



Memorandum

TO: HONORABLE MAYOR
AND CITY COUNCIL

FROM: John Stufflebean

**SUBJECT: SEWER SERVICE AND USE
CHARGES AND STORM SEWER
SERVICE CHARGES**

DATE: 05-25-10

Approved

Date

6/1/10

COUNCIL DISTRICT: City-Wide

RECOMMENDATION

1. Hold a public hearing on proposed 2010-2011 Sewer Service and Use Charges and proposed maximums for rate increases in 2011-2012 and 2012-2013; and direct staff to return during the 2011-2012 and 2012-2013 budget cycles with recommendations regarding rate increases in 2011-2012 and 2012-2013 consistent with staff recommended maximum rate increases for those years;
2. Adopt a resolution setting the following Sewer Service and Use Charge rates for 2010-2011:

<u>Category</u>	<u>2010-2011 Monthly Rates</u>
Single-Family Residential	\$32.86
Multi-Family Residential	\$18.79 per unit
Mobile Home	\$18.83 per unit
Non-Monitored Commercial and Industrial	See Attachment A
Monitored Industrial	See Attachment A

3. Adopt a resolution setting the following Storm Sewer Service Charge rates for 2010-2011:

<u>Category</u>	<u>2010-2011 Monthly Rates</u>
Single Family Residential and Duplex	\$7.64
Mobile Home	\$3.83 per unit
Residential Condominium	\$4.18 per unit
Large Multi-Family Residential (5 or more units)	\$4.18
Small Multi-Family Residential (3-4 units)	\$14.51
Commercial, Institutional, and Industrial	See Attachment B

OUTCOME

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

- Council would implement a rate increase of 6% for Sewer Service and Use Charges.
- Council would maintain rates at the same level as 2009-2010 for Storm Sewer Service Charges.
- San José's sanitary sewer and storm sewer rates would remain in line with those charged by other cities and agencies. The additional funds would enable the City to address aging infrastructure repair and replacement needs in San José to ensure reliable utility service, protect health and safety, and meet regulatory requirements.

Approval of the proposed rates for Sewer Service and Use Charges (SSUC) and Storm Sewer Service Charges (SSSC) would enable the City to continue to cover increasing costs in the operating and capital budgets necessary over the next several years to respond to new wastewater discharge permit and stormwater permit requirements and to carry out critical projects, including: rehabilitation of the Treatment Plant's electrical distribution system and key treatment facilities; rehabilitation of 34,000 feet of trunk sewers; rehabilitation of sewer pump stations that are currently in degraded condition; storm sewer pump station rehabilitation; and neighborhood storm sewer improvements along heavily-utilized pedestrian corridors.

BACKGROUND

Each year, Council reviews the rates for SSUC and SSSC to determine whether adjustments are necessary to align revenue with program costs. The uses for which SSUC revenue can be allocated are restricted by Municipal Code Section 15.12.450 to "the acquisition, construction, reconstruction, maintenance, and operation of the sanitary sewer system of the City of San José; as well as the principal and interest on any bonds, loans, and advances for the construction of the system." The purposes of the SSSC, as stated in Municipal Code Section 15.16.1250 are: "for the acquisition, construction, reconstruction, maintenance, and operation of the storm drainage system of the City of San José, to repay principal and interest on any bonds, loans and advances and for any other purposes set forth in Section 15.16.1430."

For the majority of users, these two charges are billed as a single line amount on property tax assessments. However, sanitary sewer charges for monitored industrial users (in excess of 25,000 gallons per day) are individually calculated and are billed on a monthly basis. The revenue received by the City is deposited to the SSUC and SSSC funds based on the rates established for the respective charges. This memorandum presents separate descriptions of the proposed rates for SSUC and SSSC.

ANALYSIS

SEWER SERVICE AND USE CHARGE

SSUC rates are based on the volume of flow and the strength of the wastewater from residential, commercial, institutional, and industrial properties. Flow is measured as the average wastewater flow, and strength is measured in terms of biochemical oxygen demand (BOD), suspended solids (SS), and ammonia (NH₃). The rate structure was designed to apportion the cost of wastewater treatment services to properties in proportion to their relative contribution of flow and strength to the system. This structure is dictated by State revenue guidelines and allows rates to reflect the costs of providing service to residential and non-residential properties.

