

NOTICE OF PUBLIC HEARING

Concerning Proposed Rate Increases and Adjustments for Olivenhain Municipal Water District Water Service Fees

Olivenhain Municipal Water District (the "District") will conduct a public hearing on November 13, 2019 at 5:30 p.m., in the Boardroom of the District's administrative office, located at 1966 Olivenhain Road, Encinitas, California 92024, to consider adopting increases in the rates for its water service fees effective with water consumption beginning on March 1, 2020 and an ordinance that would authorize the District to pass through increases in purchased water wholesale costs, increases to the District's Cost of Operations and Capital Facilities; and any new fees mandated by the State of California to be collected on water rates and charges.

A 2019 Water Cost of Service Study is the basis for allocating costs and calculating the proposed adjustments and increases to the District's water service charges as shown and described in this notice. A copy of the 2019 Water Rate Study Report can be found at www.olivenhain.com or is available for inspection at the District's administrative office.

REASONS FOR THE RATE ADJUSTMENTS AND INCREASES

The District is committed to providing high-quality and professional water services to its customers while exceeding all regulatory requirements in a cost-effective and environmentally responsive manner. While continually striving to keep operating costs as low as possible and efficiently utilize its assets, the District needs to pay its debt service obligations, keep pace with inflation and increases in other uncontrollable costs, including, among others, the cost to purchase water.

The District has been successful in managing its costs through conservative financial planning and optimal utilization of its assets to avoid rate spikes. However, the District's water pipelines, pump stations, reservoirs, and water treatment plant must be maintained and segments replaced each year to ensure reliable water deliveries. Ongoing repairs, replacements, and betterments of water infrastructure and facilities remain a key element for reliable and dependable water service.

Unlike some water agencies that have local water supplies to meet demand, the District purchases 100% of its raw water supply from San Diego County Water Authority ("SDCWA"). The District continues its research and development efforts to find alternative local water supplies to diversify its water supply portfolio and to become less dependent on its water suppliers to meet demand.

The District also purchases recycled water from several recycled water wholesalers to meet its recycled water demand.

An independent rate consulting firm was retained to perform a cost of service analysis and rate study for the District's water service charges for the next five years (2020-2024). The results of the water rate study are the proposed rate adjustments and increases shown and described herein, which are necessary in order for the District to:

- Recover current and projected costs of operations and maintenance, and capital infrastructure improvements needed to repair, replace, and update the District's aging water system;
- Be fiscally responsible for financial stability in years to come;
- Comply with state-mandated regulatory requirements and prepare for anticipated periods of mandatory water supply reduction;
- Achieve financial stability in order to sustain operations;
- Be environmentally responsible;

- Keep all financial commitments through compliance with debt service requirements.

BASIS UPON WHICH THE RATES ARE CALCULATED

The District purchases its water from the San Diego County Water Authority (SDCWA). SDCWA in turn purchases a substantial portion of its water supplies from the Metropolitan Water District of Southern California ("MWD"). The District also purchases water from public agency water suppliers for recycled water.

The District's existing and proposed water rate structure consists of a Commodity Charge and fixed monthly service fees. The District bills monthly for water service.

Commodity Charge

The District's Commodity Charge is a volumetric water rate structure that varies by customer class, and by water supply shortage level when Demand Reduction Rate Adjustments are in effect (see below). Domestic customers have a four-tier volumetric rate structure, while irrigation customers have a two-tier volumetric rate structure. Agricultural, Commercial, Construction, Irrigation, and Recycled water customers have unique uniform rates. The District assesses volumetric rates per hundred cubic feet (hcf) of water delivered each month. These rates are calculated on the basis of the cost of providing water and infrastructure, purchased water wholesale costs, and managing the District's resources. The Potable Commodity Charge applies to Domestic, Agricultural, Commercial, Irrigation, and Construction customers. The Recycled Water Commodity Charge applies to Recycled customers.

The District's fixed monthly service fees have three components: (1) an Olivenhain Municipal Water District System Access Charge ("OMWD System Access Charge"), which is a fixed meter charge that varies by water meter size to recover certain fixed costs of the District; (2) a SDCWA Infrastructure Access Charge, which is a meter fixed charge established by SDCWA on the basis of the meter size of the parcel of property receiving water service ("SDCWA Infrastructure Access Charge"); and (3) an Olivenhain Municipal Water District Fire Meter Charge, which is a fixed monthly fire meter service fee on certain properties that have fire service connections upon request by the property owner ("OMWD Fire Meter Charge").

