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June 20, 2017

PROPOSITION 218 NOTICE OF PUBLIC HEARING

PROPOSED INCREASES TO RATES FOR WATER SERVICES

NOTICE IS HEREBY GIVEN that the Lake Hemet Municipal Water District (the "District") will conduct a **Public Hearing** on **Thursday, August 10, 2017 at 5:30 pm at the Garner Valley POA Building and on August 17, 2017, 5:30 p.m. at the LHMWD Headquarters, 26385 Fairview Avenue, Hemet,** as part of its Regularly Scheduled monthly Board meeting, for the purpose of discussing and possibly adopting the following:

- (i) An increase in potable water usage rates in Garner Valley for domestic, residential, commercial and irrigation customers as shown in the Table I below.
- (ii) An increase in the water service charge (by meter size) to domestic, residential, commercial, and irrigation customers in Garner Valley as shown in the Table II below.
- (iii) An increase in non-potable water usage rates for irrigation customers as shown in the Table III below.
- (iv) To allow any wholesale rate increases in the next 5 years imposed by Eastern Municipal Water District and Metropolitan Water District on the District to be passed through to District customers, subject to the provisions of Government Code Section 53756.
- (v) To allow the District to impose inflationary water usage rate increases based on the CPI-U for the Los Angeles-Riverside-Orange County areas on an annual basis at a rate not to exceed three percent (3%) per year over the next 5 years. Any such increase would be subject to the provisions of Government Code Section 53756.

Any formal action by the Board of Directors on any of the above rate proposals will occur at or after the August 17, 2017 public hearing.

The District's rates for domestic potable water in the Hemet/San Jacinto Valley remain will remain as previously approved in 2015 and will only be adjusted in the future to cover pass-through and CPI costs. However, the District has incurred other costs in Garner Valley and, due to the drought, the District has had to import a significant amount of non-potable water for the agricultural customers at higher costs. This notice is sent to all customers based on the latest and best legal interpretation because the District's costs from one customer category can impact the rates to other customers depending on the allocation of those costs.

GARNER VALLEY:

Garner Valley has not had any rate increase since 2010. Current rates generate \$250,000 and taxes generate \$217,000 annually and barely fund the \$465,000 in annual operational costs. However, due to other operational costs, the cumulative operational deficit in the Garner Valley system is \$1.7M. In addition, only 20% of the annual \$145,000 depreciation has been funded. To pay back the deficit over 20 years (no interest) and funding 66% of depreciation, the usage rates will be increased by 3% for each year since the last increase (23% total) as shown in Table I and the service charge will match the other areas of the District as shown in Table II. Also, with groundwater being the only source of water for Garner Valley and the requirement that the rates be reasonably based on the cost of service, the current tiers will be consolidated into a single rate.

TABLE I – Garner Valley Potable Usage Rates

PHASE	TIER	1	2	3	4	5
CURRENT	BI-MONTHLY WATER USAGE (HCF)	0 to 20	20 to 50	50 to 150	150 to 250	> 250
	RATE (\$/HCF)	\$1.626	\$1.913	\$2.271	\$2.981	\$3.711
	AVERAGE (\$/HCF)	\$2.28				
PROPOSED YEAR 1	INCREASE	\$0.26				
	TOTAL RATE (\$/HCF)	\$2.54				
PROPOSED YEAR 2	INCREASE (\$/HCF)	\$0.27				
	TOTAL RATE (\$/HCF)	\$2.81				

1. HCF means hundred cubic feet which is approximately 748 gallons.
2. Rates are rounded and will be applied to the nearest \$0.01.

TABLE II – Garner Valley Bi-Monthly Service Charge

		METER SIZE					
		< 3/4"	1"	1½"	2"	3"	4"
CURRENT		\$37.26	\$37.26	\$37.26	\$37.26	\$37.26	\$37.26
PROPOSED YEAR 1	INCREASE	\$12.28	\$16.22	\$26.03	\$37.80	\$69.31	\$104.72
	TOTAL	\$49.54	\$53.48	\$63.29	\$75.06	\$106.57	\$141.98
PROPOSED YEAR 2	INCREASE	\$12.28	\$16.22	\$26.03	\$37.80	\$69.31	\$104.72
	TOTAL	\$61.82	\$69.70	\$89.32	\$112.86	\$175.88	\$246.70

**EXAMPLE
GARNER
VALLEY
AVERAGE
WATER
BILL**

LHMWD's average customer in Garner Valley uses approximately 565 gallons of water each day throughout the year. This amounts to 46 HCF (billing units) over a 2-month billing period. The average customer's bill would then be calculated as follows (excluding other applicable charges such as lift charges, sewer and trash collection charges, and/or other City services):

				Current Rates		New Rates in Year 2	
Water Service Charge (residential Customer with a 1" meter)					\$37.260		\$69.70
Water Commodity Based Charges							
Water Usage (Tier 1)	20	HCF	@	\$1.626	\$32.52	\$2.81	\$56.20
Water Usage (Tier 2)	26	HCF	@	\$1.913	\$49.74	\$2.81	\$73.06
Water Usage (Tier 3)	0	HCF	@	\$2.271	\$0.00	\$2.81	\$0.00
Water Usage (Tier 4)	0	HCF	@	\$2.981	\$0.00	\$2.81	\$0.00
Water Usage (Tier 5)	no usage	HCF	@	\$3.711	0.000	\$2.81	\$0.00
Subtotal	46				\$82.26		\$129.26
Total Charges (Service Charge + Commodity Charge)					\$119.52		\$198.96
Increase in Bi-Monthly Bill in Year 2							\$79.44

