

APPENDIX "E" - CITY OF HEMET SEWER RATE STUDY
2015



City of Hemet

Sewer Rate Study

Draft Report July 2015



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SECTION 1: Executive Summary

1.1 Background

The City of Hemet (City) owns and operates a sewer collection system that serves a portion of the City's sphere of influence consisting of about 11,200 active accounts. The Eastern Municipal Water District (EMWD) and the Lake Hemet Municipal Water District provide sewer collection for other portions of the City's sphere of influence. The City charges its own customers for sewer collection system service. In addition, the City charges EMWD customers located in the City of Hemet a sewer impact fee, which was established by a 2001 Inter-Agency Sewage Agreement between the City and EMWD.

Wastewater flow generated within the City is conveyed to the Hemet/San Jacinto Regional Water Reclamation Facility for treatment. The treatment facility is operated by EMWD and EMWD sets the treatment service charges.

1.2 Purpose

This 2015 Sewer Rate Study addresses the sewer rates and charges imposed by the City of Hemet, consisting of the City's sewer collection service charge and the EMWD sewer impact fee. Currently, the sewer rates and impact fee revenues are adequate to meet the operating costs of the sewer system. However, rate revenues must increase over the next five years to fund the replacement of one mile of sewer pipeline annually. Pipeline replacements are needed so that the City can continue to maintain a high level of sewer service. The purpose of this report is to determine the sewer collection system cost of service and to develop fair and equitable sewer rates and charges.

1.3 Current Sewer Rates

The City last increased its sewer rates and charges July 2006 and last increased the sewer impact fee February 2006. By the terms of the Inter-Agency Sewage Agreement, the impact fee is intended to equal 20% of EMWD's current total collection, transmission, and treatment rate. Although EMWD's total sewer rate has increased since 2006, the City of Hemet has not updated the impact fee.

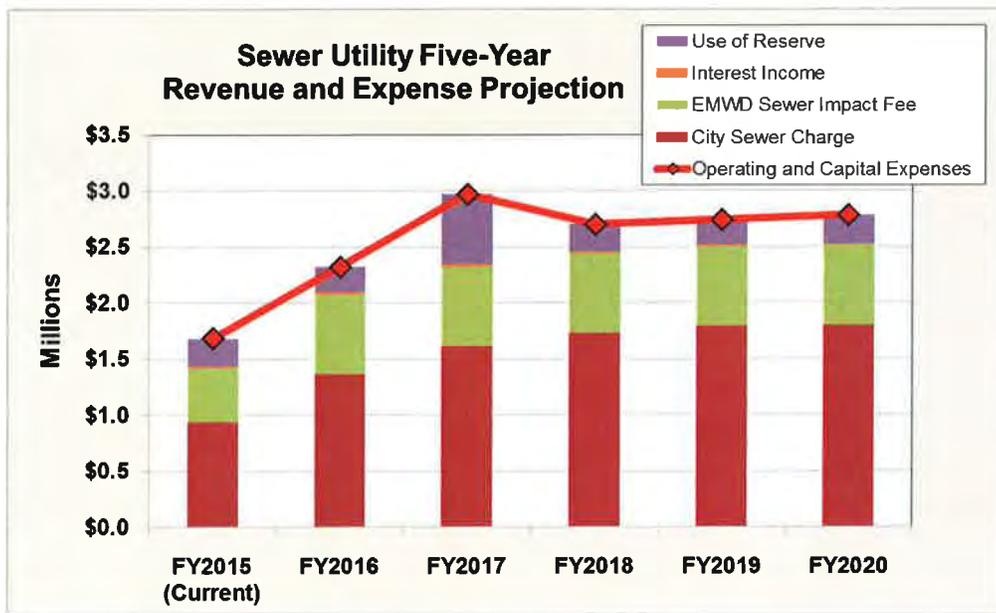
The City currently bills for sewer service on a bimonthly basis. In 2016, the City will transition to monthly billing for water and sewer service. The currently bimonthly sewer rates are converted to monthly rates in this report. The current sewer impact fee is \$3.32 monthly per sewer unit. The City's current monthly sewer charge is \$4.22 per single family residential connection.

1.4 Five Year Financial Projection

In consultation with City staff, Bartle Wells Associates (BWA) developed a five-year financial planning projection. Currently, the sewer utility expends \$1.33 million annually in operating costs. Operating costs are expected to increase by 3% per year up to \$1.46 million in FY2020. In addition, the City plans to replace one mile of sewer pipeline per year at a cost of \$1.32 million. By 2020, the total cost of sewer service is projected to be \$2.78 million annually.

In FY2015, the sewer fund is projected to generate \$1.43 million in revenue, which is sufficient to fund current operating costs. In addition, the City will upon its fund reserve in FY2015 in order to conduct \$350,000 in pipeline replacements. Continuing this financial strategy in the upcoming five years, the City should continue to fund the majority of its costs via rate revenue and draw down its reserve as needed to fund a portion of the pipeline costs. BWA recommends that the City spend down \$1.6 million of the reserve over the next five years to conduct system replacements.

