

REGULAR

NUMBER: 120.44

TITLE: AN ORDINANCE OF THE CITY OF MILPITAS AMENDING SECTIONS 6.06 AND 6.08 RELATING TO DEPOSITS FOR SERVICE AND METER TESTS, AND REPEALING AND REPLACING SECTIONS 6.13, 6.14, 6.15 AND 6.16, CHAPTER 1, TITLE VIII OF THE MILPITAS MUNICIPAL CODE, RELATING TO QUANTITY CHARGES, BIMONTHLY WATER METER CHARGES, FIRE SERVICE CHARGES AND EFFECTIVE DATE OF WATER RATES

HISTORY: This Ordinance was introduced (first reading) by the City Council at its meeting of August 7, 2007, upon motion by Vice Mayor Livengood, and was adopted (second reading) by the City Council at its meeting of _____, upon motion by Councilmember _____. The Ordinance was duly passed and ordered published in accordance with law by the following vote:

AYES:

NOES:

ABSENT:

ABSTAIN:

ATTEST:

APPROVED:

Mary Lavelle, City Clerk

Jose S. Esteves, Mayor

APPROVED AS TO FORM:

Michael J., City Attorney

ORDAINING CLAUSE:

THE CITY COUNCIL OF THE CITY OF MILPITAS DOES ORDAIN AS FOLLOWS:

SECTION I

Amendment to Section VIII-1-6.06. Title VIII, Chapter 1, Section 6.06 of the Milpitas Municipal Code is hereby amended to read as follows:

VIII-1-6.06 Deposits for Service

As a condition precedent to providing or restoring service for single-family residential accounts, a cash deposit ~~not to exceed~~ of One Hundred and Fifty Dollars (\$150.00) per meter may shall be required. After a continuous twelve-month period of satisfactory payment history, the cash deposit, without interest, may be refunded through credit to the next utility bill. Satisfactory payment history is established when a customer did not incur any one or more of the following charges within a continuous twelve month period: late payment penalties, turnoffs, or returned checks due to insufficient funds. Under no circumstances will the cash deposit be refunded if the City had any evidence of meter tampering or water diversion, regardless of payment history. Otherwise, the deposit, without interest, will be refunded through credit to the last utility bill at the termination of service. The deposit may be waived for customers applying for residential utility service who within the past five-year period terminated a former City of Milpitas utility service account with a satisfactory payment history at the time of termination. by the City Manager to secure future compliance in the case of customers who, repeatedly violate regulations or who repeatedly fail to pay water bills promptly or whose past bill shall, in the judgment of the City Manager, be deemed to be uncollectible. This deposit, without interest, will be returned at the termination of service and the payment of all bills charged to the customer.

Amendment to Section VIII-1-6.08. Title VIII, Chapter 1, Section 6.08 of the Milpitas Municipal Code is hereby amended to read as follows:

VIII-1-6.08 Meter Tests

If requested by a customer as a result of an apparently excessive bill, the City will conduct a meter test. The customer will be requested to be present at such test. Customers may request up to three (3) meter accuracy tests in any twelve (12) month period at no charge. If additional tests are requested within the twelve (12) month period, the customer shall pay Fifty Dollars (\$50.00) for each subsequent test. Only one (1) meter test will be conducted per customer during any twelve (12) month period. If additional tests are requested, they will be allowed only under the following conditions:
The customer shall submit a Five Dollar (\$5.00) deposit. If the meter registers more than two percent (2%) fast, the deposit shall be refunded, and the customer's bill shall be credited proportionately. If the meter registers less than two percent (2%) fast, the City will retain the deposit in order to offset partially its costs. If the meter registers more than two percent (2%) slow, the customer's bill will be debited proportionately.

Amendment to Section VIII-1-6.13. Title VIII, Chapter 1, Section 6.13 of the Milpitas Municipal Code is hereby repealed and replaced to read as follows:

VIII-1-6.13 Quantity Charges:

The quantity charges per hundred cubic feet for metered water service shall be as follows:

Categories	2007/2008 Rate
Residential customers (per dwelling unit)	
1-20 hcf	\$1.59
21+ hcf	\$3.35
Commercial, Industrial, Institutional, and Construction Meter	\$3.64
Recycled Industrial Process Use	\$1.82
Recycled Sanitary Use (Inside Dual Plumbing)	\$1.82
Potable Irrigation	\$4.16
Recycled (Formerly Served by Wells)	\$0.73
Recycled (Agricultural Service)	\$0.33
For City Accounts (Recycled)	\$0.71
Recycled (All others)	\$3.33
Santa Clara County (Ed Levin Park)	\$1.30
City of Milpitas accounts (potable)	\$1.31

1 hcf = One Hundred Cubic Feet = 748 Gallons

No adjustments shall be granted to any water account holder due to variation in the days of service for any bimonthly billing period. Acceptable days of service range from 50 to 69 days per bimonthly billing period.

Amendment to Section VIII-1-6.14. Title VIII, Chapter 1, Section 6.14 of the Milpitas Municipal Code is hereby repealed and replaced to read as follows:

VIII-1-6.14 Bimonthly Water Meter Charges:

Water Meter Charges:

The bimonthly charges for water meters shall be made on the basis of the size of the water meter (excluding Recycled Irrigation Formerly Served by Wells and Agricultural Service customers), and shall be as follows:

a) For Residential Customers:

Water Meter Size, inches	2007/2008 Charges
5/8	\$20.18
3/4	\$21.45
1	\$30.47
1-1/2	\$38.43
2	\$50.15
3	\$134.27
4	\$170.15
6	\$259.66
8	\$340.20
10	\$492.45

b) For Non-Residential Customers (excluding Recycled Irrigation Formerly Served by Wells and Agricultural Service customers):

Water Meter Size, inches	2007/2008 Charges
5/8	\$21.29
3/4	\$22.64
1	\$32.22
1-1/2	\$40.62
2	\$52.97
3	\$141.80
4	\$179.65
6	\$274.22
8	\$359.28
10	\$520.07

c) For Recycled Irrigation Formerly Served by Wells and Agricultural Service Customers:

\$60.00 bimonthly

d) For Construction Meters:

\$150.00 bimonthly

Amendment to Section VIII-1-6.15. Title VIII, Chapter 1, Section 6.15 of the Milpitas Municipal Code is hereby repealed and replaced to read as follows:

VIII-1-6.15 Fire Service Charges:

The bimonthly charges for fire services provided by detector check valves shall be made on the basis of the size of the detector check valve, and shall be as follows:

a) For Residential Customers:

Detector Check Valve Size, inches	2007/2008 Charges
2	\$32.27
3	\$48.47
4	\$53.86
6	\$70.05
8	\$86.18
10	\$102.35

b) For All Other Customers:

Detector Check Valve Size, inches	2007/2008 Charges
2	\$34.13
3	\$51.20
4	\$56.89
6	\$73.99
8	\$90.99
10	\$108.04

Water service for fire services provided by detector check valves shall be used solely for the purpose of fire protection and testing of such fire protection systems. In the event that water service provided by detector check valves is used for purposes other than such purposes, a quantity charge of \$14.75 per hundred cubic feet shall be imposed for water use that exceeds one hundred cubic feet per billing period.

Amendment to Section VIII-1.6.16. Title VIII, Chapter 1, Section 6.16 of the Milpitas Municipal Code is hereby repealed and replaced to read as follows:

VIII-1-6.16 Effective Date of Water Rates:

The deposits for service in Section 6.06, the meter test fees in Section 6.08, the 2007/08 water quantity charges in Section 6.13, the water meter charges in Section 6.14, and the fire service charges in Section 6.15 as established by this ordinance shall become effective for services received on or after November 15, 2007.

SECTION II

This ordinance shall be ineffective if, at the conclusion of the public hearing to hear protests to the proposed increase in water rates to be held on October 16, 2007, the City Council determines that a majority protest exists pursuant to Section 6 of Article XIII(D) of the California Constitution.

SECTION III

Severability. If any provision of this ordinance or the application thereof to any person or circumstance is held invalid or unenforceable by a court of competent jurisdiction, the remainder of the ordinance and all prior amendments, language and iterations of any related ordinance, including the application of such part or provision to other persons or circumstances shall not be affected thereby and shall continue in full force and effect. To this end, provisions of the ordinance are severable. The City Council hereby declares that it would have passed each section, subsection, subdivision, paragraph, sentence, clause, or phrase hereof irrespective of the fact that any one or more sections, subsections, subdivisions, paragraphs, sentences, clause, or phases, or the application of any of the foregoing to a particular person or circumstance, be held unconstitutional, invalid, or unenforceable.

SECTION IV

Effective Date; Publication. In accordance with Section 36937 of CA Government Code, this Ordinance shall take effect and be in force thirty (30) days from and after the date of its passage. The Milpitas City Clerk shall cause this Ordinance to be published in accordance with Section 36933 of the CA Government Code.

REGULAR

NUMBER: 208.41

TITLE: AN ORDINANCE OF THE CITY OF MILPITAS REPEALING AND REPLACING SECTION 6.01, CHAPTER 2, TITLE VIII OF THE MILPITAS MUNICIPAL CODE, RELATING TO SEWER SERVICE CHARGES

HISTORY: This Ordinance was introduced (first reading) by the City Council at its meeting of August 7, 2007, upon motion by Vice Mayor Livengood, and was adopted (second reading) by the City Council at its meeting of _____, upon motion by Councilmember _____. The Ordinance was duly passed and ordered published in accordance with law by the following vote:

AYES:

NOES:

ABSENT:

ABSTAIN:

ATTEST:

APPROVED:

Mary Lavelle, City Clerk

Jose S. Esteves, Mayor

APPROVED AS TO FORM:

Michael J. Ogaz, City Attorney

ORDAINING CLAUSE:

THE CITY COUNCIL OF THE CITY OF MILPITAS DOES ORDAIN AS FOLLOWS:

SECTION I

SECTION VIII-2-6.01 OF THE MILPITAS MUNICIPAL CODE IS HEREBY REPEALED AND REPLACED TO READ AS FOLLOWS:

The following amounts shall be assessed upon each premise maintaining a sewer connection with the City's sewage system.

1. RESIDENTIAL - Bimonthly for each dwelling unit

Category	FY 2007/08
Single Family Per Dwelling Unit	\$62.09
Multi-Family Per Dwelling Unit	\$44.36
Mobile Home Parks Per Dwelling Unit	\$27.42

2. COMMERCIAL, INDUSTRIAL AND MISCELLANEOUS PREMISES

- a) Flat Rate: For non-residential accounts, there shall be a flat rate assessed every billing cycle during which normal billing takes place, regardless of the amount of sewage discharged, in the amount of \$10.48 per bimonthly period to defray billing and sewer system administration costs.
- b) Quantity and Strength Charges: For each commercial, industrial, or miscellaneous premises, a charge for each one hundred cubic feet of water used per billing cycle shall be charged as follows:

Category	FY 2007/08
Motels, Hotels & Senior Citizen Housing Developments	\$2.38
General office, banks, government offices general merchandise, retail, and shopping centers; building, hardware, and gardening material facilities; amusement centers, and theaters	\$2.31
City of Milpitas	\$2.31
Service stations, repair shops, and car washes	\$2.42
Eating and drink establishments	\$4.17
Personal services – laundry, barber/beauty shops, cleaners	\$2.17
Jefferson Smurfit Corporation	\$1.00
T. Marzetti Co.	\$5.26
Prudential Overall Supply	\$2.96
Loral-Fairchild-Lockheed	\$1.53
US Filter	\$2.02
Sipex Corporation	\$1.93
Lucky Pure Water	\$1.88
DS Water	\$0.60
Milpitas Materials	\$0.02
Union Pacific Railroad	\$2.83
Headway Technology Corporation	\$2.32
Electrical and electronics design, fabrication, assembly and storage facilities	\$2.25
Metal fabrication, machinery, and tool fabrication facilities	\$3.10
Linear Technology Corporation	\$1.97
Seagate Technology	\$1.49
Schools, colleges and churches	\$2.75

Category	FY 2007/08
Convalescent hospitals, day care centers, and health service facilities	\$2.33
Elmwood Rehabilitation center	\$2.51

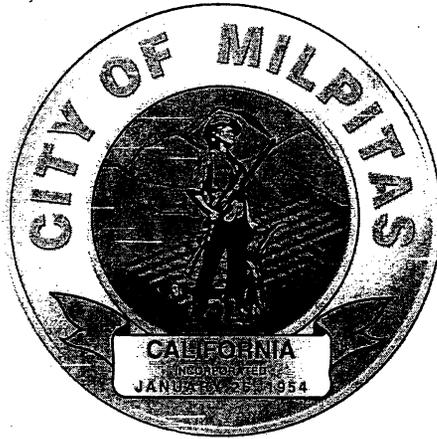
- c) City of San Jose for properties known as North McCarthy Properties: \$492 bimonthly for any discharge up to 75,000 gallons per day (Maximum Flow). Excess flow charge of \$100 for each 1,000 gallons per day in excess of the Maximum Flow or part thereof.
3. Purpose of Charge: The purpose of these charges is to defray the City's cost for O&M, capital, WPCP O&M share, WPCP capital share, debt service, and WPCP debt service.
4. Effective Date: The sewer service charges in Section 6.01 as established by this ordinance shall become effective for services received on or after December 6, 2007.

SECTION II

Severability. If any provision of this ordinance or the application thereof to any person or circumstance is held invalid or unenforceable by a court of competent jurisdiction, the remainder of the ordinance and all prior amendments, language and iterations of any related ordinance, including the application of such part or provision to other persons or circumstances shall not be affected thereby and shall continue in full force and effect. To this end, provisions of the ordinance are severable. The City Council hereby declares that it would have passed each section, subsection, subdivision, paragraph, sentence, clause, or phrase hereof irrespective of the fact that any one or more sections, subsections, subdivisions, paragraphs, sentences, clause, or phrases, or the application of any of the foregoing to a particular person or circumstance, be held unconstitutional, invalid, or unenforceable.

SECTION III

Effective Date; Publication. In accordance with Section 36937 of the CA Government Code, this Ordinance shall take effect and be in force thirty (30) days from and after the date of its passage. The Milpitas City Clerk shall cause this Ordinance to be published in accordance with Section 36933 of the CA Government Code.



2007/08 Utility Rate Analysis

**City Council
August 7, 2007**

Prepared by:

**Utility Engineering
Public Works Department**

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ACRONYMS AND ABBREVIATIONS

BOD	Biochemical Oxygen Demand
CIP	Capital Improvement Program
EPA	United States Environmental Protection Agency
FUMP	Financial Utility Management Plan
hcf	One Hundred Cubic Feet (748 Gallons)
mgd	Million Gallons Per Day
NH ₃	Ammonia
O&M	Operation & Maintenance
SBWRP	South Bay Water Recycled Program
SCVWD	Santa Clara Valley Water District
SFPUC	San Francisco Public Utilities Commission
SS	Suspended Solids
WPCP	San Jose/Santa Clara Water Pollution Control Plant

EXECUTIVE SUMMARY

The City of Milpitas provides water and sewer services to its residential and business customers. The City owns and operates its municipal potable water and recycled water distribution systems and purchases wholesale potable water from the San Francisco Public Utilities Commission (SFPUC) and Santa Clara Valley Water District (SCVWD) and recycled water from the South Bay Water Recycling Program (SBWRP). The City also owns and operates its municipal sewer collection system and contracts with the San Jose/Santa Clara Water Pollution Control Plant (WPCP) for treatment. Each year, the City evaluates the short- and long-term costs of water and sewer services and makes necessary rate adjustments to cover these costs.

WATER

Findings

- SCVWD increased its wholesale rate by 7.5% (from \$1.23/hcf to \$1.32/hcf), effective July 1, 2007.
- SFPUC increased its wholesale rate by 7.0% (from \$1.22/hcf to \$1.30/hcf), effective July 1, 2007.

Rate Recommendations

- Increase residential rates by 7%. This would increase the average bimonthly cost for a Milpitas single-family residence from \$58.05 to \$62.03, an increase of \$1.99 each month. (The average single family usage is 23 hcf)
- Increase the rate for Ed Levin Park to match SFPUC's wholesale water rate, from \$1.02 to \$1.30 per hcf¹.
- Set rates for City accounts at \$1.31 per hcf (equal to the average wholesale water rate).
- Increase all other rates by 7%.

RECYCLED WATER

Findings

- SBWRP increased its wholesale rate by 16% for 07/08 (from \$0.61/hcf to \$0.71/hcf) effective July 1, 2007.

Rate Recommendations

- Set recycled water irrigation rates at 80% of potable irrigation rates and recycled water industrial rates at 50% of potable water industrial rates to provide incentive for recycled water use.

¹ The City's agreement with Santa Clara County is to supply the park potable water at the SFPUC wholesale rate in exchange for use of County land for a City water reservoir.

SEWER

Findings

- The San Jose/Santa Clara Water Pollution Control Plant (WPCP) operations and maintenance (O&M) costs increased 3.3%, from \$4.22 million to \$4.36 million.
- The WPCP Capital Improvement Program (CIP) costs more than tripled in 07/08, from \$540,000 to \$1.71 million. Capital costs have large changes when compared year-to-year.

Rate Recommendations

- Increase single-family residential rates by 4%. This would increase the bimonthly cost for single-family residences from \$59.70 to \$62.09, an increase of \$1.20 each month.
- Make proportional rate increases for other residential and non-residential customers based on the flow and strength of discharge.

OTHER FEES AND SERVICES

Staff recommends the following fee adjustments.

