



NOTICE OF PUBLIC HEARING

In Connection with Proposed

CHANGES TO RATES, FEES, AND CHARGES FOR RECYCLED WATER SERVICE

NOTICE IS HEREBY GIVEN that the Otay Water District (the "District") will hold a **Public Hearing on October 4, 2017, at 3:30 p.m. in the Board of Directors Meeting Room located at 2554 Sweetwater Springs Blvd., Spring Valley, CA 91978**, to consider: (1) the adoption of rates, fees, and charges that apply to water billed beginning January 1, 2018; (2) the authorization, for a period of five years, for all future pass-through increases or decreases to cover changes to rates, fees, and charges from the District's water suppliers; and, (3) the authorization for a period of five years, overall average increases to rates, fees, and charges, in addition to the pass-through increases, not to exceed 10 percent per year, for of all costs other than pass-through costs. These rates, fees, and charges apply to property for which you are shown as the record owner or customer of record. The purpose of the hearing is to consider all written protests against the proposed rates, fees, and charges that, if approved, will be imposed on the properties served by the District. The changes in the proposed rates, fees, and charges and the basis upon which it was determined is described in more detail as follows.

PROPOSED RATE CHANGES

As part of the annual budget review process, the District's Board of Directors typically proposes an overall rate increase to be implemented for January. This year the Board of Directors is proposing no overall rate increase on January 1, 2018.

Even though there is no proposed overall rate increase for January 1, 2018, the District is proposing changes to the rate structure, rates, fees, and charges based on a comprehensive cost of service study completed in April 2017. These changes may cause your bill to change. The changes are reflected on page 3 of this notice. This study was conducted by an independent firm and proposes changes that reflect the District's estimated cost of providing water service. If adopted, the proposed changes to rates, fees, and charges would take effect for water **billed** on or after January 1, 2018, and may apply to water **used** as early as the beginning of December 2017.

Recycled water rates, fees, and charges are based on the cost of providing water to recycled customers. To continue providing reliable high quality service, the District must implement rate changes and pass-through to its customers higher costs from its water wholesaler. Producing and distributing recycled water is also costly. To help offset the costs of supplying alternative water sources, the District receives financial incentives from its wholesale potable water suppliers, which include the Metropolitan Water District of Southern California (MWD) and the San Diego County Water Authority (CWA). Today, approximately 13 percent of the District's water supply is made up of recycled water.

The rate structure has two basic components: (1) fixed monthly charges and (2) variable monthly rates, fees, and charges which are based on water consumption. Fixed fees and charges are calculated to recover the cost of operating and maintaining the public system and are based on the customer class and size of the water meter serving the record owner or customer of record. The District's System Charges is an example of a fixed charge. The variable rates, fees, and charges are consumption based and include, but are not limited to, supply, treatment, and transportation costs. Variable

components of the bill include the Water Rate and Energy Charge. The fixed and variable components are calculated to recover the proportionate cost of providing the service attributable to each class of customer.

The District will also consider authorizing, for a period of five years, passing through to customers the increased or decreased costs imposed by the District's water suppliers including, but not limited to, MWD, CWA, and the City. If adopted, the average customer's water rates, fees, and charges will be adjusted annually for all increased or decreased costs and charges from the District's wholesale water suppliers. The purpose of the hearing is to consider all written protests against the proposed rates, fees, and charges that, if approved, will be imposed on properties served by the District. Any changes to rates, fees, and charges subsequently imposed by the District will be subject to a 30-day prior written notice, but will not be subject to additional hearings or protests.

In addition to the wholesale pass-through costs, the District will consider authorizing, for a period of five years, average increases in rates, fees, and charges not to exceed 10 percent per year, for all costs related to labor, benefits, materials, energy, maintenance, administrative expenses, as well as other operational costs of providing water service including, but not limited to, amounts required to meet bond covenants and to maintain adequate reserves and rate stability.

WHY ARE YOU RECEIVING THIS NOTICE?

