



# AGENDA REPORT

SAN CLEMENTE CITY COUNCIL MEETING  
Meeting Date: November 7, 2017

Agenda Item 7-A  
**Approvals:**  
City Manager [Signature]  
Dept. Head [Signature]  
Attorney [Signature]  
Finance [Signature]

**Department:** Finance & Administrative Services  
**Prepared By:** Erik Sund, Assistant City Manager

**Subject:** *CITY CODE MODIFICATION – AMENDING SECTION 13.04.220, SUBSECTIONS (A), (B), (C) AND (D) AND ADDING SUBSECTION (E) TO THE SAN CLEMENTE MUNICIPAL CODE RELATING TO WATER RATES.*

**Fiscal Impact:** Yes. Water Operating Fund revenues will increase by an estimated \$997,000.

**Summary:** Based on the Cost-of-Service Study of the Water Utility, a 12.0% rate increase to the fixed meter charges, potable and non-potable water commodity charges, is recommended to take effect on January 1, 2018.

**Background:** The City engaged Carollo Engineers, Inc. (Carollo) on June 13, 2016 to conduct a Comprehensive Cost-of-Service Study for the City’s Water Utility. The costs to provide water services was examined and key policy issues were considered in a process which involved staff, City Council, and utility customers. As required under Ordinance 13.04, the water rates must recover the cost to operate the water utility.

**Discussion:** A comprehensive Cost-of-Service Study was conducted by Carollo. The objectives included achieving full cost recovery, revenue stabilization, and simplification of the rate structure, while proportionately allocating the costs of service amongst the city’s customer classes. Over the course of the Study and several public workshops during the past year, key policy issues were examined and incorporated into the proposed rate structure as follows:

- 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 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;
- 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 and move to uniform rates for the variable, consumption-based rate for all customer classes, thus eliminating seasonal, tiered water rates.

Pursuant to California Constitution article XIII D, section 6 (approved by the voters by Proposition 218), prior to imposing a new or increasing an existing property-related fee such as water rates, the City is required to hold a public hearing and mail notice of the public hearing to the record owner of the property and any tenant who is directly liable for the payment of the proposed fees (i.e., a customer of record). Proposition 218 requires that the notice include the following:

- (a) the amount of the fee or charge proposed to be imposed;
- (b) the basis upon which it was calculated;
- (c) the reason for the fee or charge; and
- (d) the date, time, and location of the public hearing.

Consistent with these requirements, the Proposition 218 Notice was mailed on September 22<sup>nd</sup>, 2017, at least 45 days in advance of the Public Hearing to consider the water rate adjustments. Upon conclusion of the hearing, any written protests received must be tallied to determine whether a "majority protest" (50 percent, plus 1) has occurred. In the event that the majority protest does not occur, the City may proceed with adoption of the proposed water rates. If a majority of the property owners file written protests, the Council may not impose the proposed water rates.

The proposed rates are set forth in the Proposition 218 Notice and Proposed Ordinance attached to this Agenda Report. The proposed rate structure establishes rates for a five year period, beginning January 1<sup>st</sup>, 2018 and adjusts annually thereafter through January 1, 2022. Rate adjustments for 2019 through 2022 may be at a lesser amount based on an annual rate review performed, provided the recommended rates achieve a neutral operating position over the forecast period.

Supporting documentation has been posted on the City's web site, which includes the Study, presentations, Administrative Reports, and models to calculate the impact of the proposed changes by customer classifications. The proposed rates, which take effect on January 1, 2018 will first appear on the February, 2018 billing.

**Recommended**

**Action:**

STAFF RECOMMENDS THAT THE CITY COUNCIL:

1. Open the public hearing and receive comments;
2. Close the public hearing;
3. Consider and have City Clerk tally protests received and presented by the City Clerk at the conclusion of the public hearing; and
4. If no majority protest exists, that the City Council introduce Ordinance No \_\_\_\_\_ entitled

**AN ORDINANCE OF THE CITY COUNCIL OF THE CITY OF SAN CLEMENTE, CALIFORNIA, AMENDING SECTION 13.04.220, SUBSECTIONS (A), (B), (C) AND (D) AND ADDING SUBSECTION (E) TO THE SAN CLEMENTE MUNICIPAL CODE RELATING TO WATER RATES.**

**Attachments:** Attachment 1, Ordinance No \_\_\_\_\_  
Attachment 2, Proposition 218 Notice mailed September 22<sup>nd</sup>, 2017

**Notification:** Written notification of the proposed rate increases was mailed to property owners and utility customers on September 22, 2017, more than 45-days before the November 7<sup>th</sup> public hearing, and published in the Sun Post News on October 27<sup>th</sup>, 2017 and November 3<sup>rd</sup>, 2017.

