



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

Hearing Date & Time: NOVEMBER 7, 2017 6:00 PM

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

Why are you receiving this notice?

The City of San Clemente will hold a public hearing **November 7, 2017**, at **6:00 p.m.**, in the City Council Chambers located at 100 Ave. Presidio, San Clemente, to consider changes to the City's water rate structure, potential rate increases over a five-year period, implementation of wholesale water costs pass-through adjustments, and implementation of a "demand management rate" to offset revenue fluctuations during periods of reduced water demands (such as a prolonged drought) to stabilize City revenues so the City can continue to operate and maintain the City's water system. These rate changes, if approved, will take effect on January 1, 2018. This notice describes the reason for the new rates, how they were calculated, the amount of the proposed new rates, and how to file a protest to this proposed action.

WHAT DO WATER RATES FUND?

The City provides water service to over 17,500 customers (residential and commercial) within the city limits. The water utility must be financially self-sufficient. Each City utility operates independently from one another. Monthly rates paid by users of each system are the primary sources of revenue to water operations. All revenue generated from your utility bills is used to maintain and operate the water system; 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.

REASON FOR THE PROPOSED WATER RATE INCREASES

The City is committed to providing the highest quality utility services at the lowest possible rates for our customers. A substantial portion of the City's costs to operate and maintain the water system are fixed, meaning the costs remain the same regardless of water consumption. With the recent drought and State mandated water conservation, the City has experienced declines in water demand (26% demand decrease in 2016 from the 10-year average), and, therefore reductions in water revenues. The City engaged Carollo Engineers (Carollo) to perform a comprehensive water Cost of Service Study ("Rate Study") to evaluate the infrastructure needs, programs, and operations and maintenance costs of the City's water services and the revenues necessary to recover those costs of service over the next five years (Fiscal Years Ending 2018 through 2022) in light of reduced water consumption. The City must receive sufficient revenue to recover current and projected costs of operations and maintenance for the water system, fund capital infrastructure improvements needed to repair and update the City's infrastructure system, maintain the operational and financial stability of the utility, comply with State mandated regulatory requirements, meet and comply with annual debt service requirements and debt service coverage ratios, and avoid operational deficits and depletion of reserves.

As detailed in the Rate Study, without increasing revenues and adjusting current water rates, the City is expected to experience a cash flow deficit that will not cover operating expenditures, thus the need to revise the City's existing water rate structure and increase rates. The proposed rate adjustments account for projected reductions in on-going water consumption, as well as provide the mechanism to implement a demand management charge (similar to a drought surcharge), if necessary, to ensure that there are stable revenues to fund water utility obligations, while continuing to supply safe and reliable water to City customers. 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.

BASIS UPON WHICH THE PROPOSED WATER RATES & DROUGHT CHARGES WERE CALCULATED

The proposed rate increases were calculated based upon the Rate Study and the analysis in the Rate Study regarding the actual costs of operating the water utility, including meeting State and Federal mandates, providing safe and reliable drinking water to the entire City every day, meeting debt obligations, funding necessary capital improvements, and providing for infrastructure to treat, pipe, and pump water to customers. The Rate Study looked at these costs of service with the goal of achieving full cost recovery, revenue stabilization, and simplification of the rate structure where possible while proportionally allocating the costs of service amongst the City’s customer classes in compliance with Proposition 218. To accomplish these objectives, Carollo incorporated the following components into its cost-of-service analysis and rate change recommendations:

- Utilize a pass-through approach, decoupling wholesale water supply costs from current rates, as authorized by Government Code section 53756, for imported water and operating costs from the Municipal Water District of Orange County (MWDOC) or other wholesale water suppliers and instead establish a pass-through charge for the wholesale water costs;
- Increase the fixed cost recovery percentage to more closely align with the City’s fixed costs of service because the fixed portion of the City’s current monthly revenue represents approximately 23% of total revenue collected, while the City’s fixed water service costs amount to approximately 42% of the total water system expenses;
- Introduce “Demand Management Rates” into the water rate structure during periods of reduced demands or increased conservation to offset the City’s associated loss of revenue and stabilize rates during such periods of significant water use reduction; and
- Establish water rates for a five-year plan.

