

Water Rate Study “FAQ’s” *(Frequently Asked Questions)*

The proposals and assumptions stated in this FAQ’s memo assume Council adoption of the new rates on November 23, 2004.

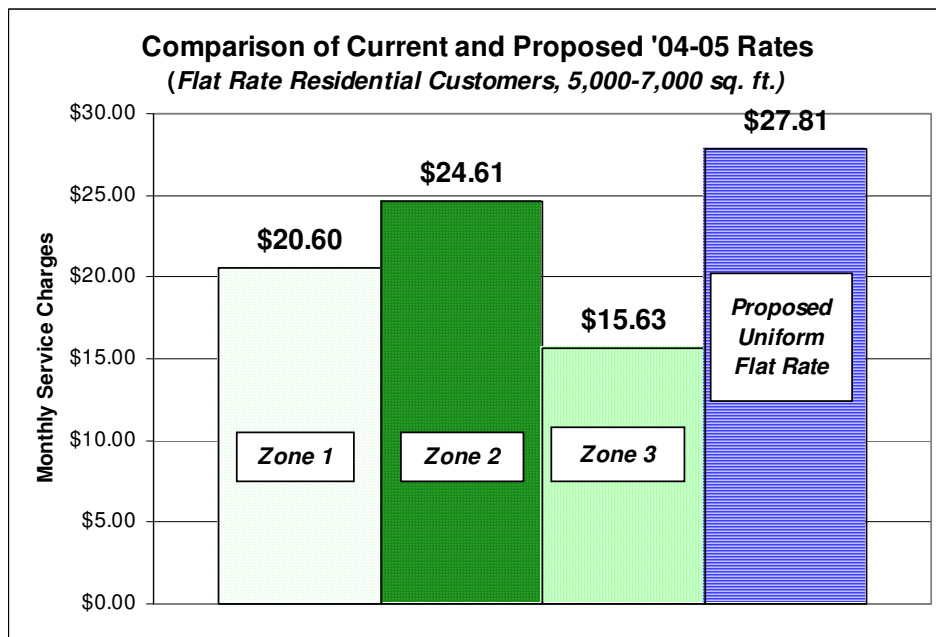
Q1: What are the proposed rates adjustments?

A1: This is a four-part answer:

- (1) On January 1, 2005, we propose to implement an initial set of water rate adjustments as part of a new single water service area and uniform rate structure. Rate adjustments for flat rate residential customers in Zone 1 range from a 14% to 43% increase (35% for the majority for lot sizes of 5001-7000 sq ft). Zone 2 flat rate water adjustments range from a 19% decrease to an increase of 15%. Zone 3 customers flat rates outside of the City of Modesto will see increases ranging from 28% to 81% to bring them to the same rate structure level as the rest of the water service area.
- (2) Metered customers (commercial, industrial, churches, schools) on January 1, 2005 will also experience rate adjustments moving to a new single service area and uniform rate structure. Zone 1 metered rates (volume based) will increase 2.7%, Zone 2 will decrease by 16%, and Zone 3 may see up to a 52% increase. After this first adjustment all metered water customers will pay the same per unit amount for water usage regardless of location. Fixed costs based on meter size will also be adjusted based on the cost of service study recommendations.
- (3) After these initial rate adjustments, all customers will have additional annual rate increases adopted every July 1, starting in the summer of 2005. At this time, we expect these future across-the-board increases to be 20%, 15%, 5% and 5% over the following four years.
- (4) Starting on January 1, 2009 it is proposed to only add inflationary increases based on a consumer price index.

Q2: How will the proposed rate increases affect my monthly water bill?

A2: This will depend on the zone you are currently in. We have attached a set of tables that identify the current and proposed new rates for customers in each of the three zones. Since the rates take effect January 1, 2005, the January bill for metered customers will be prorated. That is, the old rate will be used for water consumption prior to January 1 and the new rate will be used for water consumption after January 1. The figure below shows the current and new flat-rate bill for the largest residential customer class of 5,000 to 7,000 square foot lots:



Q3: When will my bill change?

A3: The new rates take effect on January 1, 2005. Therefore, the January bill will be prorated starting on water used on the effective date.

Q4: Why are rate increases so much larger for some customers and so small for others?

A4: This was the result of the “cost-of-service” adjustments in the rate study the City has prepared. In other words, the City has not updated its rates to account for changes in the costs to provide service to different customer classes in almost 10 years. In addition, when the City purchased the Del Este Water Company in 1995, the City committed to eventually shift all customers into a single service area where all customers are treated equally. This did not happen, but is addressed in these new rates.

