



Memorandum

TO: HONORABLE MAYOR
AND CITY COUNCIL

FROM: John Stufflebean

SUBJECT: MUNICIPAL WATER SYSTEM
WATER RATE INCREASE FOR
2007-08

DATE: 05-29-07

Approved

Key Winer

Date

6/6/07

COUNCIL DISTRICTS: 2, 4, 7, 8

RECOMMENDATION

Adoption of a resolution increasing the San José Municipal Water System (SJMWS) potable water rates and charges by 7.3% effective July 1, 2007.

OUTCOME

Approval of this rate resolution will allow SJMWS to increase retail water rates and charges by 7.3%, effective July 1, 2007, to increase operating revenues by approximately \$1,635,273 to cover increased wholesale water costs; Integrated Billing System costs, and maintain reserve levels per the Municipal Code.

BACKGROUND

The SJMWS is a self-sustaining rate-funded utility providing water service to 26,500 accounts with an approximate population of 109,000 in the North San José, Alviso, Evergreen, Edenvale, and Coyote Valley areas.

The main source of supply to the North San José/Alviso area is water purchased from the San Francisco Public Utilities Commission (SFPUC), which delivers treated water through its Hetch Hetchy Aqueduct from the Sierra. The Evergreen area is primarily supplied by water purchased from the Santa Clara Valley Water District (SCVWD) delivered through the State Water Project and Federal San Felipe Project. The Edenvale and Coyote areas are completely dependent on local groundwater. All groundwater in Santa Clara County is under the jurisdiction of SCVWD. Overall, SCVWD supplies approximately 75 percent and SFPUC supplies 25 percent of the water purchased by SJMWS customers.

SFPUC and SCVWD are both implementing major capital improvement programs. These capital improvement programs include replacing and upgrading major distribution water lines to

withstand seismic events and water treatment facilities to meet stricter water quality standards. To fund these programs, it is anticipated that wholesale water rates will be drastically increasing over the next ten years. As shown in the table below, SFPUC and SCVWD are proposing to increase rates by 6.6% and 7.5% respectively.

ANALYSIS

Water Rates

SJMWS's two principal sources of revenue are water sales and fixed monthly meter service charges. Approximately 54 percent of SJMWS's operating budget is applied to purchase wholesale water.

The wholesale water costs are expected to increase as follows:

	<u>06-07 (Current)</u> \$/AF	<u>07-08 (Proposed)</u> \$/AF	<u>% Increase</u>
SCVWD	\$535.00	\$575.00	7.5%
SFPUC	\$531.40	\$566.40	6.6%

The above figures are the proposed rates and are not final. SCVWD and SFPUC are scheduled to finalize their wholesale rates by mid-June. Should these figures change; an addendum will be forwarded to Council detailing the changes and any impact on the rate recommendation.

It is estimated that during FY 07-08, total water purchases will reach 21,959 AF. The wholesale water increase will result in an additional cost to SJMWS of \$853,015 as shown below. SJMWS is proposing to increase retail water rates by approximately 7.3% for FY 07-08 partly to recover these projected increases.

<u>Source</u>	<u>Projected Water</u> <u>Purchases</u> AF	<u>Increase</u> \$/AF	<u>Total Cost</u> <u>Increase</u>
SCVWD	16,890	\$40	\$675,600
SFPUC	<u>5,069</u>	\$35	<u>\$177,415</u>
Total	21,959		\$853,015

If no rate increase is implemented, the continued escalating wholesale cost of water will deplete the reserves and compromise the financial health of the utility.

The proposed rate increase will generate an additional \$782,258 to cover increase in administrative and overhead expenses and reserve fund requirements.

