



Council Agenda Correspondence

DATE: February 4, 2025

TO: Mayor and Council

FROM: Aaron Floyd, Utilities Director

VIA: Whitney McDonald, City Manager

SUBJECT: ITEM 5C - AUTHORIZE EXECUTION OF FIRST AMENDMENT TO CITY/CAL POLY WATER AND SEWER RATE AGREEMENT TO EXTEND THE TERM OF THE AGREEMENT BY ONE YEAR WITH OPTION FOR EXTENSION

Staff received the following questions from Council members regarding the City’s existing water and sewer rate agreement with California Polytechnic State University (Cal Poly). The questions are below with staff’s response shown in *italics*:

- 1) Looking at the formula for calculating water and sewer rates for Cal Poly and the tables in Attachment A, can you explain how it is determined, the amount that is applicable to Cal Poly and how this is used to come up with the percentages that are then averaged to figure out what their annual rate will be? See highlighting in tables:

Summary of Water Cost Components for 2019-20				
	Source			
	of Supply	Treatment	Distribution	Total
Operation & Maintenance	\$ 11,165,554	\$ 4,121,628	\$ 3,596,769	\$ 18,883,952
Capital Outlay	\$ 305,157	\$ 856,246	\$ 2,141,604	\$ 3,303,008
Debt Service - 2018 WTP		\$ 883,900		\$ 883,900
Debt Service - Other	\$ 2,960,804	\$ 567,800	\$ 28,111	\$ 3,556,715
Total	\$ 14,431,515	\$ 6,429,575	\$ 5,766,484	\$ 26,627,575
Total applicable to Cal Poly		\$ 5,861,775	\$ 5,766,484	\$ 11,628,259
Percent applicable to Cal Poly		91%	100%	44%

Summary of Sewer Cost Components for 2017-18				
	Collection	Pretreatment	Treatment	Total
Operations and Maintenance	1,428,200	366,300	5,917,900	7,712,400
Capital Outlay - Adjusted	1,790,400	0	7,075,500	8,865,900
Debt Service - Prepaid				0
Debt Service - Other	782,950	0	618,363	1,401,313
Total	4,001,550	366,300	13,611,763	17,979,613
Percent Applicable to Cal Poly	22%	2%	76%	100%

Water Rate Structure. *The University's rate structure for water is based on the current rate for City non-residential accounts but is modified by a percentage ("ratio") that accounts for that part of the rate structure that is applicable to the University (water treatment and distribution less capacity interest in the system purchased by the University – these cells are highlighted in gray in the Schedule). The University does not pay expenses related to source of supply as the University has its own water supply from Whale Rock Reservoir. The annual ratio is determined by taking the average of these calculations for the 3 most recent fiscal years' audited expenses + 1 current fiscal year projected expenses + 1 upcoming fiscal year projected expenses, divided by 5.*

Sewer Rate Structure. *The University's rate structure for sewer is also based on the current rate for City non-residential accounts as modified by a percentage ("ratio") that accounts for that part of the rate structure that is applicable to the University (collection, pretreatment, and treatment less capacity interest purchased by the University -these cells are highlighted in gray in the Schedule). The annual ratio is determined using the 3 most recent fiscal years' audited expenses + 1 current fiscal year projected expenses + 1 upcoming fiscal year projected expenses, divided by 5.*

Anticipated Updates. *A component of the current negotiations with Cal Poly includes the possibility of simplifying the water and sewer rate structures. These conversations have been initiated and will be on-going and are part of the reason the City and Cal Poly seek to extend the current agreement to allow for negotiations that ensure the City and Cal Poly's interests are reflected in the future recommendation and alternatives to ultimately be considered by the City Council.*

2) How much non-potable water does the university generally ask to use? How is the rate for that water determined?

None. Since the current Agreement was executed, the University has not requested non-potable water from the City. If requested, the University's rate structure for short-term non-potable water would be based on all current fiscal year City expenses related to source of supply. Similar to the water and sewer rate structures, the City is seeking to update and clarify this section of the Agreement.

3) Why have we set Cal Poly water/sewer rates at the commercial level, when there are so many residential units on campus, and 4,000 more are in the works in the near term?

The University has been subject to the City's commercial or non-residential rates since at least [1993](#). Although the University provides on-campus housing, rates have not been structured or split based on the type of end user within the campus (residential vs. commercial) but rather on the classification of the University as a college, as this is the underlying and primary land use. Any future changes would require an analysis of cost-of-service principles to be consistent with the City's overall rate-setting methodology and customer classification system.