

NOTICE OF PUBLIC HEARING PROPOSED CHANGE IN WATER AND WASTEWATER RATES AND FEES

The City of Escondido (City) will conduct a public hearing on Wednesday, February 4, 2015 at 4:30 p.m. at 201 North Broadway, Escondido, California in the City Council Chambers to consider the adoption of changes in water rates, wastewater rates, and recycled water rates. The Council will also consider all written protests to these changes. *(Further details at the end of this notice)*

Background and General Information

To honor its commitment to long-term planning and appropriate infrastructure investment, the City annually evaluates its water, wastewater, and recycled water rates. This evaluation considers many factors that impact the cost of providing water and wastewater services. Among these factors are: the cost of imported water; requirements to maintain sufficient revenue to cover the City's water and wastewater debt service costs; the cost of operations, including employee and materials costs; the cost of future projects to maintain service reliability; and the cost of planned infrastructure maintenance and expansion. The City's Rate Study guides the completion of the rate evaluation.

The proposed changes to **water rates** in this notice apply to all customers who receive potable and recycled water service from the City of Escondido. These proposed water rate changes will not impact customers who receive potable and recycled water service from the Rincon del Diablo Municipal Water District. The proposed changes to **wastewater rates** in this notice apply to all customers within the City of Escondido served by its municipal wastewater system.

Rate Increases – A Means to Increase Revenue

Throughout this notice, the terms "Rate Increase" and "Revenue Increase" are used. While these terms may seem to be interchangeable, they are different in that many possible rate increase scenarios will generate the same revenue increase. For example, to achieve a *revenue* increase of 6%, the City Council could choose to increase all *rates* by 6%. However, the same revenue increase could be achieved by increasing fixed monthly charges by less than 6% and increasing variable volumetric charges (based on the amount of water delivered to the customer) by more than 6%. Any increase in rates must be consistent with the cost-of-service principles of Proposition 218.

At the hearing on February 4, Utilities Department staff will present proposals to the City Council for **two revenue increases: one to take effect on March 1, 2015 and another to take effect on March 1, 2016**. If the City Council approves any increases, the specific rate increases will be determined at the hearing. Staff will present several different options to the City Council concerning the rate increases and the City Council may choose, at its discretion, to enact increases that are smaller or larger than those recommended by staff. The City Council may also choose to enact no increase at all. In no case will the City Council enact rates that are greater than those detailed in the tables on the following pages. Proposed volumetric rates shown in the tables include percentage increases that are larger than the proposed revenue percentage increases. These rates will only be enacted if the Council chooses a scenario including smaller increases to fixed charges, thus resulting in the net proposed revenue increase.

One Department, Two Financial Funds – The Water and Wastewater Funds

Services provided by the City are funded by money collected from ratepayers for those services. **The Escondido Utilities Department (Water and Wastewater) receives no funding from property taxes.** Under California law, money collected from wastewater ratepayers may be used only to fund wastewater services and money collected from water ratepayers may be used only to fund water services. Transfer of money between these funds is prohibited except as payment for

services provided (for instance, potable water service at a wastewater treatment facility or as part of a loan that will be repaid over time with interest). Likewise, Utility Fund money may not be used to fund General Fund activities except as payment for services provided. Most City of Escondido Utility customers receive both water and wastewater services from the City, and therefore have separate line items on their bills for those services. However, some customers receive only water service from the City (for example, those who use septic systems) and some customers receive only wastewater service from the City (for example, those who receive their water service from the Rincon del Diablo Municipal Water District). For these reasons, it is important to consider separate rate increases – and the benefits and impacts of them – for each Fund.

Water Rates

The City has increased water rates annually since 2011. The last three rate increases – in 2012, 2013, and 2014 – raised revenues by 12% per year. Past rate increases were necessary in large part to insure that the Water Fund had sufficient revenue to honor its debt service obligations; to fund its Capital Improvement Program during the last five years; and to pay for large increases in the cost of imported water. **For 2015 and 2016, staff will propose two annual revenue increases of 5.5% for the Water Fund.** More information concerning the reasoning behind these increases can be found on the following page under *Reasons for Proposed Rate Increases*.

Wastewater Rates

The City increased wastewater rates in 2013 and 2014 by an average of 4% per year. Past rate increases were necessary primarily to insure that the Wastewater Fund had sufficient revenue to honor its debt service obligations; to fund its Capital Improvement Program; and to cover anticipated increases in chemical and sludge hauling costs. **For 2015 and 2016, staff will propose two annual revenue increases of 6.0% for the Wastewater Fund.** More information concerning the reasoning behind these increases can be found on the following page under *Reasons for Proposed Rate Increases*.

