



Memorandum

TO: HONORABLE MAYOR
AND CITY COUNCIL

FROM: Kerrie Romanow

SUBJECT: SEE BELOW

DATE: May 14, 2024

Approved

Date

5/22/24

**SUBJECT: SEWER SERVICE AND USE CHARGES AND STORM SEWER
SERVICE CHARGES EFFECTIVE JULY 1, 2024**

RECOMMENDATION

- a) Hold a public hearing on the proposed Sewer Service and Use Charge rates effective July 1, 2024.
- b) Adopt a resolution to change the Sewer Service and Use Charge rates effective July 1, 2024, as identified in **Attachment A** to the staff memorandum.
- c) Adopt a resolution to maintain the Storm Sewer Service Charge rates at the 2023-2024 levels, effective July 1, 2024, as identified in **Attachment B** to the staff memorandum.
- d) Approve an uncodified ordinance affirming City Council action, if any, taken on Sewer Service and Use Charge rates effective July 1, 2024.

SUMMARY AND OUTCOME

The approval of the recommendations contained in this memorandum would enable the City Council to:

- Make changes to the Sewer Service and Use Charges (SSUC) effective July 1, 2024; and
- Make no change to the Storm Sewer Service Charges (SSSC) rates so they remain at the same rates as 2023 – 2024, effective July 1, 2024.

Approval of the proposed rates for SSUC and SSSC would enable the City to recover costs in the operations, maintenance, and capital improvement of wastewater and stormwater facilities, including compliance with the wastewater discharge permit and stormwater permit requirements.

BACKGROUND

Each year, City staff reviews the rates for SSUC and SSSC to determine whether adjustments are necessary to align revenue with program costs. SSUC are paid by residential, institutional, commercial, and industrial users of the sanitary sewer system. The charge covers costs associated with the San José-Santa Clara Regional Wastewater Facility (RWF) and San José's 2,000-mile sewage collection system, including operations and maintenance, capital and equipment improvements, and administration. San José Municipal Code Section 15.12.450 restricts SSUC revenue to the "acquisition, construction, reconstruction, maintenance, and operation of the sanitary sewer system of the City of San José, to repay principal and interest on any bonds which may hereafter be issued for the construction or reconstruction of sanitation or sewerage facilities, and to repay federal or state loans or advances which may hereafter be made to the City for the construction or reconstruction of sanitary or sewerage facilities."

SSSC revenue can only be used "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." (San José Municipal Code Section 15.16.1250)

The majority of property owners are billed for SSUC and SSSC as a single line-item amount on their property tax.

ANALYSIS

SSUC

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 annualized average winter water usage, and strength is measured in terms of biochemical oxygen demand, suspended solids, and ammonia. 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 based on the 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 the volume of flow that is calculated by annualizing the average winter water usage in addition to their discharge strength. A small number of large industrial users or dischargers are billed on a monthly basis based on actual wastewater flow and discharge strength.

In 2022-2023, the City recommended, and City Council approved, an SSUC rate increase to generate 9.0% in additional revenue. This rate did not increase in 2023-2024. For 2024-2025, a 9.0% revenue increase is recommended, with proposed new monthly rates of: Single-Family at

\$49.59, Multi-Family at \$33.23, and Mobile Homes at \$37.44. The proposed new rates will keep the City's SSUC rate among the lowest in the region. (**Attachment C**)

SSUC Program Expenditures

The Environmental Services Department operates and maintains the RWF which has treated wastewater from the community for over 60 years, working non-stop to protect our health, bay, and economy. Aging pipes, pumps, concrete, and electrical systems need immediate and long-range attention in order to continue successful operations well into the future. The RWF is in the middle of substantial capital improvements, increasing its self-sufficiency through renewable energy generation as well as rigorous review and implementation of cutting-edge sustainable technologies. As the RWF modernizes and implements changes to the treatment process, additional operating costs are anticipated and associated with the shift from the traditional drying bed process to onsite dewatering of biosolids in 2025. Additional drivers of increased costs include inflationary factors for chemicals and solid waste hauling as well as assuring compliance with stricter environmental regulations.

