



September 21, 2007

Property Owner Name  
Address  
City, State, Zip

Assessors Parcel Number: xxx-xx-xxx  
Property Address: Address

**PUBLIC HEARING NOTICE**  
**PROPOSED WATER AND SEWER RATE INCREASES**  
City of Milpitas City Council Chambers  
455 E. Calaveras Boulevard, 2<sup>nd</sup> Floor  
November 6, 2007  
7:00 pm or as soon thereafter as the matter can be heard

The City is considering raising water and sewer rates in response to increased costs to purchase and distribute water and collect and treat sewage.

**If more than 50% of property owners submit a written protest to the City within the next 45-day protest period, the City cannot act to raise water or sewer rates.**

**If 50% or less of property owners submit a written protest within the next 45 days, the City has the discretion to consider raising water and/or sewer rates up to the amount shown in this notice.** The City Council will decide after hearing comments at the Public Hearing on November 6 at the City Hall Council Chamber at the location identified in the box at the top of this page. The proposed rates, if adopted, will become effective December 6, 2007.

If you do not want the City to raise water or sewer rates, you need to submit a written protest to the City on or before November 6. For your convenience, there is a ballot at the bottom of this page that you may cut off and use as your written protest.

You may submit a written protest by one of the following methods:

1. Email the City Clerk at mlavelle@ci.milpitas.ca.gov,
2. Fax the City Clerk at (408) 586-3030,
3. Mail the City Clerk at City Hall, 455 E. Calaveras Blvd., Milpitas, CA 95035,
4. Hand deliver to the City Clerk at the address above,
5. Bring the written protest to the November 6 City Council public hearing.

Please write **“RATE PROTEST”** in the fax/email subject line or on the outside of the envelope containing your written protest. **In order for your protest to be considered valid it must contain the Assessor’s Parcel Number (APN) shown at the top of this letter, the property address, and the property owner’s name.** Only one written protest submitted for each APN will be counted.

Submit to City Clerk before 5:00 p.m. on November 6, 2007 or bring to the Public Hearing Meeting

Assessors Parcel Number (APN): xxx-xx-xxx  
Property Address: Address

Date: \_\_\_\_\_



I own the property stated above. I am protesting the following rate increases:

- Water Rates
- Sewer Rates

Name (Print): \_\_\_\_\_

Signature: \_\_\_\_\_

This notice of proposed rate increase is being sent to owners of all properties in the City of Milpitas (approximately 16,000) that have a water or sewer account with the City in accordance with Proposition 218 requirements. Proposition 218 is a California initiative passed by the voters of the State of California. The City of Milpitas must comply with Proposition 218 requirements for notification when proposing to increase property-related fees and rates, and must include the language of this notice, provide a public hearing and provide information about property owners can submit a written protest of rate increases.

## **WATER RATES**

**Water rates for most customers are proposed to increase by 7 percent. The City's two water suppliers (San Francisco Public Utilities Commission and Santa Clara Valley Water District) increased the rate they charge Milpitas by 7 and 7.5 percent, respectively, as of July 1, 2007.**

Milpitas' water charges are used to purchase water from our suppliers; to fund costs to administer, operate, and maintain the water distribution system and part of the storm drain collection system; to test the water for purity, and to fund needed improvements to the distribution system. The table on the next page provides current and proposed water rates.

This year both of our water suppliers have requested that their customers, including City of Milpitas customers, voluntarily reduce their water use by 10 percent because of lower-than-normal rainfall last winter. Mandatory water restrictions may need to be imposed next year if drought conditions continue this winter.

## **SEWER RATES**

**Rates for single-family residential customers are proposed to increase by 4 percent.** Rates for non-residential customers are based on water usage and vary depending on benefits received by discharging customers. **The San Jose/Santa Clara Water Pollution Control Plant (WPCP) has increased Milpitas' Operation & Maintenance fees by 3.3% as of July 1, 2007, and Milpitas' Capital Improvement Project costs have more than tripled.**

Sewer charges generate sufficient revenues to pay for treatment at the WPCP and to fund annual costs to administer, operate, and maintain the sewer distribution system and part of the storm drain collection system. The table on the next page provides current and proposed sewer rates.

