



Memorandum

TO: HONORABLE MAYOR
AND CITY COUNCIL

FROM: Kerrie Romanow

**SUBJECT: MUNICIPAL WATER SYSTEM
WATER RATES FOR 2021-2022**

DATE: June 1, 2021

Approved

Date

6/3/2021

COUNCIL DISTRICTS: 2, 4, 7, 8

RECOMMENDATION

1. Hold public hearings on San José Municipal Water System 2021-2022 potable and recycled water rates and charges.
2. Adopt resolutions updating San José Municipal Water System potable and recycled water rates and charges, effective July 1, 2021.

OUTCOME

Approval of these recommendations will allow the San José Municipal Water System (SJMWS) to update retail rates and charges, effective July 1, 2021.

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 130,000 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. Potable water for the Evergreen and Edenvale areas is purchased from Valley Water (formerly the Santa Clara Valley Water District) 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 (SBWR) and is retailed to customers in all service areas.

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. Proposed rates for 2021-2022 are based on the results of RFC's study.

In addition to potable water, SJMWS also 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.

ANALYSIS

Potable Water Rates and Charges

The two principal sources of revenue for SJMWS are water sales and fixed monthly meter service charges. Approximately 66% of SJMWS' 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 2020-2021 total cost to operate, maintain, and rehabilitate the water utility system will be approximately \$55.2 million. In 2021-2022, this total cost is estimated to increase to \$59.4 million, as shown in the 2021-2022 Proposed Operating Budget Statement of Source and Use of Funds for the Water Utility Fund. Changes to Water Rates are primarily related to the projected increased cost of wholesale water, as well as COVID-19 related revenue shortfalls. Additional, smaller changes to costs of operating and maintaining the system include site security, personnel costs, and other minor infrastructure improvements. SJMWS estimates that total volume of potable water sold during 2021-2022 will not substantially increase compared to 2020-2021.

The additional costs associated with operating the water utility system excluding wholesale water purchase costs were distributed among all customers, which amounts to an 8% base increase in the fixed (meter) and quantity charges. The SJMWS quantity charges were further adjusted in proportion to increased wholesale water supply costs. In February 2021, Valley Water notified property owners that wholesale rates for North County groundwater may increase by 9.6% in FY 2021-22. On May 11, the Valley Water Board adopted a 9.1% increase for groundwater rates and increased the treated water surcharge by 15%; this adjustment was added to the retail quantity charges for the Evergreen/Edenvale and Coyote area and are added as a passthrough rate adjustment. For 2021-2022, SFPUC is not scheduled to increase wholesale water costs, therefore no additional adjustment was made to quantity charges for the North San José/Alviso area.

In March 2021, notices were sent to inform all SJMWS water customers that Council would be holding a public hearing to consider a potential change in retail water rates and charges for 2021-2022. The notice contained the maximum meter charges and water quantity rates that would be proposed for the City Council's consideration and approval. Actual rates will vary by customer,

but a representative sample increase on an average residential monthly bill based on water usage of 13 HCF with a 3/4 -inch water meter in the North San Jose/Alviso service area is 8%, whereas the same representative sample residential service would see a 12.7% increase in their monthly bill in the Evergreen/Edenvale-Zone 1 area.

Other Potable Water Agency Charges

Other water agencies within the Bay Area have proposed water rate increases for 2021-2022 or may increase water rates to recover wholesale rate increases and other inflationary costs. The below monthly bill figures are representative of sample residential monthly bills based on water usage of 13 HCF (9,725 gallons) with a 3/4-inch water meter.

<u>City/Water Agency</u>	<u>Current Monthly Bill</u>	<u>Proposed Increase</u>	<u>Proposed Monthly Bill</u>
San Francisco	\$144.25	7%	\$154.22
Palo Alto	\$130.70	0%	\$130.70
Redwood City	\$128.74	TBD	\$128.74
Menlo Park	\$136.99	-6%	\$128.27
Milpitas	\$114.41	5%	\$120.33
San Jose Water Company	\$105.59	13.5%	\$119.84
Foster City	\$100.68	3%	\$103.65
City of San José - SJMWS¹	\$95.29	8%	\$102.91
Mountain View	\$101.43	1%	\$102.61
City of San José – SJMWS²	\$84.63	12.7%	\$95.37
Great Oaks Water Company	\$68.01	29%	\$87.58
Santa Clara	\$83.59	4.0%	\$86.97
Sunnyvale	\$84.64	1.5%	\$85.91

¹ Represents monthly bill for customer in North San José/Alviso service area.

² 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 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 below, SJMWS’s recycled water customers will continue to realize a significant savings over potable water even with a change to retail recycled water rates. Rate details for recycled water are provided in the attachment to this memorandum.

