



Memorandum

TO: HONORABLE MAYOR
AND CITY COUNCIL

FROM: Jeff Provenzano

SUBJECT:

DATE: May 12, 2025

Approved

Date

5/15/25

COUNCIL DISTRICT: 2, 4, 7, 8

**SUBJECT: Public Hearing on San José Municipal Water System Potable
(Drinking) and Recycled Water Rates and Charges**

RECOMMENDATION

- (a) Hold a public hearing on San José Municipal Water System potable and recycled water rates and charges effective July 1, 2025.
- (b) Adopt a resolution to increase the current San José Municipal Water System potable water rates and charges effective July 1, 2025 as shown on Attachment A.
- (c) Adopt a resolution to increase the current San José Municipal Water System recycled water rates and charges effective July 1, 2025 as shown on Attachment A.

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, 2025, and generate sufficient revenue to fund projected utility operating costs as reflected in the Fiscal Year (FY) 2025-2026 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, 2025.

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 (excluding any reserves) will be approximately \$77 million in FY 2024-2025 and \$79 million in FY 2025-2026, as shown in the Statement of Source and Use of Funds for the Water Utility Fund included as part of the 2025-2026 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. Additionally, this includes an annual transfer of \$8.8 million to the Water Utility Capital Fund for planned infrastructure improvements. Nominal cost changes related to energy, delinquent and uncollected revenue, and increased operating and maintenance expenses are being partially offset by a reduction in Citywide overhead costs, resulting in no required base adjustment to meter and quantity charges.

As SJMWS estimates that the total volume of water sold during FY 2025-2026 will be similar to FY 2024-2025, a revenue estimate increase of approximately 3% 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 as a pass-through increase to quantity charges, varying based on service area and associated wholesale water supplier. In early 2025, Valley Water notified property owners that wholesale rates for North County groundwater may increase by up to 9.9% in FY 2025-2026. The San Francisco Public Utilities Commission informed wholesale customers of a potential 5.6% maximum rate increase for FY 2025-2026, and subsequently revised its projections to an 2.3% maximum rate increase. On May 13, 2025, San Francisco Public Utilities Commission adopted a 2.3% increase in wholesale water rates. The Valley Water board is scheduled to adopt a 9.9% increase in wholesale water rates on May 27, 2025. These wholesale rate adjustments are added to the retail quantity charges as a passthrough rate adjustment.

Valley Water has indicated 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 2025-2026 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 2025-2026 retail water rates would negatively impact Water Utility Fund health and lead to significantly higher SJMWS rate increases in subsequent years.

In April 2025, 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 effective July 1, 2025. 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 approximate \$7 per month, while the same representative sample residential bill would see an approximate \$9 per month increase in the Evergreen/Edenvale-Zone 1 area.

The proposed rates are lower than in the notice sent to the customers. After notices were sent, the San Francisco Public Utilities Commission adopted rates lower than their previously projected maximum increase and the SJMWS proposed operations and maintenance budget was revised to reflect reduced Citywide overhead costs resulting in no base change to meter and quantity charges. After this downward adjustment, under proposed rates (Attachment A - Proposed Rate Schedule), a representative average residential water bill will increase in the North San José/Alviso service area approximately \$2 per month and \$7 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.

The City is implementing a Utility Billing Amnesty Program from April 1, 2025 through September 30, 2025. This program provides financial relief to eligible water and garbage utility customers who have delinquent balances on their City of San José utility accounts. If such customers pay the outstanding principal balance on their utility account, their late penalty balance will be waived. Payment arrangements may be made during the program period, and principal balances must be paid in full by September 30, 2025 for late penalties to be waived.

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) 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 2025-2026 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.

Table 1 – Tentative Local Monthly Bill Comparison

<u>City/Water Agency</u>	<u>Current Monthly Bill</u>	<u>Proposed Increase</u>	<u>Proposed Monthly Bill</u>
San Francisco	\$174.04	5.1%	\$182.84
Palo Alto	\$163.99	11.4%	\$182.76
Redwood City	\$169.00	N/A	\$169.00
San José Water Company	\$156.33	8.0%	\$168.88
Menlo Park	\$148.52	5.0%	\$155.93
City of San José – SJMWS*	\$152.84	1.1%	\$154.53
Milpitas	\$139.97	6.4%	\$148.88
City of San José – SJMWS**	\$138.28	4.8%	\$144.91
Mountain View	\$131.71	5.0%	\$138.30
Santa Clara	\$115.70	12.2%	\$129.87
Foster City	\$116.84	4.5%	\$122.11
Sunnyvale	\$99.37	6.0%	\$105.34
Great Oaks Water Company	\$93.31	12.8%	\$105.29

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

Table 2 - Monthly Bill with Proposed Rates effective July 1, 2025				
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	\$2,474.64	\$2,702.95	\$4,086.36	34%
Industrial Customer: North San José, 11,000 hundred cubic feet /month, 10-inch meter	\$59,929.07	\$65,509.88	\$101,306.68	35%

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 3, 2025 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 2025-2026 Proposed Operating Budget assume an overall 3% water retail sales revenue increase from the FY 2024-2025 budget in the Water Utility Fund, generating approximately \$3.7 million in additional revenue in FY 2025-2026 to recover the full cost of operating and maintaining the SJMWS distribution system that includes increased wholesale water costs and capital infrastructure needs. The overall 3% percentage increase in 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 write-off of a portion of unpaid bills.