## **QUESTIONS?**

Please contact the City's Utility Engineering Section if you have any questions about this proposed action:

Howard Salamanca

(408) 586-3348

hsalamanca@ci.milpitas.ca.gov

Paramjit Uppal

(408) 586-3351

puppal@ci.milpitas.ca.gov

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Return to:

City of Milpitas

Attn: City Clerk

455 E. Calaveras Blvd.

Milpitas, CA 95035

**WATER AND SEWER RATES**

**Effective December 6, 2007, if adopted at the November 6, 2007 Public Hearing.**

	<b>CURRENT</b>	<b>PROPOSED</b>	<b>Change</b>
<b>WATER</b>			
Residential (per dwelling unit):			
1-20 Units ♦	\$1.49 per Unit	\$1.59 per Unit	7.0%
21+ Units ♦	\$3.13 per Unit	\$3.35 per Unit	7.0%
Non-Residential:			
Commercial, Industrial, & Institutional	\$3.40 per Unit	\$3.64 per Unit	7.0%
Santa Clara County (Ed Levin Park)	\$1.02 per Unit	\$1.30 per Unit	27.5%
City of Milpitas Accounts	\$1.12 per Unit	\$1.31 per Unit	17.0%
Recycled Industrial Process Use	\$1.70 per Unit	\$1.82 per Unit	7.0%
Recycled Sanitary (Dual Plumbing)	\$1.70 per Unit	\$1.82 per Unit	7.0%
Irrigation:			
Irrigation	\$3.89 per Unit	\$4.16 per Unit	7.0%
Recycled Irrigation	\$3.11 per Unit	\$3.33 per Unit	7.0%
Recycled City of Milpitas Accounts	\$0.61 per Unit	\$0.71 per Unit	16.0%
Recycled (Agricultural Service)	\$0.32 per Unit	\$0.33 per unit	3%
Recycled (Formerly Wells)	\$0.68 per Unit	\$0.73 per Unit	7%
Meter Charges (similar increase for other meter sizes):			
5/8" Residential	\$18.86 Bimonthly	\$20.18 Bimonthly	7.0%
5/8" Non-Residential Meter Charge	\$19.90 Bimonthly	\$21.29 Bimonthly	7.0%
2" Residential Fire Meter Charge	\$30.16 Bimonthly	\$32.27 Bimonthly	7.0%
2" Non-Residential Fire Meter Charge	\$31.90 Bimonthly	\$34.13 Bimonthly	7.0%
<b>SEWER</b>			
Residential (per dwelling unit):			
Single-Family	\$59.70 Bimonthly	\$62.09 Bimonthly	4.0%
Multi-Family	\$43.14 Bimonthly	\$44.36 Bimonthly	2.83%
Mobile Home	\$26.88 Bimonthly	\$27.42 Bimonthly	2.01%
Non-Residential Flat Fee (per account)	\$10.08 Bimonthly	\$10.48 Bimonthly	4.0%
Commercial (based on water usage):			
Motels, Hotels, & Senior Citizen Housing Developments	\$2.39 per Unit	\$2.38 per Unit	-0.4%
General Office, Banks, Government Offices, General Merchandise, Retail, and Shopping Centers; Building, Hardware, and Gardening Material Facilities; Amusement Centers, and Theaters	\$2.39 per Unit	\$2.31 per Unit	-3.3%
City of Milpitas Accounts	\$2.26 per Unit	\$2.31 per Unit	2.2%
Service Stations, Repair Shops, and Car Washes	\$2.41 per Unit	\$2.42 per Unit	0.4%
Eating and Drinking Establishments	\$3.93 per Unit	\$4.17 per Unit	6.1%
Personal Services – Laundries, Barber/Beauty Shops, Cleaners	\$2.20 per Unit	\$2.17 per Unit	-1.4%
Industrial & Institutional (based on water usage):			
DS Water (new account)	N/A	\$0.60 per Unit	N/A
Elmwood Rehabilitation Center	\$2.29 per Unit	\$2.51 per Unit	9.6%
Headway Technology Corporation	\$2.61 per Unit	\$2.32 per Unit	-11.1%
Jefferson Smurfit Corporation	\$0.62 per Unit	\$1.00 per Unit	61.7%
Linear Technology Corporation	\$1.97 per Unit	\$1.97 per Unit	0%
Loral-Fairchild-Lockheed	\$1.89 per Unit	\$1.53 per Unit	-18.9%
Lucky Pure Water	\$1.17 per Unit	\$1.88 per Unit	60.9%
Milpitas Materials	\$0.02 per Unit	\$0.02 per Unit	0%
Prudential Overall Supply	\$2.81 per Unit	\$2.96 per Unit	5.3%
Seagate Technology	\$2.00 per Unit	\$1.49 per Unit	-25.3%
Sipex Corporation	\$2.08 per Unit	\$1.93 per Unit	-7.2%
T. Marzetti Company	\$3.91 per Unit	\$5.26 per Unit	34.4%
Union Pacific Railroad	\$3.08 per Unit	\$2.83 per Unit	-8.1%
US Filter	\$2.33 per Unit	\$2.02 per Unit	-13.3%
Electrical and Electronics Design, Fabrication, Assembly, and Storage Facilities	\$2.35 per Unit	\$2.25 per Unit	-4.3%
Metal Fabrication, Machinery, and Tool Fabrication Facilities	\$3.09 per Unit	\$3.10 per Unit	0.3%
Schools, Colleges, and Churches	\$2.91 per Unit	\$2.75 per Unit	-5.5%
Convalescent Hospitals, Day Care Centers, and Health Service Facilities	\$2.34 per Unit	\$2.33 per Unit	-0.4%
City of San Jose North McCarthy Properties:			
Up to 75,000 gallons per day (gpd)	\$459.00 Bimonthly	\$492.00 Bimonthly	7.2%
For every 1,000 gpd in excess of 75,000 gpd	\$100.00 Bimonthly	\$100.00 Bimonthly	0%

