



Notice of Public Hearing

June 21, 2017

6:00pm

Questions:

Please call Padre Dam
Customer Service at
619-258-4600.

Notice of Public Hearing

Padre Dam Municipal Water District's Board of Directors invites the public to attend a public hearing on **June 21, 2017 at 6pm in the Boardroom of its Customer Service Center, located at 9300 Fanita Parkway, Santee, California**, to consider the adoption of increases and adjustments to its water and sewer rates and service charges. The proposed rates and charges would be implemented between 2017 and 2022, and are shown on the following pages. The rates and charges being considered would apply to services provided beginning in November of each year and will appear on customer bills beginning in December of each year. The pumping rates and sewer commodity charges listed in this notice will include pass-through rate increases from some of our wholesale suppliers that will go into effect with services beginning July 1, 2017 and will appear on customer bills beginning in August 2017.

A Cost of Service Study, completed by an independent rate consultant, is the basis for the proposed rates and charges in this notice. The full Cost of Service Study can be found at www.padredam.org.

Why are increases and adjustments being considered?

Padre Dam Municipal Water District (Padre Dam) is committed to providing high quality, professional services at the lowest possible cost to our customers. Padre Dam does not and cannot make a profit on the water and sewer services it provides. The proposed water and sewer rate and charge increases are necessary in order for Padre Dam to:

- Recover current and projected increases in the cost to operate and maintain the water and sewer systems, including increases in the costs of imported water, sewer treatment, and energy provided by wholesale entities
- Complete capital infrastructure improvements needed to repair, replace and update aging water and sewer systems
- Maintain the operational and financial stability
- Avoid operational deficits and depletion of reserves
- Comply with regulatory requirements
- Meet and comply with annual debt service requirements

Keeping Costs as Low as Possible

Padre Dam practices an everyday commitment to working efficiently to reduce costs whenever possible while maintaining our dedication to superior customer service and infrastructure investment. We believe rate increases are only justified if we are doing our part to manage costs and implement operational efficiencies.

Padre Dam manages costs through careful and thoughtful planning, innovative technology solutions, efficient field work and sound engineering practices. Ongoing investments to repair and replace our systems remain a key element of ensuring quality service.

Additionally, we continue to diligently evaluate organizational structuring and staffing at every opportunity.

The Value of Your Water

As a Padre Dam customer, you are getting more than just high quality tap water. You are getting reliable service that includes ongoing maintenance, sophisticated water quality testing, and highly trained personnel. Your tap water costs approximately a penny per gallon – a true bargain considering the energy and expertise it takes to treat and deliver safe and reliable water to your home. Revenue generated from water rates is used not only to purchase water but also to maintain and replace Padre Dam's infrastructure.

All water infrastructure has a finite life span. Water pipelines are not permanent structures and as materials age and technology advances, those pipes and transmission systems must be maintained and replaced.

Many local water agencies have reservoirs and/or potable water treatment plants that serve as additional sources of water supply and help minimize costs. However, Padre Dam's potable water supply is 100% imported and travels over 600 miles from the Sacramento-San Joaquin Delta in Northern California and the Colorado River to Padre Dam's service area. We continue to research and develop ways to diversify our water supply into the future.

Water Rate Structure

Padre Dam's water rates are structured to proportionately allocate the cost of providing water service among customer classes and each service area. The rate structure for Padre Dam's water service fees is comprised of four components: a commodity charge, a water systems charge, a San Diego County Water Authority (SDCWA) infrastructure access charge (IAC), and a pumping charge.

There are three water customer classes—single family, multi-family and non-residential. Within the single-family customer class Padre Dam is proposing three sub-classes SF1, SF2, and SF3. There are no proposed changes to the multi-family customer class. Within the non-residential customer class there are further categories of customers—commercial/government (includes hotels and rest homes), potable irrigation, recycled irrigation, agriculture and fire service. The rates for each tier for single family and multi-family customers are the same. The proposed rates for non-residential customers are uniform for each category and do not have tiers. The rates in the non-residential categories are based on the cost of providing water service determined for each category.

Your water bill is comprised of two types of charges for water—fixed and variable. The water systems charge and the SDCWA IAC are fixed charges; the commodity charge and pumping charge are variable. Padre Dam is proposing an increase to the amount of fixed costs that we recover through the monthly fixed systems charge. This increase helps to insure financial stability and more accurately collects additional fixed costs.

Water Tiers and Rates

The commodity charge rate structure for residential customers has three tiers with higher rates per unit of water as the level of water consumption increases. One unit of water is equal to one hundred cubic feet ("HCF") or 748 gallons, and is calculated to recover a portion of the District's fixed costs and its variable costs of providing water service. The amount of water allotted to each tier varies for residential customers, and within the single-family residential customer class it varies among the three sub-classes. The tiers are designed to recover the incremental costs to the District of serving more water to those who place higher demands and greater burdens on the District's water system and resources. These costs include, for example, sizing, operating and maintaining water system pipes, reservoirs, pump stations and other related facilities. The tiers also recognize certain residential customers have already paid for a portion of the costs related to sizing the water system to provide additional capacity to serve them. The amount of capacity purchased is determined on an equivalent dwelling unit (EDU) basis; therefore, the allotment of water within each tier is determined on the basis of the number of EDUs assigned to the multi-family residential customer class and each of the single-family residential sub-classes.

