

7.1 Actions Related to the Municipal Water System Water Rate Changes for 2017-2018.



Memorandum

TO: HONORABLE MAYOR
AND CITY COUNCIL

FROM: Kerrie Romanow

**SUBJECT: MUNICIPAL WATER SYSTEM
WATER RATE CHANGES FOR
2017-2018**

DATE: May 15, 2017

Approved

D. DSYL

Date

5/24/17

COUNCIL DISTRICTS: 2, 4, 7, 8

RECOMMENDATION

1. Hold a Public Hearing on proposed San José Municipal Water System 2017-2018 potable water rates and charges.
2. Adopt a resolution updating San José Municipal Water System potable water rates and charges, effective July 1, 2017.
3. Adopt a resolution superseding Resolutions Nos. 67667, 68377 and 72756 with respect to recycled water meter charges and continuing in effect the current meter charges for recycled water users.

OUTCOME

Approval of these recommendations will allow the San José Municipal Water System (SJMWS) to update retail rates and charges effective July 1, 2017 for both potable and recycled water.

BACKGROUND

SJMWS is a rate-funded utility that is intended to operate at full cost recovery to provide water to approximately 26,000 customer accounts, serving a population of about 116,000 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 (SFPUC), which delivers treated water through its Hetch Hetchy Aqueduct from the Sierra Nevada mountain range. The potable water supply for a small, hydraulically-isolated portion of the North San José service area near North McCarthy Blvd/Dixon Landing Road is arranged to be purchased from Milpitas. Potable water for the

Evergreen and Edenvale areas is purchased from the Santa Clara Valley Water District (SCVWD) 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. Groundwater is currently used only as a backup supply in North San José/Alviso. Recycled water is purchased from South Bay Water Recycling (SBWR) and is retailed to customers in all service areas.

SCVWD is the groundwater management agency in Santa Clara County responsible for the management, quality, and supply of the groundwater basin. Historically, SJMWS' potable water supplies have consisted of approximately 5% groundwater, 65% SCVWD treated water, and 30% SFPUC treated water.

In 2016, the City contracted with Raftelis Financial Consultants (RFC) 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. RFC presented the result of their analysis at the City Council's May 9, 2017 meeting.

ANALYSIS

Potable Water Rates and Charges

The two principal sources of revenue for SJMWS are water sales and fixed monthly meter service charges, with approximately 66% of the revenue used to purchase water from wholesalers and pay the SCVWD groundwater augmentation fee for groundwater pumped by SJMWS. It is estimated that the 2016-2017 total cost to operate the water utility system will be approximately \$38.7 million. In 2017-2018, it is estimated that the operating cost of the water utility system will increase to \$42.7 million, as shown in the 2017-2018 Proposed Operating Budget (in the Statement of Source and Use of Funds for the Water Utility Fund). SJMWS estimates that during 2017-2018 the total volume of potable water sold will increase slightly compared to estimated 2016-2017 water sales.

RFC determined that an overall increase in revenue of 9% per year over the next five years (2017-2018 through 2021-2022) would be needed to cover the full cost of operating and maintaining the distribution system, plus funding for capital costs and to begin increasing the funding of financial reserves. The resulting revenue requirements and cost of service analysis was then used in a rate design to determine appropriate rates.

RFC's analysis updated SJMWS's categorization of costs as fixed versus variable, finding that a higher percentage of the costs may be allocated as fixed because they will be incurred regardless of the amount of water sold. The result of RFC's analysis was that for 2017-2018, variable charges should make up approximately 68% of the SJMWS revenue requirement, while fixed charges should total approximately 32% of the revenue requirement. Increasing the allocation of

costs to the fixed charges will improve the City's ability to fully recover costs during periods when the amount of water sold is reduced, such as during periods of drought. For example, as a result of reduced water sales during the recent drought, the City was not able to recover sufficient revenues from water sales to cover its costs and was required to use SJMWS reserves to balance SJMWS's budget in the 2015-2016 Annual Report.