By updating the sewer impact fee to reflect 20% of EMWD’s FY2015 total sewer rate, the City will generate an additional \$220,000 annually. In addition, BWA recommends that the City sewer charge be increased to generate \$1.8 million, up from the current charge revenue of about \$940,000. The City’s five-year sewer utility financial projection is presented in the chart below.



1.5 Proposed Sewer Rates

The proposed monthly City sewer charges and the sewer impact fee are provided below. The City’s sewer charge is proposed to increase October 1, 2015, March 1, 2016, January 1, 2017, and January 1, 2018. The October 1, 2015 adjustment to the EMWD sewer impact fee increases the fee to 20% of EMWD’s current total sewer charge as permitted by the Inter-Agency Sewage Agreement. Future changes to EMWD’s total sewer charge are unknown.

Table 1: Executive Summary - Proposed Sewer Rates
City of Hemet
Sewer Rate Study

	Current	Monthly Sewer Charges per Sewer Unit						Cumulative Increase
		1-Oct-15	1-Mar-16	1-Jan-17	1-Jan-18	1-Jan-19	1-Jan-20	
Sewer Charge	\$4.22	\$5.75	\$7.00	\$7.50	\$8.00	\$8.00	\$8.00	\$3.78
EMWD Sewer Impact Fee	\$3.32	\$4.836	\$4.836	\$4.836	\$4.836	\$4.836	\$4.836	\$1.52

SECTION 2: Current Sewer Rates

This section provides a description of the City's billing procedures, current sewer rates and revenue, and provides a survey comparing the City of Hemet's rate with the rates charged by other local agencies.

2.1 Utility Billing Procedures

2.1.1 City-billed Customers

The City bills for municipal utility services on a bimonthly basis. The typical City utility bill includes a water base (meter) charge, water consumption charges, a City sewer and storm drain charge, and an EMWD sewer treatment charge. The water service charge revenues are remitted to the City's Public Water Utility Fund and the sewer treatment charge revenues are remitted to EMWD. Sewer collection service and storm drain service are billed as one charge on customer bills.

The typical residential customer's utility bill would include a monthly charge of \$7.54 for City sewer and storm drain service. The combined charge consists of \$4.22 for sewer service and \$3.30 for storm drain service. After the City receives payment from customers, the City's internal financial management system accounts for the sewer and storm drain revenues separately as required by Proposition 218, the California statute that governs water and sewer utility rates.¹ Sewer service revenues are not used to fund storm drain costs.

2.1.2 EMWD-billed Customers

In addition to the City-billed customers, the City of Hemet provides sewer collection service to about 2,000 customers within EMWD's service area. EMWD bills these customers Hemet's monthly sewer rate of \$4.22 and remits the revenue to the City.

2.1.3 Impact Fee Customers

The City also receives revenue via an impact fee charged to EMWD customers. Customers who receive EMWD sewer collection service and are located in the City of Hemet are charged a sewer impact fee. EMWD bills customers for the impact fee and remits the revenue to the City. The impact fee was established in a 2001 Inter-Agency Sewage Agreement between EMWD and the City to provide cost equity for sewer service amongst the residents of the City. The 2001 Agreement set the impact fee as 20% of the total collection, transmission, and treatment charge imposed by EMWD on customers located within the City. The impact fee was intended to be updated regularly, concurrent with increases in EMWD's total sewer charge. However, the City has not adjusted the impact fee since February 2006 when it was increased to \$3.32 monthly per sewer unit. EMWD customers pay the impact fee in addition to all other EMWD service charges for sewer collection and treatment.

¹ Proposition 218 mandates that sewer rates can only be used to fund the cost of providing sewer service. Sewer rate revenue cannot fund other services, such as storm drain service.

2.2 Current Sewer Rates

The City last updated the City sewer charge July 1, 2006 in Resolution No. 4057. The City's sewer collection charge is billed to customers based on the number of sewer units. One sewer unit is defined as the equivalent sewer flow of a single family residential dwelling. Other customer types are assigned multiple sewer units based on their sewer flow relative to a single family dwelling. A description of the sewer unit calculation for each customer type is provided in Table 2.

Table 2: Current Sewer Rates
City of Hemet
Sewer Rate Study

Customer Type	Sewer Unit Calculation	Current Monthly Charge (\$/sewer unit)
City Customers		
Single family residence, mobile home on owner's lot, multiple family residence	Number of dwelling units	\$4.22
Mobile home park	Number of spaces or quarterly report of occupied spaces	\$4.22
Recreational vehicle park	Number of spaces or quarterly report of occupied spaces	\$3.50
Hotels and motels	Number of rooms	\$4.22
All other commercial, industrial, public and tax exempt agencies, convalescent homes, hospitals, churches, schools, and other properties	Based on EMWD's method of sewer unit calculation for each property use	\$4.22
EMWD-billed City Customers		
All types	Based on the City's method of sewer unit calculation for each property use	\$4.22
Impact Fee Customers		
All types	Based on EMWD's method of sewer unit calculation for each property use	\$3.32

2.3 Customer Billing Units and Current Rate Revenue

Table 3 provides the number of accounts, number of sewer units, and the FY2015 estimated sewer rate revenue. The City collects charges and impact fees from about 19,400 active accounts and about 30,600 sewer units. As described above, one account can be billed for multiple sewer units.