Recycled Water Rates

Presently, recycled water volume rates are 80% of the lowest potable water rate charged to Single-Family-Residential customers. The Utilities Department is embarking on an ambitious Recycled Water and Potable Reuse Program which will expand the recycled water distribution system over the next five years. Projected sales of recycled water will increase significantly as the recycled water system connects new customers, so staff will propose a **decrease** in recycled water rates when the first new customers are connected to the expanded system. This decrease will benefit ratepayers, and is possible because the Utilities Department will be able to take advantage of economies of scale (that is, more revenue due to larger volume, despite the smaller unit price) and incentive programs through the Metropolitan Water District for local water production. The City Council will consider authorizing the rate change to take effect on the date that service is available to new customers on the expanded system. The date that service to new customers will be available, and therefore the exact effective date of the new recycled water rate, is unknown.

Specific Water Rate Issues and Pass Through Costs

Volumetric (Water Use) Rate Increases for Imported Water

Historically, the City purchases about 75% of its water from the San Diego County Water Authority (SDCWA). The ongoing drought in California has reduced local water supply so that water imports via the SDCWA currently account for 95% of Escondido's water. The SDCWA purchases much of its water supply from the Metropolitan Water District (MWD). MWD imports water from two sources: the Colorado River via the Colorado River Aqueduct and Northern California via the California Aqueduct. Rainfall has been well below average since the winter of 2010-2011. Many reservoirs in the State Water Project and along the Colorado River are again near record-low levels. Projects meant to further secure our water supply – for instance through additional storage, more recycling, and local supply development – will be beneficial in the long term but will also apply upward pressure on water rates.

Metropolitan Water District – Readiness-to-Serve Charge (RTS)

The MWD Readiness-to-Serve charge is projected to increase from \$3.01 to \$3.10 per meter per month in 2015. This charge includes a “Delta Surcharge” to cover costs to obtain water lost to environmental restrictions on the Sacramento

River Delta. Since 2009, the City of Escondido has passed through increases in the Readiness-to-Serve charge. At the rate hearing, the Council will consider extending this pass-through for an additional 5 years. Annual changes are effective July 1 of each year.

San Diego County Water Authority - Infrastructure Access Charge (IAC)

The SDCWA Infrastructure Access Charge is scheduled to increase from \$2.68 to \$2.76 per meter per month in 2015. Since 2009, the City of Escondido has passed through increases in the Infrastructure Access Charge. At the rate hearing, the Council will consider extending this pass-through for an additional 5 years. Annual changes are effective January 1 of each year.

Increased Cost of Water Purchases from the SDCWA – Carlsbad Desalination Plant

Staff will propose a pass-through rate increase to cover the higher cost of imported water when the Carlsbad Desalination Plant begins operation. The exact date of plant operation and water delivery is unknown, though it is anticipated to occur in 2016. If the City Council approves this pass-through rate increase, customers will be notified by regular mail at least 30 days prior to the first annual increase taking effect. This new, proposed automatic pass-through increase would be effective for a five-year period at which time it would end, unless renewed by the City Council. The SDCWA may increase both fixed costs (for instance, the Infrastructure Access Charge) and supply charges which are based on the volume of water purchased. Staff will recommend continuation of the policy to pass-through Infrastructure Access Charges and staff will recommend increasing volumetric rates (where use is measured in thousands of gallons) charged to Escondido customers by the same percentage that the SDCWA increases its supply charge.

Reasons for Proposed Rate Increases

Many factors drive Utility rate increases. The proposed rate increases for 2015 and 2016 will provide necessary funds to:

WATER FUND

- Pay the increasing cost of imported water; increase the volume of imports (that is, more gallons imported due to dwindling local supply); and pay costs associated with SDCWA commitments to purchase water from the Carlsbad Desalination Plant;
- Continue building Capital Improvement Program (CIP) reserves to fund future water tank replacement, rehabilitation, and removal projects;
- Continue the repair and replacement program for at-risk water mains throughout the City;
- Cover increasing costs of chemicals, replacement equipment, and materials used for treating potable water.

WASTEWATER FUND

- Continue building CIP reserves to fund projects as part of the ongoing Recycled Water and Potable Reuse Program;
- Continue the repair and replacement program for at-risk wastewater collection pipelines; replace pipelines to address capacity issues identified in the Wastewater Master Plan; and replace aging laboratory and plant equipment.

These activities and investments are designed to increase the reliability of water and wastewater services, meet and exceed public health standards and goals, address new regulations, and further improve financial health.

The Recycled Water and Potable Reuse Program is a long-term financial commitment that will require annual rate increases for many years to come. This Program was conceptually approved by the City Council on April 2, 2014. To cover the cost, Utilities staff will recommend a relatively small annual rate increase (2%), which is included in the maximum proposed wastewater rates in the tables that follow and the percentage revenue increases described in previous paragraphs. These smaller annual increases will allow rate payers to avoid larger rate increases (over 20%) in the early 2020s. Council will only consider approval of increases associated with the Program for 2015 and 2016 during this rate hearing. Future increases will be considered at rate hearings in 2017 and beyond.