On May 9, 2017, the City Council approved an ordinance amending the Municipal Code's provisions related to reserves and reserve levels within the Municipal Water System's Operating fund. The reserve levels are in accordance with RFC's recommendations, which included maximum reserve goal amounts. In order to minimize rate impacts to customers, 2017-2018 proposed operating and capital rehabilitation reserve amounts were calculated at the minimum level that has been utilized in prior years; these amounts are two months of operating expenditures and 7% of revenues, respectively. Staff recommends that only \$250,000 in the ending fund balance be set aside as an emergency reserve this year, and that the current Rate Stabilization Reserve amount of \$300,000 be maintained in 2017-2018, in order to minimize rate impacts and provide flexibility for use of the remaining ending fund balance, if necessary, before using other reserves. If water sales increase above projected amounts, the additional revenue could be used to increase reserve amounts to build up to the maximum level recommended by RFC and/or offset future rate increases.

The rates recommended by staff include the following proposed reserve amounts:

Reserve Type	Maximum Reserve Goal	2017-2018 Maximum Level (\$)	2017-2018 Proposed Level (\$)*
Operating Reserve	90 Days of Operating Budget	10.6 M	7.0 M
Rate Stabilization Reserve	10% of Commodity Revenue	4.1 M	0.3 M
Capital Rehabilitation Reserve	1 Yr Replacement Cost Depreciation	5.3 M	2.8 M
Unrestricted Funds (as Emergency Reserve)	2% of Assets	2.2 M	0.3 M

* Amounts shown here are included in the Statement of Source and Use of Funds for the Water Utility Fund in the 2017-2018 Proposed Operating Budget, as released on May 5, 2017.

In April 2017, notices were prepared to inform all SJMWS potable water customers that Council would be holding a public hearing to consider a potential change in retail water rates and charges for 2017-2018. The notice contained the maximum meter charges and water quantity rates that would be proposed for the City Council's consideration and approval based on the status of an outside consultant (RFC) cost of service evaluation as of March 27, 2017. Subsequently, it was determined that the rates noticed were slightly higher than necessary.

The proposed rates for all areas, except the McCarthy/Dixon area, as currently presented to City Council are based on RFC's final analysis. In the McCarthy/Dixon area, which is a part of the North San José/Alviso service area, the meter charges and private fireline charges will be the same as in the remaining service area, but the total water sales charge will be increased to cover

all costs incurred by San José to purchase water from Milpitas for supply to the McCarthy/Dixon area.

Other Potable Water Agency Charges

Other water agencies within the Bay Area have also proposed water rate increases for 2017-2018, 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	\$153.25	4%	\$159.38
Redwood City ¹	\$128.24	8%	\$138.32
San Francisco ¹	\$126.23	7%	\$135.14
San Jose Water Company	\$113.73	9%	\$124.02
Menlo Park ¹	\$108.16	13%	\$121.91
Milpitas	\$111.03	0%	\$111.03
Mountain View	\$104.48	7%	\$111.79
Foster City	\$95.85	6%	\$100.45
City of San José - SJMWS²	\$77.50	27%	\$98.55
Sunnyvale	\$81.48	12.5%	\$91.65
Santa Clara	\$74.25	15%	\$85.39
City of San José – SJMWS³	\$77.50	4%	\$80.40

¹ Rate increase for 2017-2018 already adopted.

² Represents proposed increase and monthly bill for customer in North San José/Alviso service area.

³ Represents proposed increase and monthly bill for customer in Evergreen service area (zone 1).

The above monthly bill figures are representative of average residential monthly bills including water usage of 15 HCF (11,220 gallons) with a 3/4-inch water meter. The two SJMWS examples represent the minimum and maximum proposed average monthly bill amounts for residential customers. Some agencies' proposed rate changes are still pending final water suppliers' wholesale water rates.