The commodity charge for non-residential (commercial and irrigation) customers is a uniform rate by service type. Water use in this class varies widely. Charging a uniform rate to each service type provides the most equitable means of allocating the cost of service among these customers. The rates were determined based on the amount needed to cover and not exceed the cost of providing water service to each customer class. The recycled water (recycled irrigation) rate is also uniform and is based on the cost of providing recycled water service.

Simplified Water Rate Tiers for Residential Customers

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 District is proposing some adjustments to the rate structure of the commodity charge for residential customers. The current rate structure splits costs between a fixed charge and a commodity charge; the current commodity charge has four tiers. Under the proposed rate structure, the commodity charge for residential customers will consist of three tiers. An independent cost of service study that was prepared to calculate the proposed rates determined the reduction to three tiers would have minimal impact on customers because there has been minimal water use in Tier 4. The current Tiers 3 and 4 are proposed to be combined into the proposed Tier 3. The decrease in the number of tiers will help simplify our billing structure and make it easier for customers to understand.

Fixed Monthly Systems Charge

The monthly water systems charge is based on the size of a customer's water meter (in inches) to recover the incremental costs of sizing facilities to sufficiently deliver water to properties served by larger meters. Padre Dam's water systems charge is used to help recover a portion of fixed operating and infrastructure costs. Fixed costs account for 56% of the District's total water operating costs. Only 25% of these costs are recovered through the water systems charge. The remaining 75% are recovered through commodity charges, which leaves cost recovery susceptible to decreases in customer water use. The increase to this portion of your bill will help the District recover its fixed costs which do not decrease when there is a reduction in water use. The proposed increase will result in 30% of the District's fixed costs being recovered from the monthly water system charge.



Did You Know?

Padre Dam's preventive maintenance program saves money by addressing problems before they reach a critical and expensive stage. Approximately 41 percent of our budget each year is spent on maintaining and replacing aging infrastructure.

Proposed Water Rates

Proposed Residential Sub-Classes

Single-family sub-classes (SF1, SF2 and SF3) are determined by the amount of capacity allocated for a residential property based on the number of EDUs previously paid through the sub-classes. The sub-class SF1 allotments are based on 1 EDU. The sub-class SF2 allotments are based on 1.5 EDUs. SF2 customers have purchased another 50% of the allotment in SF1 and therefore have an additional water use allotment in each tier. The sub-class SF3 allotments are based on 2 EDUs. Therefore, SF3 customers will see double the allotment because they have purchased the capacity for twice the allotment of an SF1 customer. SF2 and SF3 customers that purchased additional EDUs did so because it was determined that they would be using a higher volume of water and needed to pay more into the system for sizing of the system. Multi-family customers receive the allotments shown below based on the number of EDUs assigned to that customer class. The tiers and the amount of water allotted within each tier to the residential customer sub-classes are shown below.

Proposed Residential Water Allotments Per Tier (Effective November 1) In One Hundred Cubic Feet Per Month (1 HCF = 748 Gallons)

| Tier | MF | SF 1 | SF 2 | SF 3 |
|------|----------|-----------|-----------|-----------|
| 1 | 0-7 HCF | 0-9 HCF | 0-14 HCF | 0-18 HCF |
| 2 | 8-17 HCF | 10-20 HCF | 15-30 HCF | 19-40 HCF |
| 3 | 18+ HCF | 21+ HCF | 31+ HCF | 41+ HCF |

Proposed Residential Water Rates (Effective November 1) \$ Per One Hundred Cubic Feet of Water

| Tier | Current | 2017 | 2018 | 2019 | 2020 | 2021 |
|-------------|---------|--------|--------|--------|--------|--------|
| 1 | \$6.87 | \$6.46 | \$6.59 | \$6.73 | \$6.87 | \$7.01 |
| 2 | \$7.48 | \$7.56 | \$7.74 | \$7.94 | \$8.15 | \$8.35 |
| 3 | \$8.37 | \$8.50 | \$8.73 | \$8.98 | \$9.24 | \$9.50 |
| 4 | \$9.03 | n/a | n/a | n/a | n/a | n/a |
| ESA Credit* | \$0.58 | \$0.59 | \$0.60 | \$0.62 | \$0.63 | \$0.64 |

*Eastern Service Area (ESA) customers previously approved a ballot measure to pay a portion of their water bill on their property tax bill. As long as Padre Dam continues to receive property tax revenues, ESA customers will be provided a credit for each unit of water they use. If the state takes such property tax revenues in the future, ESA customers will no longer receive the tax revenue credit.