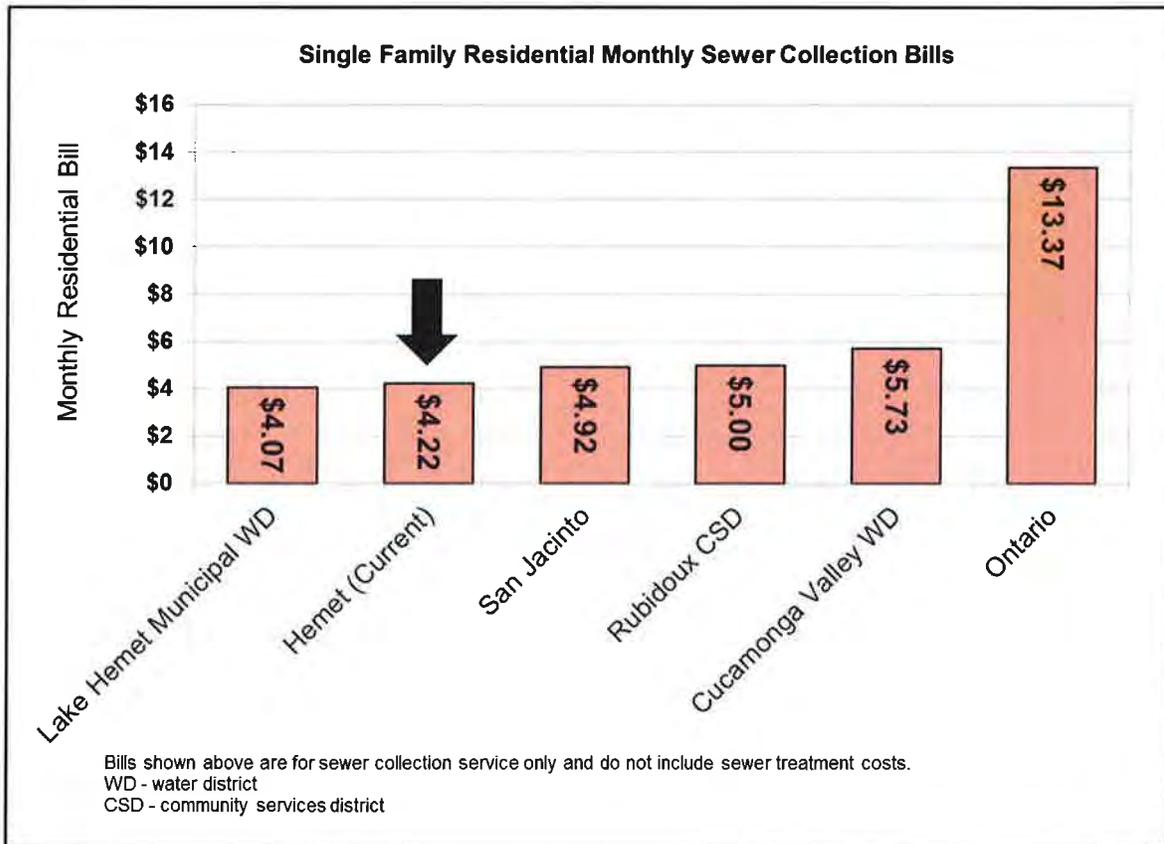
In total, the City expects to receive about \$1.42 million in sewer rate revenue in FY2015. About 55% of the rate revenue is paid by City-billed sewer customers, about 11% is paid by EMWD-billed City customers, and about 34% is paid by impact fee customers.

Table 3: FY2015 Estimated Sewer System Billing Units and Revenue
 City of Hemet
 Sewer Rate Study

Customer Type	Number of Accounts	Number of Sewer Units	Current Monthly Charge	FY2015 Estimated Revenue
City Customers	9,011	15,282	\$4.22	\$773,900
EMWD-billed City Customers	2,185	3,213	\$4.22	\$162,700
Impact Fee Customers	8,188	12,118	\$3.32	\$482,800
Total	19,384	30,613		\$1,419,400

2.4 Typical Bills Survey

BWA conducted a bills survey comparing the typical monthly single family residential sewer collection bill in the City of Hemet with the typical bills of other local agencies. Most agencies in the region charge a single combined fee for both sewer collection service and sewer treatment service. The City of Hemet provides sewer collection service only. The figure below shows the typical bills of agencies that have a distinct and separate charge for sewer collection system service. Agencies that charge a combined fee for collection and treatment service are excluded from the bill survey. The City of Hemet's sewer collection charge is the second lowest in the region and is much lower than the City of Ontario's collection charge.



SECTION 3: Cash Flow Projection

3.1 Revenues

As described in the previous section, the City expects to collect over \$1.4 million in sewer rate revenue in FY2015. In addition, the sewer fund collects a small amount of interest earnings from the fund balance. For FY2016 to FY2020, interest income is estimated at 1% of the beginning fund balance each year. In order to meet costs, rates must increase. The proposed effective date for the first rate increase is October 1, 2015 followed by a rate increase March 1, 2016, January 1, 2017, and January 1, 2018.

