



Water Department Prop. 218 Notice Proposed Rates

July 2016

Building a Water System for Our Future

The mission of the City of Santa Cruz Water Department is to provide a safe, clean and continuous supply of water that meets or exceeds local, state and federal standards for public health and environmental quality, and to provide courteous, responsive and efficient service in the most cost-effective manner to our customers. We provide service to about 95,000 customers, 24 hours a day, 365 days a year.

The City of Santa Cruz Water Department is proposing a rate increase and changes to rate structures.

The nation's water utilities face a significant challenge due to a need to repair and replace aging water

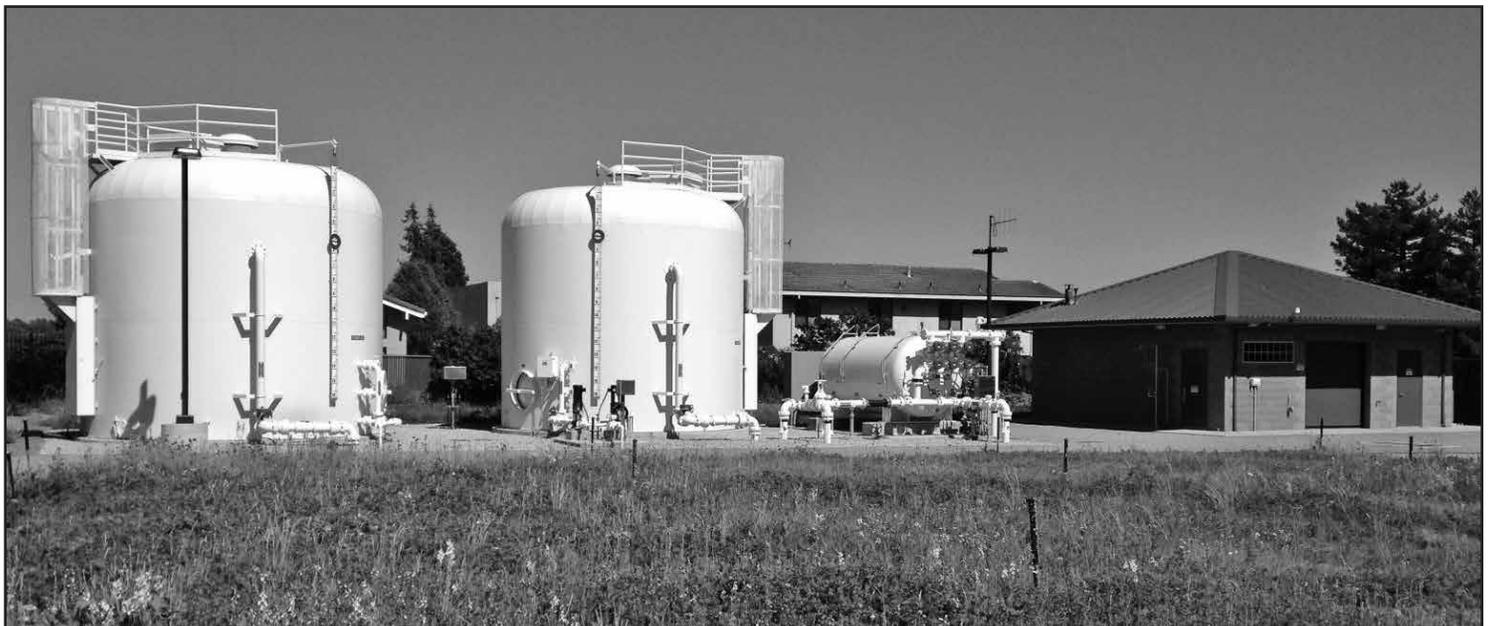
systems, a decrease in water sales due to increased conservation, a changing climate that creates supply instability, and changes in regulatory requirements. The Santa Cruz water system faces all of these challenges and our current rates will not support the work needed to be done to respond to them. We are proposing increases to water rates and a change to the current rate structures, and new fees that will go directly to support projects that both maintain existing back-bone infrastructure and build critical new infrastructure.

