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PROPOSITION 218 NOTICE OF PUBLIC HEARING

PROPOSED INCREASES TO RATES FOR WATER AND WASTEWATER SERVICES

NOTICE IS HEREBY GIVEN that the Lake Hemet Municipal Water District (the “District”) will conduct a **Public Hearing** on **Thursday, December 20, 2018 at 5:30 pm or as soon thereafter as practicable at the District’s 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) Proposed rates for potable and non-potable water service charges in Hemet / San Jacinto Valley and Garner Valley as shown in the Tables 1, 2, 3, 4, 5, 6 and 7 on the following pages.
- (ii) Proposed rates for wastewater service charges in Hemet / San Jacinto Valley as shown in the Table 8 on the following pages.
- (iii) To allow any wholesale water rate increases imposed by Eastern Municipal Water District and Metropolitan Water District (collectively “EMWD”) on the District to be passed through to District customers, subject to the provisions of Government Code Section 53756.
- (iv) To allow the District to impose inflationary water rate increases each fiscal year, commencing on July 1, 2019, based on the twelve-month change of each March in the CPI-U for the Los Angeles-Riverside-Orange County areas at a rate not to exceed three percent (3%) per year for Hemet / San Jacinto Valley and Garner Valley. Any such increase would be subject to the provisions of Government Code Section 53756.
- (v) To allow the District to impose inflationary wastewater rate increases in Hemet/San Jacinto Valley each fiscal year, commencing on July 1, 2019, based on the twelve-month change of each March in the CPI-U for the Los Angeles-Riverside-Orange County areas at a rate not to exceed three percent (3%) per year. 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 December 20, 2018 public hearing. For additional details on the cost of service and rate restructuring, please refer to the Cost of Service Study prepared by Raftelis, the District’s independent rate consultant, which is on file with the District and on its website at www.lhmwd.org.

HEMET / SAN JACINTO VALLEY:

The proposed rates for Hemet / San Jacinto Valley water service charges include potable and non-potable customers. Water service charges are comprised of two components: a monthly fixed service charge, determined based on the size of the meter serving the property, and a monthly variable charge, determined based on the amount of water delivered to the property, measured in dollars per hundred cubic feet (\$/hcf). The fixed service charge is designed to recover a portion of the District's fixed costs, while the variable charge recovers a portion of the District's fixed costs and the District's variable costs incurred in providing water service.

The District completed a comprehensive cost of service study and, based on the results of the study, the District is proposing to adjust the current rate structure for the variable charge to a 3-tiered rate structure. If adopted, the proposed rates would be effective January 1, 2019. In order to account for rising costs and inflation, for each subsequent fiscal year, commencing July 1, 2019, and at any time thereafter through and including July 1, 2023, the District is proposing to increase the proposed rates identified in Tables 1 and 2 by the twelve-month change of each March in the CPI-U for the Los Angeles-Riverside-Orange County (Inflationary Adjustment) provided, however, that (i) the proposed rates in Tables 1 and 2 shall not be increased by more than 3% in any fiscal year as a result of an Inflationary Adjustment; (ii) in no event shall the proposed rates in Tables 1 and 2 be increased by more than the cost of providing service; and, (iii) at least 30 days prior to the date an Inflationary Adjustment will take effect, the District shall mail notice of such Inflationary Adjustment to the affected property owner or customer of record, which may be included in a billing statement or other customary mailing.

In addition, commencing July 1, 2019 and at any time thereafter through including July 1, 2023, the District is proposing to pass through any wholesale rate increases for purchasing water from EMWD (EMWD Pass-Through) directly to the District's customers, provided, however, that (i) the proposed rates in Tables 1 and 2 shall not be increased by more than 10% in any fiscal year as a result of an EMWD Pass-Through; (ii) in no event shall the proposed rates in Tables 1 and 2 be increased by more than the cost of providing service; and, (iii) at least 30 days prior to the date an EMWD Pass-Through will take effect, the District shall mail notice of the increase to the affected property owner or customer of record, which may be included in a billing statement or other customary mailing.