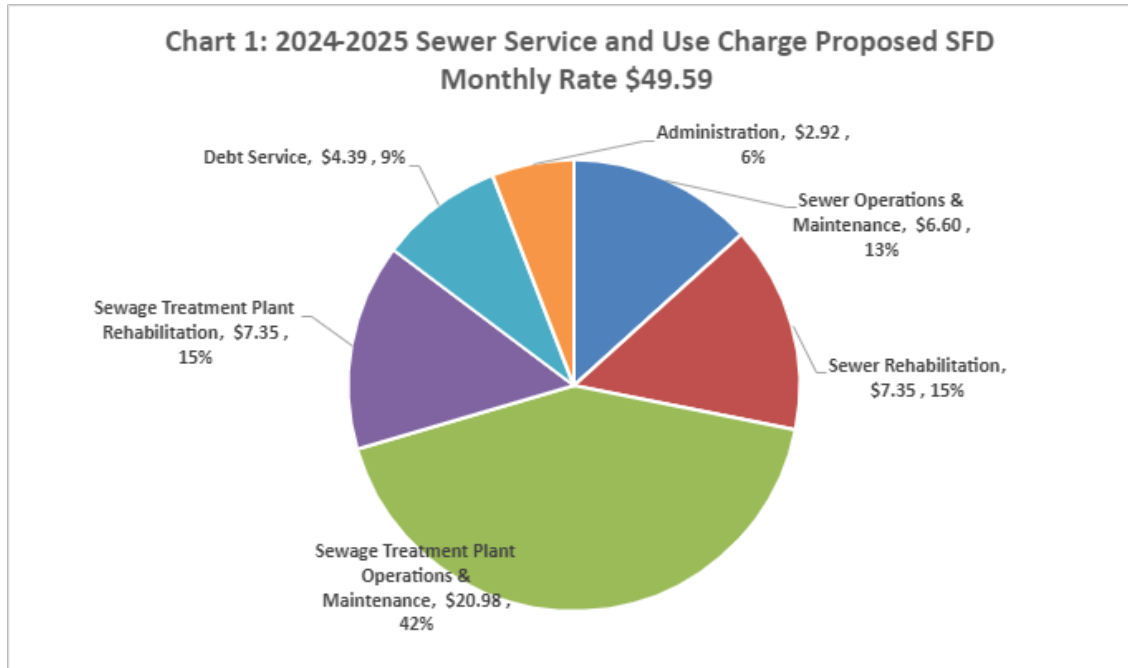
The Transportation Department operates and maintains the sanitary sewer collection system, and like the RWF, also needs resources to operate and maintain the system in a manner that complies with environmental regulations. In addition, ensuring adequate capacity and maintaining system structural integrity continue to be key strategic priorities in reducing and preventing sanitary sewer overflows. In support of these key priorities, additional resources will be added to address ongoing maintenance issues and new equipment will be purchased to improve the effectiveness of sewer line cleaning, odor control, condition assessment, and repair.

The SSUC program costs and source of funding are detailed in the 2024-2025 Proposed Operating Budget, pages 906 to 907, and in the 2024-2025 Proposed Capital Budget, pages 135 to 139. The proposed 2024-2025 rates will increase levels of funding to:

- Continue rehabilitation and replacement of critical infrastructure and equipment at the RWF and the sanitary sewer collection system;
- Add critical resources for the RWF and collection system operations and maintenance to ensure continued effective collection and treatment of wastewater influent, including transition to mechanical dewatering of biosolids;
- Offset increased debt service costs for the long-term financing of the RWF Capital Improvement Plan;
- Maintain regulatory compliance; and
- Keep pace with the inflationary costs associated with the operations and maintenance of both systems, particularly chemicals critical to the wastewater treatment process.

It is important to note that costs of operation of the RWF are expected to significantly increase over the next several years as new processes, such as mechanical dewatering, come online. Future rate increases are anticipated as costs are expected to continue to rise. Any future rate

increase would require notice to the property owner in compliance with state law. **Chart 1** below displays how the presently recommended \$49.59 monthly single-family dwelling (SFD) residential fee would be spent.



SSSC

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 its 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.

Rates have remained constant since 2012-2013, and no increases are recommended for 2024-2025. The single-family monthly rate remains at \$7.87, unchanged since 2011-2012.