Q5: What has changed to cause rates to go up so much?

A5: Zone 1 and Zone2 rates have not been increased in 10 years. Basic costs of materials, chemicals, testing, etc have increases over the last 10 years. New regulations now have the utility monitor and test for over 90 (up from 20) contaminants at stricter levels of compliance. Important repair and maintenance projects do not have funding. Water pressure has decreased. The City has lost 18 wells to date due to a combination of groundwater contamination and increasingly strict water quality standards, which require costly well-head treatment facilities. Equally important, these changes have necessitated

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construction of an expansion of the MID surface water treatment plant and related transmission, distribution, and storage facilities.

Q6: If the MID Treatment Plant costs so much, why aren't new homes paying for it, since we have enough water for existing customers?

A6: There are over \$152.8 million of improvements needed, including the expansion of the MID surface water treatment plant and improvements to the City's storage, transmission, and distribution facilities. Most of these costs (74%) will need to be borne by existing customers since they are needed to correct existing deficiencies and because existing customers will need the capacity of this plant due to the loss of groundwater wells, the expected loss of more wells, and the need to "blend" surface and groundwater to achieve acceptable water quality standards. New homes and new development will pay "connection fees" to pay for growth's share of the projects for both pay-as-you-go and bond financed projects over the life of the project.

Q7: What's wrong with the existing rate structure – why do we have to change it?

A7: There were several reasons the City wishes to change the current rate structure. Primarily, it was adopted when the City purchased the Del Este Water Company in 1995 and the purpose of the three zones and different rates was to: (1) avoid significant rate adjustments for Del Este customers, (2) preserve the perceived equity in the then existing rate structure, and (3) reflect the localized differences in sources of supply and costs of service. Particularly in light of the extensive new capital improvements to the water utility system, the City needs to shift to a rate structure that not only treats similar customers equitably, but also generates the money needed to pay for these new improvements.

Q8: So what are we getting for these rate adjustments?

A8: In addition to fixing some of the current budget shortfalls, a number of major facilities and assets will be funded through these rate increases, including:

- The expansion of the MID Regional Water Treatment Plant (\$37.6 million)
- Tier 1 Downstream Transmission and Storage Improvements (\$34 million)
- Tier 2 Downstream Improvements (\$26.7 million)
- Cash-funded Capital Improvements (\$43.15 million)

In general, the benefits that water customers receive include the City's commitment to do the following:

- Provide sufficient quantities of clean water and adequate water pressures under all reasonable circumstances
- Plan for an adequate future supply of water
- Provide system maintenance at a reasonable price
- Meet the challenges of an unpredictable regulatory climate

Q9: Under the new rate structure what happens to the flat rate lot sizes?

A9: Under the new rate structure, it is proposed to have flat rate property sizes uniform in the entire service area. This way, single-family residences will be charged the same rate based on similar property sizes and not by location.

2004 Billing Data on Flat Rate Residential:

Flat Rate Lot Sq. Ft. Ranges	No. of Flat Rate Lots (2004) (a)		Ave. hcf/mo. per Lot (b)
	<u>Number</u>	<u>Percent</u>	
0-5,000	7,331	12%	16.7
5,001-7,000	30,095	49%	19.4
7,001-11,000	19,775	32%	23.5
11,001-17,000	2,534	4%	25.1
<u>Over 17,000</u>	<u>1,520</u>	<u>2%</u>	<u>30.0</u>
Total	61,255	100%	23.9

Once a residence is billed base on metering, then the metered rate for use will apply for usage and the fixed cost charge will apply based on the meter size.

Q10: If my rate increase is actually a decrease, does that mean that I have been paying too much in the past?

A10: The past rates and rate structure were the result of a unique set of circumstances, including the purchase of Del Este Water Company and the use of three separate service areas (i.e., Zones 1, 2 and 3). Within those conditions, the current rates are reasonable and equitable. However, the City is fulfilling its previous commitment to convert the three zones into a single service area. Under these new conditions, in which all customers are now treated equally (regardless of whether they are inside or outside the City boundaries), the proposed new rates are more equitable than the current rates.

Q11: How can I obtain additional information about the proposed rate changes or give comments to the City?

A11: Please contact the Customer Service Division – City of Modesto at (209) 577-5395. In addition, a copy of the rate study and related documents is on the City’s website (www.modestogov.com) and at Dittos (10th Street Place).

Q12: What are the dates for public input and when the City Council will actually vote on these changes?

