

NOTICE OF PUBLIC HEARING PROPOSED CHANGES IN WATER, WASTEWATER, AND RECYCLED WATER RATES AND FEES

The City of Escondido (City) will conduct a public hearing on Wednesday, February 1, 2017 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 about the protest process can be found at the end of this notice.)

At the hearing, Utilities staff will propose annual water and wastewater revenue increases of 5.5% for five years to take effect on March 1 of each year from 2017 through 2021. Utilities staff will not propose a recycled water rate increase and will give the City Council options that may decrease recycled water rates. Additionally, rate changes will be proposed to better align rates charged to individual customer classes with the cost to provide service to those customers, in accordance with provisions of Proposition 218.

Background and General Information

The City annually evaluates its water, wastewater, and recycled water rates to insure that its revenues are sufficient to honor its commitment to long-term planning and appropriate infrastructure investment. 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 5.5%, the City Council could choose to increase all *rates* by 5.5%. However, the same revenue increase could be achieved by increasing fixed monthly charges by less than 5.5% and increasing variable volumetric charges (based on the amount of water delivered to the customer) by more than 5.5%. Any increase in rates must be consistent with the cost-of-service principles of Proposition 218.

At the hearing on February 1, Utilities Department staff will present proposals to the City Council for annual rate increases to take effect on March 1 in each of the five years from 2017 through 2021. 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.

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. Rate increases in 2012, 2013, and 2014 raised revenues by 12% each year. Rate increases in 2015 and 2016 raised revenues by 5.5% each 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; and to pay for large increases in the cost of imported water. **For 2017 through 2021, staff will propose annual revenue increases of 5.5% for the Water Fund.** More information concerning the reasoning behind these increases can be found on page 4 under *Reasons for Proposed Rate Increases*.

Wastewater Rates

The City increased wastewater rates in 2013 and 2014 by an average of 4% per year. Rate increases in 2015 and 2016 raised revenues by 6% each 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 2017 through 2021, staff will propose annual revenue increases of 5.5% for the Wastewater Fund.** More information concerning the reasoning behind these increases can be found on page 4 under *Reasons for Proposed Rate Increases*.

Recycled Water Rates

Presently, recycled water volume rates are 72% 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, with most new recycled water deliveries going to commercial agricultural customers. Staff will not propose a recycled water rate increase and will give the City Council options that may decrease recycled water rates. Recycled water rates may decrease because the recycled water system expansion is driven by two main factors: (1) the need for new, reliable, local water supply; and (2) the need to discharge less treated wastewater from the City's wastewater treatment plant to the ocean due to capacity constraints in the treated wastewater outfall. Thus, **the cost of the expansion could be borne by two sets of ratepayers: the new recycled water customers and the wastewater customers.** Wastewater ratepayers will benefit from the recycled water expansion because the expansion will allow these ratepayers to avoid the cost of expanding capacity in the HARRF's outfall pipeline. The cost of this expansion is projected to be in excess of \$500 million, not including environmental mitigation costs, and will not generate any future revenue. In contrast, the recycled water

expansion is projected to cost about \$280 million to construct and will generate revenue via water sales and avoided cost from reduced water imports. 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 remain at levels well below average. 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 increase of the MWD Readiness-to-Serve charge in 2017 is unknown at this time. The RTS charge decreased in 2016. If this charge increases in 2017, the increase should be no more than a few cents per meter per month. 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 changes in the Readiness-to-Serve charge. In 2015, the City Council extended this pass-through for five years, with possible increases taking effect each year through 2019. At the rate hearing, the Council will consider extending this pass-through for an additional 2 years, making increases to this charge possible through 2021. Annual changes are effective July 1 of each year.

San Diego County Water Authority - Infrastructure Access Charge (IAC) and Supply Reliability Charge (SRC)

The SDCWA Infrastructure Access Charge is scheduled to increase from \$2.76 to \$2.87 per meter per month in 2017. Since 2009, the City of Escondido has passed through increases in the Infrastructure Access Charge. In 2015, the City Council extended this pass-through for five years, with possible increases taking effect each year through 2019. In 2016, the CWA introduced the Supply Reliability Charge (SRC). At the rate hearing, the Council will consider pass-through of the IAC for an additional 2 years, making increases to this charge possible through 2021. The City Council will also consider pass-through of the SRC through 2021. In 2016, the SRC was \$2.33 per meter per month, but was not included on customer bills. Annual changes are effective January 1 of each year.

Increased Cost of Water Purchases from the SDCWA

Staff will propose a pass-through rate increase to cover the higher cost of imported water. Over the last five years, imported water costs have risen from \$997 per acre-foot to \$1,181 per acre-foot. In the past, the City of Escondido has absorbed these increases until the next scheduled rate hearing, sometimes more than one year later. Utilities staff will propose that any future SDCWA imported water volume rate increases will be passed-through to customers automatically when the new SDCWA rate takes effect and with at least 30-day public notice. 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 a per meter charge), and volumetric charges. Staff will recommend continuation of the policy to pass-through increases in fixed charges, and staff will recommend pass-through of increases in volumetric rates charged by the SDCWA. The exact amount of future pass-through of rate increases for volumetric charges is not known because these rates must be determined after future SDCWA rate increases take effect.