Rates are assigned by groupings, based on the type of use. Residential customers are assigned a flat rate. Non-residential customers are assigned a rate based on their type of flow strength, and their annual charges are calculated using winter water usage. A small number of large industrial users are billed on a monthly basis based on actual wastewater discharge and flow strength.

Public Notices of proposed three-year rate increases for 2010-2011 through 2012-2013 were mailed on April 26, 2010, to over 227,000 residential and non-residential SSUC customers advising them of proposed rate increases. The notices informed residential customers of proposed SSUC increases of up to 6% annually for services beginning July 1, 2010, July 1, 2011, and July 1, 2012. The notices also informed non-residential customers of rate increases up to 8.62% for services beginning July 1, 2010, and up to 11% annually for services beginning July 1, 2011, and July 1, 2012.

Rate increases recommended for the residential customer categories for 2010-2011 are:

<u>Category</u>	<u>% Increase</u>
Single-Family Residential	6.00%
Multi-Family Residential	5.98%
Mobile Home	5.97%

These recommendations would increase the monthly single-family rate by \$1.86 from \$31.00 to \$32.86; the monthly multi-family rate from \$17.73 to \$18.79; and the monthly mobile home rate from \$17.77 to \$18.83. Proposed residential SSUC rates for 2010-2011 are included in this document as Attachment A.

The rate increases recommended for non-residential categories will range from 5.57% to 8.62% depending on the rate category. The rate increases recommended for large monitored companies will average 7.51%. The proposed non-residential SSUC rates for 2010-2011 are included in this document as Attachment A.

Fund Balance

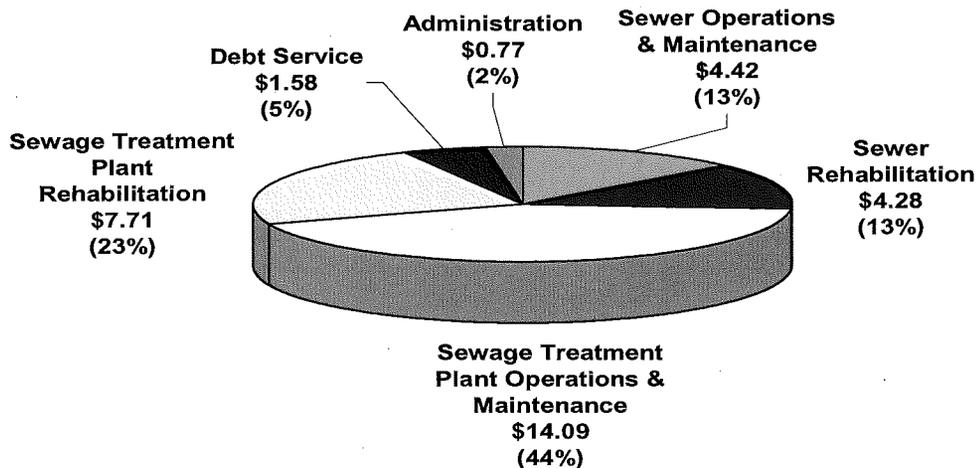
Staff's guideline is to maintain a SSUC fund balance reserve of two to three months expenses, currently between \$20 and \$30 million, in order to withstand financial or operational emergencies and provide a contingency for capital projects. The proposed 6% rate increase for 2010-2011 will bring the total fund balance reserves to the minimum targeted level of \$20 million. Maintaining adequate reserves will become more critical as the Plant Master Plan approaches completion and financing alternatives are evaluated for implementation of the Master Plan.

Program Expenditures

The SSUC Program costs for 2010-2011 are detailed in the Special Fund Section of the 2010-2011 Proposed Operating Budget, pages X-35 through X-45. These costs are associated with the City's wastewater collection and treatment systems which include the 2,200-mile San José sewage collection system and San José's portion of the San José/Santa Clara Water Pollution Control Plant (Plant). The various elements comprising this system are on average 30 to over 50 years old and have reached the end of their useful life. The age and harsh environment under which these systems operate have resulted in system-wide vulnerabilities and high risk conditions for possible failures that could result in Plant down time, sanitary sewer overflows, and regulatory permit violations. In addition, these systems are facing increasing regulatory requirements that necessitate additional resource allocations for operation and maintenance of the sanitary sewer collection and treatment systems.