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. 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 proposed water rates are comprised of two components: a fixed charge and consumption-based usage charge, and are based on existing and projected revenue needs, taking into account projected water conservation estimates over the next few years. The rate structure has been refined to provide enhanced fixed cost recovery, respond to changes in customer demands, and better mirror the percentage of fixed expenditures.

- **Fixed Charge** – The monthly fixed charge is based on the size of the water meter (in inches) serving a property and is calculated to recover a portion 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. A comparison of the City’s current fixed-charge and the proposed five-year schedule of fixed charge increases is provided in the following table:

CURRENT AND PROPOSED MONTHLY FIXED CHARGE FOR POTABLE (Residential, Commercial Potable Irrigation) AND RECYCLED WATER METERS (\$/METER SIZE IN INCHES)

<u>Meter Size</u>	<u>Current Rates</u>	<u>Rates effective 1/1/2018</u>	<u>Rates effective 1/1/2019</u>	<u>Rates effective 1/1/2020</u>	<u>Rates effective 1/1/2021</u>	<u>Rates effective 1/1/2022</u>
1"	\$17.48	\$18.71	\$21.87	\$25.33	\$26.56	\$27.41
1-1/2"	\$39.31	\$46.17	\$53.97	\$62.49	\$65.53	\$67.72
2"	\$58.73	\$69.70	\$81.47	\$94.34	\$98.93	\$102.09
3"	\$114.16	\$144.23	\$168.59	\$195.19	\$204.70	\$211.23
4"	\$172.45	\$254.07	\$296.96	\$343.83	\$360.58	\$372.08
6"	\$330.91	\$516.89	\$604.14	\$699.48	\$733.56	\$756.96

- **Consumption-Based Rate (Volumetric or Commodity Rate)** – Based on reductions in water demands, the City’s desire to simplify the rate structure, and the results of the Rate Study, the City is proposing to (1) eliminate seasonal rates and transition single-family residential (SFR), multi-family residential (MFR), and potable irrigation water customers from a three tier to a uniform rate structure; and (2) continue to apply a uniform rate to commercial water customers. The commodity rate imposes a uniform rate per unit of water by customer classification, with one unit equal to one hundred cubic feet (“ccf”) or 748 gallons of water. The consumption-based rate takes into account base costs (including baseline supplies, treatment, distribution, and storage, up to a level that meets the City’s baseline demands throughout the year) and peaking costs (i.e., meeting peak, summer water demands and conservation costs).

The proposed monthly rates and the effective implementation dates are set forth below following the explanation of the Wholesale Water Supply Pass-Through Adjustments, consistent with the Rate Study recommendations. If adopted, the City Council may increase rates each year up to the amounts shown. However, the City Council may also set rates at a lesser amount, depending upon water utility revenue requirements. A full copy of Carollo’s 2017 Rate Study is available on the City’s website at <http://san-clemente.org/>.

Future Pass Through Adjustments for Wholesale Water Supply Charges

To avoid future operational deficits, depletion of reserves, increase cost recovery, and maintain more accurate rates, the Rate Study recommends decoupling the wholesale water costs from the existing Commodity Charge, passing through to its water service customers any future wholesale water supply charges and any rate increases to any existing wholesale water supply charge, including imported water charges, that are imposed on the City by MWDOC or other wholesale water suppliers. Any increase in the water service fees due to wholesale water supply pass through adjustments would impact the Commodity Charge rate. If approved by the City Council, any increase to the rates as a result of pass through adjustments may be imposed effective January 1, 2018, and each year thereafter, through and including January 1, 2022. However, in no event will water rates be increased in any fiscal year as a result of Pass Through Adjustment by more than the cost of providing water service. The pass-through cost based on current wholesale water supply costs would be calculated as follows:

$$Pass\ Through = \frac{Total\ Water\ Cost}{Forecasted\ Demand} = \frac{\$8.10\ Million}{6,957\ Acre\ Feet} = \frac{\$1,164}{Acre\ Feet} = \$2.68\ per\ ccf$$

Proposed Commodity Rates with Estimated Wholesale Water Supply Pass-Through Charge

CURRENT AND PROPOSED CONSUMPTION-BASED/COMMODITY RATES FOR POTABLE WATER CUSTOMERS

\$ per CCF (hundred cubic feet; 1 CCF = 748 gallons)