When we raised rates in fall 2014, we committed to use the increased rates to fund ongoing Water Department projects and operations, as well as to complete several critical infrastructure

projects. As promised, by the end of 2016 we will have completed:

- The \$25 million Bay Street Tanks;
- A \$6 million rehabilitation of six filter basins at the Graham Hill Water Treatment Facility;
- The \$4.9 million Beltz 12 Well and Water Treatment Facility;
- The \$10.3 million Phase 3 of the North Coast System; and
- Replacement of the \$267,000 Ocean Street trunk main valve.

In addition, we have completed both the rate studies and financial planning work directed by the City Council in 2014, which results in this proposal to increase current rates, change current rate structures, and add new fees to directly support new infrastructure reinvestment.



Proposed Rate Changes

Historically, capital projects have been financed on a “pay-as-you-go” basis and in consequence, have depleted the Department’s available funds. Now, with several new capital projects facing the water system with significantly higher price tags than past projects, it would be impossible for the Department to continue to fund projects through “pay-as-you-go” without ongoing and unacceptably large increases to current rates. Accordingly, the Department will begin issuing debt to finance about two-thirds of planned capital spending. In addition to the financial constraints of “pay-as-you-go,” there is also an equity consideration; it is more equitable to spread costs of major system improvements out over time because projects funded and built today continue to benefit water users and rate payers for decades to come.

The proposed rate changes reflect the strong conservation values of the community by shifting away from collecting a large portion of water service costs from fixed charges (such as the Ready-to-Serve charge), to collecting over 90% of revenues through volumetric-pricing based on customer use. Though customers will see a decrease in their Ready-to-Serve charge, the proposed cost per unit of water will increase on all types of

accounts and depending upon the amount of water used, customers may see a big jump in their water bill. Changes to rate structures are also proposed so that multi-family accounts will now pay the same per-unit costs as single families, and proposed changes to irrigation accounts include an assigned water budget that reflects efficient irrigation practices for each property.

The costs to treat and distribute drinking water are fixed; the shift to collect needed revenue through fluctuating water sales comes with some risk. To mitigate that risk while still implementing a more volume-based rate structure that encourages conservation, a \$1 per unit of water Rate Stabilization fee will be charged beginning in 2017.

The newest change proposed to your water bill is an Infrastructure Reinvestment Fee that will support reinvestment in critical infrastructure projects. Since the rate increase in 2014, infrastructure projects have been added to the Water Department’s work plan at significantly greater costs than past projects: a state-required rehabilitation of the inlet-outlet pipeline in the Newell Creek dam for \$42 million; rehabilitation of the pipeline between Loch Lomond and

Felton for \$18 million; replacement and improvements to the pump station at the Felton diversion dam for \$4.5 million; replacement of several concrete tanks at the Graham Hill Water Treatment Plant for \$9 million; and initial feasibility work on a water supply project, as directed by the Council-approved work of the Water Supply Advisory Committee, which was completed in fall 2015.

We are also proposing a continuation of the Drought Cost Recovery fee, which will only go into effect in the event that the Council imposes restrictions on water use due to drought.

For those customers who...

Are charged an Elevation Surcharge for the increased energy used to pump water to homes in higher elevations – the proposed new surcharge will be \$0.48.

Have private fire protection/sprinkler service – there is a proposed new \$1.09 per fire-service meter charge, per month, to cover the costs for maintaining separate fire protection meters. There is no charge for water used to respond to a fire, but leaking fire services will be charged at the commercial per-unit rate for water, which is intended to incentivize prompt repairs to leaks.



Outside City Rates

Outside City Fixed Rates - Ready to Serve

| Meter Size | Ready to Serve (\$/Meter) | | | | |
|----------------------------|---------------------------|---------------|---------------|---------------|---------------|
| | As of 10/1/16 | As of 7/1/17 | As of 7/1/18 | As of 7/1/19 | As of 7/1/20 |
| 5/8-in | \$ 10.05 | \$ 10.91 | \$ 11.66 | \$ 12.26 | \$ 12.89 |
| 3/4-in | \$ 10.32 | \$ 11.20 | \$ 11.97 | \$ 12.59 | \$ 13.24 |
| 1-in | \$ 11.11 | \$ 12.06 | \$ 12.89 | \$ 13.55 | \$ 14.25 |
| 1 1/2-in | \$ 12.16 | \$ 13.20 | \$ 14.10 | \$ 14.83 | \$ 15.60 |
| 2-in | \$ 15.05 | \$ 16.34 | \$ 17.46 | \$ 18.35 | \$ 19.30 |
| 3-in | \$ 36.36 | \$ 39.47 | \$ 42.17 | \$ 44.34 | \$ 46.64 |
| 4-in | \$ 44.25 | \$ 48.03 | \$ 51.33 | \$ 53.96 | \$ 56.76 |
| 6-in | \$ 62.66 | \$ 68.01 | \$ 72.68 | \$ 76.42 | \$ 80.37 |
| 8-in | \$ 83.71 | \$ 90.86 | \$ 97.10 | \$ 102.09 | \$ 107.38 |
| 10-in | \$ 107.38 | \$ 116.55 | \$ 124.55 | \$ 130.95 | \$ 137.74 |
| Fire Service - All Sizes * | \$1.15 /month | \$1.23 /month | \$1.30 /month | \$1.35 /month | \$1.40 /month |

