

Memorandum

TO: HONORABLE MAYOR
AND CITY COUNCIL

FROM: Kerrie Romanow

SUBJECT: SEE BELOW

DATE: April 26, 2018

Approved



Date

4/26/18

INFORMATION

SUBJECT: REPORT ON PROPOSITION 218 RATE NOTICING PROCESS FOR UTILITY RATE CHANGES BEGINNING 2018-2019

Last week, the Environmental Services Department (ESD) mailed public notices to utility rate payers in San José, advising them of proposed rate increases and their right to submit a protest to the increase as required by California law (Proposition 218). ESD issued notices for the following utilities: Sewer Service and Use Charge and Municipal Water System potable water rates. For Recycle Plus Residential Garbage and Recycling services, the rate increase noticing process for 2017-2018, 2018-2019, and 2019-2020 was completed in April 2017.

To allow for Council consideration of rate changes in June 2018, the City must provide rate increase notices in spring 2018. This timing allows sufficient time for a 45-day protest period for notice recipients and to conduct a required public hearing at the close of the protest period as required by State law. Details on the rate increase proposal are discussed below. This noticing process required the City to prepare and mail nearly 261,000 individual notices.

Sewer Service and Use Charge Rates

Public notices were mailed to approximately 235,000 residential and commercial Sewer Service and Use Charge ratepayers, advising them of Sewer Service and Use Charge rate increase proposals, including information on how to submit a protest to the increase (see attachments for copies of the public notices). The Sewer Service and Use Charge pays for costs associated with the City's wastewater collection and treatment systems.

The residential public notice sets forth a maximum Sewer Service and Use Charge rate increase of 3.0 percent for 2018-2019. The proposed residential increases for Sewer Service and Use Charge would increase the rate for single-family residences from \$37.91 to \$38.90 per month, increase the rate for multiple-family residences from \$25.40 to \$26.10 per dwelling unit per month, and increase the rate for mobile home residences from \$28.62 to \$29.40 per mobile home

unit per month. If approved by Council, the new rates would become effective July 1, 2018. The public notice and hearing also cover potential residential rate increases in 2019-2020 and 2020-2021 of up to 6.0 percent each year and potential commercial rate increases of up to 16.0 percent each year.

Sewer Service and Use Charge rates were last increased in 2017-2018. The proposed rate increase in this notice is needed for continued rehabilitation and replacement of critical infrastructure and equipment at the Regional Wastewater Facility and support ongoing maintenance of the sanitary sewer collection system.

Municipal Water System Rates

Public notices were mailed to approximately 25,600 record owners/account holders in the Municipal Water System service area, advising them of a proposed rate change for potable water (see attachments for a copy of the public notice). The San José Municipal Water System provides water to Evergreen, Edenvale, Coyote Valley, and North San José. Mailing the notices last week allows sufficient time for a 45-day protest period for notice recipients prior to the public hearing and Council consideration of increased rates on June 5, 2018.

The notice includes a schedule of the maximum proposed potable rates and charges, a sample bill calculation, and average monthly bills based on the maximum proposed rates and charges. Any updated water rates approved by Council would become effective July 1, 2018. Municipal Water rates were last increased in 2017-2018. The proposed rates and charges reflect the current costs of providing water service to specific customer classes, service areas, and pressure zones.

There is a scheduled increase for 2018-2019 in recycled water quantity charges in proportion to the increase in wholesale recycled water costs, as previously approved by Council. Staff is not recommending an increase to the recycled meter charges. To increase public awareness, the Municipal Water System will provide outreach to recycled water customers to notify them of this scheduled increase and the previously approved resolution.

Recycle Plus Rates

Public notices of a proposed three-year rate strategy for 2017-2018 through 2019-2020 were mailed last year, in April 2017, to more than 220,000 residential property owners, advising them of Recycle Plus rate increase proposals for garbage, recycling, yard trimmings, and street sweeping services.

For 2018-2019, ESD is recommending a Recycle Plus rate increase up to 3.0 percent for single-family dwelling and up to 2.0 percent for multi-family dwelling rate payers. Recycle Plus rates were last increased in 2017-2018. The 3.0 percent increase for single-family dwellings will fund annual cost of living adjustments for the haulers. The 2.0 percent increase in multi-family dwelling rates will bring rates to cost recovery as growth and service level increases due to higher occupancy rates have contributed to increased contractual expenditures.