Recycled Water Charges

Meter charges for SJMWS recycled water customers are currently indexed to potable meter charges pursuant to City Council Resolution Nos. 67667, 68377 and 72756. The RFC cost of service analysis did not address recycled water service and it would not be appropriate to revise recycled water meter charges based on the costs of service analysis for potable water. It is therefore recommended that a resolution be adopted, superseding all prior resolutions setting recycled water rates, keeping recycled water meter charges at their current level and continuing to index recycled water quantity charges to the increases in wholesale price of recycled water. Adoption of the recommended resolution will allow SJMWS to continue to be cost recovery for recycled water.

EVALUATION AND FOLLOW-UP

A supplemental memo will be submitted to the City Council prior to the June 6 Public Hearing to report on the number of written protests and comments received by the City Clerk's Office.

PUBLIC OUTREACH

On April 17, 2017, SJMWS sent Public Notices directly to all its customers advising them of the proposed rate changes and that a public hearing on the proposed rate increases is scheduled for June 6, 2017. SJMWS published a notice in the Mercury News on May 17, 2017, in advance of City Council consideration of the proposed rate increases. As of May 9, 2017, the City Clerk's Office had received 96 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 City Council shortly before the June 6 public hearing to report on the number of additional protests and comments received by the City Clerk's Office subsequent to May 9, 2017.

COORDINATION

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

COMMISSION RECOMMENDATION/INPUT

No commission recommendation or input is associated with this action.

FISCAL/POLICY ALIGNMENT

The recommended rate increase for 2017-2018 is consistent with the City Council policy that programs be self-supporting whenever possible.

COST SUMMARY/IMPLICATIONS

The 2017-2018 proposed operating revenues for the Water Utility Fund assume a 9.0% increase to water utility revenue for 2017-2018 in order to recover the full cost of operating and maintaining the SJMWS distribution system. If the City Council approves a resolution changing SJMWS potable water rates and charges, as recommended in this memorandum, revenue will be

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generated to address a projected increase in utility operating costs, as reflected in the 2017-2018 Proposed Operating Budget.

CEQA

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

/s/

KERRIE ROMANOW

Director, Environmental Services

For questions, please contact Jeff Provenzano, Deputy Director, at (408) 277-3288.

Attachment - 2017-2018 Proposed Rate Schedule

ATTACHMENT
2017-2018 PROPOSED RATE SCHEDULE

Table 1: Monthly Meter Charge

MONTHLY METER CHARGE <i>(based on meter size)</i>		
Meter Size	2016-17 Charges	2017-18 Charges
5/8-inch	\$16.49	\$26.70
3/4-inch	\$16.84	\$26.70
1-inch	\$29.30	\$47.21
1.5-inch	\$58.60	\$81.38
2-inch	\$90.33	\$122.40
3-inch	\$170.91	\$252.27
4-inch	\$261.24	\$443.67
6-inch	\$341.83	\$970.00
8-inch	\$488.35	\$1,653.54
10-inch	\$610.46	\$2,610.51

Table 2: Monthly Quantity Charge

MONTHLY QUANTITY CHARGE (PER HCF*)		
	2016-2017 Charges	2017-2018 Charges
EVERGREEN/EDENVALE		
Zone 1 (Elevation 0 to 275 feet)		
Residential Tier 1: 0 to 7 HCF	\$3.74	\$3.58
Residential Tier 2: > 7 HCF	\$4.31	
Non-Residential	\$4.31	
Zone 2 (Elevation 275 to 375 feet)		
Residential Tier 1: 0 to 7 HCF	\$3.95	\$3.64
Residential Tier 2: > 7 HCF	\$4.47	
Non-Residential	\$4.47	
Zone 3/4 (Elevation 375 to 630 feet)		
Residential Tier 1: 0 to 7 HCF	\$4.12	\$3.93
Residential Tier 2: > 7 HCF	\$4.64	
Non-Residential	\$4.64	
Zone 5/6 (Elevation 630 to 880 feet)		
Residential Tier 1: 0 to 7 HCF	\$4.33	\$4.29
Residential Tier 2: > 7 HCF	\$4.87	
Non-Residential	\$4.87	
NORTH SAN JOSE/ALVISO		
Residential Tier 1: 0 to 7 HCF	\$3.74	\$4.79
Residential Tier 2: > 7 HCF	\$4.31	
Non-Residential	\$4.31	
COYOTE VALLEY		
Non-Residential	\$4.31	\$1.88

