



Memorandum

TO: HONORABLE MAYOR
AND CITY COUNCIL

FROM: Kerrie Romanow

**SUBJECT: MUNICIPAL WATER SYSTEM
WATER RATE CHANGES FOR
2019-2020**

DATE: May 21, 2019

Approved

D. DSYL

Date

5/22/19

COUNCIL DISTRICTS: 2, 4, 7, 8

RECOMMENDATION

- (a) Hold a public hearing on proposed San José Municipal Water System 2019-2020 potable and recycled water rates and charges.
- (b) Adopt resolutions updating San José Municipal Water System potable and recycled water rates and charges, effective July 1, 2019.

OUTCOME

Approval of these recommendations will allow the San José Municipal Water System (SJMWS) to update retail rates and charges effective July 1, 2019.

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. 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.

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 2019-2020 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, through a competitive process in 2018, the City contracted with HF&H Consultant, LLC (HF&H) to conduct a cost of service analysis. The proposed rates are based upon the results of HF&H's 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 SCVWD groundwater augmentation fee for groundwater pumped by SJMWS. It is estimated that the 2018-2019 total cost to operate the water utility system will be approximately \$44.7 million. In 2019-2020, it is estimated that the operating cost of the water utility system will increase to \$47.6 million, as shown in the 2019-2020 Proposed Operating Budget (in the Statement of Source and Use of Funds for the Water Utility Fund). SJMWS estimates that total volume of potable water sold during 2019-2020 will not substantially increase compared to 2018-2019.

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 increased wholesale water supply costs. For 2019-2020, SCVWD is scheduled to increase wholesale water rates by approximately 6.6%; this adjustment was added to the retail quantity charges for the Evergreen/Edenvale and Coyote area as a passthrough rate adjustment. For 2019-2020, 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 April 2019, 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 2019-2020. The notice contained the maximum meter charges and water quantity rates that would be proposed for the City Council's consideration and approval (See Attachment A).

Other Potable Water Agency Charges

Other water agencies within the Bay Area have proposed water rate increases for 2019-2020, or may increase water rates, 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>
Redwood City	\$128.74	7%	\$137.75
San Francisco	\$126.06	7%	\$134.90
Palo Alto	\$130.75	0%	\$130.70
San Jose Water Company	\$108.95	8.7%	\$118.43
Menlo Park ¹	\$105.66	11%	\$117.49
Milpitas	\$105.62	3%	\$108.83
Mountain View	\$99.30	1%	\$100.29
Foster City	\$92.04	4.1%	\$95.82
City of San José - SJMWS²	\$92.51	3%	\$95.29
Sunnyvale	\$84.64	0%	\$84.64
City of San José – SJMWS³	\$79.77	6%	\$84.63
Santa Clara	\$77.74	4.5%	\$81.25
Great Oaks Water Company	\$64.24	21.4%	\$74.37

¹ Rate increase for 2019-2020 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/Edenvale-Zone 1 area.

The above monthly bill figures are representative of average residential monthly bills including water usage of 13 HCF (9,725 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

HF&H examined the cost of service to retail recycled water. HF&H determined that the projected revenue requirements to retail recycled water are approximately \$6.2 million, a slight decrease from 2018-2019 fiscal year-end projections. SJMWS estimates that total volume of recycled water sold during 2019-2020 will not substantially increase compared to 2018-2019.

In review of RFC's 2017 potable water rate study, HF&H determined that the analysis for potable water cost-of-service is also applicable to recycled water customers, such as allocating customer service and capacity costs based on standard rate-making procedures. For example, customer service costs (e.g., meter reading and billing) are equal to all accounts regardless of customer class (of which recycled water is one such class).

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The HF&H analysis recommended modifying retail recycled water rates to a structure which provides increased revenue stability in recovering delivery fixed costs. To adjust service charge rates based on the cost-of-service analysis and increase revenue stability, HF&H recommended that recycled water service charge rates be set equal to the potable water service charge rates, thereby increasing the amount of total revenue from fixed charges from 6.6% to 13%. In addition, HF&H recommended a uniform quantity charge rate to all retail recycled water customers; the same methodology applied to potable water rates.