ORDINANCE NO. \_\_\_\_\_

**AN ORDINANCE OF THE CITY COUNCIL OF THE CITY OF SAN CLEMENTE, CALIFORNIA, AMENDING SECTION 13.04.220, SUBSECTIONS (A) through (D), AND ADDING SUBSECTION (E) OF THE SAN CLEMENTE MUNICIPAL CODE RELATING TO WATER RATES.**

**WHEREAS**, the City of San Clemente provides water service to over 17,500 customers (residential and commercial) within the city limits; and

**WHEREAS**, an annual review of the cost to operate the City's Water Utility Fund was conducted in 2017 as part of the City's budget process, which included a five-year financial forecast for the Water Utility Fund and a line-item review of water operating expenses; and

**WHEREAS**, the City further engaged Carollo Engineers to perform an independent cost of service and water rate study (Rate Study) and evaluate the operations and maintenance and infrastructure costs of the City's water services and the rates necessary to recover the costs of those services for the next five years; and

**WHEREAS**, Carollo Engineers' final Rate Study, a copy of which is on file with the City Clerk, was presented to the City Council on September 19, 2017 to determine what rate modifications would be necessary to maintain a neutral operating position in the water fund; and

**WHEREAS**, the annual budget review and the Rate Study revealed that the costs of operating the City's water system have increased in recent years, including projected increases in future purchased water costs provided by Municipal Water District of Orange County (MWDOC), projected infrastructure maintenance and replacement costs, and inflation assumptions provided by the Fullerton Economic Forecast; and

**WHEREAS**, the Rate Study also confirmed that 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, but with the recent drought and State mandated water conservation, the City has experienced significant declines in water demand and, therefore, reductions in water revenues; and

**WHEREAS**, Ordinance 13.04 requires that the City's water rates must recover the cost to operate the water utility; and

**WHEREAS**, the City desires to ensure that the costs associated with the operation of the City's potable and non-potable water systems are recovered through the fees charged for the provision of that service; and

**WHEREAS**, the Rate Study recommended revisions to the water rates structure and the

City Council determined that the water rate structure should be adjusted as follows:

- 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 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;
- 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 and move to uniform rates for the variable, consumption-based rate for all customer classes, thus eliminating seasonal, tiered water rates; and

**WHEREAS**, the City Council hereby finds the following with regard to the proposed rate increases and revisions to the water rates:

1. The revenues derived from the proposed water service charges will not exceed the funds required to provide the water services;
2. The proposed water service charges will not be used for any other purpose than that for which they are imposed;
3. The amount of the proposed water service charges will not exceed the proportional cost of the service attributable to each parcel upon which they are proposed for imposition;
4. The proposed water service charges will not be imposed on a parcel unless the water services are actually used by, or immediately available to, the parcel;
5. The proposed water service charges are not levied for general governmental services;
6. The proposed water service charges represent increases in the charges needed to operate the City's water system;
7. The proposed water service charges shall be established for a five year period; and

**WHEREAS**, the City Council conducted a public hearing on November 7, 2017, to receive oral and written testimony regarding this Ordinance and the proposed rate increases; and

**WHEREAS**, at the conclusion of the public hearing, written protests against the proposed rate increases were not presented by a majority of the record owners of parcels upon which the water service fees are imposed or customers directly responsible for the payment of the proposed water service fees; and

**WHEREAS**, it is deemed to be in the best interests of the City to adopt the rate increases due to the fiscal impacts referenced above; and

**WHEREAS**, written notification was mailed to property owners and utility customers prior to September 23<sup>rd</sup>, 2017, at least 45-days before the public hearing, and published in the Sun Post News on October 27<sup>th</sup>, 2017 and November 3<sup>rd</sup>, 2017.

