



NOTICE OF PUBLIC HEARING AND WORKSHOP ON PROPOSED ADJUSTMENTS AND INCREASES TO TOWN OF HILLSBOROUGH WATER SERVICE CHARGES

The Town of Hillsborough invites the public to attend a **public hearing to be held on Monday, February 13, 2017, at 6:00 p.m., to consider adoption of a 5-year schedule of water rates. The public hearing will be held in the City Council Chambers located at 1600 Floribunda Ave., Hillsborough, CA 94010.** The purpose of the public hearing is to consider all oral testimony and written protests to, and the adoption of, the proposed rates. If adopted, the new water rates will go into effect for services provided on and after May 1, 2017, and will be adjusted each January 1 thereafter through, and including, January 1, 2021. On **January 31, 2017, at 6:00 p.m.**, the City Council will also be holding a **Water Rate Workshop** in the City Council Chambers. Members of the public are invited to attend and learn more about the proposed changes in the Town's water rates and charges.

A summary of the proposed changes to the Town's water rates and charges is provided below.

RATE ADJUSTMENTS

The Town is proposing the following changes in its water rate structure:

- The rates for the Volume Charge imposed on Residential Customers is changing from a five-tier rate structure to a four-tier rate structure.
- The number of units of water billed within each tier (i.e., the tier size) is changing.
- The rates for the monthly fixed Service Charge are changing from a uniform rate for all customers, to one based on the size of the water meter serving a property.
- Only customers who are single-family residential customers will be classified as Residential Customers.
- The Revenue Stabilization Charge implemented during water shortages is being eliminated and replaced by Revenue Stabilization Factors, a formula that may be applied to adjust the rates of the Volume Charge to ensure that there are sufficient revenues to fund the water utility's obligations in the event the Town has to implement mandatory conservation measures.

RATE INCREASES

Along with the rate adjustments described above, the Town is proposing rate increases to the rates previously approved to be effective January 1, 2017, which will now become effective May 1, 2017, and are necessary to recover projected increases in the cost of providing water service. However, as a result of the changes in the rate structure design, some of the rates in the first three years of the proposed five-year rate schedule (for example the proposed maximum rates applicable to water use within tiers 1-2) will actually be lower than the previously approved rates effective January 1, 2017.

The reasons for the proposed rate adjustments and increases, how the rates are calculated, and the maximum rates proposed to be adopted are provided in more detail in this notice. The Town can assist you with answering any questions regarding the information in this notice or how the proposed rates will affect your water bill. If you have questions, would like help calculating the impact of the proposed rate changes on your water bill, or need additional information, please contact the Water Billing Department at (650) 375-7402 or by e-mail at Finance@hillsborough.net, or attend the Water Rate Workshop to be held on January 31, 2017, in the City Council Chambers located at 1600 Floribunda Avenue, Hillsborough, at 6:00 p.m. This notice, the rate study supporting the proposed rates, and other information regarding the proposed rates can also be found on the Town's website at <http://www.hillsborough.net/186/Water-Sewer-Services>.

REASONS FOR THE RATE ADJUSTMENTS AND INCREASES

The Town operates and maintains a potable water distribution system to serve its residents and water users. It is a complex system with varying topography and 21 separate but interconnected pressure zones. The infrastructure network includes 108 miles of water mains, 18 water tanks, 14 water pump stations and over 7,500 various assets such as water meters, fire hydrants and valves. The Town purchases its water from the San Francisco Public Utilities Commission (SFPUC). The Town pumps and delivers water to approximately 4,270 customers, nearly all of whom are single-family residential customers.

The Town is committed to providing the highest quality water at the lowest possible rates for our customers. To meet this commitment, the Town engaged HF&H Consultants, LLC (HF&H) to perform an independent water rate study and evaluate the infrastructure, programs, and operations and maintenance costs of the Town's water services and the rates necessary to recover the costs of those services for the next five years. A cost of service and rate study demonstrates what it costs the Town to provide water service and the appropriate rates to fairly and appropriately allocate the costs of providing water to our customers. The cost of providing water includes not only the water we purchase, but the infrastructure that treats and delivers the water, and our water conservation and efficiency and water demand management programs to ensure that there is safe and reliable water to meet the demands of all of our water customers twenty-four hours a day, seven days a week.