Monthly Bill with Proposed 2021-2022 Rates			
	Potable Water	Recycled Water	% Savings
Irrigation Customer: Evergreen Zone 3/4 450 HCF/month, 2-inch meter	\$2,567.10	\$1,672.03	35%
Industrial Customer: North San José 11,000 HCF/month, 10-inch meter	\$63,960.09	\$40,430.66	37%

Note: 1 HCF = 748 gallons

CONCLUSION

Potable and recycled retail water rates will be updated effective July 1, 2021, and revenue will be sufficiently generated to fund projected utility operating costs as reflected in the 2021-2022 Proposed Operating Budget.

EVALUATION AND FOLLOW-UP

A supplemental memo will be submitted to the City Council prior to the June 15, 2021 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.

CLIMATE SMART SAN JOSE

The recommendation in this memo has no effect on Climate Smart San José energy, water, or mobility goals.

PUBLIC OUTREACH

Between March 26-30, 2021, SJMWS sent Public Notices directly to all customers advising them of the proposed rate changes and that a public hearing on the proposed rate change is scheduled for June 15, 2021. SJMWS published a notice in the Mercury News on May 19, 2021, in advance of City Council consideration of the proposed rate increases. As of May 24, 2021, the City Clerk’s Office had received 137 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.

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COORDINATION

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

COMMISSION RECOMMENDATION/INPUT

There is no board or commission recommendation or input for this action.

FISCAL/POLICY ALIGNMENT

The recommended rates for 2021-2022 are consistent with the City Council policy that programs be self-supporting whenever possible. The San José Municipal Water Rates Reduction Strategy Manager's Budget Addendum addressed a pathway to reducing the expected double-digit increase in the San José Municipal Water rates including reviewing strategies related to reducing Valley Water's wholesale rate increase, as well as reviewing strategies to utilize federal assistance to cover the costs incurred by the system due to families' inability to pay water bills.

COST SUMMARY/IMPLICATIONS

The 2021-2022 proposed operating revenues for the Water Utility Fund assume an overall 9% increase to water utility revenue for 2021-2022 to recover the full cost of operating and maintaining the SJMWS distribution system, plus increased wholesale water costs. If the City Council approves a resolution changing SJMWS potable and recycled water rates and charges, as recommended in this memorandum, revenue will be generated to address a projected overall increase in utility operating and capital costs, as reflected in the 2021-2022 Proposed Operating Budget.

CEQA

Statutorily Exempt, File No. PP17-005, CEQA Guidelines Section 15273, Rates, Tolls, Fares, and Charges, Adjustment to Fees, Rates & Fares without changes to or expansion of services.

/s/

KERRIE ROMANOW

Director, Environmental Services

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

Attachment A - Proposed Rate Schedule

**ATTACHMENT A
PROPOSED RATE SCHEDULE**

Table 1: Monthly Meter Charge – Potable and Recycled Water

MONTHLY METER CHARGE <i>(based on meter size)</i>		
Meter Size	2020-21 Charges	New Charges
5/8-inch	\$28.60	\$30.89
3/4-inch	\$28.60	\$30.89
1-inch	\$50.57	\$54.62
1.5-inch	\$87.17	\$94.15
2-inch	\$131.11	\$141.60
3-inch	\$270.23	\$291.85
4-inch	\$475.26	\$513.28
6-inch	\$1,039.06	\$1,122.19
8-inch	\$1,771.27	\$1,912.97
10-inch	\$2,796.38	\$3,020.09

Table 2: Potable Quantity Charge

QUANTITY CHARGE <i>(per HCF*)</i>		
Service Area/Zone	2020-21 Charges	New Charges
Evergreen/Edenvale – Zone 1	\$4.31	\$4.96
Evergreen/Edenvale – Zone 2	\$4.39	\$5.06
Evergreen/Edenvale – Zone 3/4	\$4.70	\$5.39
Evergreen/Edenvale – Zone 5/6	\$5.09	\$5.81
North San José/Alviso	\$5.13	\$5.54
Coyote	\$2.10	\$2.26

Table 3: Potable Bimonthly Private Fireline Charge

BIMONTHLY PRIVATE FIRELINE CHARGE		
Service Size	2020-21 Charges	New Charges
2-inch	\$19.18	\$20.72
3-inch	\$28.76	\$31.07
4-inch	\$38.34	\$41.42
6-inch	\$57.50	\$62.12
8-inch	\$76.68	\$82.82
10-inch	\$95.86	\$103.53

Table 4: Recycled Monthly Quantity Charge

	2020-21 Charges	New Charges
Monthly Quantity Charge (per HCF*)	\$3.114	\$3.401

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