



Memorandum

TO: HONORABLE MAYOR
AND CITY COUNCIL

FROM: Kerrie Romanow

**SUBJECT: SEWER SERVICE AND USE
CHARGES AND STORM SEWER
SERVICE CHARGES**

DATE: June 1, 2021

Approved

Date

6/3/2021

RECOMMENDATION

1. Adopt a resolution setting the following Sewer Service and Use Charge rates for 2021-2022:

<u>Category</u>	<u>2021-2022 Monthly Rates</u>
Single-Family Residential	\$41.64
Multi-Family Residential	\$27.90 per unit
Mobile Home	\$31.43 per unit
Non-Monitored Commercial and Industrial	See Attachment A
Monitored Industrial	See Attachment A

2. Adopt a resolution setting the following Storm Sewer Service Charge rates for 2021-2022:

<u>Category</u>	<u>2021-2022 Monthly Rates</u>
Single-Family Residential and Duplex	\$7.87
Mobile Home	\$3.94 per unit
Residential Condominium	\$4.30 per unit
Large Multi-Family Residential (5 or more units)	\$4.30 per unit
Small Multi-Family Residential (3-4 units)	\$14.95
Commercial, Institutional and Industrial	See Attachment B

OUTCOME

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

- Maintain rates at the same level as 2020-2021 for Sewer Service and Use Charges; and
- Maintain rates at the same level as 2020-2021 for Storm Sewer Service Charges.

Approval of the proposed rates for Sewer Service and Use Charges (SSUC) and Storm Sewer Service Charges (SSSC) would enable the City to recover costs in the operating and capital budgets for these programs including compliance with the wastewater discharge permit and stormwater permit requirements; implement critical projects including sanitary and storm sewer system improvements; and continue work on the storm sewer system master plan.

BACKGROUND

Each year, Council reviews the rates for SSUC and SSSC to determine whether adjustments are necessary to align revenue with program costs. The majority of property owners are billed for SSUC and SSSC as a single line item amount on property tax assessments.

SEWER SERVICE AND USE CHARGE

Sewer Service and Use Charges 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 (Facility) and San José's 2,200-mile sewage collection system, including operations and maintenance; capital and equipment improvements; and administration. The 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, as well as the principal and interest on any bonds, loans, and advances for the construction of the system."

STORM SEWER SERVICE CHARGE

The Storm Sewer Service Charge 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." (Municipal Code Section 15.16.1250)

The basis for the proposed SSUC and SSSC charges is discussed below.

ANALYSIS

SEWER SERVICE AND USE CHARGE

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 (BOD), suspended solids (SS), and ammonia (NH₃). 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 2020-2021 the Administration recommended, and Council approved a SSUC rate increase to generate an additional 4.0% in revenue. No rate increase is recommended for 2021-2022 and the single-family monthly rate would remain unchanged at \$41.64.

SSUC Program Expenditures

The Facility has served the community for over 60 years, working non-stop to protect our health, bay, and economy. A master plan adopted by the San José City Council in November 2013 recommended over 120 capital improvement projects to be implemented over a 30-year planning period at an estimated investment level of approximately \$2.1 billion, with over \$1 billion to be invested in the first 10-15 years. Some of the objectives in the master plan include pursuing energy self-sufficiency through renewable energy generation and efficiency, resource recovery of recycled water, biogas production and biosolids reuse, and rigorous review of new technologies. This is balanced with maintaining cost-effective operations, enhancing and/or restoring natural habitat, while increasing the reliability of the wastewater treatment system. Aging pipes, pumps, concrete, and electrical systems need immediate and long-range attention in order to continue those successful operations well in the future.