Based on HF&H's evaluation, it has been determined that rate adjustments and increases are necessary for the Town's water service charges to enable the Town to:

- recover current and long-term projected costs of operating and maintaining the water system, including significant increases in the costs of the wholesale water the Town purchases from the SFPUC;
- fund capital infrastructure improvements needed to repair and update the Town's aging water system;
- maintain the operational and financial stability of the water utility;
- comply with State mandated drinking water regulatory requirements;
- meet and comply with annual debt service requirements; and
- avoid operational deficits and depletion of reserves.

PROPOSED RATES AND HOW THE RATES ARE CALCULATED

Residential and Non-Residential Rate Structures. The proposed rates are calculated to recover the costs of providing water services and to proportionately allocate those costs on a parcel basis among the various customer categories. The water rate structure has two customer categories—Residential and Non-Residential—and two components—a Service Charge and a Volume Charge. The proposed Service Charge is a fixed monthly charge calculated to recover a portion of the Town's fixed costs of operating and maintaining the water system, and delivering water. The proposed rates for the Service Charge are established on the basis of the size of the meter (in inches) serving a property to recover the incremental costs of sizing facilities to sufficiently deliver water to properties served by larger meters. The Volume Charge is a variable charge imposed per unit of delivered water with **one unit equal to one hundred cubic feet (HCF), or 748 gallons**, and is calculated to recover a portion of the Town's fixed costs and its variable costs of providing water service.

On April 1, 2015, Governor Jerry Brown declared a water shortage emergency and issued an Executive Order that, in part, directed the State Water Resources Control Board (SWRCB) to institute California's first-ever statewide mandatory reductions in water usage on water suppliers to achieve a statewide 25 percent reduction in potable urban usage through February 2016. On November 15, 2015, Governor Brown extended those

conservation measures until October 31, 2016. Under the drought regulation established by the SWRCB, the Town was ordered to reduce its water consumption by 36%.

Recognizing persistent yet less severe drought conditions throughout California, on May 18, 2016, the SWRCB adopted an emergency water conservation regulation that replaced the prior emergency regulation. The May 2016 regulation that is in effect from June 2016 through January 2017 requires locally developed conservation standards based upon each agency’s specific circumstances. It replaces the prior percentage reduction-based water conservation standard with a localized “stress test” approach. Based on the Town’s current local conditions, on June 13, 2016, the Town ended mandatory water rationing and implemented voluntary water conservation. The voluntary water conservation period extends through January 31, 2017, with a goal of reducing water usage by 10% compared to 2013 water usage within the Town.

The multi-year drought has resulted in both temporary and permanent changes in water demand by our customers. These changes have impacted not only water revenues but the costs of providing water service. Consequently, the Town is proposing some adjustments to the rate structure of the Volume Charge. The current rate structure for the Volume Charge has five tiers which impose higher rates as the level of consumption increases. Under the proposed rates, for Residential Customers the Volume Charge will consist of four tiers. The tiers are designed to recover the incremental costs to the Town of serving more water to those who place higher demands and greater burdens on the Town’s water system and resources. These costs include, for example, sizing, operating and maintaining water pipes, reservoirs, pump stations and other related facilities to meet this additional demand. Due to the varying consumption needs among Non-Residential Customers, and the relatively small number of customers within this customer category, the Volume Charge is a uniform rate per HCF of water delivered during a billing period. The rates previously approved to be effective January 1, 2017, and the proposed maximum rates and effective dates for the Service Charges and Volume Charges are set forth in the tables below. The amount of the Service Charge imposed is the same each month. The amount of the Volume Charge imposed varies each month depending on the number of units (HCF) of water each customer uses during the billing period.

