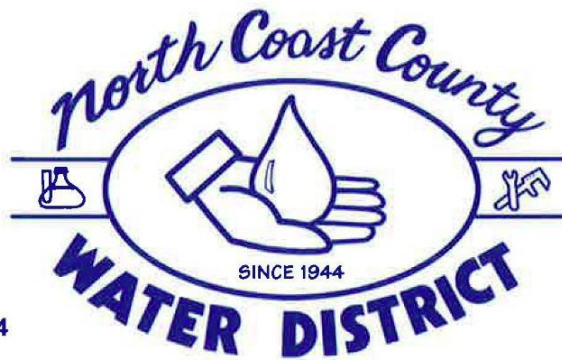


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SCOTT DALTON
SUPERINTENDENT

Phone (650) 355-3462
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September, 2016

Dear Customer/Record Property Owner:

The Board of Directors of the North Coast County Water District (District) will consider rate adjustments over the next five years to the following charges for all customers: water usage charge; supply and distribution charge; portable meter charge; and fire protection service connection charge. The purpose of this notice is to inform you of the proposed rate adjustments, explain why they are needed, and explain their potential impact. The proposed rates will be effective with the first billing cycle for water consumed starting January 1, 2017, and on each effective date of the future proposed rate adjustments.

Why Do We Need the Proposed Rate Adjustments?

In accordance with State Proposition 218 requirements, a water rate study was conducted that reviewed the costs of operating and maintaining the District's water system, purchasing the wholesale water provided by the San Francisco Public Utilities Commission (SFPUC), funding necessary capital improvement projects, and maintaining adequate reserves. Copies of the water rate study are available at the District Office and online at nccwd.com. The water rate study is designed to ensure that the District does not collect more revenue than is necessary to cover these costs, and that the rate structure is aligned with the proportional cost of providing the services. The water rate study determined that the District's residential water usage tiers need to be realigned to reflect current water usage patterns and that the water service charges need to increase to generate more revenue, specifically because:

1. The District has not raised rates since January 1, 2014.
2. The SFPUC provides all of the District's water and has raised its rates approximately 40% since the District's last rate adjustment and are projected to increase an additional 34% by July 1, 2020. Further, the District pays an additional \$500,000 per year for its portion of the SFPUC bond payment.
3. The California Appellate Court Decision in the Capistrano Taxpayers Association, Inc. v. City of San Juan Capistrano case requires that tiered water rate structures must be based on the cost of service across the range of consumption.
4. The District's customers achieved water conservation of more than 20% due to the severe statewide drought which resulted in a revenue shortfall.
5. The cost of living has increased approximately 7% since the District's last rate adjustment.
6. Similar to most other agencies, the District's infrastructure is old and in need of repair. In order to maintain and improve water system reliability, the District completed a 20-year Master Plan that provides the District with a blue print for capital improvement projects. This Plan includes more than \$40 million worth of projects that need to be done over the next 20 years.
7. The District must maintain its debt coverage ratio for the prior financing of significant improvement projects.

Proposed Water Rates

The District is proposing to phase in a series of water rate adjustments over the next five years, and to transition its implementation over the first two years into two stages per year. The current and proposed rates over this five-year period are shown on the tables below.

Water service charges include two components: (1) a water usage charge for water used over a two-month period; and (2) a supply and distribution charge based on the meter size. The customer's bill is the sum of these two charges. The water usage charge for residential accounts is billed according to a 4-tier rate structure with water first billed in Tier 1 and subsequently billed in higher tiers as water use increases. As required by law, the District's water rate study calculated the cost of service attributable to each of the four tiers. The water usage charge for all other accounts is billed at a uniform rate.

The District is proposing a realignment of the water usage tiers for residential accounts based on the cost of service analysis and costs associated with higher use. The basis for the proposed realigned tiers and the amount of the proposed adjustments is set forth in the water rate study.

The District will send written notification to all customers at least 30 days prior to the effective date of each proposed adjustment.

Bi-Monthly Water Usage Charges for Residential Accounts

Customer Class	Current		Proposed Rate Per CCF						
	Tier Size (CCF)	Rate/CCF	Tier Size (CCF)	1/1/2017	7/1/2017	1/1/2018	7/1/2018	7/1/2019	7/1/2020
Single Family Residential									
Tier 1	0 to 5	\$2.72	0 to 5	\$4.10	\$5.32	\$6.91	\$7.26	\$7.62	\$8.00
Tier 2	6 to 16	\$6.03	6 to 10	\$6.66	\$8.00	\$8.00	\$8.40	\$8.82	\$9.26
Tier 3	17 to 28	\$8.63	11 to 19	\$10.75	\$12.90	\$12.90	\$13.54	\$14.22	\$14.93
Tier 4	Over 28	\$15.83	Over 19	\$17.36	\$20.83	\$20.83	\$21.88	\$22.97	\$24.12

Note: 1 CCF = 748 Gallons

Bi-Monthly Water Usage Charge for all Other Accounts – Including Portable Meters, Multi-Unit (MU) Residential, Commercial, Public and Fire Standby: The proposed bi-monthly water usage charge is to increase as follows:

Customer Class	Current Rate/CCF	Proposed					
		1/1/2017	7/1/2017	1/1/2018	7/1/2018	7/1/2019	7/1/2020
Commercial / MU / Other	\$6.03	\$7.12	\$8.55	\$8.55	\$8.97	\$9.42	\$9.89
Recycled Water	\$5.43	\$6.41	\$7.69	\$7.69	\$8.08	\$8.48	\$8.90