The following chart displays how the recommended \$32.86 monthly single-family residential fee would be spent:

2010-11 Proposed SFD Residential Monthly Sewer Fee = \$32.86



Proposed Rate Increases

In order to maintain adequate funding for necessary system operations and maintenance requirements, and to continue to substantially expand capital improvements to address the aging infrastructure, rate increases are recommended for 2010-2011. The proposed rate increases will provide funding for:

- Replacement of outdated equipment to improve the effectiveness and efficiency of sewer line cleaning and blockage removal;
- Rising costs associated with operation and maintenance of the Treatment Plant, such as chemicals, copper, steel, and piping; and
- Capital projects to address critical infrastructure replacement and rehabilitation in the wastewater collection and treatment system.

STORM SEWER SERVICE CHARGE

SSSC rates are based on the relative quality and quantity of storm water runoff contributed by residential and non-residential properties. The rate structure was designed to apportion the cost of storm sewer service to properties in proportion to their relative contribution of flow and pollution to the system. This structure allows rates to reflect the costs of providing service to residential and non-residential properties.

Rates are assigned by groupings, based on the type of use. Residential customers are assigned a flat rate. Rates for all other uses are calculated individually. Rates for non-residential properties include a charge based on acreage plus a flat charge reflecting runoff characteristics.

For 2010-2011, no increases are proposed for SSSC rates; the single-family monthly rate would remain at \$7.64. Proposed SSSC rates for 2010-2011 are included in this document as Attachment B.

Fund Balance

Staff's guideline is to maintain SSSC fund reserves of one to two months expenses, currently between \$2.9 and \$5.8 million, in order to withstand financial emergencies and provide a contingency for capital projects. For 2010-2011, unrestricted fund balance and reserves are sufficient to meet this requirement.

Program Expenditures

Two major factors impact the costs of programs supported by this fund: 1) aggressive pollution control programs mandated by the City's National Pollution Discharge Elimination System (NPDES) Stormwater Permit; and 2) the increasing age of the storm sewer system, which results in higher maintenance costs and a growing need for replacement and rehabilitation.

The City's five-year NPDES Stormwater Permit became effective December 1, 2009, and requires new and expanded programs to reduce pollutants discharged through the storm sewer system, such as mercury, pesticides, and trash; expanded implementation of treatment and flow controls on new development projects; expanded water quality monitoring and regional studies;

and rigorous data collection and reporting to demonstrate compliance. To address these new requirements, expenditures in 2010-2011 will focus on:

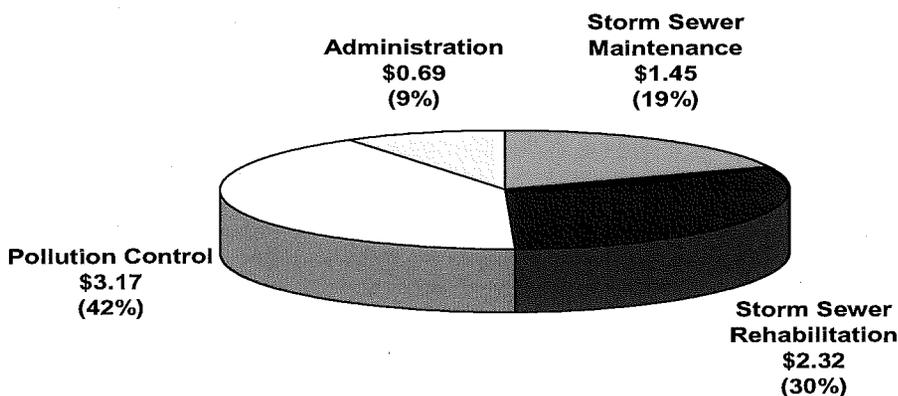
- The development and implementation of trash control activities, focusing on the installation of devices to capture and prevent trash from entering the storm sewer system and creeks;
- Targeted investments in equipment to facilitate water quality monitoring at storm sewer pump stations; and
- Implementation of pilot projects that demonstrate the use of integrated pest management techniques as alternatives to chemical application; and

As a result of limited available funds in the past, the Storm Sewer Capital Fund has maintained only a modest capital improvement program for the past ten years. With the more significant rate increases over the past three years, additional funds have been generated which are programmed for capital projects in 2010-2011. A total of \$10.4 million would be transferred to the storm capital fund, an increase of almost 80%, over last year's budget, to continue to address the aging storm sewer infrastructure and begin development of a system master plan. Specific rehabilitation projects include:

- Continuation of a comprehensive storm pump station rehabilitation capital program to replace or rehabilitate the oldest and least reliable pump stations, reducing the risk of localized flooding during storm events;
- Alviso Storm System rehabilitation to address drainage issues in the area; and
- Repair and restructure outfalls along local rivers and creeks.