A12: There will be a public hearing on November 23, 2004 in City Council Chambers, where citizens can comment. The Council will determine what further action will be taken at that time.

(The Tables below show the current and proposed water rates for current Zones 1, 2 and 3. Please note: each zone had a different rate and structure, the “2003-2004” current rate lists basic information for a quick comparison.)

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Current - Zone 1		Projected Charges & Rates				
<i>2003-04</i>		2004-05	2005-06	2006-07	2007-08	2008-09
<u>Customer Classes</u>		<u>Year 1</u>	<u>Year 2</u>	<u>Year 3</u>	<u>Year 4</u>	<u>Year 5</u>
<u>Flat Rate - Mo. Service Charges</u>						
0-3,500 sq. ft. lot	\$17.86	\$24.47	\$29.36	\$33.77	\$35.45	\$37.23
3,501-5,000 sq. ft. lot	\$20.60	\$24.47	\$29.36	\$33.77	\$35.45	\$37.23
5,001-7,000 sq. ft. lot	\$20.60	\$27.81	\$33.37	\$38.38	\$40.30	\$42.31
7,001-10,000 sq. ft. lot	\$23.08	\$27.81	\$33.37	\$38.38	\$40.30	\$42.31
10,001-10,500 sq. ft. lot	\$23.08	\$33.00	\$39.60	\$45.54	\$47.82	\$50.21
10,501-14,000 sq. ft. lot	\$25.56	\$33.00	\$39.60	\$45.54	\$47.82	\$50.21
14,001-17,000 sq. ft. lot	\$30.78	\$35.03	\$42.04	\$48.34	\$50.76	\$53.30
17,001-17,500 sq. ft. lot	\$30.78	\$41.19	\$49.42	\$56.84	\$59.68	\$62.66
17,501-21,000 sq. ft. lot	\$36.09	\$41.19	\$49.42	\$56.84	\$59.68	\$62.66
<u>Metered Charges</u>						
Uniform Vol. Charge (\$/hcf)	\$0.82	\$0.84	\$1.01	\$1.16	\$1.22	\$1.28
<u>Fixed Meter Charges</u>						
5/8"-3/4"	\$13.63	\$9.01	\$10.82	\$12.44	\$13.06	\$13.71
1"	\$18.14	\$12.78	\$15.34	\$17.64	\$18.52	\$19.45
1-1/2"	\$22.54	\$22.13	\$26.55	\$30.53	\$32.06	\$33.66
2"	\$27.20	\$33.38	\$40.06	\$46.06	\$48.37	\$50.79
3"	\$36.27	\$63.43	\$76.12	\$87.53	\$91.91	\$96.51
4"	\$47.16	\$97.19	\$116.63	\$134.13	\$140.83	\$147.88
6"	\$70.90	\$190.95	\$229.14	\$263.51	\$276.68	\$290.51
8"	\$90.55	\$303.49	\$364.19	\$418.82	\$439.76	\$461.75
10"	\$109.16	\$434.84	\$521.80	\$600.07	\$630.08	\$661.58
12"	\$127.83	\$809.95	\$971.95	\$1,117.74	\$1,173.62	\$1,232.31
<i>Annual Rate Increase</i>		<i>(varies)</i>	<i>20.0%</i>	<i>15.0%</i>	<i>5.0%</i>	<i>5.0%</i>

