

Memorandum

TO: HONORABLE MAYOR
AND CITY COUNCIL

FROM: Kerrie Romanow

SUBJECT: SEE BELOW

DATE: March 25, 2021

Approved



Date

3/25/2021

INFORMATION

SUBJECT: REPORT ON PROPOSITION 218 RATE NOTICING PROCESS FOR MUNICIPAL WATER UTILITY, SEWER SERVICE AND USE CHARGE, AND STORM SEWER SERVICE CHARGE RATE CHANGES BEGINNING 2021-2022

In the next week, the Environmental Services Department (ESD) will begin mailing public notices to San Jose Municipal Water System (SJMWS) utility rate payers in San José, advising them of highest potential rate increases based on current information, along with information on how to submit a protest to the potential increase as required by California law (Proposition 218).

Staff recognizes that these are unprecedented and difficult times; however, based upon information currently available, proposed rate increases are necessary to ensure that utilities maintain fiscal health and continue to provide reliable service.

This year, ESD will issue notices for the following utilities: SJMWS potable and recycled water rates and Residential Garbage and Recycling rates. There will be no change to the Sewer Service and Use Charge (SSUC) or the Storm Sewer Service Charge (SSSC) rates in Fiscal Year 21-22.

To allow for Council consideration of rate changes in June 2021, the City must provide rate increase notices in spring 2021. The schedule 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 for the Municipal Water System are discussed below. A study session is scheduled for April 12, 2021 to discuss several items related to the Residential Garbage and Recycling programs including proposed rate adjustments and, therefore, Residential Garbage and Recycling rates are not included in this memorandum. After the April 12 study session, rate notices for Residential Garbage and Recycling will be mailed to ratepayers to allow 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 similar to the process for SJMWS.

This noticing process requires the City to prepare and mail nearly 261,000 individual notices to Municipal Water and Residential Garbage and Recycling rate payers. No Proposition 218 rate notice will be prepared for the SSUC or the SSSC for 21-22.

Municipal Water System Rates

SJMWS purchases, treats, and delivers an average of 15 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. Changes to water rates are primarily related to the projected increased cost of wholesale water, personnel costs, as well as COVID-19 related revenue shortfalls. Additional smaller changes to costs of operating and maintaining the system include site security and other minor infrastructure improvements.

Public notices will be mailed to approximately 26,000 record owners/account holders in the SJMWS service area, advising them of a maximum proposed rate change for potable water (see attachments for a copy of the public notice). Mailing the notices March 26, 2021 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 15, 2021.

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, 2021. Municipal Water rates were last increased July 1, 2019. The proposed rates and charges reflect the current costs of providing water service to specific customer classes, service areas, and pressure zones. The rates listed on the notice result in an approximately \$10 increase to an average residential monthly bill, or approximately 11.6%.

As directed by Councilmember Arenas' memorandum approved by the City Council on March 16, 2021 as part of the discussion of the Mayor's March Budget Message (Item 3.3), the Administration will bring forward a Manager's Budget Addendum during the 2021-2022 Proposed Budget development process to provide a clear pathway to reducing the expected double-digit increase of Municipal Water rates, including reviewing strategies related to reducing Valley Water's wholesale rate increase, as well as reviewing strategies to utilize federal assistance to cover the costs incurred by the system due to families' inability to pay water bills. However, it is important to note that, as an essential service, it is critical that the Municipal Water system receives the appropriate level of revenue to fully fund required operations, maintenance, and capital rehabilitation activities. Accordingly, the pursuit and leveraging of federal funding will likely play the biggest role in providing relief to our most economically impacted residents.

Pursuant to Council Resolution 79111 (continuing in effect Resolution 68377), recycled water rates increase automatically based upon wholesale water increases. To increase public awareness, the SJMWS will provide outreach to recycled water customers to notify them of this scheduled increase.

Sewer Service and Use Charge Rates

No rate increase is proposed for the SSUC for 2021-2022. SSUC rates remain at the 2020-2021 levels, when they were last changed. SSUC rates 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 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 Rates

No rate increase is proposed for the SSSC for 2021-2022. SSSC rates remain at 2020-2021 levels, unchanged since 2011-2012. The SSSC 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 (NPDES) 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 15, 2021. Proposed utility rate changes for 2021-2022 will be brought to Council for consideration as part of the annual budget process in May and June 2021.

