



NOTICE OF PUBLIC HEARING

Adjustment in Water Rates and Charges

February 14, 2012 at 6:30 p.m.

**Community Meeting Center
11300 Stanford Avenue, Garden Grove**

William J. Dalton
Mayor

Steven R. Jones
Mayor Pro Tem

Bruce A. Broadwater
Council Member

Dina Nguyen
Council Member

Kris Beard
Council Member

NOTICE is hereby given that at a public meeting on **February 14, 2012, at 6:30 p.m.**, the Garden Grove City Council will hold a public hearing in the City Council Chamber of the Garden Grove Community Meeting Center, 11300 Stanford Avenue, Garden Grove, California, to consider a **proposed Ordinance authorizing future automatic adjustments in water rates and charges applicable to the City's Public Works Water Services Division to account for inflation and future increases or decreases in wholesale charges the City pays other agencies for water.** These future adjustments are necessary to continue to account for future increases in the City's operational costs to provide water service, future increases in the City's costs to acquire water from other agencies, such as the Metropolitan Water District (MET) and the Orange County Water District (OCWD), and in order to allow the City to continue to meet its service obligations and the regulatory obligations imposed by the State of California Department of Public Health (DPH) and the U.S. Environmental Protection Agency.

Reason for proposed fee adjustments

In 2007, the City adjusted water rates to account for increased construction, material, supply, fuel and labor costs. The rates set in 2007 were based on a Water Financial Plan developed by the City, which identified the estimated funds needed to adequately finance the operations, capital improvements and debt obligations for the Water Services Division over a ten-year period. The 2007 rate adjustments have been phased in over a five-year period and are now fully implemented. The City will continue to incur ongoing operational costs in providing water service to the community, however, and these ongoing operational costs are subject to inflation over time. Adjusting water rates to account for inflation in the ongoing operational costs the City incurs to provide water service will ensure the City can continue to fully implement the Water Financial Plan.

Most of the water the City of Garden Grove provides to customers comes from a combination of water pumped from the groundwater basin managed by the Orange County Water District (OCWD) and water purchased on a wholesale basis from the Metropolitan Water District of Southern California (MET) through its regional water wholesaler, the Municipal Water District of Orange County (MWDOC). The City has no control over the rates it must pay OCWD and MET/MWDOC to acquire water. Therefore, the City also needs the flexibility to adjust water rates to account for rate increases imposed by MET/MWDOC and OCWD. Otherwise, the City may not be able to generate the funds required to maintain and operate the City's water system, repay bond indebtedness, and to comply with regulations imposed by State and Federal agencies, because funds currently dedicated to these purposes will instead need to be used to pay for the higher water costs imposed by MET/MWDOC and OCWD.

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Fees proposed to be adjusted

City water rates for metered service are broken down into four separate components: (1) a Minimum Service Charge based on the customer's meter size; (2) a Capital Improvement Charge based on the customer's meter size; (3) a Commodity Delivery Charge based on the amount of water used by the customer; and (4) a Commodity Adjustment Charge based on the amount of water used by the customer. Customers are billed bi-monthly (i.e., once every two months) for City water service. The total bi-monthly charge to a customer for water service is calculated by adding together each of the four water rate components. The table below shows the current amount of each water rate component.

| Current Bi-Monthly Fixed Charges | | |
|---|---------------------------|--|
| Meter Size | (1) Minimum Charge | (2) Capital Improvement Recovery Charge |
| 5/8" & 3/4" | \$11.95 | \$1.38 |
| 1" | \$31.87 | \$1.94 |
| 1 1/2" | \$61.73 | \$2.48 |
| 2" | \$93.58 | \$4.00 |
| 3" | \$155.31 | \$15.18 |
| 4" | \$215.04 | \$19.32 |
| 6" | \$491.80 | \$28.98 |
| 8" | \$768.58 | \$40.02 |
| 10" | \$1,045.34 | \$51.06 |

| Current Bi-Monthly Variable Tiered Commodity Charges | | |
|---|--|--|
| Units of Water Used (1 Unit = 100 Cubic Feet) | (3) Commodity Delivery Charge per Units of Water Used | (4) Commodity Adjustment Charge per Units of Water Used |
| 0-36 | \$2.11 | \$0.53 |
| 37-250 | \$2.19 | \$0.53 |
| 251-500 | \$2.27 | \$0.53 |
| >500 | \$2.35 | \$0.53 |

The City is proposing the adoption of automatic annual adjustments to the first three water rate components (1. minimum charge based on meter; 2. capital improvement charge; and 3. commodity delivery charge) over a five (5) year period to account for actual inflation. Under the City's proposal, these water rate components would be adjusted for inflation annually on July 1, commencing July 1, 2012 and continuing through July 1, 2016, based on the same percentage as the percentage of increase in construction costs during the one year period (March 1 through February 28) immediately preceding March 1 of the then current calendar year, based on the Engineering News Record Construction Costs Index – Los Angeles Area ("ENR"), up to a maximum of six (6) percent, without further action by the City Council. Any rate adjustment over six (6) percent would require City Council approval. Over the last five (5) years, the average annual inflation rate under the ENR has been between two (2) to three (3) percent.

