



Memorandum

TO: HONORABLE MAYOR AND
CITY COUNCIL

FROM: Carl W. Mosher

**SUBJECT: PROPOSED MUNICIPAL WATER
SYSTEM POTABLE WATER RATE
INCREASE FOR 2004-05**

DATE: 6-1-04

Approved

Date

COUNCIL DISTRICTS: 2, 4, 7, 8

RECOMMENDATION

Adoption of a resolution to increase the San Jose Municipal Water System (SJMWS) potable water rates by \$0.08 per hundred cubic foot (HCF) or approximately 4% for Fiscal Year 2004-2005 to cover increased wholesale water costs.

BACKGROUND

The SJMWS is a self-sustaining rate-funded utility providing water service to 26,000 accounts with an approximate population of 110,000 in the North San Jose, Alviso, Evergreen, Edenvale, and Coyote Valley areas.

The main source of supply to the North San Jose/Alviso area is water purchased from the San Francisco Water Department (SFWD), 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% and SFWD supplies 25% of the water purchased by SJMWS customers.

SFWD 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. Preliminary projections from SFWD and SCVWD show a 123% and 65% increase in wholesale water cost respectively by 2013.

ANALYSIS

SJMWS's two principal sources of revenue are water sales and fixed monthly meter service charges. Approximately 55% of SJMWS's operating revenues are applied to purchase wholesale water.

The wholesale water costs are expected to increase as follows:

	<u>03-04 (Current)</u> \$/AF	<u>04-05 (Proposed)</u> \$/AF	<u>% Increase</u>
SCVWD	\$460	\$495	7.6%
SFWD	\$479	\$492	2.7%

It is estimated that during FY 04-05, water purchases will reach 21,465 AF. The wholesale water increase will result in an additional cost to SJMWS of \$633,233 as shown below. SJMWS is proposing to increase retail water rates by approximately 4% for FY 04-05 to recover these projected increases.

<u>Source</u>	<u>AF</u>	<u>Purchase Amount</u> \$/AF	<u>Cost Increase</u> Cost
SCVWD	16,099	\$35	\$563,465
SFWD	5,366	\$13	<u>\$69,758</u>
Total			\$633,223

A 4% annual rate increase allows the utility to maintain a fund balance equal to 25% of its operating budget in accordance with acceptable industry standards. If no rate increase is implemented, the continued escalating wholesale cost will deplete the reserves and compromise the financial health of the utility.

Other Water Agencies

Water agencies within Santa Clara County that receive water from SFWD or SCVWD have also proposed to raise their water rates effective July 1, 2004, as shown below to recover wholesale rate increases and other inflationary costs.

<u>City</u>	<u>Current Average Monthly Bill</u>	<u>Proposed Increase</u>	<u>Proposed Average Monthly Bill</u>
Palo Alto	\$58.72	10%	\$64.59
Mountain View	\$37.14	5%	\$39.00
San Jose Water Company	\$37.33	4%	\$38.82
City of San Jose – Muni Water	\$28.36	4%	\$29.56
Milpitas	\$24.99	11.9%	\$27.96
Sunnyvale	\$25.80	5%	\$27.09
Santa Clara	\$24.21	8%	\$26.14

As requested by City Council during the 2004-05 Budget Study Sessions an information report will be submitted in August listing the adopted rates of local cities.

Impact on Customers

Under the proposed rate schedule, the average SJMWS residential monthly water bill will increase by \$1.20 from \$28.36 to \$29.56.

Compliance with Ordinance 26903

The proposed rate increase and the SJMWS Operating and Capital Budgets for 2004-05 comply with all provisions of Ordinance 26903 passed by the Council on May 27, 2003. The SJMWS budget includes the following:

- A Capital Reserve of \$1,425,000 equivalent to 7% of annual operating revenues;
- A Rate Stabilization Reserve of \$1,018,000 equivalent to 5% of annual operating revenues;
- Total transfers to the General Fund are capped at 11% of total revenues at approximately \$2,116,400;
- The Public Notification provisions are addressed below.

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Page 4

PUBLIC OUTREACH

SJMWS will be publishing a notice in the newspaper at least 15 days in advance of City Council consideration and sending a notice with the water bills as required by Ordinance 26903. In addition, SJMWS also sent a direct mailing to all the customers notifying them about the proposed rate increase and the scheduled Council hearing. SFWD and SCVWD held public hearings in April 2004.

COORDINATION

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

CEQA

Not a project.

CARL W. MOSHER
Director, Environmental Services Department