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Storm Sewer Service Charge Rates

No rate increase is proposed for the Storm Sewer Service Charge for 2018-2019. Storm Sewer Service Charge rates remain at 2017-2018 levels, unchanged since 2011-2012. The Storm Sewer Service Charge provides funding for the maintenance of the storm sewer system; to improve the quality of the City's storm and surface water runoff to meet increasing federal, State, and regional regulatory requirements; and to rehabilitate aging system infrastructure. In order to protect water quality in local streams and the South San Francisco Bay, the National Pollutant Discharge Elimination System stormwater permit requires the City to implement activities and controls to prevent pollutants from entering the storm sewer collection system and receiving waters. Rate increases will be reassessed annually and any necessary increases will be brought forward for City Council consideration as part of the annual Proposed Budget process.

Conclusion

Public hearings to review the protests received as part of the Proposition 218 process will be conducted at the Council meeting on June 5, 2018. Proposed utility rate changes for 2018-2019 will be brought to Council for consideration as part of the annual budget process in May and June 2018.

/s/

KERRIE ROMANOW

Director, Environmental Services

For more information, please contact Allen Fong, Administrative Officer, at (408) 975-2619.

Attachments

Notice for Sanitary Sewer Use Charge Rates – Residential

Notice for Sanitary Sewer Use Charge Rates – Commercial

Notice for Municipal Water System Rates

**NOTICE OF PUBLIC HEARING:
PROPOSED SEWER SERVICE AND USE CHARGE RATE INCREASES**

Rate Increases

At the June 5, 2018 public hearing, the Department of Environmental Services will be proposing an overall fund increase of up to 3.0 percent for sanitary sewer services beginning July 1, 2018 to June 30, 2019. There are different amounts for each customer category listed below. See the Cost Allocation section of this rate notice for additional information. If the City Council adopts these proposed increases, the monthly impacts to residential households would be as follows:

**SEWER SERVICE AND USE CHARGES
SCHEDULE OF PROPOSED RATES
2018-2019**

RATES FOR RESIDENTIAL CUSTOMER CATEGORIES

	2017-18 CURRENT RATES		2018-19 PROPOSED RATES		MONTHLY CHANGE
	<u>Per Month</u>	<u>Per Year</u>	<u>Per Month</u>	<u>Per Year</u>	
Single-Family Residence	\$37.91	\$454.92	\$38.90	\$466.80	\$0.99
Multiple-Family Residence (per unit)	\$25.40	\$304.80	\$26.10	\$313.20	\$0.70
Mobile Home (per unit)	\$28.62	\$343.44	\$29.40	\$352.80	\$0.78

This notice also covers possible Sewer Service and Use Charge fund increases of up to 6.0 percent in fiscal year 2019-2020, effective July 1, 2019, and in fiscal year 2020-2021, effective July 1, 2020. The City Council will set the exact rates closer to July 1 for each subsequent fiscal year of up to 6.0 percent, based on refined calculations.

Effective Date of Rate Increases

If the City Council approves the proposed increases at its June 5, 2018 meeting, your Sewer Service and Use Charge will appear on your fiscal year 2018-2019 property tax bill and is due November 1, 2018. If the Council does not approve the proposed rate charges, current rates will remain in effect. The Council may approve any amount of increase in these charges up to the maximums stated in the notice.

If you need assistance determining the impact of the proposed rate adjustments on the charge against your property, or have questions, please call our Customer Contact Center at (408) 535-3500.

Deadline for Protests: June 5, 2018

If you wish to file a protest of the proposed increases to the Sewer Service and Use Charges, you must follow these rules for your protest to be included in the official tally presented to the City Council:

- Protests must be in writing and submitted to the City Clerk before the end of the public testimony on June 5, 2018.
- City Council will accept oral and written testimony at the public hearing regarding the proposed fees.
- ***You must indicate the Assessor's Parcel Number(s)*** of the property(ies) you own that are subject to the proposed rate adjustment. The parcel number is printed at the top of the cover letter.

- *Written* protests may also be submitted to the Office of the City Clerk before the public hearing in the form of a letter, fax, or e-mail:

Mail (or hand-deliver)	Fax	E-mail
Sewer Services Rate Increase City of San José – Office of the City Clerk 200 E. Santa Clara St., 14 th Floor San José, California 95113-1905	(408) 292-6207 Sewer Services Rate Increase	SewerRateProtest@sanjoseca.gov

Reason for the Proposed Increases

The proposed increases will enable the City to ensure reliable utility services and protect public health and safety.

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.