♦ 1 Unit of Water = 748 Gallons = 1 Hundred Cubic Feet (hcf)

**TO CALCULATE YOUR BIMONTHLY BILL:**

**Water:** Multiple your bimonthly water use (in units) by your water rate shown above, and add the bimonthly meter charge based on your meter size.

**Sewer:** For residential customers, your bimonthly charge is shown above.  
For non-residential customers, multiply your bimonthly water use (in units) by your sewer rate shown above and add the bimonthly non-residential flat fee.

# MEMORANDUM

## Engineering Division



**To:** Tom Williams, City Manager  
**Through:** Greg Armendariz, Public Works Director / City Engineer  
**From:** Kathleen Phalen, Utility Engineer  
**Subject:** Analysis of options if water and sewer rates are not increased  
**Date:** August 14, 2007

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At the August 7, 2007 Council meeting, staff recommended rate increases of 7% for water and 4% for sewer. Council asked for an assessment of the impact to City funds if new rates are not adopted this year.

**Background:** The 2007-08 staff recommendations are based on an analysis conducted in accordance with the following Council policies, as described on pages 27-29 of the 2007-08 Proposed Budget and Financial Plan:

1. Develop sufficient revenue to provide adequate level of municipal services for safety of the residents.
2. Fixed assets will be maintained and replaced as necessary, minimizing deferred maintenance.
3. The City will protect and enhance the City's general credit rating of "AA."
4. The City will maintain working capital in the Water and Sewer Funds for unanticipated emergencies.
5. The City will maintain and annually invest in Infrastructure Replacement Funds.
6. The City will avoid balancing the current budget at the expense of future budgets.

### Impact if rates are not raised this year

For water, the impact of no rate increase this year is a decrease in revenue from \$14.4 million to \$13.6 million by the end of the fiscal year. The water fund balance will drop to \$3.6 million, an amount that remains above the recommended minimum reserve of \$3.5 million. Over five years, the impact of no increase this year followed by 7% increases for the next four years is more dramatic due to the effects of compounding. In five years, the water fund balance would be - \$106,000. If the City does not raise water rates 7% this year, it will need to raise rates 10% per year for the next four years to attain an ending balance with the recommended reserve. The attached water fund balance graph shows these results.

