



Memorandum

TO: HONORABLE MAYOR
AND CITY COUNCIL

FROM: John Stufflebean

SUBJECT: MUNICIPAL WATER SYSTEM
WATER RATE INCREASE FOR
2009-2010

DATE: 05-26-09

Approved

Date

6/2/09

COUNCIL DISTRICTS: 2, 4, 7, 8

RECOMMENDATION

Adoption of a resolution increasing the San José Municipal Water System potable water rates and charges by 10% effective July 1, 2009.

OUTCOME

Approval of this rate resolution will allow San José Municipal Water System (SJMWS) to increase retail water rates and charges by 10%, effective July 1, 2009, to increase operating revenues over the current year estimate by approximately \$1.9 million to cover increased costs including but not limited to wholesale water, capital costs, a reduction in revenue due to the current economic downturn, and drought.

BACKGROUND

The SJMWS is a self-sustaining rate-funded utility providing water service to 26,500 accounts with an approximate population of 124,000 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 76 percent and SFPUC supplies 24 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. In response to diminishing water supplies, SCVWD has implemented the water conservation media campaign program and imported water bank program. To fund these programs, it is anticipated that wholesale water rates will be drastically increasing over the next ten years. On May 1, 2009, notices were sent to SJMWS customers informing them of a proposed rate increase of up to 11.5%. This rate increase is necessitated by increases in SJMWS operating costs, which included projected wholesale rate increases from SFPUC and SCVWD of 15.7% and 6.5% respectively. On June 1, 2009, it is anticipated that SCVWD will reduce the projected wholesale rate increase to 0%.

ANALYSIS

Potable Water Rates

SJMWS's two principal sources of revenue are water sales and fixed monthly meter service charges. Approximately 60 percent of SJMWS's operating budget is applied to purchase wholesale water.

The wholesale treated water costs are expected to increase as follows:

	<u>08-09 (Current)</u> \$/AF	<u>09-10 (Proposed)</u> \$/AF	<u>% Increase</u>
SCVWD	\$620.00	\$620.00	0%
SFPUC	\$622.61	\$718.74	15.7%

The above figures for SFPUC are final. The SCVWD Board continues to hold public hearings and is not scheduled to finalize their wholesale rates until June 1. The impact of their final decision on wholesale rates is discussed below. Although SCVWD rates are less than SFPUC, the service areas receiving SCVWD water have higher operating and energy costs, thereby offsetting cost differential.

It is estimated that during 2009-2010, total water purchases will reach 20,719 AF. The wholesale water increase will result in an additional cost to SJMWS of \$474,550 as shown below. SJMWS is proposing to increase retail water rates by approximately 10% for 2009-2010, partly to recover these projected increases.

<u>Source</u>	<u>Projected Water Purchases AF</u>	<u>Increase \$/AF</u>	<u>Total Cost Increase</u>
SCVWD	15,767	\$ 0	\$ 0
SFPUC	4,952	\$95.83	\$474,550
Total	<u>20,719</u>	<u>\$95.83</u>	<u>\$474,550</u>

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 approximately \$1.9 million in additional revenue to cover increases in administrative, capital program, and overhead expenses, and partially recover revenue shortfall due to the current economic downturn and water conservation.

Initially, SCVWD proposed a wholesale treated water increase of 6.5%. As discussed in during the Operating Budget Study Session, use of \$250,000 from the Rate Stabilization Reserve (RSR) was projected to minimize customer rate increases. Without the use of this portion of the Reserve, the required customer rate increase would be higher than the proposed 11.5%. Recently, SCVWD revised their projection for a wholesale rate increase of 0% for treated water. This reduction in proposed wholesale water increase eliminates the need to utilize the RSR.

Additional Wholesale Potable Water Cost	\$474,550
Additional Operating & Capital Costs	<u>\$1,464,862</u>
Total Additional Revenue Required	<u>\$1,939,412</u>

Year-to-date revenues are running about 5% below the projected sales used to set the current water rates. The Capital and Operating costs shown above include recovering the lost revenues due to the ongoing water conservation and drought.

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 \$3.84 from \$38.18 to \$42.02. 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, 2009, 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	\$73.96	5.0%	\$77.64
San José Water Company*	\$51.52	18.44%	\$61.02
Cal Water - Los Altos	\$53.78	0%	\$53.78
Redwood City	\$48.15	10%	\$52.96
Mountain View	\$46.63	5.0%	\$48.96
Milpitas	\$39.98	9%	\$43.58
City of San José - Muni Water	\$38.18	10%	\$42.02
Sunnyvale	\$38.01	8.0%	\$41.05
Santa Clara	\$34.58	11%	\$38.38
Great Oaks	\$35.79	N/A	N/A

* Effective January 1, 2010

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 2009-10 comply with all provisions of Ordinance 26903 passed by the Council on May 27, 2003.
- The Public Notification provisions are addressed below.

Recycled Water Rates

Pursuant to Resolution 68377, the Municipal Water System's retail recycled water rates will increase automatically to recover increases in wholesale recycled water rates. At this time, the wholesale price of recycled water is indexed to the price the Santa Clara Valley Water District (District) charges for untreated ground water. That rate is currently set at \$520/AF with a 0% increase projected on July 1, 2009. Pursuant to Resolution 74448, the discount for recycled water wholesale irrigation rates offered to retailers will be automatically reduced by \$20/AF July 1, 2009. As shown in the table below, Municipal Water System's recycled water customers continue to enjoy significant savings over potable water even after the retail rate increase that results from this modification.