Reasons for Proposed Rate Increases

Many factors drive Utility rate increases. The proposed rate increases over the next five years will provide necessary funds to:

WATER FUND

- Increase the volume of imports (that is, more gallons imported due to dwindling local supply);
- Continue building Capital Improvement Program (CIP) reserves to fund future water tank replacement, water treatment plant rehabilitation, and aging tank removal projects;
- Construct a new Wohlford Dam to replace the existing dam;
- Provide funds to replace portions of the Escondido Canal running through the San Pasqual Indian Reservation with an underground pipeline;
- 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;
- Construct additional treatment processes at the Hale Avenue Resource Recovery Facility, including new secondary treatment capacity, recycled water filters, disinfection treatment, sludge digester replacement, and recycled water pump station improvements;
- Construct recycled water distribution expansion projects, including several miles of additional distribution mains; an MFRO treatment facility for recycled water; a recycled water storage tank; an emergency storage tank for use during extreme rain events; and smaller diameter recycled water distribution projects;
- 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.

Proposed Rate Increases

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 5.5% for Wastewater. Some rates shown below reflect larger increases because the City 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 5.5% for Wastewater.

In addition to the proposed rates listed on the following pages, the automatic pass-through adjustments described above will be applied if approved by Council. If the SDCWA increases the volumetric rate it charges for water imports to Escondido, the additional pass-through charge would further increase the volumetric rates above the rates approved by the City Council. Pass-through charges, if necessary, will be applied pursuant to Gov Code Sec. 53756 and customers would be notified at least 30 days before any pass-through rate increases would take effect.

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

		Current Rate	As of March 1, 2017	As of March 1, 2018	As of March 1, 2019	As of March 1, 2020	As of March 1, 2021
WATER RATES	1,000 gal						
Single Family Residential							
Tier 1	0 to 7	\$5.33	\$5.61	\$5.91	\$6.22	\$6.57	\$6.94
Tier 2	7 to 15	\$6.88	\$7.30	\$7.78	\$8.26	\$8.72	\$9.20
Tier 3	15 +	\$8.75	\$8.98	\$9.22	\$9.47	\$10.00	\$10.55
Residential/Agricultural Use							
Tier 1	0 to 7	\$5.33	\$5.56	\$5.81	\$6.07	\$6.41	\$6.77
Tier 2	7 +	\$7.00	\$7.45	\$7.96	\$8.47	\$8.94	\$9.44
Multi-Family Residential							
Tier 1	0 to 5	\$5.33	\$5.58	\$5.86	\$6.15	\$6.49	\$6.85
Tier 2	5 to 7	\$6.89	\$7.21	\$7.55	\$7.91	\$8.35	\$8.81
Tier 3	7 +	\$8.73	\$8.78	\$8.79	\$8.82	\$9.31	\$9.83
Commercial, Industrial & School		\$6.66	\$6.98	\$7.33	\$7.69	\$8.12	\$8.57
Irrigation & LMD		\$7.18	\$7.48	\$7.80	\$8.13	\$8.58	\$9.06
SD Zoo Safari Park		\$6.66	\$7.18	\$7.77	\$8.37	\$8.84	\$9.33
Special Unfiltered		\$4.12	\$4.90	\$5.81	\$6.73	\$7.11	\$7.51
Agricultural Use		\$3.31	\$3.64	\$4.02	\$4.40	\$4.65	\$4.91

LMD = Landscape maintenance district

Proposed Monthly Water Availability Charge

	Current Rate	As of March 1, 2017	As of March 1, 2018	As of March 1, 2019	As of March 1, 2020	As of March 1, 2021
5/8" and 3/4"	\$30.11	\$33.48	\$36.50	\$39.94	\$43.65	\$47.64
1"	\$47.31	\$52.47	\$57.20	\$62.59	\$68.40	\$74.66
1 1/2"	\$90.32	\$99.54	\$108.51	\$118.72	\$129.73	\$141.59
2"	\$141.90	\$156.24	\$170.31	\$186.34	\$203.61	\$222.22
3"	\$305.29	\$335.98	\$366.23	\$400.69	\$437.83	\$477.84
4"	\$546.06	\$600.50	\$654.57	\$716.15	\$782.53	\$854.04
6"	\$1,208.21	\$1,328.26	\$1,447.85	\$1,584.06	\$1,730.87	\$1,889.04
8"	\$2,068.12	\$2,273.20	\$2,477.87	\$2,710.98	\$2,962.23	\$3,232.92
3/4" x 3"	\$427.40	\$412.60	\$404.54	\$400.69	\$437.83	\$477.84
1" x 4"	\$649.25	\$656.81	\$682.72	\$716.15	\$782.53	\$854.04
1 1/2" x 6"	\$1,294.33	\$1,353.10	\$1,460.27	\$1,584.06	\$1,730.87	\$1,889.04
3/4" x 3" x 6"	\$1,294.33	\$1,353.10	\$1,460.27	\$1,584.06	\$1,730.87	\$1,889.04
1" x 4" x 8"	\$2,068.25	\$2,273.20	\$2,477.87	\$2,710.98	\$2,962.23	\$3,232.92
2" x 6"	\$1,294.33	\$1,353.10	\$1,460.27	\$1,584.06	\$1,730.87	\$1,889.04
2" x 8"	\$2,068.25	\$2,273.20	\$2,477.87	\$2,710.98	\$2,962.23	\$3,232.92