For sewer, the impact of no rate increase this year is a decrease in revenue from \$10.1 million to \$9.7 million by the end of the fiscal year. The sewer fund balance will drop to \$6.2 million, an amount that remains above the recommended minimum reserve of \$2.6 million. Over five years,

the impact of no increase this year followed by 4% increases for the next four years is also more dramatic due to the effects of compounding. In five years, the sewer fund balance would be \$387,000. If the City does not raise sewer rates 4% this year, it will need to raise rates 6% per year for the next four years to attain an ending balance with the recommended reserve. The attached sewer fund balance graph shows these results.

### **Options to cover the shortfall if the city does not raise rates**

Possible actions the city may take to address a revenue shortfall in the event that it does not increase rates include the following:

1. Accept the reduced fund balance this year and plan to reanalyze revenue needs next year.

As described above, the City would need to raise water rates 10% for the four years following this one to provide funding equivalent to five years of 7% annual increases. Similarly, the City would need to raise sewer rates 6% for the four years following this one to provide to provide funding equivalent to five years of 4% annual increases.

2. Reduce utility expenses by scaling back the Milpitas utility infrastructure projects.

As owner of the collection and distribution systems, the City may decide when it is in its best interest to perform work. Generally, deferring improvements increases the chances for catastrophic failure and is not cost-effective over the long term. Planned improvement projects include the seismic strengthening of the water system backbone and replacement of pipes at the end of their useful life which has been strongly recommended by the California Joint Legislative Audit Committee (JLAC) to protect public health and safety in the event of an earthquake. A copy of the letter directed to the Bay Area Water Supply and Conservation Agency (of which Milpitas is a member) is attached.

3. Reduce utility expenses by scaling back operational expenses.

Operational expenses include the day-to-day activities that insure the water supply is safe, available whenever a faucet is opened, planning for future needs, and meeting regulatory reporting requirements. Failure to meet these operational activities could result in public health and safety concerns and possible State violations with fines and corrective actions. Staff continues to look for ways to reduce expenses. Some recent examples include a PG&E audit, a change to utility bill processing cost-saving (also on the August 21 Council agenda), critical review of the annual budget and staff attrition impacts, and the Cost Allocation Study.

The City cannot reduce its revenue commitments for the sewer bond which has specific fiscal requirements. The City's obligation to pay the debt service is identified as the highest priority (other expenses are subordinate). A brief summary of the bond Operations Statement requirements include the following commitments:

- i. The City will establish sewer rates sufficient to yield revenues equal to specified amounts.

- ii. The Bond Documents acknowledge the 25% O&M reserve policy and to accumulate additional annual funding for sewer infrastructure replacement.
- iii. The Pro Forma Operations Statement assumptions include future rate increases as recommended by the Financial Utility Master Plan.
- iv. Risk factors include recognition of unforeseen future operational and/or capital expenses and natural disasters.

4. Identify alternate revenue sources.

The City may reduce its transfer to the General Fund or may even transfer funding from the General Fund. The Cost Allocation Study adopted by Council on February 20, 2007 provides the basis for the annual General Fund transfer. This transfer ensures that the water and sewer enterprise funds pay for their share of City support services, such as Human Resources, Accounting, and Information Services, City Attorney, City Manager, and City Council. The employees submitted information on the level of support to several programs. As a result of this study, the General Fund transfer amount has been reduced from prior years. The General Fund has several demands for limited resources; program cuts would be necessary if the General Fund was asked to provide supplemental funding to the utility funds. The Water and Sewer Infrastructure Replacement Funds, along with the Treatment Plant Fund, are possible sources of revenue for capital projects.