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

ATTACHMENT
2017-2018 PROPOSED RATE SCHEDULE

Table 3: Monthly Private Fireline Charge

MONTHLY PRIVATE FIRELINE CHARGE <i>(based on service size)</i>		
Service Size	2016-2017 Charges	2017-2018 Charges
2-inch	\$18.00	\$17.90
3-inch	\$36.00	\$26.84
4-inch	\$54.00	\$35.80
6-inch	\$72.00	\$53.68
8-inch	\$90.00	\$71.58
10-inch	\$108.00	\$89.48

Memorandum

TO: HONORABLE MAYOR
AND CITY COUNCIL

FROM: Kerrie Romanow

**SUBJECT: MUNICIPAL WATER SYSTEM
WATER RATE INCREASE FOR
2017-2018**

DATE: June 6, 2017

Approved

D. D. Syl

Date

6/6/17

COUNCIL DISTRICTS: 2,4,7,8

SUPPLEMENTAL

REASON FOR SUPPLEMENTAL

This supplemental memorandum reports on the written protests received through June 2, 2017, in response to mailed public notices regarding the proposed Municipal Water System rate increase for 2017-2018.

BACKGROUND

Public notices were mailed on April 17, 2017, to 25,458 residential and non-residential customers advising them that a hearing would be held on June 6, 2017, prior to Council consideration of a Municipal Water System rate change for 2017-2018. In accordance with Proposition 218, customers were given at least 45 days from April 17, 2017, in which to file written protests of the proposed rate increase.

Unless written protests to the proposed rate increase are presented by a majority of customers, Council may consider the proposed Municipal Water System rate increase.

ANALYSIS

As of Friday, June 2, 2017, the City Clerk's Office has received 127 protests in response to the public notice, which represents one half of one percent (0.5%) of all customers impacted by the change in water retail rates.

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Some protest letters received included a statement protesting the rate increase without offering any specific reasons. Many protest letters included comments explaining the reason for the protest. In general, comments indicated that a rate increase would be economically burdensome, rate increases are unreasonable or unfair due to customer conservation efforts, or that rate increases seemed to be unfairly distributed among customers.

Protest letters may be submitted through the close of the Public Hearing, and the City Clerk will provide to Council a count of additional protests received subsequent to this memo and during the Public Hearing after the hearing is closed.

/s/

KERRIE ROMANOW

Director, Environmental Services

For questions, please contact Jeff Provenzano, Deputy Director, at (408) 277-3288.

RESOLUTION NO.

**A RESOLUTION OF THE COUNCIL OF THE CITY OF
SAN JOSE TO ESTABLISH NEW CHARGES FOR
POTABLE WATER SERVICE EFFECTIVE JULY 1, 2017**

WHEREAS, the current rates and charges for potable water service in areas served by the San José Municipal Water System (SJMWS) were adopted by this Council on June 14, 2016 in Resolution No. 77777; and

WHEREAS, in order to update SJMWS potable water rates and charges to reflect current costs of providing potable water service to SJMWS customers, including increases in wholesale water costs and other costs and expenses associated with providing potable water service, this Council desires to implement changes in potable water rates and charges for customers of the SJMWS, including increases in some rates and charges, effective July 1, 2017; and

WHEREAS, on April 17, 2017, notices were mailed to inform all SJMWS potable water customers that Council would be holding a public hearing on June 6, 2017 in the City Council Chambers, to consider changes in retail potable water rates and charges for fiscal year 2017-2018; and

WHEREAS, the April 17, 2017 notice contained the maximum meter charges, water quantity rates and private fireline charges that would be proposed for the City Council's consideration and approval and provided information concerning how SJMWS customers could protest such rates and charges; and

