



# Memorandum

**TO:** HONORABLE MAYOR  
AND CITY COUNCIL

**FROM:** John Stufflebean

**SUBJECT: MUNICIPAL WATER SYSTEM  
WATER RATE INCREASE FOR  
2010-2011**

**DATE:** 05-24-10

Approved

Date

6/1/10

**COUNCIL DISTRICTS: 2, 4, 7, 8**

## **RECOMMENDATION**

1. Hold a public hearing on proposed 2010-2011 San Jose Municipal Water System potable water rates and charges;
2. Adopt a resolution increasing the San Jose Municipal Water System potable water rates and charges by 3.75% effective July 1, 2010.

## **OUTCOME**

Approval of this rate resolution will allow San Jose Municipal Water System (SJMWS) to increase retail water rates and charges by 3.75%, effective July 1, 2010, to increase operating revenues over the current year estimate by approximately \$0.8 million to partially cover increased costs including but not limited to wholesale water, capital costs, and a reduction in revenue due to the current economic downturn.

## **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 mountain range. The Evergreen area is primarily Delta 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 is implementing a \$4.3 billion capital improvement program to upgrade the Hetch Hetchy System. This capital improvement program includes 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. The projected wholesale rate increase from SFPUC is 15.2%. SCVWD has elected to maintain wholesale rates at current levels. However, SCVWD is projecting wholesale rates to increase by approximately 55% over the next 5 years.

In addition, Municipal Water System is increasing investment in the capital improvement program by \$611,000 to provide for continued infrastructure rehabilitation and replacement.

## ANALYSIS

### Potable Water Rates

SJMWS's two principal sources of revenue are water sales and fixed monthly meter service charges. Approximately 62 percent of SJMWS's budget is applied to the purchase of wholesale water.

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

	<u>09-10 (Current)</u>	<u>10-11 (Proposed)</u>	<u>% Increase</u>
	<u>\$/AF</u>	<u>\$/AF</u>	
SCVWD	\$620.00	\$620.00	0%
SFPUC	\$718.74	\$827.99	15.2%

SCVWD is scheduled to finalize their wholesale rates by mid-June. The above figures for SFPUC are final. Although SCVWD rates are less than SFPUC, the service areas receiving SCVWD water have higher operating and energy costs, thereby offsetting the cost differential. The \$611,000 increase in the capital improvement program will be primarily expended for service areas receiving SCVWD water. 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 2010-2011, total water purchases will reach 21,279 AF. The wholesale water increase will result in an additional cost to SJMWS of \$535,325 as shown below. SJMWS is proposing to increase retail water rates by approximately 3.75% for 2010-2011, 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	16,379	\$ 0	\$ 0
SFPUC	4,900	\$109.25	\$535,325
<b>Total</b>	<b><u>21,279</u></b>	<b><u>\$109.25</u></b>	<b><u>\$535,325</u></b>

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 \$0.8 million in additional revenue to cover increases in capital program, and operating expenses. To cover the revenue shortfall due to the economic downturn, \$425,000 from 2009-2010 Non-Personal/Equipment savings will offset the need for additional rate increase. Without the use of this portion of reserves, the required customer rate increase would be higher than the proposed 3.75%.

Additional Wholesale Potable Water Cost*	\$535,325
Additional Investment in Capital Improvements**	\$611,000
Additional Operating Costs	<u>\$80,325</u>
<b>Total Additional Costs</b>	<b><u>\$1,226,650</u></b>

\* Service areas receiving SFPUC water

\*\* Primarily service areas receiving SCVWD water

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 \$1.57 from \$42.02 to \$43.59. 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, 2010, 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	\$77.64	0.0%	\$77.64
Cal Water – Los Altos*	\$56.50	N/A	\$56.50

San José Water Company*	\$53.66	N/A	\$53.66
Redwood City	\$52.53	9%	\$57.26
Mountain View	\$48.72	5.0%	\$51.16
Milpitas	\$43.53	9.0%	\$47.45
Sunnyvale	\$41.15	7.5%	\$44.24
City of San José - Muni Water	<b>\$42.02</b>	<b>3.75%</b>	<b>\$43.59</b>
Santa Clara	\$37.50	9.6%	\$41.10
Great Oaks*	\$37.59	N/A	\$37.59

\* Projected rates unavailable

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 2010-11 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 and is projected to remain at the current level. Pursuant to Resolution 74448, the discount for recycled water wholesale irrigation rates offered to retailers will be automatically reduced by \$20/AF July 1, 2010. In addition, the discount for water wholesale industrial rates will be reduced by \$20/AF July 1, 2010. 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
<b>Irrigation Customer</b> 1,000 HCF/month 2-inch meter	\$2409.29	\$1,636.29	32%
<b>Industrial Customer</b> 50,000 HCF/month 6-inch meter/	\$118,186.52	\$55,236.52	53%

\* 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 21, 2010, in advance of City Council consideration. On April 28, 2010, SJMWS sent a direct mailing to all the customers notifying them about the scheduled Council hearing for a maximum proposed rate increase of 3.75 percent. As of May 12, 2010, the City Clerk's Office had received 12 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. A Supplemental Memo will be submitted to Council shortly before the June 15th Public Hearing to report on the number of additional protests and comments received by the City Clerk's Office subsequent to May 12, 2010. Additionally, on April 28, 2010, SJMWS sent a direct mailing to all the recycled water customers notifying them of the pending rate increase of up to \$0.05 per HCF and 3.75 percent increase in the meter charge.