- **Construction Meters** – Increase the rental fee for construction meters from \$25 to \$75 per month to cover the City's actual maintenance costs. Contractors borrow these meters from the City to obtain a temporary water connection during construction.
- **Meter Accuracy Tests** – Modify the reimbursement rate for accuracy tests. Customers may ask the City to perform up to three meter accuracy tests in a 12-month period at no charge. The City will charge \$50 for each subsequent test within the 12-month period.
- **Return of Deposits** – Modify requirement such that deposit applies to single-family customers. Customers are required to post a \$150 deposit with the City when establishing new utility services or restoring discontinued services. The City will refund the deposit without interest as a credit to the customer's next utility bill after a continuous twelve-month period of satisfactory payments.

INTRODUCTION

The three sections that follow (Water Rates, Recycled Water Rates, and Sewer Rates) provide background information and analysis for the recommended 07/08 rates. They contain exhibits of historical information and copies of the proposed Water Service Charges Ordinance (No. 120.44), which includes recycled water service charges, and the proposed Sewer Service Charges Ordinance (No. 208.41).

The City's fiscal policy relating to utility rates and fees states "All utility enterprise funds will be operated in a manner similar to private enterprise. As such, the City will set fees and user charges for each utility fund at a level that fully supports the total direct and indirect cost of the activity, including depreciation of assets, overhead charges, and reserves for unanticipated expenses and capital projects."

UTILITY MANAGEMENT

The City has previously completed evaluations that provide a basis for identifying utility needs. Among the completed studies are:

- **Utility Master Plans** – established facility improvements and additions to meet current and future demands (2004 Sewer System Master Plan, 2002 Water System Master Plan, and 2001 Storm Water System Master Plan).
- **2002 Water System Seismic Improvements Evaluation** – identified retrofits needed to protect the distribution system "backbone" from failure due to earthquake ground movement.
- **2002 Water and Sewer Infrastructure Replacement Evaluation** – established facility retrofit/replacement schedule based on useful life of facilities.
- **2006 Water System Seismic Improvements Strategic Plan** – identified and prioritized specific seismic improvement projects.

Data gathered from the first three evaluations, along with information on wholesale increases and City operating costs, were incorporated into a 2003 Financial Utility Master Plan (FUMP) to serve as the basis for comprehensive rate setting.

FINANCIAL UTILITY MASTER PLAN (FUMP)

The FUMP defines a methodical rate analysis process to ensure stable long-term utility funding. Its objectives include the following:

- **City Costs:** Provide steady annual rate increases for City cost recovery including utility operation and maintenance, capital improvement projects, and infrastructure replacement.

- **Wholesale Costs:** Pass through external costs, such as wholesale water purchase and wastewater treatment.
- **Fund Balances:** Establish and maintain minimum fund reserves, including drought contingency.
- **Connection Fees:** Periodically update connection fees to fair cost recovery levels.

The FUMP provided a 20-year utility cash flow analysis and developed estimates of future expenditures and revenue based upon the best information available at the time. Staff reviewed FUMP guidelines and trends for City revenues and expenditures in order to prepare this utility rate report. Staff believes it is time to update the FUMP for future rate analyses due to the following significant changes to the assumptions in the 5 years since the FUMP was developed:

- SFPUC and SCVWD are not increasing wholesale rates as quickly as projected.
- Construction costs have escalated at a much faster pace than inflation.
- The City's 2006 Water System Seismic Improvements Strategic Plan identified several capital improvement projects necessary to protect the system integrity.
- In 2006, the City issued bonds to pay for the Main Sewer Pump Station replacement.
- The WPCP CIP has increased significantly.
- The WPCP has initiated a Master Plan Study that is expected to identify an extensive CIP beginning in the next 4 to 5 years and lasting for 20 to 30 years.

PROPOSITION 218 PUBLIC NOTIFICATION

Article XIII(D) of the California State Constitution, also known as Proposition 218, requires agencies to follow very specific public notification procedures prior to adopting new property-related fees (such as water and sewer rates), and it allows property owners an opportunity to submit written protests to the proposed rates. Public notification requires the City to mail letters to every property owner receiving water and/or sewer service from the City. The letters must show the proposed rates, provide the date for the public hearing protest (no earlier than 45 days after the letter is mailed), and allow property owners to submit written protests to the new rates. Exhibit I-1 shows the proposed text of the Proposition 218 notification letter. The steps to meet Proposition 218 requirements are:

- **July 26** – Public hearing notice published in the Milpitas Post notifying the community of the water and sewer rate hearing.
- **August 7** – Council will hear first reading of ordinances setting water, recycled water, and sewer rates. Staff will seek direction to mail the Proposition 218 letter.
- **August 31** – Last date to mail Proposition 218 letters prior to public hearing².
- **October 16** – Public protest hearing. If majority protest is not received, staff will recommend that the City Council adopt ordinances setting water, recycled water, and sewer rates.
- **November 19** – New rates will become effective for services received on or after this date.²

² If Council directs staff to mail the Proposition 218 letter at the August 7, 2007 meeting.

**EXHIBIT I-1
Proposition 218 Letter**



CITY OF MILPITAS
455 East Calaveras Boulevard
Milpitas, California 95035

August 30, 2007

Property Owner Name
Address
City, State, Zip

APN: xxx-xx-xxx
Property: Address

**NOTICE OF PUBLIC HEARING
PROPOSED WATER RATE INCREASE AND SEWER RATE INCREASE**

**City of Milpitas City Council Chambers
455 E. Calaveras Boulevard, 2nd Floor
October 16, 2007**

7:00 pm or as soon thereafter as the matter can be heard

The Milpitas City Council will conduct a public hearing on Tuesday, October 16, 2007, at 7:00 p.m. to consider increases to water and sewer rates. The new rates, if adopted, will be effective for water and sewer services received on or after November 15, 2007.

The rate increases are needed to pay for the higher fees the City of Milpitas will pay to the San Francisco Public Utilities Commission (SFPUC) and the Santa Clara Valley Water District (SCVWD) for the water they supply to the City, to the San Jose/Santa Clara Water Pollution Control Plant (WPCP) for treating the City's wastewater, and for the City's increased costs to operate and maintain the distribution and collection systems.

WATER RATES

Rates for Milpitas water customers are proposed to increase by 7 percent. SFPUC and SCVWD, the City's two main water suppliers, have increased the rate they charge Milpitas by 7 and 7.5 percent, respectively, as of July 1, 2007. Water fees are used to purchase water from SFPUC and SCVWD; to fund annual costs to administer, operate, and maintain the water distribution system and part of the storm drain collection system; and to fund unforeseen water supply emergencies. The table on the back of this notice provides current and proposed water rates.

This year SFPUC and SCVWD have requested that their customers, including City of Milpitas water customers, voluntarily reduce their water consumption by 10 percent because of lower-than-normal precipitation this winter. Mandatory water restrictions may need to be imposed next year if drought conditions continue this winter.

SEWER RATES

Rates for Milpitas 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 WPCP has increased Milpitas' Operation & Maintenance fees by 3.3% as of July 1, 2007, and WPCP 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 back of this notice provides current and proposed sewer rates.

PROTESTS

Article XIII(D) of the California State Constitution, also known as Proposition 218, allows property owners to submit written protests against the proposed increases in water and sewer rates. Property owners objecting to the proposed utility rate increases described in this notice must file a written protest with the City Clerk prior to 5:00 p.m. on October 16, 2007. Protests can be submitted in four ways:

1. Fax to (408) 586-3030
2. Email mlavelle@ci.milpitas.ca.gov
3. Drop off at City Hall's Information Desk, 455 East Calaveras Boulevard
4. Mail to City of Milpitas, Attn: City Clerk, 455 East Calaveras Boulevard, Milpitas, CA 95035. Postmarks will not be considered to meet the 5:00 p.m. October 16, 2007 deadline

You may also bring your written protest to the public hearing at the time and location shown in the box at the top of this notice.

Please write "**RATE PROTEST**" in the fax/email subject line or on the outside of the envelope containing the written protest. **In order for a 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.

If you have questions about this notice or the proposed rate increases, contact the City Utility Engineering staff: Howard Salamanca at (408) 586-3348 or hsalamanca@ci.milpitas.ca.gov or Paramjit Uppal at (408) 586-3351 or puppall@ci.milpitas.ca.gov.

WATER AND SEWER RATES

Effective for water and sewer services received on or after November 15, 2007.

	CURRENT	PROPOSED	Change
WATER			
Residential (per dwelling unit):			
1-20 Units ♦	\$1.49 per Unit	\$1.59 per Unit	7%
21+ Units ♦	\$3.13 per Unit	\$3.35 per Unit	7%
Non-Residential:			
Commercial, Industrial, & Institutional	\$3.40 per Unit	\$3.64 per Unit	7%
Santa Clara County (Ed Levin Park)	\$1.02 per Unit	\$1.30 per Unit	28%
City of Milpitas Accounts	\$1.12 per Unit	\$1.31 per Unit	17%
Recycled Industrial Process Use	\$1.70 per Unit	\$1.82 per Unit	7%
Recycled Sanitary (Dual Plumbing)	\$1.70 per Unit	\$1.82 per Unit	7%
Irrigation	\$3.89 per Unit	\$4.16 per Unit	7%
Recycled Irrigation	\$3.11 per Unit	\$3.33 per Unit	7%
Recycled City of Milpitas Accounts	\$0.61 per Unit	\$0.71 per Unit	16%
Recycled (formerly served by wells)	\$0.68 per Unit	\$0.73 per Unit	7%
Recycled (Agricultural service)	\$0.32 per Unit	\$0.33 per Unit	3%
Meter Charges (similar increase for other meter sizes):			
5/8" Residential	\$18.86 Bimonthly	\$20.18 Bimonthly	7%
5/8" Non-Residential Meter Charge	\$19.90 Bimonthly	\$21.29 Bimonthly	7%
2" Residential Fire Meter Charge	\$30.16 Bimonthly	\$32.27 Bimonthly	7%
2" Non-Residential Fire Meter Charge	\$31.90 Bimonthly	\$34.13 Bimonthly	7%

SEWER			
Residential (per dwelling unit):			
Single-Family	\$59.70 Bimonthly	\$62.09 Bimonthly	4.0%
Multi-Family	\$43.14 Bimonthly	\$44.36 Bimonthly	2.8%
Mobile Home	\$26.88 Bimonthly	\$27.42 Bimonthly	2.0%
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	N/A	\$0.60 per Unit	New
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	61.3%
Linear Technology Corporation	\$1.97 per Unit	\$1.97 per Unit	0%
Loral-Fairchild-Lockheed	\$1.89 per Unit	\$1.53 per Unit	-19.0%
Lucky Pure Water	\$1.17 per Unit	\$1.88 per Unit	60.7%
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	-25.5%
Sipex Corporation	\$2.08 per Unit	\$1.93 per Unit	-7.2%
T. Marzetti Company	\$3.91 per Unit	\$5.26 per Unit	34.5%
Union Pacific Railroad	\$3.08 per Unit	\$2.83 per Unit	-8.1%
US Filters	\$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.

WATER RATE ANALYSIS

Effective July 1, 2007, the Santa Clara Valley Water District (SCVWD) wholesale rates increased 7.5% and the San Francisco Public Utilities Commission (SFPUC) wholesale rates increased 7.0%. SFPUC anticipates double-digit rate increases in the future for its Capital Improvement Program (CIP) totaling several billion dollars, which it expects to complete within the next 10 to 20 years. The State requires these projects in order to improve system reliability. SCVWD also anticipates future rate increases to accommodate their growing CIP.

Staff is recommending a 7.0% water rate increase for most categories for 07/08. This would result in a slight projected shortfall \$710,000 which decreases the water fund balance from \$4.93 million on 7/1/07 to \$4.22 million on 6/30/08. This projected ending balance is acceptably above the recommended minimum reserve of 30% of annual operating and maintenance costs.

Rate Recommendations

- Increase residential rates by 7%. This would increase the bimonthly cost for an average Milpitas single-family residence from \$58.05 to \$62.03, an increase of \$1.99 each month. (The average single-family residence uses 23 hundred cubic feet (hcf) every two months.)
- Increase the rate for Ed Levin Park to match SFPUC's wholesale water rate, from \$1.02 to \$1.30 per hcf.³
- Set water rates for City accounts at \$1.31 per hcf (equal to the average wholesale water rate).
- Increase other rates by 7%.

Guidelines

- Review and apply objectives and principles established by the 2003 Financial Utility Master Plan to accomplish long-term fund goals and rate stability to the extent they are applicable to current conditions.
- Maintain the water fund balance to achieve a minimum reserve equal to 30% of annual O&M costs⁴. City O&M costs include water purchases, personnel, supplies and services, but exclude CIP costs.
- Maintain 1st- tier residential rate at no less than the average of wholesale rates (October 1995 Council policy).
- Build the water fund balance to pay for future infrastructure improvements (projected to be about \$18 million over the next 20 years).

³ The City's agreement with Santa Clara County is to supply potable water at the wholesale rate in exchange for using County land for a City water reservoir.

⁴ The April 2003 Financial Utility Master Plan (FUMP) established Minimum Fund Reserve Targets for the Water Fund (30% of annual O&M), the Recycled Water Fund (25% of annual O&M), and the Sewer Fund (25% of annual O&M and treatment plant costs).

Assumptions and Findings

- Beginning Water Fund balance is \$4.93 million on July 1, 2007 after transfer of \$1 million to the Water Infrastructure Fund for 06/07.
- Minimum Water Fund reserve is \$3.4 million, an amount equal to 30% of the annual O&M budget.
- SCVWD wholesale rate increased 7.5% from \$1.23/hcf to \$1.32/hcf.
- SFPUC wholesale rate increased 7.0% from \$1.22/hcf to \$1.30/hcf.
- Both SFPUC and SCVWD project large future annual rate increases, primarily for CIP.
- Assume no increase in annual water volume sold for 1st-tier residential, commercial, industrial, and institutional use.
- Assume 10% decrease in annual water volume sold for 2nd-tier residential and irrigation to due voluntary conservation⁵.
- The City's CIP of \$2.54 million was expanded to include several seismic projects, but deferred non-critical projects until an adequate fund balance is achieved.
- "Lost revenue" transfer from the Recycled Water Fund to the Water Fund is \$522,351 in 07/08.
- The Water Fund balance will decrease \$710,000 from \$4.93 million on 7/1/07 to \$4.22 million on 6/30/08.

REVENUES

Staff projects 07/08 water sales to be 4.4 million hcf, a decrease from the 4.5 million hcf supplied in 06/07 due to the request for voluntary water use reductions by our wholesalers⁵. Based on a 7.0% rate increase, staff estimates water sales to generate revenues totaling \$14.4 million, an increase from \$14.2 million in 06/07. A revenue breakdown is shown in Exhibit W-4.

Staff estimates 07/08 "lost revenue" due to recycled water sales replacing potable water sales at \$522,351. This revenue would be transferred from the Recycled Water Fund to the Water Fund to retain the same level of funding to meet water operating expenses. Refer to the Recycled Water Section for a description of the "lost revenue" calculation.

EXPENDITURES

Staff projects 07/08 wholesale water purchases of 5.0 million hcf, a decrease from the 5.2 million hcf purchased in 06/07. The reduction is due to the voluntary conservation requested by our wholesalers⁵. Staff projects wholesale water costs of \$6.6 million. Other expenditures include \$2.5 million for CIP, \$3.3 million for O&M, a \$1.75 million transfer to the Water Infrastructure Fund and a \$1.73 million transfer to the General Fund. The expenditure breakdown is shown in Exhibit W-4.

⁵ SFPUC requested a 10% voluntary water use reduction in May 2007 and the SCVWD requested a 10% voluntary water use reduction in June 2007.

WATER RATE RECOMMENDATIONS

For metered water service, staff recommends the following increases:

BIMONTHLY QUANTITY CHARGES

Categories	Current	07/08
Residential (per dwelling unit):		
1-20 hcf	\$1.49 per hcf	\$1.59 per hcf
21+ hcf	\$3.13 per hcf	\$3.35 per hcf
Commercial, Industrial, & Institutional	\$3.40 per hcf	\$3.64 per hcf
Potable Irrigation	\$3.89 per hcf	\$4.16 per hcf
Santa Clara County (Ed Levin Park)	\$1.02 per hcf	\$1.30 per hcf
City of Milpitas Accounts	\$1.12 per hcf	\$1.31 per hcf

1 hcf = One Hundred Cubic Feet = 748 Gallons

BIMONTHLY FIXED METER CHARGES:

(Similar Increases for Other Meter Sizes)

Categories	Current	07/08
5/8" Residential Meter	\$18.86	\$20.18
5/8" Non-Residential Meter	\$19.90	\$21.29
2" Residential Fire Meter	\$30.16	\$32.27
2" Non-Residential Fire Meter	\$31.90	\$34.13

OTHER FEES AND SERVICES

Staff recommends the following fee adjustments.

