



# Memorandum

**TO:** HONORABLE MAYOR  
AND CITY COUNCIL

**FROM:** Kerrie Romanow

**SUBJECT:** MUNICIPAL WATER SYSTEM  
WATER RATE CHANGES FOR  
2018-2019

**DATE:** May 14, 2018

Approved

*D-DSL*

Date

*5/25/18*

**COUNCIL DISTRICTS:** 2, 4, 7, 8

## RECOMMENDATION

1. Hold a public hearing on proposed San José Municipal Water System 2018-2019 water rates and charges.
2. Adopt a resolution updating San José Municipal Water System potable and recycled water rates and charges, effective July 1, 2018.

## OUTCOME

Approval of these recommendations will allow the San José Municipal Water System (SJMWS) to update retail rates and charges effective July 1, 2018.

## 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. 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. Proposed rates for 2018-2019 are based on the results of RFC's study.

## **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 SCVWD groundwater augmentation fee for groundwater pumped by SJMWS. It is estimated that the 2017-2018 total cost to operate the water utility system will be approximately \$42.5 million. In 2018-2019, it is estimated that the operating cost of the water utility system will increase to \$45.8 million, as shown in the 2018-2019 Proposed Operating Budget (in the Statement of Source and Use of Funds for the Water Utility Fund). SJMWS estimates that during 2018-2019 the total volume of potable water sold will increase slightly compared to estimated 2017-2018 water sales.

The additional costs associated with operating the water utility system excluding wholesale water purchase costs were distributed among all customers. The SJMWS quantity charges were further adjusted in proportion to the increased wholesale water supply costs. For 2018-2019, SCVWD is scheduled to increase wholesale water rates by 9.7%; this adjustment was added to the retail quantity charges for the Evergreen/Edenvale and Coyote area as a passthrough rate adjustment. For 2018-2019, 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.

The proposed rates for all areas, except the McCarthy/Dixon area, as currently presented to City Council are based on the results of RFC's study. 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

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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.

In April 2018, notices were prepared 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 2018-2019. The notice contained the maximum meter charges and water quantity rates that would be proposed for the City Council's consideration and approval.

### **Other Potable Water Agency Charges**

Other water agencies within the Bay Area have proposed water rate increases for 2018-2019, or may increase water rates, as shown below, to recover wholesale rate increases and other inflationary costs.

| <u>City/Water Agency</u>                    | <u>Current<br/>Monthly Bill</u> | <u>Proposed<br/>Increase</u> | <u>Proposed<br/>Monthly Bill</u> |
|---|---------------------------------|------------------------------|----------------------------------|
| Palo Alto                                   | \$126.82                        | 4%                           | \$131.53                         |
| Redwood City                                | \$119.40                        | 8%                           | \$128.74                         |
| San Francisco                               | \$117.90                        | 7%                           | \$126.06                         |
| Menlo Park <sup>1</sup>                     | \$107.79                        | 13%                          | \$121.39                         |
| San Jose Water Company                      | \$101.56                        | 13%                          | \$115.00                         |
| Milpitas                                    | \$98.17                         | 9%                           | \$107.03                         |
| Mountain View                               | \$98.30                         | 1%                           | \$99.28                          |
| Foster City                                 | \$88.33                         | 6%                           | \$94.05                          |
| <b>City of San José - SJMWS<sup>2</sup></b> | <b>\$88.97</b>                  | <b>4%</b>                    | <b>\$92.51</b>                   |
| Sunnyvale                                   | \$81.35                         | 4%                           | \$84.60                          |
| <b>City of San José – SJMWS<sup>3</sup></b> | <b>\$73.24</b>                  | <b>9%</b>                    | <b>\$79.77</b>                   |
| Santa Clara                                 | \$73.97                         | 5.6%                         | \$78.13                          |
| Great Oaks Water Company                    | \$59.21                         | 8%                           | \$63.98                          |

<sup>1</sup> Rate increase for 2018-2019 already adopted.

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

<sup>3</sup> Represents proposed increase and monthly bill for customer in Evergreen/Edenvale-Zone 1 area.

