and
2. Approve 250 EDU's to serve the high service area of the City of Lincoln for an increase in maximum day delivery of 287,500 gallons. This will increase the total maximum day flow for the high service area from 439,472.5 gpd to 726,972.5 gpd. This is contingent upon the City of Lincoln providing a check to the Agency in the amount of \$2,321,500 (250 x \$9,286 = \$2,321,500) within twelve (12) working days of the Board's approval.

BCM:ns

Enclosures

APPENDIX

List of References for Lincoln's Purchase Cost of Capacity from PCWA

15. Supplement to PCWA – Lincoln Water Supply Contract, dated December 11, 2006

**SUPPLEMENT TO CONTRACT BETWEEN
PLACER COUNTY WATER AGENCY
AND CITY OF LINCOLN FOR A WATER SUPPLY**

This Supplement to the February 24, 1998 water supply contract is made this
11 TH day of DECEMBER, 2006, by and between Placer County Water Agency
("Agency") and the City of Lincoln ("Lincoln").

RECITALS.

A. On February 24, 1998, the Agency and Lincoln entered into a water supply contract which is hereinafter referred to as "The Contract." The Contract provides, among other things, that Lincoln may increase its maximum delivery entitlement by paying to the Agency an amount equal to that portion of the Agency's Water Connection Charge (WCC) applicable to Lincoln.

B. The Agency is considering the construction of a 42 inch water pipeline through the Bickford Ranch Project ("the 42" pipeline") to provide service to Lincoln, as well as the Bickford Ranch Development, and Lincoln has offered to assist the Agency in financing the 42" pipeline by providing to the Agency \$4,000,000, provided that Lincoln's maximum delivery entitlement is increased by that payment in accordance with the provisions of The Contract using the Agency's WCC in effect on November 2, 2006.

C. On November 2, 2006, the Agency Board of Directors agreed that Lincoln could increase its maximum delivery entitlement based on the WCC in effect on November 2, 2006, provided that Lincoln deposits \$4,000,000 with the Agency and agrees to the terms of this Supplement to The Contract on or before December 13, 2006.

NOW THEREFORE, IT IS AGREED AS FOLLOWS:

1. Lincoln hereby agrees to pay the Agency \$4,000,000 on or before December 13, 2006.

2. Lincoln also agrees to construct and convey to the Agency on or before June 1, 2008 new metering station to the Agency's specifications at Lincoln's City Pond Site to effect the delivery of water through the 42" pipeline to Lincoln's system, and to convey to the Agency fee title to sufficient land for the metering station and for the Agency to locate a pressure reducing station for its needs and to facilitate the operation and maintenance of the facilities, together with any necessary access easements provided that Lincoln's maximum delivery entitlement is increased by the audited costs for the metering station in accordance with the provisions of The Contract using the Agency's WCC in effect on November 2, 2006.

3. The Parties hereby agree that upon the Agency's receipt of the payment and the metering station and land title described in Paragraph 2, but not before June 1, 2008:

- (a) Lincoln's maximum delivery entitlement under The Contract shall be increased in accordance with the provisions of The Contract on the basis of the WCC in effect on November 2, 2006;
- (b) Lincoln shall have an exclusive reserved right to that portion of the capacity of the 42" pipeline equal to the proportion that the \$4,000,000 bears to the total cost of the planning, design and construction of a minimum 42" diameter pipeline from the future Ophir Water Treatment Plant to the proposed metering station at Lincoln's Pond Site;
- (c) The Agency will use any excess capacity that may exist in the Bickford Pump Station after meeting the demands of the Bickford Development to

15. Supplement to PCWA – Lincoln Water Supply Contract, dated December 11, 2006, page 3 of 4.

pump from the Agency's Foothill system through the 42" pipeline to meet Lincoln's demands for water until the Agency's Ophir water treatment plant, storage and transmission facilities are in service, after which the use of the Bickford Pump Station will not be necessary to delivery water to Lincoln through the 42" pipeline.

4. Lincoln shall not be required to pay the Agency's monthly service charges, the state and federal mandated charges and renewal and replacement charges for the EDU's associated with the \$4,000,000 payment until the completion of the 42" pipeline and associated facilities to be completed by others, or until June 1, 2008, whichever occurs later. Thereafter these charges shall be assessed regardless of the completion of the metering station or delivery of any part of the increased delivery entitlement.

5. Lincoln is hereby granted an extension of time for completion of the 30 inch diameter Phase 3 pipeline described in the July 13, 1999 Supplement to the Contract until May 1, 2012.


6. Except as supplemented and revised here, the provisions of The Contract remain in full force and effect.

IN WITNESS WHEREOF, the parties have executed this Supplement to The Contract as
of the date first written above.

PLACER COUNTY WATER AGENCY

PLACER COUNTY WATER AGENCY


Chair of the Board of Directors


Clerk, Board of Directors
P.O. Box 6570
Auburn, California 95604

APPROVED AS TO FORM:

Placer County Water Agency Counsel

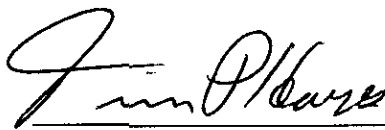
CITY OF LINCOLN

ATTEST:


Mayor


Clerk, CITY OF LINCOLN
1390 First Street
Lincoln, California 95648

APPROVED AS TO FORM:


Lincoln City Attorney

Attachment C



Water Connection Charges (Effective 1/1/2022)
Zone 6 - City of Lincoln (for reference only)

Lower Zone 6 Base Rate Increased 3.35% per ENR CCI (Section 40700(c) of Rules & Regulations) from \$19,339 to \$19,987

Base Rate WCC for 1.0 Unit of Capacity (UOC):

Component	Amount for Regulated Meter	Amount for Unregulated Meter
Treatment	\$9,259	\$9,259
Transmission	\$6,861	\$6,861
Groundwater	\$0	\$603
Storage	\$0	\$3,098
Planning	\$83	\$166
Total WCC	\$16,203	\$19,987

Notes and Definitions:

- This WCC rate chart is for reference only and is intended to show fees as described in the PCWA-City of Lincoln supply contract. Please contact Lincoln for all development fees and process.
- Per contract with the City of Lincoln, WCC for service through the 18" Regulated Meter is based on the following percentage of PCWA Upper Zone 6 components: 100% Treatment, 100% Transmission, and 50% Planning.
- Units of Capacity purchased for services off of the 8" Unregulated Meter are subject to the full PCWA Upper Zone 6 Water Connection Charges.
- Units of Capacity (UOCs) is defined as 1,150 gallons per day maximum day demand.
- WCC = Water Connection Charge
- GPD = Gallons per Day
- MDD = Maximum Daily Demand (GPD)