The following chart displays how the recommended \$7.64 monthly single-family residential fee would be spent:

2010-11 Proposed SFD Residential Monthly Storm Fee = \$7.64



EVALUATION AND FOLLOW-UP

Once approved, the Sewer Service and Use Charge and the Storm Sewer Service Charge will be billed to property owners for 2010-2011 charges. Staff will return to Council in June 2011 with recommendations for 2011-2012 rates.

POLICY ALTERNATIVES

Alternative #1: Do not adopt the proposed 6% Sewer Service and Use Charge rate increase.

Pros: Customers will pay the same rates as they currently do.

Cons: Revenues in the Sewer Service and Use Charge Fund will be insufficient to cover the costs of services, compliance activities, and capital projects.

Reason for not recommending: If the recommended rate increase is not approved or is approved at a lower amount, deficit spending will occur and fund balances will fall below recommended reserve levels. This will result in a combination of significantly higher rate increase recommendations in future years along with continued deferral of critical capital projects in the sanitary sewer and treatment plant infrastructure.

PUBLIC OUTREACH/INTEREST

Proposition 218 Notifications and Letters of Protest

On April 26, 2010, Public Notices were sent to over 227,000 SSUC residential and non-residential customers advising them of the proposed rate increases for 2010-2011. The notices also covered proposed SSUC increases for additional amounts of up to 6% annually for SSUC services beginning July 1, 2011, and July 1, 2012.

As of May 14, the City Clerk's Office had received 421 letters of protest from San José property owners in response to the Public Notices. Written protests have been received by mail, fax, email, and hand delivery to the City Clerk's Office. Of the letters received, 19 did not provide an Assessor's Parcel Number (APN) required for the protest to be counted. A Supplemental Memo will be submitted to Council shortly before the June 15 Public Hearing to report on the number of additional protests and comments received by the City Clerk's Office subsequent to May 14.

The majority of protest letters received to date simply indicate a wish to protest without offering any specific reason. Of the letters with comments, most cite economic hardship as the reason for the protest. Others reasons for protesting the rate increases include being over burdened with taxes in general and that the increases are unwarranted or unjustified. A number of letters requested that any rate increases be postponed until the economy improves.

Proposition 218 requires that a rate increase be denied upon receipt of written protests from at least 50% of affected property owners. As of May 14, under one-half of one percent of San José property owners had formally protested the SSUC rate increases.

- Criterion 1:** Requires Council action on the use of public funds equal to \$1 million or greater.
- Criterion 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.
- Criterion 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.

COORDINATION

This memorandum has been coordinated with the Departments of Public Works, Transportation, Finance, and the Offices of the City Attorney and City Manager.

COST IMPLICATIONS

Not applicable.

BUDGET REFERENCE

Not applicable.

CEQA

Not a project.

/s/

JOHN STUFFLEBEAN

Director, Environmental Services

For questions please contact Kate Drayson, Administrative Officer at 535-8553.

Attachments:

- (A) Sewer Service and Use Charge Schedule of Proposed 2010-2011 Rates
- (B) Storm Sewer Service Charge Schedule of Proposed 2010-2011 Rates

ATTACHMENT A

**SEWER SERVICE AND USE CHARGES
SCHEDULE OF PROPOSED RATES
2010-2011**

I. RESIDENTIAL RATES

	2009-2010 CURRENT RATES		2010-2011 PROPOSED RATES		% INCREASE
	<u>Per Month</u>	<u>Per Year</u>	<u>Per Month</u>	<u>Per Year</u>	
	Single-Family Residence	\$31.00	\$372.00	\$32.86	
Multiple-Family Residence (per unit)	\$17.73	\$212.76	\$18.79	\$225.48	5.98%
Mobile Home (per unit)	\$17.77	\$213.24	\$18.83	\$225.96	5.97%