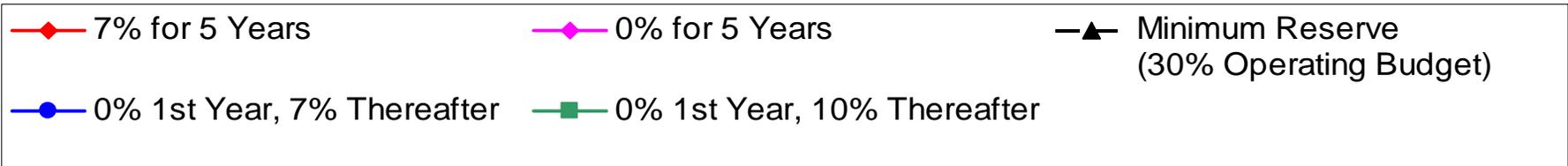
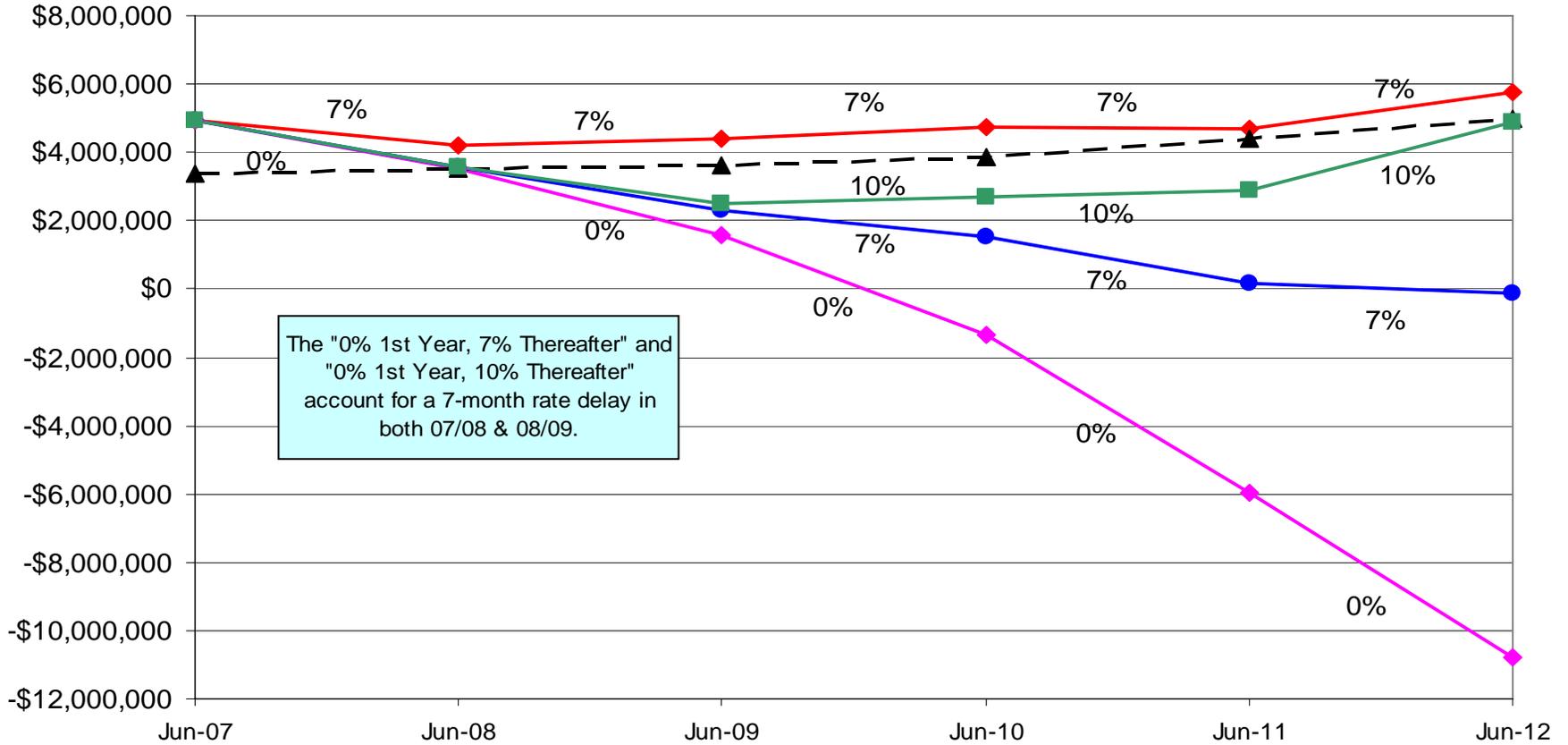
Attachments:

