



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 September 4, 2013, at 3:30 p.m. in the Board of Directors Meeting Room, 2554 Sweetwater Springs Blvd., Spring Valley, CA 91978**, to consider: (1) the adoption of rate, fee and charge increases that apply to water billed beginning January 1, 2014; (2) the authorization for a period of five years of all future pass-through increases or decreases to cover changes to rates, fees, or charges from the District's water suppliers; and, (3) the authorization for a period of five years overall average rate increases, in addition to the pass through increases, not to exceed 10 percent per year, 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 amount of the proposed rate increase and the basis upon which it was determined is described in more detail as follows.

PROPOSED RATE INCREASES

An overall average rate increase of 7.5 percent for water customers was considered by the District's Board of Directors as part of the annual budget review process. If adopted after the public hearing noticed above, the water rate increase is proposed to take effect with water **billed** on or after January 1, 2014, and may apply to water **used** as early as the beginning of December 2013.

The District has performed a Cost of Service Study and Rate Study (i.e. reviewed rates, fees, charges, costs, and the consumption usage structure) and determined that increases in the rates, fees, and charges are necessary in order to recover sufficient revenues to operate and maintain the public water system. The proposed rate, fee and charge structure will provide revenue that recovers costs reasonably borne in providing the service; are equitable to all customer classes; and are proportionate to the cost of providing the service to each customer class.

Recycled water rates are based on the cost of potable water from the District's wholesale suppliers. To continue providing reliable high quality service, the District must implement rate increase and pass-through to its customers higher costs by those water wholesalers. 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 water suppliers. Everyone benefits from recycled water, including potable water customers because it diversifies our water sources, therefore, potable and recycled water rates are calculated in a combined manner. Recycled rates are then discounted by 15 percent, recognizing the added expense to use recycled water and passing along those incentives to recycled water customers. Today, approximately 13 percent of the District's water supply is made up of recycled water, and there are plans to continue expanding the system.

The rate structure has two basic components: (1) fixed monthly fees and (2) variable monthly rates and fees, which are based on water consumption. Fixed fees are calculated to recover the cost of operating and maintaining the public system and are typically based on the size of the water meter serving the record owner or customer of record. The District's System Fee is an example of a

fixed fee. The variable rates, fees, and charges are consumption based and include but are not limited to supply, treatment, and transportation costs. Variable rates and fees generally impose greater charges as the level of consumption increases. The variable components are structured in such a way as to deter waste and encourage conservation. 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. If adopted, the average customer's water rates, fees, and charges will be adjusted periodically for all increased or decreased costs and charges from the District's wholesale water suppliers. The pass-through costs apply to rates, fees, and charges from the District's water suppliers. The suppliers include but are not limited to the Metropolitan Water District of Southern California, San Diego County Water Authority, and the City of San Diego. 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, maximum overall annual average increases of all rates, fees, and charges of 10 percent to cover all costs of providing service including, but not limited to, costs related to labor, benefits, materials, energy, maintenance, administrative expenses, as well as other operational costs of providing water service, including amounts required to meet bond covenants and to maintain adequate reserves and rate stability.

The proposed water rate increase in the average amount of 7.5 percent, if approved, will pass-through increases implemented by the District's water wholesalers (MWD's 5 percent increase and CWA's increase of 4.3 percent) and will allow the District to recover other increases in operational costs. Water wholesalers do not anticipate additional rate increases in 2014, but they do expect to implement increases in January 2015 and in subsequent years.

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 will be counted. Each protest must be in writing; state the specific rate increase for which the protest is being submitted in opposition; provide the location of the identified property (by assessor's parcel number or street address); and include the original signature of the record owner or customer of record submitting the protest. Protests submitted by e-mail, 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, so 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 Increase to Recycled Water Rates, Fees, and Charges.

At the conclusion of the public hearing, the Board of Directors will consider adopting the proposed actions as described above. 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 authorized to adopt the proposed actions. If adopted, the rates, fees, and charges will apply to recycled water billed on or after January 1, 2014 and may apply to recycled water used as early as the beginning of December 2013. **This letter serves as a 45-day notice of the hearing on the proposed rate increases, and as notice of the increases for recycled water billed on or after January 1, 2014, if adopted.**

This notice is being provided to you by the District pursuant to the California Constitution Article XIIID (collectively 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 recycled water rates, fees and charges.