II. INSTITUTIONAL, COMMERCIAL, AND INDUSTRIAL RATES (less than 25,000 gallons per day)

	2009-2010 CURRENT RATES		2010-2011 PROPOSED RATES		% INCREASE
	<u>Charge Per Hundred Cubic Feet of Sewage Discharged</u>		<u>Charge Per Hundred Cubic Feet of Sewage Discharged</u>		
	Meat Packers	\$3.67	\$3.93	7.10%	
Dairy Product Processors	\$5.02	\$5.33	6.20%		
Wholesale Bakeries	\$4.48	\$4.78	6.66%		
Soft Drink Bottlers	\$4.44	\$4.74	6.81%		
Wineries	\$7.85	\$8.35	6.37%		
Paper Pulp Mills	\$5.70	\$6.08	6.62%		
Plating Works	\$2.59	\$2.78	7.17%		
Electrical Equipment	\$2.95	\$3.17	7.38%		
Machinery Manufacturers	\$3.84	\$4.10	6.79%		
Film Service Laboratories	\$2.87	\$3.05	6.40%		
Soft Water Services	\$2.62	\$2.81	7.37%		
Car Washes	\$2.79	\$2.99	7.20%		
Automotive Steam Cleaners	\$5.20	\$5.55	6.71%		
Printing Plants	\$3.69	\$3.94	6.76%		
Restaurants/Delis	\$5.09	\$5.42	6.41%		
Hotel-Motels	\$3.06	\$3.23	5.58%		
Hospitals and Convalescent Homes	\$2.96	\$3.13	5.76%		
Private Schools, Colleges & Universities	\$3.48	\$3.78	8.62%		
Public Schools, Colleges & Universities	\$3.48	\$3.78	8.62%		
Repair Shops & Service Stations	\$3.11	\$3.30	6.03%		
Domestic Laundries	\$2.76	\$2.92	5.68%		
Business Office/Condos	\$2.92	\$3.11	6.50%		
Government Agencies	\$2.92	\$3.11	6.50%		

ATTACHMENT A

**SEWER SERVICE AND USE CHARGES
SCHEDULE OF PROPOSED RATES
2010-2011**

II. INSTITUTIONAL, COMMERCIAL, AND INDUSTRIAL RATES (less than 25,000 gallons per day) continued

	2009-2010 CURRENT RATES	2010-2011 PROPOSED RATES	% INCREASE
	Charge Per Hundred Cubic Feet of Sewage Discharged	Charge Per Hundred Cubic Feet of Sewage Discharged	
Medical Center/Clinic	\$2.98	\$3.18	6.88%
Beauty Salon	\$3.07	\$3.27	6.54%
Commercial & Department Stores	\$3.07	\$3.27	6.54%
Storage/Warehouse	\$2.89	\$3.06	5.82%
Health Care	\$2.97	\$3.14	5.78%
Theatre	\$3.05	\$3.23	5.87%
Association/ Communities Services	\$2.92	\$3.11	6.50%
Business Parks	\$2.99	\$3.20	7.18%
Building Construction/ Field Office	\$2.99	\$3.20	7.18%
Parking Lot	\$2.75	\$2.90	5.61%
Gas Service Station	\$3.03	\$3.20	5.57%
Auto Showroom, Body Shop, Detail, and Trucking	\$3.27	\$3.47	6.13%
Manufacturing Paint Products	\$2.99	\$3.20	7.18%
Concrete Company	\$2.99	\$3.20	7.18%
Paper Recovery	\$2.99	\$3.20	7.18%
General Manufacturing Industries	\$2.99	\$3.20	7.18%
Chemical Manufacturing	\$2.99	\$3.20	7.18%
Ice Plant	\$2.99	\$3.20	7.18%
Pub	\$3.17	\$3.36	6.15%
Amusement Park	\$3.15	\$3.37	6.98%
Athletic Club, Fitness	\$2.89	\$3.06	5.82%
Cemetery	\$2.89	\$3.06	5.82%
Country Clubs (Golf)	\$3.05	\$3.23	5.86%
Lounges, Clubs, Billiards	\$3.05	\$3.23	5.86%
Convenience Store	\$2.89	\$3.06	5.82%
Boarding/Rooming	\$3.10	\$3.28	5.78%
Cleaners (Commercial Laundry)	\$3.64	\$3.87	6.44%
Plaza/Mall	\$3.28	\$3.47	5.68%
Nursery (Grower)	\$3.46	\$3.68	6.39%
Laboratories (Commercial & Industrial)	\$3.48	\$3.72	6.89%
Café & Ice-creams	\$5.41	\$5.76	6.41%
Donuts & Bakery	\$5.41	\$5.76	6.41%
Supermarket Groceries	\$4.96	\$5.27	6.32%
Mortuary (Embalming)	\$4.96	\$5.27	6.32%
Catering	\$5.14	\$5.47	6.50%
Miscellaneous Commercial, Institutional, and Industrial Premises	\$2.92	\$3.11	6.50%