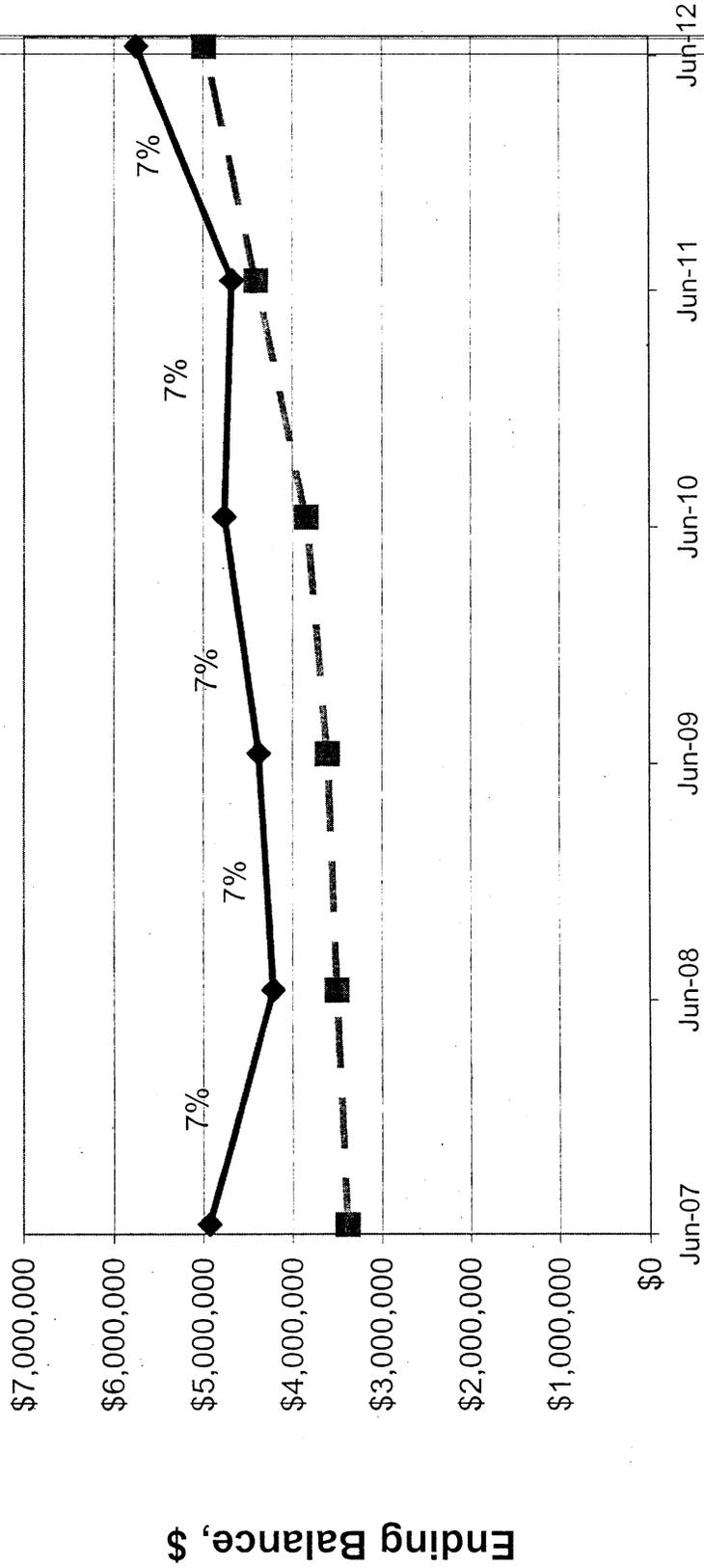
- **Construction Meters** – The monthly meter fee for construction meters borrowed from the City to provide a temporary water connection will increase from \$25 to \$75 per month to cover the City's actual maintenance costs for the meter.
- **Meter Tests** – Customers may request the City to perform up to three meter accuracy tests in any 12-month period at no charge. The City will charge \$50 for each subsequent test within the 12-month period.
- **Return of Deposits** - Customers are required to post a \$150 deposit with the City when establishing new utility services or restoring discontinued services. The City will collect the deposit from single-family customers only and refund the deposit without interest as a credit to the customer's next utility bill after a continuous twelve-month period of satisfactory payments.

EXHIBITS

- Exhibit W-1** **Projected Water Fund Balances (Fund 400)** A chart with projected water fund balances for the next 5 years assuming annual rate increases of 7%.
- Exhibit W-2** **Wholesale Water Purchases** A chart showing actual water purchases from 75/76 through 06/07 and projected water purchases from wholesalers (SFPUC, SCVWD, and SBWRP) from 07/08 through 11/12.
- Exhibit W-3** **Water Sales by Customer Categories** A chart showing actual water sales by customer categories from 85/86 through 06/07 and projected water sales from 07/08 through 11/12.
- Exhibit W-4** **07/08 Water Revenues & Expenditures** A summary showing estimated revenues and expenditures for the 07/08 recommended rates.
- Exhibit W-5** **5-Year 2007-2012 Water Capital Improvement Projects** A summary of the adopted 5-Year Water Capital Improvement Program.
- Exhibit W-6** **Water Revenues** A table showing the revenue from water sales from 83/84 through 06/07 and projected revenues for 07/08 through 11/12.
- Exhibit W-7** **Water Expenditures** A graph showing actual water expenditures from 89/90 through 06/07 and projected water expenditures from 07/08 through 11/12.
- Exhibit W-8** **07/08 Projected Water Revenue by Customer Categories** A pie chart showing the projected 07/08 revenue breakdown (quantity charges only) by user categories for the recommended rates based upon water usage. Residential users include single-family, duplexes, condos/townhouses, multi-family, and mobile home parks.
- Exhibit W-9** **Average Milpitas Single-Family Residential Bimonthly Bill** A chart showing the breakdown of average single-family residential bimonthly water bills by prorating non-City (wholesale water) expenses and City (O&M and capital) expenses. This chart also predicts that, in the near future, the wholesale component will be greater than the City component.
- Exhibit W-10** **1st-Tier Residential Rate Comparisons with Wholesale Costs** A graph showing the historical trend since 70/71 of 1st-tier residential rates in Milpitas compared to wholesale rates from SFPUC and SCVWD.
- Exhibit W-11** **Water Rate Ordinance** The proposed Ordinance No. 120 revisions.

EXHIBIT W-1

Projected Water Fund Balances (Fund 400)

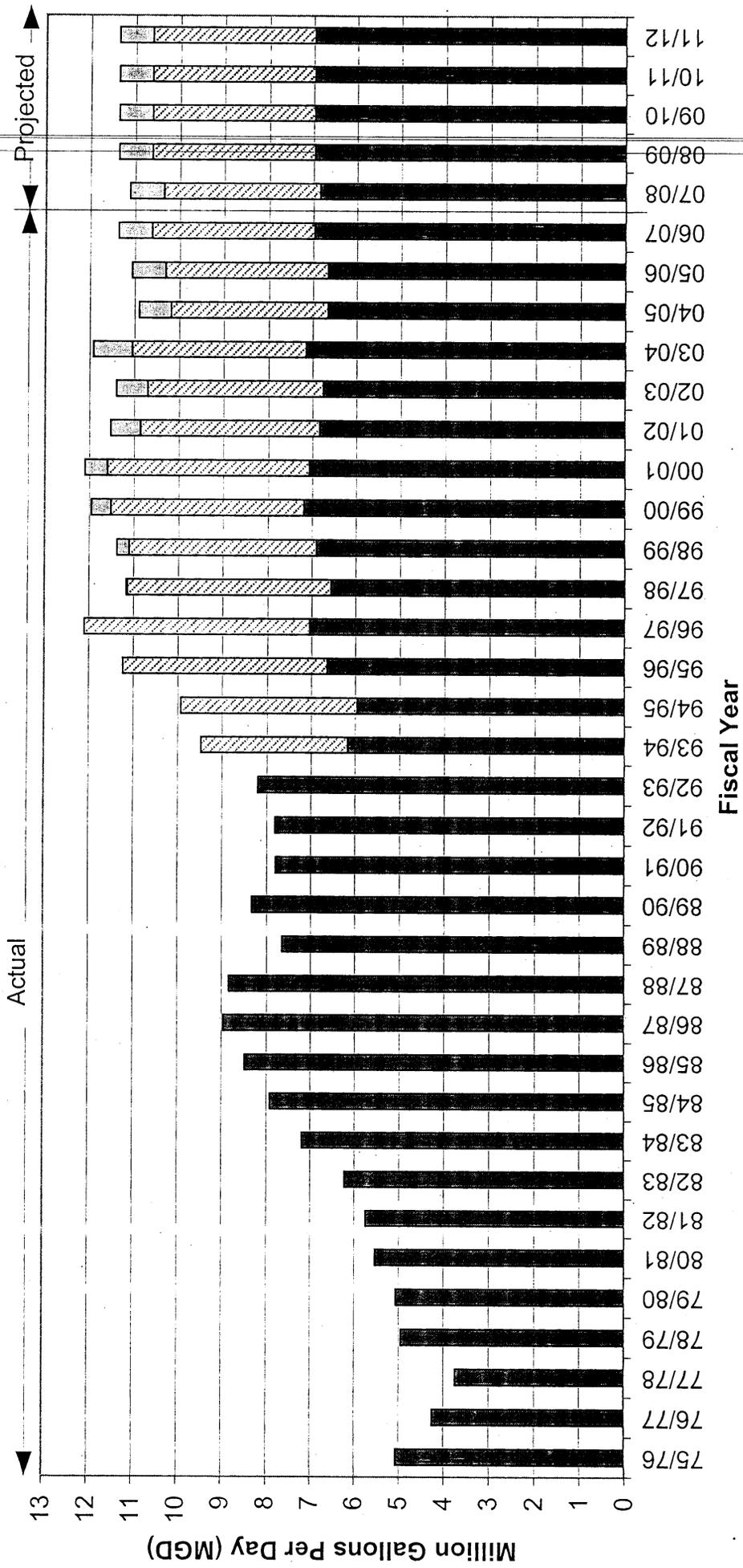


	Jun-07	Jun-08	Jun-09	Jun-10	Jun-11	Jun-12
Ending Balance, \$	\$4,932,421	\$4,216,254	\$4,377,294	\$4,762,580	\$4,678,425	\$5,749,696
Minimum Reserve (30% Operating Budget)	\$3,385,574	\$3,501,842	\$3,605,121	\$3,843,633	\$4,406,019	\$4,992,347

Fiscal Year

EXHIBIT W-2

Wholesale Water Purchases



SFPUC
 SCVWD
 Recycled

EXHIBIT W-3

Water Sales by Customer Categories

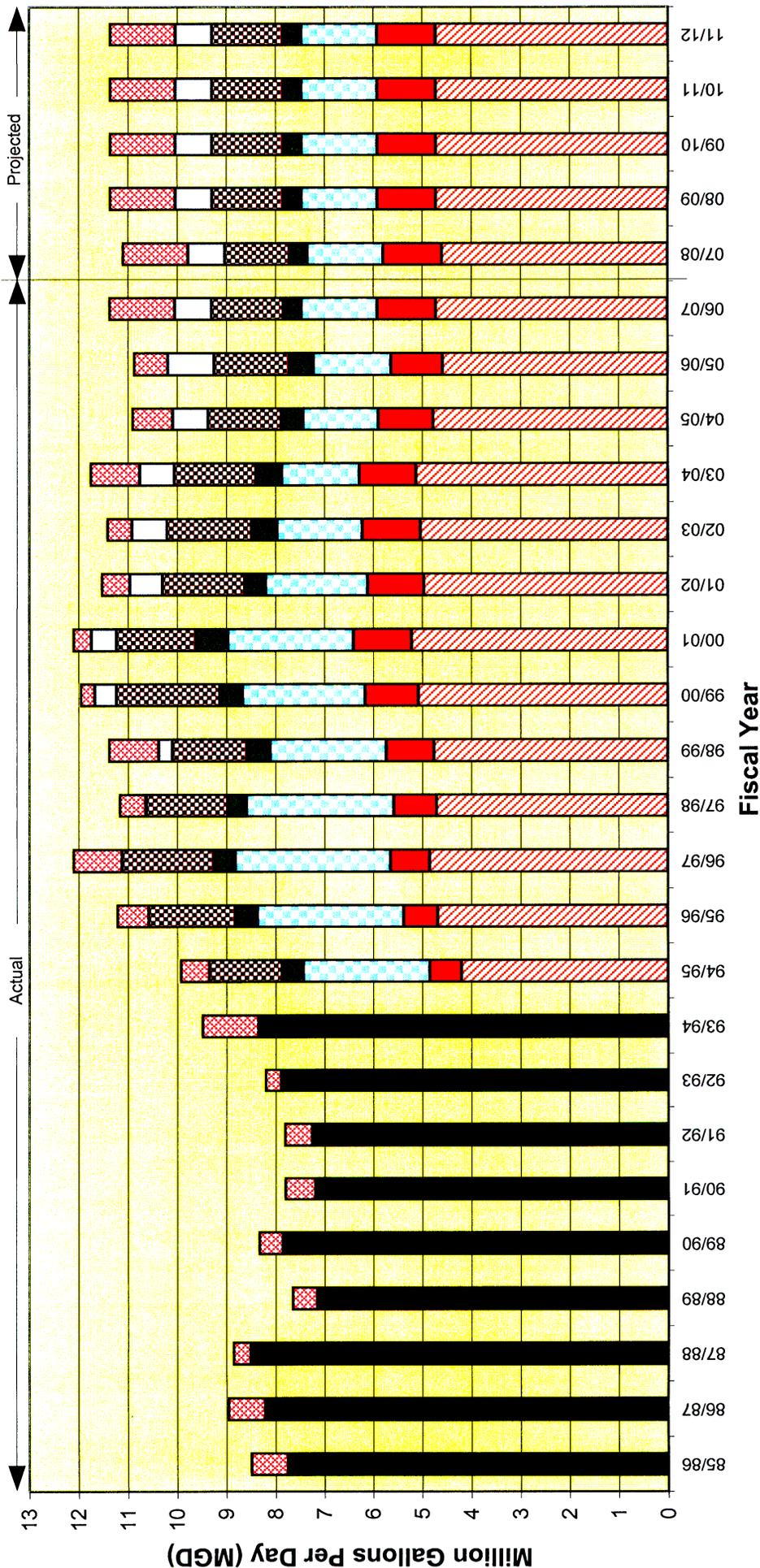


EXHIBIT W-4
07/08 WATER REVENUES & EXPENDITURES

	07/08 Projected
BEGINNING BALANCE - July 1	\$4,932,421
REVENUES:	
Interest in Pooled Investments	\$262,000
Water Service Agreements (Meter Sales)	\$12,500
Metered Water Sales:	
Quantity Charges	\$11,943,068
Water Meter Charges	<u>\$2,491,720</u>
<i>Subtotal: Metered Water Sales</i>	\$14,434,788
Construction Water	\$20,000
Miscellaneous Other Revenue	\$0
Operating Transfer from Recycled Water ♦	\$522,351
Transfer to Water Infrastructure Fund	-\$1,750,000
Operating Transfer to General Fund	-\$1,734,961
Operating Transfer to CIP	<u>-\$2,545,000</u>
<i>Total Revenues</i>	\$9,221,678
REVENUES + BEGINNING BALANCE	\$14,154,099
EXPENSES:	
Personnel Services	\$2,070,492
Services & Supplies	\$1,162,030
Capital Outlay	\$110,000
SFPUC Wholesale Water	\$4,394,960
SCVWD Wholesale Water	<u>\$2,200,363</u>
<i>Total Expenses</i>	\$9,937,845
ENDING BALANCE - June 30	\$4,216,254

♦ Lost Potable Water Sales = Revenues "lost" to the Water Fund (potable water replaced by recycled water)

EXHIBIT W-5
5-Year 2007-2012 Water Capital Improvement Projects

Project	Total Cost	Prior Years	2007-08	2008-09	2009-10	2010-11	2011-12
7070 Pressure Reducing Valve Replacement	300,000	120,000	0	80,000	100,000	0	0
7076 Well Upgrade Project	4,070,000	3,045,000	0	1,025,000	0	0	0
7086 Water System Air Relief Valve Modifications	1,030,000	330,000	0	350,000	0	0	0
7098 South Milpitas Water Line Replacement	3,140,000	440,000	0	0	0	2,700,000	0
7100 Water System Seismic Improvements	3,087,951	437,951	650,000	500,000	500,000	500,000	500,000
7101 Gibraltar Reservoir & Pump Station	2,725,000	925,000	1,800,000	0	0	0	0
7102 Ayer Reservoir & Pump Station	1,200,000	100,000	0	0	1,100,000	0	0
7103 Minor Water Projects 2007	125,000	35,000	90,000	0	0	0	0
8164 Bart Extension Coordination & Planning	25,000	15,000	5,000	5,000	0	0	0
New Abel Street Pipeline Extension	200,000	0	0	200,000	0	0	0
New Brian-Santos Court Water Line Improvements	50,000	0	0	50,000	0	0	0
New Catholic Protection Improvements	750,000	0	0	250,000	500,000	0	0
New Minor Water Projects 2009	95,000	0	0	0	95,000	0	0
New Minor Water Projects 2011	95,000	0	0	0	0	0	95,000
New Sunnyhills Turnout Pressure Reducing Valve	35,000	0	0	35,000	0	0	0
New Turnout Improvements	150,000	0	0	0	0	0	150,000
New Water System Replacement 08-09	700,000	0	0	700,000	0	0	0
New Water System Replacement 09-10	700,000	0	0	0	700,000	0	0
New Water System Replacement 11-12	700,000	0	0	0	0	0	700,000

