



COUNCIL AGENDA: 6-21-05  
ITEM: 10.2

# Memorandum

**TO:** HONORABLE MAYOR AND  
CITY COUNCIL

**FROM:** Carl W. Mosher

**SUBJECT:** SEE BELOW

**DATE:** 6-3-05

Approved

Date

6/9/05

COUNCIL DISTRICTS: 2, 4, 7, 8

**SUBJECT: PROPOSED INCREASE IN MUNICIPAL WATER SYSTEM (MUNI WATER) METER CHARGES FOR FISCAL YEAR 2005-06**

## RECOMMENDATION

Adoption of:

1. Resolution amending San Jose Municipal Water System rates and charges resolution to increase potable water meter charges by 9%-20% resulting in a 2.6% overall rate increase for Fiscal Year 2005-2006; and
2. Resolution amending San Jose Municipal Water System recycled water meter to rates and charges resolution to maintain recycled water meter rates equal to potable meter rates.

## BACKGROUND

Muni Water is a self-sustaining rate-funded utility providing water service to 26,000 accounts with an approximate population of 116,000 in the North San Jose, Alviso, Evergreen, Edenvale, and Coyote Valley areas.

The Santa Clara Valley Water District (District) supplies approximately 75% of the water purchased by Muni Water, and the San Francisco Public Utilities Commission (SFPUC) supplies the remaining 25%. The District is planning to raise wholesale rates by \$15/acre foot and SFPUC is planning a 10% decrease for FY 2005-06 (but with substantial increases projected for the following years).

Muni Water's two principal sources of revenue are water sales and fixed monthly meter service charges. Revenue from these sources pays for operating expenses and capital improvements. Section 15.08.320 of the Municipal Code Subsection A states: "Rates and charges for potable water service, including meter charges and quantity rates, shall be established from time to time by resolution of the City Council."

## ANALYSIS

### Potable Meter Charges

Potable meter charges were last adjusted in April 1992. The annual revenue from these charges is approximately \$2.8 million as shown in Attachment A. Water companies generally attempt to recover about 50% of their "fixed costs" from meter charges, with the remaining 50% of fixed costs and all other costs being recovered from quantity charges. For regulated utilities, the CPUC has adopted guidelines allowing this formula to be used for rate setting and defining "fixed costs." Under the CPUC definition, fixed costs for Muni Water for Fiscal Year 2004-05 are estimated at \$9.16 million as illustrated in Figure 1, below.

Fixed Costs = Total Use - Purchased Water - Purchased Power

Fixed Costs = \$22,563,000 - \$12,485,000 - \$925,000 = \$9,153,000

Because Muni Water's meter charges have not been raised in over ten years, revenue from these charges as percentage of total revenue has not kept pace with increases in costs. As shown on Attachment B, the recommended increase in meter charges is estimated to provide an additional \$445,000, so that total revenue from meter charges will be \$3.24 million or approximately 35% of Muni Water fixed costs.

Meter rates are proposed as follows:

