

NOTICE TO PROPERTY OWNERS PUBLIC HEARING ON PROPOSED INCREASES TO RETAIL WATER RATES

**Eureka School District Office Gymnasium
(located in back on right side)
5455 Eureka Road, Granite Bay, CA 95746
March 29, 2017
6:00 p.m.**

On March 29, 2017 at 6:00 p.m., the San Juan Water District Board of Directors will hold a public hearing at 5455 Eureka Road, Granite Bay, CA 95746 to consider proposed increases in rates for retail water service as further described in this notice.

By law, San Juan cannot charge its customers more than the cost of providing water service, which includes the associated costs of ensuring the reliability of the service and to safeguard public health and safety. San Juan works every day to ensure residents and businesses receive clean, safe and reliable water supplies in as efficient and cost-effective a manner as possible. San Juan maintains its water treatment and distribution system to meet all regulatory standards to protect our community's health and safety and the environment.

San Juan continually strives to keep costs low, improve efficiencies and optimize the use of San Juan's assets. However, the costs of purchasing water, complying with laws and regulations governing drinking water safety and reliability, and responsibly maintaining and replacing aging system infrastructure are increasing. As a result, we are proposing retail water rate increases to ensure the financial health and sustainability of the District.

San Juan's Five-year Retail Financial Plan details the District's current and estimated future revenue needs to provide ongoing, safe and reliable retail water service and provides the justification for the proposed rate increases. You can find this plan at sjwd.org/RetailRateReportDraft2017 or receive/review a copy of the plan at our office.

WHY AM I RECEIVING THIS NOTICE?

Our records indicate you are an account holder and/or the owner of a parcel receiving water service in San Juan's retail service area. This notice gives you information about proposed retail water rate increases the Board of Directors will consider adopting at the March 29, 2017 public hearing. It also outlines how you can participate in the rate-setting process.

WHAT ARE THE PRIMARY REASONS FOR THE NEW WATER RATES?

San Juan's proposed retail water rate increase is necessary to generate sufficient revenue to ensure San Juan can continue to meet all of its retail operation's service and financial obligations. After five years of decreasing water sales revenue and dwindling reserve fund balances, San Juan's current retail rates will not provide enough revenue to continue to satisfactorily meet debt service obligations and adequately fund operational requirements.

San Juan is proposing an increase in retail water rates to:

- Fund necessary capital replacement projects
- Maintain and improve financial stability
- Meet required debt service obligations
- Maintain Board-adopted reserve levels
- Meet increased regulatory requirements

CAN YOU EXPLAIN MORE ABOUT THE FACTORS AND/OR COSTS THAT ARE DRIVING THE PROPOSED RATE INCREASE?

Drought and reduced water sales revenues: Since 2015, customers reduced their water use significantly in response to the drought and in conformance with conservation mandates imposed by the State of California. Although the water use reductions helped stretch California water supplies during the drought, our water sales revenues decreased well below the amount estimated to be received in our annual financial plans and budgets. As a result, retail revenues were not sufficient to cover the costs of the District's retail operations. To minimize the need for even higher retail rate increases, the San Juan Board of Directors used dedicated rate stabilization reserve funds to offset what would have been even more severe budget impacts.

Water system maintenance and Retail Capital Improvement Plan: As a water service provider, San Juan must maintain the distribution system that provides water to our customers in compliance with numerous

federal and state laws and regulations. This includes 200 miles of pipeline, multiple pump stations, meters, storage tanks and other equipment. The operation and maintenance of this system is not inexpensive. In addition, San Juan-Retail's 10-year Capital Improvement Plan includes over \$30 million of improvements to ensure the current and future reliability of water deliveries 24/7/365. All costs of operating the water system must be paid for from rate revenues.

Rising water costs: San Juan is both a retail water agency and a wholesale water supplier. The District's wholesale water supply comes from the American River and flows into Folsom Lake. San Juan holds some of the oldest water rights in the State, and has contracts for water from the U.S. Bureau of Reclamation and Placer County Water Agency to access additional water when needed. The water San Juan delivers to our retail customers comes from those supplies, which are treated and delivered by San Juan acting as a wholesale agency.