NOW, THEREFORE, THE CITY COUNCIL OF THE CITY OF SAN CLEMENTE HEREBY ORDAINS AS FOLLOWS:

SECTION 1. Section 13.04.220, subsections (A), (B), (C), and (D) of the San Clemente Municipal Code are hereby amended to read in their entirety as follows:

Potable water rates for the City shall be calculated by adding the fixed rate established in subsection A to the potable water consumption and pass-through rates established in subsection B. Non-potable rates for the City shall be calculated by adding the fixed rate established in subsection A and the non-potable water consumption rate established in subsection C.

A. **Fixed Rate.** Except as provided below, every customer to whom the City has issued a water meter shall pay a fixed rate based upon the size of the water meter. The fixed rate shall appear on billing statements as the "Water Base Fee". The fixed rate shall be as follows:

<u>Meter Size</u>	<u>Current Rates</u>	<u>WATER BASE FEE</u>				
		<u>Rate effective 1/1/2018</u>	<u>Rate effective 1/1/2019</u>	<u>Rate effective 1/1/2020</u>	<u>Rate effective 1/1/2021</u>	<u>Rate 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

B. **Variable Rate - Potable Water.** Every customer to whom the City has issued a potable water meter or fire hydrant meter shall pay two variable rates: 1) a consumption-based rate, and 2) a wholesale water supply pass-through rate. Both rates are based upon the units of water consumed and the customer classification. By way of example, if the *fixed rate* is eighteen dollars and seventy-one cents (\$18.71), the uniform *City Distribution Charge* is one dollar and forty-nine cents (\$1.49) per unit, and the *water supply charge* is two dollars and sixty-eight cents (\$2.68) per unit a person in the single-family residential category who uses fifteen (15) units of water during any billing cycle will have a water bill of eighty-one dollars and twenty-six cents (\$81.26) (\$18.71 [fixed rate] + \$22.35 [15 units x \$1.49 per unit] + \$40.20 [15 units x \$2.68 per unit]).

1. **Distribution Charge (Consumption-based Rate).** In addition to the fixed rate established in subsection A of this section above, every customer for which the City has issued a potable

water meter shall also pay a monthly potable water consumption-based rate. The consumption-based rate shall appear on billing statements as the "City Distribution Charge". The phrase "potable water consumption" shall mean all water which has passed through a City potable water meter. The City Distribution Charge 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 City Distribution Charge 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 potable City Distribution rates are established as follows:

**POTABLE WATER - CONSUMPTION-BASED DISTRIBUTION CHARGE** All rates at per ccf  
(hundred cubic feet; 1 ccf = 748 gallons)

<u>Customer Classification</u>	<u>Rate effective 1/1/2018</u>	<u>Rate effective 1/1/2019</u>	<u>Rate effective 1/1/2020</u>	<u>Rate effective 1/1/2021</u>	<u>Rate effective 1/1/2022</u>
Single-Family Residential	\$1.49	\$1.74	\$2.01	\$2.11	\$2.17
Multi-Family Residential	\$1.36	\$1.58	\$1.83	\$1.92	\$1.98
Potable Irrigation	\$1.98	\$2.38	\$2.84	\$2.98	\$3.07
Commercial	\$1.37	\$1.60	\$1.85	\$1.94	\$2.01

2. a. **Wholesale Water Supply Pass-through Rate.** In addition to the fixed rate established in subsection A and the City Distribution rate established in subsection B(1) above, every customer for which the City has issued a potable water meter shall also pay a pass-through rate for the cost of wholesale water based on potable water consumption. The consumption-based pass-through rate shall appear on billing statements as the "Water Supply Charge". The phrase "potable water consumption" shall mean all water which has passed through a City potable water meter. The pass-through rate imposes a uniform rate per unit of water, with one unit equal to one hundred cubic feet ("ccf") or 748 gallons of water. The pass-through rate is based on the City's current wholesale cost of purchased water supplies. The rate shall be established annually and calculated as follows:

$$Pass\ Through = \frac{Total\ Water\ Cost}{Forecasted\ Demand}$$

The 2018 pass-through rate is calculated with the above formula, and information from the City's Fiscal Year 2017-18 adopted budget. (Budgeted purchased water cost of \$8.1 million divided by forecasted demand of 6,957 acre feet, divided by 435 to convert to a uniform cost per unit). The pass-through rate effective January 1, 2018 is \$2.68.

