



THE CITY OF SAN DIEGO

Notice of Public Hearing for Proposed Water Rate Increases

The San Diego City Council will hold a public hearing to consider proposed water rate increases. Interested parties are invited to attend. Read inside to learn more.

November 17, 2015
10:00 a.m.

City Administration Building
202 "C" Street, 12th Floor
Council Chambers

Information Inside
Rate Increases
for Proposed Water
Notice of Public Hearing

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ay matatagpuan din sa
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San Diego, California 92101
202 C Street, MS 2P

THE CITY OF SAN DIEGO



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The San Diego City Council will hold a public hearing to consider proposed increases to water, fire and recycled water rates. The public hearing will be conducted at the time, date and location specified to consider possible adjustments to the City's rates for its water service charges. This notice is being sent to all record owners of property upon which the proposed water and recycled water service charges will be imposed and any tenants who are directly liable for the payment of such charges (i.e. customers of record). The proposed rate adjustments will be applicable to all parcels that receive water service from the City of San Diego.

Proposed Rate Increases

The City of San Diego is dedicated to providing reliable water services in a cost-effective manner while protecting our water resources and the public's health. The City's Public Utilities Department (Department) strives to keep its costs as low as possible, however some costs, such as the price of purchasing imported water, are beyond the Department's control. Because local water supplies are very limited, the City must buy most of the water it supplies to its customers from the San Diego County Water Authority (CWA). The CWA bases any imported water price increases on the costs for its own infrastructure and operations and maintenance. The CWA increases also reflect the cost it pays to purchase water from the region's largest water wholesaler, the Metropolitan Water District of Southern California (MWD). When the CWA increases its water rates to the City, the City calculates the impact in total dollars, then passes through the impact on to the ratepayers in the form of higher rates.

Therefore, the Department is proposing a five-year rate adjustment for the Water Utility sufficient to pay for the increased cost of water, our water supply and delivery systems, and to continue to maintain appropriate debt service coverage levels necessary for our outstanding bonds and credit standing. Should the actual cost of any of these components (excluding the CWA pass-through) be less than their projected cost over the five years, the excess revenues will be allocated to the Pure Water program (find out more about the Pure Water program on the Purewatersd.org website) and necessary water supply development and capital improvement projects as shown in the Cost of Service Study.

The following table shows the overall proposed increases needed from customer rate revenues for the next five fiscal years (FY 2016 through FY 2020). Your bill adjustments

FY2016	FY2017	FY2018	FY2019	FY2020
Effective	Effective	Effective	Effective	Effective
January	July	July	July	July
2016	2016	2017	2018	2019
9.8%	6.9%	6.9%	5.0%	7.0%

The proposed rate revenue adjustments may differ due to the actual CWA pass-through amount. The CWA rate increase impact proposed to be passed through to the City ratepayers is projected to be 2.5% in 2017 and 2018, and 3.0% in 2019. The City will only pass through to its customers the actual CWA pass through rate increase; though in no event will it exceed 7.0% annually through 2019.

will vary depending on your customer class, water meter size and water use during each billing period.

Scarcity in water supply continues to be a long-term concern to all water suppliers in Southern California, including the CWA. The price of water will continue to rise within San Diego County to meet future regional demands. The CWA has begun diversifying its water supplies to reduce reliance on water imported from the Colorado River and Sacramento-San Joaquin Bay-Delta. Within the rate adjustment percentages are projected costs associated with supply diversification and reliability efforts. One of these strategies includes the Carlsbad Desalination Project, which is expected to be completed by 2016. San Diego cost projections include the purchase of desalination water from this Carlsbad project, via the CWA, once it becomes operational. Another consideration is the initial implementation of the Pure Water program which is a part of the City's overall Water Capital Improvement Program.