WHY ARE WATER RATE CHANGES NECESSARY?

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. To continue to provide reliable, safe and high-quality service, the District must implement and pass through to its customers the higher cost of water imposed by suppliers. This year, as in recent years, a large percentage of the increase is a direct result of higher costs from suppliers and represents a direct pass-through from those suppliers. The water suppliers include the MWD, CWA, and the City of San Diego.

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 are raising 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 new supplies including ocean water desalination. In addition, rate increases cover the cost of acquiring imported water from the Colorado River and Northern California.

In 2016, for instance, the San Diego County Water Authority anticipates increasing rates, fees, and charges in anticipation of the Carlsbad Desalination Project (ocean water desalination) becoming operational. The Carlsbad project, while providing San Diego County with a new locally controlled, drought-proof supply of water, could have significant upward pressure on water rates for all San Diego County water customers.

For its part 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 recycled water has on its customers. As a result the District is committed to becoming as efficient as possible, while providing the services its customers expect and rely upon.

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 residents, our county does not benefit from an abundant natural supply of water. San Diego receives an average of 10 inches of rainfall per year, meeting only 5 percent of local demand which is not enough to support our region's population of 3.1 million people or its \$188 billion economy. Because of our semi-arid climate, 82 percent of the water used locally is imported from Northern California and the Colorado River. Not only is the cost of importing water from these locations 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. The entities have continued to work aggressively to develop a more reliable water supply system- one that will increase water independence, provide for future population and economic needs, and reduce the likelihood of a future water shortage. Since then, major initiatives have been undertaken to develop new supplies and improved reliability.

At the regional level, CWA signed a milestone agreement to address decades of water disputes over the allocation of water from the Colorado River. As part of that agreement, San Diego residents paid to have old, leaky earthen canals in Imperial County lined to save water. This "saved water" is now used by customers in San Diego County. This year, the region will receive 80,000 acre-feet of water from the canal lining projects (enough water to supply approximately 160,000 homes). Through a combination of land fallowing and efficiency-based water conservation measures with farmers in Imperial County, the region was also able to purchase another 100,000 acre-feet of water in 2012 (enough water to supply 200,000 existing homes). The water we receive from this part of the agreement will ramp up to 200,000 acre-feet per year by 2021.

Since the 1990s, the District embarked on its own efforts to develop new supply and today operates one of the largest recycled water networks in California. As a benefit, when the drought hit our region in 2008, because of your investments in a recycled water system used for landscape irrigation, mandatory water conservation was not imposed on Otay Water District customers. Additionally, the District is actively supporting the development of an ocean water desalination facility in Rosarito Beach, Mexico. When built, the high-quality water from this facility could replace up to two-thirds of the water we receive from Northern California and the Colorado River.

A result of these major projects, such as the canal linings, water transfers, and reservoir construction and expansion efforts, is that the wholesale cost of water has gone up dramatically in recent years, and it is an expense being borne by all water users. Rising costs are financially difficult for everyone, but having made these investments in new supply and improved reliability, the region is better able to ensure that families, businesses, and the local economy will always have the water it needs.