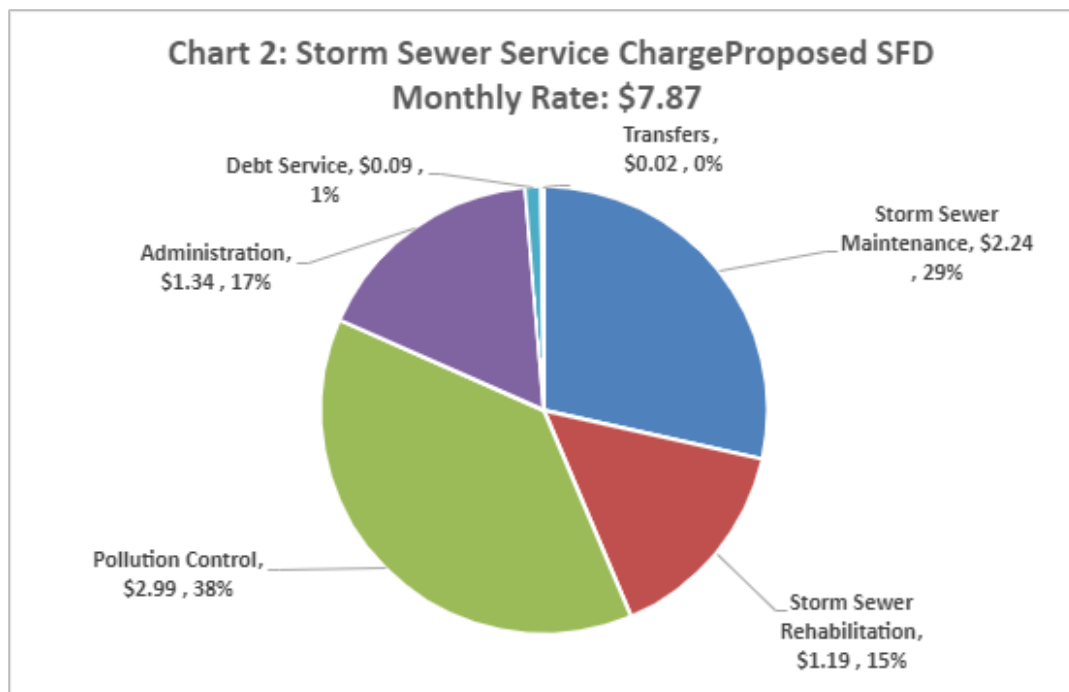
With no rate increases over the past decade and the resulting flat assessments, the need to maintain operations and maintenance programs for the storm sewer system are expected to result in reduced capacity to perform important capital rehabilitation projects in the storm sewer system. To prevent underinvestment, identifying additional funding for this capital program, including potentially from the General Fund, must be a priority over the coming years. Proposed SSSC rates for 2024-2025 are included in this memorandum as Attachment B.

SSSC Program Expenditures

The SSSC program costs and funding sources are detailed in the 2024-2025 Proposed Operating Budget, pages 911 to 912, and the 2024-2025 Proposed Capital Budget, pages 166 to 171. 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 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 is operating under the San Francisco Regional Water Quality Control Board National Pollution Discharge Elimination System Stormwater Permit, effective July 1, 2022 (and amended November 1, 2023), that requires more stringent regulations that the City is required to implement during the current five-year permit term, resulting in significant operational and financial impacts. A number of new requirements pertaining to mitigating trash from unhoused individuals entering waterways will impact the General Fund in 2024-2025. Among activities deemed appropriate for SSSC funding are inspection of Stormwater Treatment Measure infrastructure and installation of storm inlets located throughout the City.

Chart 2, below, displays how the recommended \$7.87 monthly SFD residential fee would be spent effective July 1, 2024.



Over the past five years, a total of \$57 million has been transferred to the Storm Sewer Capital Fund to continue to address aging storm sewer infrastructure and development of a storm sewer

system master plan. In 2024-2025, a total of \$6 million is proposed to be transferred to the Storm Sewer Capital Fund.

Various projects in the Storm Sewer Capital Fund for 2024-2025 include:

- Storm sewer outfall structures repairs and rehabilitation throughout the City;
- Storm sewer infrastructure repair and green infrastructure improvements;
- Storm pump station rehabilitation; and
- Large and small trash capture devices to treat stormwater in order to reduce pollutants from entering creeks and waterways from City streets.

