



# Memorandum

**TO:** HONORABLE MAYOR  
AND CITY COUNCIL

**FROM:** Kerrie Romanow

**SUBJECT: SAN JOSE MUNICIPAL WATER  
SYSTEM POTABLE (DRINKING)  
AND RECYCLED WATER RATES  
AND CHARGES**

**DATE:** May 13, 2024

Approved

Date

5/23/24

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

## **RECOMMENDATION**

- (a) Hold a public hearing on San José Municipal Water System potable and recycled water rates and charges effective July 1, 2024.
- (b) Adopt a resolution to increase the current San José Municipal Water System potable water rates and charges effective July 1, 2024.
- (c) Adopt a resolution to increase the current San José Municipal Water System recycle rates and charges effective July 1, 2024.
- (d) Approve an uncodified ordinance affirming City Council action, if any, taken on the San José Municipal Water System potable and recycled water rates and charges effective July 1, 2024.

## **SUMMARY AND OUTCOME**

Approval of these recommendations will allow the San José Municipal Water System (SJMWS) to update potable and recycled retail water rates effective July 1, 2024, which will help sufficiently generate the appropriate amount of revenue to fund projected utility operating costs as reflected in the Fiscal Year (FY) 2024-2025 Proposed Operating Budget.

## **BACKGROUND**

SJMWS is a rate-funded utility that is intended to operate at full cost recovery to provide water to approximately 27,000 customer accounts, serving a population of over 140,000 people in the

North San José, Alviso, Evergreen, Edenvale, and Coyote Valley areas.

SJMWS purchases potable water for the North San José and Alviso areas from the San Francisco Public Utilities Commission, which delivers treated water through its Hetch Hetchy Aqueduct from the Sierra Nevada Mountain range. Potable water for the Evergreen and Edenvale areas is purchased from the Santa Clara Valley Water District (Valley Water) and comes from the Sacramento-San Joaquin River Delta, delivered through the State Water Project and Federal San Felipe Project, and local groundwater sources. SJMWS supplies all potable water for the Coyote area from local groundwater sources. Recycled water is purchased from South Bay Water Recycling and is retailed to customers in all service areas.

In 2016, the City contracted with Raftelis Financial Consultants to conduct a cost-of-service analysis for the potable water enterprise of SJMWS. The purpose of the analysis was to evaluate the utility's potable system revenue requirements through the development of a financial plan and an up-to-date cost of service evaluation. Raftelis Financial Consultants presented the result of its analysis at the City Council's May 9, 2017 meeting.

In addition to potable water, SJMWS retails recycled water. The revenue requirements of retailing recycled water are collected from recycled water rates. To ensure that the City accurately establishes rates to match revenue requirements, the City contracted with HF&H Consultant, LLC (HF&H) in 2018 to conduct a cost of service analysis.

Proposed rates are based on the analysis performed as part of the Raftelis Financial Consultants and HF&H's studies. Adoption of the resolutions and approval of the ordinance will implement the rate changes for the potable (drinking) and recycled water rates, effective July 1, 2024.

## **ANALYSIS**

### **Potable Water Rates and Charges**

The two principal sources of revenue for SJMWS are water sales and fixed monthly meter service charges. Approximately 65% of SJMWS' potable water revenue is used to purchase water from wholesalers and pay the Valley Water groundwater augmentation fee for groundwater pumped by SJMWS. It is estimated that the total cost to operate, maintain, and rehabilitate the water utility system will be approximately \$68 million in FY 2023-2024 and \$72 million in FY 2024-2025, as shown in the Statement of Source and Use of Funds for the Water Utility Fund included as part of the 2024-2025 Proposed Operating Budget. Changes to water rates are primarily related to the increased cost of wholesale water that SJMWS purchases from Valley Water and San Francisco Public Utilities Commission, with additional cost changes related to increases in energy, offsetting delinquent and uncollected revenue, implementation of the Advanced Metering Infrastructure project, and increased operating and maintenance expenses. Additionally, there is a transfer of \$8.8 million to the Water Utility Capital Fund for

planned infrastructure improvements. SJMWS estimates that the total volume of water sold during FY 2024-2025 will be similar to FY 2023-2024.

