



201 Vallecitos de Oro • San Marcos, California • 92069-1453 (760) 744-0460

NOTICE OF PUBLIC HEARING ON PROPOSED CHANGE IN WATER AND SEWER SERVICE CHARGES AND ESTABLISHMENT OF DROUGHT RATES

The Governing Board of the Vallecitos Water District will conduct a Public Hearing on June 24, 2009, at 4:00 p.m., in the Board Room at its Administrative Office at 201 Vallecitos de Oro, San Marcos, CA 92069, to consider the adoption of changes in water and sewer rates, pumping charges, and rate structures. For more information on the hearing, see page 2 of this notice.

The Vallecitos Water District (Vallecitos) is presently faced not only with increased costs, but also a limited water supply due to the drought and court ordered pumping restrictions limiting water deliveries from Northern California. To overcome these challenges, Vallecitos is proposing to adopt increased water and sewer rates, and changes to pumping charges and rate structures.

Rate increases are necessary to cover the increased cost of wholesale water, lost revenue from decreased water usage, inflationary costs, and escalating costs to comply with increasingly stringent environmental regulations. Drought rate increases are also necessary to encourage conservation, fund conservation programs, and avoid penalties that will be imposed to Vallecitos if we do not achieve overall mandated water reductions. The rate increases will be required to continue to provide safe, reliable and sustainable water and sewer service to our customers.

Even with the proposed rate increases, Vallecitos is still a revenue neutral public agency, meaning that only those charges sufficient to support your service are billed to you. Each end user pays a fair share of the cost of water acquisition and delivery, as well as the rehabilitation, operation and maintenance of the public water facilities. As always, we will continue to honor our commitment to provide the most reliable service at the lowest possible cost. Even with the rate increases, Vallecitos will continue to have among the lowest combined monthly residential water and sewer charges in the county.

Proposed Rate Increases

For the **next two fiscal years**, the combined monthly increase for the average residential customer is \$15.55 for 2009/10, and \$10.08 for 2010/11.

Effective July 1, 2009:

- Pump zone charges to recover costs to pump water to higher elevations will decrease in 7 of the 10 pump zones and increase in 1 zone,
- Monthly water ready-to-serve charge increase of \$2.44 for a single family residence, and
- Monthly sewer service charge increase of \$2.70 for a single family residence.

Effective September 1, 2009:

- Wholesale water commodity rate increase will pass through if Vallecitos' wholesaler adopts an effective date of September 1, 2009.

Effective January 1, 2010:

- Water commodity rate structure change to categories by meter size rather than customer type,
- Base water commodity rate increase of 50¢ per unit (748 gallons), and
- Tier 2 and Tier 3 amounts in excess of the base rate will increase from 13¢ and 39¢, to 65¢ and \$1.30, respectively for M&I (all except certified agricultural) customers, and from 6¢ and 9¢, to 22¢ and 41¢, respectively for certified agricultural customers.

Effective July 1, 2010:

- Monthly water ready-to-serve charge increase of \$2.80 for a single family residence, and
- Monthly sewer service charge increase of \$1.82 for a single family residence.

Effective January 1, 2011:

- Base water commodity rate increase of 28¢ per unit, and
- Tier 2 and Tier 3 amounts in excess of the base rate will increase from 65¢ and \$1.30, to 72¢ and \$1.44, respectively for M&I customers, and from 22¢ and 41¢, to 40¢ and 78¢, respectively for certified agricultural customers.

Effective upon Vallecitos' Board declaration of a Drought Response Condition pursuant to Vallecitos Ordinance No. 159:

- For a Level 2 (up to 20% cutback) declaration, water commodity charged within a 6-tiered rate structure with tier limits varying by meter size, rates accelerating beyond the Tier 1 Limit (58% of average monthly use) from between 10% and 200% over the base rate, and
- For a Level 3 (up to 40% cutback) declaration, water commodity charged within a 6-tiered rate structure with tier limits varying by meter size and rates accelerating beyond the Tier 1 Limit from between 25% and 300% over the base rate.

Wholesale Rates Are Passed Through

The aforementioned rates include only estimates for wholesale costs. The next wholesale rate increase for Metropolitan Water District (MWD) has been adopted effective September 1, 2009. The San Diego County Water Authority (CWA) has not yet adopted its next increase as of the time this notice was drafted. MWD sells water to CWA. CWA sells water to Vallecitos. Vallecitos' Ordinance No. 154 provides for wholesale rates to be passed through to our customers. The final rates and effective dates will change to reflect action taken by CWA.