ATTACHMENT A

**SEWER SERVICE AND USE CHARGES
SCHEDULE OF PROPOSED RATES
2010-2011**

<u>III. MONITORED INDUSTRIES (25,000 gallons per day and over)</u>	2009-2010 CURRENT RATES	2010-2011 PROPOSED RATES	% INCREASE
<u>A. Capital Cost Recovery:</u>			
Annual charge per million gallons per day of FLOW capacity required, plus	\$249,616.00	\$323,012.00	29.40%
Annual charge per thousand pounds per day of BOD removal capacity required, plus	\$24,289.00	\$22,378.00	-7.87%
Annual charge per thousand pounds per day of SS removal capacity required, plus	\$16,526.00	\$15,043.00	-8.97%
Annual charge per thousand pounds per day of NH ₃ removal capacity required.	\$67,204.00	\$60,932.00	-9.33%
<u>B. Operations & Maintenance Cost Recovery:</u>			
Charge per Hundred Cubic Feet of sewage discharged to the sanitary sewer, plus	\$1.775 (2,373/MG)	\$1.752 (2,342/MG)	-1.31%
Charge per thousand pounds of BOD discharged to the sanitary sewer, plus	\$187.00	\$210.00	12.30%
Charge per thousand pounds of SS discharged to the sanitary sewer, plus	\$212.00	\$234.00	10.38%
Charge per thousand pounds of NH ₃ discharged to the sanitary sewer.	\$1,635.00	\$1,778.00	8.75%

FLOW = Sewage discharge FLOW
BOD = Biochemical Oxygen Demand
SS = Suspended Solids
NH₃ = Ammonia
MG = Million Gallons

ATTACHMENT B

**STORM SEWER SERVICE CHARGES
SCHEDULE OF PROPOSED RATES
2010-2011**

RESIDENTIAL RATES

	<u>Per Month</u>	<u>Per Year</u>
Single-Family Residence and Duplex	\$ 7.64	\$ 91.68
Large Multiple-Family Residence (5 or more units), per unit	\$ 4.18	\$ 50.16
Small Multiple-Family Residence (3-4 units)	\$14.51	\$174.12
Residential Condominium, per unit	\$ 4.18	\$ 50.16
Mobile Home	\$ 3.83	\$ 45.96

COMMERCIAL, INSTITUTIONAL, & INDUSTRIAL RATES

	<u>Per Month</u>		<u>Per Year</u>	
	<u>Flat Charge</u>	<u>Acreage Charge</u>	<u>Flat Charge</u>	<u>Acreage Charge</u>
Open Space	\$13.46	+ \$7.44 per acre	\$161.52	+ \$89.28 per acre
School	\$13.46	+ \$3.70 per acre	\$161.52	+ \$44.40 per acre
Church	\$26.91	+ \$7.44 per acre	\$322.92	+ \$89.28 per acre
College/University	\$26.91	+ \$7.44 per acre	\$322.92	+ \$89.28 per acre
Commercial, Light Industrial, and Miscellaneous Premises	\$53.81	+ \$12.65 per acre	\$645.72	+ \$151.80 per acre
Small Commercial, Light Industrial, and Miscellaneous Premises (under .2 acre)	\$26.91	+ \$12.65 per acre	\$322.92	+ \$151.80 per acre
Heavy Industrial Premises	\$67.27	+ \$12.65 per acre	\$807.24	+ \$151.80 per acre
Parking Facility	\$53.82	+ \$13.40 per acre	\$645.84	+ \$160.80 per acre