3.2 Expenses

The sewer utility's expenses consist of operating and capital expenses. For FY2015, the City budgeted approximately \$1.33 million in operating costs including staffing costs, maintenance, equipment, administration, and overhead. These expenses are ongoing costs and are projected to increase by 3% annually due to inflation. In FY2017, the City plans to purchase a vactor truck for \$310,000, which will be a one-time expense.

To provide for the long-term upkeep of the sewer system, the City plans to replace five miles of sewer pipeline over the next five years. The City initiated work on the first mile in FY2015 which is expected to be completed in FY2016. Thereafter, the City expects to replace one mile per year at a cost of \$1.32 million per mile, see Table 4. At a minimum, the City must replace a half mile of sewer pipeline per year to maintain the system (noted as high priority below). The second half mile annually is needed to proactively upgrade the system so that the City can continue to provide a high level of service (noted as additional capital below). Over the next five years, the City plans to fund \$6.25 million in pipeline replacements. In addition, the City plans to conduct a Sewer Master Plan Update in FY2016 at a cost of \$50,000.

Table 4: Capital Improvement Program
City of Hemet
Sewer Rate Study

Capital Projects	Budget FY2015	Five Year Projection					Five Year Total
		FY2016	FY2017	FY2018	FY2019	FY2020	
High Priority							
Sewer Main Replacement/Lining 1/2 mile annually (\$250/LF)	350,000	310,000	660,000	660,000	660,000	660,000	2,950,000
Sewer Master Plan Update		50,000					50,000
Subtotal High Priority	350,000	360,000	660,000	660,000	660,000	660,000	3,000,000
Additional Capital							
Additional 1/2 mile annually main replacement/lining	0	660,000	660,000	660,000	660,000	660,000	3,300,000
Subtotal Additional Capita	0	660,000	660,000	660,000	660,000	660,000	3,300,000
Total Capital Projects	\$350,000	\$1,020,000	\$1,320,000	\$1,320,000	\$1,320,000	\$1,320,000	\$6,300,000

3.3 Financial Planning Assumptions

In consultation with staff, BWA developed financial planning assumptions that are described below.

3.3.1 Customer Growth

The City expects growth in the sewer service customer base of about 3% over the next ten years, which equates to an annual average of about 0.30% or 92 new sewer units annually.

3.3.2 Fund Reserve Targets

Revenues of the sewer system must be adequate to meet capital and operating costs as well as maintain adequate emergency reserves. The FY2015 ending fund balance is projected to be about \$2.1 million. BWA finds this level of reserve to be more than adequate. BWA recommends a minimum fund balance of 30% of operating expenses, about \$400,000 in FY2015, to provide emergency funding as needed. The minimum fund target is projected to increase annually as operating costs increase. Over the next five years, BWA recommends that the City draw down its fund balance by \$1.6 million to fund sewer pipeline replacements.

3.3.3 Financial Planning

BWA recommends that the City fully fund its operating and capital costs using rate revenue, interest income, and the available fund reserve. BWA does not recommend that the City issue debt to finance its sewer pipeline replacements. Pipeline replacements are a capitalized maintenance expense that is needed for the general upkeep of the system. Pipeline replacements should be budgeted and funded annually from rate revenue. Municipal debt is typically used for one-time system retrofit costs and not for ongoing maintenance and repairs.

3.4 Financial Projection

Table 5 provides the Sewer Fund cash flow for the next five years. Current revenues are adequate to meet current operating expenses, but rate increases are needed to fund inflationary cost increases and pipeline replacement costs. It is projected that the City will implement rate increases in 2015, 2016, 2017, and 2018 which will increase system revenues from the current level of about \$1.4 million to over \$2.5 million. BWA's cash flow projection includes a drawn down of reserves each year to fund a portion of the pipeline replacements. However, the Sewer Fund is projected to exceed the minimum fund target each year.

Table 5: Sewer Fund Cash Flow
City of Hemet
Sewer Rate Study

	Budget	Five Year Projection (Prop 218)				
	FY2015	FY2016	FY2017	FY2018	FY2019	FY2020
BEGINNING BALANCE						
Sewer Fund [1]	\$2,315,300	\$2,063,000	\$1,835,900	\$1,208,200	\$963,100	\$737,900
<u>Revenues</u>						
Sewer Service Charges						
Customers Served by City						
City Billed	773,900	1,063,400	1,335,600	1,432,000	1,482,600	1,487,000
EMWD Billed	162,700	303,800	280,800	301,100	311,700	312,600
EMWD Impact Fee	482,800	705,400	707,500	709,600	711,700	713,900
Interest Income [2]	11,200	21,000	18,000	12,000	10,000	7,000
Total Revenues	\$1,430,600	\$2,093,600	\$2,341,900	\$2,454,700	\$2,516,000	\$2,520,500
<u>Expenses</u>						
<i>Operating Expenses</i>						
Salaries and Benefits	551,700	568,300	585,300	602,900	621,000	639,600
Supplies and Services	349,800	288,200	296,800	305,700	314,900	324,300
Administration & Overhead	431,300	444,200	457,500	471,200	485,300	499,900
Vector Truck	0	0	310,000	0	0	0
Total O&M Expenses	1,332,800	1,300,700	1,649,600	1,379,800	1,421,200	1,463,800
Operations Net Revenue	\$97,790	\$792,900	\$692,300	\$1,074,900	\$1,094,800	\$1,056,700
<i>Capital Expenses</i>	350,000	1,020,000	1,320,000	1,320,000	1,320,000	1,320,000
Total Expenditures	\$1,682,800	\$2,320,700	\$2,969,600	\$2,699,800	\$2,741,200	\$2,783,800
Total Net Revenue	(\$252,200)	(\$227,100)	(\$627,700)	(\$245,100)	(\$225,200)	(\$263,300)
ENDING BALANCE						
Sewer Fund	\$2,063,100	\$1,835,900	\$1,208,200	\$963,100	\$737,900	\$474,600
Target Balance [3]	\$399,800	\$390,200	\$494,900	\$413,900	\$426,400	\$439,100
Target Met?	yes	yes	yes	Yes	Yes	yes