Vallecitos will Conduct a Public Hearing

The Governing Board of the Vallecitos Water District will conduct a Public Hearing on June 24, 2009, at 4:00 p.m., in the Board Room at its Administrative Office at 201 Vallecitos de Oro, San Marcos, CA 92069, to consider the adoption of changes in water and sewer rates, pumping charges, and rate structures. Rates are calculated based on the revenue required to cover necessary costs of operations each year that ensure a reliable water supply and sewer service. The proposed increases are being considered solely for the purpose of covering costs incurred by the water and sewer system, which include treated water purchases, treatment and disposal of effluent, system operation and maintenance, facility and equipment maintenance, system rehabilitation, debt service, regulatory compliance, metering, billing, and account management.

Written Protests Accepted Prior to the Public Hearing

Vallecitos will accept written comments or protests prior to the public hearing. A valid protest must contain a description of the property (address and or Assessor Parcel Number) that is sufficient to identify the property, and identify the owner(s) of the property or properties for which the protest is entered. The protest must be signed by the property owner. If the person(s) signing was/were not shown on the last equalized assessment roll of San Diego County as owner(s) of the property, written evidence must be submitted that the person(s) signing is/are the owner(s) of the property. If a majority of the affected property owners file written protests, the proposed rate changes will not be imposed. If you have any questions regarding this notice, please call Vallecitos' Customer Service Department at (760) 744-0460 during regular office hours, Monday through Friday. Protests can be mailed or personally delivered to: Vallecitos Water District 201 Vallecitos de Oro, San Marcos, California 92069. Please do not send protests by e-mail.

Rate Considerations and Impacts

The amount of increase was arrived at by projecting ending balances in water and sewer replacement reserves. The projection considered a slowdown in growth and the following other items:

- Future water sales based on growth and usage-per-account assumptions,
- Future sewer and water ready to serve charges based on growth assumptions,
- Estimated 27% water commodity and 32% fixed wholesale cost increase effective next fiscal year,
- Estimated 12% water commodity and 26% fixed wholesale water cost increase effective 2010/11,
- Anticipated future wholesale water rate increases,
- Historic revenues, expenditures, and reserve balances,
- Increased regulatory costs, and
- Compliance with debt service coverage requirements.

Proposed Pump Zone Charges

New water pump zone charges will be effective July 1, 2009. Pump zone charges apply to customers served in high elevations that require Vallecitos incur additional costs to pump water, including power. The pump charges recover the cost of power. **Of Vallecitos' 20,500 customers, 2,500 are in pump zones.** Call our Customer Service department at 744-0460 for more information on pump zones and charges.

Name	Rate per Unit		Increase/ (Decrease)
	Proposed	Existing	
North Twin Oaks	\$0.36	\$0.21	\$0.15
Deer Springs	0.10	0.13	(0.03)
Coggan	0.21	0.32	(0.11)
Coronado Hills	0.41	0.48	(0.07)
Wulff	0.35	0.42	(0.07)
Palos Vista	0.12	0.12	-
San Elijo	0.04	0.09	(0.05)
Double Peaks	0.29	0.32	(0.03)
Meadowlark	0.26	0.39	(0.13)
High Point	0.42	0.42	-

Proposed Monthly Water Ready-to-Serve Charges

Vallecitos' water wholesalers, the Metropolitan Water District (MWD) and the San Diego County Water Authority (CWA), charge rates on both a fixed and commodity basis. Fixed wholesale costs charged to Vallecitos are expected to increase 32% from \$2,471,220 to \$3,262,995 during the next fiscal year and estimated to increase 25.6% in 2010/11. Fixed wholesale water costs are passed through as part of the monthly ready-to-serve charge (RTS) noted herein. Without increased revenues from growth, Vallecitos cannot absorb wholesale increases as it has done in the past. RTS rates include a 6.0% increase for 2009/10 and 12.9% increase in 2010/11 to the retail portion.

Meter Size	Current Rate	Rate Effective July 1,:	
		2009	2010
5/8"	\$15.92	\$18.36	\$21.16
3/4"	23.89	27.54	31.74
1"	39.83	45.90	52.90
1½"	79.64	91.80	105.80
2"	127.41	146.88	169.28
3"	254.81	293.76	338.56
4"	398.15	459.00	529.00
6"	796.28	918.00	1,058.00
10"	1,831.48	2,111.40	2,433.40
multiple dwelling units	7.97	9.18	10.58
temporary meters	86.82	92.03	103.90
fire line per inch of diameter	2.60	2.76	3.12

Proposed Monthly Sewer Service Charge

In addition to covering increasing costs of treatment, monitoring, collection and conveyance, increased sewer rates are needed to provide resources necessary to comply with progressively stringent regulations.