OMWD System Access Charge

The OMWD System Access Charge is a fixed monthly charge that varies by water meter size and is assessed per meter to recover a portion of the District's fixed costs. These fixed costs include, among others, meter reading, billings and collections, customer service, water facilities repairs and maintenance, and certain other costs imposed on the District by SDCWA and Metropolitan Water District of Southern California (MWD).

SDCWA Infrastructure Access Charge

The SDCWA Infrastructure Access Charge is assessed by SDCWA to recover a portion of debt service costs associated with the construction of county-wide water infrastructure projects. The SDCWA Infrastructure Access Charge is a monthly fixed water meter charge that varies by water meter size and is passed through directly by the District to its customers.

OMWD Fire Meter Charge

The OMWD Fire Meter Charge is a monthly fixed water service fee that is assessed per meter and varies by water meter size on certain properties as a condition of extending or initiating water service by (1) the installation of a fire suppression system, and (2) upon the request of the property owner for the delivery of water to the property for the purpose of fire service protection.

The basis used to calculate all components of the proposed water rates and charges included in this notice are structured in such a way as to proportionally allocate the costs of providing water service to all customer classes and tiers based on their proportion of usage in and burden on the system. The methodology used in calculating the proposed rates, adjustments, and increases to the District's water service charges shown and described in this notice is included in the 2019 Water Cost of Service Study. A copy of the 2019 Water Rate Study report can be found at www.olivenhain.com or is available for inspection at the District's administrative office.

PASS-THROUGH INCREASES AND ADJUSTMENTS

Over the past five years (2015-2019), the District increased its water rates and fixed monthly charges to pass through: (1) purchased water wholesale cost increases imposed on the District by SDCWA/MWD and recycled water suppliers, (2) SDCWA Infrastructure Access Charge increases, and (3) annual inflation adjustment based on the San Diego Consumer Price Index, All Items, 1982-1984=100 for All Urban Consumers ("CPI-U") annually on April 1.

To avoid operational deficits, depletion of reserves, and inability to address water capital infrastructure needs, the District is proposing to adopt an ordinance that would authorize the District, commencing January 1, 2020 and at any time through and including December 31, 2024, to pass through any increases in purchased water wholesale costs from SDCWA, and any other wholesale water charge increases imposed on the District by its public agency water suppliers (collectively referred to as "Purchased Water Wholesale Pass-Through"); increases to SDCWA fixed monthly meter fees collected on water meters ("SDCWA Infrastructure Access Charge"); increases to the District's Costs of Operations and Maintenance and Capital Facility based on over-the-year percent change in the San Diego County Consumer Price Index for All Urban Consumers ("CPI-U") ("Inflationary Pass-Through"); and increases in water rates or any other charges mandated by the State of California and imposed on the District ("CA Pass-Through") (collectively the "Pass-Through Increases and Adjustments").

Any future increases in SDCWA Infrastructure Access Charge will only impact the SDCWA Infrastructure Access Charge. Any Purchased Water Wholesale Pass-Through and any Inflationary Pass-Through will impact the rates of OMWD Commodity Charge including Demand Reduction Rate Adjustments. Any CA Pass-Through will affect all water rates and charges. If approved by the Board of Directors, the District may annually implement the Pass-Through Increases and Adjustments for a five-year period commencing March 1, 2020, through December 31, 2024. Any and all Pass-Through Increases and Adjustments shall not exceed 9% per year, and in no event shall any of pass-through increases result in rates exceeding the District's cost of providing water services to the District's customers.

Prior to implementing any Pass-Through Increases and Adjustments, the District will provide written notice of to customers not less than 30 days prior to the effective date of the pass-through increases.

