



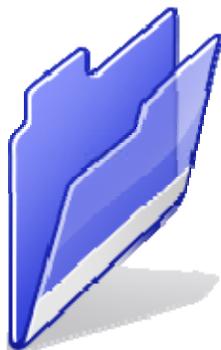
CITY OF MILPITAS

455 EAST CALAVERAS BOULEVARD, MILPITAS, CALIFORNIA 95035-5479
GENERAL INFORMATION: 408-586-3000, www.ci.milpitas.ca.gov

02/15/2011
Agenda Item No. 1



ATTACHMENTS AND/OR ADDITIONAL MATERIALS RELATED TO AGENDA ITEM AFTER AGENDA PACKET DISTRIBUTION



MEMORANDUM

CITY MANAGER'S OFFICE



To: Mayor Esteves and City Council
Vice Mayor McHugh
Debbie Giordano
Armando Gomez
Althea Polanski

From: Tom Williams, City Manager

By: Greg Armendariz, Public Works Director/City Engineer
Kathleen Phalen, Utility Engineer

Subject: Water and Sewer Rate Increase

Date: February 12, 2011

Staff will present a recommendation for water and sewer rates at the February 15, 2011 council meeting. In preparation, staff researched responses for questions from previous rate meetings.

1. Previous Questions/Issues

Questions were posed by Councilmembers and Senior Managers during the previous two rate discussions and the Finance Subcommittee review as follows.

- Should we allow the rates to include a pass through wholesale cost plus inflation escalation provision?
- Can we do a 5-year rate increase?
- Why do we have tiered rates? Why do we not eliminate the baseline?
- Do we have senior rates? Can we establish senior rates?
- Why are Milpitas sewer rates relatively high?
- What does it save the City to approve a four-year increase instead of annual increases.

Pass Through Utility Rates: AB 3030 (Brownley, 2008) authorizes utility rates subject to Prop 218 to include inflation adjustment features and pass-through of wholesale rates. Wholesale pass-throughs are authorized for water costs only – not for labor, energy and other service costs. Pass-throughs and inflation adjustment devices are limited to five years, at which point a new Proposition 218 proceeding is required. Implementation of a pass-through or inflation adjustment requires 30 days notice to customers before each rate adjustment. The pass-through process reduces the shortfall risk.

Five Year Increase: Five years is the maximum period allowed under a single Prop 218 notice and protest hearing. An odd number of years increase would put the subsequent increase into an election year when the community's attention will be focused on campaign issues.

Background on Residential Tiers and Senior Rates: In 1989, the City replaced its 50% senior discount rates with a residential baseline rate (first tier) to satisfy a request for a low-income rate.

The staff proposal was that this applied to the first 10 units per two-months with a substantial discount. A unit is one hundred cubic feet (hcf) which is equivalent to 748 gallons. By 1995, the first tier had settled at an average of the wholesale rates and applied to the first 20 units. The two wholesale rates had been fairly close until recent events have caused SFPUC to substantially raise rates and SCVWD to maintain the same rate for a few years. About 76% of the residential water use falls into the first tier. Stated another way, the typical single family in Milpitas uses 23 units of water in a bi-monthly billing period.

Staff is recommending changing from a 2-tier to 4-tier residential rate structure to better coordinate the cost of service to the rates and improve the water conservation incentive. This splits the first tier of 0 to 20 units into two equal tiers of 0 to 10 units and 11 to 20 units, and splits the second tier of greater than 20 units into two more tiers of 21 to 30 units and greater than thirty units. The new first tier rate would not be increased in the first year, while the new second tier would be set at a rate midway between the old first and second tiers. This would result in about a 19% increase for the typical water customer, or about one-half the rate of increase of the SFPUC wholesale rate increase. Staff analysis determined that the current rate structure has a discounted first tier which is too large in volume to effectively encourage conservation, the only allowable reason for internal subsidy within the Water Fund. Breaking the first tier into smaller increments increases the customer's incentive to avoid water waste and also increases residential rates and revenue to better coordinate to the cost of residential services.