As the record owner or customer of record of a property identified to be subject to the imposition of proposed rate, fee, or charge increases, you may submit a written protest against the proposed actions. Provided, however, if the identified property has more than one record owner and/or customer of record, only one written protest for the property will be counted. Each protest must be in writing and include: (1) the specific rate, fee, and/or charge for which the protest is being submitted in opposition; (2) the location of the identified property (by assessor's parcel number or street address); and, (3) the original signature of the record owner or customer of record submitting the protest. Protests submitted by email, facsimile, or other electronic means will not be accepted. Written protests may be submitted by mail to the Board Secretary, Otay Water District, 2554 Sweetwater Springs Blvd., Spring Valley, CA 91978, or in person at the public hearing, as long as they are received prior to the conclusion of the public hearing. **Please identify on the front of the envelope for any protest, whether mailed or submitted in person to the Board Secretary, that the enclosed letter is for the Public Hearing on the Proposed Changes to Rates, Fees, and Charges for Recycled Water Service.**

At the conclusion of the public hearing, the Board of Directors will consider adopting the proposed actions as described in this notice. Oral comments at the public hearing will not qualify as formal protests unless accompanied by a written protest. If, at the close of the public hearing, written protests against the proposed rate increase, fees, and charges are not presented by a majority of the record owners or customers of record of the identified properties upon which they are to be imposed, the Board of Directors will be

(Continued from page 1)

authorized to adopt the proposed actions. If adopted, the rates, fees, and charges will apply to water billed on or after January 1, 2018 and may apply to water used as early as the beginning of December 2017. **This letter serves as a 45-day notice of the hearing on the proposed rate changes, and as notice of the changes for water billed on or after January 1, 2018, if adopted.**

This notice is being provided to you by the District pursuant to the California Constitution Article XIII D (known as "Proposition 218"). Under terms of Proposition 218, the District is required to notify the record owner or customer of record of proposed changes to property-related fees such as water services. This letter serves as notice that the District will hold a public hearing to consider changes to its current water rates, fees and charges.

WHY ARE WATER RATE CHANGES NECESSARY?

The proposed rate structure will provide water service at a rates, fees, and charges that are equal to the reasonable cost of providing water service. Recent California law suggests that tiered water rates, fees, and charges designed solely to encourage water conservation, may violate the California Constitution as amended by Proposition 218. The new structure is designed to meet all applicable legal requirements and to fairly and equitably spread the District's costs to provide water service among all customer classes based on the costs to serve those customers. The major proposed changes to the rate structure are: (1) eliminating the residential conservation tier; (2) eliminating tiered rates for all rate classes except residential and multi-residential water service; and (3) modifying the system fee from one based solely on meter size to one based on meter size and customer type. Additionally, the District is a revenue-neutral public agency that provides water service to your community. "Revenue-neutral" means that water bills reflect only those rates, fees, and charges sufficient to support water service.

WHAT DO WATER RATES FUND?

In the District, each end user pays his or her fair share of the cost of purchasing water, energy or pumping costs, labor and benefits, materials, chemicals used in water treatment, administrative expenses, operations, construction and maintenance of the public water system and facilities. This also includes amounts required to meet bond covenants and to maintain adequate reserves and rate stability. The District is a non-profit public agency, it does not make a profit from providing water service and it cannot operate at a loss.

WHY ARE WHOLESALE WATER SUPPLIERS RAISING THEIR RATES?

Wholesale suppliers raise their rates as they work to obtain new and more reliable supplies of water. This includes more reliable emergency supplies, agricultural to urban water transfers, expansion of existing reservoirs, pipeline relining projects, new water treatment plants, and alternative supplies including seawater desalination and recycled water.

In 2016, for instance, the City of San Diego (the "City") increased the price of recycled water 116 percent. The District buys two-thirds of its recycled water supplies from the City and this cost had to be passed along to the District's recycled water customers. At times potable water is used to supplement recycled water demand, therefore the cost of potable water is included as a factor in the setting of recycled rates as well.