Modification of the recycled water service charge rates increases the amount of fixed revenue, with a resulting decrease in revenue required by the quantity charge. As such, uniform quantity charges will decrease by approximately 7%.

The combination of the increase in the service charges rates and the decrease in the quantity charge rates means that the billing impact to individual customers will vary depending the combination of the size of the meter and the amount of metered used (See Attachment A).

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 2019-2020 Rates			
	Potable Water	Recycled Water	% Savings
Irrigation Customer: Evergreen Zone 3/4 450 HCF/month, 2-inch meter	\$2,246.11	\$1,532.41	32%
Industrial Customer: North San José 11,000 HCF/month, 10-inch meter	\$59,226.38	\$37,050.38	37%

Note: 1 HCF = 748 gallons

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EVALUATION AND FOLLOW-UP

A supplemental memo will be submitted to the City Council prior to the June 4, 2019 Public Hearing to report on the number of written protests and comments received by the City Clerk's Office.

PUBLIC OUTREACH

Between April 17-19, 2019, 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 4, 2019. SJMWS published a notice in the Mercury News on May 14, 2019, in advance of City Council consideration of the proposed rate increases. As of May 8, 2019, the City Clerk's Office had received 39 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, email, and hand delivery to the City Clerk's Office.

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 rate changes for 2019-2020 are consistent with the City Council policy that programs be self-supporting whenever possible.

COST SUMMARY/IMPLICATIONS

The 2019-2020 proposed operating revenues for the Water Utility Fund assume an overall 6.7% increase to water utility revenue for 2019-2020 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 costs, as reflected in the 2019-2020 Proposed Operating Budget.

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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 - 2019-2020 Proposed Rate Schedule

ATTACHMENT A
2019-2020 PROPOSED RATE SCHEDULE

Table 1: Monthly Meter Charge – Potable and Recycled Water

MONTHLY METER CHARGE <i>(based on meter size)</i>		
Meter Size	2018-19 Charges	2019-20 Charges
5/8-inch	\$27.77	\$28.60
3/4-inch	\$27.77	\$28.60
1-inch	\$49.10	\$50.57
1.5-inch	\$84.64	\$87.17
2-inch	\$127.30	\$131.11
3-inch	\$262.36	\$270.23
4-inch	\$461.42	\$475.26
6-inch	\$1,008.80	\$1,039.06
8-inch	\$1,719.68	\$1,771.27
10-inch	\$2,714.93	\$2,796.38

Table 2: Potable Monthly Quantity Charge

MONTHLY QUANTITY CHARGE <i>(per HCF*)</i>		
Service Area/Zone	2018-19 Charges	2019-20 Charges
Evergreen/Edenvale – Zone 1	\$4.00	\$4.31
Evergreen/Edenvale – Zone 2	\$4.07	\$4.39
Evergreen/Edenvale – Zone 3/4	\$4.37	\$4.70
Evergreen/Edenvale – Zone 5/6	\$4.75	\$5.09
North San José/Alviso	\$4.98	\$5.13
Coyote	\$2.04	\$2.10

Table 3: Potable Bimonthly Private Fireline Charge

BIMONTHLY PRIVATE FIRELINE CHARGE <i>(based on service size)</i>		
Service Size	2018-19 Charges	2018-19 Charges
2-inch	\$18.62	\$19.18
3-inch	\$27.91	\$28.76
4-inch	\$37.23	\$38.34
6-inch	\$55.83	\$57.50
8-inch	\$74.44	\$76.68
10-inch	\$93.06	\$95.86

Table 4: Recycled Monthly Quantity Charge

MONTHLY QUANTITY CHARGE (per HCF*)		
Use Type	2018-19 Charges	2019-20 Charges
Irrigation	\$3.351	\$3.114
Industrial	\$3.370	
Agriculture	\$3.324	
Irrigation Former Well	\$2.711	
Industrial Former Well	\$3.034	
Agriculture Former Well	\$3.034	

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