TOTAL COST \$19,177,951 \$5,447,951 \$2,545,000 \$3,195,000 \$3,345,000 \$3,200,000 \$1,445,000

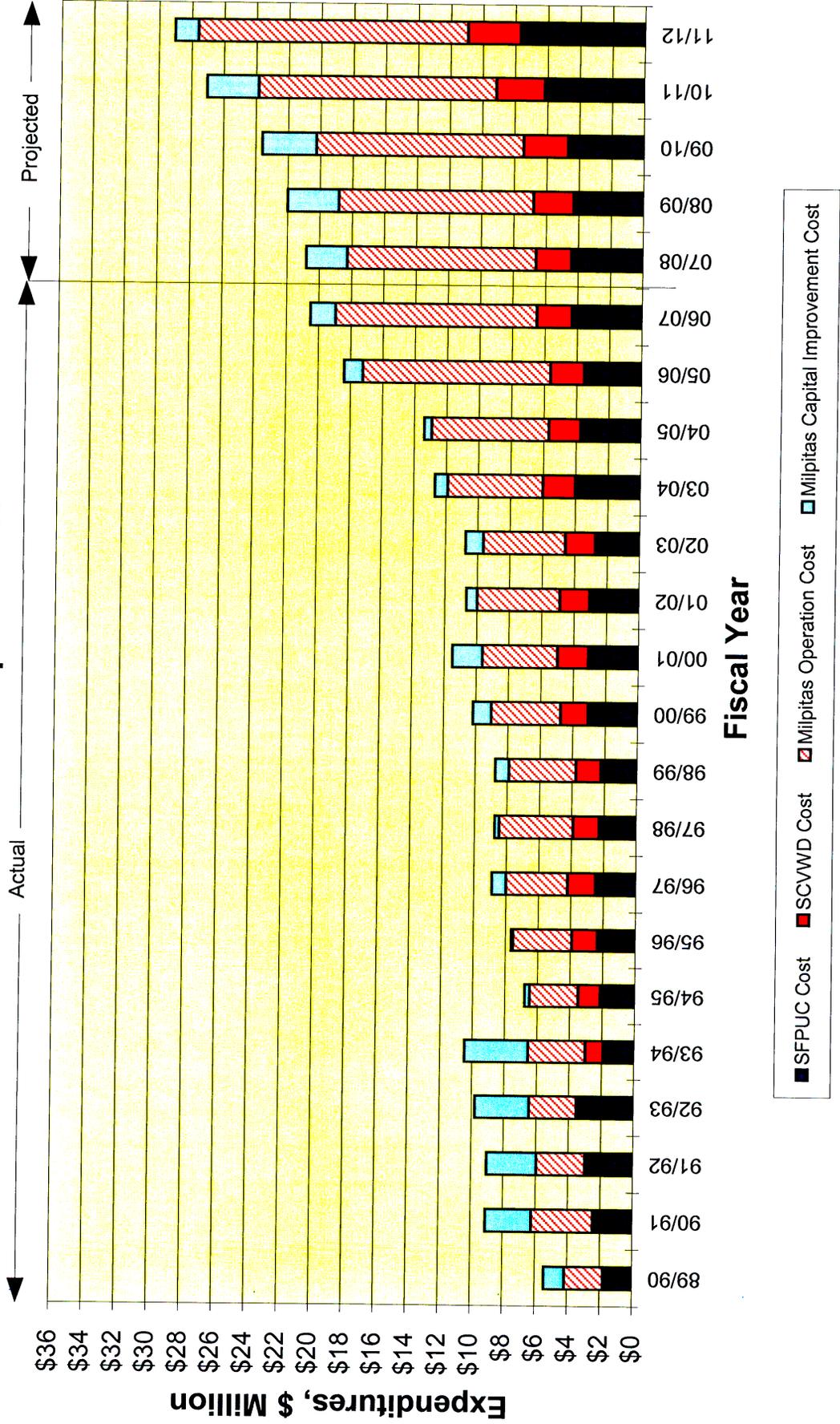
EXHIBIT W-6
Water Revenues

Fiscal Year	Metered Water Sales	Excess Use Revenues	Total Revenues
83/84	\$2,998,761	\$0	\$2,998,761
84/85	\$2,867,324	\$0	\$2,867,324
85/86	\$2,877,120	\$0	\$2,877,120
86/87	\$3,114,617	\$0	\$3,114,617
87/88	\$3,027,804	\$0	\$3,027,804
88/89	\$2,986,276	\$869,490	\$3,855,766
89/90	\$3,252,339	\$74	\$3,252,413
90/91	\$3,329,782	\$692,365	\$4,022,147
91/92	\$4,086,594	\$995,893	\$5,082,487
92/93	\$4,829,631	\$973,409	\$5,803,040
93/94	\$5,280,000	\$0	\$5,280,000
94/95	\$5,768,900	\$0	\$5,768,900
95/96	\$7,225,406	\$0	\$7,225,406
96/97	\$7,164,358	\$0	\$7,164,358
97/98	\$7,350,735	\$0	\$7,350,735
98/99	\$7,908,529	\$0	\$6,537,751
99/00	\$9,164,138	\$0	\$7,782,320
00/01	\$8,598,686	\$0	\$8,598,686
01/02	\$8,734,466	\$0	\$8,734,466
02/03	\$9,026,334	\$0	\$9,026,334
03/04	\$9,933,920	\$0	\$9,933,920
04/05	\$11,411,004	\$0	\$11,411,004
05/06	\$12,984,542	\$0	\$12,984,542
06/07	\$14,212,157	\$0	\$14,212,157
07/08 ♦	\$14,434,788	\$0	\$14,434,788
08/09 ♦	\$16,253,109	\$0	\$16,253,109
09/10 ♦	\$17,392,570	\$0	\$17,392,570
10/11 ♦	\$18,643,585	\$0	\$18,643,585
11/12 ♦	\$19,987,442	\$0	\$19,987,442

♦ Projected

EXHIBIT W-7

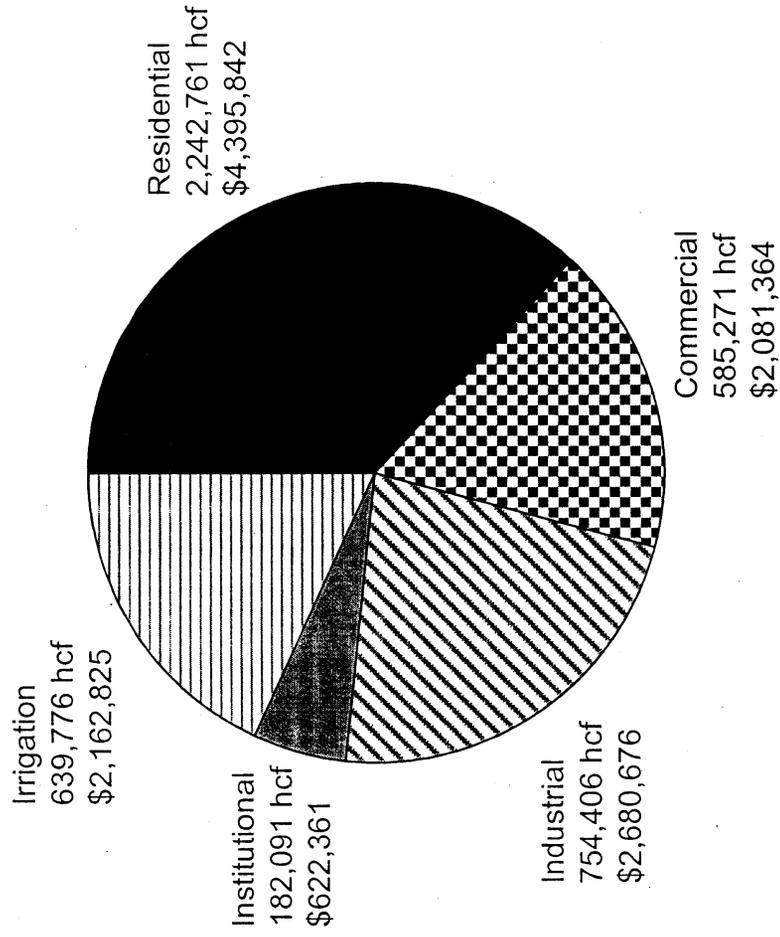
Water Expenditures



• The City began purchasing SCVWD water in August '93.

EXHIBIT W-8

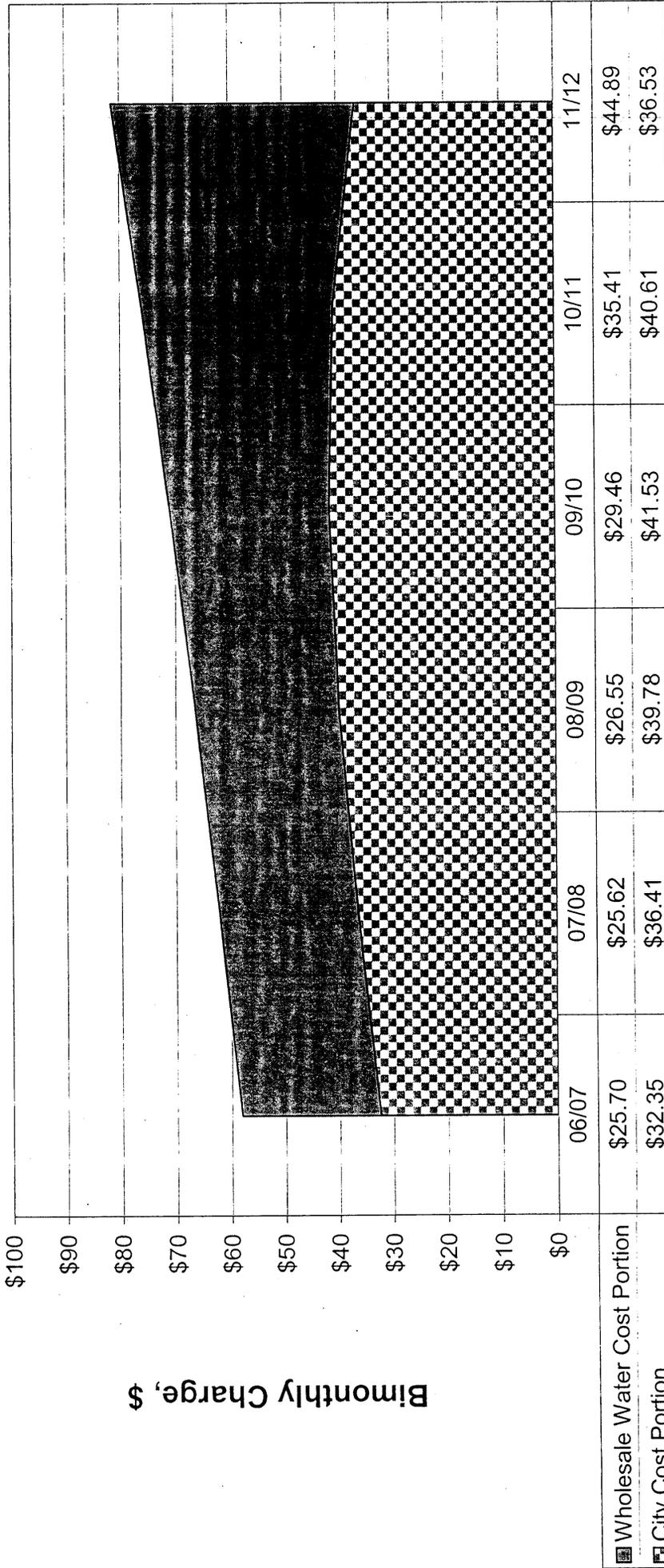
07/08 Projected Water Revenue by Customer Categories (Fund 400)



Total Revenue from Quantity Sales = \$11.9 Million
Total Projected Water Sales = 4,404,305 hcf

EXHIBIT W-9

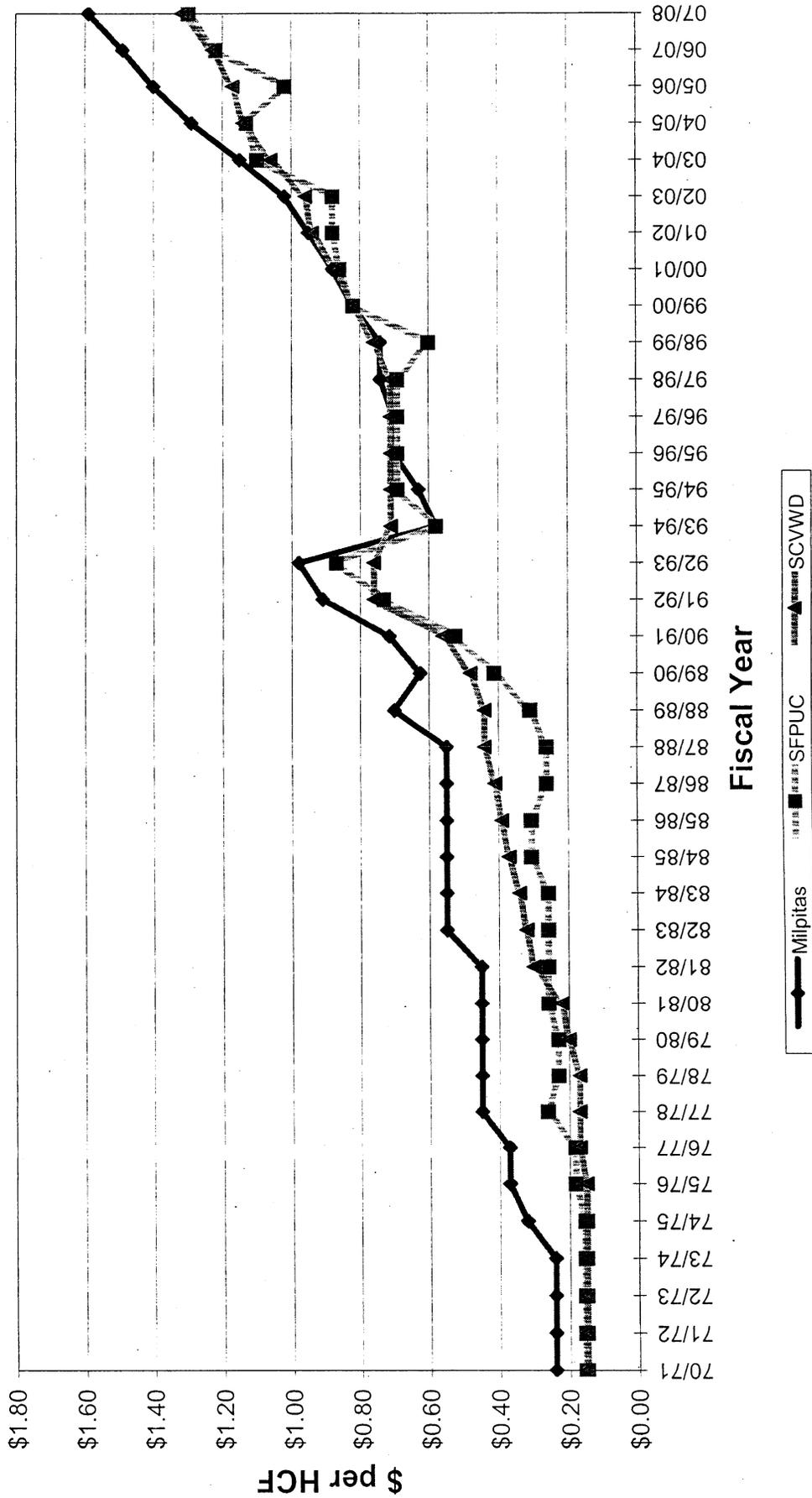
Average Milpitas Single-Family Residential Bimonthly Cost (at 23 hcf)



Fiscal Year

EXHIBIT W-10

1st-Tier Residential Rate Comparison with Wholesale Costs



The City began purchasing SCVWD water in August '93.

Exhibit W-11

REGULAR

NUMBER: 120.44

TITLE: AN ORDINANCE OF THE CITY OF MILPITAS AMENDING SECTIONS 6.06 AND 6.08 RELATING TO DEPOSITS FOR SERVICE AND METER TESTS, AND REPEALING AND REPLACING SECTIONS 6.13, 6.14, 6.15 AND 6.16, CHAPTER 1, TITLE VIII OF THE MILPITAS MUNICIPAL CODE, RELATING TO QUANTITY CHARGES, BIMONTHLY WATER METER CHARGES, FIRE SERVICE CHARGES AND EFFECTIVE DATE OF WATER RATES.

HISTORY: This Ordinance was introduced (first reading) by the City Council at its meeting of August 7, 2007, upon motion by Councilmember _____ and was adopted (second reading) by the City Council at its meeting of October 16, 2007, upon motion by Councilmember _____. Said Ordinance was duly passed and ordered published in accordance with law by the following vote:

AYES: ()
NOES: ()
ABSENT: ()
ABSTAIN: ()

ATTEST:

APPROVED:

Mary Lavelle, City Clerk

Jose S. Esteves, Mayor

APPROVED AS TO FORM:

Steven T. Mattas, City Attorney

ORDAINING CLAUSE:

THE CITY COUNCIL OF THE CITY OF MILPITAS DOES ORDAIN AS FOLLOWS:

Amendment to Section VIII-1-6.06. Title VIII, Chapter 1, Section 6.06 of the Milpitas Municipal Code is hereby amended to read as follows:

VIII-1-6.06 Deposits for Service

As a condition precedent to providing or restoring service for single-family residential accounts, a cash deposit not to exceed of One Hundred and Fifty Dollars (\$150.00) per meter may shall be required. After a continuous twelve-month period of satisfactory payment history, the cash deposit, without interest, may be refunded through credit to the next utility bill. Satisfactory payment history is established when a customer did not incur any one or more of the following charges within a continuous twelve month period: late payment penalties, turnoffs, or returned checks due to insufficient funds. Under no circumstances will the cash deposit be refunded if the City had any evidence of meter tampering or water diversion, regardless of payment history. Otherwise, the deposit, without interest, will be refunded through credit to the last utility bill at the termination of service. The deposit may be waived for customers applying for residential utility service who within the past five-year period terminated a former City of Milpitas utility service account with a satisfactory payment history at the time of termination. by the City Manager to secure future compliance in the case of customers who, repeatedly violate regulations or who repeatedly fail to pay water bills promptly or whose past bill shall, in the judgment of the City Manager, be deemed to be uncollectible. This deposit, without interest, will be returned at the termination of service and the payment of all bills charged to the customer.

Amendment to Section VIII-1-6.08. Title VIII, Chapter 1, Section 6.08 of the Milpitas Municipal Code is hereby amended to read as follows:

VIII-1-6.08 Meter Tests

If requested by a customer as a result of an apparently excessive bill, the City will conduct a meter test. The customer will be requested to be present at such test. Customers may request up to three (3) meter accuracy tests in any twelve (12) month period at no charge. If additional tests are requested within the twelve (12) month period, the customer shall pay Fifty Dollars (\$50.00) for each subsequent test. Only one (1) meter test will be conducted per customer during any twelve (12) month period. If additional tests are requested, they will be allowed only under the following conditions:

The customer shall submit a Five Dollar (\$5.00) deposit. If the meter registers more than two percent (2%) fast, the deposit shall be refunded, and the customer's bill shall be credited proportionately. If the meter registers less than two percent (2%) fast, the City will retain the deposit in order to offset partially its costs. If the meter registers more than two percent (2%) slow, the customer's bill will be debited proportionately.