HONORABLE MAYOR AND CITY COUNCIL

March 25, 2021

Subject: Report on Proposition 218 Rate Noticing Process for Municipal Water Utility, Sewer Service and Use Charge, and Storm Sewer Service Charge Rate Changes Beginning 2021-2022

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COORDINATION

This memorandum has been coordinated with the City Attorney's Office and the City Manager's Budget Office.

/s/

KERRIE ROMANOW

Director, Environmental Services

For more information, please contact Nick Ajluni, Administrative Officer, at (408) 535-3503.

Attachments

Notice for Municipal Water System Rates

March 26, 2021

Record Owner / <Name>
< Mailing Address >
<Mailing Town>, <Mailing State> <Mailing Postal>

Account No: <Account>
Zone: <zone>
Service Address: <serviceaddress>

San José Municipal Water System (SJMWS) provides these details on proposed potable water rate changes and when they will become effective if the San José City Council approves them. This rate notice is also posted online at www.sjenvironment.org/ratenotices. You received this packet because you are either a record owner of a property with a metered connection to the SJMWS and/or you are a customer that SJMWS bills for services. You may receive multiple copies, as a packet is sent for each service address.

The City of San José recognizes that these are unprecedented and difficult times. This notice identifies the highest potential water rate changes based upon information to date. Final rates will be reviewed at a public hearing conducted virtually before the San José City Council on:

Tuesday, June 15, 2021 at 1:30 p.m.

San José City Hall Council Chambers, 200 East Santa Clara Street, San José, CA 95113 (Virtually)

If you wish to protest the proposed changes, the City must receive your written protest prior to the close of the public hearing on June 15, 2021. The attached notice provides protest information. Information regarding remote meetings is available here: www.sanjoseca.gov/news-stories/watch-a-meeting.

Requesting this Notice in Other Formats and Languages

In accordance with the Americans with Disabilities Act, this letter can be made available upon request in alternative formats such as braille, large print, audiotape, or computer disk. Requests can be made by calling **(408) 535-3500** (voice) or **(800) 735-2929** (California Relay System).

Para Solicitar Este Aviso en Otros Formatos o Idiomas

Este paquete contiene un aviso público que describe los cambios propuestos a las tarifas de agua potable. Para obtener una copia en español de este aviso de tarifa, visite www.sjenvironment.org/ratenotices o llame al **(408) 535-3500**. El Ayuntamiento de San José tendrá una asamblea pública sobre las tarifas propuestas el 15 de junio de 2021 a la 1:30 p.m. en el ayuntamiento de San José. Esta asamblea es también la fecha límite para recibir protestas por escrito.

Xin Thông Báo này dưới hình thức và ngôn ngữ khác

Tài liệu này chứa một thông báo công khai mô tả các thay đổi được đề xuất đối với các mức giá nước uống. Để có bản tiếng Việt của thông báo giá này, hãy truy cập www.sjenvironment.org/ratenotices hoặc gọi **(408) 535-3500**. Hội đồng thành phố San José sẽ tổ chức một phiên điều trần công khai về những mức giá đề xuất vào ngày 15 tháng 6 năm 2021 lúc 1:30 chiều tại Phòng Council Chambers Tòa Thị Chính Thành phố San José. Phiên điều trần này cũng là hạn chót để nhận các kháng nghị bằng văn bản.

Paghiling sa Abisong ito sa Iba pang Mga Format at Wika

Ang paketeng ito ay naglalaman ng pampublikong abiso na naglalarawan sa mga iminumungkahing pagbabago sa mga presyo ng maiinom na tubig. Para makakuha ng Tagalog na kopya ng abiso ng presyo na ito, bisitahin ang www.sjenvironment.org/ratenotices o tumawag sa **(408) 535-3500**. Ang Sangguniang Panlungsod ng San José ay magdaraos ng pampublikong pagdinig sa mga iminumungkahing presyo sa Hunyo 15, 2021 sa ganap na 1:30 p.m. sa Kamara ng Sangguniang Panlungsod ng San José. Ang pagnidig na ito ay siya ring palugit ng pagtanggap ng mga pasulat na protesta.