SFPUC Wholesale Water Rate Increase Pass Through

The proposed rates are based on the SFPUC projected increases in its wholesale water rates on July 1 of each year from the current cost of \$4.10 per CCF to \$4.37 per CCF in 2017, \$4.76 per CCF in 2018, \$5.46 per CCF in 2019, and \$5.50 per CCF in 2020. Pursuant to California Government Code Section 53756, the District is proposing to pass through any additional increases in the SFPUC wholesale water rates that are above these projected SFPUC wholesale water rates. A pass through will be implemented by increasing the

District's proposed water usage charge by the amount of the SFPUC wholesale water rate increase in cents per CCF in excess of the projected SFPUC wholesale rate. For example, if the SFPUC raises its wholesale water rate to \$5.60 per CCF on July 1, 2019 (instead of the projected \$5.46 per CCF), the District would increase its water usage charge by an additional \$0.14 per CCF on or after July 1, 2019. Similarly, the District is proposing to pass through any savings in the SFPUC wholesale water rates that are below the projected wholesale water rates.

Prior to implementing a pass through of the SFPUC wholesale water rates, the District will send written notification to all customers at least 30 days prior to the effective date.

Bi-Monthly Supply and Distribution Charge (including portable meters)

Meter Size	Current Rates	Proposed Rates				
		1/1/2017	7/1/2017	7/1/2018	7/1/2019	7/1/2020
5/8"	\$26.76	\$38.49	\$46.19	\$48.50	\$50.93	\$53.48
3/4"	\$29.46	\$42.38	\$50.86	\$53.40	\$56.07	\$58.87
1"	\$37.52	\$53.97	\$64.76	\$68.00	\$71.40	\$74.97
1 1/2"	\$48.23	\$69.37	\$83.24	\$87.40	\$91.77	\$96.36
2"	\$77.91	\$112.05	\$134.46	\$141.18	\$148.24	\$155.65
3"	\$294.64	\$423.74	\$508.49	\$533.91	\$560.61	\$588.64
4"	\$375.09	\$539.45	\$647.34	\$679.71	\$713.70	\$749.39
6"	\$562.66	\$809.22	\$971.06	\$1,019.61	\$1,070.59	\$1,124.12
8"	\$776.99	\$1,117.47	\$1,340.96	\$1,408.01	\$1,478.41	\$1,552.33
10"	\$1,044.97	\$1,502.88	\$1,803.46	\$1,893.63	\$1,988.31	\$2,087.73
12"	\$1,312.97	\$1,888.30	\$2,265.96	\$2,379.26	\$2,498.22	\$2,623.13

Bi-Monthly Fire Protection Service Connections - The charge for all private fire protection service connections, which include all structures that have a fire service line, is proposed to be as follows:

Meter Size	Current Rates	Proposed Rates				
		1/1/2017	7/1/2017	7/1/2018	7/1/2019	7/1/2020
2" or Less	\$6.01	\$8.64	\$10.37	\$10.89	\$11.43	\$12.00
4"	\$18.78	\$27.01	\$32.41	\$34.03	\$35.73	\$37.52
6"	\$37.56	\$54.02	\$64.82	\$68.06	\$71.46	\$75.03
8"	\$75.11	\$108.02	\$129.62	\$136.10	\$142.91	\$150.06

What is the District Doing to Keep Costs Down?

The District has implemented a number of cost control measures in an effort to moderate the increase in water rates while continuing to provide a reliable supply of high quality water and high level customer service. For example, the District has:

- Eliminated an Assistant General Manager Position and a Project Manager Position
- Eliminated lifetime health benefits for future employees
- Instituted a high deductible health savings plan

How Will the New Rates Impact a Typical Single Family Residential Customer?

Customer bills will be adjusted by varying amounts depending on the bi-monthly water usage and the size of the meter. Under the proposed rates that will become effective January 1, 2017, a residential customer with a 5/8" meter will experience the following adjustments at the listed number of units consumed:

Usage	Current Bi-Monthly Residential Bill	Proposed Bi-Monthly Residential Bill (Eff. 1/1/2017)	Additional Cost Per Bi-Monthly Bill
5 Units	\$40.36	\$58.99	\$18.63
8 Units	\$58.45	\$78.97	\$20.52
15 Units	\$100.66	\$146.04	\$45.38
25 Units	\$184.36	\$293.20	\$108.84

Public Hearing for the Proposed Water Rate Adjustments

The Board of Directors will consider the proposed adjustments in the water usage charge, supply and distribution charge, portable meter charge, and fire protection service connection at a public hearing scheduled for **7:00 p.m., Wednesday, November 16, 2016 at the North Coast County Water District Office located at 2400 Francisco Boulevard, Pacifica**. You have the right to protest the proposed adjustments. If you do, you **must** submit your protest in writing, even if you plan to attend the public hearing. If written protests are submitted by a majority of the affected property owners and customers responsible for paying the water bills, the proposed adjustments will not be imposed and the District will consider other alternatives.

Your written protest must be received at the address below prior to the close of the November 16, 2016 public hearing. Written protests **must** include a description of the parcel (parcel number) or District account number. Protests are limited to one per parcel. E-mail protests will not be accepted.

North Coast County Water District
2400 Francisco Boulevard
PO Box 1039
Pacifica, CA 94044
Attention: Water Rate Adjustment Protest