Legally the San Juan Water District is one utility enterprise that functions as both a retailer and wholesaler of water, meaning we both treat and deliver the water supply to other water suppliers and to residential and business customers in the retail service area. However, for cost analysis purposes, San Juan separately tracks its wholesale and retail costs and revenue and also sets independent rates for both.

Just as you pay San Juan's retail agency for your water to cover the costs of serving you, San Juan-Retail pays San Juan-Wholesale to access, treat, store and deliver those water supplies to San Juan's retail distribution system. In addition, there are costs to ensure the future reliability, quality and long-term affordability of those wholesale water supplies that include capital investments as well as advocacy in legislative, regulatory, operational and other venues.

Much of the need for San Juan-Retail's proposed rate increases is the rising cost of purchasing the water that is ultimately delivered to our customers. San Juan-Wholesale's rates, though still low, are increasing as a result of pressure that is impacting water agencies throughout California. These pressures include:

• **Increasing water costs:** The cost of purchasing and treating water supplies is rising. Within the last year, the cost of water purchased from the U.S. Bureau of Reclamation jumped by more than 50 percent. Costs to purchase water are expected to increase by similar increments in the coming years.

• **Decreased wholesale water sales and revenue:** Just as San Juan-Retail's reduced water sales during the drought diminished revenues well below budgeted levels, this effect similarly impacted San Juan-Wholesale's budget. San Juan's overall wholesale water sales in 2016 were approximately 40 percent less than five years ago, resulting in \$1.5 million less in revenue than in 2011.

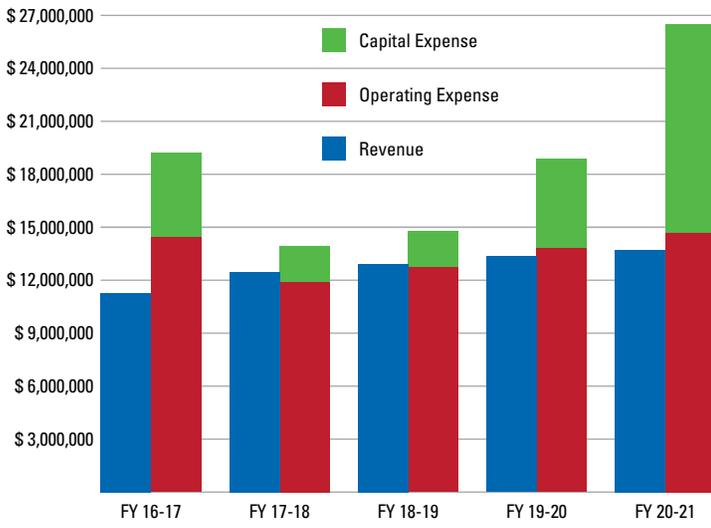
• **Wholesale Capital Improvement Plan:** Just as San Juan-Retail has to pay for its \$30 million 10-year Capital Improvement Plan, San Juan-Wholesale must pay for its \$50 million, 10-year Capital Improvement Plan. That plan includes maintaining and improving the Sidney N. Peterson Water Treatment Plant, which was constructed in three phases between the years of 1975 to 1983 at an initial cost of approximately \$11.4 million. Since that time the District has invested over \$27 million to maintain, replace, and improve the plant to ensure it continues to provide clean, safe drinking water in compliance with increasingly stricter laws and regulations. The Wholesale 10-year Capital Improvement Plan also includes the cost to replace the Hinkle Reservoir, a 62 million gallon reservoir used to store and distribute the water provided by the treatment plant. The Hinkle Reservoir was constructed in 1981 and had an expected life of 20 years. Due to excellent maintenance and a dash of good luck, the reservoir cover and liner have outlived their expected life by 16 years. But replacement is a costly necessity. The Wholesale Financial Plan includes \$23.8 million for the replacement of this critical asset, anticipated to be completed in the year 2021, or sooner.