The above monthly bill figures are representative of average residential monthly bills including water usage of 13 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**

In June 2017, Council adopted a resolution setting recycled water rates, which kept recycled water meter charges at their then-current level and continued to index recycled water quantity

charges to the increases in wholesale price of recycled water. For 2018-2019, staff is recommending no change to the recycled meter charge, and an increase to the quantity charges in proportion to the increased wholesale recycled water costs as described in the previously-adopted resolution.

### **EVALUATION AND FOLLOW-UP**

A supplemental memo will be submitted to the City Council prior to the June 5 Public Hearing to report on the number of written protests and comments received by the City Clerk's Office.

### **PUBLIC OUTREACH**

On April 18, 2018, 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 5, 2018. SJMWS published a notice in the Mercury News on May 15, 2018, in advance of City Council consideration of the proposed rate increases. As of May 8, 2018, the City Clerk's Office had received 45 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 5 public hearing to report on the number of additional protests and comments received by the City Clerk's Office subsequent to May 8, 2018.

### **COORDINATION**

This memorandum 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 rate increase for 2018-2019 is consistent with the City Council policy that programs be self-supporting whenever possible.

### **COST SUMMARY/IMPLICATIONS**

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The 2018-2019 proposed operating revenues for the Water Utility Fund assume a 5.6% increase to water utility revenue for 2018-2019 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 water rates and charges, as recommended in this memorandum, revenue will be generated to address a projected increase in utility operating costs, as reflected in the 2018-2019 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) 277-3671.

Attachment A - 2018-2019 Proposed Rate Schedule

ATTACHMENT A  
2018-2019 PROPOSED RATE SCHEDULE

**Table 1: Monthly Meter Charge**

| <b>MONTHLY METER CHARGE (based on meter size)</b> |                        |                        |
|---|------------------------|------------------------|
| <b>Meter Size</b>                                 | <b>2017-18 Charges</b> | <b>2018-19 Charges</b> |
| 5/8-inch  | \$26.70                | \$27.77                |
| 3/4-inch  | \$26.70                | \$27.77                |
| 1-inch  | \$47.21                | \$49.10                |
| 1.5-inch  | \$81.38                | \$84.64                |
| 2-inch  | \$122.40               | \$127.30               |
| 3-inch  | \$252.27               | \$262.36               |
| 4-inch  | \$443.67               | \$461.42               |
| 6-inch  | \$970.00               | \$1,008.80             |
| 8-inch  | \$1,653.54             | \$1,719.68             |
| 10-inch   | \$2,610.51             | \$2,714.93             |

**Table 2: Monthly Quantity Charge**

| <b>MONTHLY QUANTITY CHARGE (per HCF*)</b> |                        |                        |
|---|------------------------|------------------------|
| <b>Service Area/Zone</b>                  | <b>2017-18 Charges</b> | <b>2018-19 Charges</b> |
| Evergreen/Edenvale – Zone 1               | \$3.58                 | \$4.00                 |
| Evergreen/Edenvale – Zone 2               | \$3.64                 | \$4.07                 |
| Evergreen/Edenvale – Zone 3/4             | \$3.93                 | \$4.37                 |
| Evergreen/Edenvale – Zone 5/6             | \$4.29                 | \$4.75                 |
| North San José/Alviso                     | \$4.79                 | \$4.98                 |
| Coyote                                    | \$1.88                 | \$2.04                 |

**Table 3: Bimonthly Private Fireline Charge**

| <b>BIMONTHLY PRIVATE FIRELINE CHARGE (based on service size)</b> |                        |                        |
|--|------------------------|------------------------|
| <b>Service Size</b>  | <b>2017-18 Charges</b> | <b>2018-19 Charges</b> |
| 2-inch   | \$17.90                | \$18.62                |
| 3-inch   | \$26.84                | \$27.91                |
| 4-inch   | \$35.80                | \$37.23                |
| 6-inch   | \$53.68                | \$55.83                |
| 8-inch   | \$71.58                | \$74.44                |
| 10-inch  | \$89.48                | \$93.06                |

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