Amendment to Section VIII-1-6.13. Title VIII, Chapter 1, Section 6.13 of the Milpitas Municipal Code is hereby repealed and replaced to read as follows:

VIII-1-6.13 Quantity Charges:

The quantity charges per hundred cubic feet for metered water service shall be as follows:

Categories	2007/2008 Rate
Residential customers (per dwelling unit)	
1-20 hcf	\$1.59
21+ hcf	\$3.35
Commercial, Industrial, Institutional, and Construction Meter	\$3.64
Recycled Industrial Process Use	\$1.82
Recycled Sanitary Use (Inside Dual Plumbing)	\$1.82
Potable Irrigation	\$4.16
Recycled (Formerly Served by Wells)	\$0.73
Recycled (Agricultural Service)	\$0.33
For City Accounts (Recycled)	\$0.71
Recycled (All others)	\$3.33
Santa Clara County (Ed Levin Park)	\$1.30
City of Milpitas accounts (potable)	\$1.31

1 hcf = One Hundred Cubic Feet = 748 Gallons

No adjustments shall be granted to any water account holder due to variation in the days of service for any bimonthly billing period. Acceptable days of service range from 50 to 69 days per bimonthly billing period.

Amendment to Section VIII-1-6.14. Title VIII, Chapter 1, Section 6.14 of the Milpitas Municipal Code is hereby repealed and replaced to read as follows:

VIII-1-6.14 Bimonthly Water Meter Charges:

Water Meter Charges:

The bimonthly charges for water meters shall be made on the basis of the size of the water meter (excluding Recycled Irrigation Formerly Served by Wells and Agricultural Service customers), and shall be as follows:

a) For Residential Customers:

Water Meter Size, inches	2007/2008 Charges
5/8	\$20.18
3/4	\$21.45
1	\$30.47
1-1/2	\$38.43
2	\$50.15
3	\$134.27
4	\$170.15
6	\$259.66
8	\$340.20
10	\$492.45

b) For Non-Residential Customers (excluding Recycled Irrigation Formerly Served by Wells and Agricultural Service customers):

Water Meter Size, inches	2007/2008 Charges
5/8	\$21.29
3/4	\$22.64
1	\$32.22
1-1/2	\$40.62
2	\$52.97
3	\$141.80
4	\$179.65
6	\$274.22
8	\$359.28
10	\$520.07

c) For Recycled Irrigation Formerly Served by Wells and Agricultural Service Customers:

\$60.00 bimonthly

d) For Construction Meters:

\$150.00 bimonthly

Amendment to Section VIII-1-6.15. Title VIII, Chapter 1, Section 6.15 of the Milpitas Municipal Code is hereby repealed and replaced to read as follows:

VIII-1-6.15 Fire Service Charges:

The bimonthly charges for fire services provided by detector check valves shall be made on the basis of the size of the detector check valve, and shall be as follows:

a) For Residential Customers:

Detector Check Valve Size, inches	2007/2008 Charges
2	\$32.27
3	\$48.47
4	\$53.86
6	\$70.05
8	\$86.18
10	\$102.35

b) For All Other Customers:

Detector Check Valve Size, inches	2007/2008 Charges
2	\$34.13
3	\$51.20
4	\$56.89
6	\$73.99
8	\$90.99
10	\$108.04

Water service for fire services provided by detector check valves shall be used solely for the purpose of fire protection and testing of such fire protection systems. In the event that water service provided by detector check valves is used for purposes other than such purposes, a quantity charge of \$14.75 per hundred cubic feet shall be imposed for water use that exceeds one hundred cubic feet per billing period.

Amendment to Section VIII-1.6.16. Title VIII, Chapter 1, Section 6.16 of the Milpitas Municipal Code is hereby repealed and replaced to read as follows:

VIII-1-6.16 Effective Date of Water Rates:

The deposits for service in Section 6.06, the meter test fees in Section 6.08, the 07/08 water quantity charges in Section 6.13, the water meter charges in Section 6.14, and the fire service charges in Section 6.15 as established by Ordinance No. 120.44 shall become effective for services received on or after November 15, 2007.

This ordinance shall be ineffective if, at the conclusion of the public hearing to hear protests to the proposed increase in water rates to be held on October 16, 2007, the City Council determines that a majority protest exists pursuant to Section 6 of Article XIII(D) of the California Constitution.

RECYCLED WATER RATE ANALYSIS

The South Bay Water Recycling Program (SBWRP) recycled rates increased 16% effective July 1, 2007. Staff is recommending continuing the existing incentive for recycled water use by setting recycled water irrigation rates at 80% of potable irrigation rates and recycled water industrial rates at 50% of potable water industrial rates. This will increase recycled water rates from 7% to 16%, depending on the customer category. Staff projects the Recycled Water Fund balance will increase \$327,000 from \$2.28 million on 7/1/07 to \$2.61 million on 6/30/08. The projected year-end balance would remain above the minimum recommended reserve of \$300,000.

Rate Recommendations

- Continue existing incentive for recycled water use by setting recycled water irrigation rates at 80% of potable irrigation rates and recycled water industrial rates at 50% of potable water industrial rates.
- Increase recycled water rate for irrigation use from \$3.11 to \$3.33 per hcf.

Guidelines

- Establish rates that are lower than potable water rates to encourage recycled water use and decrease dependence on potable water.
- In accordance with Regional Water Quality Control Board guidelines, encourages water conservation and recycled water diversion to reduce treated wastewater discharges to the South San Francisco Bay.
- Maintain at least a \$300,000 minimum reserve in the Recycled Water Fund.
- Review and apply objectives and principles established by the 2003 Financial Utility Master Plan to accomplish long-term fund goals and rate stability to the extent they are applicable to current conditions.

Assumptions and Findings

- Beginning Recycled Water Fund balance is \$2.28 million as of 7/1/07.
- SBWRP wholesale rate increased 16% for 07/08 (from \$0.61/hcf to \$0.71/hcf), effective July 1, 2007.
- SBWRP is projecting future annual rate increases.
- Assume no increase in recycled water sales volume in 07/08.
- Assume SBWRP continues to reimburse the City for most operational expenses.
- Projected "lost revenue"⁶ transfers to the Water fund are \$522,351 in 07/08.
- The Recycled Water Fund balance will increase \$327,000 from \$2.28 million on 7/1/07 to \$2.61 million on 6/30/08.

⁶ Lost revenue is revenue "lost" to the Water Fund due to potable water sales replaced by recycled water sales. Transfers from the Recycled Water Fund to the Water Fund are made to keep potable water operations level and services whole.

REVENUES

Staff projects no change in recycled water sales of 372,852 hcf for 07/08. At the recommended rates, recycled water sales will generate \$1.22 million, an increase from \$1.14 million in 06/07.

Under the O&M agreement with SBWRP, Milpitas operating expenses from maintenance of the distribution system are reimbursable. The reimbursement amounts were \$30,000, \$42,000, \$30,000, \$30,500, \$40,000, \$20,000, \$77,500, \$38,000, and \$32,000 for 97/98 through 05/06.

EXPENDITURES

Staff projects recycled water purchases of 372,852 hcf in 07/08. The SBWRP wholesale rate increased 16% for 07/08 (from \$0.61/hcf to \$0.71/hcf), effective July 1, 2007.

Staff estimates 07/08 "lost revenue" due to recycled water sales replacing potable water sales at \$522,351. This revenue would be transferred from the Recycled Water Fund to the Water Fund to keep the Water Fund "whole" (retain the same level of funding to meet water operating expenses). The "lost revenue" is calculated by applying the potable margin (retail rate less wholesale cost) to the usage of the former potable water customers.

Future expenditures may include City park irrigation system replacement, distribution system installation, and salinity studies.

RECYCLED WATER RATE RECOMMENDATIONS

For metered recycled water service, staff recommends the following increases:

BIMONTHLY QUANTITY CHARGES

Categories	Current	07/08
Recycled Industrial Process Use	\$1.70 per hcf	\$1.82 per hcf
Recycled Sanitary (Dual Plumbing)	\$1.70 per hcf	\$1.82 per hcf
Recycled Irrigation (Formerly Wells)	\$0.68 per hcf	\$0.73 per hcf
Recycled Irrigation (Agricultural)	\$0.32 per hcf	\$0.33 per hcf
Recycled Irrigation (All Others)	\$3.11 per hcf	\$3.33 per hcf
City of Milpitas Recycled Accounts	\$0.61 per hcf	\$0.71 per hcf

1 hcf = One Hundred Cubic Feet = 748 Gallons

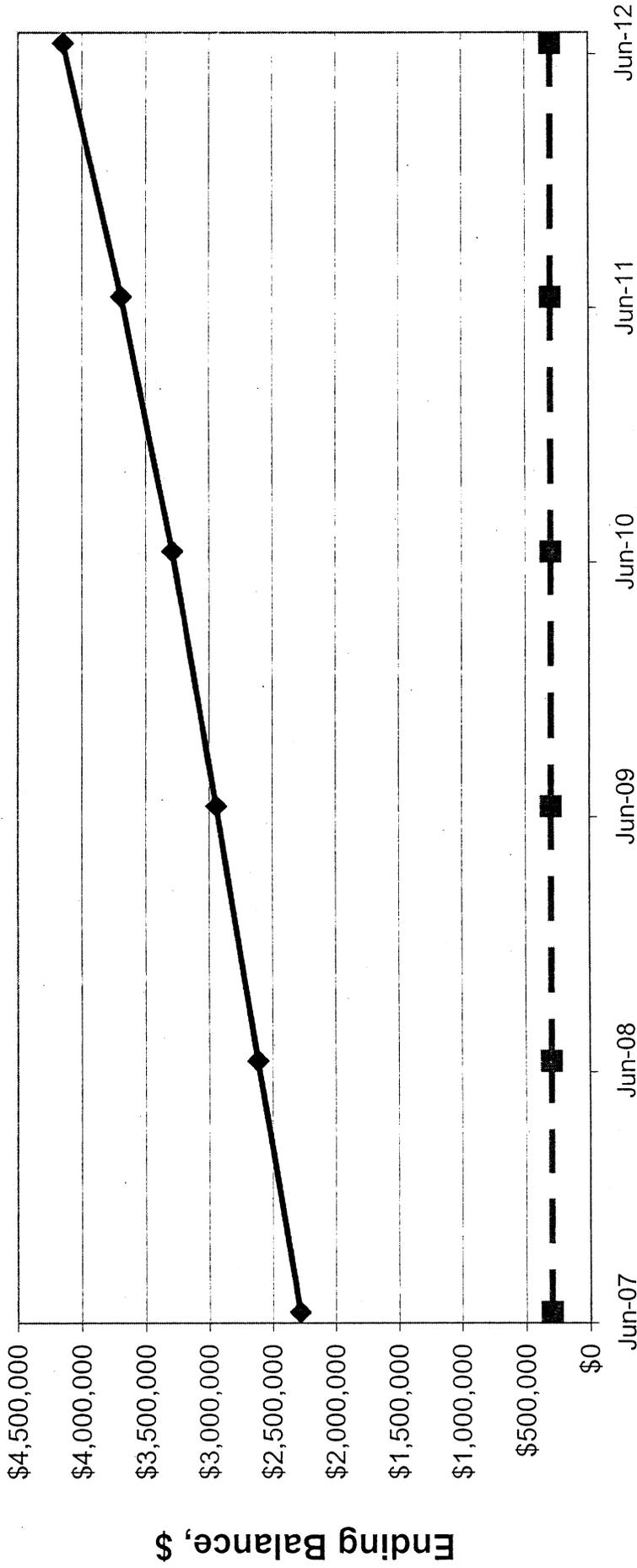
BIMONTHLY FIXED METER CHARGES:

Categories	Current	07/08
Recycled Irrigation (Formerly Wells and Agricultural)	\$60.00	\$60.00
5/8" Meter (All Others)	\$19.90	\$21.29

EXHIBITS

- Exhibit R-1** **Projected Recycled Water Fund Balances (Fund 406)**
A graph showing projected recycled water fund balances for the next 5 years.
- Exhibit R-2** **07/08 Recycled Water Revenues and Expenditures**
A summary showing estimated revenues and expenditures.
- Exhibit R-3** **Recycled Water Revenues**
A table showing actual revenue from recycled water sales since 97/98 and projected sales from 07/08 through 11/12.
- Exhibit W-11** in the Water Rate Analysis includes proposed recycled water service charges.

**EXHIBIT R-1
Projected Recycled Water Fund Balances (Fund 406)**



	Jun-07	Jun-08	Jun-09	Jun-10	Jun-11	Jun-12
Ending Balance, \$	\$2,284,670	\$2,612,045	\$2,940,537	\$3,291,187	\$3,691,136	\$4,146,382
Minimum Reserve	\$300,000	\$300,000	\$300,000	\$300,000	\$300,000	\$300,000

Fiscal Year

EXHIBIT R-2
07/08 RECYCLED WATER REVENUES & EXPENDITURES

	07/08 Projected
BEGINNING BALANCE - July 1	\$2,284,670
REVENUES:	
Interest	\$33,000
Metered Recycled Water Sales	
Quantity Charges	\$1,221,927
Water Meter Charges	<u>\$53,334</u>
<i>Subtotal: Metered Water Sales</i>	\$1,275,261
Reimbursements (O&M, In-Kind Services)	\$102,000
Operating Transfer to General Fund	(\$126,260)
Operating Transfer to Water Fund *	<u>(\$522,351)</u>
<i>Total Revenues</i>	\$761,650
REVENUES + BEGINNING BALANCE	\$3,046,320
EXPENSES:	
Departmental	\$168,916
Non-Departmental:	
Recycled Water Purchases	<u>\$265,359</u>
<i>Total Expenses</i>	\$434,275
ENDING BALANCE - June 30	\$2,612,045

* Lost Revenues = Revenue Transfer to the Water Fund (potable water has been replaced by recycled water).

EXHIBIT R-3
Recycled Water Revenues

Fiscal Year	Metered Water Sales	
1996/97	\$0	
1997/98	\$5,152	
1998/99	\$201,231	
1999/00	\$315,000	
2000/01	\$424,549	
2001/02	\$627,058	
2002/03	\$746,574	
2003/04	\$820,000	
2004/05	\$976,380	
2005/06	\$1,077,288	
2006/07	\$1,141,424	
2007/08	\$1,221,927	*
2008/09	\$1,306,464	*
2009/10	\$1,398,357	*
2010/11	\$1,493,956	*
2011/12	\$1,600,577	*

* Projected at recommended rates

SEWER RATE ANALYSIS

As in past years, staff prepared the Sewer Revenue Program recommendations in accordance with the U.S. Environmental Protection Agency (EPA) guidelines for cost allocation. These require that the City collect sewer services charges in proportion to the benefits received by the discharging customers. Benefits are determined by flow volume and the strength of the waste as measured by biochemical oxygen demand (BOD), suspended solids (SS), and ammonia (NH₃). Rates are based on an allocation of sewer service cost among these four parameters. Thus, there is an intrinsic relationship for charges among users; change of any single rate due to changes in parameter strength results in reallocation of costs to other users' rates.

Staff is recommending a 4.0% increase in single-family residential rates for 07/08. Rates for all other categories are readjusted relative to the residential rate in accordance with strengths and flows consistent with EPA guidelines. Several industrial customers have decreased their discharge volumes through conservation measures, but as a consequence are discharging higher strength wastewater and so their rates are adjusted with both positive and negative factors.

Staff projects that the Sewer Fund balance will decrease from \$7.03 million on 7/1/07 to \$6.60 million on 6/30/08, a decrease of \$430,000. The projected year-end balance would remain above the recommended minimum reserve of 25% of annual operating and maintenance costs. The Sewer Infrastructure Fund, established in 99/00, is projected to have \$5.5 million. This fund is set aside to replace facilities at the end of their useful life.

Rate Recommendations

- Increase single-family residential rates by 4%. This would increase the bimonthly cost from \$59.70 to \$62.09 for 07/08, an increase of \$1.20 per month.
- Make proportional rate increases for other residential and non-residential customers based on flow and strength of discharge.

Guidelines

- Review and apply objectives and principles established by the 2003 Financial Utility Master Plan to accomplish long-term fund goals and rate stability to the extent they are applicable to current conditions.
- Maintain Sewer Fund balance above minimum recommended reserve equal to 25% of annual operating and maintenance costs and treatment plant costs..

Assumptions and Findings

- Beginning Fund Balance is \$7.03 million on 7/1/07.
- The minimum recommended Sewer Fund reserve is \$2.3 million.
- Assume no increase in sewage discharge (7.5 million gallons per day (MGD))
- WPCP O&M costs increase 3.3% in 07/08, from \$4.22 million to \$4.36 million.

- WPCP CIP costs increase tripled this year, from \$540,000 in 06/07 to \$1.71 million in 07/08. WPCP capital costs will continue having large fluctuations from year to year.
- Additional revenues will be needed in the future to pay the City's share of the WPCP capital program. Possible revenue sources include the Treatment Plant Fund or issuing bonds.
- The Sewer Fund balance will decrease \$430,000 from \$7.03 million on 7/1/07 to \$6.60 million on 6/30/08.

REVENUES

The primary source of revenue for the sewer fund is sewer service charges. Staff estimates this revenue will be \$10.1 million for 07/08, an increase from \$9.8 million in 06/07.