EVALUATION AND FOLLOW-UP

Once approved, the SSUC and SSSC will be billed to property owners. Most property owners are billed as a single line-item on their property tax. There is a 120-day statute of limitations to challenge any new, increased, or extended fee or charge. Staff will return to City Council in June 2025 with recommendations for future rates.

COST SUMMARY/IMPLICATIONS

It is estimated that proposed increases will generate approximately \$203 million in total revenue in the SSUC Fund in 2024-2025, which is included in the SSUC Fund Statement of Source and Use of Funds in the 2024-2025 Proposed Operating Budget. Maintaining SSSC rates at current levels is estimated to generate revenues in 2024-2025 totaling approximately \$34 million, which is included in the Storm Sewer Operating Fund Statement of Source and Use of Funds in the 2024-2025 Proposed Operating Budget.

COORDINATION

This memorandum has been coordinated with the City Attorney's Office, the City Manager's Budget Office, the Public Works Department, and the Transportation Department.

PUBLIC OUTREACH

Noticing of proposed changes was conducted as required by Proposition 218. The Environmental Services Department sent public notices directly to all SSUC customers on April 9, 2024, advising them of the proposed rate changes to the SSUC and that a public hearing on the proposed rate change is scheduled for June 4, 2024. As of May 6, 2024, the City Clerk's Office had received 491 letters of protest to SSUC rates from customers in response to the public notices. Written protests have been received by mail, fax, and email.

HONORABLE MAYOR AND CITY COUNCIL

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Subject: Sewer Service and Use Charges and Storm Sewer Service Charges Effective July 1, 2024

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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, CEQA Guidelines Section 15273, Rates, Tolls, Fares, and Charges.

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 of Environmental Services

For more information, please contact Kat Estrada, Administrative Officer, at (408) 975-2569.

Attachments:

- A - Sewer Service and Use Charge Schedule of Proposed Rates, effective July 1, 2024
- B - Storm Sewer Service Charge Schedule of Unchanged Rates, effective July 1, 2024
- C - Sewer Service and Use Charge Rate Comparison for Single Family Residential

ATTACHMENT A
SEWER SERVICE AND USE CHARGE SCHEDULE OF PROPOSED RATES,
EFFECTIVE JULY 1, 2024

**SCHEDULE OF PROPOSED SEWER SERVICE AND USE CHARGES EFFECTIVE
JULY 1, 2024 FOR RESIDENTIAL CUSTOMERS**

RATES FOR RESIDENTIAL CUSTOMER CATEGORIES					
USE (RESIDENCE)	CURRENT RATES		PROPOSED RATES (Effective July 1, 2024)		PERCENT INCREASE
	<u>Per Month*</u>	<u>Per Year</u>	<u>Per Month*</u>	<u>Per Year</u>	
Single-Family Residence	\$45.49	\$545.88	\$49.59	\$595.08	9.01%
Multiple-Family Residence (per unit)	\$30.48	\$365.75	\$33.23	\$398.76	9.03%
Mobile Home (per unit)	\$34.34	\$412.08	\$37.44	\$449.28	9.03%

**SCHEDULE OF PROPOSED SEWER SERVICE AND USE CHARGES EFFECTIVE
JULY 1, 2024, FOR INSTITUTIONAL, COMMERCIAL, AND INDUSTRIAL
CUSTOMERS**

INSTITUTIONAL, COMMERCIAL, AND INDUSTRIAL RATES (less than 25,000 gallons per day)			
USE	CURRENT RATES		PERCENT INCREASE
	Charge Per Hundred Cubic Feet of Sewage Discharged	PROPOSED RATES (Effective July 1, 2024) Charge Per Hundred Cubic Feet of Sewage Discharged	
Meat Packers	\$6.17	\$6.60	6.97%
Wholesale Bakeries	\$7.52	\$8.47	12.63%
Soft Drink Bottlers	\$7.58	\$8.39	10.69%
Wineries	\$13.08	\$16.31	24.69%
Paper Pulp Mills	\$9.31	\$11.30	21.37%
Plating Works	\$4.34	\$4.10	-5.53%
Electrical Equipment	\$4.85	\$4.84	-0.21%
Machinery Manufacturers	\$6.33	\$7.01	10.74%
Film Service Laboratories	\$4.77	\$4.76	-0.21%
Soft Water Services	\$4.39	\$4.14	-5.69%
Car Washes	\$4.67	\$4.55	-2.57%
Automotive Steam Cleaners	\$8.45	\$10.16	20.24%
Printing Plants	\$6.09	\$6.66	9.36%
Restaurants/Delis	\$8.29	\$9.88	19.18%
Hotel-Motels	\$5.03	\$5.18	2.98%
Hospitals and Convalescent Homes	\$4.85	\$4.95	2.06%
Private Schools, Colleges and Universities	\$5.82	\$6.06	4.12%
Public Schools, Colleges and Universities	\$5.82	\$6.06	4.12%