DEMAND REDUCTION RATE ADJUSTMENTS FOR THE POTABLE WATER COMMODITY CHARGE

Over the last ten years, the District has experienced declines and

changes in water demand due to water-use restrictions mandated by the State of California. State-mandated water use cutbacks negatively impacted the District's revenues. A substantial portion of the District's costs to operate and maintain its water system are fixed. This means the majority of District's costs remain the same regardless how much water is used by customers. To help mitigate future losses in revenue from reduced sales and to ensure its ability to continue to provide the cost of providing water service, the District is proposing to authorize increases in the Potable Commodity Charge ("Demand Reduction Rate Adjustments") that would take effect only during declared water shortage stages or state-mandated reductions in the level of potable water usage under the terms of the District Water Supply Shortage Condition Ordinance.

The District's cost of service study also considered the effects of the reduction in water use on projected revenues and developed rates and charges that may be implemented so that the District could still collect sufficient revenues to pay for the District's financial obligations in the event the District has to implement a mandatory water conservation program during the next five years from January 1, 2020 through December 31, 2024.

The Demand Reduction Rate Adjustments 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 reduction in water usage. The Board of Directors may implement Demand Reduction Rate Adjustments as necessary, depending on the level of potable water use cutbacks required, to ensure that the District is able to provide safe, reliable drinking water to its customers while exceeding regulatory requirements and recovering sufficient revenues to meet its expenses, including financial obligations.

Under the proposed Demand Reduction Rate Adjustments, the rates for the Potable Commodity Charge then in effect would be adjusted as necessary to achieve full cost recovery of the District's revenue requirement due to the implementation of any applicable water use demand reduction level. The table below shows the proposed maximum increases that may be added to the Potable Commodity Charge and implemented by the District during various levels of mandatory reductions in water usage. The proposed Demand Reduction Rate Adjustments are linearly prorated for demand reduction level.

Demand Reduction Rate Adjustments - \$/HCF For Potable Water Commodity Charges	
Demand Reduction Level	Increase in Commodity Rates
10%	\$0.23
20%	\$0.50
30%	\$0.85

PROPOSED RATES

The District is proposing to adjust and increase the rates and charges annually over a five-year period based on any pass-through adjustments not to exceed 9% per year. If approved, the proposed Commodity Charge, OMWD System Access Charge, SDCWA Infrastructure Access Charge, and OMWD Fire Meter Charge will be implemented with water consumption beginning on March 1, 2020, and the rates set forth below are the maximum rates that may be imposed by the District pursuant to this notice, subject to any Pass-Through Increases and Adjustments. The proposed maximum rates as of March 1, 2020 for potable water customers and recycled water customers are set forth in the tables on the following pages.

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CUSTOMER TYPE	COMMODITY CHARGE BASE RATES - \$/HCF		10% DEMAND REDUCTION - \$/HCF (5)	20% DEMAND REDUCTION - \$/HCF (5)	30% DEMAND REDUCTION - \$/HCF (5)
	Current (1) (2)	Proposed 3/1/2020 (4)	Proposed 3/1/2020 (4)	Proposed 3/1/2020 (4)	Proposed 3/1/2020 (4)
Potable:					
Domestic					
Tier 1: 0-6 Units	\$2.71	\$3.30	\$3.53	\$3.80	\$4.15
Tier 2: 7-23 Units	\$4.75	\$4.90	\$5.13	\$5.40	\$5.75
Tier 3: 24-80 Units	\$5.61	\$5.49	\$5.72	\$5.99	\$6.34
Tier 4: 80+ Units	\$6.58	\$6.58	\$6.81	\$7.08	\$7.43
Agricultural (3)	\$4.75	\$5.42	\$5.65	\$5.92	\$6.27
Combined Agricultural/Domestic					
First 23 Units per month: Follow Domestic rate structure.					
Over 23 Units per month: Follow Agricultural rate structure.					
Commercial	\$4.07	\$4.59	\$4.82	\$5.09	\$5.44
Irrigation					
Tier 1	\$4.35	\$5.20	\$5.43	\$5.70	\$6.05
Tier 2	\$5.90	\$5.57	\$5.80	\$6.07	\$6.42
Construction	\$7.97	\$6.65	\$6.88	\$7.15	\$7.50
Recycled:					
Recycled Water	\$3.85	\$3.61	\$3.61	\$3.61	\$3.61