A total budgeted revenue adjustment of approximately 5% is necessary to ensure the continued operation of the water utility system, including the purchase of wholesale water. This adjustment is distributed among all customers and amounts to a 3% base increase in fixed (meter) and quantity charges plus a varying pass-through increase to quantity charges based on service area and associated wholesale water supplier. In early 2024, Valley Water notified property owners that wholesale rates for North County groundwater may increase by up to 12.9% in FY 2024-2025. The San Francisco Public Utilities Commission informed wholesale customers of a potential 13.1% maximum rate increase for FY 2024-2025, and subsequently revised its projections to an 8.8% maximum rate increase. On May 14, 2024, the Valley Water Board adopted a 12.9% increase in wholesale water rates and San Francisco Public Utilities Commission adopted an 8.8% increase in wholesale water rates. These wholesale rate adjustments are added to the retail quantity charges as a passthrough rate adjustment.

Valley Water has identified that wholesale water rates are expected to continue increasing over the next 10 years, including 10% annual increases through FY 2033-2034. Furthermore, wholesale rate increases may be higher than currently projected if drought conditions return, wholesaler costs continue to escalate, and/or water use during FY 2024-2025 is lower than wholesalers' estimates. Due to the projected rapid rise in wholesale water rates over the next several years, delaying increases or using reserves to offset FY 2024-2025 retail water rates would negatively impact the Water Utility Fund health and lead to significantly higher SJMWS rate increases in subsequent years.

In April 2024, notices were sent to inform all SJMWS water customers that City Council would be holding a public hearing to consider a potential change in retail water rates and charges starting July 1, 2024. The notice contained the maximum meter charges and water quantity rates that would be proposed for City Council consideration and approval. The rate increase will vary by customer based on service area, pressure zone, and water usage. Based on proposed rates in the initial rate notice, a representative sample increase on an average residential bill based on water usage of 13 hundred cubic feet with a 3/4-inch water meter in the North San José/Alviso service area would be an additional \$18 per month, while the same representative sample residential bill would see a \$16 per month increase in the Evergreen/Edenvale-Zone 1 area.

After notices were sent, San Francisco Public Utilities Commission adopted rates lower than its previously projected maximum increases. After this downward adjustment, under actual proposed rates (**Attachment** - Proposed Rate Schedule), a representative average residential water bill will increase in the North San José/Alviso service area by an additional \$10 per month and \$11 per month in the Evergreen/Edenvale-Zone 1 area.

### Financial Assistance and Water Savings Tips

SJMWS has implemented programs to assist with water bill affordability. During early 2022, the City received funding from the California Water and Wastewater Arrearages Payment Program (Arrearages Program) to assist customers with delinquent water bills. Over 1,000 customers received approximately \$541,000 in Arrearages Program funding and an additional \$356,000 waived in late payment charges. Staff applied to the state and received additional funding in an Extended Arrearages Program during FY 2023-2024. During April and May 2024, the City distributed an additional \$976,000 in Extended Arrearages Program funding to approximately 1,300 customers, with an additional \$569,000 waived in late payment charges.

Local implementation of the state's Low-Income Household Water Assistance Program, operated by Sacred Heart Community Service, began in summer 2022 and ran through March 2023. Under this program, eligible residents could receive up to \$15,000 to pay their water bills. While the state's program has ended, Sacred Heart Community Service continues to offer a program to assist low-income Santa Clara County residents with their water bills. Staff will continue to monitor for any additional customer assistance programs which could be implemented and will coordinate as necessary to ensure SJMWS customers are informed of and can participate and receive additional financial support where eligible.

Despite the financial hardship some customers may be experiencing, water service continues to be an affordable public commodity. Including the proposed rate increase, customers pay approximately \$0.01 per gallon of clean drinking water.

Water conservation continues to be the best practice for reducing the impact of higher water rates and saving money. In addition to ongoing outreach and messaging, the City's website ([SJEnvironment.org/WaterEfficiency](https://SJEnvironment.org/WaterEfficiency)) provides information to customers on water saving tips, along with updates to water use rules for customers and businesses. SJMWS staff is available to assist customer inquiries and provide further resources.