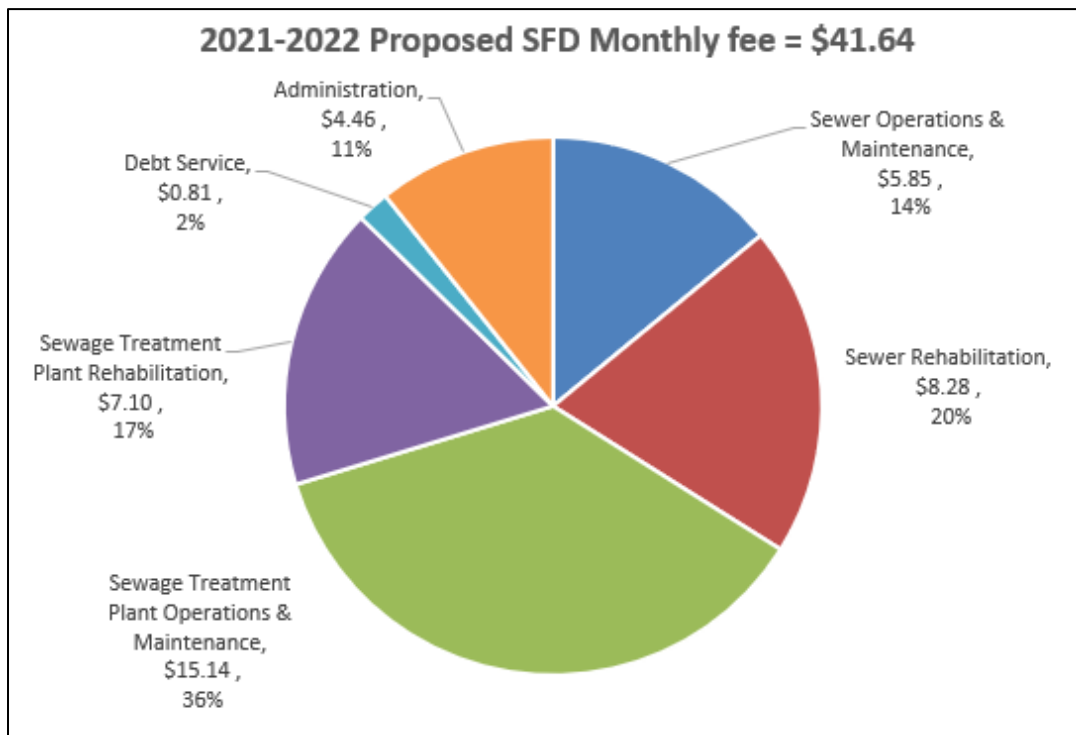
The sanitary sewer system, like the treatment Facility, also needs additional resources to operate and maintain the system in a manner that complies with new, stricter regulations. In addition, ensuring adequate capacity and maintaining system structural integrity continue to be key strategic priorities in reducing and preventing sanitary sewer overflows (SSOs). In support of these key priorities, additional investments will be made to support the completion of sanitary sewer repair and rehabilitation projects throughout the City.

The SSUC Program costs for 2021-2022 are detailed in the 2021-2022 Proposed Operating Budget Statement of Source and Use of Funds for the Sewer Service and Use Charge Fund (pp. X-93 to X-94), and the 2021-2022 Proposed Capital Budget and the 2022-2026 Proposed Capital Improvement Program (CIP) Sanitary Sewer System (pp. V-31 to V-56). The proposed 2021-2022 rates will continue current levels of funding to:

- Continue rehabilitation and replacement of critical infrastructure and equipment at the RWF and the sanitary sewer collection system;
- Maintain regulatory compliance requirements; and
- Keep pace with the inflationary costs associated with the operations and maintenance of both systems.

Previous years' rate increases supported short and long-term financing options to implement major rehabilitation and replacement projects at the RWF and building up the required reserves for eventual long-term bond financing. Additionally, the 2020-2021 rate increases and a portion of liquidity cash reserves supported funding for the City's share of the \$39 million Legacy Lagoons Rehabilitation Project at the Facility's residual solids management area to comply with the Regional Water Quality Control Board Site Cleanup Requirements Order No. R2-2019-0026 (Order). After the rate increases were approved, the City successfully negotiated a deferral of enforcement of the Order and the City Council approved decreasing the 2020-2021 Legacy Lagoons Remediation appropriation¹. In order to avoid a 2021-2022 rate increase for proposed projects, staff recommended using Ending Fund Balance generated in the Sewer Service and Use Charge Fund which resulted from reducing the budget for the Legacy Lagoon Remediation project. Future year rate increases will be necessary to fund the Legacy Lagoons Rehabilitation Project and rebuild liquidity cash reserves. Any future rate increase would require notice to the property owner in compliance with state law.