<u>Customer Class</u>	<u>Current Rates</u>	<u>Rates effective 1/1/2018</u>	<u>Rates effective 1/1/2019</u>	<u>Rates effective 1/1/2020</u>	<u>Rates effective 1/1/2021</u>	<u>Rates effective 1/1/2022</u>
Single-Family Residential						
[A] Total Base & Peak Charge		\$1.49	\$1.74	\$2.01	\$2.11	\$2.17
[B] Wholesale Pass-through		\$2.68	\$2.68	\$2.68	\$2.68	\$2.68
SFR Uniform Rate [A] + [B]	N/A	\$4.17	\$4.42	\$4.69	\$4.79	\$4.85
Multi-Family Residential						
[A] Total Base & Peak Charge		\$1.36	\$1.58	\$1.83	\$1.92	\$1.98
[B] Wholesale Pass-through		\$2.68	\$2.68	\$2.68	\$2.68	\$2.68
MFR Uniform Rate [A] + [B]	N/A	\$4.04	\$4.26	\$4.51	\$4.60	\$4.66
Potable Irrigation						
[A] Total Base & Peak Charge		\$1.98	\$2.38	\$2.84	\$2.98	\$3.07
[B] Wholesale Pass-through		\$2.68	\$2.68	\$2.68	\$2.68	\$2.68
Irrigation Uniform Rate [A] + [B]	N/A	\$4.66	\$5.06	\$5.52	\$5.66	\$5.75
Commercial						
[A] Total Base & Peak Charge		\$1.37	\$1.60	\$1.85	\$1.94	\$2.01
[B] Wholesale Pass-through		\$2.68	\$2.68	\$2.68	\$2.68	\$2.68
Commercial Uniform Rate [A] + [B]	\$4.00	\$4.05	\$4.28	\$4.53	\$4.62	\$4.69

* Please note that the total uniform rates shown above ([A] + [B]) include the additional pass-through charge for wholesale water supplies ([B]), which Carollo has estimated at \$2.68/ccf (see discussion above), so the actual total of the commodity charge effective January 1, 2019-2022 may vary depending on the adopted increases or decreases in the wholesale charges for water established by the City's wholesale water supplier calculated pursuant to the pass-through formula, above. For more details, see pages 36-39 of the Rate Study.

Demand Management Rate

With the recent drought and State mandated water conservation, the City has experienced declines in water demand resulting in lower water revenues. To increase revenue stability necessary to provide water service, the Rate Study recommends adoption of a Demand Management Rate to be implemented during periods of decreased demand. These proposed Demand Management Rates take into account both the reduced revenue and any costs savings due to reduce operational needs to determine the adjusted rate necessary to recover the City's costs of service. If adopted, the Demand Management Rate charge will be added to customer bills upon future approval by the City Council in the event that water demand decreases by the percentages below from projected Fiscal Year End 2018 demands. The drought charge would be added to the commodity rate (per unit costs) shown in the table above.

**PROPOSED DEMAND MANAGEMENT RATES
(FIXED AND VARIABLE RATE SURCHARGES)**

	<u>5-10% Reduction</u>	<u>11-20% Reduction</u>	<u>Greater than 20% Reduction</u>
Fixed Rate (\$/meter equivalent)	-0-	\$0.74	\$0.74
Variable Rate (\$/CCF)	\$0.19	\$0.30	\$0.57

Recycled Water

The City owns and operates a recycle water plant ("WRP") that produces non-potable recycled water for irrigation. In Fiscal Year 2015, the City completed the expansion of its WRP from 2.2 million gallons per day (MGD) to 5.0 MGD peak capacity, financed in part with a State Revolving Fund (SRF) Loan. As with potable water customers, the Rate Study predicts that without a rate increase, the City's recycled water system will be operating at a deficit by next year and would not be able to meet its debt service coverage obligations for the SRF Loan. Accordingly, the Rate Study recommends the following five-year rate structure increase to ensure that the recycled water program remains self-sufficient. The proposed recycled water rates do not impact potable water customer rates and are only charged to recycled water customers.

