



Proposition 218 Notification

Notice of Public Hearing On Water and Wastewater Rate Adjustments

17555 PEAK AVENUE
MORGAN HILL, CA 95037-4128
WWW.MORGANHILL.CA.GOV

Hearing Date and Time: January 20, 2016, at 7:00 pm or as soon thereafter as possible
Hearing Location: City Council Chambers • 17555 Peak Avenue • Morgan Hill, CA 95037-4128

The City of Morgan Hill is proposing a five-year water and wastewater rate program adjustment for all residential and commercial customers. The proposal will be considered by the City Council at a Public Hearing on **January 20, 2016**. If approved, the water and wastewater rate adjustments will commence April 2016. You are receiving this notification in compliance with California Constitution Article XIII D Section 6 (Proposition 218) requirements that all impacted property owners are mailed notice of proposed rate changes at least 45 days prior to a public hearing. Proposition 218 also establishes a protest process for the public to follow if they wish to oppose the proposed rates.

BASIS OF PROPOSED RATES

The City is required by State law and City policy to collect revenues sufficient to cover the costs of operating the water and wastewater systems. These revenues allow the City to protect public health and safely and reliably convey and treat water and wastewater. Costs that must be recovered through rate revenue include purchased water, electricity, equipment and supplies, treatment chemicals, debt service, and salaries and benefits. Additionally, revenues generated from the water and wastewater rates would be used to finance the repair and renovation of aging water and wastewater infrastructure and restore water reserve funds that have been drawn down to compensate for lower levels of water consumption. The rates proposed herein were developed through a Comprehensive Water and Wastewater Rate Study designed to meet all legal requirements and fairly and equitably recover the required revenue from all customer classes. The Rate Study is available for review at www.morgan-hill.ca.gov/1450/Rate-Adjustments.

WHAT IS BEING DONE TO REDUCE EXPENSES?

The City has initiated numerous cost saving measures, including salary and retirement savings, reduced debt service costs as a result of refinancing its debt at lower interest rates, and lower labor and supply costs due to streamlining operations and the advanced use of technology. All these measures have helped reduce the amount of the proposed rate changes. The Comprehensive Water and Wastewater Rate Study prepared by an independent financial firm concludes that the proposed rates would provide sufficient funds to pay the costs of operations, maintenance, administration, debt service, and capital improvements over the next five years.

WHAT DO WATER AND WASTEWATER RATES FUND?

The City provides water and wastewater utility services to residential and commercial customers. The operation and maintenance of these two utilities are financially independent of each other. All revenue generated from customer water and wastewater bills is used to pay for the ongoing operation, maintenance, repair and replacement of the existing water and wastewater systems. The cost of system expansions, to serve new development, is recovered through connection or impact fees imposed on the developer requesting City services. By State law, the City may not collect more revenue than is necessary to recover the costs of providing services.

PROPOSED WATER RATES

Currently, the City charges residential and non-residential customers a monthly fixed charge based on meter size, regardless of customer class. In addition to a fixed monthly charge, residential customers pay variable charges (also known as "volumetric charges") based on a three usage tiers while non-residential customers pay a uniform rate for all water consumed.

The proposed water rate design would eliminate the tiered structure for residential accounts and replace it with a uniform volumetric rate for all water consumed by all customers. Fixed charges based on meter size would also be adjusted for all customers to align closer with actual fixed costs of service. The proposed water rate adjustments over the next five years are presented in detail in the attached *Proposed Water Rate Adjustments Schedule 2016-2020*.

PROPOSED WASTEWATER RATES

The City also currently charges residential and non-residential customers a monthly fixed wastewater charge based on meter size. In addition to a fixed monthly charge, residential customers pay a variable charge (volumetric charge) of \$3.93 per unit of baseline water use for wastewater service. Variable charges for residential customers are determined by the average monthly water usage for the three lowest consecutive months in the period between November and April. As a general rule, a household's average monthly water use for the months of November through April provides a reasonable baseline estimate of the wastewater produced by the household each month of the year. Commercial and industrial customers are billed according to the volume of flow and strength of their wastewater discharges. The proposed wastewater rate charges for the next five years are presented in detail in the attached *Proposed Wastewater Rate Adjustments Schedule 2016-2020*.

LIFT AND BOOSTER STATION SERVICE CHARGES

Due to Morgan Hill's varying topography, additional infrastructure is required to provide water and wastewater services to residents living at different elevations around the City. Lift and booster station charges based on the cost of service to operate and maintain this additional infrastructure will be charged to those residents living in the areas requiring the use of the additional infrastructure. Proposed lift and booster station service charges are included on the enclosed proposed rate schedules. Maps that allow customers to determine if they fall within an area serviced by lift stations are available for review at www.morgan-hill.ca.gov/1450/Rate-Adjustments.