9935 Auburn-Folsom Road
Granite Bay, CA 95746



PROJECTED FISCAL YEAR RETAIL WATER REVENUES AND EXPENSES (NO RATE INCREASE)



The figure above depicts retail revenues (in blue) assuming no rate increase, and expenses, which are broken out between operating and capital (red and green respectively). As shown on the chart, retail revenues at current rates cover neither the operating expenses nor the capital needs of San Juan-Retail over the time period shown.

The Board of Directors is considering adopting a new five-year retail water rate plan to spread increases over multiple years. Increased revenue is necessary to fund retail water system capital improvement projects, increased wholesale water purchase costs, ongoing facilities maintenance, and general operations.

CURRENT AND PROPOSED RETAIL WATER RATES

	Current	May 2017	Jan. 2018	Jan. 2019	Jan. 2020	Jan. 2021
Overall Water Rate Increase		8%	9%	9%	9%	6%
Daily Base Rate Changes						
Up to 1" meter	\$ 1.24	\$ 1.42	\$ 1.63	\$ 1.86	\$ 2.11	\$ 2.29
1-1/2" meter	3.31	3.68	4.22	4.81	5.46	5.93
2" meter	5.28	5.85	6.72	7.66	8.69	9.44
3" meter	10.50	10.90	12.51	14.27	16.19	17.58
4" meter	16.36	18.12	20.80	23.72	26.91	29.23
5" meter	32.73	36.18	41.54	47.38	53.74	58.36
8" meter	58.83	57.85	66.42	75.76	85.94	93.34
Fire District	6.36	7.28	8.36	9.54	10.82	11.75
Water Usage Charge (\$/CCF)						
All water usage	\$ 0.92	\$ 0.92	\$ 0.92	\$ 0.92	\$ 0.92	\$ 0.92
Daily Private Fire Line Charges						
4" meter	\$ 0.54	\$ 0.58	\$ 0.63	\$ 0.69	\$ 0.75	\$ 0.80
6" meter	0.81	0.87	0.95	1.04	1.13	1.20
8" meter	1.09	1.23	1.34	1.46	1.59	1.69
10" meter	1.29	1.47	1.60	1.74	1.90	2.01
Hinkle PS Pumping Surcharge (\$/AF)						
Wholesale deliveries to City of Folsom	\$ 68.87	\$ 74.38	\$ 81.07	\$ 88.37	\$ 96.32	\$ 102.10
Typical Bi-monthly Residential Bill						
(@ 30 CCF/month)	\$ 129.60	\$ 140.40	\$ 158.00	\$ 166.80	\$ 181.80	\$ 192.60
		\$ 10.80	\$ 12.60	\$ 13.80	\$ 15.00	\$ 10.80
		8.3%	9.0%	9.0%	9.0%	5.9%

The proposed retail water rates shown above are expected to generate the necessary revenues to cover San Juan retail's costs over each of the next five years. To minimize potential future budgetary effects of reduced water sales during drought periods, San Juan is proposing a change to the composition of the rates and to impose a series of increases through January 2021. The proposed rates have been recalibrated to increase the portion of revenue derived from the **fixed or base charge** component while the per unit water usage charge will not increase. This is intended to decrease the severity of fluctuations in revenue when conservation efforts lead to reduced water sales and is necessary because the majority of the District's costs of providing service are fixed. Improving the District's financial stability by having more fixed costs paid for by fixed charges, as is the recognized industry standard, will solidify fund balances, enhance financial planning capabilities and increase budgetary certainty. All of these outcomes should contribute to a higher credit rating for the district, which in turn will reduce the cost of current and future debt obligations. **This plan will save ratepayers money and help to reduce future upward rate pressure.**

Fixed costs typically include facilities, infrastructure maintenance, debt service, customer service, and other similar needs that have to be paid for regardless of how much water is delivered to customers.

Variable costs typically reflect a portion of the amount of water sold and the associated costs of purchasing and delivering that water, including energy for pumping and treatment operations.