Recycled Usage Fee (3/4" - 1" Meter) 2014 Proposed and 2015-2018 Projected ⁴							
Consumption Block ¹	2014 Proposed	Current	2014 Proposed	2015 Projected	2016 Projected	2017 Projected	2018 Projected
0 - 42	0 - 32	\$3.31	\$3.56	\$3.83	\$4.12	\$4.43	\$4.53
43 - 97	33 - 75	\$3.35	\$3.61	\$3.88	\$4.17	\$4.48	\$4.58
98+	76+	\$3.42	\$3.68	\$3.96	\$4.25	\$4.57	\$4.68
Recycled (1.5" - 2" Meter)							
0 - 168	0 - 130	\$3.31	\$3.56	\$3.83	\$4.12	\$4.43	\$4.53
169 - 402	131 - 325	\$3.35	\$3.61	\$3.88	\$4.17	\$4.48	\$4.58
403+	326+	\$3.42	\$3.68	\$3.96	\$4.25	\$4.57	\$4.68
Recycled (3" - 4" Meter)							
0 - 403	0 - 440	\$3.31	\$3.56	\$3.83	\$4.12	\$4.43	\$4.53
404 - 820	441 - 1,050	\$3.35	\$3.61	\$3.88	\$4.17	\$4.48	\$4.58
821+	1,051+	\$3.42	\$3.68	\$3.96	\$4.25	\$4.57	\$4.68
Recycled (>6" Meter)							
0 - 7,916	0 - 4,000	\$3.31	\$3.56	\$3.83	\$4.12	\$4.43	\$4.53
7,917 - 16,357	4,001 - 10,000	\$3.35	\$3.61	\$3.88	\$4.17	\$4.48	\$4.58
16,358+	10,001+	\$3.42	\$3.68	\$3.96	\$4.25	\$4.57	\$4.68
Recycled Commercial (<10" Meter)							
0 - 173	0 - 173	\$2.38	\$2.56	\$2.75	\$2.96	\$3.18	\$3.26
174 - 831	174 - 831	\$2.45	\$2.64	\$2.84	\$3.05	\$3.28	\$3.35
821+	832+	\$2.47	\$2.66	\$2.86	\$3.07	\$3.30	\$3.38
Recycled Commercial (10" or Larger Meter)							
0 - 7,426	0 - 7,426	\$2.38	\$2.56	\$2.75	\$2.96	\$3.18	\$3.26
7,427 - 14,616	7,427 - 14,616	\$2.45	\$2.64	\$2.84	\$3.05	\$3.28	\$3.35
14,617	14,617	\$2.47	\$2.66	\$2.86	\$3.07	\$3.30	\$3.38

System Fee ² by Meter Size 2014 Proposed and 2015-2018 Projected ⁴						
Meter Size	Current	2014 Proposed	2015 Projected	2016 Projected	2017 Projected	2018 Projected
3/4"	\$16.74	\$16.19	\$17.40	\$18.71	\$20.11	\$20.58
1"	\$21.26	\$22.87	\$24.59	\$26.43	\$28.41	\$29.06
1 1/2"	\$32.57	\$39.58	\$42.55	\$45.74	\$49.17	\$50.30
2"	\$46.13	\$59.62	\$64.09	\$68.90	\$74.07	\$75.77
3"	\$82.29	\$113.08	\$121.56	\$130.68	\$140.48	\$143.71
4"	\$122.99	\$173.22	\$186.21	\$200.18	\$215.19	\$220.14
6"	\$236.02	\$340.29	\$365.81	\$393.25	\$422.74	\$432.46
8"	\$371.64	\$540.76	\$581.32	\$624.92	\$671.78	\$687.24
10"	\$529.88	\$774.64	\$832.74	\$895.19	\$962.33	\$984.47

Other Charges—2014 Proposed and 2015-2018 Projected ⁴						
Other Charges	Current	2014 Proposed	2015 Projected	2016 Projected	2017 Projected	2018 Projected
Energy Charge ³	\$0.042	\$0.048	\$0.051	\$0.055	\$0.059	\$0.061
Government Fee	\$0.29	\$0.31	\$0.33	\$0.36	\$0.39	\$0.39

Footnotes

1. Recycled water rates are based on meter size and the number of recycled water units used each month. One unit of recycled water equals 748 gallons of water.
2. System Fees are based on the meter size. The System Fee is increasing to pay for higher water system replacement, maintenance, and operating expenses.

3. The Energy Charge represents 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. This increase is due to increased power costs to the District.
4. Projected rates (2015-2018) are for informational purposes only. Inflator factor used is 7.5 percent for 2015-2017 and 2.3 percent for 2018.

This information reflects only changes to rates. For a comprehensive listing of rates, please see the Otay Water District's Code of Ordinances at www.otaywater.gov



Otay Water District
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Spring Valley, CA 91978-2004
www.otaywater.gov

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