- b. **Future Pass-through Adjustments.** The City shall pass-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 Water Supply rate. Any increase to the rates as a result of pass-through adjustments shall be imposed effective January 1, 2018, and each year thereafter; provided, however that in no

event will the rates be increased in any fiscal year as a result of Pass-through Adjustment by more than the cost of providing water service.

Pass-through adjustments will be calculated annually, following budget adoption by Council and shall use the total water cost and forecasted demand from the adopted budget to calculate the pass-through rates for the following calendar year.

C. **Variable Rate - Non-Potable Irrigation Water.** In addition to the fixed rates established in subsection A of this section, every owner of property for which the City has issued an irrigation water meter connected to the non-potable water system shall also pay a monthly non-potable irrigation water consumption rate as hereby established. "Non-potable irrigation water consumption" shall mean all water which has flowed through a City non-potable irrigation water meter. The non-potable irrigation water consumption rate shall be based upon the "per unit" cost of non-potable water as multiplied by the quantity of non-potable water consumed. By way of example, if the *fixed rate* is sixty-nine dollars and seventy cents (\$69.70), the uniform *non-potable consumption* charge is two dollars and sixty-six cents (\$2.66) per unit, a non-potable irrigation account which uses one hundred (100) units of water during any billing cycle will have a water bill of three hundred and thirty-five dollars and seventy cents (\$335.70) (\$69.70 [fixed rate] + \$266.00 [100 units x \$2.66 per unit]).

**NON-POTABLE IRRIGATION**

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

D. **Annual Rate Review.** In order to adjust for increased or decreased costs associated with the operation of the City's water system, the City establishes an annual rate review in the manner described below. For purposes of this section, the phrase "operating position" shall mean Water Operating Fund operating revenues minus Water Operating Fund operating expenses.

Maximum Rates, as defined in subsections A, B(1) and C above, have been established for a five-year period. Each year, in conjunction with the City's Long Term Financial Planning process, the City shall forecast the operating position for the Water Operating Fund for a five-year period, based on known cost increases or decreases and estimates for unknown cost increases or decreases, using inflation factors derived from a credible third party economic forecasting source. Rate adjustments, established in subsections A, B(1), and C may be established at a lesser amount based on the annual rate review performed, provided the recommended rates achieve a neutral operating position over the forecast period.

SECTION 2. Section 13.04.220, subsection (E) shall be added to the San Clemente Municipal Code to read as follows:



E. **Demand Management Rate.** In addition to the fixed and consumption-based rates established in subsections A through D above, every owner of property for which the City has issued a water meter shall pay Demand Management rates during periods of decreased water demand, as declared by Council Resolution. The Demand Management Rate(s) will be added to customer bills when the water demand decreases by the percentages below from projected Fiscal Year End 2018 demand. The Demand Management Rates shall consist of a fixed rate, which shall apply when reductions exceed 10%, and an inclining variable rate, applied to all per unit water consumption. By way of example, if a decreased water demand of 20% is adopted by Resolution, then a single-family account, using 15 units of water per month, will see their bill increase by five dollars and twenty-four cents (\$5.24) (\$0.74 [fixed rate] and \$4.50 [15 units x \$0.30 per unit]). The Demand Management rates are established as follows:

**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

SECTION 3: If any provision of this Ordinance is determined to be void or invalid by any administrative or judicial tribunal, said provision shall be deemed severable and such invalidation shall not invalidate the entirety of this chapter or any other provision thereof.

SECTION 4. The City Clerk shall certify to the passage of this Ordinance and the same shall be noticed as required by law and shall take effect as provided by law.

APPROVED, ADOPTED and SIGNED this \_\_\_\_ day of \_\_\_\_\_, 2017.

