



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

**Hearing Date & Time: June 12, 2012 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 the City will hold a public hearing on June 12, 2012, to consider changes to its current water and sewer rates.

***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.

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?***

The City recently completed a comprehensive Cost-of-Service analysis. This analysis examined the cost to provide water and sewer services with the objective of striking a better balance between fixed and variable revenues while continuing to promote a fair and equitable rate structure for utility customers. 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 classes. The Cost-of-Service Report will be available on the City's web site (<http://san-clemente.org>) and at the City Clerk's office (100 Ave. Presidio) as of May 10, 2012.

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 Metropolitan Water District's forecast. The City has three sources of water; groundwater, purchased water, and recycled water production. Approximately 85% of the City's water is purchased from the Metropolitan Water district. Current rates are not sufficient to cover expenses. Negative operating positions (expenses exceed revenues) currently exist in both the water and sewer funds. The model projects continued negative operating positions without additional rate increases.

To meet the increasing costs of providing water and sewer services, the monthly fixed charges and commodity rates for both water and sewer need to be increased. In addition, several other structural changes are being recommended, including a revision to the winter and summer season definitions and the tier allocations for water. The tier allocation modifications are recommended to calculate a consistent amount of water for each tier level while the season adjustments will better correlate water allocations with the historical weather data for Orange County. Proposed Water and Sewer rate adjustments will be presented separately below.

***New water rates***

The City has applied a uniform percentage increase to the fixed meter charge and tier rates for the past six years, as presented in the following chart. The average increase over the past six years is 10.3%, while the average increase for last three years is 13.6%.

2006	2007	2008	2009	2010	2011
5.7%	5.7%	9.2%	15.7%	12.6%	12.6%

The City is recommending an average rate increase of 7% in 2012 based on results of the financial model developed as part of the Cost-of-Service analysis. The City is not proposing a uniform rate increase in 2012. Under this proposal, fixed meter charges are being increased an average of 17%. Tier rates will be adjusted based on the following assumptions:

- Tier I rates will reflect the average cost of groundwater and purchased water (imported water),
- Tier II rates will reflect the cost of imported water, purchased from Metropolitan Water District, and
- Tier III rates will reflect the cost of purchased water and the marginal cost of additional water supplies, including the conservation program and other costs associated with water supply expansion.

This proposal will result in a shift of revenue recovery to the more stable monthly fixed meter charges, which is more in line with the City's fixed cost structure. Tier rate modifications will minimize the impact of this shift by reducing the Tier 1 rate. Tier 2 rates will increase by 7.5%, the purchased water rate increase projected by Metropolitan Water District.

**Fixed meter charges**

The fixed portion of the City's monthly revenue, derived from the monthly meter charge, represents only 22% 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, the fixed meter charges will be increased by an average of 17%. This will shift more revenue recovery to the monthly meter charge and help stabilize the water utility operating revenues, which have been volatile in the past. This will help to better align the City's revenue recovery with its existing cost structure.

**Tiered water commodity charges**

Variable costs, which include the purchases of water from the Metropolitan Water District, 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 78% of total revenues. Thus, a disproportionate amount of revenue recovery has been dependent upon water consumption revenues. To enhance future revenue stability and financial sufficiency, the proposed rate structure will increase the monthly fixed meter charge, as presented above, and modify the Tier 1 rate to provide affordability for essential use, while increasing Tier 2 rates to meet the increasing costs of purchased water. Table 2 presents the existing and proposed Tier rate structure.

**Tier definitions**

The Cost-of-Service analysis examined the tier allocations for residential classifications to determine if the number of units allocated at each tier level was appropriate. The Tier 1 allocation for residential customers is intended for essential "inside the home use". Inside the home consumption should be relatively constant throughout the year, while irrigation, or "outside the home use", is more seasonal in nature. Tier 2 allocations are intended for irrigation purposes. The tier levels were compared to industry standards, assuming an average household of 4 people, a standard residential size lot irrigating 2,600 square feet, and the average large size lot irrigating 5,000 square feet.

The results indicated that the existing tier allocations are not consistent with industry standards and modifications to the tier definitions are recommended. The proposed tier allocations are presented in Table 3, reflecting a constant allocation of water year round in Tier 1 and winter and summer allocations for Tier 2 based on standardized irrigable areas for the standard and large lot classifications.

Tier allocations were also examined for irrigation accounts. Like residential classifications, the existing tier allocations are not consistent with industry standards and modifications to the tier definitions are recommended. The proposed tier allocations for irrigation accounts are presented in Table 4.

**Season definitions**

The study examined the historical monthly weather conditions, measured by evaporation and transpiration (ET<sub>o</sub>) levels in Orange County. ET<sub>o</sub> measures the amount of water evaporating from plants on a monthly basis, which provides a method to calculate the amount of water necessary for irrigation needs. Using a twenty-year historical average, the analysis compared the City's current winter and summer definitions to the monthly weather conditions in Orange County. The analysis found that the current season definitions do not align with the historical ET<sub>o</sub> averages and recommended modifying the season definitions to provide the appropriate water allocation based on efficient irrigate needs. For further information, please refer to the Cost-of-Service Report. Table 5 presents the existing and proposed season definitions.

