



# Memorandum

**TO:** HONORABLE MAYOR  
AND CITY COUNCIL

**FROM:** Kerrie Romanow

**SUBJECT: MUNICIPAL WATER SYSTEM  
WATER RATE INCREASE FOR  
2012-2013**

**DATE:** May 21, 2012

Approved

Date

5/24/12

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

## **RECOMMENDATION**

1. Hold a public hearing on proposed San José Municipal Water System 2012-2013 potable water rates and charges;
2. Adopt a resolution increasing the San José Municipal Water System potable water rates and charges by 9.5%, effective July 1, 2012.

## **OUTCOME**

Approval of these recommendations will allow the San José Municipal Water System (SJMWS) to increase retail water rates and charges by 9.5%, effective July 1, 2012, to increase operating revenues over the current year estimate by approximately \$2,272,000 to partially cover increased wholesale water costs.

## **BACKGROUND**

SJMWS is a rate-funded utility operating at full cost recovery to provide water to 25,300 customer accounts, serving a population of about 115,000 people in the North San José, Alviso, Evergreen, Edenvale, and Coyote Valley areas.

SJMWS purchases water for the North San José/Alviso area primarily from the San Francisco Public Utilities Commission (SFPUC), which delivers treated water through its Hetch Hetchy Aqueduct from the Sierra mountain range. Water for the Evergreen area is purchased from the Santa Clara Valley Water District (SCVWD) and largely comes from the Delta, delivered

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through the State Water Project and Federal San Felipe Project. SJMWS supplies water for the Edenvale and Coyote areas from local groundwater sources. SCVWD is the groundwater management agency in Santa Clara County responsible for the management, quality, and supply of the groundwater basin. 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 programs include replacing major distribution water lines and upgrading major water facilities to withstand seismic events and meet stricter water quality standards. To fund these programs, both water suppliers are anticipated to increase their wholesale water rates significantly, approximately 55%, over the next five years.

On April 20, 2012, Public Notices were sent to SJMWS customers informing them of a proposed rate increase of up to 9.5%. This rate increase is needed to cover wholesale water rate increases for 2012-2013 from SFPUC and SCVWD of 11.4% and 9.3% respectively.

## **ANALYSIS**

### **Potable Water Rates**

SJMWS's two principal sources of revenue are water sales and fixed monthly meter service charges, and approximately 64% of that revenue is used to purchase wholesale water.

SJMWS estimates that during 2012-2013 total water purchases will reach 20,416 Acre Feet (AF). The wholesale water rate increases will result in an additional cost to SJMWS of \$2,297,000. SJMWS proposes increasing retail water rates by 9.5% for 2012-2013 which will generate approximately \$2,272,000 in additional revenue to partially recover the increase in wholesale water costs and operating expenses. Sufficient ending fund balance is available in 2012-2013 to offset the remainder of the increase in wholesale water costs (\$25,000) and mitigate the need to raise rates further.

### **Impact on Customers**

Under the proposed rates, the monthly water bill for the average SJMWS customer using 15 Hundred Cubic Feet (HCF), or 11,220 gallons, will increase by \$4.27, from \$46.17 to \$50.44. The attachment to this memorandum details proposed meter and quantity charge increases.

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**Other Water Agencies**

Other water agencies within Santa Clara County have also proposed water rate increases effective July 1, 2012, as shown below, to recover wholesale rate increases and other inflationary costs.

