



NOTICE TO PROPERTY OWNERS AND/OR TENANTS PUBLIC HEARING ON PROPOSED WATER SERVICE RATE INCREASES

The Vacaville City Council will hold a public hearing to consider adopting increases in the rates for water service fees. The public hearing on the proposed rates will be held as follows:

Date: Tuesday, January 12, 2016
Time: 6:00 P.M.
Place: City of Vacaville Council Chambers
650 Merchant Street
Vacaville, CA 95688

REASONS FOR THE RATE INCREASES

The water rates for the City of Vacaville (City) were last amended by the City Council in March 2007. Those rates were enacted to eliminate a \$2.2 million budget deficit in the City's Water Operations and Maintenance Fund (Water Fund) at the time of passage. However, due to a significant downturn in the economy coupled with the State's "20% by 2020" water conservation requirements, water sales came in significantly under projected levels and were not able to keep up with expenses. This resulted in a significant increase in the budget deficit to approximately \$7.5 million at the end of Fiscal Year 2014/2015 (FY 14/15). The Water Utility has stabilized operating expenses, but additional revenues must be generated to stay ahead of inflation, eliminate the budget deficit, and address other water system issues for the long-term safety and reliability of the City's drinking water system.

The water rate increases are proposed to address several other issues in addition to stabilizing Water Fund finances:

Fixed versus Variable Costs

The City charges water service fees in order to recover the cost of the acquisition, treatment, storage, and distribution of potable water to over 30,000 water customers. Approximately 77% of these operating and maintenance costs are fixed, and are incurred regardless of how much water is consumed. Fixed costs include debt service, employee costs, franchise fees, parts and equipment, support services and long-term water purchase contracts. The City's current rate structure, however, consists of a fixed service meter charge that generates only 38% of the Water Fund revenue required to recover costs and a variable charge based on the volume of water consumed that generates 62% of the Water Fund revenue. Shifting to a more balanced fixed versus variable revenue ratio over the next five years would help stabilize the fund and mitigate the fluctuating effects water conservation has on revenues.

Elimination of Tiered Variable Rates

A recent 2015 court decision (*San Juan Capistrano Taxpayers Association v. City of San Juan Capistrano*) upheld the State Proposition 218 (Prop 218) determination that customers may only be charged the actual cost of water service, and that one class of water customer may not be subsidized by another. The Court's ruling that tiered rates must be supported by identifiable costs specific to each tier has essentially invalidated the City's tiered variable rate structure in which different customer classes pay different rates. In order to meet the new legal requirement, the City's current rate structure will be replaced with a single variable rate for all customers.

Low Income Discount

Although the tiered senior rates would no longer be permitted, Prop 218 does permit discounts that are funded from non-water rate revenues. The City is therefore proposing a new low income discount, subject to available annual funding, that would replace the existing senior rates and still apply to any senior customer who qualifies.

Drought and Water Conservation

Since 2011, the State of California (State) has been in the midst of a severe drought. On July 1, 2015, the State assigned mandatory water conservation standards (reductions), compared to 2013 water usage, for all public water utilities in California. Due to the implementation of these reductions, the Water Fund is projected to incur a revenue shortfall of over \$2.5 million in FY 15/16. Even if California receives significant rainfall this winter, the City anticipates voluntary and regulatory water conservation to continue, resulting in an estimated 20% reduction in water consumption annually. Water Fund revenues would be impacted proportionally.

Chromium 6 Regulations

In 2014, the State adopted revisions to Title 22 of the California Code of Regulations, implementing a stricter Maximum Contaminant Level (MCL) for Hexavalent Chromium (Chromium 6) in the City's drinking water supply wells. As a result of this regulation, four of the City's drinking water wells currently exceed the new stricter MCL, and one additional well is anticipated to exceed the MCL by January 1, 2016. These wells provide approximately 55% of the City's groundwater supply on which the City relies heavily, especially during periods of low rainfall such as the current drought. The City will need to make physical improvements at these wells to bring them into compliance. The State has given the City three years to bring the wells into compliance with a possible time extension of up to two years if a Corrective Action Plan is submitted by the City and approved by the State. The current estimate of total costs to bring all five wells into compliance is \$5.5 million over the next five years.