The chart below displays how the recommended \$41.64 monthly single-family residential fee would be spent.



¹. San Jose City Council Meeting, Item 6.1 -

<https://sanjose.legistar.com/LegislationDetail.aspx?ID=4764604&GUID=3AADC799-AC16-4750-8276-18C7093544C9>

STORM SEWER SERVICE CHARGE

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 their 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.

No rate increases were proposed from fiscal year 2012-2013 through fiscal year 2020-2021, and no increases are recommended for 2021-2022. The single-family monthly rate would remain at \$7.87, unchanged since 2011-2012. It should be noted the flat assessment revenue in the Storm Sewer Operating Fund, and the need to maintain operations and maintenance costs for the storm sewer system are expected to result in significantly reduced capacity to perform important capital rehabilitation projects in the Storm Sewer System beginning in 2023-2024. To prevent underinvestment, identifying additional funding for this capital program, including potentially from the General Fund, must be a priority within the next three years.

The Storm Sewer Master Plan is a comprehensive effort to identify and prioritize needed capacity-related improvements to the storm sewer system by analyzing current conditions and the anticipated future land use developments in the General Plan. The first phase was completed in 2017 and identified over 20 high priority projects totaling \$215 million to address known flooding due to capacity concerns. The ongoing master plan will be used to develop future Storm CIPs and will assist in determining future SSSC revenue requirements. Proposed SSSC rates for 2021-2022 are included in this memorandum as Attachment B.

SSSC Program Expenditures

The SSSC program costs for 2021-2022 are detailed in the 2021-2022 Proposed Operating Budget Statement of Source and Use of Funds for the Storm Sewer Operating Fund (pp. X-98 to X-99), and the 2021-2022 Proposed Capital Budget and the 2022-2026 Proposed Capital Improvement Program Storm Sewer System (pp. V-57 to V-87). Three 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 (NPDES) Stormwater Permit; 2) the increasing age of the storm sewer system, which results in higher maintenance costs and a growing need for replacement and rehabilitation; and 3) future development and system maintenance required to reach storm management goals that will be established by the Storm Master Plan.

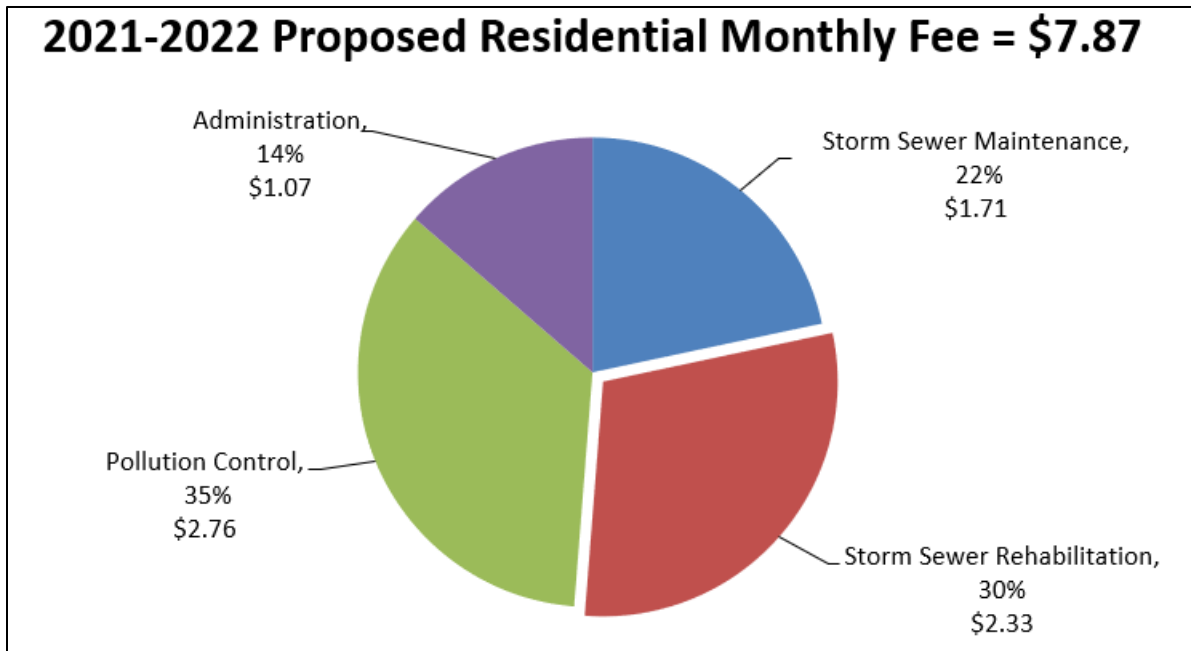
On November 19, 2015, the San Francisco Regional Water Quality Control Board (Water Board) adopted the current NPDES Stormwater Permit to regulate 76 municipalities in the San Francisco Bay Area. The NPDES permit requires the City to implement activities and controls to prevent pollutants from entering the storm sewer collection system, which subsequently transports those untreated pollutants to the City's waterways and ultimately the Bay. The Stormwater Permit requires the City to reduce trash loads from passing through the storm sewer system by 70% by 2017 (the City met this goal), 80% by 2019 (the City met this goal), with a final goal of 100% or no adverse impact by 2022. City staff, in conjunction with other regional stormwater agencies, are actively engaged in discussions regarding the requirements of the next Stormwater Permit which is currently in Administrative Draft form and scheduled to become effective July 1, 2022.