The effect of the ongoing water supply challenges facing the State of California is also incorporated with the revenue and cost projections of the Water Utility. The Utility's water revenue requirement (revenues needed to meet operating, capital and debt expenses) is based on a number of factors including recent State-mandated water use restrictions and sustained customer usage patterns in response to conservation requirements. As most of you are aware, California is experiencing one of the driest periods in its history. Governor Jerry Brown has declared a water use state of emergency and called for all Californians to significantly reduce water use. The State is requiring that the City of San Diego reduce total consumption by 16%. In response to this declaration, California established statewide emergency water conservation regulations, and the City strengthened its existing Emergency Water Regulations. The Governor is also requiring monthly enforcement and reporting. Water agencies across the state are implementing water conservation measures to comply with these regulations and working with customers to help reduce water use wherever possible to preserve this vital, and limited, resource. The City of San Diego makes conservation a priority and considers customers its greatest ally in building a sustainable future.

Continued conservation ensures the region's water needs are met, now and in the future. However, a portion of the San Diego Water Utility's expenses does not vary based upon the quantity of water used by our customers. The proposed rates would assist the City to continue to generate sufficient revenues to operate, manage, and maintain its facilities and services, even in times of State-mandated water use restrictions.

The Water Utility currently maintains strong credit ratings from bond rating agencies such as Standard & Poor's Rating and Moody's Investors Service. Maintaining a strong credit rating is imperative to obtain low-cost funding for the Water Utility's future capital needs. The proposed rate adjustments consider a targeted debt service coverage ratio to meet the contractual requirements of bondholders. This figure is the Water Utility's net operating income divided by the Utility's annual debt payments on bonds and loans it has used to fund capital projects in the past. In other words, it is the amount of cash available, after operating expenses have been paid for, that is used to pay for the annual principal and interest expenses.

City of San Diego water rates consist of two parts: the Base Fee (Meter Charge) and the Commodity Fee. The Base Fee charge is an amount based on meter size designed to recover a portion of the Utility's fixed costs, which do not vary with the volume of water used by a customer. Fixed costs include but are not limited to infrastructure, meter reading, customer billing, and debt service. The Commodity Fee is levied to recover the remaining fixed and variable costs based on the amount of water used by water system customers, including but not limited to, water purchase costs and debt service. The proposed rate changes will affect both the Base Fee and the Commodity Fee as shown in the tables below.

Proposed Water Base Fee Increases

The following table shows how the proposed water rate recommendations affect the Base Fee (meter charge) for water customers.

Meter Size	METER CHARGE					
	Existing Rates	Proposed Rates				
Effective Date		FY 2016	FY 2017	FY 2018	FY 2019	FY 2020
		1/1/16	7/1/16	7/1/17	7/1/18	7/1/19
	(\$/monthly)	(\$/monthly)	(\$/monthly)	(\$/monthly)	(\$/monthly)	(\$/monthly)
5/8", 3/4"	20.31	22.26	24.75	26.05	27.56	29.46
1"	27.51	29.50	32.84	34.61	36.67	39.36
1.5"	43.96	46.04	51.33	54.18	57.49	62.01
2"	64.53	66.72	74.43	78.64	83.52	90.31
3"	112.86	115.32	128.74	136.13	144.70	156.83
4"	181.75	184.59	206.15	218.08	231.90	251.66
6"	352.44	356.23	397.94	421.11	447.97	486.60
8"	558.10	563.03	629.02	665.74	708.28	769.65
10"	798.72	804.98	899.38	951.95	1,012.86	1,100.83
12"	1,483.55	1,493.60	1,668.87	1,766.54	1,879.71	2,043.42
16"	2,580.72	2,596.85	2,901.66	3,071.61	3,268.50	3,553.53

AN IMPORTANT NOTE: The figures included in the table above are shown on a monthly basis. The majority of Single Family Residential customers have a 5/8 inch or 3/4 inch meter, and receive a bill every two months.