	Effective July 1,:		
	Current	2009	2010
Single Family Residential	\$27.70	\$30.40	\$32.22
Residential Multiple-Unit	25.08	27.36	29.00
Mobile Home / Frugal User	22.14	24.32	25.78
Nonresidential (per unit of flow)	3.53	3.87	4.10
<i>Minimum charges for nonresidential customers will also increase by 9.74% and 6%.</i>			

Frugal Use Discount

A frugal use discount on water and sewer bills applies when five units of water or less is used in a billing month. The water RTS is reduced by 20% of the retail portion, \$2.26 in 2009/10, and \$2.56 in 2010/11. The monthly sewer service is charged at the mobile home rate.

Water Commodity Rate Structure Change from Customer Type to Meter Size

Existing Tier Structure	Upper Tier Limits	
	Tier 1	Tier 2
Residential per living unit	16	34
Commercial	61	529
Irrigation	174	769
Agricultural	415	2,449
<i>Temporary Construction meter water billed at the Tier 3 rate</i>		
<i>Institutional customers (governments, schools, churches) billed all at Tier 1 rate.</i>		

Tier limits in units. A unit is 748 gallons of water.

Effective for bills sent out after January 2010, the rate structure for water commodity will change to tier limits based on average use by size of meter for which the RTS is paid.

Proposed Tier Structure	Upper Tier Limits	
	Tier 1	Tier 2
Multi-family per living unit	6	11
5/8" and 3/4" meters	17	36
1" meters	60	214
1 1/2" meters	157	627
2" meters	242	806
3" and larger meters	1,133	3,970

Temporary Construction meter water billed at the Tier 3 rate

Institutional customers subjected to tiered rates.

Multi-family meters not included in meter size category.

1" meters paying less than the 1" RTS charge in accordance with VWD Ordinance #160 are subject to 5/8" tiers.

This new structure recognizes customers that paid additional capacity and continue to pay higher RTS charges.

The Tier 1 limit for both the existing and proposed rate structure is equal to 90% of the average monthly individual use within the category. The Tier 2 limit captures 90% of all the use within the category.

Proposed Increase to Water Commodity Rates Effective for 2010 and 2011

The current base water rate of \$2.10 per unit is proposed to increase to \$2.60 effective January 1, 2010, and to \$2.88 effective January 1, 2011. The 50¢ increase in 2010 includes an estimated

	Current Rate		Proposed 2010		Proposed 2011	
	M&I*	Ag*	M&I	Ag	M&I	Ag
Tier 1	\$ 2.10	\$ 2.10	\$ 2.60	\$ 2.60	\$ 2.88	\$ 2.88
Tier 2	2.23	2.16	3.25	2.82	3.60	3.28
Tier 3	2.49	2.19	3.90	3.01	4.32	3.66
<i>*M&I = municipal and industrial, i.e., all non agricultural usage.</i>						
<i>** Ag = certified agricultural. The disparities from M&I and Ag rates will be phased out during the IAWP phase out period.</i>						
<i>Tier 2 M&I is 125% of the Tier 1 base rate. Tier 3 M&I is 150% of Tier 1.</i>						

43¢ wholesale water rate increase and 7¢ for increasing retail operating costs and loss of revenue from reduced demands. The 28¢ increase in 2011 includes an estimated 25¢ wholesale water rate increase and 3¢ retail water rate increase. Vallecitos passes through wholesale rates in accordance with Ordinance No. 154. If the wholesale water rate increase is on September 1, 2009, the wholesale portion of the increase would be reflected on invoices mailed after September 2009. Otherwise the wholesale increase will be combined with the retail increase effective on invoices sent after January 2010. Vallecitos is also proposing augmenting the Tier 2 and Tier 3 rates to cover increased efforts of public outreach and conservation incentives.