Table 1: Proposed Monthly Fixed Service Charges - Hemet / San Jacinto Valley, effective January 1, 2019

Meter Size	Current Service Charge	Proposed Service Charge
3/4" or less	\$31.50	\$29.92
1"	\$35.51	\$34.45
1 1/2"	\$45.51	\$45.68
2"	\$57.50	\$59.20
3"	\$89.61	\$102.05
4"	\$125.69	\$165.12
6"	\$282.92	\$316.08
8"	\$502.62	\$654.08
10"	\$785.54	\$969.56
12"	\$1,131.66	\$1,217.45
16"	\$2,011.51	\$1,780.76

Table 2 provides the proposed variable rates for Hemet / San Jacinto Valley for fiscal year 2018-19, commencing on January 1, 2019.

Table 2: Proposed Monthly Variable Charges – Hemet / San Jacinto Valley

Customer Class/Tier	Current Tiers (hcf)	Current Rate (\$/hcf)	Proposed Tiers (hcf)	Proposed FYE 2019 Rate (\$/hcf) ¹
Potable				
Tier 1	0 - 7	\$2.38	0-5	\$2.12
Tier 2	7.01 - 13	\$2.47	5.01-13	\$2.28
Tier 3	13.01 - 25	\$2.71	>13	\$3.43
Tier 4	25.01 - 38	\$2.99	N/A	-
Tier 5	> 38	\$3.46	N/A	-
Non-Potable	Uniform	Varies	Uniform	\$2.01

NOTES:

1. HCF means hundred cubic feet which is approximately 748 gallons.

PUMPING CHARGES:

The District incurs costs relating to facilities and power necessary to pump water to various elevation zones, or “Lift Zones” within the District’s service areas. The District imposes pumping charges to cover the costs of transmitting water to such areas, and proposes to increase such charges effective January 1, 2019, to meet the cost of service, all as set forth in Table 3 below. The pumping charges are determined by the amount of water pumped to properties within various lift zones of the District (measured in dollars per hcf), and are charged in addition to the fixed service charges and variable charges set forth in Tables 1 and 2. The pumping charges will only be imposed on properties within the lift zones described in Table 3 below.

In order to account for rising costs, inflation and to pass through any increases in electricity rates imposed by Southern California Edison (“SCE”), for each subsequent fiscal year, commencing July 1, 2019, and at any time thereafter through and including July 1, 2023, the District is proposing to increase the proposed rates for the pumping charges identified in Table 3 by the twelve-month change of each March in the CPI-U for the Los Angeles-Riverside-Orange County (Inflationary Adjustment) provided, however, that (i) the proposed rates in Table 3 shall not be increased by more than 3% in any fiscal year as a result of an Inflationary Adjustment; (ii) in no event shall the proposed rates in Table 3 be increased by more than the cost of providing service; (iii) any pass through increases by SCE shall not result in a rate increase in excess of 10% and, (iv) at least 30 days prior to the date an Inflationary Adjustment will take effect, the District shall mail notice of such Inflationary Adjustment to the affected property owner or customer of record, which may be included in a billing statement or other customary mailing.

Table 3: Proposed Pumping Monthly Charges – Hemet / San Jacinto Valley

Zone	Current Pumping Charge	FYE 2019 Proposed Pumping Charge/HCF
1000 & 1101	\$0.26	\$0.44
1100	\$0.33	\$0.33
1200 & 1201	\$0.32	\$0.29
1300 & 1301	\$0.17	\$0.11
1400	\$0.35	\$0.19
1500	\$0.40	\$0.56
1600	\$0.08	\$0.07

BACKFLOW ASSEMBLY CHARGES:

Certain properties within the District’s Hemet, San Jacinto, and Garner Valley service areas contain backflow assemblies installed on their water systems. The District incurs costs for testing backflow assemblies. Maintenance and repair costs are paid directly by the customer to their contractor. The District currently charges customers with such devices a backflow testing charge, and is proposing to adjust the backflow testing charge based on the cost of providing service to such properties, commencing January 1, 2019, as set forth in Table 4 below. Backflow device charges are charged as a flat monthly fee to those properties with backflow assemblies installed.