Proposed Water Commodity Fee Increases

The following table illustrates how the proposed water rate recommendations affect the Commodity Fee for water customers. The proposed commodity rates are shown with accuracy to 3 decimal places for consistency with the level of accuracy used for rate entry and customer bill calculation in the Public Utilities Customer Care Solutions billing system. However, customers will see bill amounts rounded up or down to the nearest penny. Note that one 'hcf' represents approximately 748 gallons of water.

The tier breakpoints for Single Family Residential customers as shown in the following table are based on monthly water consumption. The precise tier breakpoints for Single-Family Residential customers who receive bi-monthly bills are as follows: Tier 1 is up to 8.00 hcf, Tier 2 is 8.01 to 24.00 hcf, Tier 3 is 24.01 to 36.00 hcf and Tier 4 is any water consumption above 36.00 hcf. For Single Family Residential customers who receive monthly bills, the precise tier breakpoints are: Tier 1 is up to 4.00 hcf, Tier 2 is 4.01 to 12.00 hcf, Tier 3 is 12.01 to 18.00 hcf, and Tier 4 is any water consumption above 18.00 hcf.

Class	COMMODITY RATE					
	Existing Rates	Proposed Rates				
		FY 2016	FY 2017	FY 2018	FY 2019	FY 2020
Effective Date		1/1/16	7/1/16	7/1/17	7/1/18	7/1/19
	\$/hcf	\$/hcf	\$/hcf	\$/hcf	\$/hcf	\$/hcf
Single Family						
Tier 1 (0-4 HCF)	3.896	4.240	4.443	4.770	5.042	5.385
Tier 2 (5-12 HCF)	4.364	4.754	4.976	5.342	5.647	6.031
Tier 3 (13-18 HCF)	6.234	6.791	7.108	7.632	8.067	8.616
Tier 4 (19+ HCF)	8.766	9.550	9.996	10.732	11.344	12.117
Other Domestics	4.650	5.125	5.365	5.763	6.091	6.515
Non Residential	4.470	5.020	5.243	5.622	5.941	6.333
Construction	4.947	6.023	6.316	6.795	7.183	7.727
Irrigation	4.947	5.666	5.941	6.390	6.755	7.256

Single-family Bill Example: The proposed adjustment on January 1, 2016 will effectively raise total water rates for a typical Single Family Residential customer using 12 HCF/month by approximately 9.10% (\$6.44 per month). The exact amount of increase will vary among customers because of varying levels of water consumption.

Typical Bill Calculation @ 12 HCF per Month		
Description	Existing Bill	Proposed 1/1/2016
Single-family with 3/4" Meter	\$70.81	\$77.25
Adjustment		9.10%

NOTE: The City bills the majority of its Single Family Residential customers on a bi-monthly basis. This means each bill these customers receive includes charges for two months of service.

The following table shows the proposed Fire Service Charges for those properties that utilize a private fire protection lead line separate from the property's main water line. If your property does not have a private fire line lead, you are not subject to this charge.

Proposed Fire Service Charge Increases

Fire Line Size	FIRE PROTECTION					
	Existing Rates	Proposed Rates				
		FY 2016	FY 2017	FY 2018	FY 2019	FY 2020
Effective Date		1/1/16	7/1/16	7/1/17	7/1/18	7/1/19
	(\$/monthly)	(\$/monthly)	(\$/monthly)	(\$/monthly)	(\$/monthly)	(\$/monthly)
1"	2.58	2.82	3.23	3.62	3.85	4.43
1.5"	2.58	2.82	3.23	3.62	3.85	4.43
2"	4.00	4.37	5.01	5.61	5.97	6.87
3"	15.50	16.92	19.38	21.72	23.10	26.58
4"	19.82	21.63	24.77	27.77	29.53	33.98
6"	29.27	31.95	36.60	41.01	43.62	50.19
8"	41.34	45.12	51.68	57.92	61.60	70.88
10"	53.41	58.29	66.76	74.83	79.58	91.57
12"	63.74	69.57	79.68	89.31	94.98	109.29
16"	103.35	112.80	129.20	144.80	154.00	177.20
20"	128.67	140.44	160.85	180.27	191.73	220.61