Previously Approved and Proposed Rates (\$/HCF) for the Monthly Service Charges

Meter Size	Approved Rates (eff. 1/1/2017)		Proposed Rates (All Customers)				
	Residential	Non-Residential	5/1/2017	1/1/2018	1/1/2019	1/1/2020	1/1/2021
3/4"	\$70.00	—	\$63.60	\$68.68	\$74.18	\$77.89	\$81.78
1"	\$70.00	\$70.00	\$77.45	\$83.65	\$90.34	\$94.86	\$99.60
1 1/2"	\$70.00	\$120.00	\$108.62	\$117.31	\$126.70	\$133.03	\$139.69
2"	\$70.00	\$180.00	\$150.19	\$162.20	\$175.18	\$183.94	\$193.14
3"		\$320.00	\$261.03	\$281.91	\$304.46	\$319.68	\$335.67
6"		\$1,020.00	\$732.08	\$790.65	\$853.90	\$896.60	\$941.43
8"		\$1,620.00	\$1,147.72	\$1,239.54	\$1,338.70	\$1,405.64	\$1,475.92

Previously Approved Tiers and Rates (\$/HCF) for Monthly Volume Charges

Customer Category	Tier Size	Approved Rates (eff. 1/1/2017)
	(HCF)	(\$/HCF)
Residential		
Tier 1	1 to 10	\$7.14
Tier 2	11 to 25	\$8.44
Tier 3	26 to 50	\$9.68
Tier 4	51 to 100	\$11.58
Tier 5	Over 100	\$14.18
Non-Residential	—	\$9.06

Proposed Rates (\$/HCF) for Monthly Volume Charges

Customer Category	Tier Size	5/1/2017 (\$/HCF)	1/1/2018 (\$/HCF)	1/1/2019 (\$/HCF)	1/1/2020 (\$/HCF)	1/1/2021 (\$/HCF)
Residential	(HCF)					
Tier 1	1 to 10	\$5.54	\$5.98	\$6.46	\$6.78	\$7.12
Tier 2	11 to 22	\$7.03	\$7.59	\$8.20	\$8.61	\$9.04
Tier 3	23 to 35	\$9.65	\$10.43	\$11.26	\$11.82	\$12.41
Tier 4	Over 35	\$14.74	\$15.92	\$17.20	\$18.06	\$18.96
Non-Residential		\$7.43	\$8.02	\$8.66	\$9.10	\$9.55

Rate Adjustments During Water Shortages. A substantial portion of the Town’s costs to operate and maintain the water system are fixed, meaning the majority of costs remain the same regardless of how much water is used by customers. Over the last several years, the Town has experienced declines and changes in water demand resulting from the drought and state-mandated water use reductions, and, therefore, reductions in water revenues. While experiencing these declines in water demand and revenues, the Town has exercised fiscal discipline by managing operating costs to avoid significant increases in the rates for its water service charges. HF&H studied the effects of the reduction in water use on projected revenues and developed a formula (Revenue Stabilization Factors) that may be implemented to adjust the rates of the Volume Charge to ensure that there are sufficient revenues to fund the water utility’s obligations in the event the Town has to implement mandatory conservation measures.

The Revenue Stabilization Factors would be applied to the Volume Charge rates and implemented during locally declared water shortages, state mandated reductions in the level of potable water usage, or other natural disaster or event that requires reductions in water usage. The City Council may implement the Revenue Stabilization Factors as necessary, depending on the level of potable water use cutbacks required, to ensure that the water utility recovers sufficient revenues to meet its expenditures and debt obligations.

The formula for the Revenue Stabilization Factors is comprised of a conservation and a variable cost component. The conservation component adjusts the Volume Charge rates to account for the reduction in water usage caused by conservation. The variable component adjusts the rates for the Volume Charge to account for the Town’s specific water shortage conditions. The rates for the Volume Charge then in effect would be multiplied by the applicable Revenue Stabilization Factor to derive the Volume Charge rates to be in effect during the water shortage. An example of the formula for calculating the Revenue Stabilization Factor, the application of the formula to be applied to achieve a reduction in water usage of 20%, and the resulting Revenue Stabilization Factor to be applied to the Volume Charge rates is set forth below.

**Revenue Stabilization Factor Formula
and Sample Calculation for 20% Reduction in Water Use**

	<u>Conservation Component</u>		<u>Variable Cost Component</u>		
Formula	=	$\frac{1}{1-a}$	*	$\frac{b-(c*a)}{b}$	
20% Reduction	=	$\frac{1}{1-0.20}$	*	$\frac{0.73-(0.40*0.20)}{0.73}$	
Factor	=	1.25	*	0.89	= 1.11

- a = Assumed percentage reduction in water usage = 20% (or 0.20)
- b = Proportion of revenue that comes from the Volume Charge Rates = 73% (or 0.73)
- c = Proportion of water utility expenses that are variable = 40% (or 0.40)

The table below demonstrates the proposed 2017 rates for the Volume Charge that would be in effect (with reductions in water usage in 10% increments) after applying the applicable Revenue Stabilization Factors using the formula above.