詢問此通知在其他格式和語言版本

這資料內包有一份關於食水費變更提議的公告。如需獲取該公告的中文版，請遊覽www.sjenvironment.org/ratenotices 或致電 **(408) 535-3500**。聖荷西市議會將於 2021 年 6 月 15 日下午 1:30 在聖荷西市政府議會廳就水費變更提議舉行公開聽證會。該聽證會期也是書面抗議的最後期限。



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

On June 15, 2021, at 1:30 p.m., or when it can be heard after that time, the San José City Council will conduct a public hearing on proposed changes to the SJMWS potable water rates and charges. The hearing will be held at the City Council Chambers, 200 East Santa Clara Street, San José, California 95113 (Virtually). To help stop the spread of COVID-19 and keep our community safe, the City of San José is currently conducting City Council meetings virtually. Members of the public are invited to participate utilizing the following URL: www.sanjoseca.gov/news-stories/watch-a-meeting. Additional information on participating in remote meetings will be posted on the City Council Agenda for the meeting.

At the hearing, the Environmental Services Department will be proposing potable rates, water meter charges, zone charges, and private fire line charges (collectively “Water Rates”) starting fiscal year 2021-22 (July 1, 2021 to June 30, 2022). Water Rates are paid by residential, commercial, and industrial customers. Proposed Water Rates and sample bill calculations are on the following pages.

Reason for the Proposed Update

SJMWS purchases, treats, and delivers an average of 15 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. Changes to Water Rates are primarily related to the projected increased cost of wholesale water, personnel costs, as well as COVID-19 related revenue shortfalls. Additional, smaller changes to costs of operating and maintaining the system include site security and other minor infrastructure improvements.

The Water Rates have two charges, those to recover fixed costs (meter charges) and variable costs (quantity rates). 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 also pay flat service charges as shown in Table 3.

The Water Rates reflect the projected costs of providing water service to specific customer classes and service areas. Proposed quantity rates include one rate for each service area/zone, which reflects the difference in the costs of wholesale water provided to each service area. Proposed meter charges reflect the 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 15, 2021

To protest the proposed Water Rates, you must follow these rules for your protest to be included in the official tally presented to the City Council; if there is a protest of the majority, the City Council will not adopt the increase:

- Written protests must be received by the City ***prior to the close of the public hearing*** on June 15, 2021.
- ***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 City Clerk in the form of a letter, fax, or e-mail as shown below before the start of the public hearing:

Mail	Fax	E-mail
SJMWS Rate Changes City of San José – Office of the City Clerk 200 E. Santa Clara St., Tower 14 th Floor, 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 <i>(based on meter size)</i>		
Meter Size	2020-21 Current Charges	New Proposed Charges
5/8-inch	\$28.60	\$30.89
3/4-inch	\$28.60	\$30.89
1-inch	\$50.57	\$54.62
1.5-inch	\$87.17	\$94.15
2-inch	\$131.11	\$141.60
3-inch	\$270.23	\$291.85
4-inch	\$475.26	\$513.28
6-inch	\$1,039.06	\$1,122.19
8-inch	\$1,771.27	\$1,912.97
10-inch	\$2,796.38	\$3,020.09

Table 2: Quantity Charge

QUANTITY CHARGE <i>(per HCF*)</i>		
Service Area/Zone	2020-21 Current Charges	New Proposed Charges
Evergreen/Edenvale – Zone 1	\$4.31	\$4.97
Evergreen/Edenvale – Zone 2	\$4.39	\$5.06
Evergreen/Edenvale – Zone 3/4	\$4.70	\$5.39
Evergreen/Edenvale – Zone 5/6	\$5.09	\$5.81
North San José/Alviso	\$5.13	\$5.54
Coyote	\$2.10	\$2.27

Table 3: Bimonthly Private Fireline Charge

BIMONTHLY PRIVATE FIRELINE CHARGE <i>(based on service size)</i>		
Service Size	2020-21 Current Charges	New Proposed Charges
2-inch	\$19.18	\$20.72
3-inch	\$28.76	\$31.07
4-inch	\$38.34	\$41.42
6-inch	\$57.50	\$62.12
8-inch	\$76.68	\$82.82
10-inch	\$95.86	\$103.53