IRRIGATION WATER:

The District is faced with large increased costs for importing water especially for non-potable irrigation water. Over the last 5 years, the amount of non-potable water coming from the local streams and lake has decreased and the amount of purchased imported water has increased. Purchased imported water presently costs \$828/acre-foot compared to no purchase cost for local run-off. This shift in non-potable water supply increased water costs by as much as \$4.3M/year. To cover the increased costs, the non-potable irrigation rates will be increased based on the estimated cost of providing the sources of water in the average amounts actually supplied over the last 5 years. This rate will be increased over 5 years to ultimately restore \$1M/year into reserves which were depleted due to increased volume and associated costs of imported water as shown in Table III.

TABLE III – Irrigation Water Monthly Usage Rates

RATE		IR1	IR2	IR3	504AG	505AG
CURRENT	(\$/AF)	\$562	\$567	\$636	\$754	\$93.81
PROPOSED	INCREASE (\$/AF/YR)	\$54	\$54	\$100	\$100	\$0
	YEAR 1 TOTAL	\$616	\$621	\$736	\$854	\$94
	YEAR 2 TOTAL	\$670	\$675	\$836	\$954	\$94
	YEAR 3 TOTAL	\$724	\$729	\$936	\$1,014	\$94
	YEAR 4 TOTAL	\$778	\$783	\$1,014	\$1,014	\$94
	YEAR 5 TOTAL	\$832	\$837	\$1,014	\$1,014	\$94
	EMERGENCY	\$860	\$865	N/A	N/A	N/A

- NOTES:
1. Rates rounded to and applied to the nearest \$1.
 2. These rates apply to both all commercial and special growers.

IR3 and 504AG rates for irrigation water from the potable system will match the Tier 1 rate for Potable Water. Existing accounts will be locked into Tier 1 for their entire usage. New potable irrigation accounts will be subject to Tier volumes and corresponding rate for potable water.

A rate of \$860/AF for IR1 was justified in the study to restore reserves. If emergency conditions warrant as reviewed and approved by the Board of Directors, the rate may be implemented for irrigation water from the non-potable system.

If adopted, the proposed rates will become effective October 1, 2017 in the first year and July 1 for each year thereafter starting in 2018 for rate increases that are implemented in phases.

Pursuant to Section 53756, an agency providing water, sewer or refuse collection can adopt a schedule of fees or charges authorizing automatic adjustments that pass through increases in wholesale charges for water or adjustments for inflation, if it complies with all of the following:

- a) The schedule of fees or charges is for a period not to exceed 5 years pursuant to 53755.
- b) The schedule of fees may include a schedule of adjustments, including a clearly defined formula for adjusting for inflation. An inflation adjustment to a fee or charge for a property-related service shall not exceed the cost of providing the service.
- c) The schedules of fees or charges for an agency that purchases wholesale water from a public agency may provide for automatic adjustments that pass through the adopted increases or decreases in the wholesale charges established by the other agency.
- d) Notice of any adjustment pursuant to the schedule shall be given pursuant to subdivision (a) of Section 53755 not less than 30 days before the effective date of the adjustment.

Any property owner or customer of record may submit a written protest for the proposed increases; provided, however, that only one protest will be counted per identified parcel. Any written protest must: (1) state that the identified property owner or customer is in opposition to the proposed water rate increases and/or charges; (2) provide the location of the identified parcel (by assessor's parcel number or street address); and (3) include the name and signature of the property owner or customer submitting the protest.

Written protests may be submitted by mail to the Secretary of the Board of Directors, P.O. Box 5039, Hemet, CA 92544-0039 or in person at 26385 Fairview Avenue, Hemet, California 92544; or at the public hearing, so long as they are received prior to the conclusion of the public hearing on August 17, 2017. Any protest submitted via e-mail or other electronic means will not be accepted. Please identify on the front of the envelope for any protest, whether mailed or submitted in person to the Secretary, that the enclosed letter is for the Public Hearing on the Proposed Increases to Water Rates and Charges.

The Lake Hemet Municipal Water District Board of Directors will hear and consider all written and oral protests to the proposed rates and charges at the Public Hearing. Upon conclusion of the Public Hearing on August 17, 2017, the Board of Directors will consider adoption of the proposed rates and charges. Oral comments at the public hearing will not qualify as formal protests unless accompanied by a written protest. If written protests against the proposed rates and charges as outlined above are not presented by a majority of property owners or customers of the identified parcels upon which the rates and charges are proposed to be imposed on, the Board will be authorized to impose the rates and charges, including passing through any incremental increases in the rates for the purchase of imported wholesale water from Eastern Municipal Water District and Metropolitan Water District and inflationary increases based on CPI.

If you have any questions regarding the proposed increases or the process for submitting a protest, please call the District at (951) 658-3241.

Sincerely,



Thomas W. Wagoner
General Manager