### Other Potable Water Agency Charges

Other water agencies within the Bay Area have proposed water rate increases for FY 2024-2025 or may increase water rates to recover wholesale rate increases and other inflationary costs.

**Table 1** shows estimated monthly bill figures for general comparison and consideration purposes and are representative of sample residential monthly bills based on water usage of 13 hundred cubic feet (9,725 gallons) with a 3/4-inch water meter. This information is tentative and based on best available information and is subject to change based on the actions of each agency's governing board.

<b>Table 1 – Tentative Local Monthly Bill Comparison</b>			
<u>City/Water Agency</u>	<u>Current Monthly Bill</u>	<u>Proposed Increase</u>	<u>Proposed Monthly Bill</u>
San Francisco	\$165.68	5%	\$174.04
San José Water Company	\$142.03	18%	\$167.42
Palo Alto	\$149.84	10%	\$164.89
Redwood City	\$157.95	N/A	\$157.95
<b>City of San José – SJMWS*</b>	<b>\$143.10</b>	<b>7%</b>	<b>\$152.84</b>
Menlo Park	\$141.39	5%	\$148.52
Milpitas	\$131.55	6%	\$139.97
<b>City of San José – SJMWS**</b>	<b>\$127.24</b>	<b>9%</b>	<b>\$138.28</b>
Mountain View	\$124.17	6%	\$131.71
Foster City	\$112.23	4%	\$116.84
Santa Clara	\$103.61	12%	\$115.63
Sunnyvale	\$95.54	4%	\$99.37
Great Oaks Water Company	\$85.56	12%	\$96.07

\* Represents monthly bill for customer in North San José/Alviso service area.

\*\* Represents monthly bill for customer in Evergreen/Edenvale-Zone 1 area.

### **Recycled Water Charges**

In 2018, HF&H examined the cost of service to retail recycled water, resulting in a slight change to the recycled water rate structure. Based on HF&H's analysis, retail recycled water rates were adjusted to a structure which provides increased revenue stability in recovering delivery fixed costs. Recycled water service charge rates were set equal to the potable water service charge rates. A uniform quantity charge rate was set for all retail recycled water customers.

HF&H's recommendation for future years was to continue to set recycled water service charges rates equal to potable water service charge rates and to increase the uniform quantity charge rate proportional to the increase in wholesale water costs. Pursuant to City Council Resolution 79111 (continuing in effect Resolution 68377), recycled water quantity charges will continue to be automatically increased every year in proportion to any increase in wholesale recycled water costs.

As shown in the **Table 2** below, SJMWS's recycled water customers will continue to realize a significant savings over potable water even with the increase to retail recycled water rates. Rate details for recycled water are provided in the Attachment.

<b>Table 2 - Monthly Bill with Proposed Rates effective July 1, 2024</b>				
Example Customers	Current Recycled Water	Proposed Recycled Water	Proposed Potable Water	% Savings
Irrigation Customer: Evergreen Zone 3/4, 450 hundred cubic feet/month, 2-inch meter	\$2,205.96	\$2,474.64	\$3,856.86	36%
Industrial Customer: North San José, 11,000 hundred cubic feet /month, 10-inch meter	\$53,377.64	\$59,929.07	\$99,876.68	40%

Note: 1 hundred cubic feet = 748 gallons

### **EVALUATION AND FOLLOW-UP**

Staff will return annually to the City Council with any recommended changes for the following year's rates. A supplemental memorandum will be submitted to the City Council prior to the June 4, 2024 public hearing to report on the number of written protests and comments received by the City Clerk's Office in response to SJMWS' rate notice. Furthermore, there is a 120-day statute of limitations to challenge any new, increased, or extended fee or charge.

### **COST SUMMARY/IMPLICATIONS**

The 2024-2025 Proposed Operating Budget assume an overall 5.2% water retail sales revenue increase in the Water Utility Fund, generating approximately \$3.6 million in FY 2024-2025 to recover the full cost of operating and maintaining the SJMWS distribution system that includes increased wholesale water costs and capital infrastructure needs. The percentage increase to budgeted revenues is not necessarily representative of a customer's water charges or representative of a monthly increase, as rates vary customer to customer, primarily determined by water supply source, elevation/zone, and usage.