EXPENDITURES

The City has planned for the following expenditures from the Sewer Fund:

- Main Sewer Pump Station debt service at \$731,000 for the first year.
- Non-Departmental costs (includes services and supplies) at \$1.32 million.
- Departmental costs (Utility Engineering, Utility Maintenance, Utilities) at \$1.10 million.
- The City's CIP at \$155,000.
- An operating transfer of \$1.55 million to the General Fund for indirect City overhead costs.

SEWER RATE RECOMMENDATIONS

Staff recommends the following rate changes:

- 4.0% increase in single family bimonthly bill (from \$59.70 to \$62.09)
- 2.8% increase in multiple-family bimonthly bill (from \$43.14 to \$44.36)
- 2.0% increase in mobile home parks bimonthly bill (from \$26.88 to \$27.42)
- For commercial customers per hcf rate change
 - 4 categories – 0.4% to 3.3% decrease
 - 2 categories – 0.4% to 6.1% increase
- For industrial customers per hcf rate change
 - 7 categories – 4.3% to 25.5% decrease
 - 5 categories – 0.3% to 61.3% increase
 - 2 categories – no change
- For institutional customers per hcf rate change
 - 2 categories – 0.4% to 5.5% decrease
 - 1 category – 9.6% increase
- Flat fee bimonthly charges also increased by 4% - From \$10.08 to \$10.48 per account (applied to commercial, industrial, and institutional customers only)

By an agreement with the City of San Jose, future wastewater from the North McCarthy Blvd area located in San Jose can be discharged through the Milpitas system to the WPCP for treatment. To date, San Jose has not planned development in this area. However, if it should, the established rate is increased from \$459.00 to \$492.00 bimonthly (based on the Consumer Price Index) for discharges up to 75,000 gallons per day (maximum flow). An excess flow charge of \$100 for each 1,000 gallons per day in excess of the Maximum Flow or part thereof is also applicable.

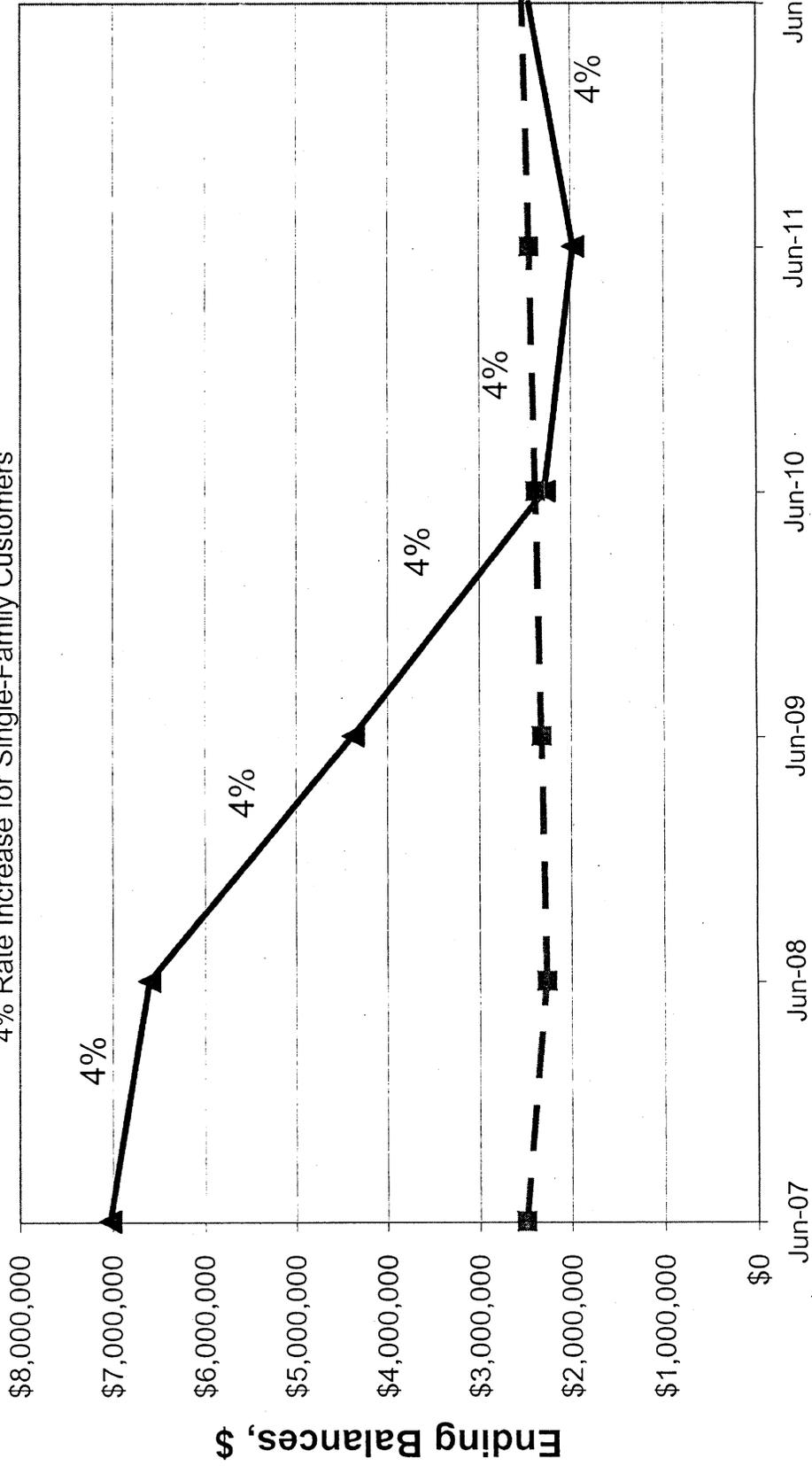
EXHIBITS

- Exhibit S-1 Projected Sewer Fund Balances (Fund 450)**
A chart with projected sewer fund balances for the next 5 years based upon the following assumptions:
- 1) Annual increases of 4% for single-family residences.
 - 2) Transfer of \$2 million from the Treatment Plant Fund to the Sewer Fund in 09/10 to partially offset Milpitas' share of WPCP CIP.
- Exhibit S-2 Average Sewer Flows**
A graph showing historical and projected sewer discharge volumes.
- Exhibit S-3 07/08 Sewer Revenues & Expenditures**
A table summarizing anticipated revenues and expenditures for 07/08. The proposed Sewer Revenue program includes total operating and capital expenditures of \$10.9 million and \$10.5 million revenue, primarily from Sewer Use Charges.
- Exhibit S-4 Historic Sewer Revenues**
A table showing historical and projected 07/08 sewer use charge revenues.
- Exhibit S-5 07/08 Sewer Revenues by User Categories**
A pie chart showing the sources of anticipated sewer revenues by customer categories for 07/08.
- Exhibit S-6 Single-Family Customer Sewer Rate History**
A chart showing the history of single-family customer's bimonthly rates and the recommended 2007/08 rates.
- Exhibit S-7 07/08 Non-Residential Customers Characteristics & Costs By User**
A table with allocated charges among users per EPA cost allocation guidelines. Proposed 07/08 rates and percent changes are also shown.
- Exhibit S-8 07/08 Residential Bimonthly Service Charge Calculations**
A table summarizing the proposed residential customer rates. The cost allocation was determined consistent with EPA guidelines.
- Exhibit S-9 5 Year 2007-2012 Sewer Capital Improvement Projects**
A summary of the adopted 5-Year Sewer CIP Projects (2007-2012).
- Exhibit S-10 Sewer Rate Ordinance**
The proposed Ordinance No. 208 revisions.

EXHIBIT S-1

Projected Sewer Fund Balances (Fund 450)

4% Rate Increase for Single-Family Customers



\$2M transfer from Treatment Plant Fund to Sewer Fund in 3rd year to offset WPCP CIP
 Minimum Fund Reserve (25% of O & M Cost)

EXHIBIT S-2 Average Sewer Flows

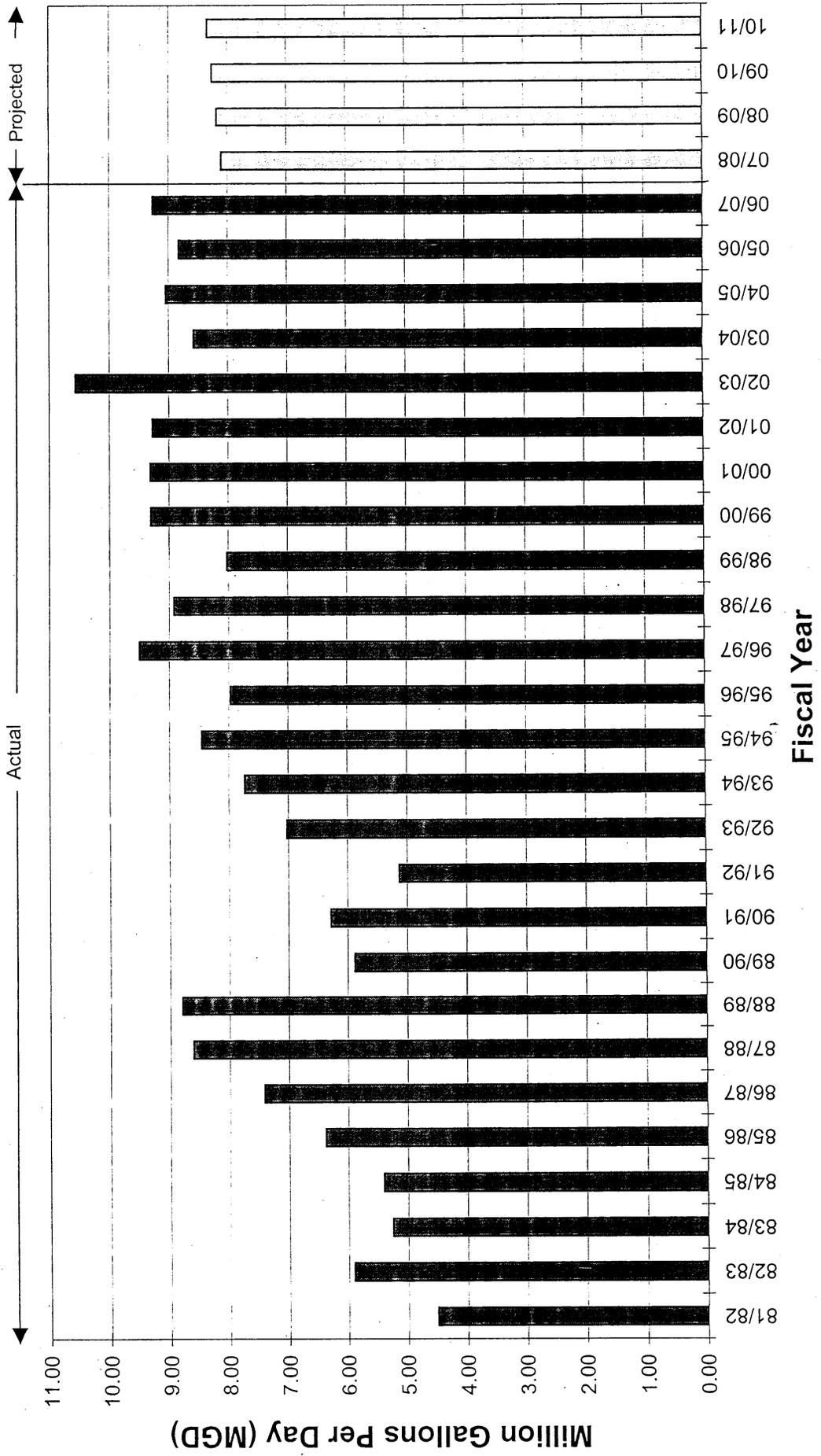


EXHIBIT S-3
07/08 SEWER REVENUES & EXPENDITURES

	07/08 Projected
BEGINNING BALANCE - July 1	\$7,026,048
REVENUES:	
Use charges including flat fee	\$10,122,864
Property taxes, interest	\$336,000
Transfer to General Fund	(\$1,547,952)
Miscellaneous Other Revenue	\$50,000
<i>Total Revenues</i>	<u>\$8,960,912</u>
REVENUES + BEGINNING BALANCE	\$15,986,960
EXPENSES:	
Milpitas CIP	\$155,000
Milpitas Main Pump Station Sewer Bond	\$731,000
Departmental costs	\$1,324,046
Non-Departmental costs	\$1,100,040
SJ/SC WPCP O & M cost	\$4,364,469
SJ/SC WPCP CIP cost	<u>\$1,710,375</u>
<i>Total Expenses</i>	<u>\$9,384,930</u>
ENDING BALANCE - June 30	\$6,602,030

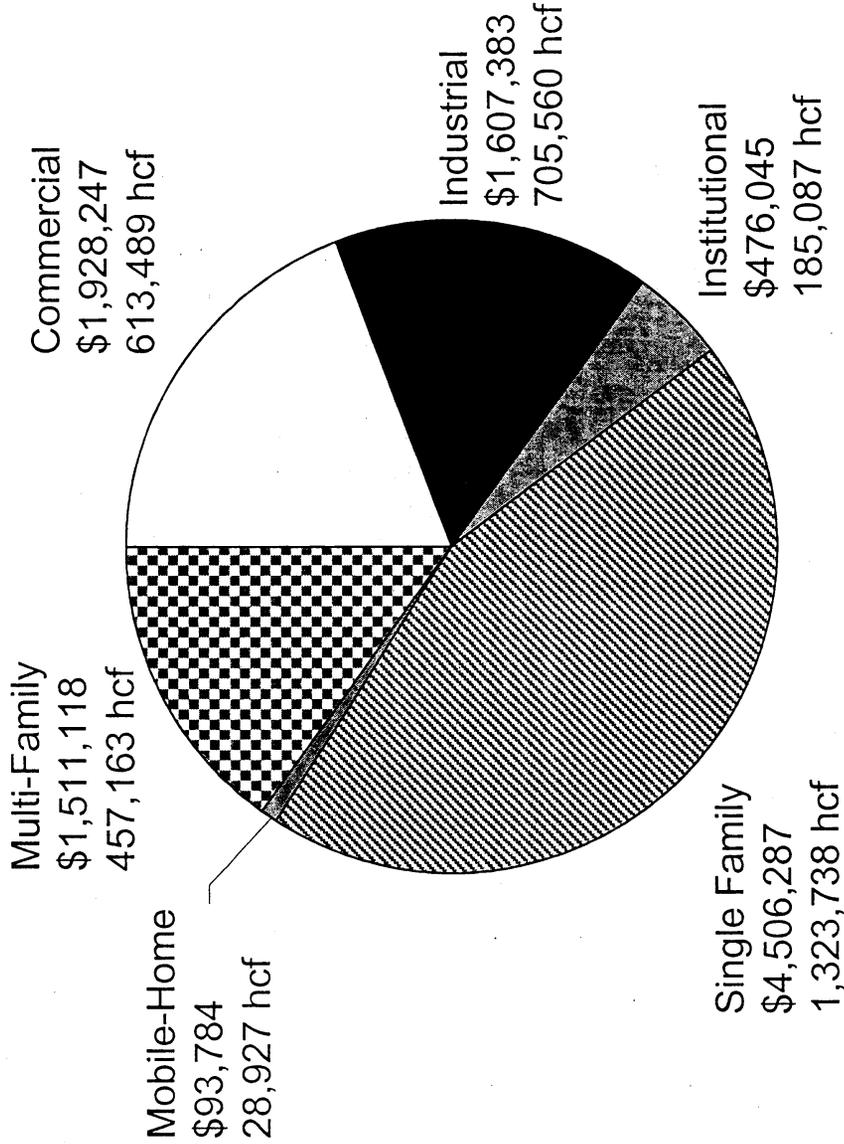
EXHIBIT S-4
Historic Sewer Revenues

Fiscal Year	Revenues
85/86	\$ 3,107,165
86/87	\$ 3,291,722
87/88	\$ 3,477,260
88/89	\$ 3,383,159
89/90	\$ 3,911,586
90/91	\$ 4,070,280
91/92	\$ 4,883,848
92/93	\$ 6,107,441
93/94	\$ 6,114,781
94/95	\$ 6,142,392
95/96	\$ 6,716,015
96/97	\$ 6,739,981
97/98	\$ 6,784,079
98/99	\$ 6,795,163
99/00	\$ 7,064,243
00/01	\$ 7,168,026
01/02	\$ 6,690,861
02/03	\$ 6,546,961
03/04	\$ 7,634,543
04/05	\$ 8,249,391
05/06	\$ 8,905,500
06/07	\$ 9,765,774
07/08 ♦	\$ 10,122,864