For most properties, the Sewer Service and Use Charge is combined with the Storm Sewer Charge on the annual property tax bill and collected by the County of Santa Clara. *This notice relates only to the Sewer Service and Use Charge, and the proposed rate increases are separate and apart from the Storm Sewer Charge.*

Facility Funding Needs – The Facility has successfully 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 next 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. A capital improvement program of this size requires significant financial resources. The proposed rate increase will help support short and long-term financing options to implement these needed improvements that will ensure the Facility continues to perform its vital role while complying with current and future regulatory requirements. To learn more about the Facility Capital Improvement Program, visit www.sanjoseca.gov/cip.

Sanitary Sewer System Funding Needs – The sanitary sewer collection system, like the treatment Facility, also needs additional resources to operate and maintain the system in a manner that complies with new, stricter state regulations. Additional staffing will be added to address ongoing maintenance issues, and new equipment will be purchased to improve the effectiveness of sewer line cleaning.

**NOTICE OF PUBLIC HEARING:
PROPOSED SEWER SERVICE AND USE CHARGE RATE INCREASES**

Rate Increases

At the June 5, 2018 public hearing, the Department of Environmental Services will be proposing an overall fund increase for sanitary sewer services beginning July 1, 2018 to June 30, 2019. For commercial, institutional, and industrial customers, the proposed fund increase will result in a rate increase of up to 16 percent depending on the nature of your sewage discharge, for fiscal year 2018-2019 (July 1, 2018 to June 30, 2019). Please refer to the attached schedule for more detailed information.

This notice also covers possible Sewer Service and Use Charge rate increases of up to 16 percent in fiscal year 2019-2020, effective July 1, 2019, and in fiscal year 2020-2021, effective July 1, 2020. The City Council will set the exact rates closer to July 1 for each subsequent fiscal year of up to 16 percent, based on refined calculations.

Effective Date of Rate Increases

If the City Council approves the proposed increases at its June 5, 2018 meeting, your new Sewer Service and Use Charge would become effective July 1, 2018. If the Council does not approve the proposed rate charges, current rates will remain in effect. The Council may approve any amount of increase in these charges up to the maximums stated in the notice.

If you need assistance determining the impact of the proposed rate adjustments on the charge against your property, or have questions, please call our Customer Contact Center at (408) 535-3500.

Deadline for Protests: June 5, 2018

If you wish to file a protest of the proposed increases to the Sewer Service and Use Charges, you must follow these rules for your protest to be considered by the City Council:

- Protests must be in writing and submitted to the City Clerk before the end of the public testimony on June 5, 2018.
- City Council will accept oral and written testimony at the public hearing regarding the proposed fees.
- ***You must indicate the Assessor's Parcel Number(s)*** of the property(ies) you own that are subject to the proposed rate adjustment. The parcel number is printed at the top of the cover letter.
- ***Written*** protests may also be submitted to the Office of the City Clerk before the public hearing in the form of a letter, fax, or e-mail as shown below:

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**SEWER SERVICE AND USE CHARGES
SCHEDULE OF PROPOSED RATES
2018-2019**

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

	2017-18 CURRENT RATES	2018-19 PROPOSED RATES	PERCENT INCREASE
	<u>Charge Per Hundred Cubic Feet of Sewage Discharged</u>	<u>Charge Per Hundred Cubic Feet of Sewage Discharged</u>	
Meat Packers	\$4.93	\$5.20	5.48%
Wholesale Bakeries	\$5.87	\$6.40	9.03%
Soft Drink Bottlers	\$5.95	\$6.65	11.76%
Wineries	\$9.81	\$11.31	15.29%
Paper Pulp Mills	\$7.10	\$7.65	7.75%
Plating Works	\$3.64	\$3.58	-1.65%
Electrical Equipment	\$4.05	\$4.05	0.00%
Machinery Manufacturers	\$5.05	\$5.25	3.96%
Film Service Laboratories	\$3.98	\$4.00	0.50%
Soft Water Services	\$3.66	\$3.59	-1.91%
Car Washes	\$3.86	\$3.82	-1.04%
Automotive Steam Cleaners	\$6.45	\$6.76	4.81%
Printing Plants	\$4.88	\$5.04	3.28%
Restaurants/Delis	\$6.59	\$7.19	9.10%
Hotel-Motels	\$4.21	\$4.30	2.14%
Hospitals and Convalescent Homes	\$4.09	\$4.15	1.47%
Private Schools, Colleges & Universities	\$4.68	\$4.82	2.99%
Public Schools, Colleges & Universities	\$4.68	\$4.82	2.99%
Repair Shops & Service Stations	\$4.23	\$4.29	1.42%
Domestic Laundries	\$3.86	\$3.86	0.00%
Business Office/Condos	\$4.03	\$4.06	0.74%
Government Agencies	\$4.03	\$4.06	0.74%
Medical Center/Clinic	\$4.10	\$4.14	0.98%
Beauty Salon	\$4.20	\$4.25	1.19%
Commercial & Department Stores	\$4.20	\$4.25	1.19%
Storage/Warehouse	\$4.00	\$4.02	0.50%
Health Care	\$4.11	\$4.17	1.46%
Theatre	\$4.18	\$4.23	1.20%
Association/ Communities Services	\$4.03	\$4.06	0.74%
Business Parks	\$4.12	\$4.16	0.97%
Building Construction/ Field Office	\$4.12	\$4.16	0.97%
Parking Lot	\$3.84	\$3.84	0.00%
Gas Service Station	\$4.14	\$4.18	0.97%
Auto Showroom, Body Shop, Detail, and Trucking	\$4.41	\$4.49	1.81%
Manufacturing Paint Products	\$4.11	\$4.16	1.22%
Concrete Company	\$4.12	\$4.16	0.97%