<u>City/Water Agency</u>	<u>Current Monthly Bill</u>	<u>Proposed Increase</u>	<u>Proposed Monthly Bill</u>
Palo Alto	\$97.66	15%	\$112.31
Cal Water – Los Altos*	\$58.70	N/A	\$58.70
San José Water Company**	\$60.20	14.7%	\$69.05
Redwood City	\$60.68	12%	\$67.95
Mountain View*	\$61.77	N/A	\$61.77
Milpitas	\$57.27	7.2%	\$61.39
Sunnyvale	\$52.39	7%	\$56.06
City of San José - Muni Water***	<b>\$46.17</b>	<b>9.5%</b>	<b>\$50.44</b>
Santa Clara	\$44.85	8.0%	\$48.45
Great Oaks*	\$35.58	N/A	\$35.58

\* Projected rates unavailable

\*\* Proposed 44% increase over a 3-year period beginning Jan. 2013

\*\*\* Represents a weighted average. For details see the attachment to this memorandum.

The above figures are for water usage of 15 HCF (11,220 gallons) and 5/8" x 3/4" water meter. Some agencies' proposed rate changes are still pending final water suppliers' wholesale water rates.

**Recycled Water Rates**

Resolution No. 68377<sup>1</sup> provides that SJMWS's retail recycled water rates will increase automatically to recover increases in wholesale recycled water rates. Furthermore, the wholesale price of recycled water is indexed to the price the SCVWD charges for potable water<sup>2</sup>; the SCVWD rate is currently set at \$569/AF and is projected to increase to \$622/AF.

<sup>1</sup> Adopted by Council on August 4, 1998.

<sup>2</sup> See Resolution No. 74448, adopted by Council on June 17, 2008.

**Impact on Customers**

As shown in the table below, SJMWS's recycled water customers will continue to realize a significant savings over potable water even after the retail rates for recycled water increase. Rate details for recycled water are provided in the attachment to this memorandum.

<b>Proposed 2012-2013 Rates</b>			
	<b>Potable (Zone 1)*</b>	<b>Recycled</b>	<b>% Savings</b>
<b>Irrigation Customer</b> 1,000 HCF/month 2-inch meter	\$2,793.15	\$1,877.16	33%
<b>Industrial Customer</b> 50,000 HCF/month 6-inch meter/	\$137,016.29	\$66,916.29	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**

A Supplemental Memo will be submitted to Council before the June 12, 2012 Public Hearing to report on the number of written protests and comments received by the City Clerk's Office.

**POLICY ALTERNATIVES**

**Alternative #1:** No SJMWS 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 reserves and compromise the financial health of the utility.

**Reason for not recommending:** SJMWS must continue to operate as a cost recovery utility 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 published a notice in the San José Mercury News on May 15, 2012, in advance of Council consideration of the proposed rate increases. On April 20, 2012, SJMWS sent Public Notices directly to all its customers advising them of the proposed rate increase of up to 9.5% and the Public Hearing on the proposed rate increases scheduled for June 12, 2012. As of May 10, 2012, the City Clerk's Office had received 22 letters of protest from SJMWS customers 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 12 Public Hearing to report on the number of additional protests and comments received by the City Clerk's Office subsequent to May 10, 2012. Additionally, on April 20, 2012, SJMWS sent a direct mailing to all the recycled water customers notifying them of the pending rate increase of up to \$0.121 per HCF and 9.5% increase in the meter charge.

### COORDINATION

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

### COST IMPLICATIONS

A 9.5% increase in potable water rates and charges, effective July 1, 2012, is estimated to generate \$2,272,000 in additional revenue for the Water Utility Fund in 2012-2013, which almost entirely offsets an anticipated cost increase of \$2,297,000 over the 2011-2012 cost estimate of \$24,682,000. The anticipated cost increase is driven by wholesale water rate increases described above but also takes into account slight growth in customer base and anticipated changes in household water usage. The recommended rate increase for 2012-2013 is consistent with Council Policy that programs be self-supporting whenever possible.

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**CEQA**

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

/s/

KERRIE ROMANOW

Acting Director, Environmental Services

For questions please contact Jeff Provenzano, Acting Division Manager, at (408) 277-4218.

