



NOTICE CONCERNING PROPOSED WATER RATE INCREASES AND PUBLIC HEARING

NOTICE IS HEREBY GIVEN that on Tuesday, August 2, 2016, at 6:00 p.m., or as soon thereafter as the business of the City Council permits, a public hearing will be held at the City of Shasta Lake City Council Chambers located at 4488 Red Bluff Street, Shasta Lake, California 96019 to consider proposed increases in the City's water rates and charges. If approved by City Council, the proposed rate increases will be effective for services provided on or after October 1, 2016.

PUBLIC HEARING AND PROTEST PROCEEDINGS

Pursuant to State law, protests may be provided by any City customer, or owner of property subject to the proposed rate changes, against any or all of the proposed rate changes described in this Notice. Written protests may be submitted in person to the City Council at the Public Hearing. They may also be submitted by mail addressed to the City of Shasta Lake City Clerk at P.O. Box 777, Shasta Lake, CA 96019. **Both in person and mailed written protests must be received prior to the close of the public hearing on August 2, 2016.** Each written protest must clearly identify the property or account (by assessor's parcel number or street address), reference the proposed water rate increases and must include the signature of the property owner or tenant, as applicable. Due to the inability to verify the authenticity of each individual protest, protests received by telephone, electronic mail (e-mail), or via social media sites, including, but not limited to, Facebook or Twitter shall NOT be accepted. All interested parties are invited to attend the public hearing and present written protests and/or oral comments on the proposed rate increases referenced herein. Oral comments made at the public hearing will qualify as formal protests of the proposed rate increases if accompanied by a written protest setting forth the required information (as set forth above). If written protests are submitted by a majority of the affected property owners or customers, the proposed increase(s) will not be imposed.

WHY IS THE CITY PROPOSING RATE INCREASES?

The City of Shasta Lake (City) is subject to the California Water Code and Proposition 218 and therefore is required by law to charge its customers only what is necessary to provide water services.

The City is dedicated to keeping rates low by maintaining lean staffing levels and using reserves when necessary. However, like other utilities (wastewater, electricity and gas), the costs involved to purchase, pump, treat and deliver water as well as maintain the water system infrastructure continue to rise. The City proposes rate adjustments due to the increasing costs of operating, maintaining, and replacing the City's potable water systems and the increasing costs of purchasing, treating and delivering safe and reliable water. The City's cost to provide water service include the cost of: (1) operations and maintenance; (2) repair and rehabilitation of the water system; and (3) water supply costs which are based on the City's three main wholesale water suppliers with the Bureau of Reclamation's Central Valley Project being the largest supplier. More importantly, the statewide drought and mandatory water use restrictions have altered customer water demand. City water sales revenue has plummeted resulting in insufficient revenues to cover water system's cost - a majority of which are fixed and therefore do not vary with water sales.

For the past few months, the City has engaged in an extensive analysis of its water costs, revenues and rates. The City commissioned independent financial experts to conduct this analysis to determine the true cost of water services and their corresponding impacts to customer's bills. This analysis identified a number of key drivers that result in the proposed rates. The City is proposing water rate and charge adjustments because;

- 1) Higher rates and charges are needed to cover the water system's fixed costs which do not vary with water sales.
- 2) The higher rates fund capital investment projects which maintain system reliability and water quality.
- 3) The higher rates fund prudent long-term capital reserves which are based on industry standards.
- 4) The City's wholesale water costs continue to rise.

EXPLANATION OF PROPOSED WATER RATE INCREASES

The City is proposing an increase in the total revenue it receives from customers through its water service charges and rates over the next 5 years. Customer bill impacts will vary based on each customer's water use. More detailed customer impacts are provided in the aforementioned Water Cost of Service Rate Study that will be available on the City's website including how to calculate your monthly water bill.

The total revenue increase per year results in the rate increases shown in the following tables. The City's water rate structure has two components: (1) the monthly service charge, and (2) the consumption rate. The following tables show both the proposed service charge and consumption rates for the next five fiscal years. The rates were developed using cost of service principals as set forth in the *American Water Works Association M1 Manual – Principles of Water Rates, Fees and Charges*.

PROPOSED SERVICE CHARGES

Meter Size	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021
5/8"	\$24.56	\$28.25	\$31.08	\$31.08	\$31.08
1"	\$55.68	\$64.04	\$70.45	\$70.45	\$70.45
1.5"	\$107.55	\$123.69	\$136.06	\$136.06	\$136.06
2"	\$169.79	\$195.26	\$214.79	\$214.79	\$214.79
3"	\$315.03	\$362.29	\$398.52	\$398.52	\$398.52
4"	\$522.50	\$600.88	\$660.97	\$660.97	\$660.97
6"	\$1,041.20	\$1,197.38	\$1,317.12	\$1,317.12	\$1,317.12
8"	\$1,663.64	\$1,913.19	\$2,104.51	\$2,104.51	\$2,104.51
10"	\$3,012.24	\$3,464.08	\$3,810.49	\$3,810.49	\$3,810.49
12"	\$4,464.59	\$5,134.28	\$5,647.71	\$5,647.71	\$5,647.71

The City also proposes to modify the consumption (volumetric) rate structure as shown in the table below. Currently the City has a three tiered rate for Lifeline and Residential customers and a two tiered rate for all other classes. The table shows the current and proposed tier breakpoints for Single Family Lifeline and Residential Customers as well as the revised rate structure for Non-Residential (all other) classes. The proposed tier 1 is based on average indoor water use, since tier 1 is set at the average winter water use during which outdoor irrigation needs are minimal. Tier 2 is set at the average Single Family customer summer use. Non-Residential class consumption rates are now a uniform rate – a rate that does not vary with use.