Impact of Creating Further Senior Discount: As noted above, seniors along with all residents already enjoy a substantial discount of their first 20 HCF in a billing period. Typical annual residential water and sewer bills are currently \$840. We know there are currently 1805 senior rate garbage accounts in Milpitas. Therefore, we can estimate that the total annual water and sewer revenue from these same seniors is \$1,516,000. The cost impact from providing a senior discount depends on the percentage discount, but as examples, a 50% discount would cost the City \$757,000 per year, a 25% discount would cost \$379,000 per year, and a 10% discount would cost \$151,000. This subsidy could not be passed to other rate payers and so would need to come from the General Fund.

Sewer Rates: Here are several factors that make Milpitas sewer rates relatively high.

- The City recently bonded for the \$10 million Main Sewer Pump Station overhaul which adds about \$700,000 debt service to the sewer budget each year.
- The City has \$11 million reserves in the Treatment Plant and Infrastructure Funds to be used for aging infrastructure.
- The City has been responsibly investing in replacement, repair, and maintenance of its sewer collection system for many years, including the pump station reconstruction listed above and construction of a second force main from the station to the San Jose Plant. This proactive investment may well save the City money over the long-term because a direct financial benefit is that the City consistently reports low rates of sanitary sewer overflows (SSOs) to the State. Any SSO, even as small as one-gallon, is a water quality violation that must be reported. The San Francisco Regional Water Quality Control Board is beginning to aggressively enforce upon these violations. For example, San Jose was recently investigated and received a Notice of Violation for its sewer collection

system. A violation notice subjects a city to increased replacement, repairs and reporting cost and, under California Water Code Section 13385(c), can result in fines up to:

- \$10,000 for each day in which a violation occurred; and
- \$10 for each gallon of discharge that is not susceptible to cleanup or is not cleaned up in excess of 1,000 gallons.

In addition, the SSO data reported to the State is public information. Non-governmental organizations use SSO data to bring lawsuits and obtain settlements from cities and sanitary districts to bring public pressure on cities to upgrade their sewers. Please see this link to the Baykeeper web site. <http://baykeeper.org/articles/baykeepers-legal-actions-end-sewage-spills>. You may also their interactive map of interest: <http://baykeeper.org/articles/sewage-map-2010>.

- A final reason is that some comparable cities have rates that are too low and these cities are now going through painful rate increases every year to catch up. An example is City of Santa Clara which raised sewer rates 28% in FY 09/10, 19% in FY 10/11, and is considering an increase of about 25% this year. Even with these steep back-to-back percentage increases, Santa Clara is may not have sufficient cash flow if San Jose ramps up the Plant Master Plan capital costs too quickly. This is a difficult issue for Milpitas because the Master Plan improvement that San Jose could most easily postpone is removal of the odorous open-air sludge lagoons and drying beds. Milpitas's position is that phase out of the open-air biosolids drying needs to be done as quickly as possible to address this city's quality of life impacts.

Cost of Annual Rate Adoption: We estimate that over four years, adopting the four year increase would save the City about \$424,000 as compared to annual rate adoptions. We consider this an approximate estimate with an error range of plus or minus 25%.

We estimate that it costs the City approximately \$184,300 each time it adopts water and sewer rate ordinances. Most of this is labor at \$176,000. The remainder is supplies and services at \$8,300. The process requires effort from the departments of the City Manager Office, City Attorney, City Clerk, Finance, and Engineering. The major tasks are:

1. Research and modeling five-year projections for water and sewer funds and writing the rate analysis report to document assumption and results [\$65,000; 324 hours]
2. Prepare and post water and sewer ordinance [\$11,000; 49 hours]
3. Prepare for and present at the Finance subcommittee [\$20,800; 104 hours]
4. Prepare for and present at first Council Public Hearing[\$22,700; 113 hours]
5. Prepare and mail Prop 218 notice [\$13,600 (labor); 68 hours; \$6,600 printing & postage]
6. Prepare for and attend second Council Hearing[\$24,900; 124 hours]
7. Miscellaneous meetings, including community meeting [\$19,600; 98 hours]

The cost for an annual administrative adjustment without ordinance adoption would be about \$43,000 and would require about 182 labor hours. Staff will still need to run the analyses and notify the customers of the rate adjustment, but would not need to prepare for the public meetings and would not reissue the rate report.