Proposed Rate Schedule

The rates in the following tables represent the maximum rate increase options to be presented to the City Council for its consideration. **The proposed annual revenue increases are 5.5% for Water and 6.0% for Wastewater.** Some rates shown below reflect larger increases because Council will be presented with options that will increase volume rates by larger percentages and fixed monthly charges by lower percentages. The Council may – at its discretion – develop other options for water and wastewater rates at the hearing. In no case will rates be adopted that increase projected revenue by more than 5.5% for Water and 6% for Wastewater. In addition to the proposed rates listed below, the automatic pass-through adjustments described above will be applied if approved by Council.

Proposed Volumetric Rates for Potable Water (rate per 1,000 gallons)

		Current Rate	As of March 1, 2015	As of March 1, 2016
WATER RATES	1,000 gal			
Single Family Residential				
Tier 1	0 to 7	\$4.79	\$5.17	\$5.59
Tier 2	7 to 15	\$6.18	\$6.67	\$7.21
Tier 3	15 +	\$7.86	\$8.49	\$9.17
Residential/Agricultural Use				
Tier 1	0 to 7	\$4.79	\$5.17	\$5.59
Tier 2	7 +	\$6.29	\$6.79	\$7.34
Multi-Family Residential				
Tier 1	0 to 5	\$4.79	\$5.17	\$5.59
Tier 2	5 to 7	\$6.19	\$6.69	\$7.22
Tier 3	7 +	\$7.84	\$8.47	\$9.14
Commercial, Industrial & School		\$5.98	\$6.46	\$6.98
Irrigation - Institutional		\$6.45	\$6.97	\$7.52
Landscape Districts		\$6.45	\$6.97	\$7.52
Wild Animal Park		\$5.98	\$6.46	\$6.98
Special Unfiltered		\$3.70	\$4.00	\$4.32
Agricultural Use		\$3.31	\$3.57	\$3.86

Proposed Monthly Water Availability Charge

	Current Rate	As of March 1, 2015	As of March 1, 2016
5/8" and 3/4"	\$27.05	\$28.54	\$30.11
1"	\$42.51	\$44.85	\$47.31
1 1/2"	\$81.15	\$85.61	\$90.32
2"	\$127.49	\$134.50	\$141.90
3"	\$274.29	\$289.38	\$305.29
4"	\$490.61	\$517.59	\$546.06
6"	\$1,085.52	\$1,145.22	\$1,208.21
8"	\$1,858.11	\$1,960.31	\$2,068.12
3/4" x 3"	\$384.00	\$405.12	\$427.40
1" x 4"	\$583.32	\$615.40	\$649.25
1 1/2" x 6"	\$1,162.89	\$1,226.85	\$1,294.33
3/4" x 3" x 6"	\$1,162.89	\$1,226.85	\$1,294.33
1" x 4" x 8"	\$1,858.22	\$1,960.42	\$2,068.25
2" x 6"	\$1,162.89	\$1,226.85	\$1,294.33
2" x 8"	\$1,858.22	\$1,960.42	\$2,068.25
Detector Check	\$46.06	\$48.59	\$51.27

Proposed MWD Readiness-to-Serve Charge

	Current Rate	As of July 1, 2015	As of July 1, 2016
5/8" and 3/4"	\$3.01	\$3.10	\$3.19
1"	\$4.83	\$4.97	\$5.12
1 1/2"	\$9.35	\$9.63	\$9.92
2"	\$15.03	\$15.48	\$15.95
3"	\$29.64	\$30.53	\$31.45
4"	\$46.33	\$47.72	\$49.15
6"	\$92.24	\$95.01	\$97.86
8"	\$148.18	\$152.63	\$157.20
3/4" x 3"	\$30.99	\$31.92	\$32.88
1" x 4"	\$48.84	\$50.31	\$51.81
1 1/2" x 6"	\$97.67	\$100.60	\$103.62
3/4" x 3" x 6"	\$120.00	\$123.60	\$127.31
1" x 4" x 8"	\$191.27	\$197.01	\$202.92
2" x 6"	\$107.48	\$110.70	\$114.03
2" x 8"	\$149.22	\$153.70	\$158.31