**New sewer rates**

The City has applied a uniform percentage increase to the sewer fixed meter charge and commodity rates for the past six years, as presented in the following chart. The average increase over the past six years has been 5.3%, with the last three year average increase of 4.4%.

2006	2007	2008	2009	2010	2011
6.8%	6.8%	5.3%	3.9%	3.2%	6.0%

The City is proposing an 8.0% uniform rate increase to the monthly fixed meter charge and sewer commodity charges for 2012. A complete review of all operating expenses was conducted as part of the 2012 budget process. Unfortunately, operating expenses, which include maintenance, electricity, chemicals, and landfill fees, continue to rise. Recently, fuel expenses have also increased dramatically. The Sewer Operating fund has continued to struggle with generating adequate revenues to offset expenses and higher rate increases have been necessary to achieve a neutral operating position, where revenues equal expenses. Tables 6 and 7 below present the existing and proposed fixed meter and commodity charge modifications.

**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 \$44.67 to \$47.22, a 5.7% increase. The sewer bill will increase from \$34.52 to \$37.26, an 8.0% increase. The combined water and sewer bill will increase from \$79.19 to \$84.48, a 6.7% increase.

The water bill for a typical commercial account, which uses 40 units of water per month, will increase from \$168.88 to \$180.74, a 7.0% increase. The sewer bill will increase from \$191.55 to \$206.85, an 8.0% increase. The combined water and sewer bill will increase from \$360.43 to \$387.59, a 7.5% 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, include your name, the address of the impacted property (or APN number) and your signature. Written protests are accepted by mail to the City Clerk or in person at the public hearing on the date and time specified above.

## TABLES

### Water

**Table 1  
Meter Charges**

Meter Size	Existing Fixed Fee	Proposed Fixed Fee
1"	\$12.30	\$14.40
1 ½"	\$27.63	\$32.36
2"	\$41.28	\$48.34
3"	\$80.23	\$93.95
4"	\$121.21	\$141.92
6"	\$232.59	\$272.32

**Table 2  
Water Consumption Charges**

Tier	Existing rate Per unit*	Proposed rate Per unit*
1	\$2.40	\$2.36
2	\$3.59	\$3.86
3	\$8.35	\$8.30
Commercial	\$3.19	\$3.31

\*One unit of water represents 748 gallons

**Table 3 – Tier Allocations – Residential**

	Single Family – Standard Lot (irrigation area = 2,600 sq. ft)		Single Family – Large Lot (irrigation area = 5,000 sq. ft)	
	Winter	Summer	Winter	summer
<b>Current Tiers</b>				
<b>Tier 1</b>	0-9	0-13	0-11	0-17
<b>Tier 2</b>	10-15	14-21	12-17	18-31
<b>Tier 3</b>	>15	>21	>17	>31
<b>Proposed Tiers</b>				
<b>Tier 1</b>	0-9	0-9	0-9	0-9
<b>Tier 2</b>	10-14	10-19	10-19	10-28
<b>Tier 3</b>	>14	>19	>19	>28

Allocations are based on "units". By example, Tier 1 allocates up to 9 units of water per month

**Table 4 – Tier Allocations – Irrigation**

	Irrigation Accounts (per 100 sq. ft of irrigated area)	
	Winter	Summer
<b>Current Tiers</b>		
<b>Tier 1</b>	<b>0.0714</b>	<b>0.143</b>
<b>Tier 2</b>	<b>0.143</b>	<b>0.357</b>
<b>Tier 3</b>	<b>above Tier 2</b>	<b>above Tier 2</b>
<b>Proposed Tiers</b>		
<b>Tier 1</b>	<b>0.0463</b>	<b>0.0918</b>
<b>Tier 2</b>	<b>0.1853</b>	<b>0.3673</b>
<b>Tier 3</b>	<b>above Tier 2</b>	<b>above Tier 2</b>

Allocations are based on the irrigable area measured per 100 sq. ft.

**Table 5 – Season Definitions**

Seasons	Winter	Summer
Current	Jan-April	May-Dec
Proposed	Oct-Mar	April-Sept

## Sewer

**Table 6  
Meter Charges - Sewer**

Meter Size (inches)	Existing Meter Charge (\$/month)	Proposed Meter Charge (\$/month)
1"	\$20.80	\$22.47
1 ½"	\$68.61	\$74.10
2"	\$110.19	\$119.01
3"	\$228.71	\$247.01
4"	\$353.45	\$381.73
6"	\$692.34	\$747.73

**Table 7  
Sewer Commodity charges**

Customer Class	Existing Commodity Charge (\$ per unit)	Proposed Commodity charge (\$ per unit)
Residential(SF, MF, MH)	\$1.27	\$1.37
School	\$1.73	\$1.87
Place of religious gatherings	\$1.73	\$1.87
Low strength commercial	\$1.73	\$1.87
Medium strength commercial	\$2.26	\$2.44
Commercial/residential	\$2.29	\$2.47
Medium-high strength	\$4.00	\$4.32
High strength commercial	\$5.57	\$6.02