Proposed Monthly Fixed Water Systems Charges (Effective November 1) \$ Per Meter Size

| Meter | Current | 2017 | 2018 | 2019 | 2020 | 2021 |
|-------|----------|-----------|-----------|-----------|-----------|-----------|
| 5/8" | \$31.15 | \$35.19 | \$37.07 | \$38.99 | \$40.97 | \$43.02 |
| 3/4" | \$31.15 | \$35.19 | \$37.07 | \$38.99 | \$40.97 | \$43.02 |
| 1" | \$44.95 | \$47.81 | \$50.36 | \$52.97 | \$55.66 | \$58.44 |
| 1.5" | \$66.65 | \$77.25 | \$81.37 | \$85.59 | \$89.93 | \$94.42 |
| 2" | \$94.85 | \$123.52 | \$130.10 | \$136.85 | \$143.79 | \$150.96 |
| 3" | \$173.35 | \$216.05 | \$227.56 | \$239.37 | \$251.50 | \$264.04 |
| 4" | \$262.35 | \$359.06 | \$378.18 | \$397.81 | \$417.97 | \$438.80 |
| 6" | \$511.35 | \$645.06 | \$679.42 | \$714.69 | \$750.89 | \$788.32 |
| 8" | \$616.25 | \$1107.72 | \$1166.72 | \$1227.29 | \$1289.45 | \$1353.72 |
| 10" | \$821.60 | \$1654.50 | \$1742.62 | \$1833.09 | \$1925.93 | \$2021.92 |

Residential Sub-Classes

Padre Dam is proposing to decrease the number of single-family service types from five classifications to three. As part of the Cost of Service study, a review of customer demands showed that some of the existing classes could be consolidated to further simplify the existing structure. The proposed new residential sub-classes are shown below.

| CURRENT | PROPOSED |
|---------|----------|
| RS1 | SF1 |
| RS2 | SF2 |
| RS3 | SF3 |
| RS4 | SF2 |
| RS5 | SF3 |

Pumping Charges

(Effective July 1 pass-through)
\$ Per One Hundred
Cubic Feet of Water

| Zone | Current | 2017 |
|---------|---------|--------|
| Western | \$0.20 | \$0.30 |
| Zone 1 | \$0.28 | \$0.30 |
| Zone 2 | \$0.56 | \$0.60 |
| Zone 3 | \$0.99 | \$0.90 |
| Zone 4 | \$1.18 | \$1.20 |
| Zone 5 | \$1.47 | \$1.50 |

Current SDCWA IAC

\$ Per Month

| Meter | Current |
|-------|----------|
| 5/8" | \$2.87 |
| 3/4" | \$2.87 |
| 1" | \$4.61 |
| 1.5" | \$8.63 |
| 2" | \$14.97 |
| 3" | \$27.65 |
| 4" | \$47.21 |
| 6" | \$86.39 |
| 8" | \$149.76 |
| 10" | \$224.64 |

The SDCWA IAC is a pass-through charge from the San Diego County Water Authority. At the time of this notice we did not have future rates. See pass-through section for more information.

Proposed Non-Residential Water Rates

Proposed Non-Residential Water Rates (Effective November 1)

\$ Per One Hundred Cubic Feet of Water

The proposed rates shown below are for the proposed non-residential customer sub-classes listed in the chart.

| Type of Service | Current | 2017 | 2018 | 2019 | 2020 | 2021 |
|-----------------------|---------|--------|--------|--------|--------|--------|
| Commercial/Government | \$7.15 | \$6.50 | \$6.64 | \$6.78 | \$6.92 | \$7.06 |
| Potable Irrigation | \$7.51 | \$8.38 | \$8.61 | \$8.85 | \$9.10 | \$9.35 |
| Recycled Irrigation | \$6.73 | \$6.28 | \$6.53 | \$6.79 | \$7.06 | \$7.35 |
| Agriculture* | \$7.51 | \$8.38 | \$8.61 | \$8.85 | \$9.10 | \$9.35 |
| ESA Credit** | \$0.58 | \$0.59 | \$0.60 | \$0.62 | \$0.63 | \$0.64 |

*Agriculture customers (Ag) are subject to water use reductions as outlined in the agricultural program applicable to the property. The Ag rate shown does not include any discount provided for agricultural programs. Ag with a residence on the property will be charged at residential tiered rates for the first 26 HCF units per residence, per property. Ag also pays a special \$30 per month service charge to cover the cost of providing service.

**Eastern Service Area (ESA) customers previously approved a ballot measure to pay a portion of their water bill on their property tax bill. As long as Padre Dam continues to receive property tax revenues, ESA customers will be provided a credit for each unit of water they use. If the state takes such property tax revenues in the future, ESA customers will no longer receive the tax revenue credit.

Proposed Fire Service Charges/Per Month (Effective November 1)

Fire service charges are a flat fee charged to customers who require a water service line separate from their residential or commercial service to support a fire suppression system on their property. The proposed charges are determined on the basis of the size of the service line (in inches) and are set to recover the cost of providing this service.

| Service Line | Current | 2017 | 2018 | 2019 | 2020 | 2021 |
|----------------|---------|---------|---------|---------|---------|---------|
| 1" Line | \$21.20 | \$33.65 | \$35.44 | \$37.28 | \$39.17 | \$41.12 |
| Larger than 1" | \$36.43 | \$63.09 | \$66.45 | \$69.90 | \$73.44 | \$77.10 |

Proposed Water Bill Information

The information below provides examples of what the impact of the proposed rates would be on a single-family residential customer with low, average and high water use. If you are a commercial customer or multi-family customer and would like more information on what your proposed bill looks like please contact Customer Service at 619-258-4600. The rates below are effective November 2017.