♦ Projected

EXHIBIT S-5

07/08 Sewer Revenues by User Categories



Total Revenue = \$10.1 Million
Total Volume = 3,313,964 hcf

EXHIBIT S-6

Single-Family Customer Sewer Rate History

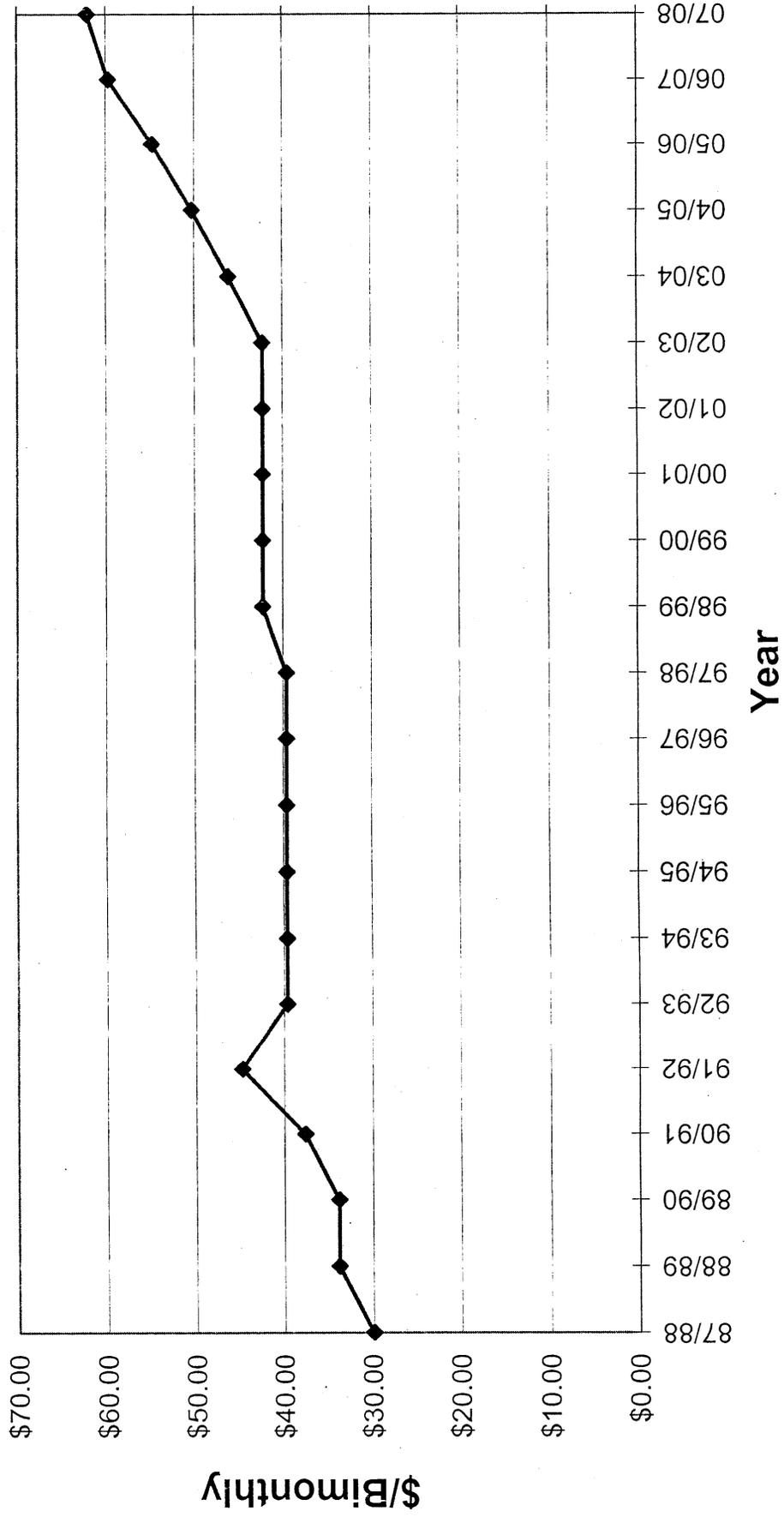


EXHIBIT S-7

07/08 Non-Residential Customers Characteristics & Costs By User

Name(Sewer Code)	Total Capital Costs	Total O & M Ccosts	Flat Rate	Total Costs	Percent of Total	Annual Loading HCF	Current Unit Rate	Proposed Unit Rate	Percent Change
COMMERCIAL (Rev Code 5)									
Motels and Hotels(Y) (76)	\$41,481	\$231,068	\$1,510	\$274,059	2.71	114,593	2.39	2.38	(0.42)
General Office(J) (61)	\$91,277	\$340,025	\$25,034	\$456,336	4.51	187,110	2.39	2.31	(3.35)
City of Milpitas (Z2) (77)	\$5,482	\$24,001	\$2,390	\$31,873	0.31	13,208	2.26	2.31	2.21
Service Stations(S) (73)	\$5,311	\$26,355	\$2,327	\$33,993	0.34	13,094	2.41	2.42	0.41
Eat/Drink Establishments(O) (66)	\$154,030	\$886,635	\$10,693	\$1,051,358	10.39	249,513	3.93	4.17	6.11
Personal Services, Laundrys(P) (67)	\$12,480	\$65,443	\$2,705	\$80,628	0.80	35,972	2.20	2.17	(1.36)
	-----	-----	-----	-----	-----	-----			
	\$310,061	\$1,573,527	\$44,658	\$1,928,247	19.05	613,489			
INDUSTRIAL (Rev Code 6)									
Jefferson Smurfit - 32.77% (R) (69)	\$1,722	\$9,810	\$63	\$11,595	0.11	3,773	0.62	1.00	61.29
T. Marzetti Co.- 72% (N) (65)	\$17,875	\$86,615	\$126	\$104,616	1.03	14,322	3.91	5.26	34.53
Prudential Overall Supply(U) (75)	\$9,565	\$38,686	\$126	\$48,377	0.48	16,289	2.81	2.96	5.34
Loral-Fairchild(E1) (53) - 85.2% Lockheed Martin	\$15,479	\$83,609	\$252	\$99,340	0.98	54,976	1.89	1.53	(19.05)
US Filters (D) (51) - 100%	\$27,609	\$108,442	\$126	\$136,177	1.35	67,445	2.33	2.02	(13.30)
Sipex (E10) (85)	\$14,398	\$56,017	\$189	\$70,604	0.70	36,419	2.08	1.93	(7.21)
Lucky Pure Water - 87.13% (J1) (62)	\$372	\$2,000	\$63	\$2,435	0.02	1,100	1.17	1.88	60.68
DS W(87) - (Moved to Arrowhead site (50))	\$6,486	\$24,934	\$63	\$31,483	0.31	16,749	N/A	0.60	New Customer
Milpitas Materials - 0.8% (M) (64)	\$32	\$80	\$63	\$175	0.00	44	0.02	0.02	0
Union Pacific Railroad (J2) (83)	\$127	\$446	\$63	\$636	0.01	203	3.08	2.83	(8.12)
Way Tech. (E9) (84)	\$44,780	\$174,739	\$314	\$219,833	2.17	94,568	2.61	2.32	(11.11)
Electrical/Electronics(E) (52)	\$120,757	\$497,011	\$10,001	\$627,769	6.20	274,634	2.35	2.25	(4.26)
Machinery Manufacture(L) (63)	\$4,109	\$15,732	\$1,258	\$21,099	0.21	6,401	3.09	3.10	0.32
Linear Technology(E3) (55)	\$21,036	\$118,396	\$377	\$139,809	1.38	70,682	1.97	1.97	0
Seagate technology - 77%(E8) (82)	\$14,291	\$78,893	\$252	\$93,436	0.92	47,959	2.00	1.49	(25.50)
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	\$298,639	\$1,295,410	\$13,341	\$1,607,383	15.88	705,560			
INSTITUTIONAL (Rev Code 7)									
Schools/Colleges(T) (74)	\$27,871	\$77,087	\$3,459	\$108,417	1.07	38,213	2.91	2.75	(5.50)
Convalescent Hosp/Daycare(Q) (68)	\$4,532	\$24,346	\$943	\$29,821	0.29	12,399	2.34	2.33	(0.43)
Elmwood Rehabilitation - 100% (G) (60)	\$50,004	\$287,487	\$314	\$337,805	3.34	134,475	2.29	2.51	9.61
	-----	-----	-----	-----	-----	-----			
	\$82,407	\$388,920	\$4,717	\$476,045	4.70	185,087			
RESIDENTIAL									
							Bimonthly/DU		
Single-Family(R1) (70)	\$733,442	\$3,139,303	\$633,542	\$4,506,287	44.52	1,323,738	59.70	\$62.09	4.00
Mobile Home Parks(R3) (72)	\$11,339	\$68,601	\$13,844	\$93,784	0.93	28,927	26.88	\$27.42	2.01
Multiple-Family(R2) (71)	\$208,137	\$1,084,182	\$218,799	\$1,511,118	14.93	457,163	43.14	\$44.36	2.83
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	\$952,918	\$4,292,086	\$866,185	\$6,111,189	60.37	1,809,827			

EXHIBIT S-8
07/08 Residential Bimonthly Service Charge Calculations

	Units	Single Family	Mobile Home Parks	Multiple Family*
Number of Accounts		12,097	4	1,670
Number of Dwelling Units		12,097	570	5,678
Average Household Size	Persons	3.45	1.60	2.75
Per Capita Discharge	gpd	65	65	60
Household Daily Discharge	gpd	224	104	165
Household Annual Discharge	hcf	109	51	81
Total Annual Discharge	hcf	1,323,736	28,927	457,163
Unit Sewer Charge		\$62.09	\$27.42	\$44.36
PROPOSED TOTAL		\$62.09	\$27.42	\$44.36
BIMONTHLY CHARGE				
Charges due to City Costs		\$36.04	\$15.92	\$25.75
Charges due to Wholesale Costs		\$26.05	\$11.50	\$18.61
CURRENT TOTAL		\$59.70	\$26.88	\$43.14
BIMONTHLY CHARGE				
% Difference in Bimonthly Charge		4.00	2.01	2.83

*Multiple Family includes duplexes, condominiums, townhomes, and apartments.

gpd = Gallons per Day

hcf = One Hundred Cubic Feet = 748 Gallons

EXHIBIT S-9
5-Year 2007-2012 Sewer Capital Improvement Projects

Project	Total Cost	Prior Years	2007/08	2008/09	2009/10	2010/11	2011/12
6073 Sewer Deficiency & Structural Corr. Program (6073)	\$3,680,027	\$2,772,027	\$0	\$608,000	\$0	\$300,000	\$0
6101 Venus Pump Station (6101)	\$202,000	\$52,000	\$150,000	\$0	\$0	\$0	\$0
8167 S. Main/Great Mall Dr Sewer Replacement(8167)	\$1,020,000	\$20,000	\$0	\$0	\$0	\$800,000	\$0
8164 Bart Extension Coordination and Planning	\$25,000	\$15,000	\$5,000	\$5,000	\$0	\$0	\$0
New Great Mall Pkwy Sewer Replacement (New)	\$1,700,000	\$0	\$0	\$300,000	\$1,200,000	\$0	\$0
New Minor Sewer Projects 2009 (New)	\$70,000	\$0	\$0	\$35,000	\$35,000	\$0	\$0
New Minor Sewer Projects 2011 (New)	\$35,000	\$0	\$0	\$0	\$0	\$35,000	\$0
New Montague Expressway Sewer Replacement (New)	\$550,000	\$0	\$0	\$350,000	\$0	\$0	\$0
New Sewer System Replacement 08-09 (New)	\$700,000	\$0	\$0	\$0	\$0	\$0	\$0
New Sewer System Replacement 09-10 (New)	\$700,000	\$0	\$0	\$0	\$0	\$0	\$0
New Sewer System Replacement 11-12 (New)	\$1,000,000	\$0	\$0	\$0	\$0	\$0	\$0
New South Bay Water Recycling Program, Phase II (New)	\$700,000	\$0	\$0	\$700,000	\$0	\$0	\$0

Defunding Subtotal	\$155,000						
Funding Subtotal	\$155,000	\$2,859,027	\$155,000	\$1,998,000	\$1,235,000	\$1,135,000	\$0
Total Cost	\$10,382,027	\$2,859,027	\$155,000	\$1,998,000	\$1,235,000	\$1,135,000	\$0

SUMMARY OF AVAILABLE FINANCING

Other Sources	\$0			\$200,000	\$200,000	\$0	\$0
Sewer Fund	\$155,000		\$155,000	\$1,998,000	\$1,235,000	\$1,135,000	\$0
Sewer Infrastructure Fund	\$0		\$0	\$700,000	\$700,000	\$0	\$1,000,000
Total Available	\$155,000		\$155,000	\$2,898,000	\$2,135,000	\$1,335,000	\$1,000,000

EXHIBIT S-10

REGULAR

NUMBER: 208.41

TITLE: AN ORDINANCE OF THE CITY OF MILPITAS REPEALING AND REPLACING SECTION 6.01, CHAPTER 2, TITLE VIII OF THE MILPITAS MUNICIPAL CODE, RELATING TO SEWER SERVICE CHARGES

HISTORY: This Ordinance was introduced (first reading) by the City Council at its meeting of August 7, 2007, upon motion by _____ and was adopted (second reading) by the City Council at its meeting of October 16, 2007, upon motion by _____. Said Ordinance was duly passed and ordered published in accordance with law by the following vote:

AYES: ()
NOES: ()
ABSENT: ()
ABSTAIN: ()

ATTEST:

APPROVED:

Mary Lavelle, City Clerk

Jose S. Esteves, Mayor

APPROVED AS TO FORM:

Steven T. Mattas, City Attorney

ORDAINING CLAUSE:

THE CITY COUNCIL OF THE CITY OF MILPITAS DOES ORDAIN AS FOLLOWS:

SECTION VIII-2-6.01 OF THE MILPITAS MUNICIPAL CODE IS HEREBY REPEALED AND REPLACED TO READ AS FOLLOWS:

The following amounts shall be assessed upon each premise maintaining a sewer connection with the City's sewage system.

1. RESIDENTIAL - Bimonthly for each dwelling unit

Category	FY 2007/08
Single Family Per Dwelling Unit	\$62.09
Multi-Family Per Dwelling Unit	\$44.36
Mobile Home Parks Per Dwelling Unit	\$27.42

2. COMMERCIAL, INDUSTRIAL AND MISCELLANEOUS PREMISES

- a) Flat Rate: For non-residential accounts, there shall be a flat rate assessed every billing cycle during which normal billing takes place, regardless of the amount of sewage discharged, in the amount of \$10.48 per bimonthly period to defray billing and sewer system administration costs.
- b) Quantity and Strength Charges: For each commercial, industrial, or miscellaneous premises, a charge for each one hundred cubic feet of water used per billing cycle shall be charged as follows:

Category	FY 2007/08
Motels, Hotels & Senior Citizen Housing Developments	\$2.38
General office, banks, government offices general merchandise, retail, and shopping centers; building, hardware, and gardening material facilities; amusement centers, and theaters	\$2.31
City of Milpitas	\$2.31
Service stations, repair shops, and car washes	\$2.42
Eating and drink establishments	\$4.17
Personal services – laundry, barber/beauty shops, cleaners	\$2.17
Jefferson Smurfit Corporation	\$1.00
T. Marzetti Co.	\$5.26
Prudential Overall Supply	\$2.96
Loral-Fairchild-Lockheed	\$1.53
US Filter	\$2.02
Sipex Corporation	\$1.93
Lucky Pure Water	\$1.88
DS Water	\$0.60
Milpitas Materials	\$0.02
Union Pacific Railroad	\$2.83
Headway Technology Corporation	\$2.32
Electrical and electronics design, fabrication, assembly and storage facilities	\$2.25
Metal fabrication, machinery, and tool fabrication facilities	\$3.10

Category	FY 2007/08
Linear Technology Corporation	\$1.97
Seagate Technology	\$1.49
Schools, colleges and churches	\$2.75
Convalescent hospitals, day care centers, and health service facilities	\$2.33
Elmwood Rehabilitation center	\$2.51

c) City of San Jose for properties known as North McCarthy Properties: \$492 bimonthly for any discharge up to 75,000 gallons per day (Maximum Flow). Excess flow charge of \$100 for each 1,000 gallons per day in excess of the Maximum Flow or part thereof.

3. Purpose of Charge: The purpose of these charges is to defray the City's cost for O&M, capital, WPCP O&M share, WPCP capital share, debt service, and WPCP debt service.

Effective Date: The sewer service charges in Section 6.01 as established by Ordinance 208.41 shall become effective for sewer services received on or after November 15, 2007.

RATE COMPARISON WITH OTHER CITIES

Exhibit C- 1

Bimonthly Utility Charge Comparison (Single-Family Residents)

A table summarizing water, sewer, storm, and solid waste rate charges in the surrounding Santa Clara Valley area as of July 2007 for single-family residences using 23 hcf of water over two months. Milpitas' proposed total charges for single-family residents is the fifth lowest of the 13 agencies surveyed.

Exhibit C-2

07/08 Utility Charge Comparison

A graph comparing Milpitas' proposed 07/08 water, sewer, storm, and solid waste with actual 07/08 charges for those agencies surveyed.