IMPACT TO YOUR BILL

If approved, water rate increases would commence April 2016, and adjust annually on January 1 thereafter. Analysis of wastewater enterprise finances shows that a previously adopted 3.5% rate increase scheduled to take effect in January 2016 is not needed to securely fund the enterprise. Accordingly, Council has decided to waive the January 2016 wastewater charge increase and delay adjustment till January 1 of each year starting in 2017.

The total amount of your water bill will depend on the amount of water used. Water bills would be noticeably higher in the summer months, when water usage is highest. Water and wastewater bills would increase for a typical single family home with median water usage (14 units of water per month; 8 units of wastewater) as shown in Table 1 *Total Average Single Family Monthly Utility Bill*. A typical single-family home with median water usage can expect their total monthly bill to increase from \$90.13 to \$96.82 in April 2016 - about \$7.00 more per month.

Table 1. Total Average Single Family Monthly Utility Bill

CURRENT RATES		PROPOSED RATES				
		April 1, 2016	January 1, 2017	January 1, 2018	January 1, 2019	January 1, 2020
Water	\$40.15	\$46.84	\$50.24	\$58.37	\$62.60	\$67.14
Wastewater*	\$49.98	\$49.98	\$50.98	\$52.00	\$53.04	\$54.10
Total	\$90.13	\$96.82	\$101.22	\$110.37	\$115.64	\$121.24
Total Percent Increase		7.4%	4.5%	9.0%	4.8%	4.8%

Current Rates effective January 1, 2016.

* lift station service fees already in effect and paid for by customers in certain specific geographical areas and are not included in the average wastewater rate

WHOLESALE COST PASS-THROUGH

The proposed rates assume certain Santa Clara Valley Water District (SCVWD) wholesale water rates. Pursuant to California Government Code 53756, the City is proposing to pass-through any additional increases in SCVWD wholesale groundwater production charges when actual SCVWD rates exceed estimated rates. Prior to initiating a pass-through, the City will notify all customers at least 30 days before implementation.

HOW TO PROTEST THE PROPOSED ADJUSTMENTS

As the owner or customer of record of a parcel subject to the imposition of the proposed rate adjustments, you may submit a written protest against the proposed rate changes. If the City receives written protests against proposed water and wastewater rates by a majority of the affected property owners or rate payers prior to the end of the hearing, the Council will not approve the change. Only one written protest will be counted per identified parcel.

You have the right to withdraw a written protest that you previously submitted prior to the conclusion of the public hearing. The City Council will count all written protests received (not postmarked) prior to the conclusion of the public hearing. The City Council will not count written protests submitted after the conclusion of the public hearing. Only one protest per parcel will be counted.

A written protest must include (1) your original signature; (2) identification of the parcel by address or assessor's parcel number; (3) whether you are the owner of the parcel or the person receiving the service for which the fee is charged; and (4) your statement of the specific rate changes (water or wastewater) for which you protest the increase in the fee. Written protests will not be accepted by e-mail or by fax. Verbal protests will not be counted. Written protests may be submitted by mail or in person to:

**City of Morgan Hill
Attn: Rate Protest
17575 Peak Avenue
Morgan Hill, CA 95037-4128**

For more information, visit www.morgan-hill.ca.gov/1450/Rate-Adjustments or call Utility Billing at (408) 779-7221.

Proposed Wastewater Rate Adjustments Schedule 2016-2020

CURRENT WASTEWATER RATES		PROPOSED WATER RATES				
		April 1, 2016	January 1, 2017	January 1, 2018	January 1, 2019	January 1, 2020
Fixed Charge						
Meter Size						
<i>Single & Multi-Family Residential</i>						
$\frac{5}{8}$ " – 1"	\$18.54	no change	\$18.91	\$19.29	\$19.67	\$20.07
<i>All Other Customers</i>						
$\frac{5}{8}$ "	\$18.54	no change	\$18.91	\$19.29	\$19.67	\$20.07
$\frac{3}{4}$ "	\$18.54	no change	\$18.91	\$19.29	\$19.67	\$20.07
1"	\$18.54	no change	\$18.91	\$19.29	\$19.67	\$20.07
1- $\frac{1}{2}$ "	\$69.38	no change	\$70.77	\$72.18	\$73.63	\$75.10
2"	\$110.47	no change	\$112.68	\$114.93	\$117.23	\$119.58
3"	\$240.66	no change	\$245.47	\$250.38	\$255.39	\$260.50
4"	\$432.27	no change	\$440.92	\$449.73	\$458.73	\$467.90
6"	\$959.45	no change	\$978.64	\$998.21	\$1,018.18	\$1,038.54
8"	\$1,482.18	no change	\$1,511.82	\$1,542.06	\$1,572.90	\$1,604.36
10"	\$1,852.73	no change	\$1,889.78	\$1,927.58	\$1,966.13	\$2,005.45
Volumetric Charge – Rate per baseline estimate hcf						
<i>Single & Multi-Family Residential</i>						
	\$3.93	no change	\$4.01	\$4.09	\$4.17	\$4.25
<i>Commercial/Industrial/Public</i>						
	varies	no change	--	--	--	--
	Commercial 1	--	\$3.84	\$3.91	\$3.99	\$4.07
	Commercial 2	--	\$4.49	\$4.58	\$4.67	\$4.76
	Commercial 3	--	\$5.46	\$5.57	\$5.68	\$5.79
	Commercial 4	--	\$6.19	\$6.32	\$6.44	\$6.57
	Commercial 5	--	\$7.35	\$7.50	\$7.65	\$7.80
	Commercial 6	--	\$12.27	\$12.52	\$12.77	\$13.02
Lift Station Service Charge						
	\$6.16	\$8.46	\$8.77	\$9.09	\$9.43	\$9.78