WHEREAS, on June 6, 2017, this Council conducted a public hearing on the proposed rates and charges set forth in the April 17, 2017 notice at which members of the public were afforded the opportunity to speak to such rates and charges; and

WHEREAS, following the conclusion of the public hearing on June 6, 2017, the City Clerk reported to this Council that after counting the protests submitted opposing the proposed rates and charges, [there was no majority protest]; and

WHEREAS, the potable water meter charges, water quantity rates and private fireline charges that are approved in this Resolution are equal to or lower than the rates and charges set forth in the April 17, 2017 notice to customers and are proportional to the cost of providing potable water service to the various classes of customers served by the SJMWS; and

WHEREAS, the potable water meter charges, water quantity rates and private fireline charges that are approved in this Resolution are necessary to pay the costs of providing potable water service to the customers of the SJMWS, including the expenditures required and allowed under San José Municipal Code Section 4.80.630; and

WHEREAS, revenue generated by the potable water meter charges, water quantity rates and private fireline charges is not anticipated to exceed the total cost of providing potable water service to customers served by the SJMWS, including without limitation, the funding of reasonably required reserves;

NOW THEREFORE, BE IT RESOLVED BY THE COUNCIL OF THE CITY OF SAN JOSE THAT:

1. Effective July 1, 2017, the following rates and charges are established for potable water service provided by the San José Municipal Water System:

A. Monthly Meter Charges - All Customers - Charges are stated on a monthly basis for customer convenience; however, actual billing is bi-monthly, with each bi-monthly meter charge being double the stated monthly amount. The Meter Charge is a readiness-to-serve charge, which is added to the bi-monthly Quantity Charge

Meter Size	2017-2018 Charges
5/8-inch	\$26.70
3/4-inch	\$26.70
1-inch	\$47.21
1.5-inch	\$81.38
2-inch	\$122.40
3-inch	\$252.27
4-inch	\$443.67
6-inch	\$970.00
8-inch	\$1,653.54
10-inch	\$2,610.51

B. Potable Quantity Charge - Billed on a bi-monthly basis, based on the following monthly rates.

MONTHLY QUANTITY CHARGE (PER HCF*)	
	2017-2018 Charges
EVERGREEN/EDENVALE	
<i>Zone 1 (Elevation 0 to 275 feet)</i>	
All Residential and Non-Residential	\$3.58
<i>Zone 2 (Elevation 275 to 375 feet)</i>	
All Residential and Non-Residential	\$3.64
<i>Zone 3/4 (Elevation 375 to 630 feet)</i>	
All Residential and Non-Residential	\$3.93
<i>Zone 5/6 (Elevation 630 to 880 feet)</i>	
All Residential and Non-Residential	\$4.29
NORTH SAN JOSE/ALVISO	
All Residential and Non-Residential	\$4.79
COYOTE VALLEY	
All Residential and Non-Residential	\$1.88

*HCF = hundred cubic feet; 1 HCF = 748 gallons

C. Potable Quantity Charges in the McCarthy/Dixon Zone of the Alviso Service Area

Within the McCarthy/Dixon Zone, which is defined as that portion of the Alviso service area that receives water purchased by the City of San José from the City of Milpitas, the potable water quantity charge shall be the price paid the City of San José to the City of Milpitas for Milpitas water supplied to the customer, and that charge shall automatically change concurrently with and equivalent to any change in the costs paid by San José to Milpitas for water. All other applicable rates and charges, including but not limited to SJMWS meter charges and private fireline charges, shall be the same in the McCarthy/Dixon Zone as for all other SJMWS customers.

D. Monthly Private Fireline Charge - Billed on a bi-monthly basis, based on the following monthly rates.

Service Size	2017-2018 Charges
2-inch	\$17.90
3-inch	\$26.84
4-inch	\$35.80
6-inch	\$53.68
8-inch	\$71.58
10-inch	\$89.48

2. The foregoing schedule of rates and charges set forth in this Resolution shall be subject to change by a resolution of the City Council.