OMWD System Access Charge (\$/Meter Size)						
Meter Size	Current (1)	Proposed 3/1/2020 (4)	Proposed 3/1/2021	Proposed 3/1/2022	Proposed 3/1/2023	Proposed 3/1/2024
5/8"	\$28.43	\$29.41	\$30.89	\$32.44	\$34.07	\$35.78
3/4" (*)	\$37.70	\$38.46	\$40.39	\$42.41	\$44.54	\$46.77
1"	\$65.55	\$65.60	\$68.88	\$72.33	\$75.95	\$79.75
1-1/2"	\$102.68	\$101.79	\$106.88	\$112.23	\$117.85	\$123.75
2"	\$161.47	\$159.10	\$167.06	\$175.42	\$184.20	\$193.41
2-1/2"	\$294.50	\$288.78	\$303.22	\$318.39	\$334.31	\$351.03
3"	\$322.34	\$315.93	\$331.73	\$348.32	\$365.74	\$384.03
4"	\$535.82	\$524.03	\$550.24	\$577.76	\$606.65	\$636.99
6"	\$1,120.55	\$1,094.04	\$1,148.75	\$1,206.19	\$1,266.50	\$1,329.83
8"	\$2,017.75	\$1,968.66	\$2,067.10	\$2,170.46	\$2,278.99	\$2,392.94

SDCWA Infrastructure Access Charge (\$/Meter Size)		
Meter Size	Current (1)	Proposed 3/1/2020 (4)
5/8"	\$3.01	\$3.66
3/4" (*)	\$3.01	\$3.66
1"	\$5.71	\$6.96
1-1/2"	\$9.33	\$11.35
2"	\$15.05	\$18.30
2-1/2"	\$27.92	\$34.04
3"	\$30.70	\$37.34
4"	\$51.48	\$62.59
6"	\$108.38	\$131.76
8"	\$195.69	\$237.90

OMWD Fire Meter Charge (\$/Meter Size)

Meter Size	Current (1)	Proposed 3/1/2020 (4)	Proposed 3/1/2021	Proposed 3/1/2022	Proposed 3/1/2023	Proposed 3/1/2024
5/8"	\$3.82	\$4.82	\$5.07	\$5.33	\$5.60	\$5.88
3/4" (*)	\$3.82	\$4.82	\$5.07	\$5.33	\$5.60	\$5.88
1"	\$4.50	\$5.42	\$5.70	\$5.99	\$6.29	\$6.61
1-1/2"	\$5.42	\$6.21	\$6.53	\$6.86	\$7.21	\$7.58
2"	\$6.88	\$7.48	\$7.86	\$8.26	\$8.68	\$9.12
2-1/2"	\$10.15	\$10.34	\$10.86	\$11.41	\$11.99	\$12.59
3"	\$10.84	\$10.93	\$11.48	\$12.06	\$12.67	\$13.31
4"	\$16.10	\$15.52	\$16.30	\$17.12	\$17.98	\$18.88
6"	\$30.51	\$28.09	\$29.50	\$30.98	\$32.53	\$34.16
8"	\$52.64	\$47.37	\$49.74	\$52.23	\$54.85	\$57.60

**Irrigation Unit Allotments
Tier 1 Allotment / Based upon water use by meter size.**

Meter Size	Current (1)		Proposed	
	Winter (Dec - May)	Summer (Jun - Nov)	Winter (Dec - May)	Summer (Jun - Nov)
5/8"	10	15	10	15
3/4"	20	30	20	30
1"	35	50	35	50
1-1/2"	50	110	50	110
2"	100	200	100	200
3"	200	500	200	500
4"	600	3,500	600	3,500
6"	3,100	11,800	3,100	11,800
8"	5,600	21,300	5,600	21,300