Repair Shops and Service Stations	\$5.12	\$5.31	3.71%
Domestic Laundries	\$4.55	\$4.51	-0.88%
Retail, Commercial Office, etc.	\$4.84	\$4.83	-0.21%
Business Office/Condos	\$4.84	\$4.83	-0.21%
Government Agencies	\$4.84	\$4.83	-0.21%
Medical Center/Clinic	\$4.96	\$4.96	0.00%
Beauty Salons	\$5.08	\$5.18	1.97%
Commercial and Department Stores	\$5.08	\$5.18	1.97%
Storage/Warehouse	\$4.74	\$4.80	1.27%
Health Care	\$4.88	\$4.98	2.05%
Theatres	\$4.98	\$5.17	3.82%
Association/Communities Services	\$4.84	\$4.83	-0.21%
Business Parks	\$4.99	\$4.99	0.00%
Building Construction/Field Office	\$4.99	\$4.99	0.00%
Parking Lots	\$4.52	\$4.47	-1.11%
Gas Service Stations	\$4.96	\$5.13	3.43%
Auto Showrooms, Body Shops, Detail, and Trucking	\$5.35	\$5.64	5.42%
Manufacturing Paint Products	\$4.99	\$4.99	0.00%
Concrete Companies	\$4.99	\$4.99	0.00%
General Manufacturing Industries	\$4.99	\$4.99	0.00%
Chemical Manufacturing	\$4.99	\$4.99	0.00%
Pubs	\$5.21	\$5.41	3.84%
Athletic Club, Fitness	\$4.74	\$4.80	1.27%
Cemeteries	\$4.74	\$4.80	1.27%
Country Clubs (Golf)	\$4.98	\$5.16	3.61%
Lounges, Clubs, Billiards	\$4.99	\$5.17	3.61%
Convenience Stores	\$4.74	\$4.80	1.27%
Boarding/Rooming	\$5.09	\$5.28	3.73%
Cleaners (Commercial Laundry)	\$6.00	\$6.52	8.67%
Plazas/Malls	\$5.35	\$5.68	6.17%
Nursery (Growers)	\$5.69	\$6.10	7.21%
Laboratories (Commercial and Industrial)	\$5.81	\$6.12	5.34%
Café and Ice Creams	\$8.99	\$10.59	17.80%
Donuts and Bakeries	\$8.99	\$10.59	17.80%
Supermarket Groceries	\$7.99	\$9.56	19.65%
Mortuary (Embalming)	\$7.99	\$9.56	19.65%
Catering	\$8.44	\$9.99	18.36%
Miscellaneous Commercial, Institutional, and Industrial	\$4.84	\$4.83	-0.21%

**SCHEDULE OF PROPOSED SEWER SERVICE AND USE CHARGES EFFECTIVE
JULY 1, 2024 FOR MONITORED INDUSTRIES**

	CURRENT RATES	PROPOSED RATES (Effective July 1, 2024)
<u>A. Capital Cost Recovery:</u>		
Annual charge per million gallons per day of FLOW capacity required, plus	\$478,450	\$527,677
Annual charge per thousand pounds per day of BOD removal capacity required, plus	\$58,508	\$57,829
Annual charge per thousand pounds per day of SS removal capacity required, plus	\$35,665	\$45,290
Annual charge per thousand pounds per day of NH ₃ removal capacity required.	\$108,324	\$126,342
<u>B. Operations & Maintenance Cost Recovery:</u>		
Charge per hundred cubic feet of sewage discharged to the sanitary sewer, plus	\$2.833 (\$3,787/MG)	\$2.354 (\$3,147/MG)
Charge per thousand pounds of BOD discharged to the sanitary sewer, plus	\$260	\$427
Charge per thousand pounds of SS discharged to the sanitary sewer, plus	\$286	\$466
Charge per thousand pounds of NH ₃ discharged to the sanitary sewer.	\$2,116	\$3,457