ATTEST:

\_\_\_\_\_  
CITY CLERK of the City of  
San Clemente, California

\_\_\_\_\_  
MAYOR of the City of  
San Clemente, California

STATE OF CALIFORNIA                    }

COUNTY OF ORANGE ) ss  
CITY OF SAN CLEMENTE )

I, JOANNE BAADE, City Clerk of the City of San Clemente, California, hereby certify that Ordinance No. \_\_\_\_\_, having been regularly introduced at the meeting of \_\_\_\_\_, 2017, the reading in full thereof unanimously waived, and duly passed and adopted at a regular meeting of the City Council held on the \_\_\_\_\_ day of \_\_\_\_\_, 2017, by the following vote:

AYES:

NOES:

ABSENT:

IN WITNESS WHEREOF, I have hereunto set my hand and affixed the official seal of the City of San Clemente, California, this \_\_\_\_\_ day of \_\_\_\_\_, 2017

\_\_\_\_\_  
CITY CLERK of the City of  
San Clemente, California

APPROVED AS TO FORM:

\_\_\_\_\_  
City Attorney



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 (1) eliminating seasonal rates and transitioning single-family residential (SFR), multi-family residential (MFR), and potable irrigation water customers from a three tier to a uniform rate structure; and (2) continuing 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. Provided, however, that in no event will the 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:

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

**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>
<b>Single-Family Residential</b>						
[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
<b>SFR Uniform Rate [A] + [B]</b>	N/A	\$4.17	\$4.42	\$4.69	\$4.79	\$4.85
<b>Multi-Family Residential</b>						
[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
<b>MFR Uniform Rate [A] + [B]</b>	N/A	\$4.04	\$4.26	\$4.51	\$4.60	\$4.66
<b>Potable Irrigation</b>						
[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
<b>Irrigation Uniform Rate [A] + [B]</b>	N/A	\$4.66	\$5.06	\$5.52	\$5.66	\$5.75
<b>Commercial</b>						
[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
<b>Commercial Uniform Rate [A] + [B]</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.

<b>PROPOSED DEMAND MANAGEMENT RATES</b> <i>(FIXED AND VARIABLE RATE SURCHARGES)</i>			
	<u>5-10%</u> <u>Reduction</u>	<u>11-20%</u> <u>Reduction</u>	<u>Greater</u> <u>than 20%</u> <u>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 rate increase, the City's recycled water system will be operating 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 increases 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**

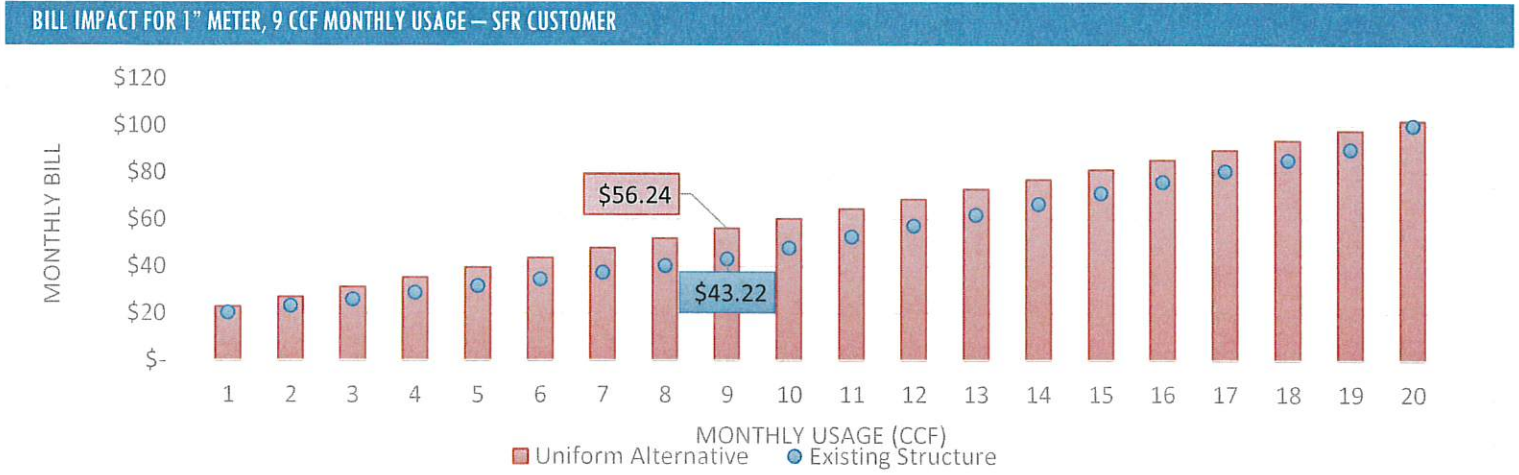
All rates at per CCF (hundred cubic feet; 1 CCF = 748 gallons)