Pass-through Rates based on the CWA Water Purchase Costs

As noted earlier, the City purchases a greater part if not all of its water supply from the CWA via the MWD. Statewide and regional water supply scarcity has impacted the cost of imported water and the availability of water supplies. During water shortages, the MWD may establish water supply allocations for the amount of water that the MWD will deliver to the CWA and other retail water agencies. If the City exceeds its allotted amount of water to purchase, the MWD may impose surcharges or penalties on the CWA for the water it purchases which will then be passed on to the City. In addition to any MWD surcharge that may be imposed, the City anticipates that the MWD and the CWA may increase the rates of wholesale water sold and delivered to the City and may impose other charges on the City related to wholesale water service. The cost for water purchased from CWA is known for 2016, however, the costs for water purchased in years 2017 through 2019 are estimated. The estimates are included as factors in the proposed rate increases. The CWA rate increase impacts to the City are projected to be 2.5% in 2017, 2.5% in 2018, and 3.0% in 2019. In the event that each annual CWA rate increase impact to the City is different than the projected amounts described above for years 2017 through 2019, the City will only pass through the actual CWA rate increase impact to the ratepayer, up to a maximum of 7.0% for each of these years.

Should the CWA rate increase impact to the City ratepayers be 7.0% in years 2017 through 2019, the following rates as shown in the tables to the right could be implemented by the City. If the CWA increase impacts to the City ratepayers were in an amount higher than 7.0%, the City would not implement rates any higher than those shown in these tables.

Prior to implementing any Pass-Through Adjustment to the rates, the City will provide all customers a notice of the adjustment at least 30 days prior to its effective date. This notice will appear in your billing statement or through a direct mail notice.

Proposed Water Base Fee Increases at Maximum 7.0% CWA Pass Through

Meter Size	METER CHARGE		
	Proposed Rates		
	FY 2018	FY 2019	FY 2020
Effective Date	7/1/17	7/1/18	7/1/19
	(\$/monthly)	(\$/monthly)	(\$/monthly)
5/8", 3/4"	27.37	31.42	35.54
1"	36.45	42.00	47.73
1.5"	57.21	66.18	75.58
2"	83.16	96.40	110.39
3"	144.13	167.43	192.20
4"	231.06	268.68	308.82
6"	446.42	519.53	597.75
8"	705.89	821.77	945.87
10"	1,009.47	1,175.38	1,353.17
12"	1,873.51	2,181.81	2,512.39
16"	3,257.79	3,794.22	4,369.58

Proposed Water Commodity Rate Increases at Maximum 7.0% CWA Pass Through

Class	COMMODITY RATE		
	Proposed Rates		
	FY 2018	FY 2019	FY 2020
Effective Date	7/1/17	7/1/18	7/1/19
	\$/hcf	\$/hcf	\$/hcf
Single Family			
Tier 1 (0-4 HCF)	5.001	5.404	5.954
Tier 2 (5-12 HCF)	5.601	6.052	6.668
Tier 3 (13-18 HCF)	8.001	8.646	9.526
Tier 4 (19+ HCF)	11.252	12.159	13.396
Other Domestic	6.045	6.526	7.198
Non Residential	5.900	6.384	7.024
Construction	7.127	7.653	8.471
Irrigation	6.700	7.204	7.967

Proposed Fire Service Charge Increases at Maximum 7.0% CWA Pass Through

Fire Line Size	FIRE PROTECTION		
	Proposed Rates		
	FY 2018	FY 2019	FY 2020
Effective Date	7/1/17	7/1/18	7/1/19
	(\$/monthly)	(\$/monthly)	(\$/monthly)
1"	3.83	4.19	5.00
1.5"	3.83	4.19	5.00
2"	5.94	6.49	7.74
3"	22.98	25.13	29.98
4"	29.37	32.13	38.32
6"	43.39	47.46	56.60
8"	61.27	67.02	79.94
10"	79.16	86.59	103.27
12"	94.47	103.34	123.25
16"	153.18	167.56	199.84
20"	190.70	208.61	248.80