[1] Estimated sewer portion of the Sewer and Storm Drain Special Revenue Fund

[2] Interest income is estimated as 1% of the Beginning Fund Balance

[3] Reserve Fund targets are 30% of O&M expenses

SECTION 4: Proposed Sewer Rates

This section provides a review of the City’s current rate structure and the recommended rates for the next five years.

4.1 Review of Current Rate Structure

BWA finds that the City’s current sewer rate structure is reasonable, consistent with industry standard practice, and fairly recovers the cost of service from customers. The City bills for sewer collection service on a sewer unit basis; one sewer unit is equal to the sewer flow of a single family residential dwelling. Multiple family and commercial customers are billed multiple sewer units based on their relative use of the sewer system compared to the typical single family residential customer. Depending on how the customer is billed (see Table 2), the City or EMWD determines the number of sewer units per customer. The City audits and updates its sewer unit assignments annually. This type of rate structure is common in California and is reasonable.

BWA recommends that the City continue its current rate structure with an adjustment to the recreational vehicle park rate. Currently, the rate for each space in a recreational vehicle park is \$2.875 monthly, which is 68% of the current residential rate of \$4.22 monthly. BWA reviewed the City’s billing records from the past three years and found that the City does not have any recreational vehicle park customers. BWA recommends that the recreational vehicle park rate be eliminated. If a new recreational vehicle park connects to the sewer system in the future, the City should assign sewer units based on engineering judgement.

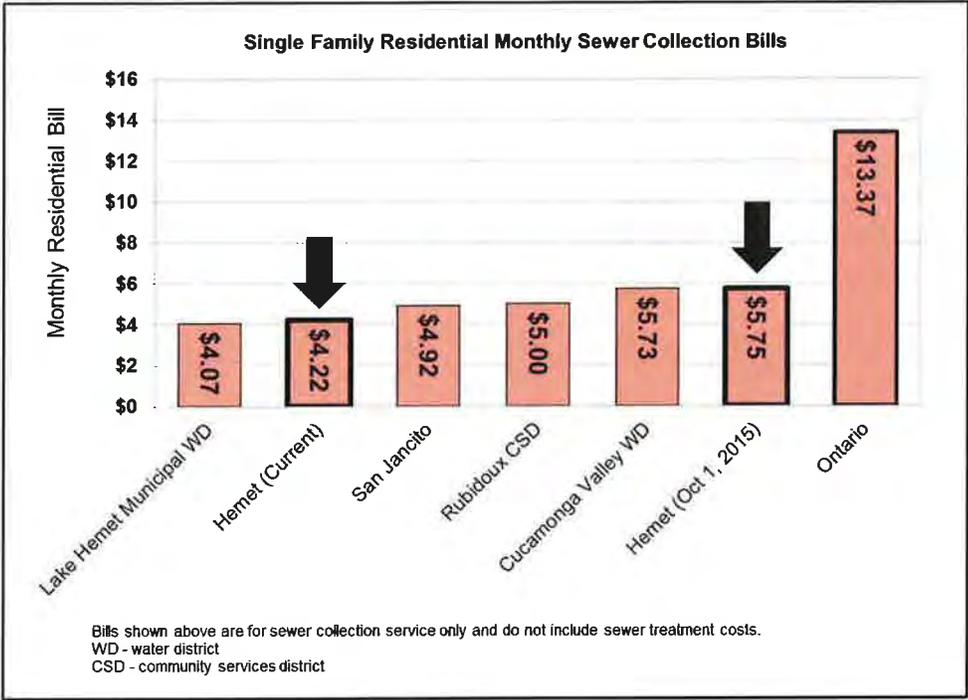
4.2 Proposed Sewer Rates

The table and figure below provide the proposed sewer rates over the next five years. BWA proposes that the current monthly sewer charge of \$4.22 per sewer unit be increased to \$8.00 by January 1, 2018. BWA also proposes that the City update the EMWD sewer impact fee on October 1, 2015 to equal 20% of the total sewer fee charged by EMWD consistent with the City and EMWD’s Inter-Agency Sewage Agreement. Potentially, the City of Hemet could update the impact fee in the future as EMWD increases its fee. At this time, EMWD’s future rate increases are unknown and the impact fee is assumed to remain the same after the October 1 increase. The City should conduct a legal review to determine the process and public noticing requirements for future impact fee updates.