Attachment - 2012-2013 Proposed Rate Schedule

## ATTACHMENT A

### 2012-2013 PROPOSED RATE SCHEDULE

Table 1: All Customers

MONTHLY METER CHARGE		
Meter Size	2011-12 Current Charges	2012-13 Proposed Charges
5/8-inch	\$9.531	\$10.436
3/4-inch	\$9.732	\$10.656
1-inch	\$16.933	\$18.541
1.5-inch	\$33.867	\$37.084
2-inch	\$52.198	\$57.156
3-inch	\$98.762	\$108.144
4-inch	\$150.960	\$165.301
6-inch	\$197.525	\$216.289
8-inch	\$282.181	\$308.988
10-inch	\$352.742	\$386.252

Table 2: Potable Residential

RESIDENTIAL MONTHLY QUANTITY CHARGE		
Zones	2011-12 Current Charges (per HCF)	2012-13 Proposed Charges (per HCF)
<b>Zone 1 (Elevation 0 to 275 feet) (63% of the customers in Zone 1)</b>		
Tier 1: 0 to 7 HCF	\$2.171	\$2.377
Tier 2: 7 to 14 HCF	\$2.499	\$2.736
Tier 3: 14 to 21 HCF	\$2.753	\$3.014
Tier 4: >21 HCF	\$3.039	\$3.327
Zone 1 Average Monthly Water Bill	\$44.974	\$49.241
<b>Zone 2 (Elevation 275 to 375 feet)(9% of the customers are in Zone 2)</b>		
Tier 1: 0 to 7 HCF	\$2.287	\$2.504
Tier 2: 7 to 14 HCF	\$2.584	\$2.829
Tier 3: 14 to 21 HCF	\$2.880	\$3.153
Tier 4: >21 HCF	\$3.156	\$3.455
Zone 2 Average Monthly Water Bill	\$46.508	\$50.920
<b>Zone 3/4 (Elevation 375 to 630 feet), (20% of the customers are in Zone 3/4)</b>		
Tier 1: 0 to 7 HCF	\$2.383	\$2.609
Tier 2: 7 to 14 HCF	\$2.690	\$2.945
Tier 3: 14 to 21 HCF	\$2.976	\$3.258
Tier 4: >21 HCF	\$3.262	\$3.571
Zone 3/4 Average Monthly Water Bill	\$48.018	\$52.572
<b>Zone 5/6 (Elevation 630 to 880 feet), (8% of the customers are in Zone 5/6)</b>		
Tier 1: 0 to 7 HCF	\$2.510	\$2.748
Tier 2: 7 to 14 HCF	\$2.817	\$3.084
Tier 3: 14 to 21 HCF	\$3.103	\$3.397
Tier 4: >21 HCF	\$3.346	\$3.663
Zone 5/6 Average Monthly Water Bill	\$49.923	\$54.657

**Weighted Average Residential Water Bill:**

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

Proposed= \$49.241\*.627+\$50.920\*.091+\$52.572\*.203+\$54.657\*.08= \$50.44

Table 3: Potable Non-Residential

NON-RESIDENTIAL QUANTITY CHARGE		
Zones	2011-12 Current Charges (per HCF)	2012-13 Proposed Charges (per HCF)
Zone 1 (Elevation 0 to 275 feet)	\$2.499	\$2.736
Zone 2 (Elevation 275 to 375 feet)	\$2.584	\$2.829
Zone 3 & 4 (Elevation 375 to 630 feet)	\$2.690	\$2.945
Zone 5 & 6 (Elevation 630 to 960 feet)	\$2.817	\$3.084

Table 4: Recycled Water

Use Type	2011-12 Current Charges (per HCF)	2012-13 Proposed Charges (per HCF)
Irrigation	\$1.699	\$1.820
Industrial	\$1.213	\$1.334
Agriculture	\$1.167	\$1.288
Irrigation Former Well	\$1.059	\$1.180
Industrial Former Well	\$0.877	\$0.998
Agriculture Former Well	\$0.877	\$0.998

1 HCF = 748 gallons