HOW THIS INCREASE MAY IMPACT YOU

Under the proposed 2017 retail rate increase, a typical homeowner's fixed or base charge for a 1" meter will increase by \$10.80 per 60-day billing cycle, or 18¢ per day. The water usage charge will not change and will remain at 92¢ per 100 cubic feet of water. This is equivalent to approximately 1/10 of 1¢ per gallon.

If the Board of Directors adopts this proposed rate structure and increases the base charge component, it is estimated that San Juan's total retail revenue will increase by 8 percent in 2017. A customer's actual increase will vary depending upon the size of their meter. Because only the daily base charge is changing, all customers with a 1" meter will have a bi-monthly bill increase of \$10.80 (or 18¢ per day), regardless of water usage. A larger meter results in a higher base charge. A sampling of charges reflecting various amounts of bi-monthly water usage for a typical homeowner on a 1" meter connection with a 60 day billing cycle are illustrated below. If you would like additional information about how the proposed rate changes would affect your specific water bill, please call the District's Customer Service Department at (916) 791-0115 and a staff member will be happy to assist you.

Water Usage in Units (ccf)	2016 Bi-monthly Usage Charge	2017 Bi-monthly Usage Charge	2016 Bi-monthly Base Charge 1" meter	2017 Bi-monthly Base Charge 1" meter	2016 Bi-monthly Bill	2017 Bi-monthly Bill	Bi-monthly Increase: 60 day
60	\$55.20	\$55.20	\$74.40	\$85.20	\$129.60	\$140.40	\$10.80
54 (10% less)	\$49.68	\$49.68	\$74.40	\$85.20	\$124.08	\$134.88	\$10.80
90 (50% more)	\$82.80	\$82.80	\$74.40	\$85.20	\$157.20	\$168.00	\$10.80
120 (100% more)	\$110.40	\$110.40	\$74.40	\$85.20	\$184.80	\$195.60	\$10.80
0 (100% less)	\$0	\$0	\$74.40	\$85.20	\$74.40	\$85.20	\$10.80
200 (333% more)	\$184.00	\$184.00	\$74.40	\$85.20	\$258.40	\$269.20	\$10.80

HOW YOU CAN PARTICIPATE

All members of the public are invited to submit comments about this proposal and/or attend the public hearing on March 29, 2017. An owner or tenant of property receiving District retail water service may protest the proposed retail water rates and charges by submitting a written protest by mail or in person to the General Manager, San Juan Water District, P.O. Box 2157, 9935 Auburn-Folsom Road, Granite Bay, CA 95746. Written protests must be received (*not postmarked*) by the General Manager before the close of the public hearing to be held on March 29, 2017 at 6 p.m. Any protest submitted by e-mail or other electronic means will not be accepted.

To be valid, a protest must be signed by the property owner or tenant and must include the assessor's parcel number, the address of the parcel served, the customer's account number for the parcel served, and a statement that the protestant is protesting the Agency's proposed water rates and charges to be considered by the District Board of Directors at the public hearing set for March 29, 2017. If a tenant protests, the tenant need not state the assessor's parcel number on the protest form. Only one written protest per identified parcel will be counted for purposes of determining if there is a majority protest. The Board Secretary, or her designee, will tabulate the protests, and any member of the public may observe the tabulation. All protest forms will be considered public records and retained for two years from the date of the hearing. Protests sent through the mail are subject to the potential failure of the U. S. Postal Service to deliver them to San Juan by the noticed deadline. Any protest that is received after the deadline will be invalid and not be counted.

If a majority of affected parcel owners file written protests to the proposed rates, the Board of Directors may not approve them. If there is not a majority protest, the Board of Directors will deliberate and may approve a rate increase up to a maximum equal to the amounts described in this notice.

In addition, over the course of the next five years, the Board of Directors may increase retail water rates up to the maximum amount for each year identified in this notice without providing subsequent hearings or a formal opportunity for protests, although the District will, consistent with Proposition 218, provide at least a 30-day notice of any approved rate increase that the Board decides to impose in a following year. Should the Board of Directors decide to increase rates in any given year in an amount greater than that described in this notice, a similar Proposition 218 notice will be provided to customers along with an opportunity for parcel owners and tenants to formally protest such an increase at that time.