EXHIBIT C-1

Bimonthly Utility Charge Comparison (Single-Family Residents)

City	WATER			SEWER			STORM DRAIN			SOLID WASTE			TOTAL	
	06/07	07/08	Change	06/07	07/08	Change	06/07	07/08	Change	06/07	07/08	Change	06/07	07/08
SANTA CLARA + SW1	\$57.65	\$61.45	6.59%	\$21.08	\$23.20	10.06%	\$0.32	\$0.32	0.00%	\$47.08	\$49.28	4.67%	\$125.20	\$134.25
FREMONT W2,S3,SW1	\$58.29	\$62.64	7.46%	\$38.09	\$40.56	6.48%	\$2.25	\$2.25	0.00%	\$50.98	\$48.98	-3.92%	\$161.86	\$154.43
SUNNYVALE SW2	\$47.14	\$51.60	9.45%	\$44.20	\$47.96	8.51%	\$0.00	\$0.00	0.00%	\$61.98	\$66.00	6.49%	\$151.32	\$165.56
MOUNTAIN VIEW SW1	\$63.55	\$67.36	6.00%	\$39.90	\$44.28	10.98%	\$0.00	\$0.00	0.00%	\$60.12	\$61.92	2.99%	\$167.31	\$173.56
MILPITAS PROPOSED	\$58.05	\$62.11	7.00%	\$59.70	\$62.09	4.00%	\$0.00	\$0.00	0.00%	\$51.94	\$51.94	0.00%	\$165.06	\$176.14
UNION CITY W2,S3,SW1	\$58.29	\$62.64	7.46%	\$38.09	\$40.56	6.48%	\$0.00	\$0.00	0.00%	\$82.16	\$82.16	0.00%	\$204.55	\$185.36
LOS GATOS + W1,S1,SW1	\$72.31	\$79.14	9.44%	\$44.10	\$46.70	5.90%	\$1.66	\$1.66	0.00%	\$70.00	\$70.00	0.00%	\$191.55	\$197.50
CUPERTINO + W1,S2,SW1	\$72.31	\$79.14	9.44%	\$39.60	\$42.00	6.06%	\$2.00	\$2.00	0.00%	\$74.64	\$76.52	2.52%	\$193.04	\$199.66
CAMPBELL + W1,S1,SW1	\$72.31	\$79.14	9.44%	\$44.10	\$46.70	5.90%	\$3.25	\$3.25	0.00%	\$73.82	\$73.82	0.00%	\$185.01	\$202.91
SAN MATEO W3,SW3	\$62.35	\$62.35	0.00%	\$63.46	\$89.01	40.26%	\$2.00	\$2.00	0.00%	\$51.06	\$54.72	7.17%	\$193.88	\$208.08
S. J. (Muni.) + SW1	\$50.81	\$55.38	9.00%	\$43.26	\$47.12	8.92%	\$8.32	\$9.06	8.89%	\$80.60	\$103.20	28.04%	\$187.64	\$214.76
S. J. (W. Co.) + S4,SW1	\$72.31	\$79.14	9.44%	\$43.26	\$47.12	8.92%	\$7.64	\$9.06	18.59%	\$80.60	\$103.20	28.04%	\$206.12	\$238.52
PALO ALTO SW1	\$94.99	\$105.88	11.46%	\$46.96	\$46.96	0.00%	\$20.40	\$21.10	3.43%	\$88.02	\$99.46	13.00%	\$247.67	\$273.40
SANTA CRUZ SW2	\$87.03	\$97.97	12.57%	\$61.94	\$66.44	7.27%	\$3.54	\$14.64	313.56%	\$94.90	\$100.18	5.56%	\$253.84	\$279.23
Average	\$66.24	\$71.85	8.20%	\$44.84	\$49.34	9.27%	\$3.67	\$4.67	24.61%	\$69.14	\$74.38	6.75%	\$188.15	\$200.24

+ Tributary to the San Jose/Santa Clara Water Pollution Control Plant.

06/07 & 07/08 Rates based on 23 HCF

UTILITY SERVICES PROVIDED BY THE CITY UNLESS OTHERWISE NOTED.

WATER SERVICE:

W1 San Jose Water Company
W2 Alameda County Water District
W3 California Water Service Co.

SEWER SERVICE:

S6 West Valley Sanitation District
S2 Cupertino Sanitary District
S3 Union Sanitary District
S4 City of San Jose

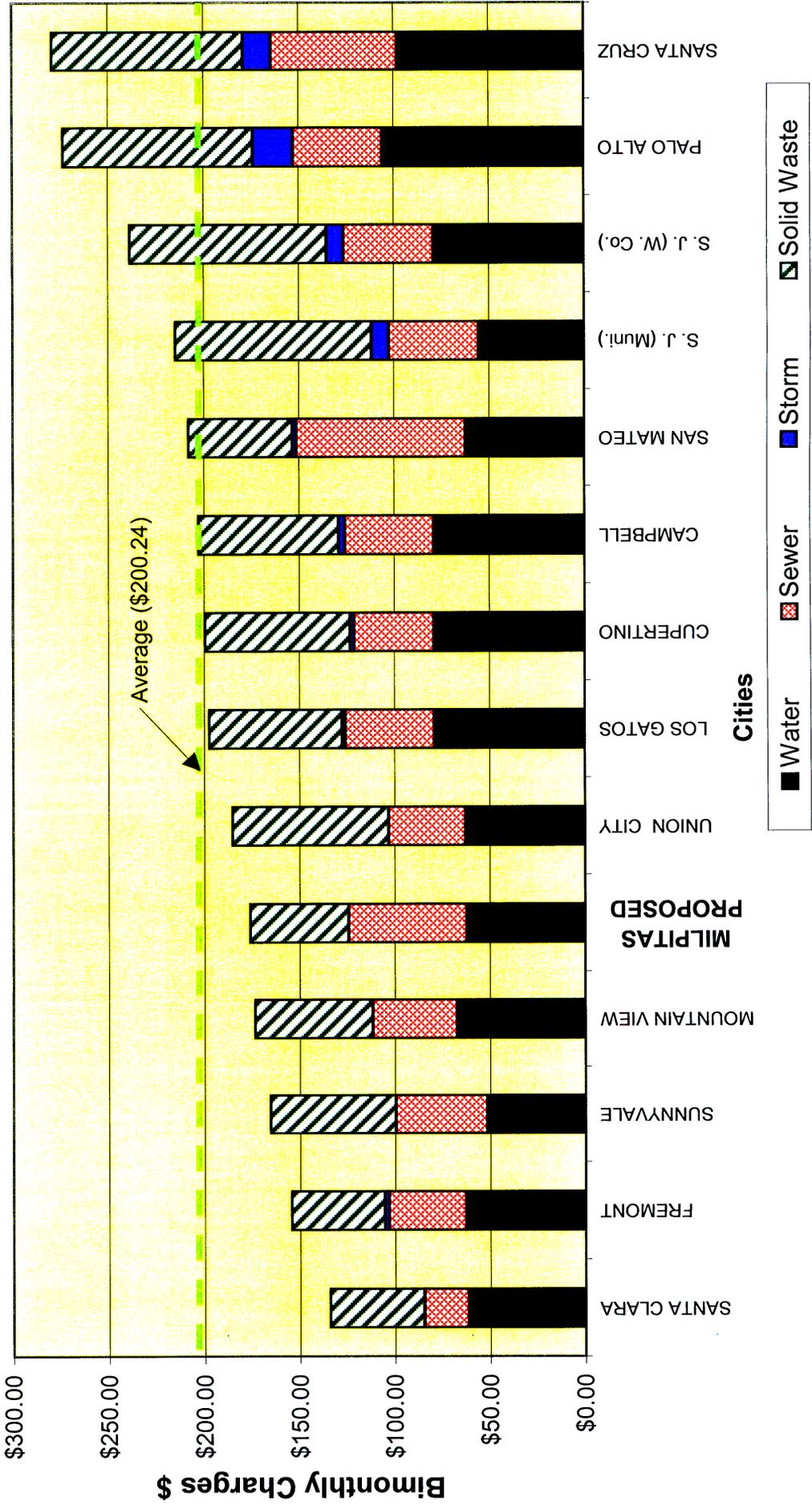
SOLID WASTE SERVICE:

SW1 2-can / 64-gallon Solid Waste rate
SW2 Unlimited Solid Waste rate
SW3 1-can / 45-gallon Solid Waste rate

EXHIBIT C-2

07/08 Utility Charge Comparison

for Single Family Residents using 23 HCF water over two months (5/8" meter)





CITY OF MILPITAS

455 East Calaveras Boulevard
Milpitas, California 95035

September 21, 2007

Property Owner Name
Address 1
Address 2
City, State, Zip

Assessors Parcel Number (APN): APN
Property Address: PA1 PA2 PA3 PA4 PA5

PUBLIC HEARING NOTICE
PROPOSED WATER AND SEWER RATE INCREASES
City of Milpitas City Council Chambers
455 E. Calaveras Boulevard, 2nd 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 (approximately 8,000 property owners) submit a written protest to the City during the 45-day protest period (from September 21, 2007 to November 6, 2007), the City cannot act to raise water or sewer rates.

If less than 50% of property owners submit a written protest within the 45-day protest period (September 21, 2007 to November 6, 2007), the City has the discretion to consider raising water and/or sewer rates up to the amounts shown in this notice. The City Council may decide to raise water and/or sewer rates after the Public Hearing. The proposed rates, if adopted, would be effective December 6, 2007.

If you do not want the City to raise water or sewer rates, you must submit a written protest to the City on or before 5:00 pm Pacific Standard Time, November 6, 2007 or deliver your written protest to the Public Hearing scheduled for 7:00pm on November 6, 2007 at the address indicated in the box above. 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 also 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 written protest to 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 a 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): APN
Property Address: PA1 PA2 PA3 PA4 PA5

Date: _____

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

- Water Rates
- Sewer Rates

Name (Print): _____

Signature: _____



This notice of possible 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 in 1996. The City of Milpitas must comply with Proposition 218's notification requirements when proposing to increase property-related fees and rates, and must include the language in this notice, provide a public hearing and provide information on how a property owner may submit a protest to proposed rate increases.

WATER RATES

Rates for most customers are proposed to increase by 7 percent. The City's two main 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 suppliers; to fund costs to administer, operate, and maintain the water distribution system and part of the storm drain collection system; and to fund unforeseen water supply emergencies. The table on the back of this page provides current and proposed water rates.

This year both of the City's water suppliers requested that their customers, including City of Milpitas customers, voluntarily reduce 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. On July 1, 2007, **the San Jose/Santa Clara Water Pollution Control Plant (WPCP) increased Milpitas' Operation & Maintenance fees by 3.3%, 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 back of this page provides current and proposed sewer rates.

QUESTIONS?

Contact the City's Utility Engineering Section:

Howard Salamanca (408) 586-3348

Paramjit Uppal (408) 586-3351

hsalamanca@ci.milpitas.ca.gov

puppal@ci.milpitas.ca.gov

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.

	CURRENT	PROPOSED	Change
WATER			
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%
SEWER			
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

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.

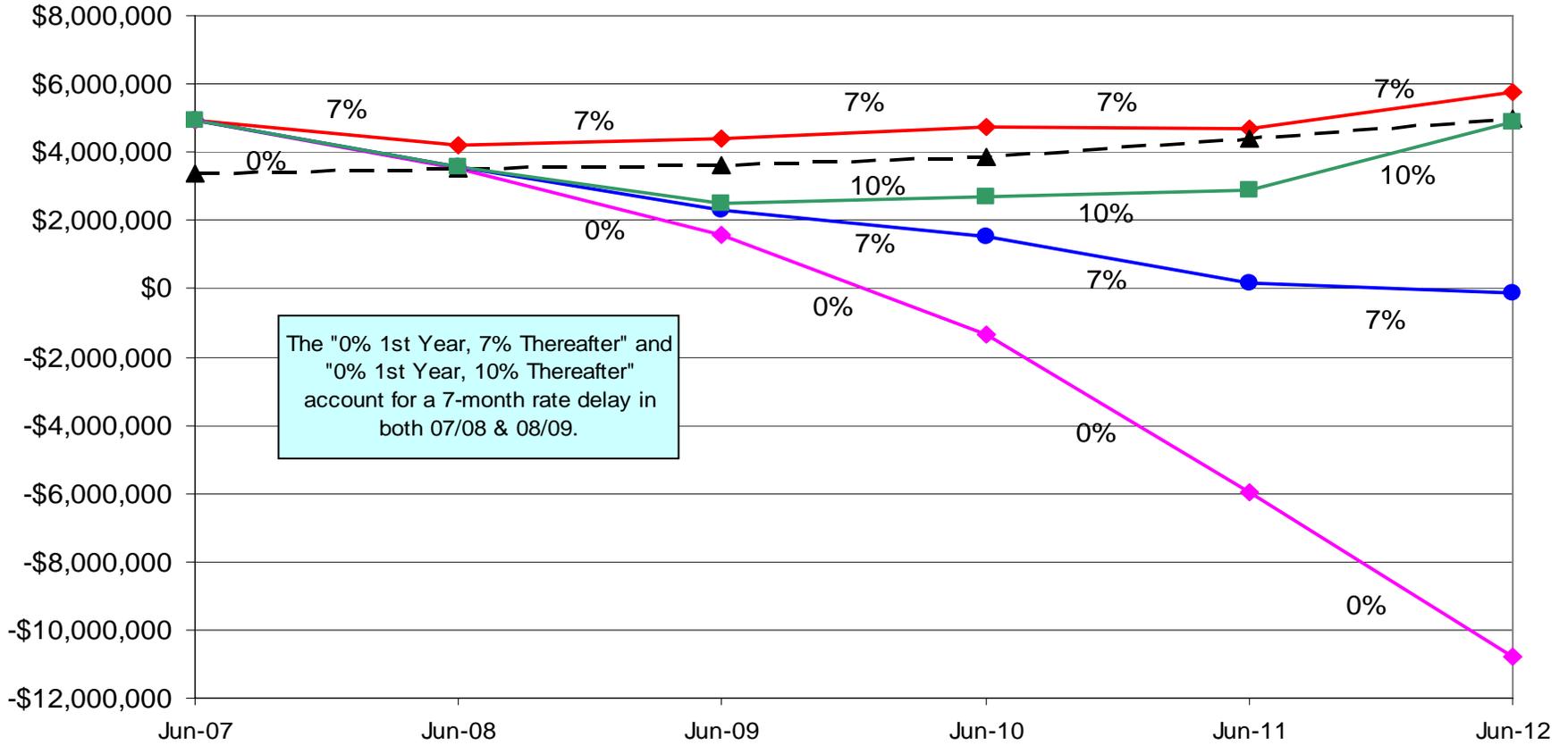
4. Identify alternate revenue sources.

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.

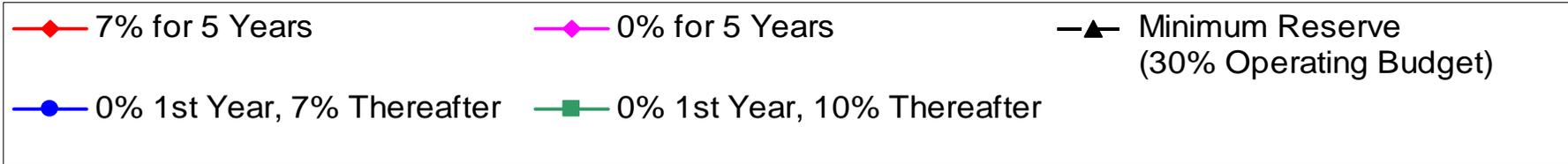
Attachments:

- Water Fund Balances
- Sewer Fund Balances
- California Joint Legislative Audit Committee Letter

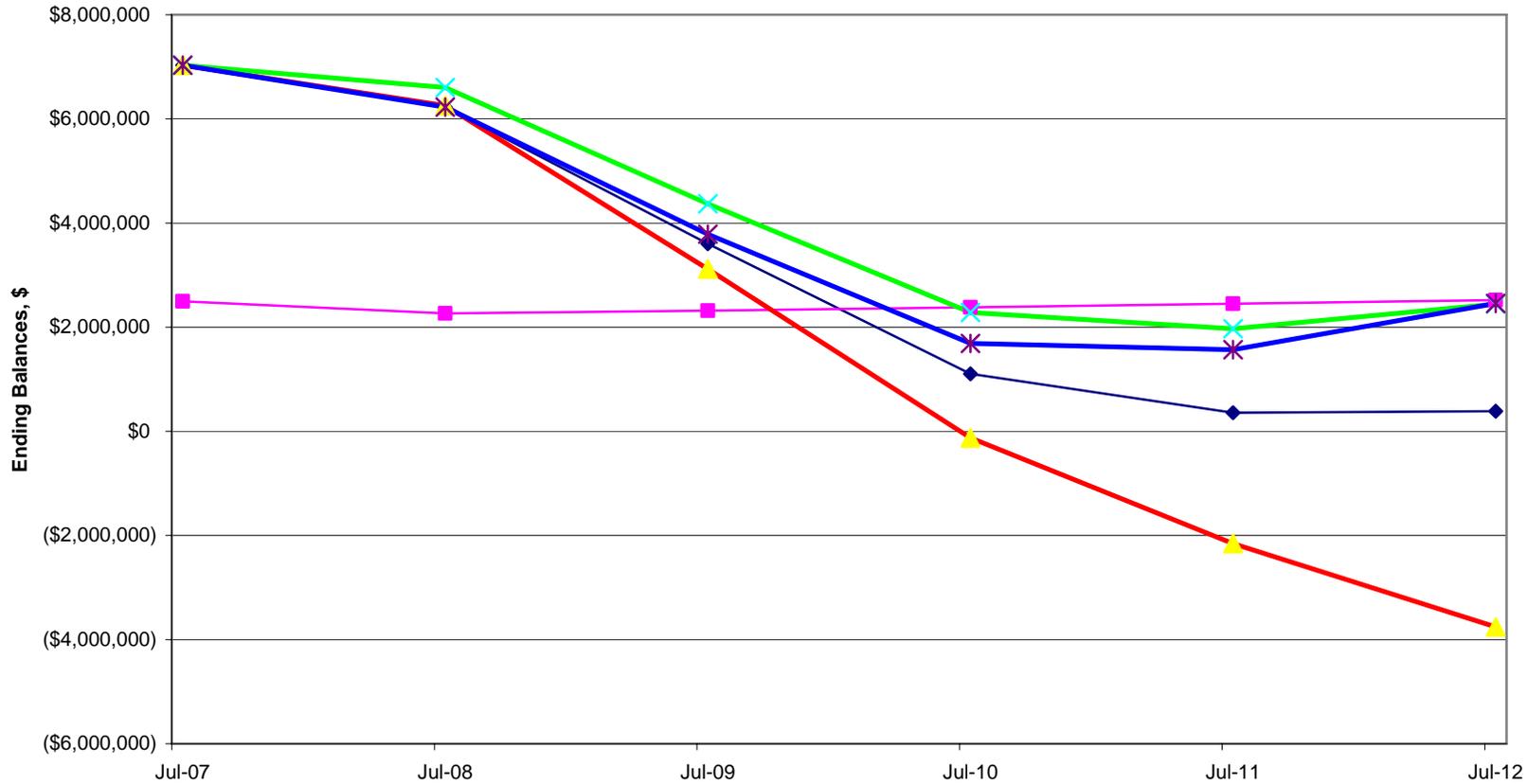
WATER



The "0% 1st Year, 7% Thereafter" and "0% 1st Year, 10% Thereafter" account for a 7-month rate delay in both 07/08 & 08/09.



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