Water Fund Balances

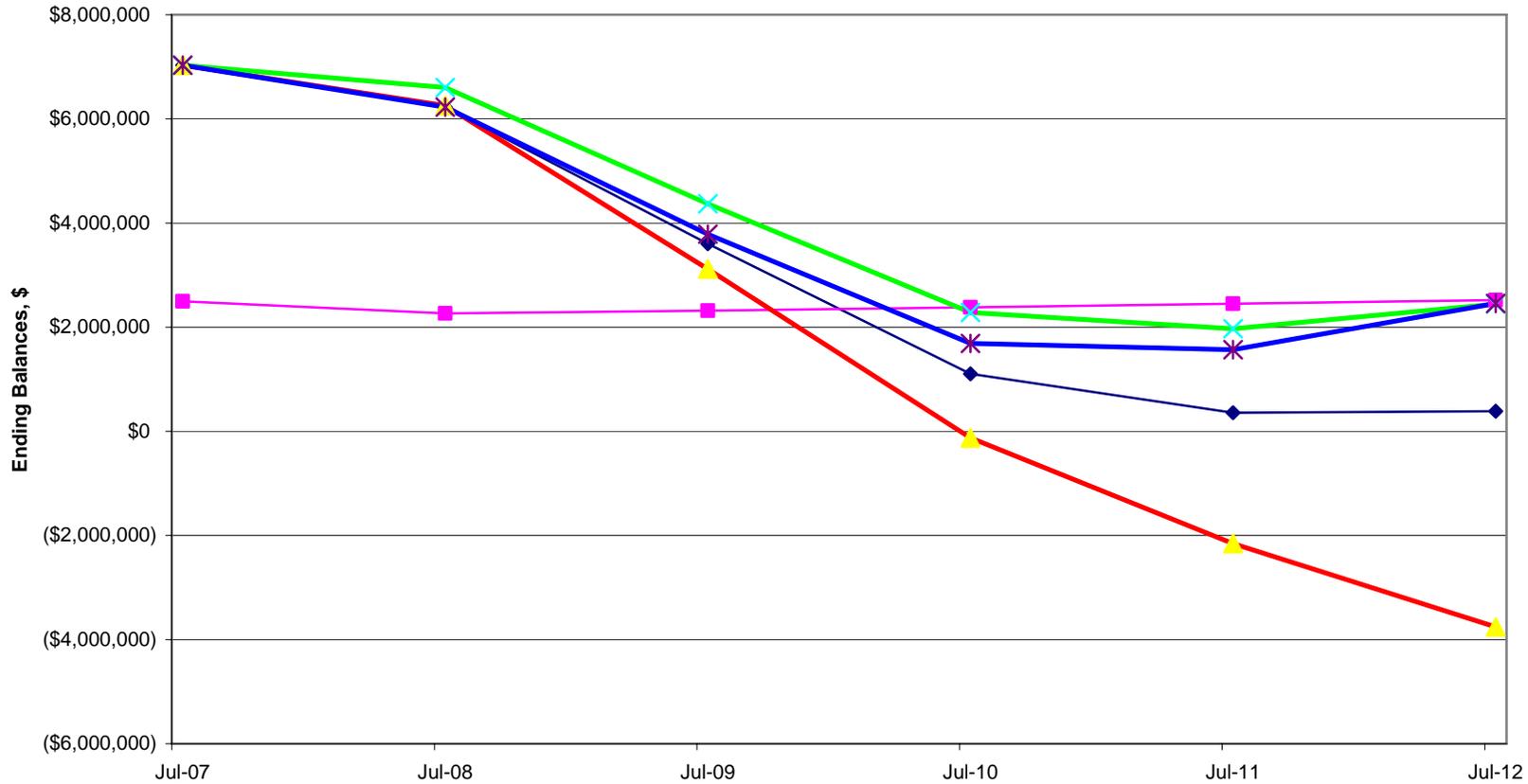
Sewer Fund Balances

California Joint Legislative Audit Committee Letter

# WATER



## Projected Sewer Fund Balances (Fund 450)



- ◆ First year no increase, next four years 4% increase each year
- Minimum Fund Reserve (25% of O & M Cost)
- ▲ No increase next 5 years
- × 4% increase each year in next 5 years
- \* First Year no increase, 6% increase in next 4 year to match 25% O & M in last year

