



Memorandum

TO: HONORABLE MAYOR
AND CITY COUNCIL

FROM: Kerrie Romanow

SUBJECT: MUNICIPAL WATER SYSTEM
WATER RATES FOR 2020-2021

DATE: May 25, 2020

Approved

Date

5/28/20

COUNCIL DISTRICTS: 2, 4, 7, 8

RECOMMENDATION

- (a) Hold a public hearing on proposed San José Municipal Water System 2020-2021 potable and recycled water rates and charges.
- (b) Adopt resolutions maintaining San José Municipal Water System potable and recycled water rates and charges at current 2019-2020 amounts, effective July 1, 2020.

OUTCOME

Approval of these recommendations will allow the San José Municipal Water System (SJMWS) to continue retail rates and charges at current amounts, effective July 1, 2020.

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 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 2020-2021 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. In March 2020, Valley Water provided notice to water retailers that they intended to increase wholesale water rates by approximately 8.6%. For 2020-2021, SFPUC is not scheduled to increase wholesale water costs.

Based on the projected increased cost of wholesale water, notices were sent in mid-April 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 2020-2021. The notice contained the maximum meter charges and water quantity rates that would be proposed for the City Council's consideration and approval.

On April 28, 2020, the Valley Water Board of Directors directed staff to revise their budget to reflect no increase to wholesale water rates for 2020-2021, and to return in October 2020 to discuss potential mid-year rate changes. Based upon this information, the 2020-2021 Proposed Operating Budget submitted for Council consideration reflects no wholesale rate increase for 2020-2021 and maintains SJMWS potable and recycled water rates and charges at current 2019-2020 amounts.

In 2020-2021, it is estimated that the operating cost of the water utility system will remain at \$48 million, as shown in the 2020-2021 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 2020-2021 will not substantially increase compared to 2019-2020.

Other Potable Water Agency Charges

Many water agencies within the Bay Area have proposed not to increase water rates for 2020-2021. 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	\$134.90	7%	\$144.25
Menlo Park	\$136.99	N/A	N/A
Palo Alto	\$130.70	0%	\$130.70
Redwood City	\$128.74	0%	\$128.74
Milpitas	\$108.70	6%	\$115.22
San Jose Water Company	\$102.21	3.8%	\$106.11
Mountain View	\$100.38	0.5%	\$100.88
Foster City	\$97.65	3%	\$100.68
City of San José - SJMWS¹	\$95.29	0%	\$95.29
Sunnyvale	\$84.64	0%	\$84.64
City of San José – SJMWS²	\$84.63	0%	\$84.63
Santa Clara	\$80.86	4.3%	\$84.34
Great Oaks Water Company	\$55.03	0%	\$55.03

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. With no recommended change to potable water service charge rates, as well as no planned increase to wholesale water costs, no change in recycled water retail rates will be required for 2020-2021.

CONCLUSION

Potable and recycled retail water rates will not change for 2020-2021, and revenue will be sufficiently generated to fund projected utility operating costs as reflected in the 2020-2021 Proposed Operating Budget.

EVALUATION AND FOLLOW-UP

A supplemental memo will be submitted to the City Council prior to the June 9, 2020 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 which was based on Valley Water's original proposed 8.6% wholesale rate increase. Staff may return with further recommendations pending Valley Water's planned mid-year rate discussions.

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 April 17-20, 2020, SJMWS sent Public Notices directly to all customers advising them of the proposed rate changes (based on Valley Water's then-planned wholesale rate increase) and that a public hearing on the proposed rate change is scheduled for June 9, 2020. SJMWS published a notice in the Mercury News on May 19, 2020, in advance of City Council consideration of the proposed rate increases. As of May 18, 2020, the City Clerk's Office had received 188 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.

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 2020-2021 are consistent with the City Council policy that programs be self-supporting whenever possible.

COST SUMMARY/IMPLICATIONS

The 2020-2021 proposed operating revenue for the Water Utility Fund assumes a minimal increase to recover the full cost of operating and maintaining the SJMWS distribution system, plus wholesale water costs. Due to no increase in wholesale water rates combined with continued use of the existing retail water rates, revenue will be sufficiently generated to fund projected utility operating costs as reflected in the 2020-2021 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 - 2020-2021 Proposed Rate Schedule

ATTACHMENT A
2020-2021 PROPOSED RATE SCHEDULE

Table 1: Monthly Meter Charge – Potable and Recycled Water

MONTHLY METER CHARGE <i>(based on meter size)</i>		
Meter Size	2019-20 Charges	2020-21 Charges
5/8-inch	\$28.60	\$28.60
3/4-inch	\$28.60	\$28.60
1-inch	\$50.57	\$50.57
1.5-inch	\$87.17	\$87.17
2-inch	\$131.11	\$131.11
3-inch	\$270.23	\$270.23
4-inch	\$475.26	\$475.26
6-inch	\$1,039.06	\$1,039.06
8-inch	\$1,771.27	\$1,771.27
10-inch	\$2,796.38	\$2,796.38

Table 2: Potable Monthly Quantity Charge

MONTHLY QUANTITY CHARGE <i>(per HCF*)</i>		
Service Area/Zone	2019-20 Charges	2020-21 Charges
Evergreen/Edenvale – Zone 1	\$4.31	\$4.31
Evergreen/Edenvale – Zone 2	\$4.39	\$4.39
Evergreen/Edenvale – Zone 3/4	\$4.70	\$4.70
Evergreen/Edenvale – Zone 5/6	\$5.09	\$5.09
North San José/Alviso	\$5.13	\$5.13
Coyote	\$2.10	\$2.10

Table 3: Potable Bimonthly Private Fireline Charge

BIMONTHLY PRIVATE FIRELINE CHARGE		
Service Size	2019-20 Charges	2020-21 Charges
2-inch	\$19.18	\$19.18
3-inch	\$28.76	\$28.76
4-inch	\$38.34	\$38.34
6-inch	\$57.50	\$57.50
8-inch	\$76.68	\$76.68
10-inch	\$95.86	\$95.86

Table 4: Recycled Monthly Quantity Charge

	2019-20 Charges	2020-21 Charges
Monthly Quantity Charge (per HCF*)	\$3.114	\$3.114

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