Table 6: Proposed Sewer Rates
City of Hemet
Sewer Rate Study

Sewer Charge	Current	Monthly Sewer Charges per Sewer Unit						Cumulative Increase
		1-Oct-15	1-Mar-16	1-Jan-17	1-Jan-18	1-Jan-19	1-Jan-20	
City Sewer Charge	\$4.22	\$5.75	\$7.00	\$7.50	\$8.00	\$8.00	\$8.00	\$3.78
EMWD Sewer Impact Fee	\$3.32	\$4.836	\$4.836	\$4.836	\$4.836	\$4.836	\$4.836	\$1.52

The chart below illustrates the impacts of the sewer rate increases on the typical single family residential bimonthly bill in comparison to the bills charged by other local collection system agencies. Currently, the City of Hemet’s sewer bill is on the low range of the surveyed agencies. After the proposed increases have taken effect, the City of Hemet’s bill would be on the high end of the surveyed agencies but would be competitive with the bill charged by the Cucamonga Valley Water District and the City of Ontario.





City of Hemet
City Clerk
445 E. Florida Ave.
Hemet, CA 92543

NOTICE TO PROPERTY OWNERS OF PUBLIC HEARING
September 22, 2015 AT 7:00PM
ON PROPOSED WATER AND SEWER RATE ADJUSTMENTS

The City of Hemet provides water service to approximately 9,700 connections including homes, apartments, and businesses. The City also provides sewer collection service to about 11,200 customers. The City's water and sewer utilities rely on service charges paid by customers to fund the costs of operations and maintenance.

The City's water rates have not increased since July 2008 and the sewer rates have not increased since July 2006. Current water rates are not adequate to fund the City's costs of providing water service. The water fund has experienced budget deficits in recent years and needs to increase rates in order to restore financial stability. In addition, water rates must be adjusted to promote conservation. The City of Hemet has been directed by the State Water Resources Control Board to reduce water use due to drought conditions. Sewer rate adjustments are needed to meet inflationary cost increases and to provide for the replacement of aging sewer pipelines.

The City is proposing to phase-in a series of water and sewer rate and billing changes over the next five years. Currently, the water and sewer rates and charges are billed every other month (bimonthly). The City proposes to switch to monthly billing. Proposed water rate adjustments include: 1) a rate increase to provide for a balanced budget, and 2) transition to a single water rate charged on all water use. Currently, the City charges higher rates for higher levels of use. The City proposes to charge one rate for all water use.

The City proposes to raise the sewer charge. Sewer service is billed to customers based on the number of sewer units. One single family home is equal to one sewer unit. The cost per sewer unit is proposed to increase.

Proposed Water Rates

The City proposes to adopt the water rates as shown on the following tables. The City currently bills for water service on a bimonthly basis (every two months) and will transition to monthly billing. The proposed rate structure includes two components: 1) a fixed monthly (ready-to-serve) charge based on the size of the water meter, and 2) a volume rate charged to all metered water use. The volume rate applies to each cubic foot (CF) of water use; one hundred cubic feet (ccf) equals 748 gallons. **If approved, the proposed drought rates would come into effect October 1, 2015, and the next rate adjustment would be March 1, 2016.** Additional future rate increases would come into effect each January, beginning January 1, 2017 to January 1, 2020.

Why Rate Adjustments Are Needed

Water System Regulatory Requirements

The City of Hemet is a participant in the Hemet/San Jacinto Groundwater Management Plan. The City provides a sustainable water supply for its residents by purchasing water from the Metropolitan Water District of California to replenish the groundwater basin. Groundwater quality is also a challenge for the City. Water rates must increase so that the City can continue to provide an adequate supply of water and to allow the City to fund water quality improvements.

Restore Balanced Budgets

The City last adjusted its sewer rates July 2006 and last adjusted its water rates July 2008. Since then, costs have increased and the City's water fund has experienced budget deficits. Rate increases are needed to restore the financial stability and fund the cost of providing service.

Repair & Replace Aging Infrastructure

The City's water and sewer systems are made up of aging pipelines that will need to be repaired or replaced in upcoming years. These replacements help ensure that the City can continue to provide high-quality water and clean, efficient, sewer service to its customers 24 hours a day.

Meet Conservation Targets

April 1, 2015, Governor Brown issued Executive Order B-29-15 that directs the State Water Resources Control Board to impose restrictions to achieve reductions in urban water use as compared to 2013 use. The conservation target for the City of Hemet is 32%. The proposed water rates are calculated to encourage conservation and generate enough revenue to operate the water system during the drought.

Ready-to-Serve (Basic) Charges		Consumption (Variable) Charges	
Meter Size	Charge [1]	Bimonthly Consumption (cubic feet)	Rate per 100 cf
5/8-inch	\$21.14	Tier 1: 0-600	\$2.30
3/4-inch	\$22.79	Tier 2: 601-1200	\$2.50
1-inch	\$27.29	Tier 3: 1201 and over	\$2.88
1 1/2-inch	\$41.00	Low Use Charge	
2-inch	\$70.75	Bimonthly Fixed Charge (Maximum Bill)	
3-inch	\$87.26	0-1000 cf bimonthly usage	\$56.00
4-inch	\$116.99	cf – cubic foot	
6-inch	\$206.21	ccf – one hundred cubic feet, 748 gallons	
8-inch	\$321.90		
Flow Meter	\$73.21		

[1] The City currently bills for water service on a bimonthly basis. The bimonthly charge is converted to a monthly charge (shown here) for ease of comparison to the proposed monthly rates.