The District works continually to reduce internal costs to absorb rate increases from suppliers. The District recognizes and is sensitive to the impact the higher cost of water has on its customers. In an effort to minimize the impact of these cost

increases the District has reduced its number of full-time equivalent (FTE) employees by 23 percent since 2007. The District is committed to becoming as efficient as possible, providing the services its customers expect and rely upon, while continuing to be one of the lower cost water service providers in San Diego County.

RELIABILITY AND SUPPLY DIVERSIFICATION

Water is essential to our region's quality of life. Our economy depends on it. Families and businesses cannot survive without it. Unfortunately for San Diego County residents, our region does not benefit from an abundant natural supply of water. The county receives an average of 10 inches of rainfall per year, meeting only five percent of local demand. Because of our semi-arid climate, approximately 85 percent of the water used locally is imported from Northern California and the Colorado River. Not only is the cost of importing water becoming increasingly costly, but population growth, drought, environmental regulations, litigation, competition for a scarce resource, and increased power costs are driving the price we pay higher.

San Diego County's wholesale and retail water agencies recognized the region was highly dependent on imported water during a severe drought that occurred in the late 1980s and early 1990s. They have continued to diversify the region's water supply and ensure a reliable system, increasing water independence, providing for future population and economic needs, and reducing the likelihood of a future water shortage. Since then, major initiatives have been undertaken to develop both new supplies and improved reliability.

At the regional level, recycled water plays an important part in the water portfolio. For every acre foot of recycled water used, an acre foot of water does not have to be imported from Northern California and the Colorado River, or purchased from the CWA's Carlsbad Desalination plant, creating more water for everyone. For the District, nearly 13 percent of all water sold is recycled water.

WHAT CAN I DO TO SAVE MONEY?

Customers interested in learning ways in which they can reduce their water usage and therefore minimize the effects of the rising cost of wholesalers' water supplies on their family's budget, can visit the District's conservation web page at otaywater.gov. Additionally, the Water Conservation Garden located on the campus of Cuyamaca Community College in Rancho San Diego is open to the public and offers various conservation exhibits, programs and classes. For more about the Garden, visit thegarden.org. For information about the District, please visit otaywater.gov, contact us via email at info@otaywater.gov, or call us at 619-670-2222.

2018 Proposed and 2019-2022 Projected Water Rates ^{1,2}							
Recycled Irrigation (3/4" - 1" Meter) ⁷							
Consumption Block ¹	2018 Proposed ¹	Current	2018 Proposed	2019 Projected	2020 Projected	2021 Projected	2022 Projected
All units	-	\$4.26	\$4.43	\$4.60	\$4.79	\$4.98	
0 - 32	\$4.85						
33 - 75	\$4.92						
76 or more	\$4.99						
Recycled Irrigation (1.5" - 2" Meter) ⁷							
All units	-	\$4.26	\$4.43	\$4.60	\$4.79	\$4.98	
0 - 130	\$4.85						
131 - 325	\$4.92						
326 or more	\$4.99						
Recycled Irrigation (3" - 4" Meter) ⁷							
All units	-	\$4.26	\$4.43	\$4.60	\$4.79	\$4.98	
0 - 440	\$4.85						
441 - 1,050	\$4.92						
1,051 or more	\$4.99						
Recycled Irrigation (6" or Larger Meter) ⁷							
All units	-	\$4.26	\$4.43	\$4.60	\$4.79	\$4.98	
0 - 4,000	\$4.85						
4,001 - 10,000	\$4.92						
10,001 or more	\$4.99						
Recycled Commercial (<10" Meter)							
All units	-	\$3.01	\$3.13	\$3.25	\$3.38	\$3.52	
0 - 173	\$3.53						
174 - 831	\$3.60						
832 or more	\$3.65						
Recycled Commercial (10" or Larger Meter)							
All units	-	\$3.01	\$3.13	\$3.25	\$3.38	\$3.52	
0 - 7,426	\$3.53						
7,427 - 14,616	\$3.60						
14,617 or more	\$3.65						