If City Council approves the resolutions changing SJMWS potable and recycled water rates and charges, as recommended in this memorandum, revenue will be generated to support increased utility operating and capital costs, and will ensure sufficient revenues to offset the anticipated write-off of a portion of unpaid bills incurred over the last several years.

### **COORDINATION**

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

## **PUBLIC OUTREACH**

In April 2024, public notices were sent directly to all water customers advising them of the proposed rate changes, that a public hearing on the proposed rate change is scheduled for June 4, 2024 and that there is a 120-day statute of limitations to challenge any new, increased, or extended fee or charge. Notices and frequently asked questions were made available to customers in six languages (English, Spanish, Korean, Vietnamese, Chinese, and Tagalog) on the Environmental Services Department's Proposed Rate Change webpage at [SanJoseCA.gov/RateNotices](https://SanJoseCA.gov/RateNotices). SJMWS published a notice in the Mercury News on May 13, 2024 and mailed a 'Where Your Dollar Goes' conservation postcard to residential customers, in advance of City Council consideration of the proposed rate increases. As of May 4, 2024, the City Clerk's Office had received 124 letters of protest to potable water rates from SJMWS customers and no protests to recycled water rates, in response to the public notices. Written protests have been received by mail, fax, and email.

This memorandum will be posted on the City's Council Agenda website for the June 4, 2024 City Council meeting.

## **COMMISSION RECOMMENDATION AND INPUT**

No commission recommendation or input is associated with this action.

## **CEQA**

Statutorily Exempt, File No. PP17-005, Statutory Exemption for Adjustment to Fees, Rates & Fares without changes to or expansion of services.

## **PUBLIC SUBSIDY REPORTING**

This item does not include a public subsidy as defined in section 53083 or 53083.1 of the California Government Code or the City's Open Government Resolution.

/s/

KERRIE ROMANOW

Director, Environmental Services

For questions, please contact Jeff Provenzano, Assistant Director, at (408) 277-3671.

Attachment - Proposed Rate Schedule

ATTACHMENT  
PROPOSED RATE SCHEDULE

**Table 1: Monthly Meter Charge – Potable and Recycled Water**

<b>MONTHLY METER CHARGE</b> <i>(based on meter size)</i>		
<b>Meter Size</b>	<b>2024-2025 Charges</b>	<b>New Charges</b>
5/8-inch	\$38.19	\$39.35
3/4-inch	\$38.19	\$39.35
1-inch	\$67.54	\$69.57
1.5-inch	\$116.42	\$119.92
2-inch	\$175.11	\$180.36
3-inch	\$360.90	\$371.73
4-inch	\$634.72	\$653.77
6-inch	\$1,387.70	\$1,429.33
8-inch	\$2,365.58	\$2,436.55
10-inch	\$3,734.64	\$3,846.68

**Table 2: Potable Monthly Quantity Charge**

<b>MONTHLY QUANTITY CHARGE</b> <i>(per HCF*)</i>		
<b>Service Area/Zone</b>	<b>2024-2025 Charges</b>	<b>New Charges</b>
Evergreen/Edenvale – Zone 1	\$6.85	\$7.61
Evergreen/Edenvale – Zone 2	\$6.98	\$7.75
Evergreen/Edenvale – Zone 3/4	\$7.39	\$8.17
Evergreen/Edenvale – Zone 5/6	\$7.91	\$8.71
North San José/Alviso	\$8.07	\$8.73
Coyote	\$2.81	\$3.10

**Table 3: Potable Bimonthly Private Fireline Charge**

<b>BIMONTHLY PRIVATE FIRELINE CHARGE</b>		
<b>Service Size</b>	<b>2024-2025 Charges</b>	<b>New Charges</b>
2-inch	\$25.63	\$26.40
3-inch	\$38.43	\$39.59
4-inch	\$51.23	\$52.77
6-inch	\$76.83	\$79.14
8-inch	\$102.42	\$105.50
10-inch	\$128.04	\$131.89

**Table 4: Recycled Monthly Quantity Charge**

	<b>2024-2025 Charges</b>	<b>New Charges</b>
Monthly Quantity Charge (per HCF*)	\$4.513	\$5.098

\*HCF = hundred cubic feet; 1 HCF = 748 gallon