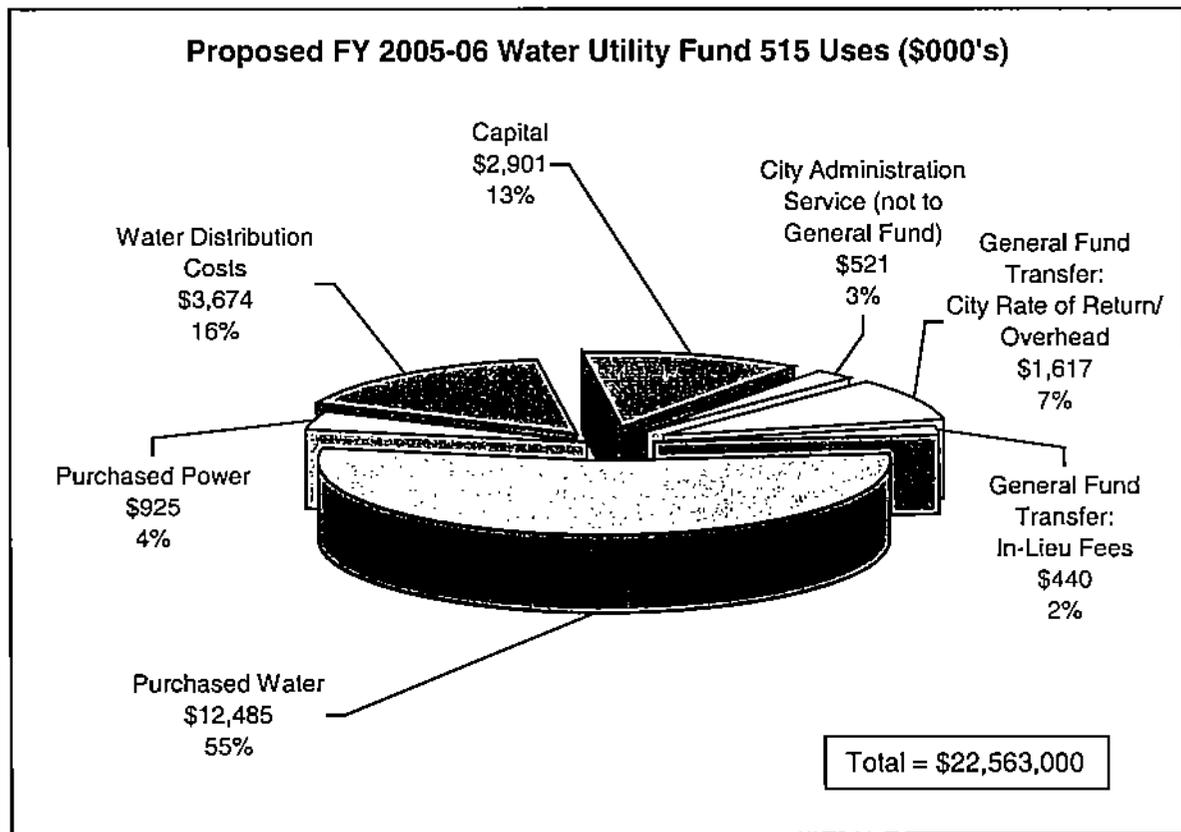
<u>Meter Size</u>	<u>Current Charges</u>	<u>Proposed Charges</u>	<u>Percent Increase</u>
5/8"	\$5.85	\$6.75	15.38%
3/4"	\$6.00	\$6.90	15.00%
1"	\$10.00	\$12.00	20.00%
1.5"	\$20.00	\$24.00	20.00%
2"	\$32.00	\$37.00	15.63%
3"	\$59.00	\$70.00	18.64%
4"	\$98.00	\$107.00	9.18%
6"	\$125.00	\$140.00	12.00%
8"	\$175.00	\$200.00	14.29%
10"	\$225.00	\$250.00	11.11%

Wholesale Water Costs

There will be no net increase in the cost of wholesale water supplied by the District and SFPUC for Fiscal Year 2005-06. Staff is therefore proposing no increase in quantity charges for FY 2005-06.

	<u>FY 05-06 Purchases</u>	<u>Increase/Decrease \$/AF</u>	<u>Total \$ Increase/Decrease</u>
District	16,855 AF	\$15/AF	\$253,275
SFPUC	5,300 AF	(\$49/AF)	(\$260,880)
Totals	22,185 AF		(\$7,605)

Figure 1



Impact on Customers

The proposed meter charges will result in an average increase of 2.6% overall, with the impact varying depending on the type of customer as shown below. If the proposed meter charge increase is approved, Muni Water customers will continue to enjoy the lowest overall water rates in San Jose, as depicted in the following table comparing prototype bills for Muni, Great Oaks Water Company and San Jose Water Company.