Ready-to-Serve (Basic) Charges						
Meter Size	Proposed Monthly Charge					
	1-Oct-15	1-Mar-16	1-Jan-17	1-Jan-18	1-Jan-19	1-Jan-20
5/8-inch	\$23.05	\$24.95	\$26.25	\$27.55	\$28.85	\$30.15
3/4-inch	\$25.02	\$27.26	\$28.87	\$30.49	\$32.14	\$33.81
1-inch	\$30.04	\$32.83	\$34.86	\$36.93	\$39.03	\$41.16
1 1/2-inch	\$46.74	\$52.79	\$57.85	\$63.14	\$68.66	\$74.42
2-inch	\$74.85	\$81.02	\$85.25	\$89.47	\$93.69	\$97.91
3-inch	\$112.60	\$140.77	\$167.98	\$197.16	\$228.31	\$261.43
4-inch	\$152.11	\$191.23	\$229.15	\$269.84	\$313.31	\$359.54
6-inch	\$259.22	\$317.79	\$373.50	\$433.08	\$496.54	\$563.88
8-inch	\$383.19	\$449.63	\$509.74	\$573.47	\$640.84	\$711.85
Flow Meter	\$86.01	\$99.80	\$112.05	\$125.00	\$138.64	\$152.98
Consumption (Variable) Charges						
Water Use	Proposed Drought Rate per 100 cf					
	1-Oct-15	1-Mar-16	1-Jan-17	1-Jan-18	1-Jan-19	1-Jan-20
All Use	\$4.85	\$6.25	\$6.45	\$6.60	\$6.75	\$6.88

The low use charge (i.e. maximum bill) is eliminated under the proposed water rates shown above.

Due to drought conditions, the City proposes to adopt the drought rates shown above in Table 2. Drought rates are needed to encourage conservation and to generate enough revenue to operate the water system during water shortages. The City may also establish conservation goals due to local emergencies such as system failure, a natural disaster, or a water quality issue limiting production. If drought conditions improve, the City would consider lowering the water rates to the rates shown in Table 3.

Consumption (Variable) Charges						
Water Use	Non-Drought Rate per 100 cf					
	1-Oct-15	1-Mar-16	1-Jan-17	1-Jan-18	1-Jan-19	1-Jan-20
All Use	\$3.30	\$4.28	\$4.41	\$4.54	\$4.67	\$4.79

The impact of the proposed drought rate change on the average single family residential water bill is shown below. Currently, the typical residential customer uses 9 ccf of water per month and pays a bill of \$44.18. The City requests that all customers reduce their water use by 32% due to drought conditions. A residential customer who reduces water use by 32% (recommended water reduction) to 6.1 ccf of use per month would pay a monthly bill of \$52.64 under the proposed drought rates effective October 1, 2015.

Table 4: Current and Proposed Typical Residential Monthly Water Bill

Current 9 ccf use per <i>monthly</i> period 18 ccf per <i>bimonthly</i> period					Proposed - October 1, 2015 6.1 ccf use per <i>monthly</i> period (32% conservation)				
Bimonthly Rate or Charge	Amount	Count	Units	Cost	Monthly Rate or Charge	Amount	Count	Units	Cost
5/8-inch Basic Rate	\$42.28	x 1	meter	\$42.28	5/8-inch Basic Rate	\$23.05	x 1	meter	\$23.05
Consumption Rates					Consumption Rate				
Tier 1 (0-600 CF)	\$2.30	x 6	ccf	\$13.80	All use	\$4.85	x 6.1	ccf	<u>\$29.59</u>
Tier 2 (601-1200 CF)	\$2.50	x 6	ccf	\$15.00					
Tier 3 (1201-OVER CF)	\$2.88	x 6	ccf	<u>\$17.28</u>					
				Total Bimonthly Bill [1]					
				TOTAL MONTHLY BILL					\$52.64
				\$88.36					
				\$44.18					

[1] The City currently bills for water service on a bimonthly basis. The bimonthly charge is converted to a monthly charge for ease of comparison to the proposed monthly rates.

The proposed water rates assume that the City’s groundwater replenishment costs from the Metropolitan Water District of Southern California will increase annually by seven cents per ccf. Pursuant to the California Government Code, Section 53756, the City is proposing to pass-through any additional increases above the seven cent annual increase. Future pass-throughs will be implemented by increasing the City’s proposed water rates by the exact amount of the increase in cents per ccf in excess of the assumed replenishment water cost.