Current Rates effective January 1, 2016.

Proposed Water Rate Adjustments Schedule 2016-2020

CURRENT WATER RATES		PROPOSED WATER RATES				
		April 1, 2016	January 1, 2017	January 1, 2018	January 1, 2019	January 1, 2020
Fixed Charge						
Meter Size						
<i>Single & Multi-Family Residential</i>						
5/8"	\$8.94	\$20.62	\$22.11	\$27.07	\$29.03	\$31.14
3/4"	\$8.94	\$20.62	\$22.11	\$27.07	\$29.03	\$31.14
1"	\$8.94	\$20.62	\$22.11	\$27.07	\$29.03	\$31.14
1-1/2"	\$14.86	\$38.88	\$41.70	\$51.05	\$54.75	\$58.72
2"	\$23.89	\$60.80	\$65.21	\$79.82	\$85.61	\$91.81
3"	\$47.70	\$119.25	\$127.90	\$156.55	\$167.90	\$180.07
4"	\$77.23	\$185.00	\$198.42	\$242.87	\$260.48	\$279.36
6"	\$118.63	\$367.66	\$394.31	\$482.65	\$517.64	\$555.17
<i>Commercial/Industrial/Public</i>						
5/8"	\$8.94	\$31.28	\$33.54	\$41.06	\$44.03	\$47.23
3/4"	\$8.94	\$31.28	\$33.54	\$41.06	\$44.03	\$47.23
1"	\$8.94	\$31.28	\$33.54	\$41.06	\$44.03	\$47.23
1-1/2"	\$14.86	\$60.20	\$64.56	\$79.03	\$84.76	\$90.90
2"	\$23.89	\$94.90	\$101.78	\$124.59	\$133.62	\$143.31
3"	\$47.70	\$187.45	\$201.04	\$246.08	\$263.92	\$283.06
4"	\$77.23	\$291.57	\$312.71	\$382.77	\$410.52	\$440.28
6"	\$118.63	\$580.79	\$622.89	\$762.44	\$817.72	\$877.00
<i>Fire Service</i>						
3"	--	\$7.69	\$8.24	\$10.09	\$10.82	\$11.61
4"	\$17.62	\$13.02	\$13.96	\$17.09	\$18.33	\$19.66
6"	\$26.41	\$26.73	\$28.67	\$35.09	\$37.64	\$40.37
8"	\$35.22	\$45.02	\$48.28	\$59.10	\$63.38	\$67.98
10"	\$44.02	\$69.40	\$74.43	\$91.10	\$97.71	\$104.79
Volumetric Charge – Rate per hcf*						
<i>Single Family Residential</i>						
Tier 1: 0-10 hcf	\$1.74	--	--	--	--	--
Tier 2: 11-30 hcf	\$3.47	--	--	--	--	--
Tier 3: 31+	\$5.21	--	--	--	--	--
All water consumed	--	\$1.87	\$2.01	\$2.24	\$2.40	\$2.57
<i>Multi Family Residential</i>						
Tier 1: 0-8 hcf	\$1.74	--	--	--	--	--
Tier 2: 9-16 hcf	\$3.47	--	--	--	--	--
Tier 3: 17+	\$5.21	--	--	--	--	--
All water consumed	--	\$1.87	\$2.01	\$2.24	\$2.40	\$2.57
<i>Commercial/Industrial/Public</i>						
All water consumed	\$2.84	\$1.87	\$2.01	\$2.24	\$2.40	\$2.57
Booster Station Service Charge						
Fixed	--	\$2.19	\$2.28	\$2.37	\$2.46	\$2.56
Volumetric - Rate per hcf*	--	\$0.16	\$0.17	\$0.18	\$0.19	\$0.20

Current Rates effective January 1, 2016.

Out-of-city water customers add 50% to the proposed rate schedule.

* 1 hcf = one hundred cubic feet or about 748 gallons