CURRENT AND PROPOSED RATES FOR RECYCLED WATER COMMODITY CHARGE

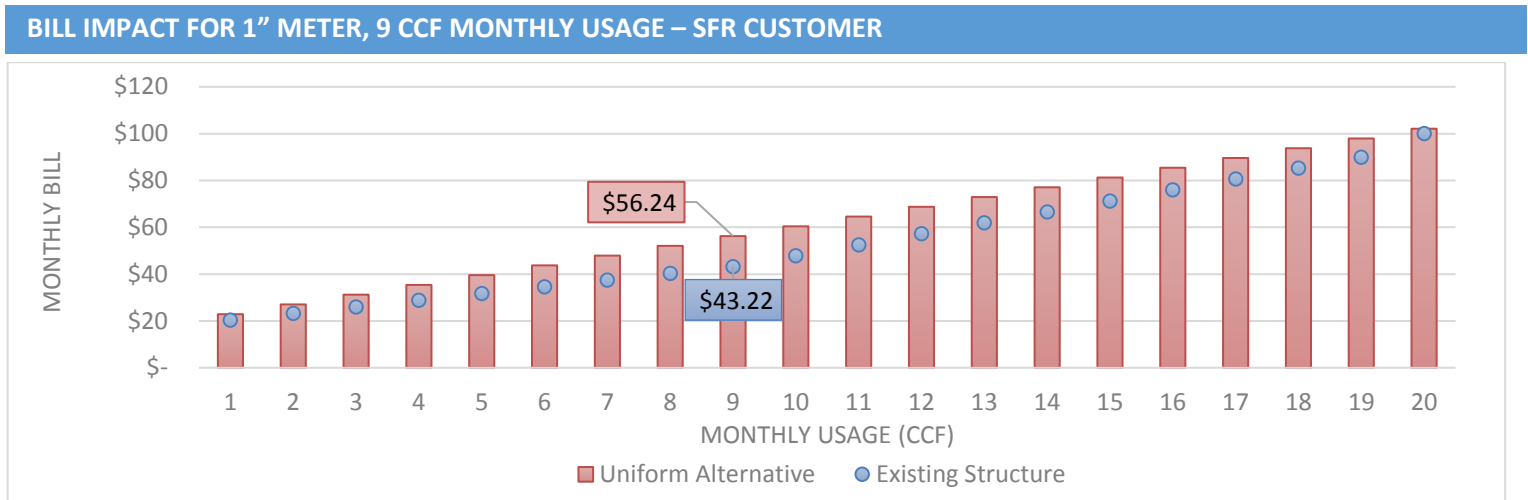
All rates at per CCF (hundred cubic feet; 1 CCF = 748 gallons)

	<u>Current Rate</u>	<u>Rates effective 1/1/2018</u>	<u>Rates effective 1/1/2019</u>	<u>Rates effective 1/1/2020</u>	<u>Rates effective 1/1/2021</u>	<u>Rates effective 1/1/2022</u>
Non-Potable Irrigation	\$2.38	\$2.66	\$2.87	\$3.11	\$3.21	\$3.29

