



**NOTICE TO PROPERTY OWNERS OF PUBLIC HEARING
ON PROPOSED WATER AND SEWER RATES**

Hearing Date & Time: May 17, 2016 6:00 PM

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

Why are you receiving this notice?

This letter serves as notice that a public hearing will be held on May 17, 2016, at 6:00 p.m., in the City Council Chambers located at 100 Ave. Presidio, San Clemente, to consider adjustments to the rates of the City's current water and sewer service charges. Rate adjustments, if approved, will take effect on August 1, 2016.

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 adjustments necessary?

The City is committed to providing the highest quality utility services at the lowest possible rates for our customers. To meet this commitment, in 2015 the City undertook an evaluation of the infrastructure needs, programs, and operations and maintenance costs of the City's sewer and water services and the rates charged for those services for the next five years. Rates need to be adequate to recover the City's expenses, while ensuring that costs are equitably allocated, so that rates are fair and proportionate to the services received by the various customer classifications.

The City modeled the costs of operating both the Water and Sewer systems for a five-year period. Current costs were inflated based on assumptions extracted from the Fullerton Economic Forecast for expense categories such as electricity, gas, and chemicals, and salaries and benefits etc. For the Water utility, purchased water costs, which represent 45% of the total costs for the utility, were increased according to the Municipal Water District of Orange County's (MWDOC) forecasted rate increases. Based on this evaluation, it has been determined that rate increases are necessary for the City's sewer and water service charges to enable the City to: recover current and projected costs of operations and maintenance, capital infrastructure improvements needed to repair and update the City's aging water and sewer systems; maintain the operational and financial stability of the utilities; comply with State and Federal mandated regulatory requirements; and avoid operational deficits and depletion of reserves.

PROPOSED RATES FOR POTABLE AND RECYCLED WATER SERVICE CHARGES

Potable Water Service Charges. The rate structure for the City's potable water (i.e., treated drinking water) service charges has four customer classes—single-family residential, multi-family residential, irrigation, and commercial—and is comprised of two components—a Meter Charge and a Consumption Charge. The rates are structured to proportionately allocate the costs of providing water service to each of the customer classes and to each parcel within each customer class.

The Meter Charge is a monthly fixed charge established on the basis of the size of the water meter (in inches) serving a property and is calculated to recover the majority of the water utility's annual fixed costs of providing water service, such as utilities, equipment, materials, billing, collections, customer service, meter reading, and meter maintenance. The fixed portion of the City's monthly revenue, derived from the 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.

For commercial customers, the Consumption Charge is a uniform rate per unit of water. For residential and irrigation customers the Consumption Charge is a variable charge that is designed to recover the water utility's variable costs (e.g., purchases of water from the

MWDOC, electricity and chemical expenses) and a portion of its fixed costs. The rate structure for the charge consists of tiers that impose higher rates per unit of water as the level of consumption increases, with one unit equal to one hundred cubic feet (“HCF”) or 748 gallons of water. The amount of water allocated in each tier varies depending on the customer class and season (winter months are October through March; summer months are April through September). For single-family residential (SFR) customers, the tiers also depend on the size of the parcel being served. The tier allocations assume that a single family residential parcel is less than 7,000 square feet; customers with parcels greater than 7,000 square feet may request a higher tier allocation for their larger parcel. For multi-family residential (MFR) customers, the tiers also depend on whether the property is metered for each residential unit or subject to a master meter for all residential units served. For irrigation customers, the tier allocations are based on the season (winter and summer seasons defined above) and the size of irrigable area. The tier allocations for residential and irrigation customers are shown in the table below.