Wholesale Water	<u>\$853,015</u>
Total Additional Revenue Required	<u>\$1,635,273</u>

7.3 Percent vs. 12 Percent Rate Increase

The 7.3 percent rate increase being recommended is due to revised wholesale water rates. SJMWS sent notices in April to its customers informing them that staff will be proposing rate increases of up to 12 percent for Fiscal Year 2007-08. This percentage increase was based on the preliminary cost increase estimates from the SCVWD and SFPUC of 16 percent and 10.7 percent respectively. Both agencies went through the Public Hearing process in April, May and June. The SCVWD chose to exclude for now approximately \$370 million in capital projects and other "operational activities" and scaled back its rate increase to 7.5 percent. As SCVWD costs represent 40 percent of the SJMWS budget, this means that SJMWS will only need to recover \$675,000 in its rate increase rather than \$1,435,650 as originally estimated.

Impact on Customers

Under the proposed rate schedule, the average SJMWS customer that uses 15 HCF (12,716) gallons, the monthly water bill will increase by \$2.38 from \$32.64 to \$35.02. Table A (attached) shows detailed meter and quantity rate and charge increases.

Other Water Agencies

Other water agencies within Santa Clara County that receive water from SFPUC or SCVWD have also proposed to raise their water rates effective July 1, 2007, as shown below to recover wholesale rate increases and other inflationary costs.

<u>City</u>	<u>Current Monthly Bill</u>	<u>Proposed Increase</u>	<u>Proposed Monthly Bill</u>
Palo Alto	\$62.22	10.0%	\$68.44
San José Water Company	\$46.44	3.0%	\$47.83
Mountain View	\$41.40	8.0%	\$44.71
Cal Water - Los Altos	\$41.36	1.9%	\$42.15
Milpitas	\$40.00	N/A	-
City of San José - Muni Water	\$32.64	7.3%	\$35.02
Great Oaks	\$32.47	N/A	-
Sunnyvale	\$31.55	9.5%	\$34.55
Santa Clara	\$29.10	9.0%	\$31.72

The above figures are for water use of 15 HCF (12,716 gallons) and 5/8" x 3/4" water meter. Some agencies are still waiting for the water suppliers to finalize wholesale water rates before firming up their retail rates.

Compliance with Ordinance 26903

- The proposed rate increase and the SJMWS Operating and Capital budgets for 2007-08 comply with all provisions of Ordinance 26903 passed by the Council on May 27, 2003. A portion of the rate increase is necessary to fully fund the capital and rate stabilization reserve funds that are specified in Ordinance 26903.
- The Public Notification provisions are addressed below.

ALTERNATIVES

Alternative #1: No Municipal Water System Potable Water Rate Increase.

Pros: Customers water bills will not increase.

Cons: If no rate increase is implemented, the continued escalating wholesale cost of water will deplete the reserves and compromise the financial health of the utility.

Reason for not recommending:

The water utility has to continue to operate in cost recovery mode and responsibly invest in the distribution system which includes wells, pumps and watermains. These facilities are needed to meet water demands that provide fire protection and protect public health. Not recommending a rate increase, will jeopardize the availability of funds needed for such an investment.

PUBLIC OUTREACH

- Criteria 1:** Requires Council action on the use of public funds equal to \$1 million or greater. **(Required: Website Posting)**
- ✓ **Criteria 2:** Adoption of a new or revised policy that may have implications for public health, safety, quality of life, or financial/economic vitality of the City. **(Required: E-mail and Website Posting)**
- Criteria 3:** Consideration of proposed changes to service delivery, programs, staffing that may have impacts to community services and have been identified by staff, Council or a Community group that requires special outreach. **(Required: E-mail, Website Posting, Community Meetings, Notice in appropriate newspapers)**

SJMWS published a notice in the newspaper on May 30, 2007, in advance of City Council consideration. In addition, SJMWS also sent a direct mailing to all the customers notifying them about the scheduled Council hearing for a maximum proposed rate increase of 12 percent. SFPUC and SCVWD held public hearings in May and June 2007.

COORDINATION

This memo was coordinated with the City Attorney's Office, Finance and the Manager's Budget Office.