Otay Fixed System Charge ^{2,3} - Irrigation by Meter Size							Otay Fixed System Charge ^{2,3} - Commercial by Meter Size						
Meter Size	Current	2018 Proposed	2019 Projected	2020 Projected	2021 Projected	2022 Projected	Meter Size	Current	2018 Proposed	2019 Projected	2020 Projected	2021 Projected	2022 Projected
3/4"	\$15.91	\$31.11	\$32.36	\$33.65	\$35.00	\$36.40	3/4"	\$15.91	\$36.85	\$38.33	\$39.86	\$41.45	\$43.11
1"	\$22.47	\$43.94	\$45.70	\$47.53	\$49.43	\$51.41	1"	\$22.47	\$52.04	\$54.13	\$56.29	\$58.54	\$60.88
1 1/2"	\$38.88	\$76.04	\$79.08	\$82.24	\$85.53	\$88.95	1 1/2"	\$38.88	\$90.06	\$93.67	\$97.41	\$101.31	\$105.36
2"	\$58.55	\$114.50	\$119.08	\$123.84	\$128.80	\$133.95	2"	\$58.55	\$135.63	\$141.05	\$146.69	\$152.56	\$158.66
3"	\$111.04	\$217.15	\$225.84	\$234.87	\$244.27	\$254.04	3"	\$111.04	\$257.21	\$267.49	\$278.19	\$289.32	\$300.89
4"	\$170.10	\$332.67	\$345.97	\$359.81	\$374.20	\$389.17	4"	\$170.10	\$394.01	\$409.77	\$426.16	\$443.20	\$460.93
6"	\$334.18	\$653.54	\$679.69	\$706.87	\$735.15	\$764.56	6"	\$334.18	\$774.07	\$805.04	\$837.24	\$870.73	\$905.56
8"	\$531.05	\$1,038.56	\$1,080.11	\$1,123.31	\$1,168.24	\$1,214.97	8"	\$531.05	\$1,230.08	\$1,279.29	\$1,330.46	\$1,383.68	\$1,439.02
10"	\$760.72	\$1,487.72	\$1,547.23	\$1,609.12	\$1,673.48	\$1,740.42	10"	\$760.72	\$1,762.08	\$1,832.56	\$1,905.86	\$1,982.10	\$2,061.38

Other Charges ⁴ - 2018 Proposed and 2019-2022 Projected ²						
Other Charges	Current	2018 Proposed	2019 Projected	2020 Projected	2021 Projected	2022 Projected
Energy Charges ⁵	\$0.044	\$0.053	\$0.055	\$0.057	\$0.059	\$0.062
Government Fee ⁶	\$0.41	\$0.41	\$0.43	\$0.44	\$0.46	\$0.48

Footnotes

- Recycled water rates are based on meter size, customer type, and the number of recycled water units used each month. One unit of recycled water equals 748 gallons of water or one HCF (hundred cubic feet). The changes in the Water Charges and Water Rates are based on the results of the cost of service study.
- There is no proposed overall rate increase for January 1, 2018. However, based on a comprehensive cost of service study, there are changes in the rate structure, rates, fees, and charges. Projected rates (2019-2022) are for informational purposes only, and use an inflator factor of four percent.
- The Fixed System Charges, based on meter size and customer class, ensure that customers pay their proportionate share of the water system replacement, maintenance, and operating expenses. The changes in the fixed charges are based on the results of the cost of service study.
- Your bill will vary based on meter size, water consumption in units, and geographic location.
- The Energy Charges represent the cost of energy required to pump each unit of water 100 feet in elevation. This is charged proportionately for every foot of elevation over 450 feet. The increase is due to increased power costs charged by the District's power supplier.
- The Government Fee is a per unit charge and your bill will vary based on water consumption. This charge is a per unit charge in lieu of tax revenues paid by non-government customers.
- Customers outside the Otay Water District, outside an Improvement District, or using temporary recycled meters pay two times this rate.

This information reflects changes to the rate structure, rates, fees, and charges. For a comprehensive listing of rates, fees, and charges please see the Otay Water District's Code of Ordinances at otaywater.gov.