Customer Class	Current Tiers	Proposed Tiers
Lifeline and Residential		
Tier 1	1,000 cu. ft.	800 cu. ft.
Tier 2	5,000 cu. ft.	2,000 cu. ft.
Tier 3	> 5,000 cu. ft.	>2,000 cu. ft.
All Other Classes		
Tier 1	1,000 cu. ft.	Uniform rate
Tier 2	> 5,000 cu. ft.	Uniform rate

The City proposes to revise the Non-Residential classes by creating the 1) Multi-family Residential & Mobile, 2) Commercial and Industrial, 3) Commercial Irrigation and Government and 4) School classes as shown in the table below. Creating these classes helps better allocate costs in proportion to each classes' usage characteristics since the rates for each class are based on such characteristics (peaking demands of each class). The proposed water consumption rates for the next five fiscal years are based on the costs to serve water to each class and tier and are shown in the table below.

PROPOSED WATER CONSUMPTION RATES (\$ / hcf)¹

Customer Class	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021
Lifeline Tier 1	\$1.53	\$1.76	\$1.94	\$1.94	\$1.94
Lifeline Tier 2	\$2.20	\$2.53	\$2.79	\$2.79	\$2.79
Lifeline Tier 3	\$2.76	\$3.18	\$3.50	\$3.50	\$3.50
Residential Tier 1	\$1.92	\$2.21	\$2.44	\$2.44	\$2.44
Residential Tier 2	\$2.20	\$2.53	\$2.79	\$2.79	\$2.79
Residential Tier 3	\$2.76	\$3.18	\$3.50	\$3.50	\$3.50
MFR & Mobile	\$2.03	\$2.34	\$2.58	\$2.58	\$2.58
Comm and Ind	\$2.07	\$2.39	\$2.63	\$2.63	\$2.63
Comm Irr and Gov	\$2.26	\$2.60	\$2.86	\$2.86	\$2.86
School	\$2.42	\$2.79	\$3.07	\$3.07	\$3.07

(hcf = 100 cubic feet of water or approximately 750 gallons)

Comm and Ind = Commercial and Industrial

Comm Irr and Gov = Commercial Irrigation and Government

TYPICAL SINGLE FAMILY BILL

The typical single family bill, beginning October 1, 2016, with a 5/8 inch meter using 1,300 cubic feet of water, which is the average single family use, is calculated as follows:

Typical Single Family Bill = \$24.56 + (8 hundred cubic feet (hcf) x \$1.92 per hcf) + (5 hcf x \$2.20 / hcf) = \$50.92.

PASS-THROUGH RATES

The City will also pass-through any wholesale water rate increases imposed on the City by its wholesalers starting in FY 2017. The pass-

through for FY 2017 is currently estimated to be \$0.01 / hundred cubic feet (hcf) and the rates shown in the table above *includes* the pass-through for FY 2017. However, the table above does not include wholesaler pass-throughs for FY 2018-2021 since wholesaler water costs are not known at this time. *Assuming* 5% wholesaler cost increases each year, the pass-through would range from \$0.03 / hcf in FY 2018 to \$0.08 / hcf in FY 2021. The exact pass-through charge for FY 2018 (and subsequent FYs) will be calculated based on actual wholesale purchased water costs imposed on the City. The pass-through calculation is the difference in wholesale water purchase costs for each FY divided by the estimated water use for that FY.

DROUGHT RATES

During times of drought, the City may have to purchase water at higher than normal prices from water wholesalers such as the McConnell Foundation. To recover these costs the City may institute drought rates during stages 1 through 3. The drought rates would be implemented by City Council during times when the City must purchase the aforementioned high cost water. During drought stages 4 and 5, the City would not only purchase high cost water but also realize decreased water sales. The drought rates for stage 4 and 5 would recover this lost revenue plus increased water purchase costs. The following table shows the proposed drought surcharges that would be implemented during each drought stage. The drought surcharges would be added to the current non-drought rates (shown in the prior table) at that time.

PROPOSED DROUGHT SURCHARGES (\$ / hcf)

Drought Rate Summary	Stage 1	Stage 2	Stage 3	Stage 4	Stage 5
Surcharge					
Tier 1 (Lifeline)	\$0.03	\$0.07	\$0.10	\$0.37	\$0.47
Tier 1 (SFR)	\$0.04	\$0.09	\$0.13	\$0.47	\$0.59
Tier 2	\$0.05	\$0.10	\$0.15	\$0.54	\$0.68
Tier 3	\$0.06	\$0.13	\$0.19	\$0.67	\$0.85
MFR & Mobile	\$0.05	\$0.09	\$0.14	\$0.50	\$0.62
Commercial and Industrial	\$0.05	\$0.09	\$0.14	\$0.51	\$0.64
Commercial Irrigation and Gov	\$0.05	\$0.10	\$0.15	\$0.55	\$0.70
School	\$0.06	\$0.11	\$0.17	\$0.59	\$0.74

If you have any questions regarding the proposed increases or have questions on how to submit a written protest, please contact Tony Thomasy, Water Superintendent at 530-275-7488.

The City's Water Cost of Service Rate Study will be available at City Hall, 1650 Stanton Drive, Shasta Lake, CA 96019 or on the City's website at www.cityofshastalake.org no later than July 22, 2016