SINGLE-FAMILY AND MULTI-FAMILY RESIDENTIAL TIER ALLOCATIONS

<u>Customer Class and Tiers</u>	<u>Winter Allocation</u>	<u>Summer Allocation</u>
Single Family		
Tier 1	0-9 HCF	0-9 HCF
Tier 2	10-14 HCF	10-19 HCF
Tier 3	15 HCF and above	20 HCF and above
Single Family Large Lot		
Tier 1	0-9 HCF	0-9 HCF
Tier 2	10-19 HCF	10-28 HCF
Tier 3	20 HCF and above	29 HCF and above
Multi-Family Individually Metered		
Tier 1	0-6 HCF	0-6 HCF
Tier 2	7-9 HCF	7-11 HCF
Tier 3	10 HCF and above	12 HCF and above
Multi-Family Master Metered		
Tier 1	0-6 HCF	0-6 HCF
Tier 2	7-9 HCF	7-10 HCF
Tier 3	10 HCF and above	11 HCF and above
Irrigation		
Tier 1	0-0.0463 HCF/100 sq. feet	0-0.0918 HCF/100 sq. feet
Tier 2	0.0463-0.1853 HCF/100 sq. feet	0.0918-0.3673 HCF/100 sq. feet
Tier 3	Over 0.1853 HCF/ 100 sq. feet	Over 0.3673 HCF/ 100 sq. feet

Recycled Water Service Charges. The City completed the expansion of the City’s recycled water production facilities, doubling production from 900 to 1,800 acre feet per year, in 2015. This is helping to lower the City’s dependency on purchased water from MWDOC 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 rate structure consists of a monthly fixed Meter Charge that is calculated on the basis of the meter serving the property (in inches) and a Consumption Charge that is imposed at a uniform rate per unit of water delivered. The rates for the Fixed Meter Charge are the same as those imposed potable water customers.

The current and proposed rates for the potable water Consumption Charge, recycled Consumption Charge, and monthly potable and recycled water Meter Charge are shown in the tables below. If approved, the rates will take effect for services provided on and after August 1, 2016.

CURRENT AND PROPOSED RATES FOR POTABLE WATER CONSUMPTION CHARGE

<u>Customer Class</u>	<u>Current Rates</u>	<u>Rates effective August 1, 2016</u>
Single-Family and Multi-Family Residential		
Tier 1	\$2.75/HCF	\$2.86/HCF
Tier 2	\$4.50/HCF	\$4.68/HCF
Tier 3	\$9.68/HCF	\$10.06/HCF
Irrigation		
Tier 1	\$2.75/HCF	\$2.86/HCF
Tier 2	\$4.50/HCF	\$4.68/HCF
Tier 3	\$9.68/HCF	\$10.06/HCF
Commercial	\$3.85/HCF	\$4.00/HCF
Non-Potable	\$2.25/HCF	\$2.38/HCF

CURRENT AND PROPOSED RATES FOR RECYCLED WATER CONSUMPTION CHARGE

Current
\$2.25/HCF

Rate Effective August 1, 2016
\$2.38/HCF

CURRENT AND PROPOSED RATES FOR MONTHLY POTABLE AND RECYCLED WATER METER CHARGES (\$/METER SIZE IN INCHES)

<u>Meter Size</u>	<u>Current Rates</u>	<u>Rates effective August 1, 2016</u>
1"	\$16.81	\$17.48
1 1/2"	\$37.80	\$39.31
2"	\$56.48	\$58.73
3"	\$109.77	\$114.16
4"	\$165.82	\$172.45
6"	\$318.19	\$330.91

PROPOSED SEWER SERVICE CHARGES

The rate structure for the sewer service charges consists of three customer classes—residential (includes single-family residential and multi-family residential), commercial, and mixed use (a property with both commercial and residential mixed use). Within the commercial customer class there are subclasses of customers. The subclasses are classified based on the type of commercial activity and constituents that they discharge into the sewer system—low strength, medium strength, medium-high strength, and high strength. (To determine which subclass your property is assigned, please refer to your most recent sewer billing statement.) The City’s sewer service charges are similarly comprised of two components—a Meter Charge and a Commodity Charge. The Meter Charge is a monthly fixed charge calculated on the basis of the size of the water meter serving the property (in inches). Major fixed operating expenses, include salary and benefits, maintenance, chemicals, and landfill fees, have experienced modest increases. The Commodity Charge is a variable charge determined on the basis of a customer’s metered water use (in HCF) during the months of October through March and assumptions regarding the volume of water returned to the sewer system. An adjustment in revenues, to offset expenses is necessary to achieve a neutral operating position, where revenues equal expenses. The current and proposed rates for the sewer service charges are shown in the tables below. If approved, the rates will take effect for services provided on and after August 1, 2016.