Proposed Sewer Rates

The City proposes to increase its sewer rates to cover inflationary cost increases and to fund sewer pipeline replacements. The current and proposed sewer rates are shown in Table 5. The City proposes to increase the rates for: 1) City sewer customers who are directly billed by the City, 2) City customers who are billed by the Eastern Municipal Water District (EMWD) for City service, and 3) EMWD sewer customers who are subject to the City’s Inter-Agency Sewage Agreement with EMWD. The rates for City customers and EMWD-billed City customers are proposed to increase by the same amount. The customers subject to the EMWD Inter-Agency Sewage Agreement are charged a sewer impact fee, which is proposed to increase to the amount permitted by the agreement.

The City of Hemet provides sewer collection service only and EMWD provides sewer treatment service which is billed as a separate charge (not shown below).

Table 5: Current and Proposed Sewer Rates

Customer Type [1]	Sewer Unit Calculation	Current [2] (\$/sewer unit)	Proposed Monthly Sewer Charges (\$/sewer unit)					
			1-Oct-15	1-Mar-16	1-Jan-17	1-Jan-18	1-Jan-19	1-Jan-20
City Customers	Single family residence, mobile home on owner's lot, multiple family residence	\$4.22	\$5.75	\$7.00	\$7.50	\$8.00	\$8.00	\$8.00
	Mobile home park	\$4.22	\$5.75	\$7.00	\$7.50	\$8.00	\$8.00	\$8.00
	Hotels and motels	\$4.22	\$5.75	\$7.00	\$7.50	\$8.00	\$8.00	\$8.00
	All other commercial, industrial, public and tax exempt agencies, convalescent homes, hospitals, churches, schools, and other properties	\$4.22	\$5.75	\$7.00	\$7.50	\$8.00	\$8.00	\$8.00

Table 5 Continued: Current and Proposed Monthly Sewer Rates

Customer Type [1]		Sewer Unit Calculation	Current [2] (\$/sewer unit)	Proposed Monthly Sewer Charges (\$/sewer unit)						
				1-Oct-15	1-Mar-16	1-Jan-17	1-Jan-18	1-Jan-19	1-Jan-20	
Customers	EMWD-billed City	All types	Based on the City's method of sewer unit calculation for each property use	\$4.22	\$5.75	\$7.00	\$7.50	\$8.00	\$8.00	\$8.00
	Impact Fee	All types	Based on EMWD's method of sewer unit calculation for each property use	\$3.32	\$4.84	\$4.84	\$4.84	\$4.84	\$4.84	\$4.84

[1] Future customer types that are not described above will be evaluated by the City and assigned an appropriate sewer rate.

[2] The City currently bills for sewer service on a bimonthly basis. The bimonthly charge is converted to a monthly charge for ease of comparison to the proposed monthly rates.

[3] Eastern Municipal Water District Impact Fee Customers (customers subject to the Inter-Agency Sewage Agreement between the City of Hemet and EMWD)

Public Notice and Majority Protest Process

In 1996, California voters adopted Proposition 218. Among other things, Proposition 218 requires a specific process for cities to impose or increase certain types of fees, including water and sewer rates and charges. In particular, the provisions of Proposition 218 set forth in Article XIID, Section 6 of the California Constitution provide that certain types of “Property Related Fees” are subject to a “majority protest” process. If protests are filed on behalf of a majority of the parcels subject to the rates and charges at issue prior to the close of the September 22, 2015 public hearing, the City cannot adopt the proposed water and sewer rate increases. If a majority of the parcels do not protest the proposed increase, the City has the authority to adopt the proposed rate increases. Any rate increase, if enacted, will take effect no earlier than October 1, 2015.

Any property owner or customer of record may submit a written protest for the proposed increases; provided, however, that only one protest will be counted per identified parcel. Any written protest must: 1) state that the identified property owner or customer is in opposition to the proposed water and sewer rate increases and/or charges; 2) provide the location of the identified parcel (by assessor’s parcel number or street address); and 3) include the name and signature of the property owner or customer submitting the protest.

Written protests may be submitted by mail to the City Clerk, City of Hemet, 445 E. Florida Ave. Hemet, CA 92543 or in person at the same address; or at the public hearing, so long as they are received prior to the conclusion of the public hearing. Any protest submitted via e-mail or other electronic means will not be accepted. Please identify on the front of the envelope for any protest, whether mailed or submitted in person to the City Clerk, that the enclosed letter is for the Public Hearing on the Proposed Increases to Water and Sewer Rates and Charges.

City Council will hear and consider all written and oral protests to the proposed rates and charges at the Public Hearing. Upon conclusion of the Public Hearing, the City Council will consider adoption of the proposed rates and charges. Oral comments at the public hearing will not qualify as formal protests unless accompanied by a written protest. If written protests against the proposed rates and charges as outlined above are not presented by a majority of property owners or customers of the identified parcels upon which the rates and charges are proposed to be imposed on, the City will be authorized to impose the rates and charges.

Notice of a Public Hearing on Proposed Water and Sewer Rate Adjustments

Pursuant to Article 13D of the California Constitution, the City Council will hold a Public Hearing on the proposed water and sewer rates on **Tuesday, September 22, 2015 beginning at 7:00 p.m.** in the City of Hemet City Council Chamber located at 450 East Latham, Hemet, CA 92543. Please check the City’s website (<http://www.cityofhemet.org>) for information regarding the City Council meeting and the proposed water and sewer rate increase.