**Impact of Revenue Stabilization Factors on Proposed 2017 Rates (\$/HCF) for Volume Charges
At Specified Percentage Reductions in Water Usage**

	Proposed 2017 Rates	Rates with Revenue Stabilization Factors Applicable to % Reductions*				
		10% x1.05	20% x1.11	30% x1.19	40% x1.29	50% x1.44
Residential						
Tier 1	\$5.54	\$5.82	\$6.15	\$6.59	\$7.15	\$7.98
Tier 2	\$7.03	\$7.38	\$7.80	\$8.36	\$9.06	\$10.12
Tier 3	\$9.65	\$10.14	\$10.72	\$11.49	\$12.45	\$13.90
Tier 4	\$14.74	\$15.48	\$16.37	\$17.54	\$19.02	\$21.23
Non-Residential	\$7.43	\$7.80	\$8.25	\$8.84	\$9.58	\$10.70

*Rounding may occur in the rates derived from the multiplication of the Revenue Stabilization Factors to the applicable 2017 rates for each incremental percentage of reduction in water usage.

Below is another example of the calculation for the Revenue Stabilization Factor that would be applied to the proposed 2017 Tier 3 rate of the Volume Charge if the Town were required to reduce consumption again by 36%.

**Sample Revenue Stabilization Factor Calculation
Assuming a 36% Conservation Requirement**

	<u>Conservation Component</u>		<u>Variable Component</u>		
Formula	=	$\frac{1}{1-0.36}$	*	$\frac{0.73-(0.40 * 0.36)}{0.73}$	
Factor	=	1.56	*	0.80	= 1.25
Tier 3 Rate	=	1.25	*	\$9.65	= \$12.06/HCF

The proposed rate increases for the water service charges and the Revenue Stabilization Factors will allow the Town to provide safe, reliable drinking water to its customers. Absent critical rate increases and the implementation of the Revenue Stabilization Factors in the future, the water utility would experience budget shortfalls for each year of the five-year forecast performed by the rate study.

PUBLIC HEARING AND PROTESTS

Any record owner of a parcel upon which the water service charges are proposed to be imposed and any tenant directly liable for the payment of water service charges (i.e., a customer of record who is not a property owner) may submit a written protest to the proposed rate adjustments and increases to the Town’s water service charges; however, only one protest will be counted per identified parcel. Any written protest must: (1) state that the identified property owner or tenant is opposed to the proposed water rate adjustments and increases; (2) provide the location of the identified parcel (by street address, assessor’s parcel number, or customer account

number); and (3) include the name and signature of the property owner or tenant submitting the protest. Written protests may be submitted to the City Clerk by mail or in person at 1600 Floribunda Ave., Hillsborough, CA 94010, or at the public hearing (date, time, and location noted above). All written protests must be received prior to the close of the public comment portion of the public hearing. Any protest submitted via e-mail or other electronic means will not be accepted as a valid written protest. Please indicate on the outside of any envelope mailed to the Town, Attn: Rate Hearing.

The City Council will accept and consider all written protests and will hear and consider all oral comments to the proposed rate adjustments and increases at the public hearing. Oral comments at the public hearing will not qualify as formal protests unless accompanied by a written protest. Upon the conclusion of the public hearing, the City Council will consider adoption of the proposed rate increases as described in this notice. If written protests against the proposed rates are not presented by a majority of the property owners or tenants of the identified parcels subject to the proposed rate increases, the City Council will be authorized to adopt the rate increases, and implement as necessary the Revenue Stabilization Factors during water shortages as described in this notice. All water service charges are collected on a monthly basis, but may be collected on a bi-monthly basis in the future. If the Town converts to bi-monthly billing, customers will be notified via their water utility bills.

The documents supporting the rate adjustments and increases, including the rate study prepared by HF&H are available for review at the City Clerk's office between 8:00 a.m. and 5:00 p.m., Monday through Thursday, and between 8:00 a.m. and 12:30 p.m. on Fridays.