Current - Zone 2		Projected Charges & Rates				
<i>2003-04</i>		2004-05 (d)	2005-06	2006-07	2007-08	2008-09
<u>Customer Classes</u>		<u>Year 1</u>	<u>Year 2</u>	<u>Year 3</u>	<u>Year 4</u>	<u>Year 5</u>
<u>Flat Rate - Mo. Service Charges</u>						
0-5,000 sq. ft.	\$24.61	\$24.47	\$29.36	\$33.77	\$35.45	\$37.23
5,001-7,000 sq. ft.	\$24.61	\$27.81	\$33.37	\$38.38	\$40.30	\$42.31
	\$28.58	\$27.81	\$33.37	\$38.38	\$40.30	\$42.31
7,001-11,000 sq. ft.	\$28.58	\$33.00	\$39.60	\$45.54	\$47.82	\$50.21
	\$34.30	\$33.00	\$39.60	\$45.54	\$47.82	\$50.21
11,001-17,000 sq. ft.	\$34.30	\$35.03	\$42.04	\$48.34	\$50.76	\$53.30
	\$41.11	\$35.03	\$42.04	\$48.34	\$50.76	\$53.30
Over 17,000 sq. ft.	\$41.11	\$41.19	\$49.42	\$56.84	\$59.68	\$62.66
	\$50.73	\$41.19	\$49.42	\$56.84	\$59.68	\$62.66
<u>Metered Charges</u>						
Uniform Vol. Charge (\$/hcf)	\$1.005	\$0.84	\$1.01	\$1.16	\$1.22	\$1.28
<u>Fixed Meter Charges</u>						
5/8"-3/4"	\$8.12	\$9.01	\$10.82	\$12.44	\$13.06	\$13.71
1"	\$10.17	\$12.78	\$15.34	\$17.64	\$18.52	\$19.45
1-1/2"	\$15.53	\$22.13	\$26.55	\$30.53	\$32.06	\$33.66
2"	\$21.09	\$33.38	\$40.06	\$46.06	\$48.37	\$50.79
3"	\$33.73	\$63.43	\$76.12	\$87.53	\$91.91	\$96.51
4"	\$51.58	\$97.19	\$116.63	\$134.13	\$140.83	\$147.88
6"	\$83.08	\$190.95	\$229.14	\$263.51	\$276.68	\$290.51
8"	\$119.27	\$303.49	\$364.19	\$418.82	\$439.76	\$461.75
10"	\$180.55	\$434.84	\$521.80	\$600.07	\$630.08	\$661.58
12"	\$219.36	\$809.95	\$971.95	\$1,117.74	\$1,173.62	\$1,232.31
<i>Annual Rate Increase</i>		<i>(varies)</i>	<i>20.0%</i>	<i>15.0%</i>	<i>5.0%</i>	<i>5.0%</i>

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Current - Zone 3		Projected Charges & Rates				
	<i>2003-04</i>	<i>2004-05 (d)</i>	<i>2005-06</i>	<i>2006-07</i>	<i>2007-08</i>	<i>2008-09</i>
<u>Customer Classes</u>		<u>Year 1</u>	<u>Year 2</u>	<u>Year 3</u>	<u>Year 4</u>	<u>Year 5</u>
Flat Rate - Mo. Service Charges						
0-5,000 sq. ft.	\$15.63	\$24.47	\$29.36	\$33.77	\$35.45	\$37.23
5,001-7,000 sq. ft.	\$15.63	\$27.81	\$33.37	\$38.38	\$40.30	\$42.31
	\$18.20	\$27.81	\$33.37	\$38.38	\$40.30	\$42.31
7,001-11,000 sq. ft.	\$18.20	\$33.00	\$39.60	\$45.54	\$47.82	\$50.21
	\$21.80	\$33.00	\$39.60	\$45.54	\$47.82	\$50.21
11,001-17,000 sq. ft.	\$21.80	\$35.03	\$42.04	\$48.34	\$50.76	\$53.30
	\$26.08	\$35.03	\$42.04	\$48.34	\$50.76	\$53.30
Over 17,000 sq. ft.	\$26.08	\$41.19	\$49.42	\$56.84	\$59.68	\$62.66
	\$32.21	\$41.19	\$49.42	\$56.84	\$59.68	\$62.66
Metered Charges						
Uniform Vol. Charge (\$/hcf)	\$0.601	\$0.84	\$1.01	\$1.16	\$1.22	\$1.28
Fixed Meter Charges						
5/8"-3/4"	\$11.12	\$9.01	\$10.82	\$12.44	\$13.06	\$13.71
1"	\$13.94	\$12.78	\$15.34	\$17.64	\$18.52	\$19.45
1-1/2"	\$21.09	\$22.13	\$26.55	\$30.53	\$32.06	\$33.66
2"	\$28.54	\$33.38	\$40.06	\$46.06	\$48.37	\$50.79
3"	\$45.61	\$63.43	\$76.12	\$87.53	\$91.91	\$96.51
4"	\$69.22	\$97.19	\$116.63	\$134.13	\$140.83	\$147.88
6"	\$111.29	\$190.95	\$229.14	\$263.51	\$276.68	\$290.51
8"	\$159.36	\$303.49	\$364.19	\$418.82	\$439.76	\$461.75
10"	\$241.79	\$434.84	\$521.80	\$600.07	\$630.08	\$661.58
12"	\$293.88	\$809.95	\$971.95	\$1,117.74	\$1,173.62	\$1,232.31
Annual Rate Increase		<i>(varies)</i>	<i>20.0%</i>	<i>15.0%</i>	<i>5.0%</i>	<i>5.0%</i>