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COST IMPLICATIONS

Not applicable.

BUDGET REFERENCE

Not applicable.

CEQA

Not a project.



JOHN STUFFLEBEAN
Director, Environmental Services

For questions please contact Mansour Nasser, Deputy Director, at (408) 277-4218.

ATTACHMENT

Table 1: All Customers

MONTHLY METER CHARGE		
Meter Size	2006-07 Current Charges	2007-08 Proposed Charges
5/8-inch	\$6.75	\$7.24
3/4-inch	\$6.90	\$7.40
1-inch	\$12.00	\$12.88
1.5-inch	\$24.00	\$25.75
2-inch	\$37.00	\$39.70
3-inch	\$70.00	\$75.11
4-inch	\$107.00	\$114.81
6-inch	\$140.00	\$150.22
8-inch	\$200.00	\$214.60
10-inch	\$250.00	\$268.25

Table 2: Residential

RESIDENTIAL MONTHLY QUANTITY CHARGE		
Zones	2006-07 Current Charges (per HCF)	2007-08 Proposed Charges (per HCF)
Zone 1 (Elevation 0 to 275 feet) (63% of the customers in Zone 1)		
Tier 1: 0 to 7 HCF	\$1.54	\$1.65
Tier 2: 7 to 14 HCF	\$1.76	\$1.89
Tier 3: 14 to 21 HCF	\$1.96	\$2.10
Tier 4: >21 HCF	\$2.16	\$2.32
Zone 1 Average Monthly Water Bill	\$31.81	\$34.12
Zone 2 (Elevation 275 to 375 feet)(9% of the customers are in Zone 2)		
Tier 1: 0 to 7 HCF	\$1.62	\$1.74
Tier 2: 7 to 14 HCF	\$1.84	\$1.97
Tier 3: 14 to 21 HCF	\$2.046	\$2.19
Tier 4: >21 HCF	\$2.24	\$2.40
Zone 2 Average Monthly Water Bill	\$33.01	\$35.42
Zone 3/4 (Elevation 375 to 630 feet), (20% of the customers are in Zone 3/4)		
Tier 1: 0 to 7 HCF	\$1.69	\$1.81
Tier 2: 7 to 14 HCF	\$1.91	\$2.05
Tier 3: 14 to 21 HCF	\$2.11	\$2.26
Tier 4: >21 HCF	\$2.31	\$2.48
Zone 3/4 Average Monthly Water Bill	\$34.06	\$36.54
Zone 5/6 (Elevation 630 to 880 feet), (8% of the customers are in Zone 5/6)		
Tier 1: 0 to 7 HCF	\$1.77	\$1.90
Tier 2: 7 to 14 HCF	\$1.88	\$2.14
Tier 3: 14 to 21 HCF	\$2.196	\$2.35
Tier 4: >21 HCF	\$2.39	\$2.55
Zone 5/6 Average Monthly Water Bill	\$35.26	\$37.83

Weighted Average Water Bill:

Current= $\$31.81 \times .63 + \$33.01 \times .09 + \$34.06 \times .20 + \$35.26 \times .08 = \$32.64$

Proposed= $\$34.12 \times .63 + \$35.42 \times .09 + \$36.54 \times .20 + \$37.83 \times .08 = \$35.02$

Table 3: Non-Residential

NON-RESIDENTIAL QUANTITY CHARGE		
Zones	2006-07 Current Charges (per HCF)	2007-08 Proposed Charges (per HCF)
Zone 1 (Elevation 0 to 275 feet)	\$1.76	\$1.89
Zone 2 (Elevation 275 to 375 feet)	\$1.84	\$1.97
Zone 3 & 4 (Elevation 375 to 630 feet)	\$1.91	\$2.05
Zone 5 & 6 (Elevation 630 to 960 feet)	\$1.99	\$2.14

1 HCF = 748 gallons