	Potable (Zone 1)*	Recycled	% Savings
Irrigation Customer 1,000 HCF/month 2-inch meter	\$2,317.51	\$1,588.51	31%

Industrial Customer 50,000 HCF/month 6-inch meter/	\$113,679.78	\$52,929.78	53%
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* Potable water cost will be higher in higher water zones.

Note: 1 AF = 325,829 gallons 1 HCF = 748 gallons

POLICY 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 San José Mercury News on May 22, 2009, in advance of City Council consideration. On May 1, 2009, SJMWS sent a direct mailing to all the customers notifying them about the scheduled Council hearing for a maximum proposed rate increase of 11.5 percent. SFPUC and SCVWD held public hearings in May and June 2009. Additionally, on May 1, 2009, SJMWS sent a direct mailing to all the recycled water customers notifying them of the pending rate increase of up to \$0.10 per HCF and 11.5 percent increase in the meter charge.

COORDINATION

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

COST IMPLICATIONS

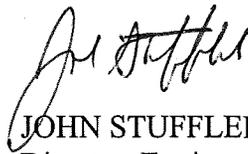
A 10% increase in potable water rates and charges with an effective date of July 1, 2009, is estimated to generate \$1.9 million in additional revenue to the Water Utility Fund in 2009-2010. The recommended rate increases for 2009-2010 are consistent with Council Policy that programs be self-supporting whenever possible. The recommended rate increases are reflected in the 2009-2010 Proposed Operating Budget.

BUDGET REFERENCE

Not applicable.

CEQA

Not a project.



JOHN STUFFLEBEAN
Director, Environmental Services

Attachment

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

ATTACHMENT

Table 1: All Customers

MONTHLY METER CHARGE		
Meter Size	2008-09 Current Charges	2009-10 Proposed Charges
5/8-inch	\$7.88	\$8.67
3/4-inch	\$8.05	\$8.86
1-inch	\$14.01	\$15.41
1.5-inch	\$28.02	\$30.82
2-inch	\$43.19	\$47.51
3-inch	\$81.72	\$89.89
4-inch	\$124.91	\$137.40
6-inch	\$163.44	\$179.78
8-inch	\$233.48	\$256.83
10-inch	\$291.86	\$321.05

Table 2: Residential

RESIDENTIAL MONTHLY QUANTITY CHARGE		
Zones	2008-09 Current Charges (per HCF)	2009-10 Proposed Charges (per HCF)
Zone 1 (Elevation 0 to 275 feet) (63% of the customers in Zone 1)		
Tier 1: 0 to 7 HCF	\$1.80	\$1.98
Tier 2: 7 to 14 HCF	\$2.06	\$2.27
Tier 3: 14 to 21 HCF	\$2.28	\$2.51
Tier 4: >21 HCF	\$2.52	\$2.77
Zone 1 Average Monthly Water Bill	\$37.18	\$40.93
Zone 2 (Elevation 275 to 375 feet)(9% of the customers are in Zone 2)		
Tier 1: 0 to 7 HCF	\$1.89	\$2.08
Tier 2: 7 to 14 HCF	\$2.14	\$2.35
Tier 3: 14 to 21 HCF	\$2.38	\$2.62
Tier 4: >21 HCF	\$2.61	\$2.87
Zone 2 Average Monthly Water Bill	\$38.47	\$42.30
Zone 3/4 (Elevation 375 to 630 feet), (20% of the customers are in Zone 3/4)		
Tier 1: 0 to 7 HCF	\$1.97	\$2.17
Tier 2: 7 to 14 HCF	\$2.23	\$2.45
Tier 3: 14 to 21 HCF	\$2.46	\$2.71
Tier 4: >21 HCF	\$2.70	\$2.97
Zone 3/4 Average Monthly Water Bill	\$39.74	\$43.72
Zone 5/6 (Elevation 630 to 880 feet), (8% of the customers are in Zone 5/6)		
Tier 1: 0 to 7 HCF	\$2.07	\$2.28
Tier 2: 7 to 14 HCF	\$2.33	\$2.56
Tier 3: 14 to 21 HCF	\$2.56	\$2.82
Tier 4: >21 HCF	\$2.77	\$3.05
Zone 5/6 Average Monthly Water Bill	\$41.24	\$45.37

Weighted Average Water Bill:

Current= $\$37.18 \times .627 + \$38.47 \times .091 + \$39.74 \times .203 + \$41.24 \times .08 = \$38.18$

Proposed= $\$40.93 \times .627 + \$42.30 \times .091 + \$43.72 \times .203 + \$45.37 \times .08 = \$42.02$

Table 3: Non-Residential

NON-RESIDENTIAL QUANTITY CHARGE		
Zones	2008-09 Current Charges (per HCF)	2009-10 Proposed Charges (per HCF)
Zone 1 (Elevation 0 to 275 feet)	\$2.06	\$2.27
Zone 2 (Elevation 275 to 375 feet)	\$2.14	\$2.35
Zone 3 & 4 (Elevation 375 to 630 feet)	\$2.23	\$2.45
Zone 5 & 6 (Elevation 630 to 960 feet)	\$2.33	\$2.56

1 HCF = 748 gallons