Proposed Monthly Wastewater Rates

Customer Class		Current Rate \$/1,000 gal.	As of March 1, 2017	As of March 1, 2018	As of March 1, 2019	As of March 1, 2020	As of March 1, 2021
	Unit						
FIXED MONTHLY (ALL CLASSES)		\$19.91/mo. (fixed)	\$20.91/mo. (fixed)	\$22.09/mo. (fixed)	\$23.27/mo. (fixed)	\$24.55/mo. (fixed)	\$25.90/mo. (fixed)
Single Family Residential	per unit/mo.	\$3.84	\$4.08	\$4.35	\$4.62	\$4.87	\$5.14
Multi-Family Dwelling	per dwelling unit/mo.	\$3.19	\$3.37	\$3.57	\$3.77	\$3.98	\$4.20
Mobile Homes	Per mobile home/mo.	\$2.20	\$2.24	\$2.27	\$2.32	\$2.44	\$2.58
Car Wash/Soft Water Service	per acct/mo.	\$6.21	\$6.41	\$6.60	\$6.81	\$7.19	\$7.58
Hotel/Motel without dining	per acct/mo.	\$7.09	\$7.42	\$7.76	\$8.13	\$8.57	\$9.04
Hotel/Motel with dining	per acct/mo.	\$10.26	\$10.73	\$11.23	\$11.75	\$12.39	\$13.08
Repair Shop/Service Station	per acct/mo.	\$6.53	\$6.73	\$6.93	\$7.15	\$7.55	\$7.96
Commercial Laundry	per acct/mo.	\$7.36	\$7.66	\$7.96	\$8.29	\$8.74	\$9.22
Laundromats	per acct/mo.	\$6.47	\$6.73	\$7.00	\$7.28	\$7.68	\$8.11
Hospital	per acct/mo.	\$6.92	\$7.21	\$7.51	\$7.83	\$8.26	\$8.71
Grocery Store with Meat Dept.	per acct/mo.	\$11.16	\$11.95	\$12.80	\$13.69	\$14.44	\$15.24
Industrial	per acct/mo.	\$9.27	\$9.83	\$10.43	\$11.06	\$11.67	\$12.31
Restaurant	per acct/mo.	\$10.99	\$11.78	\$12.63	\$13.52	\$14.26	\$15.04
All Other Commercial	per acct/mo.	\$7.27	\$7.59	\$7.92	\$8.27	\$8.73	\$9.21
Discharges to Brine Line	per acct/mo.	\$0.90	\$0.86	\$0.81	\$0.77	\$0.81	\$0.85

Proposed Monthly Wastewater Rates

Customer Class		Per Unit Cost	As of March 1, 2017	As of March 1, 2018	As of March 1, 2019	As of March 1, 2020	As of March 1, 2021
	Unit	\$/unit					
Senior High Schools	per student/yr.	\$28.46	\$29.67	\$30.92	\$32.24	\$34.02	\$35.89
Elementary & Middle	per student/yr.	\$18.98	\$19.79	\$20.61	\$21.49	\$22.67	\$23.92
Churches	per 100 seats/mo.	\$39.54	\$41.22	\$42.94	\$44.78	\$47.24	\$49.84

Proposed Monthly Wastewater Rates

Customer Class		Wastewater Flow	As of March 1, 2017	As of March 1, 2018	As of March 1, 2019	As of March 1, 2020	As of March 1, 2021
	Unit	\$/Unit					
Brewery - Flow	1,000 gal.	\$5.73	\$5.57	\$5.87	\$6.20	\$6.54	\$6.90
Brewery - BOD	lb.	\$0.44	\$0.54	\$0.56	\$0.60	\$0.63	\$0.67
Brewery - TSS	lb.	\$0.44	\$0.51	\$0.53	\$0.57	\$0.60	\$0.63

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 volumetric rates below reflect the maximum rates that the City Council may approve at the hearing. Utilities staff will make recommendations that include significant reductions of the volumetric rate of up to 25%.

Recycled Water Volumetric Rate (\$/kgal)	Current Rate	As of March 1, 2017	As of March 1, 2018	As of March 1, 2019	As of March 1, 2020	As of March 1, 2021
	\$3.85	\$3.85	\$3.85	\$3.85	\$3.85	\$3.85

Public Hearing

The City of Escondido will conduct a public hearing on Wednesday, February 1, 2017 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, wastewater, and recycled water 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, January 31, 2017, or may be submitted at the public hearing on February 1, 2017. All written protests must be signed by the owner or tenant 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 increases and future pass-through adjustments 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