STATE CAPITOL  
P.O. BOX 942849  
SACRAMENTO, CA 94249-0030  
(916) 319-3300  
(916) 319-2352 FAX

RECEIVED 2.21.07

# California Legislature



STAFF  
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PRINCIPAL CONSULTANT  
ANDREW J. HOAG  
ASSOCIATE CONSULTANT  
KATARINA MALY  
COMMITTEE SECRETARY

## JOINT LEGISLATIVE AUDIT COMMITTEE NELL SOTO, CHAIR

February 13, 2007

Susan Leal, General Manager  
San Francisco Public Utilities Commission  
1155 Market Street, 11-GM  
San Francisco, CA 94103

Arthur Jensen, General Manager  
Bay Area Water Supply and Conservation Agency  
155 Bovet Road, Suite 302  
San Mateo, CA 94402

Dear Ms. Leal and Mr. Jensen:

In 2002, the Legislature passed Assembly Bill 1823, which requires the City and County of San Francisco to upgrade the Hetch Hetchy regional water system to prevent prolonged interruptions in water delivery services in the event of a catastrophic earthquake. The following year the agencies that depend on San Francisco's regional water system chose to form the Bay Area Water Supply and Conservation Agency (BAWSCA) to exercise its authorities on their behalf.

Given the state's concern for the health, safety and economic strength of the people and areas served by San Francisco and the BAWSCA agencies, it is important the Legislature monitor the implementation of the Water System Improvement Program (WSIP). To ensure legislative oversight of the project, AB 1823 requires San Francisco to submit various reports to the Joint Legislative Audit Committee (JLAC), Seismic Safety Commission (CSSC) and State Department of Health Services (DHS). Specifically, the Water Code requires the following:

- Section 73502(c) requires annual reports to JLAC, CSSC and DHS describing the progress made on the implementation during the previous fiscal year.
- Section 73502(d)(3) requires changes to the capital improvement program to be reported to the CSSC and DHS. CSSC & DHS are then required, within 90 days, to submit written comments on the public health and safety impact of the changes to JLAC.
- Section 73504 requires annual reports to be submitted to DHS and the Legislature describing the progress made on securing supplemental water supplies during dry years.

SFPUC & BAWSCA Reporting Compliance Letter  
February 13, 2007  
Page Two

The most recent San Francisco Public Utilities Commission (SFPUC) mandated reports received by JLAC include the January 2006 Notice of Changes to the Water System Improvement Report and the September 2006 Annual Progress Report on the Implementation of the Water System Improvement Program.

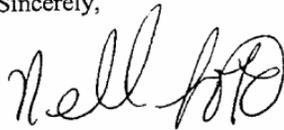
As required by law, JLAC has received the Seismic Safety Commission's and Department of Health Services' review of the SFPUC's March 2006 Notice of Changes to the Water System Improvement Report. Copies of this letter and the reports will be forwarded to the relevant policy committees and legislators whose constituents are in the BAWSCA service area for their review. The reports are attached and I strongly urge you to pay close attention to and consider the agencies' observations, conclusions and recommendations as they could further protect the residents, public agencies and economy of the Bay Area.

I believe the SFPUC should promptly address the recommendations in both reports that relate to the work on the regional water system. To provide even greater protection of the health, safety and economic well being for the people and institutions that depend on the Hetch Hetchy regional water system, the SFPUC and BAWSCA members are also urged to address the CSSC's recommendations related to their retail water systems.

I would like to trust that your respective agencies will follow through with these thoughtful recommendations. The Committee may call on your agencies at some future time to demonstrate what progress has been made.

Your prompt attention to this issue is greatly appreciated. If you have any questions or concerns, please contact me or JLAC staff, Missy Johnson, at 916/319-3300.

Sincerely,



**NELL SOTO**  
Chair

NS: mj

Cc: Members, Joint Legislative Audit Committee  
Members, Senate Local Government Committee  
Members, Senate Natural Resources and Water Committee  
Members, Assembly Local Government Committee  
Members, Assembly Water, Parks and Wildlife Committee  
Members, Assembly Utilities and Commerce Committee  
Members, Bay Area Legislative Delegation