The following table shows an example of what the adjustments to these water rate components and the total bi-monthly bill for a typical residential customer would be, assuming a three percent (3%) increase in inflation for each year of the five-year period:

This Table is for Illustration Purposes Only. Actual Rates Will Vary.
Calculation of Average Total Bi-Monthly Charge for Typical Residential Customer

| | Minimum Charge* | + | Capital Improvement Recovery Charge* | + | Commodity Delivery Charge** | + | Commodity Adjustment Charge** | = | Total Bill |
|---|-----------------|---|--------------------------------------|---|-----------------------------|---|-------------------------------|---|-----------------|
| Current Rates | \$11.95 | + | \$1.38 | + | \$63.30 | + | \$15.90 | = | \$92.53 |
| 1 st Year Adjustment (est. 3% inflation) | \$12.31 | + | \$1.42 | + | \$65.20 | + | \$15.90 | = | \$94.83 |
| Adjusted Rates After 5 Years (est. 3% inflation per year) | \$13.85 | + | \$1.60 | + | \$73.38 | + | \$15.90 | = | \$104.73 |

*Based on a 5/8" or 3/4" meter size.

**Based on consumption of 30 units (3,000 cubic feet) of water in a two month period. The typical residential customer uses between 4 HCF¹ (2,992 gallons) and 40 HCF (29,920 gallons) of water every two months.

Currently, the Commodity Adjustment Charge component of the water rates may be automatically adjusted to reflect increases or decreases in wholesale charges for water established by other public agencies from which the City of Garden Grove purchases water to the extent such increases or decreases are not reflected in the schedule of charges then in effect. This provision will expire in 2014. In addition to authorizing adjustments for inflation, the City is proposing to re-adopt this provision and extend the existing authorization to automatically adjust the Commodity Adjustment Charge to account for future increases or decreases in wholesale water charges established by other public agencies that the City of Garden Grove must pay to acquire water for a five (5) year period ending in 2017.

Basis upon which the fees are to be adjusted

Government Code Section 53756 expressly authorizes the City to adopt a schedule of fees or charges authorizing automatic adjustments that pass through increases in wholesale charges for water and adjustments for inflation for a period of five (5) years.

The amount of the adjustments for inflation will be the same percentage as the percentage of increase in construction costs during the one year period (March 1 through February 28) immediately preceding March 1 of the then current calendar year, based on the Engineering News Record Construction Costs Index – Los Angeles Area ("ENR"), up to a maximum of six (6) percent. Any rate adjustment over six (6) percent will require City Council approval.

The amount of automatic adjustments to the Commodity Adjustment Charge to account for changes in wholesale water costs will be based directly on the incremental difference in costs that the City will incur to acquire water from other public agencies (i.e., MET/MWDOC or OCWD) as a result of increases or decreases in the amount such public agencies charge the City. Any such adjustments will only be made to the extent such increases or decreases are not already reflected in the schedule of charges then in effect. Data documenting the amount of the increase or decrease in water commodity costs and the basis for all adjustment calculations will be made available to the public upon request at the time of any automatic adjustment.

At least 30 days notice will be provided to customers before any such adjustments will take effect.

¹ HFC (Hundred Cubic Feet)

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Proposition 218

Property owners, as defined under Proposition 218, may respond to the proposed fees **in writing** prior to or during the public hearing. Consistent with the provisions of Proposition 218 and Government Code Section 53755, this notice has been mailed to all the record owners of affected property to the addresses as they appear on the latest equalized assessment roll and to all water service customers located on the affected parcels at the addresses to which the City customarily mails the billing statements. If you are a property owner as defined under Proposition 218 and object to the proposed fees as described in this Notice, you may file a written protest with the City at or before the time set for the public hearing. Protests can be mailed or personally delivered to the City Clerk as follows:

| | | | |
|----------|---|------------|--|
| By Mail: | City Clerk City of Garden Grove P.O. Box 3070 Garden Grove, CA 92842 | In person: | City Clerk City of Garden Grove 11222 Acacia Parkway Garden Grove, CA 92840 |
|----------|---|------------|--|

A valid protest **must** include:

1. The name of the record owner or owners of the property; and
2. Identification of the property by either assessor's parcel number or street address; and
3. A statement of protest ("I/we protest" will suffice); and
4. The original signature of the protesting owner or owners (photocopies will not be accepted).

Please note that each property owner will be counted as a single vote, regardless of the number of owners. If there are two record owners, both must sign the written protest. If there are more than two owners, the protest must be signed by a majority of the owners. Multiple protests returned for a single property will be disallowed and the City Clerk will only accept one protest per property.

If you have any questions regarding this Notice or the proposed fee adjustments, or would like even more detailed information, please call the City at (714) 741-5520.