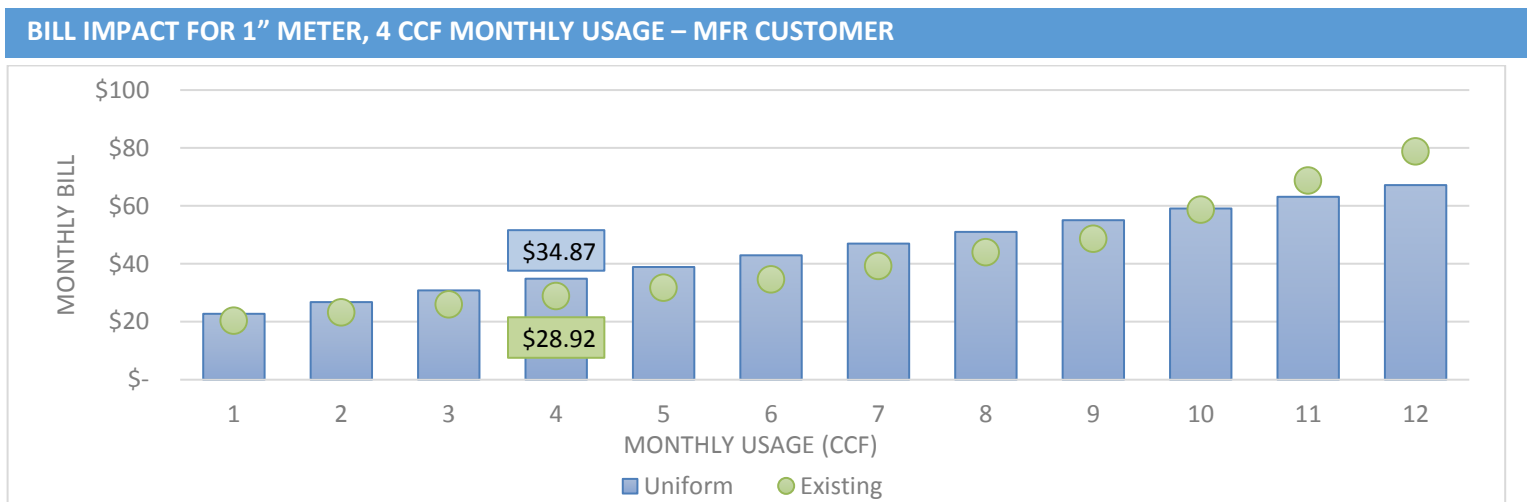
Impact on your Bill

The proposed rates are calculated to recover the City's current and forecasted costs of providing water service and to proportionately allocate those costs on a parcel basis. The rate increases were calculated to be the lowest amounts necessary to meet costs of service for operating, maintaining, and replacing aging infrastructure. For a typical single-family home that uses 9 units (CCF) of water in a month, excluding the Demand Management Rate, the monthly water bill is projected to increase from \$43.22 to \$56.24.

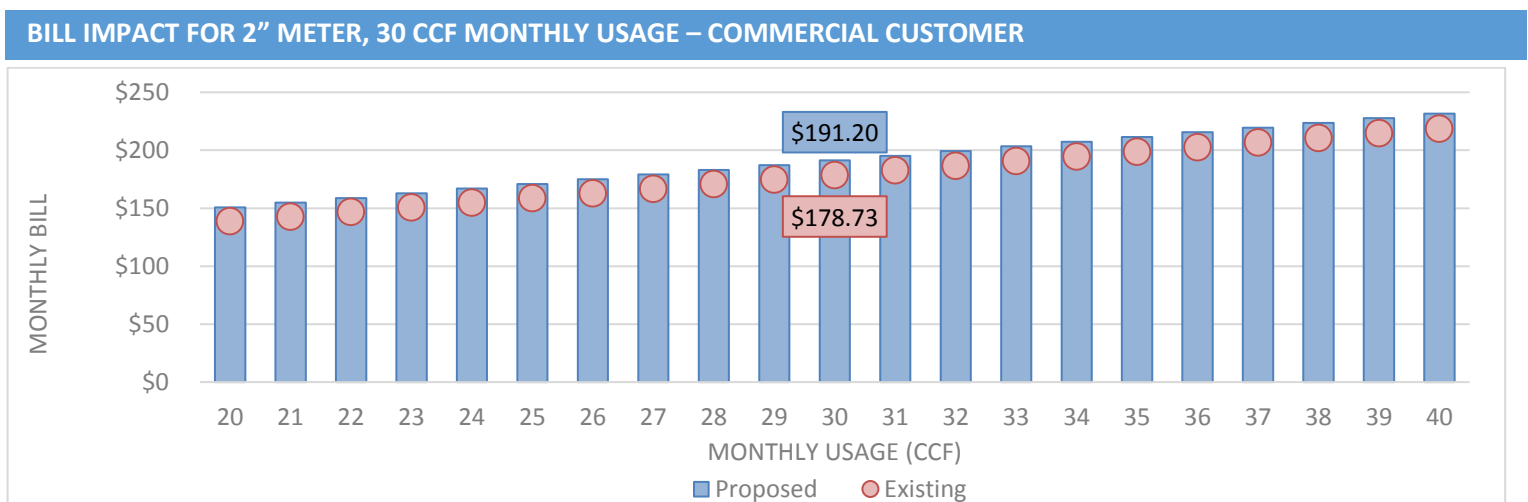
The following figure illustrates the expected water bill impact for an **SFR customer** with a **1-inch meter** and **9 CCF** monthly usage with a wholesale water supply pass-through charge of \$2.68 per CCF (and excluding the Demand Management Rate). Approximately 30 percent of customers use over 9 CCF per month.