As noted earlier, the MWD and the CWA have not yet adopted such increases beyond calendar year 2016. The pass-through rate increase is generally approved by the CWA annually in June. Once this is approved, the City will review the financial impact of the pass-through rate increase and determine the actual revenue requirement needed solely for this component. The CWA pass-through might exceed 2.5% in any year however the maximum amount the City will pass-through to water customers will not exceed 7.0% annually through 2019. The City is protecting water customers by limiting CWA's potential increase to the City and its customers by no more than 7.0%. Prior to implementing any Pass-Through Adjustment to the rates, the City will provide all customers a notice of the adjustment at least 30 days prior to its effective date. This notice will appear in your billing statement or through a direct mail notice.

Recycled Water

Recycled water is a vital water supply source for the City of San Diego. While it is not drinkable (potable), it is suitable for irrigation, ornamental ponds and fountains, construction site dust suppression and soil compaction,

street sweeping, industrial processes and other non-potable purposes. Recycled water benefits all of the City's water service customers by reducing the amount of potable water that would otherwise be applied to irrigation and industrial needs.

In 2001, the City set the recycled water rates to promote a higher demand for recycled water, thus reducing demands on potable supplies. The current recycled water commodity rate is \$0.80/HCF. This rate has not been increased since 2001, while potable rates have increased significantly during this time frame. The City is now proposing to adjust the recycled water meter charges and commodity rates to cover the future ongoing costs of service to provide recycled water for sale.

The proposed recycled water meter charges are shown on the following page. These proposed charges are based on customer service, meter services, and billing costs. Similar to the cost of service analysis for potable water meter charges, these meter-related costs are considered as fixed costs and are allocated to each meter size category based on the capacity size of a customer's meter.

For the commodity rate, the City is proposing two alternatives. The first alternative is a uniform commodity rate (Unitary Rate) that would apply to all recycled water customers in the City's recycled water service area. The new proposed calculated Unitary Rate for January 1, 2015 is \$1.73/HCF. In the second alternative, a Zonal Rate structure is being considered. In this alternative, there would be two zones within the City's recycled water service area: North City and South Bay. Each zone would have a separate rate based on the cost structures associated with each zone (see Zip Code designations in table on the following page to determine which zone your property/service address is located). The proposed calculated zone rate for North City for January 1, 2015 is \$2.14/HCF and the proposed rate for the South Bay zone is \$1.17. Each commodity rate structure is based on the recycled water system costs of operations and maintenance, treatment, capital improvements, and a portion of meter services.

The proposed commodity rate alternatives are shown on the following page. These rates, along with the meter charges, will be evaluated again in 2020. Although the proposed commodity rates reflect a significant increase, recycled water rates will still be substantially below potable rates, as illustrated in this notice. The increase in revenue from recycled rates and charges will be used to offset the revenue required from potable rates which is a net benefit to the City's potable water customers.

Proposed Recycled Water Base Fee Adjustments

Meter Size	RECYCLED WATER METER CHARGE					
	Existing Rates	Proposed Rates				
		FY 2016	FY 2017	FY 2018	FY 2019	FY 2020
Effective Date		1/1/16	7/1/16	7/1/17	7/1/18	7/1/19
	(\$/monthly)	(\$/monthly)	(\$/monthly)	(\$/monthly)	(\$/monthly)	(\$/monthly)
1"	8.63	21.55	21.55	21.55	21.55	21.55
1.5"	43.27	39.05	39.05	39.05	39.05	39.05
2"	65.96	60.06	60.06	60.06	60.06	60.06
3"	246.93	126.52	126.52	126.52	126.52	126.52
4"	411.53	224.50	224.50	224.50	224.50	224.50
6"	925.93	493.94	493.94	493.94	493.94	493.94
8"	1,234.59	843.86	843.86	843.86	843.86	843.86
10"	1,646.12	1,333.75	1,333.75	1,333.75	1,333.75	1,333.75