	<u>Muni</u> <u>Current</u>	<u>% Increase</u>	<u>Muni</u> <u>Proposed</u>	<u>Great Oaks</u> <u>Proposed</u>	<u>SJ Water Co.</u> <u>Proposed</u>
Average Residential (15 HCF, 5/8-inch meter)	\$30.43	2.9%	\$31.33	\$33.20	\$42.88
Commercial Customer (100 HCF, 2-inch meter)	\$199.00	2.5%	\$204.00	\$229.45	\$269.62
Industrial Customer (1,000 HCF, 6-inch meter)	\$1,795.00	0.8%	\$1,810.00	\$2,112.62	\$2,451.72

Other Water Agencies

Water agencies within Santa Clara County that receive water from SFPUC or the District have also proposed to raise their water rates effective July 1, 2005 as shown below to recover wholesale rate increases and other inflationary costs. The total rate increases, including meter charge and quantity charge increases, proposed by the agencies is as follows:

<u>City</u>	<u>Current</u> <u>Average</u> <u>Monthly Bill</u>	<u>Proposed</u> <u>Increase</u>	<u>Proposed</u> <u>Average</u> <u>Monthly Bill*</u>
Palo Alto	\$58.15	5.0%	\$61.05
Mountain View	\$37.64	0%	\$37.64
San Jose Water Company**	\$42.33	1.3%	\$42.88
Great Oaks Water Company**	\$32.65	1.7%	\$33.20
City of San Jose - Muni Water	\$30.43	2.9%	\$31.33
Milpitas	\$27.52	6.7%	\$29.36
Sunnyvale	\$28.98	4.5%	\$30.28
Santa Clara	\$26.14	4.0%	\$27.19

\*Effective July 1, 2005, for 15 HCF - 5/8" meter. 1 HCF = 748 gallons

\*\*Effective January 1, 2005, SJWC & GOWC raised their rates 2.7% and 1.7%, respectively.

### Compliance with Municipal Code

The proposed meter charge increase is necessary to fund Muni Water's Operating and Capital Budgets for 2005-06. All budgeted expenditures comply with all provisions of Municipal Code Section 4.80.630, subsections A, B, and C. Muni Water's budget includes the following:

- A Capital Reserve of \$1,539,000 equivalent to 7% of annual operating revenues
- A Rate Stabilization Reserve of \$1,099,000 equivalent to 5% of annual operating revenues
- Total transfers to the General Fund are capped at 8% of total revenues at approximately \$1,616,800
- The Public Notification provisions are addressed in the Public Outreach section

### Recycled Water

Recycled water meter charges will also be increased by the same amount as that of potable water meters. Even with this increase, recycled water rates continue to provide economic incentive (as shown below) and promote recycled water use for irrigation, industrial and agricultural purposes.

	<u>Potable Water Cost</u>	<u>Recycled Water Cost</u>	<u>Percent Savings</u>
Irrigation	\$204.00	\$159.00	22%
Agriculture/Industrial	\$204.00	\$115.00	43%
Irrigation/Former Well User	\$204.00	\$86.00	58%

### OUTCOMES

The approval of the recommendation contained in this memorandum will result in the following outcomes:

1. The additional funds would partially fund the Capital Improvement Program to replace and rehabilitate the infrastructure. Examples of maintenance projects planned over the next five years:
  - North First Street Water Main Replacement Phase III
  - Reservoir Seismic Retrofitting
  - Villa Vista Reservoir Rehabilitation
  - Norwood Pump Station Replacement
  - Castleton Drive Water Main Replacement

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2. Approval of the rate increase will help maintain the financial health of the Water Utility Fund.
3. Muni Water rates would remain below the average water rates of the two other private San Jose water retailers. (Performance Measure - Manage Potable Water Conservation).

### **PUBLIC OUTREACH**

Muni Water published a notice in the San Jose Mercury News on May 27, 2005 in advance of City Council consideration as required by Municipal Code 15.08.320(c). In addition, Muni Water also sent a trilingual direct mailing to all the customers notifying them about the proposed rate increase and the scheduled Council hearing. SFPUC and the District held public hearings in April 2005.

### **COORDINATION**

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

### **COST IMPLICATIONS**

This recommendation meets the general principles of the Mayor's FY 2003-04 Budget Strategy by protecting a core service.

### **CEQA**

Not a project.