Low Water Use Bill**

Based on 5HCF Per Month in SF 1, SF 2 and SF 3

Average Water Use Bill**

Based on 9HCF Per Month in SF 1, SF 2 and SF 3

High Water Use Bill**

Based on 30HCF Per Month in SF1

| Charge/Rate | Current | 2017 | Charge/Rate | Current | 2017 | Charge/Rate | Current | 2017 |
|----------------|----------------|----------------|----------------|----------------|----------------|----------------|-----------------|-----------------|
| Systems Charge | \$31.15 | \$35.19 | Systems Charge | \$31.15 | \$35.19 | Systems Charge | \$31.15 | \$35.19 |
| SDCWA IAC | \$2.87 | \$2.87 | SDCWA IAC | \$2.87 | \$2.87 | SDCWA IAC | \$2.87 | \$2.87 |
| Tier 1 Water | \$34.35 | \$32.30 | Tier 1 Water | \$61.83 | \$58.14 | Tier 1 Water | \$61.83 | \$58.14 |
| Monthly | \$68.37 | \$70.36 | Monthly | \$95.85 | \$96.20 | Tier 2 Water | \$134.64 | \$83.16 |
| | | | | | | Tier 3 Water | \$25.11 | \$85.00 |
| | | | | | | Monthly | \$255.60 | \$264.36 |

**Numbers shown in this section do not include pumping charges, sewer charges or the ESA credit.

Water Pass-through Increases

Padre Dam is provided wholesale services by 2 entities—SDCWA and SDG&E. SDCWA sells wholesale water to the District and SDG&E provides electric services. The rates put forth in this notice do not include any increases to rates and charges that are imposed on Padre Dam by SDCWA. This notice includes a pass-through increase to pumping charges from SDG&E for July 2017 but not future pass-throughs. Padre Dam, however, anticipates there will be future increases in the rates and charges imposed by these wholesale entities. Additionally, under Proposition 1A, the State of California is allowed to borrow local government property taxes on the condition that they are paid back within three years. To ensure that there are sufficient revenues to provide water services to our customers, maintain the safety and reliability of the District's water infrastructure, and avoid deficits and depletion of financial reserves, Padre Dam is also proposing to pass through to our customers the following:

- 1) Any increases in the rates for wholesale water and the SDCWA IAC, and any other charges that SDCWA imposes on the District for wholesale water service (each an SDCWA Pass-Through Adjustment);
- 2) Any increases in the energy rates or any other charges SDG&E imposes on Padre Dam for pumping water (each an SDG&E Pass-Through Adjustment);
- 3) Any reduction in the allocation of ad valorem taxes by the State of California pursuant to Proposition 1A, which was approved by voters in 2004 with the intent of protecting the property tax revenues of local governments (a Prop 1A Pass-Through Adjustment). This would impact all water customers' rates.

Any SDCWA Pass-Through Adjustment due to a wholesale water rate increase will only impact the rates of the water commodity charge. Any SDCWA Pass-Through Adjustment due to an increase in the rates of the SDCWA IAC will only impact the IAC that Padre Dam passes through to its water customers. If SDCWA imposes any new fee or charge, Padre Dam will review which portion of its rates will be appropriately adjusted. Any SDG&E pass-through adjustment will only impact the rates of the pumping charge. Any Prop 1A pass-through adjustment will affect all water rates and charges.

If approved by the Board of Directors, Padre Dam may implement the pass-through adjustments for a five-year period commencing July 1, 2017, through and including June 30, 2022. Provided, however, that (1) any increase in the rates described above as a result of any SDCWA Pass-Through Adjustment or SDG&E Pass-Through Adjustment shall not exceed 20% per provider per year; (2) any Prop 1A adjustment shall not exceed 8% per year; and (3) in no event shall the District water rates be increased as a result of any Pass-Through Adjustment by more than the cost of providing the applicable service.

Water and Sewer Bill Information

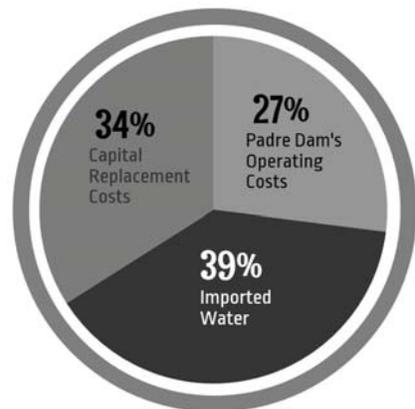
The information below provides an example of the average current and proposed water and sewer bill. If you are a commercial customer or multi-family customer and would like more information on what your proposed bill is, please contact Customer Service at 619-258-4600. The rates below are effective November 2017.