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 2025, 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 3, 2025, 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. SJMWS published a notice in the Mercury News on May 13, 2025 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 5, 2025, the City Clerk's Office had received 215 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. In compliance with California Assembly Bill 2257, 'Local government: property-related water and sewer fees and assessments: remedies' (passed September 2024), the City issued responses to SJMWS customers submitting protests to proposed increases (Attachment B – Response to Municipal Water Protests Received)

This memorandum will be posted on the City's Council Agenda website for the June 3, 2025 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 and 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.

HONORABLE MAYOR AND CITY COUNCIL

May 12, 2025

Subject: Public Hearing on San José Municipal Water System Potable (Drinking) and Recycled Water Rates and Charges

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/s/

JEFF PROVENZANO

Director, Environmental Services

For questions, please contact Jeff Provenzano, Director, Environmental Services Department, at Jeffrey.provenzano@sanjoseca.gov or (408) 535-3500.

ATTACHMENTS

- A) Proposed Rate Schedule
- B) Response to Municipal Water Protests Received

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	2024-25 Charges	Charges Eff. July 1, 2025
5/8-inch	\$39.35	\$39.35
3/4-inch	\$39.35	\$39.35
1-inch	\$69.57	\$69.57
1.5-inch	\$119.92	\$119.92
2-inch	\$180.36	\$180.36
3-inch	\$371.73	\$371.73
4-inch	\$653.77	\$653.77
6-inch	\$1,429.33	\$1,429.33
8-inch	\$2,436.55	\$2,436.55
10-inch	\$3,846.68	\$3,846.68

Table 2: Potable Monthly Quantity Charge

MONTHLY QUANTITY CHARGE <i>(per HCF*)</i>		
Service Area/Zone	2024-25 Charges	Charges Eff. July 1, 2025
Evergreen/Edenvale – Zone 1	\$7.61	\$8.12
Evergreen/Edenvale – Zone 2	\$7.75	\$8.26
Evergreen/Edenvale – Zone 3/4	\$8.17	\$8.68
Evergreen/Edenvale – Zone 5/6	\$8.71	\$9.22
North San José/Alviso	\$8.73	\$8.86
Coyote	\$3.10	\$3.30

Table 3: Potable Bimonthly Private Fireline Charge

BIMONTHLY PRIVATE FIRELINE CHARGE		
Service Size	2024-25 Charges	Charges Eff. July 1, 2025
2-inch	\$26.40	\$26.40
3-inch	\$39.59	\$39.59
4-inch	\$52.77	\$52.77
6-inch	\$79.14	\$79.14
8-inch	\$105.50	\$105.50
10-inch	\$131.89	\$131.89

Table 4: Recycled Monthly Quantity Charge

	2024-25 Charge	Charge Eff. July 1, 2025
Monthly Quantity Charge (per HCF*)	\$5.098	\$5.606

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

ATTACHMENT B
RESPONSE TO MUNICIPAL WATER PROTESTS RECEIVED

Dear San José Property Owner/Customer:

This message is to acknowledge receipt of your written protest to the City of San José's proposed Potable/Drinking Water utility rate increase proposal. We understand that this proposed increase is an additional cost to you. Here is some additional information about the need for it.

As stated in the rate notice you received, the proposed rate increase is required for San José Municipal Water System (SJMWS) to continue to deliver clean drinking water at full cost recovery to its customers. The proposed rate changes will cover the increased cost of wholesale water from Valley Water and San Francisco Public Utilities Commission (SFPUC), energy, and operations and maintenance expenses, amongst other costs.

Compared to other water retailers, SJMWS has historically provided water at some of the lowest rates in Santa Clara County. To view historical water rates, visit the [City Council June 4, 2024 meeting agenda item 6.4](#). City San José makes every effort to reduce the need for rate adjustments and to keep costs low.

We value your rate proposal protest concern on this important matter impacting you and other San José residents. For more program information and utility cost savings, please find:

- [Environmental Services Department's Proposed Operating Budget](#), which will be available online on or about May 1
- [Frequently Asked Questions on proposed utility rate increases](#)
- [Annual Water Quality Report](#)
- View [Muni Water's Spring Water Efficiency Postcard](#) to see where your water dollar goes and [water-saving tips](#)

Should you wish to voice your concerns directly with San José City Council, a public hearing is scheduled at San José City Hall on Tuesday, June 3 at 1:30pm. Discussion on utility rates will occur as soon as the matter can be heard after the start of the meeting.

If you have additional specific questions that have not been addressed, please email SJEnvironment@sanjoseca.gov or call the City of San José Environmental Services Department at (408) 535-8550.

Thank you for your consideration.

Sincerely,

City of San José