Outside City Volume (Commodity) Rates - Consumption

| | As of 10/1/16 | As of 7/1/17 | As of 7/1/18 | As of 7/1/19 | As of 7/1/20 |
|---|---------------|--------------|--------------|--------------|--------------|
| Single Family Residential and Multi-Family Residential (calculation is based upon the number of dwelling units multiplied by the tier width) | | | | | |
| Tier 1 (0-5 ccf**) | \$ 6.59 | \$ 7.16 | \$ 7.65 | \$ 8.04 | \$ 8.46 |
| Tier 2 (6-7 ccf) | \$ 7.37 | \$ 8.00 | \$ 8.55 | \$ 8.99 | \$ 9.46 |
| Tier 3 (8-9 ccf) | \$ 8.54 | \$ 9.27 | \$ 9.90 | \$ 10.41 | \$ 10.95 |
| Tier 4 (10 ccf & above) | \$ 10.15 | \$ 11.02 | \$ 11.78 | \$ 12.38 | \$ 13.02 |
| Commerical: Business, Industrial, Restaurant, Hotel, Golf, Municipal, Bulk, Fire Service Leaks | | | | | |
| Uniform | \$ 7.53 | \$ 8.17 | \$ 8.73 | \$ 9.18 | \$ 9.66 |
| North Coast AG | | | | | |
| Uniform | \$ 3.58 | \$ 3.88 | \$ 4.15 | \$ 4.36 | \$ 4.59 |
| Landscape / Irrigation (tiers based on percent of water budget) | | | | | |
| Tier 1 (≤100% of budget) | \$ 7.85 | \$ 8.53 | \$ 9.11 | \$ 9.58 | \$ 10.08 |
| Tier 2 (101% - 150%) | \$ 10.48 | \$ 11.38 | \$ 12.16 | \$ 12.79 | \$ 13.45 |
| Tier 3 (150% & above) | \$ 11.76 | \$ 12.77 | \$ 13.64 | \$ 14.34 | \$ 15.09 |
| Elevation Surcharge | | | | | |
| As Applicable | \$ 0.48 | \$ 0.52 | \$ 0.56 | \$ 0.59 | \$ 0.62 |

Outside City Volume (Commodity) Rates - Infrastructure Reinvestment Fee

| | As of 10/1/16 | As of 7/1/17 | As of 7/1/18 | As of 7/1/19 | As of 7/1/20 |
|---|---------------|--------------|--------------|--------------|--------------|
| Single Family Residential and Multi-Family Residential (calculation is based upon the number of dwelling units multiplied by the tier width) | | | | | |
| Tier 1 (0-5 ccf**) | \$ 1.78 | \$ 1.99 | \$ 2.10 | \$ 2.33 | \$ 2.57 |
| Tier 2 (6-7 ccf) | \$ 2.68 | \$ 2.99 | \$ 3.15 | \$ 3.49 | \$ 3.86 |
| Tier 3 (8-9 ccf) | \$ 3.30 | \$ 3.69 | \$ 3.88 | \$ 4.31 | \$ 4.76 |
| Tier 4 (10 ccf & above) | \$ 4.44 | \$ 4.96 | \$ 5.22 | \$ 5.80 | \$ 6.41 |
| Commerical: Business, Industrial, Restaurant, Hotel, Golf, Municipal, Bulk | | | | | |
| Uniform | \$ 2.59 | \$ 2.90 | \$ 3.05 | \$ 3.38 | \$ 3.74 |
| North Coast AG | | | | | |
| Uniform | \$ 3.05 | \$ 3.40 | \$ 3.58 | \$ 3.98 | \$ 4.39 |
| Landscape / Irrigation (tiers based on percent of water budget) | | | | | |
| Tier 1 (≤100% of budget) | \$ 3.23 | \$ 3.60 | \$ 3.79 | \$ 4.21 | \$ 4.65 |
| Tier 2 (101% - 150%) | \$ 4.83 | \$ 5.39 | \$ 5.68 | \$ 6.30 | \$ 6.97 |
| Tier 3 (150% & above) | \$ 4.89 | \$ 5.46 | \$ 5.75 | \$ 6.38 | \$ 7.05 |