Notes to the Rate Table

*Typical residential meter size

- (1) Commodity Charge, OMWD System Access Charge, SDCWA Infrastructure Access Charge, OMWD Fire Meter Charge, and Irrigation Unit Allotments approved and adopted by the District's Board of Directors. These rates and charges are currently used to calculate the District's monthly water bill.
- (2) Domestic Tier 2 rate currently applies to consumption between 7 and 25 units. Domestic Tier 3 rate currently applies to consumption between 26-80. For Combined Agricultural/Domestic, Domestic rate structure currently applies to first 26 units. For irrigation, all monthly water usage in excess of Tier 1 allotment shown in the Domestic Irrigation Unit Allotments table is charged at Irrigation Tier 2.
- (3) The Agricultural water rate is available only to those who meet program criteria. Visit www.olivenhain.com/ag for details.
- (4) The proposed commodity rates and fixed monthly service fees, if approved, will be effective with water consumption beginning on March 1, 2020. Pass-Through Increases and Adjustments are subject to Board of Directors' approval after adoption of a pass-through ordinance. Prior to implementing any Pass-Through Increases and Adjustments, the District will provide written notice to customers not less than 30 days prior to its effective date.
- (5) Demand Reduction Rates would only be implemented by General Manager or Board action under the terms of the District's Water Supply Shortage Condition Ordinance. Such action by the District is generally triggered by the San Diego County Water Authority (SDCWA) and/or Metropolitan Water District of Southern California's (MWD) declaration of a specific level of water shortage.

PROPOSED WATER BILL INFORMATION

Below are examples of the impact of proposed rates would be on a single-family residential customer with low, average, and high water use. The rates/charges below are proposed to be effective March 1, 2020.

Low Residential Water Bill Based on 6 HCF per Month - 3/4" Meter 1 unit=1 HCF		
Charge/Rate	Current	Proposed 3/1/2020
Commodity Charge - Base Rates		
Tier 1 Water	\$16.26	\$19.80
SDCWA Infrastructure Access Charge	\$3.01	\$3.66
System Access Charge	\$37.70	\$38.46
Monthly Total	\$56.97	\$61.92

Average Residential Water Bill Based on 23 HCF per Month - 3/4" Meter 1 unit=1 HCF		
Charge/Rate	Current	Proposed 3/1/2020
Commodity Charge - Base Rates		
Tier 1 Water	\$16.26	\$19.80
Tier 2 Water	\$80.75	\$83.30
SDCWA Infrastructure Access Charge	\$3.01	\$3.66
System Access Charge	\$37.70	\$38.46
Monthly Total	\$137.72	\$145.22

High Residential Water Bill Based on 48 HCF per Month - 3/4" Meter 1 unit=1 HCF		
Charge/Rate	Current	Proposed 3/1/2020
Commodity Charge - Base Rates		
Tier 1 Water	\$16.26	\$19.80
Tier 2 Water	\$90.25	\$83.30
Tier 3 Water	\$129.03	\$137.25
SDCWA Infrastructure Access Charge	\$3.01	\$3.66
System Access Charge	\$37.70	\$38.46
Monthly Total	\$276.25	\$282.47

Customers that wish to determine the impact to their monthly bill statement of the proposed rates, increases, and adjustments may visit www.olivenhain.com/estimator for an estimate.

PROTESTING THE PROPOSED WATER ADJUSTMENTS AND INCREASES

Any property owner of a parcel upon which the water service charges are proposed for imposition or any tenant directly liable for the payment of water service charges (i.e., a water customer who is not a property owner) may submit a written protest to the water rates and rate structure shown and described in this notice; provided, however, only one protest will be counted per identified parcel subject to the water rates. To be used in determining whether there is a majority protest, each protest must: (1) be in writing; (2) state that the identified property owner or tenant is opposed to the proposed water rate adjustments and pass-through increases; (3) provide the location of the identified parcel for which the protest is submitted (by assessor's parcel number or water service address); and (4) include the printed full name and signature of the property owner or tenant submitting the protest. Written protests may be submitted by mail or in person to the Board Secretary at the District's administrative office at 1966 Olivenhain Road, Encinitas, CA 92024, or at the public hearing, as long as they are received by the Board Secretary prior to

the close of the public hearing. Any protest submitted via e-mail or other electronic means will not be accepted.

The Board of Directors will accept and consider all written protests and hear and consider all public comments made at the public hearing. Oral comments at the public hearing will not qualify as the written protests to be used in determining whether there is a majority protest. At the conclusion of the public hearing, the Board of Directors will consider adoption of the proposed rates and rate structure. If written protests against the proposed water rates and rate structure included in this notice are not presented by owners or tenants of a majority of the identified parcels subject to the water service charges, the Board of Directors will be authorized to adopt the rates. If approved, the Board of Directors will be able to impose the rates, which may include Pass-Through Increases and Adjustments and the Demand Reduction Rate Adjustments described in this notice, for a five-year period commencing January 1, 2020, through December 31, 2024.