INSTITUTIONAL, COMMERCIAL, AND INDUSTRIAL RATES (less than 25,000 gallons per day) Continued

	2017-18 CURRENT RATES	2018-19 PROPOSED RATES	% INCREASE
	Charge Per Hundred Cubic Feet of Sewage Discharged	Charge Per Hundred Cubic Feet of Sewage Discharged	
General Manufacturing Industries	\$4.11	\$4.16	1.22%
Chemical Manufacturing	\$4.11	\$4.16	1.22%
Pub	\$4.31	\$4.39	1.86%
Athletic Club, Fitness	\$4.00	\$4.02	0.50%
Cemetery	\$4.00	\$4.02	0.50%
Country Clubs (Golf)	\$4.18	\$4.23	1.20%
Lounges, Clubs, Billiards	\$4.18	\$4.23	1.20%
Convenience Store	\$4.00	\$4.02	0.50%
Boarding/Rooming	\$4.26	\$4.36	2.35%
Cleaners (Commercial Laundry)	\$4.89	\$5.12	4.70%
Plaza/Mall	\$4.45	\$4.56	2.47%
Nursery (Grower)	\$4.65	\$4.81	3.44%
Laboratories (Commercial & Industrial)	\$4.70	\$4.91	4.47%
Café & Ice Creams	\$6.95	\$7.71	10.94%
Donuts & Bakery	\$6.95	\$7.71	10.94%
Supermarket Groceries	\$6.37	\$6.82	7.06%
Mortuary (Embalming)	\$6.37	\$6.82	7.06%
Catering	\$6.64	\$7.27	9.49%
Miscellaneous Commercial, Institutional, and Industrial Premises	\$4.03	\$4.06	0.74%



**NOTICE OF PUBLIC HEARING:
PROPOSED CHANGES TO POTABLE WATER RATES**

On June 5, 2018, at 1:30 p.m. the San José City Council is scheduled to conduct a public hearing on proposed changes to San José Municipal Water System potable water rates and charges. The hearing will be held at the City Council Chambers, 200 East Santa Clara Street, San José, California 95113. These rates and charges are paid to the City by residential, commercial, institutional, and industrial customers.

At the hearing, the Environmental Services Department will be proposing potable rates, water meter charges, zone charges, and private fire line charges for fiscal year 2018-19 (July 1, 2018 to June 30, 2019). A schedule of the maximum proposed rates and charges is provided on the following pages, along with a sample bill calculation and average monthly bills based on the maximum proposed rates and charges.

Reason for the Proposed Update

The San José Municipal Water System purchases, treats, and delivers an average of 14 million gallons of drinking water per day to residences and businesses in the service areas of Alviso, North San José, Evergreen, Edenvale, and Coyote Valley. The system includes pipelines, pump stations, fire hydrants, storage reservoirs, wells, and water meters as well as facilities and processes required to comply with all state and federal drinking water standards. Water rates and charges are set at a level to generate enough revenue to cover the costs of operating and maintaining this system.