Average Water and Sewer Customer Bill** Based on 9HCF Water and 7HCF Sewer

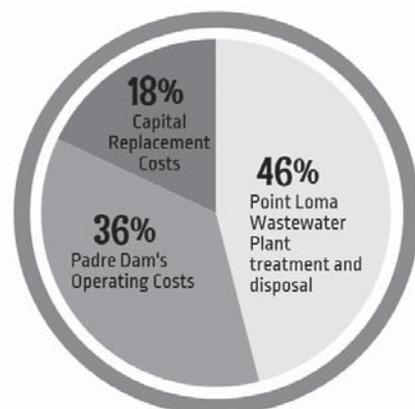
| Charge/Rate | Current | 2017 |
|----------------------|-----------------|-----------------|
| Systems Charge | \$31.15 | \$35.19 |
| SDCWA IAC | \$2.87 | \$2.87 |
| Tier 1 Water | \$61.83 | \$58.14 |
| Sewer Fixed Charge | \$29.40 | \$34.75 |
| Sewer Commodity Rate | \$25.76 | \$23.80 |
| Monthly | \$151.01 | \$154.75 |

**Numbers shown in this section do not include pumping charges or the ESA credit.

What your water bill pays for?



What your sewer bill pays for?



Proposed Sewer Rates

Sewer Rate Structure

Padre Dam's sewer rates are structured to proportionately allocate the cost of providing service among its customer classes. The rate structure for Padre Dam's sewer service fees is comprised of two components: (1) a variable sewer commodity charge; and (2) a fixed monthly base fee established on the basis of the customer class and category of customer within a customer class.

For residential customers, the sewer commodity charge is determined on the basis of the estimated amount of water returned to the sewer as wastewater (flow). For commercial customers, the sewer commodity charge is determined on the basis of the sewer flow and strength rate based on the amount of biochemical oxygen demand and total suspended solids of the wastewater generated. The strength rate is determined by customer class.

There are three sewer customer classes - single-family, multi-family and commercial. Within the multi-family class there are further sub-classes of customers - multi-family dwellings (apartments), mobile home parks (MHP), and condominiums/townhomes. Within the commercial class there are further sub-classes - hotels, motels, RV and resthome. Within the commercial class there are six strength concentration levels based on the type of business. Padre Dam uses State of California guidelines as the basis for commercial sewer strength concentration levels.

Single-family residential sewer charges are evaluated each calendar year in January based on the lowest consecutive 60-day water consumption period for an account from the previous calendar year. This is a reasonable method to determine a single-family residential customer's wastewater flow because that is the period of time when outdoor watering is at its lowest and the majority of water used is returned to the sewer as wastewater. A new customer commodity charge is charged to single-family residential customers that have not established a full-year of water-use history in their current place of residence. The new residential customer commodity charge is based on the average sewer customer's water usage amount over the last three years (7HCF). The rates for single-family and multi-family are the same. However, the monthly base fees vary between classes based on the determined cost of service for each class. The rates for the commercial class are based on wastewater strength concentration levels determined by type of business.

The sewer base fee recovers funds needed for Padre Dam to collect, treat and maintain our wastewater system. The sewer commodity charge is paid to the City of San Diego's Metropolitan Wastewater System (Metro) to transport, treat and dispose of your wastewater. The District collects the commodity charge and pays it to Metro.

Sewer Base Fee (Effective November 1) \$ Per Month

| Type of Service | Current | 2017 | 2018 | 2019 | 2020 | 2021 |
|--------------------|---------|---------|---------|---------|---------|---------|
| Single Family | \$29.40 | \$34.75 | \$36.27 | \$37.84 | \$39.47 | \$41.12 |
| Townhouse/Condo | \$24.30 | \$28.85 | \$30.11 | \$31.41 | \$32.77 | \$34.13 |
| Apartment & MHP | \$20.00 | \$23.63 | \$24.67 | \$25.74 | \$26.84 | \$27.97 |
| Commercial | \$29.40 | \$34.75 | \$36.27 | \$37.84 | \$39.47 | \$41.12 |
| Hotels, Motels, RV | \$8.25 | \$9.73 | \$10.16 | \$10.60 | \$11.06 | \$11.52 |
| Resthome | \$8.25 | \$9.73 | \$10.16 | \$10.60 | \$11.06 | \$11.52 |

Sewer Commodity Charge (Variable Rate)* (Effective November 1) \$ Per One Hundred Cubic Feet

| Type of Service | Current | July 2017 | Nov 2017 |
|-----------------------------------|---------|-----------|----------|
| Single Family | \$3.68 | \$3.92 | \$3.40 |
| Multi-Family (per EDU) | \$3.68 | \$3.92 | \$3.40 |
| Commercial Strength Rate** | | | |
| Concentration Level 1 | \$3.54 | \$3.76 | \$3.11 |
| Concentration Level 2 | \$3.72 | \$3.96 | \$3.40 |
| Concentration Level 3 | \$4.15 | \$4.47 | \$4.28 |
| Concentration Level 4 | \$5.27 | \$5.64 | \$4.87 |
| Concentration Level 5 | \$8.41 | \$8.92 | \$6.62 |
| Concentration Level 6 | \$8.59 | \$9.20 | \$7.80 |

The sewer commodity charge increase in July 2017 reflects a pass-through increase from Metro. The decrease in November 2017 reflects the change to Padre Dam's rate structure, which is moving the District's sewer costs to the Sewer Base Fee. This will mean that beginning November 2017 the sewer commodity charge will collect only the costs for sending water to Metro.