In order to account for rising costs and inflation, for each subsequent fiscal year, commencing July 1, 2019, and at any time thereafter through and including July 1, 2023, the District is proposing to increase the proposed rates for the backflow device charge identified in Table 4 by the twelve-month change of each March in the CPI-U for the Los Angeles-Riverside-Orange County (Inflationary Adjustment) provided, however, that (i) the proposed rates in Table 4 shall not be increased by more than 3% in any fiscal year as a result of an Inflationary Adjustment; (ii) in no event shall the proposed rates in Table 4 be increased by more than the cost of providing service; and, (iii) at least 30 days prior to the date an Inflationary Adjustment will take effect, the District shall mail notice of such Inflationary Adjustment to the affected property owner or customer of record, which may be included in a billing statement or other customary mailing.

Table 4: Proposed Backflow Testing Charge - Hemet / San Jacinto Valley

	Current Monthly Backflow Testing Charge	Proposed Monthly Backflow Testing Charge
All Backflow Assemblies	\$6.67	\$6.67

PRIVATE FIRE SERVICE CHARGES:

In addition to monthly service charge, variable charge, and (for certain properties) the backflow device charges and/or the pumping charges, the District also charges a private fire service charge to those customers with private fire lines in its Hemet, San Jacinto, and Garner Valley service areas. Private fire service charge customers are charged a monthly charge that varies by connection size. The District is proposing to adjust the private fire service charge to account for the costs of providing such services to such customers, commencing January 1, 2019, as set forth in Table 5 below.

In order to account for rising costs and inflation, for each subsequent fiscal year, commencing July 1, 2019, and at any time thereafter through and including July 1, 2023, the District is proposing to increase the proposed rates for the private fire service charges identified in Table 5 by the twelve-month change of each March in the CPI-U for the Los Angeles-Riverside-Orange County (Inflationary Adjustment) provided, however, that (i) the proposed rates in Table 5 shall not be increased by more than 3% in any fiscal year as a result of an Inflationary Adjustment; (ii) in no event shall the proposed rates in Table 5 be increased by more than the cost of providing service; and, (iii) at least 30 days prior to the date an Inflationary Adjustment will take effect, the District shall mail notice of such Inflationary Adjustment to the affected property owner or customer of record, which may be included in a billing statement or other customary mailing.

Table 5: Proposed Monthly Private Fire Service Charges - Hemet / San Jacinto Valley

Connection Size	Current Monthly Private Fire Line Charge	Proposed Monthly Private Fire Line Charge
4"	\$4.00	\$1.36
6"	\$6.00	\$2.04
8"	\$8.00	\$2.72
10"	\$10.00	\$3.40
12"	\$12.00	\$4.08

GARNER VALLEY:

Garner Valley has not had any rate increase since 2010. Current rates generate approximately \$233,000 and barely fund the \$265,000 in annual operational costs when available non-operating revenue is considered. However, in addition to annual operational costs, the District also requires funding for necessary capital repair and replacement for facilities attributable to Garner Valley equal to an average annual amount of \$100,000. In addition, the District has advanced the Garner Valley service area \$1.7M in previous years for operational and capital project expenses attributable exclusively to the Garner Valley service area from reserves established for the Hemet / San Jacinto service area. To repay the \$1.7M advances, the proposed financial plan includes a repayment schedule over 20 years with interest accruing commencing on January 1, 2019, at an interest rate based on the Local Agency Investment Fund (LAIF) quarterly rate of return in effect as of March 31 each year (current September quarterly rate was two percent – 2%). This interest rate is used because, had the funds not been advanced from the Hemet / San Jacinto reserves, these funds would have been invested in LAIF and generated interest at this rate.

The rates for water service charges for Garner Valley customers are comprised of two components: a bi-monthly fixed service charge, determined by the size of the meter serving the property, and a variable charge, measured by the amount of water delivered to the property (in \$/hcf).