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

ATTACHMENT B
STORM SEWER SERVICE CHARGE SCHEDULE OF UNCHANGED
RATES, EFFECTIVE JULY 1, 2024

RESIDENTIAL RATES*

	CURRENT RATES		PROPOSED RATES EFFECTIVE JULY 1, 2024		% CHANGE
	<u>Per Month</u>	<u>Per Year</u>	<u>Per Month</u>	<u>Per Year</u>	
A. Single-Family Residential and Duplex	\$7.87	\$94.44	\$7.87	\$94.44	0.00%
B. Mobile Home (per unit)	\$3.94	\$47.28	\$3.94	\$47.28	0.00%
C. Residential Condominium (per unit)	\$4.30	\$51.60	\$4.30	\$51.60	0.00%
D. Large Multiple Family Residential (5 or more units)	\$4.30	\$51.60	\$4.30	\$51.60	0.00%
E. Small Multiple Family Residential (3-4 Units)	\$14.95	\$179.40	\$14.95	\$179.40	0.00%

INSTITUTIONAL, COMMERCIAL, INDUSTRIAL RATES*

	CURRENT RATES		PROPOSED RATES EFFECTIVE JULY 1, 2024		% CHANGE
	<u>Per Month</u>	<u>Per Year</u>	<u>Per Month</u>	<u>Per Year</u>	
F. Open Space	\$13.86 plus \$7.67 per acre	\$166.32 plus \$92.04 per acre	\$13.86 plus \$7.67 per acre	\$166.32 plus \$92.04 per acre	0.00%
G. School	\$13.86 plus \$7.67 per acre	\$166.32 plus \$92.04 per acre	\$13.86 plus \$7.67 per acre	\$166.32 plus \$92.04 per acre	0.00%
H. Church	\$27.73 plus \$7.67 per acre	\$332.76 plus \$92.04 per acre	\$27.73 plus \$7.67 per acre	\$332.76 plus \$92.04 per acre	0.00%
I. College/University	\$27.73 plus \$7.67 per acre	\$332.76 plus \$92.04 per acre	\$27.73 plus \$7.67 per acre	\$332.76 plus \$92.04 per acre	0.00%
J. Commercial, Light Industrial, and Miscellaneous Premises	\$55.45 plus \$13.04 per acre	\$665.40 plus \$156.48 per acre	\$55.45 plus \$13.04 per acre	\$665.40 plus \$156.48 per acre	0.00%
K. Small Commercial, Light Industrial, and Miscellaneous Premises	\$27.73 plus \$7.67 per acre	\$332.76 plus \$92.04 per acre	\$27.73 plus \$7.67 per acre	\$332.76 plus \$92.04 per acre	0.00%
L. Heavy Industrial Premises	\$69.32 plus \$13.04 per acre	\$831.84 plus \$156.48	\$69.32 plus \$13.04 per acre	\$831.84 plus \$156.48 per acre	0.00%
M. Parking Facility	\$55.45 plus \$13.81 per acre	\$665.40 plus \$165.72 per acre	\$55.45 plus \$13.81 per acre	\$665.40 plus \$165.72 per acre	0.00%

*If connected to the system prior to July 1, 2024.

ATTACHMENT C
SEWER SERVICE AND USE CHARGES RATE COMPARISON FOR
SINGLE FAMILY RESIDENTIAL

<u>City/Sanitary Agency</u>	<u>Current Monthly Bill</u>	<u>Proposed Increase</u>	<u>Proposed Monthly Bill Eff. July 2024</u>
Milpitas	\$64.22	4%	\$66.79
Sunnyvale	\$62.34	TBD	\$62.34
Cupertino Sanitary District	\$61.21	5%	\$64.27
West Valley Sanitation District	\$57.65	TBD	\$57.65
Mountain View	\$53.10	TBD	\$53.10
Palo Alto	\$48.64	15%	\$55.93
Santa Clara	\$48.28	8%	\$52.37
City of San José	\$45.49	9%	\$49.59