The Stormwater Permit requires new and expanded programs to reduce pollutants, such as mercury, pesticides, and trash discharged through the storm sewer system; expanded implementation of treatment and flow controls on new development projects; expanded water quality monitoring and regional studies; and required rigorous data collection and reporting to demonstrate compliance.

To address requirements of the Stormwater Permit, expenditures in 2021-2022 will focus on:

- Implementing local efforts to address pollutants and participating in regional monitoring and pollution prevention efforts through the Santa Clara Valley Urban Runoff Pollution Prevention Program and the Bay Area Stormwater Management Agencies Association;
- Continuing implementation of the City's Trash Load Reduction Plan;
- Administering the City's Stormwater Inspection Program, which inspects construction sites, stormwater treatment measures, and industrial and commercial facilities that could potentially contribute to stormwater pollution; and
- Continuing rehabilitation and investment in the storm sewer collection system.

The following chart displays how the recommended \$7.87 monthly single-family residential fee would be spent in 2021-2022:



Over the past five years, a total of \$50.4 million (\$11.4 million in 2016-2017, \$13.2 million in 2017-2018, \$4.0 million in 2018-2019, \$12.8 million in 2019-2020, and \$9.0 million in 2020-2021) has been transferred to the Storm Sewer Capital Fund to continue to address aging storm sewer infrastructure and development of a system master plan. In 2021-2022, a total of \$11.5 million is proposed to be transferred to the Storm Sewer Capital Fund though this amount decreases in subsequent years with no amount expected to be transferred in 2025-2026.

Specific projects for 2021-2022 in the Storm Sewer System CIP include:

- Continuation of the multi-phase storm sewer master plan;
- Projects that repair aging storm drain outfall structures throughout the City.

CONCLUSION

Continuation of current rates for the Sewer Service and Use Charges fund (SSUC) and the Storm Sewer Service Charges (SSSC) fund would enable the City to recover costs in the operating and capital budgets for these programs including compliance with the wastewater discharge permit and stormwater permit requirements; implement critical projects including sanitary and storm sewer system improvements; and continue work on the storm sewer system master plan.

HONORABLE MAYOR AND CITY COUNCIL

June 1, 2021

Subject: Sewer Service and Use Charges and Storm Sewer Service Charges

Page 8

EVALUATION AND FOLLOW-UP

Once approved, the Sewer Service and Use Charge and Storm Sewer Service Charge will be billed to property owners for 2021-2022 charges. Staff will return to Council in June 2022 with recommendations for 2022-2023 rates.

CLIMATE SMART SAN JOSE

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

PUBLIC OUTREACH

This memorandum will be posted on the City's website for the June 15, 2021 Council agenda.