Proposed CWA Infrastructure Access Charge

	Current Rate	As of January 1, 2015	As of January 1, 2016
5/8" and 3/4"	\$2.68	\$2.76	\$4.14
1"	\$4.29	\$4.42	\$6.63
1 1/2"	\$8.03	\$8.27	\$12.41
2"	\$13.92	\$14.34	\$21.51
3"	\$25.79	\$26.56	\$39.85
4"	\$44.00	\$45.32	\$67.98
6"	\$80.44	\$82.85	\$124.28
8"	\$139.21	\$143.39	\$215.08
3/4" x 3"	\$44.00	\$45.32	\$67.98
1" x 4"	\$66.99	\$69.00	\$103.50
1 1/2" x 6"	\$133.60	\$137.61	\$206.41
3/4" x 3" x 6"	\$133.60	\$137.61	\$206.41
1" x 4" x 8"	\$214.88	\$221.33	\$331.99
2" x 6"	\$133.60	\$137.61	\$206.41
2" x 8"	\$214.88	\$221.33	\$331.99

Proposed Monthly Wastewater Rates

Customer Class		Current Rate \$/1,000 gal.	As of March 1, 2015	As of March 1, 2016
	Unit			
FIXED MONTHLY (ALL CLASSES)		\$17.72/mo. (fixed)	\$18.78/mo. (fixed)	\$19.91/mo. (fixed)
Single Family Residential	per unit/mo.	\$3.42	\$3.69	\$3.99
Multi-Family Dwelling	per dwelling unit/mo.	\$2.84	\$3.07	\$3.31
Mobile Homes	Per mobile home/mo.	\$1.96	\$2.12	\$2.29
Car Wash/Soft Water Service	per acct/mo.	\$5.53	\$5.97	\$6.45
Hotel/Motel without dining	per acct/mo.	\$6.31	\$6.81	\$7.36
Hotel/Motel with dining	per acct/mo.	\$9.13	\$9.86	\$10.65
Repair Shop/Service Station	per acct/mo.	\$5.81	\$6.27	\$6.78
Commercial Laundry	per acct/mo.	\$6.55	\$7.07	\$7.64
Laundromats	per acct/mo.	\$5.76	\$6.22	\$6.72
Hospital	per acct/mo.	\$6.16	\$6.65	\$7.19
Grocery Store with Meat Dept.	per acct/mo.	\$9.93	\$10.72	\$11.58
Industrial	per acct/mo.	\$8.25	\$8.91	\$9.62
Restaurant	per acct/mo.	\$9.78	\$10.56	\$11.41
All Other Commercial	per acct/mo.	\$6.47	\$6.99	\$7.55
Discharges to Brine Line	per acct/mo.	\$0.80	\$0.85	\$0.93

Proposed Monthly Wastewater Rates

Customer Class		Per Unit Cost	As of March 1, 2015	As of March 1, 2016
	Unit	\$/unit		
Senior High Schools	per student/yr.	\$25.33	\$27.36	\$29.54
Elementary & Middle Schools	per student/yr.	\$16.89	\$18.24	\$19.70
Churches	per 100 seats/mo.	\$35.19	\$38.01	\$41.05

Proposed Monthly Wastewater Rates

Customer Class		Wastewater Flow	As of March 1, 2015	As of March 1, 2016
	Unit	\$/Unit		
Brewery - Flow	1,000 gal.	\$5.10	\$5.51	\$5.95
Brewery - BOD	lb.	\$0.39	\$0.42	\$0.45
Brewery - TSS	lb.	\$0.39	\$0.42	\$0.45

BOD = Biochemical oxygen demand

TSS = Total suspended solids

Proposed Volumetric Rates for Recycled Water

The recycled water monthly service charge is the same as the potable water monthly service charge. The volume rate is 80% of the lowest residential potable rate.

	Current Rate	As of March 1, 2015	As of March 1, 2016
Recycled Water Commodity Rate (\$/kgal)	\$3.85	\$3.85	\$3.85

Public Hearing

The City of Escondido will conduct a public hearing on Wednesday, February 4, 2015 at 4:30 p.m. at 201 North Broadway, Escondido, California 92025 in the City Council Chambers to consider the adoption of changes in water and wastewater rates, and all written protests.

Written Protests Accepted Prior to the Public Hearing

Protests must be submitted in writing to the City Clerk’s office by 5:30 p.m. on Tuesday, February 3, 2015, and will also be accepted at the Council Chambers at the public hearing. All written protests must be signed by the owner and contain a description of the property (address and/or Assessor Parcel Number). You may also fax your protests to 760-735-5782 or send your written protest to:

**City of Escondido
Office of the City Clerk
201 North Broadway
Escondido, CA 92025**

Important note: Please do not send protests by e-mail. They will not be accepted.

At the time of the public hearing, the City Council will receive a final tabulation of all written protests received by the City Clerk. The Council will then carefully consider the public input. The rate increase and future pass-through may be approved by the City Council unless a majority of customers file written protests.



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IMPORTANT INFORMATION ENCLOSED REGARDING YOUR WATER RATES