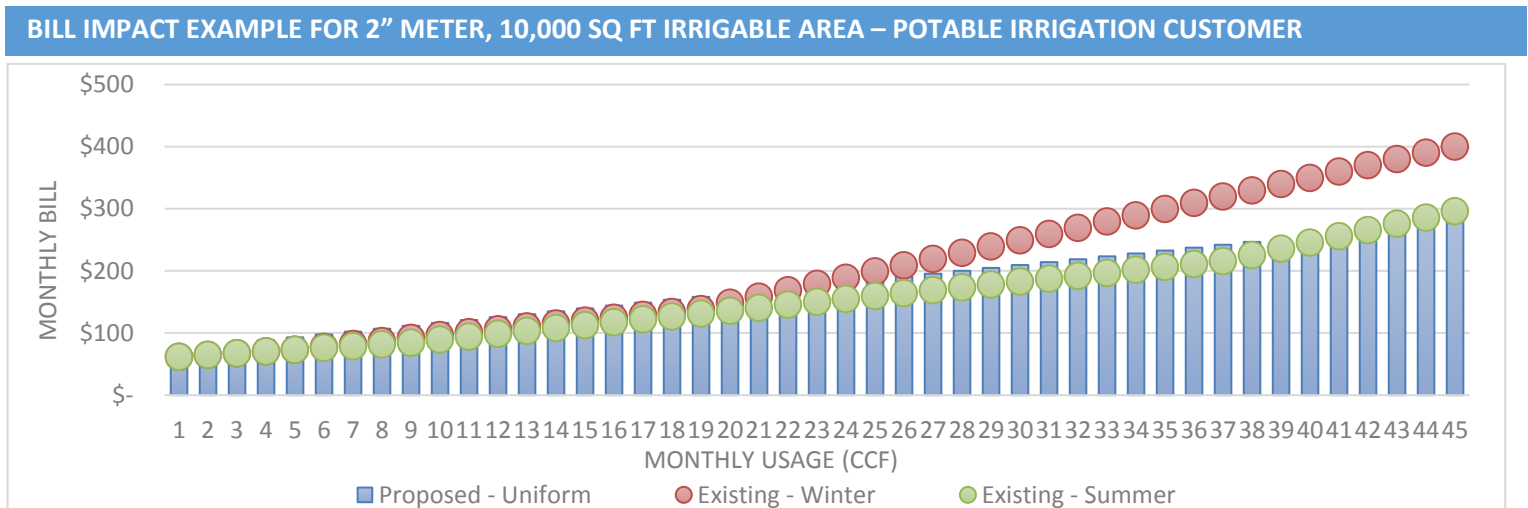
The following figure illustrates the expected water bill impact for a **Multi-Family Residential customer** with a 1-inch meter and 4 CCF monthly usage.



The following figure illustrates the expected water bill impact for a **Commercial customer** with a 2-inch meter and 30 CCF monthly usage. Fixed charges will experience larger increases in future years as greater fixed cost recovery is phased in.



The following figure illustrates the expected water bill impact for a **Potable Irrigation customer** with a 2-inch meter servicing a 10,000 square foot irrigable area. Fixed charges will experience larger increases in future years as greater fixed cost recovery is phased in.



Public Hearing & Protest Procedures

Any record owner of a parcel upon which the proposed water service charges are proposed to be imposed or any tenant directly responsible for the payment of 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 water service fees and charges; provided, however, that only one protest will be counted per identified parcel. Any written protest must: (1) provide the location of the identified parcel (by street address or assessor’s parcel number); and (2) include the name and signature of the property owner or tenant submitting the protest. 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, **“Water Rate Protest.”**

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 water rate changes and increases. 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 water service, the City Council will be authorized to impose the water rate changes and increases described in this Notice. For any questions you may have regarding the rates or the rates applicable to your property, please visit the City’s website <http://san-clemente.org/> or contact the City at 949-361-8315.