Single Family Sewer Charge Formula

$$\begin{aligned} & \text{(Previous year's lowest 60-day bill period water units)} \\ & + \text{ number of billing days} \\ & \quad \times 30.417 \text{ days)} \\ & \times \text{ Sewer Commodity Charge} \\ & \quad + \text{ base fee} \\ & = \text{Total Sewer monthly bill} \end{aligned}$$

Multi-Family Sewer Charge Formula

$$\begin{aligned} & \text{(Water consumption units per billing period)} \\ & \quad \times \text{ Return to Sewer \%)} \\ & \times \text{ Sewer Commodity Charge} \\ & + \text{(base fee} \times \text{ EDUs per account)} \\ & = \text{Total Sewer monthly bill} \end{aligned}$$

Commercial Sewer Charge Formula

$$\begin{aligned} & \text{(Water consumption units per billing period)} \\ & \quad \times \text{ Return to Sewer \%)} \\ & \times \text{ Commercial Strength Rate} \\ & + \text{(base fee} \times \text{ EDUs per account)} \\ & = \text{Total Sewer monthly bill} \end{aligned}$$

*Padre Dam anticipates increases in the sewer rate through pass-through increases from Metro. Pass-through information for future years, after 2017, were not available at the time of this notice. Please see the sewer pass-through information in this notice for more details.

**Commercial Strength Rate concentration level is determined by the sewer strength level of suspended solids and defined by the District. Call Customer Service at 619-258-4600 for more information on your strength concentration level.

Sewer Pass-Through Increases

Padre Dam is provided wastewater treatment and disposal services by the City of San Diego's Metropolitan Wastewater System (Metro). The rates put forth in this notice do not include any increases to rates and charges that are imposed on Padre Dam by Metro after July 1, 2017. Padre Dam, however, anticipates there will be future increases in the rates and charges imposed by Metro. To ensure that there are sufficient revenues to provide sewer services to our customers, maintain the safety and reliability of the District's sewer system, and avoid deficits and depletion of financial reserves, Padre Dam is also proposing to pass-through to our customers the following:

- 1) Any increases in the rates and charges imposed on Padre Dam by the City of San Diego's Metropolitan Wastewater System to treat and dispose of Padre Dam's wastewater (each a Metro Pass-Through Adjustment).

Any Metro Pass-Through Adjustment will only impact the sewer commodity rates of all sewer customers. If approved by the Board of Directors, Padre Dam may implement the Metro Pass-Through Adjustments for a five-year period commencing July 1, 2017, through and including June 30, 2022. Provided, however, that (1) any increase in the rates described above as a result of any Metro Pass-Through Adjustment shall not exceed 30% per year; and (2) in no event shall the District's sewer rates be increased as a result of a Metro Pass-Through Adjustment by more than the cost of providing the service.

Average Sewer Customer Bill

The example below shows what a typical customer sewer bill would look like for an average customer charged for 7HCF of wastewater per month. 7HCF is an average of the current residential sewer customers.

Average Customer Bill* (Effective November 1) Based on current average monthly residential customer

| Type of Charge/Rate | Current | 2017 |
|--------------------------|---------|---------|
| Fixed Charge | \$29.40 | \$34.75 |
| Variable Rate (for 7HCF) | \$25.76 | \$23.80 |
| Total Sewer Bill | \$55.16 | \$58.55 |

Maximum Sewer Customer Bill* (Effective November 1) Based on maximum monthly residential customer

| Type of Charge/Rate | Current | 2017 |
|---------------------------|---------|---------|
| Fixed Charge | \$29.40 | \$34.75 |
| Variable Rate (for 12HCF) | \$44.16 | \$40.80 |
| Total Sewer Bill | \$73.56 | \$75.55 |

*Numbers shown in this section do not include water charges, or pumping charges.



How much water am I using?
Find out at 'My Account' Online



- Register at www.padredam.org and click on 'My Account' All you need is your name, phone number, email address and your 14-digit water account number.
- View consumption over a period of time – see your water usage down to the hour.
- Recognize possible leaks more quickly.
- Take control of your water use. With AquaHawk you'll see how you're doing, without waiting for your monthly bill.
- Set your own water use alerts and receive text, phone or email notifications.

Demand Management Rates and Charges

A substantial portion of Padre Dam's costs to operate and maintain your water system are fixed, meaning the majority of costs remain the same regardless of how much water is used by customers. Over the last ten years, Padre Dam has experienced declines and changes in water demand resulting from the drought and state-mandated water use reductions, negatively impacting revenues. While experiencing these declines, Padre Dam has exercised fiscal discipline by managing operating costs to avoid significant increases in the rates for its water service charges.

Carollo Engineering, an independent rate consultant, studied the effects of the reduction in water use on projected revenues and developed rates and charges that may be implemented to ensure that there are sufficient revenues to fund the District's obligations in the event Padre Dam has to implement mandatory conservation measures in the next five years from July 1, 2017 through June 30, 2022.

The Demand Management Rates and Charges could be 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 Board of Directors may implement the Demand Management Rates and Charges as necessary, depending on the level of potable water use cutbacks required, to ensure that the District recovers sufficient revenues to meet its expenditures and debt obligations.