PROPOSED RATES

City staff has worked with a utility rate consultant, Bartle Wells Associates, to complete a water rate study to address the above described issues. The water rate study executive summary is available for review at City Hall or by visiting www.cityofvacaville.com. In conjunction with the results and recommendations of this study, the City is proposing the following adjustments to the City's current water rate structure:

- Amend the current 38% fixed versus 62% variable ratio of water revenues over the next five years to a more balanced 50% fixed versus 50% variable ratio.
- Eliminate the current consumption rate tiers and special rates, establishing a single variable rate with a low income discount.
- Implement a one-year water conservation surcharge of \$0.49 per water consumption unit, to be applied during calendar year 2016, to recover \$2.5 million in lost revenues in FY 15/16 as a result of State-mandated water conservation measures.
- Implement fixed and variable rate increases necessary over the next five years beginning with the first billing on February 1, 2016 and each subsequent January 1 thereafter through January 1, 2020. This would achieve a 5.5% annual increase in Water Fund revenues, as presented in scenario 3a of the water rate study executive summary. The proposed rate increase is designed to address the projected cost increases described herein, and significantly reduce, but not completely eliminate, the Water Fund deficit at the end of five years.

The above water conservation assumptions anticipate a relatively normal 2015/2016 rainfall season with current mandatory drought conservation requirements ending by next summer. Figure 1 shows a table containing the proposed water rates over the next five years. Figure 2 contains samples of a current average single family residential customer's monthly water charges and what those charges would be in the first year and after five years. The percentage (%) change in utility bills will not be the same for every customer class because of the elimination of multiple variable rates and tiers. Most customers will see varying degrees of increases in their utility bills, depending on their current rate and usage, while a minority of customers may see a slight decrease in their bills.

Figure 1

Proposed Fixed Rates (Monthly)						
Fixed (Meter) Charge	Current	Jan 1, 2016	Jan 1, 2017	Jan 1, 2018	Jan 1, 2019	Jan 1, 2020
5/8" Meter	\$10.71	\$ 12.19	\$ 13.08	\$ 14.42	\$ 15.88	\$ 17.45
3/4" Meter	\$ 16.05	\$ 18.27	\$ 19.60	\$ 21.61	\$ 23.80	\$ 26.15
1" Meter	\$ 26.74	\$ 30.44	\$ 32.66	\$ 36.00	\$ 39.65	\$ 43.57
1-1/2" Meter	\$ 53.47	\$ 60.86	\$ 65.30	\$ 71.99	\$ 79.28	\$ 87.12
2" Meter	\$ 85.59	\$ 97.42	\$ 104.53	\$ 115.24	\$ 126.91	\$ 139.45
3" Meter	\$ 160.47	\$ 182.65	\$ 195.98	\$ 216.06	\$ 237.93	\$ 261.46
4" Meter	\$ 267.44	\$ 304.40	\$ 326.62	\$ 360.08	\$ 396.54	\$ 435.74
6" Meter	\$ 534.88	\$ 608.79	\$ 653.24	\$ 720.17	\$ 793.08	\$ 871.49
8" Meter	\$ 855.76	\$ 974.02	\$ 1,045.13	\$ 1,152.20	\$ 1,268.86	\$ 1,394.31
Senior 5/8" Meter	\$ 9.11	No senior rates after February 1, 2016				
Senior 3/4" Meter	\$ 13.64					
Senior 1" Meter	\$ 22.73					
Senior 1-1/2" Meter	\$ 45.47					
Fire Protection	\$ 31.58	\$ 33.32	\$ 35.15	\$37.08	\$39.12	\$41.27
Current Variable Charge per Unit (Monthly)						
Single Family Residential – Tier 1	\$ 1.24	1 Unit = 748 gallons Current rate tiers Tier 1 = 1 – 12 units consumed Tier 2 = 13 or more units consumed				
Single Family Residential – Tier 2	\$1.70					
Senior – Tier 1	\$1.06					
Senior – Tier 2	\$ 1.45					
Commercial/Industrial	\$ 1.70					
Parks/Public Landscape	\$ 0.41					
Public Agency	\$ 0.48					
Proposed Variable Charge Per Unit (Monthly)						
Variable (Consumption) Charge		Jan 1, 2016	Jan 1, 2017	Jan 1, 2018	Jan 1, 2019	Jan 1, 2020
Variable Charge Per Unit		\$ 1.36	\$ 1.67	\$ 1.70	\$ 1.72	\$ 1.75
1 Year Surcharge Per Unit		\$0.49	N/A	N/A	N/A	N/A
<i>Total Variable Charge Per Unit</i>		\$ 1.85	\$ 1.67	\$ 1.70	\$ 1.72	\$ 1.75
Low Income Discount to Qualified Households (Monthly)						
Low Income Discount		\$4.00 per month				