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

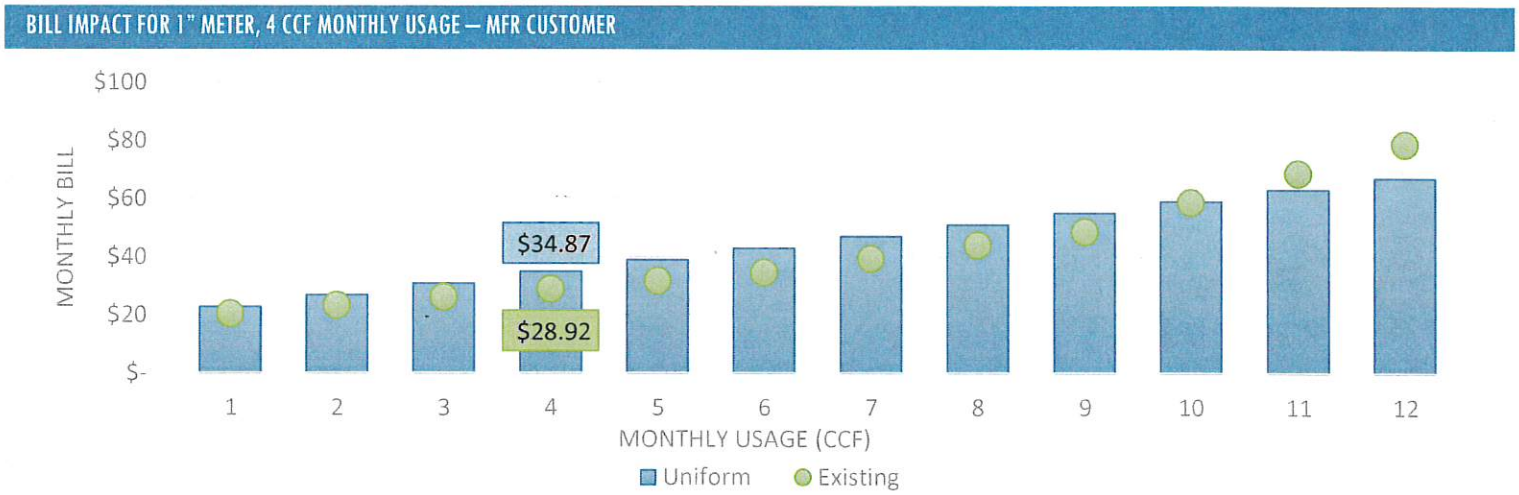
***Impact on your Bill***

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.