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

Billing Impacts

The proposed Water Rates 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 as shown in the examples below:

Example 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: \$28.60 + (13 HCF x \$5.09) = \$94.77

Proposed Rate: \$30.89 + (13 HCF x \$5.81) = \$106.42

Non-Residential Example in North San José:

Monthly Usage: 100 HCF
 Meter Size: 2-inch

Current Rate: \$131.11 + (100 HCF x \$5.13) = \$644.11

Proposed Rate: \$141.60 + (100 HCF x \$5.54) = \$695.60

Actual impacts to your bill will depend on service area, meter size, and the amount of water you use.

Calculations of example 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. Example monthly residential bill is based on a 3/4-inch meter and usage of 13 HCF. Example monthly industrial bill is based on a 6-inch meter and usage of 600 HCF.

Table 4: Example Residential Monthly Bill (3/4" meter and 13 HCF usage)

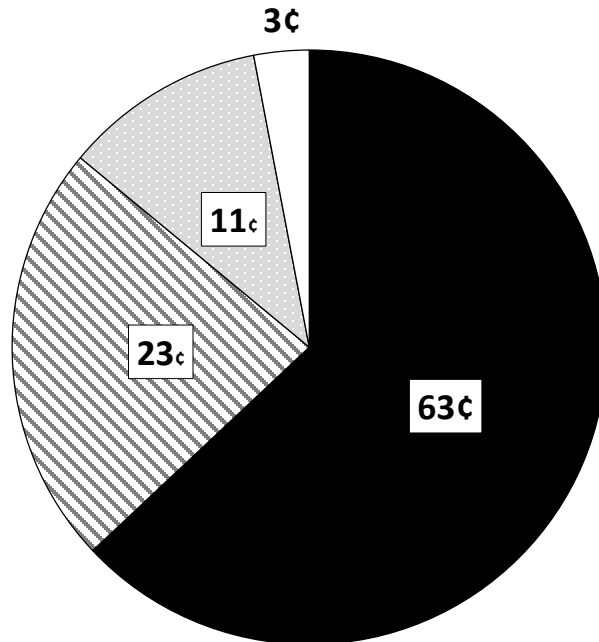
EXAMPLE RESIDENTIAL MONTHLY BILL		
	2020-21 Charges	New Charges
Evergreen/Edenvale – Zone 1	\$84.63	\$95.37
Evergreen/Edenvale – Zone 2	\$85.67	\$96.67
Evergreen/Edenvale – Zone 3/4	\$89.70	\$100.96
Evergreen/Edenvale – Zone 5/6	\$94.77	\$106.42
North San José/Alviso	\$95.29	\$102.91

Table 5: Example Industrial Monthly Bill (6" meter and 600 HCF usage)

EXAMPLE INDUSTRIAL MONTHLY BILL		
	2020-21 Charges	New Charges
Evergreen/Edenvale – Zone 1	\$3,625.06	\$4,098.19
Evergreen/Edenvale – Zone 2	\$3,673.06	\$4,158.19
Evergreen/Edenvale – Zone 3/4	\$3,859.06	\$4,356.19
Evergreen/Edenvale – Zone 5/6	\$4,093.06	\$4,608.19
North San José/Alviso	\$4,117.06	\$4,446.19

Where Your Dollar Goes*

Most ratepayer money goes to purchasing high-quality drinking water from the San Francisco Public Utilities Commission and Valley Water. SJMWS water costs less than a penny per gallon for residential customers. State-certified staff ensure the utility's efficient operation.



- Wholesale Water Purchases (Potable water bought from SFPUC and Valley Water)

- ▣ Operation Costs (Administration; operation and maintenance of water system and equipment; water system maintenance; daily monitoring and testing of drinking water quality)

- ▣ System Improvements (Regular upgrades to vital pipes, tanks and other equipment)

- ▣ Energy Costs (Electricity, gas and solar power to run the water system)

*Graphical representation of approximate costs; refer to the City's budget documents for actual and projected costs and expenditures