



Memorandum

TO: HONORABLE MAYOR
AND CITY COUNCIL

FROM: John Stufflebean

**SUBJECT: MUNICIPAL WATER SYSTEM
WATER RATE INCREASE FOR
2011-2012**

DATE: 05-23-11

Approved 

Date 5/27/11

COUNCIL DISTRICTS: 2, 4, 7, 8

RECOMMENDATION

1. Hold a public hearing on proposed 2011-2012 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 5.9% effective July 1, 2011.

OUTCOME

Approval of this rate resolution will allow San Jose Municipal Water System (SJMWS) to increase retail water rates and charges by 5.9%, effective July 1, 2011, to increase operating revenues over the current year estimate by approximately \$1,240,000 to partially cover increased costs including but not limited to wholesale water 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 25,300 accounts with an approximate population of 115,000 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 supplied 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% and SFPUC supplies 24% of the potable 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 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. On April 25, 2011, notices were sent to SJMWS customers informing them of a proposed rate increase of up to 6.5%. This rate increase is necessitated by increases in SJMWS operating costs, including projected wholesale rate increases for FY 11-12 from SFPUC and SCVWD of 47.4% and 9.4% respectively. SFPUC has since reduced their projected wholesale rate increase to 38%.

In addition, Municipal Water System is continuing investment in the capital improvement program to provide for 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 59% of SJMWS's budget is applied to the purchase of wholesale water.

SCVWD and SFPUC are scheduled to finalize their wholesale rates by mid-June. Initially, SFPUC proposed a wholesale treated water increase of 47.4%. Recently, SFPUC revised their projected wholesale rate increase to 38% for treated water. This reduction in proposed wholesale water increase allows SJMWS to reduce the proposed rate increase from 6.5% to 5.9% for 2011-2012. 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 2011-2012, total water purchases will reach 19,215 Acre Foot (AF). The wholesale water increase will result in an additional cost to SJMWS of \$2,150,000 as shown below. SJMWS is proposing to increase retail water rates by 5.9% for 2011-2012, to partially recover the projected wholesale increases.

Projected Water Purchases AF	Total Cost Increase
19,215	\$2,149,925

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 \$1,240,000 in additional revenue to partially cover increases in wholesale water costs and operating expenses. Savings of approximately \$900,000 from the 2010-2011 Non-Personal/Equipment will offset the need for a higher rate increase. Without the use of this savings, the required customer rate increase would be higher than the proposed 5.9%.

Additional Wholesale Potable Water Cost	\$2,149,925
2010-2011 Non-personal/Equipment Savings	<u>(\$ 900,000)</u>
Total Additional Costs	<u>\$1,249,925</u>

Impact on Customers

Under the proposed rate schedule, the average SJMWS customer that uses 15 Hundred Cubic Feet (HCF) (11,220 gallons), the average monthly water bill will increase by \$2.57 from \$43.60 to \$46.17. Attachment A 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, 2011, 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	12.5%	\$87.35
Cal Water – Los Altos*	\$57.19	N/A	
San José Water Company*	\$54.32	N/A	
Redwood City	\$57.26	9%	\$62.44
Mountain View	\$51.45	23%	\$62.28
Milpitas	\$47.51	12.2%	\$54.14
Sunnyvale	\$43.73	18%	\$52.39
City of San José - Muni Water	\$43.60	5.9%	\$46.17
Santa Clara	\$41.10	9.0%	\$44.80
Great Oaks*	\$37.44	N/A	

* Projected rates unavailable

The above figures are for water use of 15 HCF (11,220 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 2011-12 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 increase to \$568.88/AF. 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	\$2,551.20	\$1,751.20	31%
Industrial Customer 50,000 HCF/month 6-inch meter/	\$125,147.53	\$60,847.53	51%

* Potable water cost will be higher in higher water zones.

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

EVALUATION AND FOLLOW-UP

No additional follow up actions with the Council are expected at this time.

POLICY ALTERNATIVES

Alternative #1: No Municipal Water System Potable Water Rate Increase.