## COORDINATION

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

HONORABLE MAYOR AND CITY COUNCIL

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**COST IMPLICATIONS**

A 3.75% increase in potable water rates and charges with an effective date of July 1, 2010, is estimated to generate \$0.8 million in additional revenue to the Water Utility Fund in 2010-2011. The recommended rate increases for 2010-2011 are consistent with Council Policy that programs be self-supporting whenever possible. The recommended rate increases are reflected in the 2010-2011 Proposed Operating Budget.

**BUDGET REFERENCE**

Not applicable.

**CEQA**

Not a project.

/s/

JOHN STUFFLEBEAN

Director, Environmental Services

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

Attachment

## ATTACHMENT

**Table 1: All Customers**

MONTHLY METER CHARGE		
Meter Size	2009-10 Current Charges	2010-11 Proposed Charges
5/8-inch	\$8.67	\$9.00
3/4-inch	\$8.86	\$9.19
1-inch	\$15.41	\$15.99
1.5-inch	\$30.82	\$31.98
2-inch	\$47.51	\$49.29
3-inch	\$89.89	\$93.26
4-inch	\$137.40	\$142.55
6-inch	\$179.78	\$186.52
8-inch	\$256.83	\$266.46
10-inch	\$321.05	\$333.09

**Table 2: Residential**

RESIDENTIAL MONTHLY QUANTITY CHARGE		
Zones	2009-10 Current Charges (per HCF)	2010-11 Proposed Charges (per HCF)
Zone 1 (Elevation 0 to 275 feet) (63% of the customers in Zone 1)		
Tier 1: 0 to 7 HCF	\$1.98	\$2.05
Tier 2: 7 to 14 HCF	\$2.27	\$2.36
Tier 3: 14 to 21 HCF	\$2.51	\$2.60
Tier 4: >21 HCF	\$2.77	\$2.87
Zone 1 Average Monthly Water Bill	\$40.93	\$42.46
Zone 2 (Elevation 275 to 375 feet)(9% of the customers are in Zone 2)		
Tier 1: 0 to 7 HCF	\$2.08	\$2.16
Tier 2: 7 to 14 HCF	\$2.35	\$2.44
Tier 3: 14 to 21 HCF	\$2.62	\$2.72
Tier 4: >21 HCF	\$2.87	\$2.98
Zone 2 Average Monthly Water Bill	\$42.30	\$43.89
Zone 3/4 (Elevation 375 to 630 feet), (20% of the customers are in Zone 3/4)		
Tier 1: 0 to 7 HCF	\$2.17	\$2.25
Tier 2: 7 to 14 HCF	\$2.45	\$2.54
Tier 3: 14 to 21 HCF	\$2.71	\$2.81
Tier 4: >21 HCF	\$2.97	\$3.08
Zone 3/4 Average Monthly Water Bill	\$43.72	\$45.36
Zone 5/6 (Elevation 630 to 880 feet), (8% of the customers are in Zone 5/6)		
Tier 1: 0 to 7 HCF	\$2.28	\$2.37
Tier 2: 7 to 14 HCF	\$2.56	\$2.66
Tier 3: 14 to 21 HCF	\$2.82	\$2.93
Tier 4: >21 HCF	\$3.05	\$3.16
Zone 5/6 Average Monthly Water Bill	\$45.37	\$47.07

**Weighted Average Water Bill:**

Current= \$40.93\*.627+\$42.30\*.091+\$43.72\*.203+\$45.37\*.08= \$42.02

Proposed= \$42.46\*.627+\$43.89\*.091+\$45.36\*.203+\$47.07\*.08= \$43.59

**Table 3: Non-Residential**

NON-RESIDENTIAL QUANTITY CHARGE		
Zones	2009-10 Current Charges (per HCF)	2010-11 Proposed Charges (per HCF)
Zone 1 (Elevation 0 to 275 feet)	\$2.27	\$2.36
Zone 2 (Elevation 275 to 375 feet)	\$2.35	\$2.44
Zone 3 & 4 (Elevation 375 to 630 feet)	\$2.45	\$2.54
Zone 5 & 6 (Elevation 630 to 960 feet)	\$2.56	\$2.66

1 HCF = 748 gallons