CARL W. MOSHER

Director, Environmental Services Department

Attachments

Attachment A

**Current Meter Charge Comparison  
SJMWS Vs. GOWC & SJWC  
March 7, 2005**

Metre Size	# of Meters	# of Bills /Year	SJMWS \$/Meter	Annual Meter Revenues	GOWC \$/Meter	Annual Meter Revenues	SJWC \$/Meter	Annual Meter Revenues
5/8"	14670	176,040	\$5.85	\$1,029,834.00	\$5.79	\$1,019,271.60	\$11.90	\$2,094,876.00
3/4"	7437	89,244	\$6.00	\$535,464.00	\$8.70	\$776,422.80	\$11.90	\$1,062,003.60
1"	1259	15,108	\$10.00	\$151,080.00	\$14.50	\$219,066.00	\$19.84	\$299,742.72
1.5"	488	5,856	\$20.00	\$117,120.00	\$29.00	\$169,824.00	\$39.67	\$232,307.52
2"	1295	15,540	\$32.00	\$497,280.00	\$46.30	\$719,502.00	\$63.48	\$986,479.20
3"	444	5,328	\$59.00	\$314,352.00	\$87.00	\$463,536.00	\$119.02	\$634,138.56
4"	52	624	\$98.00	\$61,152.00	\$145.00	\$90,480.00	\$198.37	\$123,782.88
6"	41	492	\$125.00	\$61,500.00	\$290.00	\$142,680.00	\$396.74	\$195,196.08
8"	6	72	\$175.00	\$12,600.00	\$464.00	\$33,408.00	\$634.78	\$45,704.16
10"	6	72	\$225.00	\$16,200.00	\$666.00	\$47,952.00	\$912.50	\$65,700.00
<b>Total</b>	<b>25,698</b>	<b>308,376</b>		<b>\$2,796,582.00</b>	<b>Variance</b>	<b>\$3,682,142.40</b>		<b>\$5,739,930.72</b>
						<b>\$885,560.40</b>		<b>\$2,943,348.72</b>
						<b>31.6% higher</b>		<b>105% higher</b>

Note:

Using the existing customer base, the above table shows the revenue from current SJMWS's meter charges and what the revenue would be by applying GOWC's & SJWC's schedule of charges.

Attachment B

Proposed Meter Charge Comparison  
 SJMWS Vs. GOWC & SJWC  
 Effective July 1, 2005

Metre Size	# of Meters	# of Bills /Year	SJMWS \$/Meter	Annual Meter Revenues	GOWC \$/Meter	Annual Meter Revenues	SJWC \$/Meter	Annual Meter Revenues
5/8"	14670	176,040	\$6.75	\$1,188,270.00	\$5.79	\$1,019,271.60	\$11.90	\$2,094,876.00
3/4"	7437	89,244	\$6.90	\$615,783.60	\$8.70	\$776,422.80	\$11.90	\$1,062,003.60
1"	1259	15,108	\$12.00	\$181,296.00	\$14.50	\$219,066.00	\$19.84	\$299,742.72
1.5"	488	5,856	\$24.00	\$140,544.00	\$29.00	\$169,824.00	\$39.67	\$232,307.52
2"	1295	15,540	\$37.00	\$574,980.00	\$46.30	\$719,502.00	\$63.48	\$986,479.20
3"	444	5,328	\$70.00	\$372,960.00	\$87.00	\$463,536.00	\$119.02	\$634,138.56
4"	52	624	\$107.00	\$66,768.00	\$145.00	\$90,480.00	\$198.37	\$123,782.88
6"	41	492	\$140.00	\$68,880.00	\$290.00	\$142,680.00	\$396.74	\$195,196.08
8"	6	72	\$200.00	\$14,400.00	\$464.00	\$33,408.00	\$634.78	\$45,704.16
10"	6	72	\$250.00	\$18,000.00	\$666.00	\$47,952.00	\$912.50	\$65,700.00
<b>Total</b>	<b>25,698</b>	<b>308,376</b>		<b>\$3,241,881.60</b>	<b>Variance</b>	<b>\$3,682,142.40</b>		<b>\$5,739,930.72</b>
						<b>\$440,260.80</b>		<b>\$2,498,049.12</b>
						<b>13.6%</b>		<b>77.1%</b>

Note:

Using the existing customer base, the above table shows the revenue from proposed SJMWS's meter charges and what the revenue would be by applying GOWC's & SJWC's current schedule of charges.