Proposed Recycled Water Commodity Fee Increases (Unitary Rate Alternative)

Class	Recycled Water Commodity Rate					
	Existing Rates	Proposed Rates				
		FY 2016	FY 2017	FY 2018	FY 2019	FY 2020
Effective Date		1/1/16	7/1/16	7/1/17	7/1/18	7/1/19
	\$/hcf	\$/hcf	\$/hcf	\$/hcf	\$/hcf	\$/hcf
Unitary Rate	0.80	1.734	1.734	1.734	1.734	1.734

Proposed Recycled Water Commodity Fee (Zonal Rate Alternative)

Class	Recycled Water Commodity Rate					
	Existing Rates	Proposed Rates				
		FY 2016	FY 2017	FY 2018	FY 2019	FY 2020
Effective Date		1/1/16	7/1/16	7/1/17	7/1/18	7/1/19
	\$/hcf	\$/hcf	\$/hcf	\$/hcf	\$/hcf	\$/hcf
North City (serving Zip Codes 92037, 92109, 92111, 92117, 92121, 92122, 92126, 92127, 92128, 92129, 92130 & 92131)	0.80	2.138	2.138	2.138	2.138	2.138
South Bay (serving Zip Codes 92105 & 92154)	0.80	1.173	1.173	1.173	1.173	1.173

More information is available at www.sandiego.gov/water or (619)578-5550.

You Can Oppose the Proposed Rate Increases

You can use the form in this notice to register your protest against the proposed water, fire and recycled water rate adjustments. You can also choose to write a letter to the City, following the requirements below, or appear at the public hearing listed on the front cover of this notice to submit your written protest.

How can I participate?

Interested parties can comment on the proposed rates. California Constitution Article XIII D section 6 (Proposition 218) prohibits the City from implementing the new rates if a majority of the affected property owners or tenants file written protests opposing the rates before the end of the public hearing. Only one written protest per affected property will be counted towards the majority protest. Written protests must be received by the City Clerk, City of San Diego, Mail Station No. 2P, City Administration Building, 202 C Street, San Diego, CA 92101, before the end of the public hearing which is scheduled for 10:00 a.m., November 17, 2015. Each protest must identify the affected property (by street address or Assessor's Parcel Number) and include the signature of the property owner or utility customer of record. In compliance with Proposition 218, e-mail protests will not be accepted. Fax protests will also not be accepted. Although oral comments at the public hearing will not qualify as formal protests unless accompanied by a written protest, the City Council welcomes input from the community during the public hearing.

Some customers will receive multiple notices

In order to ensure that all San Diegans are informed about possible water, fire and recycled water rate increases, these Notices are being sent to all City of San Diego water customers. If you are responsible for more than one bill, you will receive more than one Notice, but only one written protest per affected property will be counted towards the majority protest.



USE THIS FORM TO PROTEST THE PROPOSED WATER RATE INCREASES

I _____ am opposed to this proposed increase to water, fire, and recycled water rates.
(Print first and last name)

Property Address or
Assessor's Parcel Number: _____

Signature: _____

If you wish to use this form as your protest, please fill out and mail in a stamped envelope to: City Clerk, City of San Diego, City Administration Building, 202 C Street, MS 2P, San Diego, CA 92101 or deliver it to the City Clerk before the end of the Public Hearing on November 17, 2015.

This information will be made available in alternative formats upon request, as required by the Americans with Disabilities Act (ADA), by contacting the City Clerk at (619) 533-4000 [TTY (619) 236-7012] or cityclerk@sandiego.gov. Requests for disability-related modifications or accommodations required to facilitate meeting participation, including requests for auxiliary aids, services or interpreters require different lead times, ranging from five business days to two weeks. Please keep this in mind and provide as much advance notice as possible in order to ensure availability.