The Demand Management Rates and Charges are comprised of two components to aid in cost recovery. The proposed water system charge increase will recover a portion of the District's fixed expenditures as fixed revenues. This amount is held constant across each potential cutback stage. The remaining revenue need will be recovered through the variable component. The rates and charges shown below would be in addition to the rates in effect at the time the Demand Management Rates and Charges are implemented.

Proposed Water Systems Charge Increase during water supply shortage Additional \$/Meter Size

| Meter | FY 2018 | FY 2019 | FY 2020 | FY 2021 | FY 2022 |
|-------|----------|----------|----------|----------|----------|
| 5/8" | \$2.47 | \$2.55 | \$2.62 | \$2.70 | \$2.78 |
| 3/4" | \$2.47 | \$2.55 | \$2.62 | \$2.70 | \$2.78 |
| 1" | \$3.95 | \$4.07 | \$4.19 | \$4.32 | \$4.45 |
| 1.5" | \$7.41 | \$7.64 | \$7.86 | \$8.10 | \$8.34 |
| 2" | \$12.85 | \$13.23 | \$13.63 | \$14.04 | \$14.46 |
| 3" | \$23.72 | \$24.43 | \$25.17 | \$25.92 | \$26.70 |
| 4" | \$40.52 | \$41.74 | \$42.99 | \$44.28 | \$45.61 |
| 6" | \$74.13 | \$76.35 | \$78.64 | \$81.00 | \$83.43 |
| 8" | \$128.49 | \$132.34 | \$136.31 | \$140.40 | \$144.62 |
| 10" | \$192.73 | \$198.52 | \$204.47 | \$210.60 | \$216.92 |

Proposed Commodity Charge Rate Increase during water supply shortage Additional \$ are Per One Hundred Cubic Feet of Water

| Shortage Stage | FY 2018 | FY 2019 | FY 2020 | FY 2021 | FY 2022 |
|----------------|---------|---------|---------|---------|---------|
| Stage 1 | \$0.25 | \$0.26 | \$0.27 | \$0.28 | \$0.29 |
| Stage 2 | \$0.76 | \$0.79 | \$0.82 | \$0.85 | \$0.88 |
| Stage 3 | \$1.48 | \$1.53 | \$1.58 | \$1.63 | \$1.68 |

The Value of Your Water and Wastewater

Every day when you turn on the tap, water comes out. Water disappears down the drain when you take a shower or flush the toilet. What would you do without water? Can you imagine a day without water? Safe, reliable drinking water does more than just quench our thirst. It also protects public health, grows our economy, and provides a high quality of life. Do you ever think about what it takes to deliver that water to your home?

Padre Dam's mission is to deliver high quality water and wastewater services and exceptional customer service to you at the lowest possible cost.

Water is essential to our daily lives. Safe and reliable water service is essential to maintaining public health, firefighting, and quality of life. In order to protect public health and safety and to continue to provide reliable service, Padre Dam must continue to invest in all water and wastewater system components, including pipelines, pumps, valves and reservoirs when they reach the end of their useful lives.

Throughout the nation, including California and Padre Dam, many water and wastewater system components such as pipes, valves, pumps and reservoir tanks are reaching the end of their useful lives and require replacement. Waiting until they fail is simply not an option. Replacing critical water system components like reservoirs and pipes is just one of the many challenges facing water systems today. Others include water supply availability, increasingly stringent water quality compliance requirements, and declining usage. All these factors contribute to the increasing costs of service.

Currently, Padre Dam is 100% reliant on imported drinking water from the San Diego County Water Authority. However, the District is pursuing a water recycling opportunity that would diversify East County's water supply and reduce our dependence on imported water. Our Advanced Water Purification Program could produce up to 30% of East County's current drinking water demands using state-of-the-art technology to purify East County's recycled water.

DID YOU KNOW?

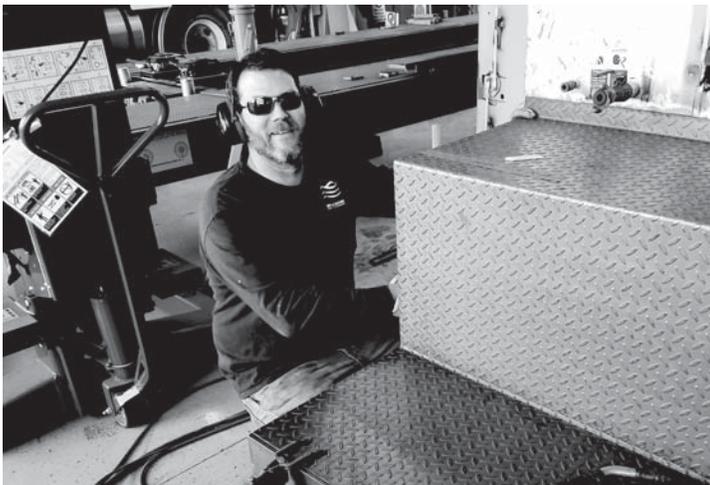
As a public agency, the District cannot earn a profit from the services it provides, and must charge no more than the actual costs associated with providing services to our customers.