Proposition 218 Notifications

Future Prop 218 notices for the SSUC and SSSC funds will be issued annually.

COORDINATION

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

COMMISSION RECOMMENDATION/INPUT

No commission recommendation or input is associated with this action.

HONORABLE MAYOR AND CITY COUNCIL

June 1, 2021

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Page 9

CEQA

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

/s/

KERRIE ROMANOW

Director of Environmental Services

For questions please contact Nick Ajluni, Administrative Officer, at (408) 406-8673.

Attachments:

(A) Sewer Service and Use Charge Schedule of Proposed 2021-2022 Rates

(B) Storm Sewer Service Charge Schedule of Proposed 2021-2022 Rates

ATTACHMENT A

**SEWER SERVICE AND USE CHARGES
SCHEDULE OF PROPOSED RATES
2021-2022**

<u>I. RESIDENTIAL RATES</u>					
	2020-2021 CURRENT RATES		2021-2022 PROPOSED RATES		% CHANGE
	<u>Per Month</u>	<u>Per Year</u>	<u>Per Month</u>	<u>Per Year</u>	
Single-Family Residence	\$41.64	\$499.68	\$41.64	\$499.68	0.00%
Multiple-Family Residence (per unit)	\$27.90	\$334.80	\$27.90	\$334.80	0.00%
Mobile Home (per unit)	\$31.43	\$377.16	\$31.43	\$377.16	0.00%

<u>II. INSTITUTIONAL, COMMERCIAL, AND INDUSTRIAL RATES (less than 25,000 gallons per day)</u>					
	2020-2021 CURRENT RATES		2021-2022 PROPOSED RATES		% CHANGE
	<u>Charge Per Hundred Cubic Feet of Sewage Discharged</u>		<u>Charge Per Hundred Cubic Feet of Sewage Discharged</u>		
Meat Packers	\$5.05		\$5.05		0.00%
Wholesale Bakeries	\$6.27		\$6.27		0.00%
Soft Drink Bottlers	\$6.06		\$6.06		0.00%
Wineries	\$11.50		\$11.50		0.00%
Paper Pulp Mills	\$8.47		\$8.47		0.00%
Plating Works	\$3.50		\$3.50		0.00%
Electrical Equipment	\$3.95		\$3.95		0.00%
Machinery Manufacturers	\$5.56		\$5.56		0.00%
Film Service Laboratories	\$4.04		\$4.04		0.00%
Soft Water Services	\$3.46		\$3.46		0.00%
Car Washes	\$3.78		\$3.78		0.00%
Automotive Steam Cleaners	\$7.77		\$7.77		0.00%
Printing Plants	\$5.32		\$5.32		0.00%
Restaurants/Delis	\$7.63		\$7.63		0.00%
Hotel-Motels	\$4.42		\$4.42		0.00%
Hospitals and Convalescent Homes	\$4.27		\$4.27		0.00%
Private Schools, Colleges & Universities	\$4.54		\$4.54		0.00%
Public Schools, Colleges & Universities	\$4.54		\$4.54		0.00%
Repair Shops & Service Stations	\$4.47		\$4.47		0.00%
Domestic Laundries	\$3.97		\$3.97		0.00%
Business Office/Condos	\$4.02		\$4.02		0.00%
Government Agencies	\$4.02		\$4.02		0.00%
Medical Center/Clinic	\$4.04		\$4.04		0.00%

