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| Agenda Item |  |
| ***Approvals:*** |  |
| City Manager |  |
| Dept. Head |  |
| Attorney |  |
| Finance | ­ |

AGENDAREPORT

SANCLEMENTECITYCOUNCILMEETING

Meeting Date: November 7, 2017

***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 22nd, 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 1st, 2018 and adjusts annually thereafter through January 1, 2022. Rate adjustments for 2019 through 2022 may be at a lessor 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 22nd, 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 7th public hearing, and published in the Sun Post News on October 27th, 2017 and November 3rd, 2017.