The Value of Your Water and Wastewater

Padre Dam works hard to ensure high quality water is delivered to your home each and every day. Important elements of maintaining your water and wastewater systems include:

- Assessment, rehabilitation and replacement of 389 miles of water pipelines.
- Maintenance and replacement of 9,561 valves that are required for ensuring reliable water service.
- Many of the pipelines are over 50 years old and in need of rehabilitation or replacement.
- Our Supervisory Control and Data Acquisition (SCADA) system ensures water is available in reservoirs and pipelines and moves water throughout the system helping improve water quality.
- Daily testing of water quality throughout our distribution system to make sure water meets or exceeds health standards at all times.
- Operation and maintenance of 29 reservoir sites.
- Operation and maintenance of 16 pump stations which allow Padre Dam to deliver water to higher elevations within our service area.
- Fire hydrant maintenance is also a part of the District's services to ensure a reliable system even during emergencies.
- All of these activities are necessary and important to ensuring safe, reliable, high quality water continues to flow from your tap day in and day out.
- Closed-circuit television (CCTV) and maintenance of all 165 miles of sewer lines.
- Maintenance and operation of an influent pump station which pumps all wastewater to either the Ray Stoyer Water Recycling Facility or the City of San Diego's wastewater treatment facility in Point Loma.
- Treatment of 2 million gallons of wastewater at the Ray Stoyer WRF every day.



Mechanics Shop staff keep all of the District's fleet and construction equipment up and running.

Water Recycling Facility staff maintaining the facility's aeration basin to ensure long-term efficiency.



Unique Rate Factors to Padre Dam



Significant Elevation Changes

Padre Dam delivers water to elevations as high as 2,646 feet.

Pumping water to higher elevations requires additional infrastructure (pump stations) which adds to the operations and maintenance costs of our distribution system. It also takes a lot of electricity to pump water to higher elevations which affects the cost of providing water.

Our pump stations add \$20M in infrastructure value to the District.



Large Service Area Per Customer

The size of a service area directly impacts the cost of maintenance. Longer pipelines increase costs due to maintenance, replacement and travel time to cover the service area.

Our service area covers 72 square miles for approx. 24,300 customers - fewer customers per square foot than our neighboring agencies.

Over \$700 million of infrastructure supports this large service area - approx. \$28,800 per customer.



Most of Our Revenue is From Rates

Our service area does not have a lot of growth to receive development revenue and we do not have a lot of District property available for leasing. A small portion of our revenue is received from property taxes. This means the majority of our revenue must come from rates.

Every penny from our customers' water bills is invested back into providing high quality, reliable water to our customers 365 days a year.

Protesting the Proposed Water and Sewer Increases

Any record owner of a parcel upon which the water or sewer service fees and charges are proposed to be imposed and any tenant directly liable for the payment of water or sewer service charges (i.e., a customer of record who is not a property owner) may submit a written protest to the proposed rate increases and adjustments described in this notice; however, only one written protest per parcel will be counted. Written protests must:

- 1) State that the identified property owner or tenant is opposed to the proposed water rate and/or sewer rate increases and adjustments; and
- 2) Include the property owner or tenant name, service address, or parcel number, or Padre Dam account number, and signature.
- 3) Be mailed to: Padre Dam MWD, Board Secretary, P.O. Box 719003, Santee, CA 92072-9003, or delivered in person to the Board Secretary at 9300 Fanita Parkway, Santee, California, or at the public hearing (date, time and location noted above).

All written protests must be received prior to the conclusion of the public hearing. Protests submitted by email or other electronic means do not count as formal written protests. Please indicate on the outside of any envelope mailed or submitted to the District that contains a written protest "Attn: Rate Hearing".

The Board of Directors will hear all oral comments and will consider all written protests to the proposed water and sewer rate increases and adjustments at the public hearing. Oral comments will not qualify as formal protests. At the conclusion of the public hearing the Board will consider adoption of the rate increases and adjustments. If written protests are not submitted by a majority of property owners or tenants, the Board of Directors will be authorized to adopt the proposed rate adjustments.

If you have questions about the rates in this notice or the rates applicable to your property, please contact Customer Service at 619-258-4600 or customer@padre.org and we can help answer any questions.



PADRE DAM
Municipal Water District

P.O. Box 719003
Santee, CA 92072-9003

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IMPORTANT: Notice of Public Hearing for Proposed 2017-2022 Water and Sewer Rate and Fee Changes. PLEASE READ.

Community Meetings

Padre Dam will hold three evening community meetings prior to the public hearing. The public is welcome to attend to learn more about the proposed rates and charges and ask questions.

Tuesday, May 16 at 6:00pm

Padre Dam Boardroom
9300 Fanita Parkway, Santee

Wednesday, May 24 at 6:00pm

Alpine Community Center
1830 Alpine Blvd, Alpine

Wednesday, May 31 at 6:00pm

Padre Dam Boardroom
9300 Fanita Parkway, Santee

District Tours

Come get a look inside how we provide safe, reliable water and wastewater service to your home everyday. Customers will visit reservoir sites, pump stations, learn about water infrastructure, tour the Ray Stoyer Water Recycling Facility and our Advanced Water Purification Program.

June 3 and June 10 8am - 12pm

Sign-up for tours at www.padredam.org
Reservations are required for tours to ensure space.

