



Proposition 218 Notification
NOTICE TO PROPERTY OWNERS OF PUBLIC HEARING
ON PROPOSED WATER AND SEWER RATES

Hearing Date & Time: June 2, 2015 6:00 PM

Hearing Location: City Council Chambers
100 Ave. Presidio, San Clemente, CA 92672

Why are you receiving this notice?

This notice is being furnished to you by the City of San Clemente pursuant to the California Constitution Article XIII D (also known as "Proposition 218"). Under terms of Proposition 218, the City is required to notify property owners of proposed changes to property-related fees such as water and sewer services. This letter serves as notice that a public hearing is scheduled on June 2, 2015 to consider changes to the current water and sewer rates.

The proposed rate modifications will increase the typical single family residential bill by 2.2% and the average commercial account by 1.9%. Rate modifications, if approved, will take effect on August 1, 2015.

What do water and sewer rates fund?

The City provides water and sewer services to over 17,500 customers (residential and commercial) within the city limits. The Water and Sewer utilities must be financially self-sufficient. Each utility operates independently from one another. Monthly rates paid by users of each system are the primary sources of revenue to fund those operations.

All revenue generated from your utility bills is used to maintain and operate the water and sewer systems; it is not used for other general governmental purposes. These revenues must meet costs such as purchased raw water, electricity, chemicals, maintenance, and salaries and benefits for utility enterprise staff.

Why are rate changes required?

Each year, the City performs a comprehensive analysis of the costs to provide water and sewer services and the rates charged for those services. Rates need to be adequate to recover the expenses, while ensuring that costs are equitably allocated, so that rates are fair and in proportion to the services received by the various customer classifications.

The City modeled the costs of operating both the Water and Sewer systems for the next five years. Current costs were inflated based on assumptions extracted from the Fullerton Economic Forecast for expense categories such as salaries and benefits, electricity, gas, and chemicals, etc. Purchased water costs were increased according to the Municipal Water District of Orange County's (MWDOC) forecast. The City has three sources of water: groundwater, purchased water, and recycled water production. Approximately 86% of the City's water is purchased from MWDOC. Based on the analysis, the current water rates were determined to not be sufficient to cover projected expenses. To meet the increasing costs of providing water services, the monthly fixed charges and commodity rates for water need to be increased.

Water

New potable water rates

The City has applied a uniform percentage increase to the fixed meter charge and tier rates for eight of the past nine years, as presented in the following chart.

2006	2007	2008	2009	2010	2011	2012	2013	2014	2015 Proposed
5.7%	5.7%	9.2%	15.7%	12.6%	12.6%	7.0%	6.0%	6.0%	4.0%

The City is recommending a uniform rate increase of 4% in 2015 based on this year's analysis. Major expense categories contributing to the increase include purchased water, which represents 45% of total costs, system maintenance and replacement charges, and other contractual services.

Fixed meter charges - Water

The fixed portion of the City's monthly revenue, derived from the monthly meter charge, represents approximately 23% of total revenue collected, while fixed costs, which include the cost to maintain and operate the water infrastructure, amount to approximately 50% of the total water system expenses. Under the proposed rate structure, presented in Table 1 below, the fixed meter charges will be increased by 4%.

Tiered water commodity charges

Variable costs, which include the purchase of water from the MWDOC, as well as electricity and chemical expenses, amount to approximately 50% of the water utility’s expenses. Historically, revenue recovery from the water commodity charges, through the tiered rates, has represented 77% of total revenues. Table 2 below presents the existing and proposed Tier rate structure.

New non-potable (recycled) water rates

The City has completed an expansion of the City’s recycled water production facilities, doubling production from 900 to 1,800 acre feet per year. This will help to lower the City’s dependency on purchased water from MWDOC over the next several years by reducing the demand from irrigation accounts for potable water. Major costs to operate the expanded system include electricity, chemicals, and maintenance and replacement expenses. The existing non-potable rate will be increased from \$2.15 to \$2.25, or 5.0%.

Non-potable (recycled) rates were last increased in 2010 and reduced in 2014 as a result of a Cost-of-Service analysis related to the expansion project. The following chart presents the rate changes since 2006.

2006	2007	2008	2009	2010	2011	2012	2013	2014	2015 Proposed
5.7%	5.7%	9.2%	15.7%	12.6%	0.0%	0.0%	0.0%	-15.7%	5.0%

New sewer rates

Historically, the City has applied a uniform percentage increase to the sewer fixed meter charge and commodity rates, as presented in the following chart.

2006	2007	2008	2009	2010	2011	2012	2013	2014	2015 Proposed
6.8%	6.8%	5.3%	3.9%	3.2%	6.0%	8.0%	4.0%	0.0%	0.0%

The City is not proposing a rate increase to the monthly fixed meter charge or sewer commodity charges for 2015. A complete review of all operating expenses was conducted as part of the 2016 budget process. Based on that review and recently completed capital projects, key operating expenses, which include electricity, chemicals, and landfill fees, will not increase significantly, resulting in a projected neutral operating position in 2016. The existing rate structure is projected to maintain a neutral operating position in the Sewer Operating Fund, where revenues equal expenses, without the need for a rate increase in 2015.

Impact on your bill

For a typical single family home that uses 12 units of water during winter months, the monthly water bill will increase from \$53.01 to \$55.06, a 3.9% increase. The sewer bill will remain unchanged at \$38.70. The combined water and sewer bills will increase from \$91.71 to \$93.76, a 2.2% increase.

The water bill for a typical commercial account, which uses 40 units of water per month, will increase from \$202.71 to \$210.48, a 3.8% increase. The sewer bill will remain the same at \$214.85. The combined water and sewer bill will increase from \$417.56 to \$425.33, a 1.9% increase.

How do you protest?

Water and sewer rates are subject to majority protest, which means if a majority of impacted property owners (or renters if they are financially responsible for the bill) submit written protests against the increase, the City cannot institute the new rates. To protest, written protests must include your name, the address of the impacted property (or APN number) and your signature. Written protests must be **received** by the City Clerk at 100 Avenida Presidio, San Clemente, CA 92672 prior to the close of the public hearing. Protests may also be delivered to the City Clerk at the public hearing on the date and time specified above.

**Table 1
Water Meter Charges**

Meter Size	Existing Fixed Fee	Proposed Fixed Fee
1"	\$16.17	\$16.81
1 ½"	\$36.35	\$37.80
2"	\$54.31	\$56.48
3"	\$105.55	\$109.77
4"	\$159.45	\$165.82
6"	\$305.96	\$318.19

**Table 2
Water Consumption Charges**

Tier	Existing rate Per unit*	Proposed rate Per unit*
1	\$2.65	\$2.75
2	\$4.33	\$4.50
3	\$9.31	\$9.68
Commercial	\$3.71	\$3.85
Non-potable	\$2.15	\$2.25

*One unit of water represents 748 gallons