Figure 2

Sample Single Family Residential (3/4" Meter) Average Bill (13 units) WC = Water Conservation	Current (Monthly)		1 st Year (Monthly)		5 th Year (Monthly)	
	Fixed Charge	\$16.05	Fixed Charge	\$18.27	Fixed Charge	\$26.15
Variable Charge	<u>\$19.34</u>	Variable Charge	\$17.68	Variable Charge	<u>\$22.75</u>	
		WC Surcharge	<u>\$ 6.37</u>			
Total Charges	\$35.39	Total Charges	\$42.32	Total Charges	\$48.90	

If adopted, the proposed rate increases will become effective with the first billing cycle on or after February 1, 2016 and will increase every January 1 thereafter, starting in 2017, through and including January 1, 2020.

PUBLIC HEARING

Any property owner of record whose property is subject to the proposed rates for the City's water service fees, or property tenant who pays the utility bill, may submit a written protest to the proposed rate increases. Only one written protest will be counted per identified parcel. Any written protest must:

- State that the identified property owner, or property tenant, is opposed to the proposed rate increases;
- Provide the location of the identified parcel (by assessor's parcel number, street address, or customer utility account). The parcel number is included on the mailing label of this notice if you are the property owner;
- Include the name and signature of the property owner or tenant submitting the protest; and
- Provide written evidence that the person is the property owner or tenant (example: current copy of City utility bill) if the person protesting was not shown on Solano County's last equalized assessment roll as the property owner, or property tenant, of record.

Written protests may be submitted by mail or in person to: City Clerk, City of Vacaville, 650 Merchant Street, Vacaville, CA 95688. Any protest submitted via e-mail or other electronic means will not qualify as a written protest. Only one protest per parcel shall be counted.

Written protests may also be submitted at the public hearing (date and time shown on page 1 of this notice). All written protests must be submitted to the City prior to the conclusion of the public comment portion of the public hearing on the proposed rate increases. At the public hearing, the City Council will accept and consider all written protests and hear all spoken comments to the proposed rate increases. Spoken comments at the public hearing will not qualify as formal protests; only written protests shall qualify as a protest. Upon the conclusion of the public hearing, the City Council will consider the adoption of the proposed increases as shown on page 3 of this notice. If written protests are not submitted by a majority of the property owners, or tenants, of the identified parcels subject to the proposed rate increases, the City Council will be authorized to adopt the rate increases.

COMMUNITY MEETINGS

The following community meetings will be held prior to the public hearing to enable Vacaville property owners, tenants, customers and residents to learn more about the proposed water rate increases:

- Community Meeting #1:** Thursday, November 19th, McBride Senior Center at 10:00 a.m.
- Community Meeting #2:** Tuesday, November 24th, Ulatis Community Center at 7:30 p.m.
- Community Meeting #3:** Tuesday, December 1st, Three Oaks Community Center at 7:00 p.m.
- Community Meeting #4:** Tuesday, December 15th, Leisure Town Rotunda at 1:30 P.M.
- Community Meeting #5:** Thursday, December 17th, City Hall Council Chambers at 7:00 P.M.
- Community Meeting #6:** Tuesday, January 5th, Ulatis Community Center at 7:00 P.M.

QUESTIONS OR COMMENTS?

If you have questions or comments please do one of the following:

Call: The Utilities Department at (707) 469-6400

Email: utilitiesdept@cityofvacaville.com

Write: City of Vacaville
650 Merchant Street
Vacaville, CA 95688

Web: For additional information regarding the proposed rate increases, including answers to frequently asked questions, please visit the City of Vacaville's website at www.cityofvacaville.com and go to Departments/Utilities/Water.

****If you own multiple properties you may receive more than one copy of this notice****

Para obtener más información en español con respecto a las tarifas del servicio de agua propuestas por favor visite www.cityofvacaville.com