Outside City Volume (Commodity) Rates - Rate Stabilization Fee

| | As of 10/1/16 | As of 7/1/17 | As of 7/1/18 | As of 7/1/19 | As of 7/1/20 |
|------------------------|---------------|--------------|--------------|--------------|--------------|
| All accounts (Per ccf) | \$ - | \$ 1.00 | \$ 1.00 | \$ 1.00 | \$ 1.00 |

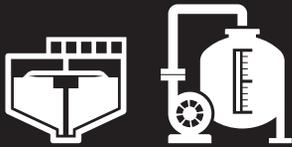
*This amount may be billed annually and will be added to any other applicable water use fixed and volume charges. **ccf equals 100 cubic foot of water.

Drought Cost Recovery Fee (DCRF)

| | Stage 1 – 5% Shortage | Stage 2 – 15% Shortage | Stage 3 – 25% Shortage | Stage 4 – 35% Shortage | Stage 5 – 50% Shortage |
|--------------------------------|--------------------------|---------------------------|---------------------------|---------------------------|---------------------------|
| Maximum Targeted Cost Recovery | \$ 1,000,000 | \$ 2,500,000 | \$ 4,000,000 | \$ 5,500,000 | \$ 7,500,000 |
| 5/8-in | \$ 2.45 | \$ 6.12 | \$ 9.79 | \$ 13.46 | \$ 18.35 |
| 3/4-in | \$ 2.45 | \$ 6.12 | \$ 9.79 | \$ 13.46 | \$ 18.35 |
| 1-in | \$ 6.13 | \$ 15.30 | \$ 24.48 | \$ 33.65 | \$ 45.88 |
| 1 1/2-in | \$ 12.25 | \$ 30.60 | \$ 48.95 | \$ 67.30 | \$ 91.75 |
| 2-in | \$ 19.60 | \$ 48.96 | \$ 78.32 | \$ 107.68 | \$ 146.80 |
| 3-in | \$ 36.75 | \$ 91.80 | \$ 146.85 | \$ 201.90 | \$ 275.25 |
| 4-in | \$ 61.25 | \$ 153.00 | \$ 244.75 | \$ 336.50 | \$ 458.75 |
| 6-in | \$ 122.50 | \$ 306.00 | \$ 489.50 | \$ 673.00 | \$ 917.50 |
| 8-in | \$ 281.75 | \$ 703.80 | \$ 1,125.85 | \$ 1,547.90 | \$ 2,110.25 |
| 10-in | \$ 347.90 | \$ 869.04 | \$ 1,390.18 | \$ 1,911.32 | \$ 2,605.70 |

The Drought Cost Recovery Fee maximum amounts set forth above are a fixed fee and are hereby established and shall be applicable for the full fiscal year (twelve months) following the water shortage declaration made by City Council. The maximum targeted cost recovery amount is indicated below and is linked to the water shortage stage declared by the City Council.

How Your Money Has Been Spent



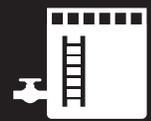
Beltz Well #12 and
Treatment Plant
\$4.9 million



Ocean Street Trunk
Main Valve Replacement
\$267K



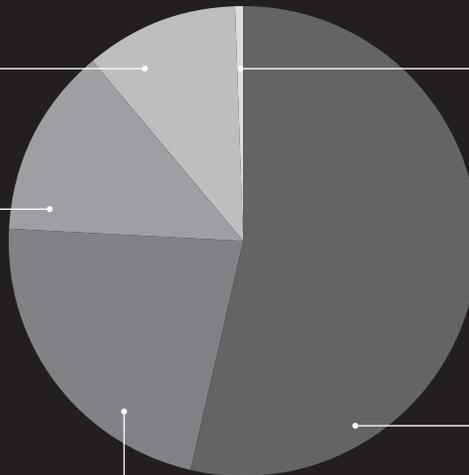
Filters at Graham Hill
Treatment Plant
\$6 million



Bay Street Reservoir
\$25 million



North Coast System – Phase 3
\$10.3 million





What is the need to increase water rates?