Pros: Customer’s 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 water mains. 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 will publish a notice in the San José Mercury News on May 19, 2011, in advance of City Council consideration. On April 25, 2011, SJMWS sent a direct mailing to all the customers notifying them about the scheduled Council hearing for a maximum proposed rate increase of 6%. As of May 13, 2011, the City Clerk's Office had received 53 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 14th Public Hearing to report on the number of additional protests and comments received by the City Clerk's Office subsequent to May 13, 2011. Additionally, on April 25, 2011, SJMWS sent a direct mailing to all the recycled water customers notifying them of the pending rate increase of up to \$0.112 per HCF and 6.5% 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 5.9% increase in potable water rates and charges with an effective date of July 1, 2011, is estimated to generate \$1,240,000 in additional revenue to the Water Utility Fund in 2011-2012. The recommended rate increases for 2011-2012 are consistent with Council Policy that programs be self-supporting whenever possible. The recommended rate increases are reflected in the 2011-2012 Proposed Operating Budget.

HONORABLE MAYOR AND CITY COUNCIL

05-23-11

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CEQA

Statutorily Exempt, File No. PP10-067 (a), CEQA Guidelines Section 15273 - Rates, Tolls, Fares, and Charges.

/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	2010-11 Current Charges	2011-12 Proposed Charges
5/8-inch	\$9.00	\$9.531
3/4-inch	\$9.19	\$9.732
1-inch	\$15.99	\$16.933
1.5-inch	\$31.98	\$33.867
2-inch	\$49.29	\$52.198
3-inch	\$93.26	\$98.762
4-inch	\$142.55	\$150.960
6-inch	\$186.52	\$197.525
8-inch	\$266.46	\$282.181
10-inch	\$333.09	\$352.742

Table 2: Residential

RESIDENTIAL MONTHLY QUANTITY CHARGE		
Zones	2010-11 Current Charges (per HCF)	2011-12 Proposed Charges (per HCF)
Zone 1 (Elevation 0 to 275 feet) (63% of the customers in Zone 1)		
Tier 1: 0 to 7 HCF	\$2.05	\$2.171
Tier 2: 7 to 14 HCF	\$2.36	\$2.499
Tier 3: 14 to 21 HCF	\$2.60	\$2.753
Tier 4: >21 HCF	\$2.87	\$3.039
Zone 1 Average Monthly Water Bill	\$42.47	\$44.974
Zone 2 (Elevation 275 to 375 feet)(9% of the customers are in Zone 2)		
Tier 1: 0 to 7 HCF	\$2.16	\$2.287
Tier 2: 7 to 14 HCF	\$2.44	\$2.584
Tier 3: 14 to 21 HCF	\$2.72	\$2.880
Tier 4: >21 HCF	\$2.98	\$3.156
Zone 2 Average Monthly Water Bill	\$43.92	\$46.508
Zone 3/4 (Elevation 375 to 630 feet), (20% of the customers are in Zone 3/4)		
Tier 1: 0 to 7 HCF	\$2.25	\$2.383
Tier 2: 7 to 14 HCF	\$2.54	\$2.690
Tier 3: 14 to 21 HCF	\$2.81	\$2.976
Tier 4: >21 HCF	\$3.08	\$3.262
Zone 3/4 Average Monthly Water Bill	\$45.34	\$48.018
Zone 5/6 (Elevation 630 to 880 feet), (8% of the customers are in Zone 5/6)		
Tier 1: 0 to 7 HCF	\$2.37	\$2.510
Tier 2: 7 to 14 HCF	\$2.66	\$2.817
Tier 3: 14 to 21 HCF	\$2.93	\$3.103
Tier 4: >21 HCF	\$3.16	\$3.346
Zone 5/6 Average Monthly Water Bill	\$47.14	\$49.923

Weighted Average Water Bill:

Current= \$42.47*.627+\$43.92*.091+\$45.34*.203+\$47.14*.08= \$43.60

Proposed= \$44.974*.627+\$46.508*.091+\$48.018*.203+\$49.923*.08= \$46.17

Table 3: Non-Residential

NON-RESIDENTIAL QUANTITY CHARGE		
Zones	2010-11 Current Charges (per HCF)	2011-12 Proposed Charges (per HCF)
Zone 1 (Elevation 0 to 275 feet)	\$2.36	\$2.499
Zone 2 (Elevation 275 to 375 feet)	\$2.44	\$2.584
Zone 3 & 4 (Elevation 375 to 630 feet)	\$2.54	\$2.690
Zone 5 & 6 (Elevation 630 to 960 feet)	\$2.66	\$2.817

1 HCF = 748 gallons