ATTACHMENT A

**SEWER SERVICE AND USE CHARGES
SCHEDULE OF PROPOSED RATES
2021-2022**

II. INSTITUTIONAL, COMMERCIAL, AND INDUSTRIAL RATES (less than 25,000 gallons per day) continued

	2020-2021 CURRENT RATES	2021-2022 PROPOSED RATES	% CHANGE
	<u>Charge Per Hundred Cubic Feet of Sewage Discharged</u>	<u>Charge Per Hundred Cubic Feet of Sewage Discharged</u>	
Beauty Salon	\$4.27	\$4.27	0.00%
Commercial & Department Stores	\$4.27	\$4.27	0.00%
Storage/Warehouse	\$4.19	\$4.19	0.00%
Health Care	\$4.29	\$4.29	0.00%
Theatre	\$4.45	\$4.45	0.00%
Association/ Communities Services	\$4.02	\$4.02	0.00%
Business Parks	\$4.05	\$4.05	0.00%
Building Construction/ Field Office	\$4.04	\$4.04	0.00%
Parking Lot	\$3.95	\$3.95	0.00%
Gas Service Station	\$4.42	\$4.42	0.00%
Auto Showroom, Body Shop, Detail, and Trucking	\$4.68	\$4.68	0.00%
Manufacturing Paint Products	\$4.04	\$4.04	0.00%
Concrete Company	\$4.05	\$4.05	0.00%
General Manufacturing Industries	\$4.04	\$4.04	0.00%
Chemical Manufacturing	\$4.04	\$4.04	0.00%
Pub	\$4.50	\$4.50	0.00%
Athletic Club, Fitness	\$4.19	\$4.19	0.00%
Cemetery	\$4.19	\$4.19	0.00%
Country Clubs (Golf)	\$4.44	\$4.44	0.00%
Lounges, Clubs, Billiards	\$4.44	\$4.44	0.00%
Convenience Store	\$4.19	\$4.19	0.00%
Boarding/Rooming	\$4.49	\$4.49	0.00%
Cleaners (Commercial Laundry)	\$5.21	\$5.21	0.00%
Plaza/Mall	\$4.79	\$4.79	0.00%
Nursery (Grower)	\$4.97	\$4.97	0.00%
Laboratories (Commercial & Industrial)	\$4.77	\$4.77	0.00%
Café & Ice Creams	\$7.72	\$7.72	0.00%
Donuts & Bakery	\$7.72	\$7.72	0.00%
Supermarket Groceries	\$7.53	\$7.53	0.00%
Mortuary (Embalming)	\$7.53	\$7.53	0.00%
Catering	\$7.56	\$7.56	0.00%
Miscellaneous Commercial, Institutional, and Industrial Premises	\$4.02	\$4.02	0.00%

ATTACHMENT A

**SEWER SERVICE AND USE CHARGES
SCHEDULE OF PROPOSED RATES
2021-2022**

III. MONITORED INDUSTRIES (25,000 gallons per day and over)

	2020-2021 CURRENT RATES	2021-2022 PROPOSED RATES	% CHANGE
<u>A. Capital Cost Recovery:</u>			
Annual charge per million gallons per day of FLOW capacity required, plus	\$91,799.00	\$91,799.00	0.00%
Annual charge per thousand pounds per day of BOD removal capacity required, plus	\$15,037.00	\$15,037.00	0.00%
Annual charge per thousand pounds per day of SS removal capacity required, plus	\$23,381.00	\$23,381.00	0.00%
Annual charge per thousand pounds per day of NH ₃ removal capacity required.	\$2,203.00	\$2,203.00	0.00%
<u>B. Operations & Maintenance Cost Recovery:</u>			
Charge per Hundred Cubic Feet of sewage discharged to the sanitary sewer, plus	\$3.028 (\$4,048/MG)	\$3.028 (\$4,048/MG)	0.00%
Charge per thousand pounds of BOD discharged to the sanitary sewer, plus	\$340.00	\$340.00	0.00%
Charge per thousand pounds of SS discharged to the sanitary sewer, plus	\$380.00	\$380.00	0.00%
Charge per thousand pounds of NH ₃ discharged to the sanitary sewer.	\$2,821.00	\$2,821.00	0.00%

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

ATTACHMENT B

**CITY OF SAN JOSE
Storm Sewer Service Charge
SCHEDULE OF PROPOSED RATES
2021-2022**

RESIDENTIAL RATES*

	2020-2021 CURRENT RATES		2021-2022 PROPOSED RATES		% 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%

ATTACHMENT B

**CITY OF SAN JOSE
Storm Sewer Service Charge
SCHEDULE OF PROPOSED RATES
2021-2022**

INSTITUTIONAL, COMMERCIAL, INDUSTRIAL RATES*

	2020-2021 CURRENT RATES		2021-2022 PROPOSED RATES		% 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, 2021