CURRENT AND PROPOSED RATES FOR MONTHLY THE SEWER METER CHARGE (\$/METER SIZE IN INCHES)

<u>METER SIZE</u>	<u>CURRENT RATES</u>	<u>Rates Effective August 1,, 2016</u>
1"	\$23.36	\$23.82
1 1/2"	\$77.06	\$78.60
2"	\$123.77	\$126.24
3"	\$256.89	\$262.02
4"	\$396.99	\$404.92
6"	\$777.63	\$793.18

CURRENT AND PROPOSED RATES FOR THE SEWER COMMODITY CHARGE (\$/HCF)

<u>Customer Class</u>	<u>Current Rates</u>	<u>Rates Effective August 1, 2016</u>
Residential	\$1.42	\$1.44
Commercial		
Low-Strength	\$1.94	\$1.97
Medium Strength	\$2.53	\$2.58
Medium-High Strength	\$4.49	\$4.57
High Strength	\$6.26	\$6.38
Mixed Use	\$2.56	\$2.61

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 \$55.06 to \$57.26. The monthly sewer bill will increase from \$38.70 to \$39.37. The typical single-family residential combined monthly water and sewer bill will increase from \$93.76 to \$96.63.

The water bill for a typical commercial account, which uses 40 units of water per month, the monthly water bill will increase from \$210.48 to \$218.73. The monthly sewer bill will increase from \$214.85 to \$219.12. The typical commercial account combined monthly water and sewer bill will increase from \$425.33 to \$437.85.

How do you protest?

Any record owner of a parcel upon which the proposed water and/or sewer service charges are proposed to be imposed or any tenant directly responsible for the payment of sewer and/or water service fees and charges (i.e., a customer of record who is not a property owner) may submit a written protest to the proposed increases to the rates for the City's sewer, and/or water service fees and charges; provided, however, only one protest will be counted per identified parcel. Any written protest must: (1) state the specific rate increase (sewer, and/or water) for which the protest is being submitted; (2) provide the location of the identified parcel (by street address or assessor's parcel number); and (3) include the name and signature of the property owner or tenant submitting the protest. If a property owner or tenant is protesting one or more rate increases, the property owner or tenant should identify which rate increase or increases he or she is protesting. Written protests may be submitted by mail or in person to the City Clerk at **100 Ave. Presidio, San Clemente, CA 92672**, or at the Public Hearing (date and time noted above). To be counted, a written protest must be received by the City prior to the conclusion of the public comment portion of the Public Hearing. Any protest submitted via e-mail or other electronic means will not be accepted. Please identify on the front of the envelope for any protest, whether mailed or submitted in person to the City Clerk, "**Public Hearing on Rates.**"

The City Council will consider all written protests to and oral comments regarding the proposed rate increases at the Public Hearing. Oral comments at the Public Hearing will not qualify as formal protests unless accompanied by a written protest. Upon the conclusion of the Public Hearing, the City Council will consider adoption of the proposed rate increases for the sewer and water service fees and charges. If written protests against the proposed rates as outlined above are not presented by a majority of the property owners or tenants directly responsible for the payment of sewer, and/or water service charges of the identified parcels upon which the rates and charges are proposed to be imposed, the City Council will be authorized to impose the respective rate increases. For any questions you may have regarding the rates or the rates applicable to your property, please contact the City at 949-361-8315.

What's Next—Comprehensive Cost-of-Service Study – Water Rates

The City is currently conducting a comprehensive Cost-of-Service Study for the Water system. This study, expected to be completed in early 2017, will determine the cost recovery approach the Water utility will utilize as the basis for water rates for the next five to ten-year timeframe. The Study, which will include public workshops to solicit stakeholder input, will:

- determine the current and projected costs of providing water service
- review the existing water rate structure, customer classifications, and tier widths
- consider alternative pricing methodologies and review industry standards within California
- model the impact of the current and/or future droughts on system operations and rates
- develop a rate model for use over the next five to ten-year timeframe

Recommendations, including possible rate increases or adjustments, from the Study will be presented at a future Public Hearing for consideration, deliberation, and adoption by City Council.