The City sets potable water rates and charges in two categories, to recover fixed costs (meter charges) and variable costs (quantity rates). All customers will continue to be billed a flat service charge based on the size of the water meter (Table 1), as well as a quantity charge per unit of water used (Table 2). The proposed quantity rates reflect the cost to supply water to customers within each service area and within elevation zones in the Evergreen/Edenvale service area. Customers with a dedicated fire service will pay flat monthly charges as shown in Table 3.

The proposed rates and charges reflect the current costs of providing water service to specific customer classes and service areas. Proposed quantity rates include one quantity rate for each service area/zone (no residential tiered rates). The quantity rates reflect the difference in the costs of wholesale water provided to each service area. Proposed meter charges reflect current costs of service to each meter class. Additional information on how to reduce water use is available online at www.sjenvironment.org/waterefficiency or by calling (408) 277-3671.

Deadline to Submit Written Protests: June 5, 2018

If you wish to file a protest to the proposed water rate and charge changes, you must follow these rules for your protest to be included in the official tally presented to the City Council:

- Protests must be in writing and received by the City prior to the close of the public hearing on June 5, 2018.
- *You must indicate your name and the service address* of the property(ies) you own or rent that is/are subject to the proposed rate adjustment.
- Submit *written* protests to the Office of the City Clerk in the form of a letter, fax, or e-mail as shown below:

Mail (or hand-deliver)	Fax	E-mail
San José Municipal Water System Rate Changes City of San José – Office of the City Clerk 200 E. Santa Clara St. San José, CA 95113-1905	(408) 292-6207 San José Municipal Water System Rate Changes	WaterRateProtest@sanjoseca.gov

Table 1: All Customers Monthly Meter Charge

MONTHLY METER CHARGE (based on meter size)		
Meter Size	2017-18 Current Charges	2018-19 Proposed Charges
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

MONTHLY QUANTITY CHARGE (per HCF*)		
Service Area/Zone	2017-18 Current Charges	2018-19 Proposed Charges
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

BIMONTHLY PRIVATE FIRELINE CHARGE (based on service size)		
Service Size	2017-2018 Current Charges	2018-2019 Proposed Charges
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 gallons

Billing Impacts

The proposed potable water rates and charges are shown on Tables 1 and 2. The zone that indicates which charges apply to your service address is indicated at the top of the letter that is attached to this notice. If the City Council adopts the rates as proposed, the impact to your bill can be calculated using the proposed rates as shown in the examples below:

Sample Water Bill Calculations Comparing Current and Proposed Rates

Water Bill Amount (without utility tax) = Meter Charge + (Quantity x Rate per HCF)

Residential Example in Evergreen Zone 5/6:

Monthly Usage: 13 HCF

Meter Size: 3/4-inch

Current Rate: $\$26.70 + (13 \text{ HCF} \times \$4.29) = \$82.47$

Proposed Rate: $\$27.77 + (13 \text{ HCF} \times \$4.75) = \$89.52$

Non-Residential Example in North San José:

Monthly Usage: 100 HCF

Meter Size: 2-inch

Current Rate: $\$122.40 + (100 \text{ HCF} \times \$4.79) = \$601.40$

Proposed Rate: $\$127.30 + (100 \text{ HCF} \times \$4.98) = \$625.30$

Actual impacts to your bill will depend on your service area, meter size, and the amount of water you use. Calculations of average bill impacts are shown in Tables 4 and 5 for residential and industrial customers, respectively. Meter Charge and Quantity Charge are included in all example bill amounts. Average monthly residential bill is based on a 3/4-inch meter and usage of 13 HCF. Average monthly industrial bill is based on a 6-inch meter and usage of 600 HCF.

Table 4: Residential Average Monthly Bill

RESIDENTIAL AVERAGE MONTHLY BILL		
	2017-2018 Charges	2018-2019 Charges
Evergreen - Zone 1	\$73.24	\$79.77
Evergreen - Zone 2	\$74.02	\$80.68
Evergreen - Zone 3/4	\$77.79	\$84.58
Evergreen - Zone 5/6	\$82.47	\$89.52
North San José/Alviso	\$88.97	\$92.53

Table 5: Industrial Average Monthly Bill

INDUSTRIAL AVERAGE MONTHLY BILL		
	2017-2018 Charges	2018-2019 Charges
Evergreen - Zone 1	\$3,118.00	\$3,408.80
Evergreen - Zone 2	\$3,154.00	\$3,450.80
Evergreen - Zone 3/4	\$3,328.00	\$3,630.80
Evergreen - Zone 5/6	\$3,544.00	\$3,858.80
North San José/Alviso	\$3,844.00	\$3,997.76