Much of the City's water infrastructure has reached or is reaching the end of its functional lifespan. Therefore the Water Department is planning a major infrastructure reinvestment program, with \$128 million needed for projects over the next five years.

What are the proposed changes to rates?

The Water Department is proposing changes to both how rates are structured and to the per-unit costs. Water rates are currently structured so that about 1/3 of revenue comes from fixed rates, such as the Ready-to-Serve charge. The new rate structure will collect less from fixed charges and more from the volume of water used. Because fixed-fee revenues are going down, per unit water rates will be going up to produce needed revenues. This design is more in line with the values expressed by the community, which is to encourage less water use.

How much more will customers pay with the proposed rate increases?

It depends on how much water a customer uses. Very low water users will actually pay less than they currently pay; very high users will pay substantially more.

Customers were told to conserve water, but are now being told that the drop in water sales is causing the need to raise rates. That doesn't seem fair?

It's true that the loss in revenue from selling less water is part of the need to increase rates. However it's a small part. The driving force behind raising rates is the need to reinvest in the City's drinking water treatment and delivery infrastructure.

What will customers get for their money?

Major rehabilitation of the inlet-outlet pipeline in the dam at Loch Lomond; rehabilitation or replacement of the Felton Diversion Dam and Pump Station and the Felton-to-Loch Lomond pipeline; and additional rehabilitation of the Graham Hill Water Treatment Plant are all projects that will be completed.

What's the difference between the current Ready-to-Serve charge and the proposed new Infrastructure Reinvestment Fee?

The Ready-to-Serve charge pays for ongoing operations, such as meter reading and maintenance, producing and delivering bills, and customer service. The proposed Infrastructure Reinvestment Fee is specifically for pay-as-you-go capital investment and debt service for capital expenditures.

What's the difference in the Rate Stabilization Fee proposed and the Drought Cost Recovery Fee?

The Drought Cost Recovery Fee will only be levied during an official declaration of water restrictions. The Rate Stabilization Fee was created to mitigate the risk inherent in basing so much revenue on the volume of water sold.

Will there be a "lifeline" rate for those on fixed and low incomes?

Proposition 218 requires that all customers be charged only for the costs of service provided – no more; no less. Unfortunately it therefore does not make allowances for "lifeline" rates.

Notice of Public Hearing

The City Council for the City of Santa Cruz will hold a Public Hearing Tuesday, August 23, 2016, during the regular meeting of the City Council at 7:00 pm.

The City Council will consider adoption of a proposed water rate increase affecting all water customers. Interested persons are encouraged to attend and comment on the issues being discussed. The meeting will be held in City Council Chambers at 809 Center Street.

Written protests: Any property owner or a tenant who is a customer of the Water Department may protest the proposed water rates. Only one written protest per parcel, filed by an owner or a tenant who is a customer, will be counted. Only written and signed protests that include the writer's address and/or assessor parcel number will be counted to determine whether a majority protest to the proposed water rate increase exists. Written protests may be mailed or hand delivered to the Mayor and Council of Santa Cruz at 809 Center Street, Room 10, Santa Cruz, CA 95060.

If you oppose the proposed rate increases, Proposition 218 requires that your protest be submitted in writing to be counted, even if you plan to attend the Public Hearing. To be counted, the protest must: 1) be in writing; 2) state opposition to the proposed rate increase; 3) identify the parcel by assessor's parcel number or street address; 4) include the printed name and original signature of the owner of record or a tenant who is a customer of the Water Department; 5) be received before the conclusion of the Public Hearing on August 23, 2016.

For more information, visit www.cityofsantacruz.com/h2orates.



Santa Cruz Water District
212 Locust Street
Santa Cruz, CA 95060

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Notice of Public Hearing
Proposed Water Rates
Affecting Your Area