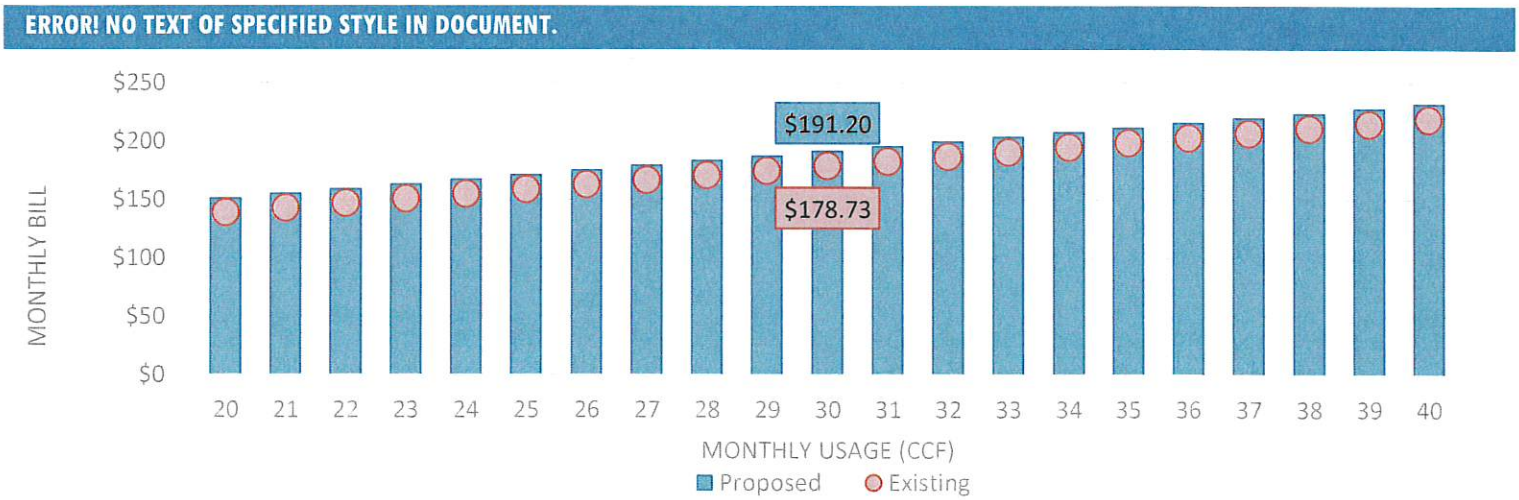
The following figure illustrates the expected water bill impact for an **SFR customer** with a **1-inch meter** and **9 CCF** monthly usage with a wholesale water supply pass-through charge of \$2.68 per CCF (and excluding the Demand Management Rate). Approximately 30 percent of customers use over 9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



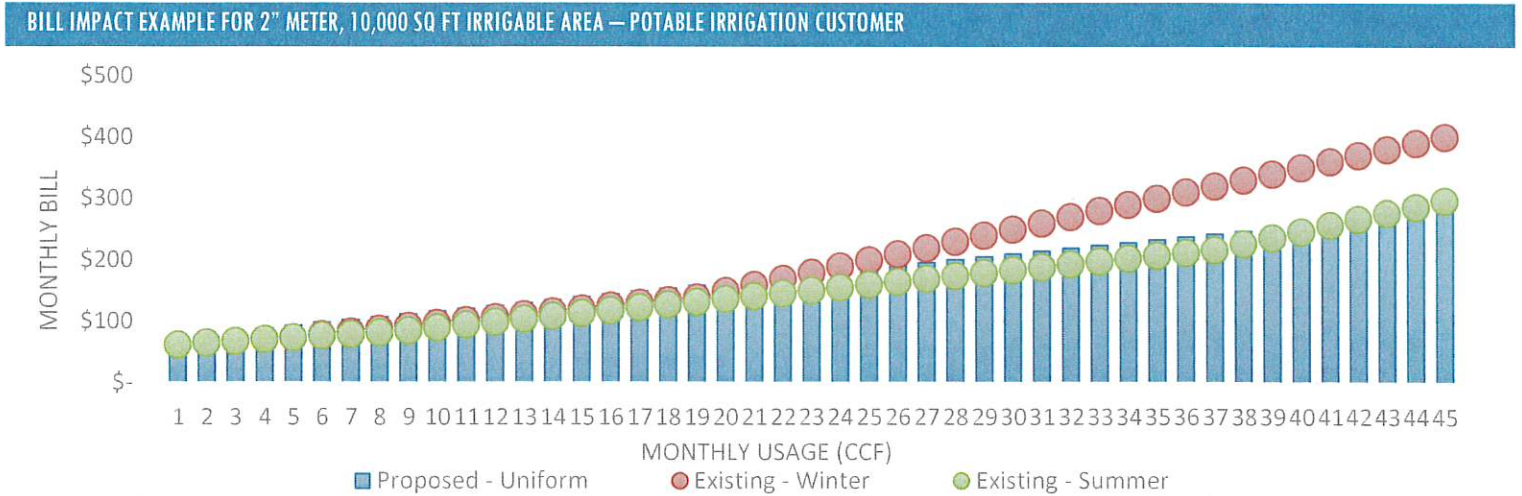
The following figure illustrates the expected water bill impact for a **Multi-Family Residential customer** with a 1-inch meter and 4 CCF monthly usage.



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 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, 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, **“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 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.