Drought Rate Structure and Drought Rates

Upon declaration of a Drought Response Condition by the Vallecitos Board pursuant to Vallecitos Ordinance No. 159, Vallecitos proposes a drought rate structure and drought rates sufficient to induce conservation to the degree necessary to avoid penalties imposed by the two water wholesalers. Penalties are assessed to Vallecitos if Vallecitos' demand exceeds a specified allocation. The allocation penalty could be as high as \$2,376 per acre foot, or \$5.45 per unit, over the allocation in addition to the regular rate. The proposed drought rate structure assumes that voluntary customer response to outreach efforts plus price inducement will keep demand below Vallecitos' allocation. The drought rates for Level 2, up to 20% mandatory cutback, and level 3, up to 40% mandatory cutback follow. Rates can be adjusted for exact levels of conservation mandated by Vallecitos.

	Tier 1	Tier 2	Tier 3	Tier 4	Tier 5	Tier 6
Tier Limits:						
Multi-family per living unit	5	6	8	11	15	
5/8" and 3/4" meters	11	17	21	36	53	
1" meters	39	60	73	214	314	
1 1/2" meters	102	157	192	627	963	
2" meters	157	242	298	806	1,088	
3" and larger meters	733	1,133	1,384	3,970	4,947	
Rate Times Base:						
Level 2 (20% cutback)	1.00	1.10	1.25	1.50	2.00	3.00
Level 3 (40% cutback)	1.00	1.25	1.50	2.00	3.00	4.00
<i>All temporary construction meter water billed at Tier 6 rate</i>						
<i>Participating IAWP and SAWR customers are not subject to drought rates</i>						

The Tier 1 Limit for residential meters (11 units) represents normal indoor and essential outdoor use. Tier 1 for other categories is the ratio of 11 units to the Residential Tier 2 Level applied the Tier 2 Level of the other categories. Tier 2 is 90% of the average use within the category. Tier 3 is 110% of the average. Tier 4 captures 90% of the use within a category. Tier 5 captures 95% of the use within a category.

This drought rate structure recognizes those customers who historically conserve. No increase will be imposed upon customers whose usage is within the Tier 1 limit. Only minor increases are imposed on usage between 58% and 110% of average use. The burden of conservation is on those customers that use more than 110% of the average. Rates associated with usage beyond 110% of average use accelerate from one-and-a-half times the base rate to three times the base rate at Level 2 cutback (four times for Level 3). The table below shows total monthly water costs at various levels of use for a single family residence that does not conserve during Level 2, 20% mandatory cutback.

Cost Comparison for Single Family Residence using rates Effective July 1, 2009 (average use = 19 units)					
	Percent of Average Use				
	58% <i>11 units</i>	90% <i>17 units</i>	110% <i>21 units</i>	200% <i>38 units</i>	300% <i>57 units</i>
Total Water Bill:*					
Drought rates	\$41.46	\$55.32	\$65.84	\$121.49	\$201.29
Regular rates	41.46	54.19	63.11	102.06	149.37
Cost increase	\$0.00	\$1.13	\$2.73	\$19.43	\$51.92
	0.0%	2.1%	4.3%	19.0%	34.8%

*Includes ready-to-serve water charge, but not sewer charge.

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San Marcos, California 92069-1453

This legal notice contains important information regarding rates associated with providing 20,500 customers in San Marcos, portions of Carlsbad, Escondido, Vista, and unincorporated areas in San Diego County with safe, reliable water and wastewater services. *(Para información en Español, visítenos en www.vwd.org o llámenos a (760) 744-0460.)*

Drought Water Rate Structure

The water allotments embodied in this rate structure are based on averages, not individual use, and recognize those customers who have paid additional capacity fees and continue to pay higher ready-to-serve charges for the larger water meters. Customers who have meters sized at 1" for fire flow requirements and only pay a 5/8" or 3/4" meter charge in accordance with Vallecitos' Ordinance No. 160 will be charged drought rates within the category of 5/8" and 3/4" meters.

Drought rates are revenue neutral. If Vallecitos collects more money than necessary to cover operating costs plus extraordinary outreach efforts and conservation incentive programs, Vallecitos would likely be supplying demands beyond its allocation, and excess revenues would be needed to pay drought allocation penalties.

Drought Rate Calculator

Vallecitos has developed an online drought rate calculator to help our customers calculate how the proposed rate structure may affect your water bill during different stages of the drought. For more information, please visit our website at www.vwd.org and click on any of the drought level boxes.

Conservation Assistance

Vallecitos understands that this may be a challenging time for many of our customers. To assist customers to conserve water and reduce their water bill, Vallecitos offers free landscape irrigation audits to determine the efficiency of your irrigation system. In addition, if Vallecitos achieves overall mandated water reductions, we may have funds available to provide additional conservation programs in the future. For more information on water conservation programs, please visit our website at www.vwd.org.