To ensure the full funding of revenue requirements for Garner Valley, including operational costs, capital funding, repayment of advances and adequate reserves, the District is proposing to adjust the rates for Garner Valley customers, as set forth in Table 6 and Table 7 commencing January 1, 2019. In order to account for rising costs and inflation, for each subsequent fiscal year, commencing July 1, 2020, and at any time thereafter through and including July 1, 2023, the District is proposing to increase the proposed rates identified in Table 6 and Table 7 by the twelve-month change of each March in the CPI-U for the Los Angeles-Riverside-Orange County (Inflationary Adjustment) provided, however, that (i) the proposed rates in Table 6 and Table 7 shall not be increased by more than 3% in any fiscal year as a result of an Inflationary Adjustment; (ii) in no event shall the proposed rates in Table 6 and Table 7 be increased by more than the cost of providing service; and, (iii) at least 30 days prior to the date an Inflationary

Adjustment will take effect, the District shall mail notice of such Inflationary Adjustment to the affected property owner or customer of record, which may be included in a billing statement or other customary mailing.

The proposed bi-monthly rates are shown in Table 6 and Table 7 with the fixed Service Charge in Table 6 matching the Hemet / San Jacinto Valley and the remainder of the revenue needs coming from the variable commodity rate.

Table 6: Proposed Bi-Monthly Fixed Service Charges – Garner Valley

Meter Size	Current Fixed Charge	FYE 2019 Fixed Charge (Jan 1, 2019)	FYE 2020 Fixed Charge (Jan 1, 2020)
5/8"	\$37.26	\$59.84	\$61.04
3/4"	\$37.26	\$59.84	\$61.04
1"	\$37.26	\$68.92	\$70.30
1 1/2"	\$37.26	\$91.39	\$93.22
2"	\$37.26	\$118.47	\$120.84
3"	\$37.26	\$204.28	\$208.37
4"	\$37.26	\$330.55	\$337.17

Table 7 provides the proposed variable rates for Garner Valley for fiscal year 2018-19, commencing on January 1, 2019.

Table 7: Proposed Bi-Monthly Variable Charges – Garner Valley

Customer Class/Tier	Current Tiers (hcf)	Current Rate (\$/hcf)	Proposed Tiers	FYE 2019 Variable Charge (Jan 1, 2019)	FYE 2020 Variable Charge (Jan 1, 2020)
Tier 1	0-20	\$1.63	Uniform	\$2.68	\$4.06
Tier 2	20.01-50	\$1.91	N/A	-	-
Tier 3	50.01-150	\$2.27	N/A	-	-
Tier 4	150.01-250	\$2.98	N/A	-	-
Tier 5	>250.01	\$3.71	N/A	-	-

NOTES:

1. HCF means hundred cubic feet which is approximately 748 gallons.

WASTEWATER:

Wastewater collection services are only provided in the Hemet/San Jacinto Valley. The current monthly rate is \$4.07 per equivalent dwelling unit. The current rate will provide sufficient revenue to meet the estimated future costs and objectives. Accordingly, no change to the current rate is proposed. Wastewater transmission and treatment services are provided by EMWD. EMWD determines their rates which are not part of this study and are imposed on the District’s customers directly by EMWD (and collected on behalf of EMWD by the District).

In order to account for rising costs and inflation, for each subsequent fiscal year, commencing July 1, 2019, and at any time thereafter through and including July 1, 2023, the District is proposing to increase the proposed rates identified in Table 8 by the twelve-month change of each March in the CPI-U for the Los Angeles-Riverside-Orange County (Inflationary Adjustment) provided, however, that (i) the proposed rates in Table 8 shall not be increased by more than 3% in any fiscal year as a result of an Inflationary Adjustment; (ii) in no event shall the proposed rates in Table 8 be increased by more than the cost of providing service; and, (iii) at least 30 days prior to the date an Inflationary Adjustment will take effect, the District shall mail notice of such Inflationary Adjustment to the affected property owner or customer of record, which may be included in a billing statement or other customary mailing.

Table 8: Current and Proposed Wastewater Monthly Service Charge - Hemet / San Jacinto Valley

Customer Class	Current Base Charge (\$/Month)	FYE 2019 Base Charge (\$/Month)
All Customers	\$4.07	\$4.07

If adopted, the proposed rates will become effective January 1, 2019 in the first year and July 1 for each fiscal year thereafter commencing with fiscal year 2019-20.

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 whether the identified property owner or customer is in opposition to the proposed water service charges and/or wastewater service 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 December 20, 2018. 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 and/or Wastewater 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 December 20, 2018, 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 pass-throughs and inflationary adjustments, subject to the limitations described in this notice.

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