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ADOPTED this _____ day of _____, 2017, by the following vote:

AYES:

NOES:

ABSENT:

DISQUALIFIED:

SAM LICCARDO
Mayor

ATTEST:

TONI J. TABER, CMC
City Clerk

RESOLUTION NO. _____

**A RESOLUTION OF THE COUNCIL OF THE CITY
OF SAN JOSE SUPERSEDING RESOLUTIONS
NOS. 67667, 68377 AND 72756 WITH RESPECT TO
RECYCLED WATER METER CHARGES AND
CONTINUING IN EFFECT THE PROVISIONS OF
RESOLUTION No. 68377 RELATED TO THE
CALCULATION OF RECYCLED WATER QUANTITY
CHARGES**

WHEREAS, the City of San José operates the San Jose Municipal Water System (SJMWS), a retail water service provider serving customers in North San José, Alviso, Evergreen, Edenvale and Coyote; and

WHEREAS, SJMWS also provides recycled water service with water purchased from the South Bay Water Recycling Program (SBWR); and

WHEREAS, Resolution No. 67667 of this Council established retail rates for recycled water at a level designed to encourage the use of recycled water and established meter charges and service connection fees for recycled water service that were equal to the meter and service connection charges then currently charged for potable water service; and

WHEREAS, Resolutions No. 68377 and 72756 modified retail rates and charges for recycled water; and

WHEREAS, meter charges for SJMWS recycled water customers are currently indexed to potable meter charges pursuant to City Council Resolution Nos. 67667, 68377 and 72756; and

WHEREAS, a recently completed cost of service analysis for SJMWS potable water service indicated a need to increase potable meter charges, but did not address the cost of providing recycled water service; and

WHEREAS, this Council desires to continue in effect current recycled water meter charges and the provisions of Resolution No. 68377 related to the calculation of recycled water charges; and

WHEREAS, the recycled water meter charges and water quantity rates that are approved in this Resolution are necessary to pay the costs of providing recycled water to customers served by SJMWS; and

WHEREAS, revenue generated by the recycled water meter charges and water quantity rates is not anticipated to exceed the total cost of providing recycled water to customers served by the SJMWS;

NOW THEREFORE BE IT RESOLVED BY THE CITY COUNCIL OF THE CITY OF SAN JOSE THAT:

1. Effective July 1, 2017, the service charge for recycled water provided by the San Jose Municipal Water System shall be as follows, except that the meter charge for recycled water service to former well users shall not exceed \$30 per month:

<u>Service Charge</u>	<u>Per Meter Per Month</u>
For 5/8 x 3/4 - inch meter	\$16.49
For 3/4 - inch meter	\$16.84
For 1 - inch meter	\$29.30
For 1-1/2 - inch meter	\$58.60
For 2 - inch meter	\$90.33

For	3 - inch meter	\$170.91
For	4 - inch meter	\$261.24
For	6 - inch meter	\$341.83
For	8 - inch meter	\$488.35
For	10 - inch meter	\$610.46

2. Effective July 1, 2017 recycled water quantity rates shall be as follows:

<u>Use Type</u>	<u>Charge Per Hundred Cubic Feet</u>
Irrigation	\$3.089
Industrial	\$3.108
Agriculture	\$3.062
Irrigation . former well	\$2.449
Industrial/Agriculture . former well	\$2.772

3. All recycled water quantity charges shall continue to be automatically increased proportionally to any increase in wholesale recycled water costs.
4. Resolution Nos. 67667, 68377 and 72756 with respect to recycled water meter charges are hereby superseded by this Resolution. The provisions of Resolution No. 68377 with respect to the calculation of recycled water quantity charges are continued in effect by this Resolution and for convenience are restated in this Resolution.

ADOPTED this _____ day of _____, 2017, by the following vote:

AYES:

NOES:

ABSENT:

DISQUALIFIED:

SAM LICCARDO
Mayor

ATTEST:

TONI J. TABER, CMC
City Clerk