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Agenda Item No. RA6



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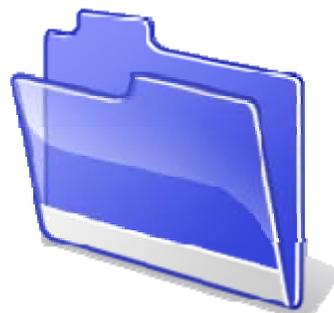
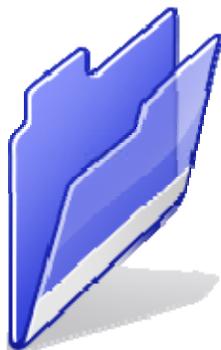


TABLE 5 – MISCELLANEOUS REDEVELOPMENT ACTIVITY

Improvement, Project or Activity	Cost Estimate
Infrastructure assessment and modeling for future commercial development and job growth. To include but not limited to necessary planning studies and CEQA clearances.	\$3,000,000
Agency video broadcasting and technological redevelopment tools and meeting room rehabilitation.	\$1,500,000

Total Miscellaneous Improvements = \$4,500,000.00



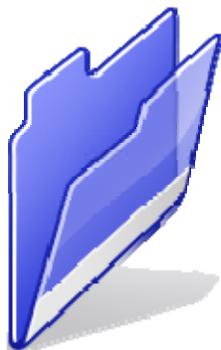
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City of Milpitas, California

BUDGET CHANGE FORM

Type of Change	From		To	
	Account	Amount	Account	Amount
Check one: <input checked="" type="checkbox"/> Budget Appropriation <input type="checkbox"/> Budget Transfer	390-2940	\$ 1,800,000	390-910-4831	\$ 1,800,000

Explain the reason for the budget change:

Background: The current property owners of 1432 to 1440 South Main Street expressed interest in Agency acquisition of their property last fall. The property is strategically located for South Main Street redevelopment as envisioned in the Midtown Specific Plan to strengthen housing and mixed use in the area. The property appraised at \$1,750,000, although the appraiser rounded down from \$1.766 million in determining site value. Because this acquisition is in furtherance of the Agency's redevelopment program established for the Midtown Specific Plan, staff recommends acceptance of the purchase price of \$1.8 million as within the reasonable range of fair market value. This purchase price is approximately \$40.00 per square foot (psf). In comparison, the purchase price for the property at 1504-1620 South Main Street was \$46.76 psf.

The site has several businesses on either month-to-month or short-term leases and one apartment. Terms of negotiation will allow the current owners to relocate their business to another space on the property and maintain the apartment. If the Agency approves staff recommendations, staff will negotiate rental agreements with the existing tenants for a period not to exceed two years. Staff has asked the current property owners to serve as property manager and to provide on-site security services. If agreed to, we will also negotiate a property management and security agreement for their services. This will allow for a more seamless transition in ownership for the tenants for the next two years.

Fiscal Impact: The Redevelopment Housing Set Aside Fund has sufficient funds to loan the necessary funds to the Project Fund (non-housing redevelopment fund) to cover the purchase of the property.

Recommendations:

1. Adopt a resolution authorizing the Agency Executive Director to negotiate and execute agreement(s) to purchase for \$1.8 million and for rental and property management services of 1432-1440 South Main Street.
2. Approve a \$1.8 million loan from the Redevelopment Housing Set Aside Fund to the Project Fund for the purchase of the property and to give authorization to the Agency Director to execute all documents necessary to effectuate that loan.
3. Approve a Budget Change Form.

Check if City Council Approval required.

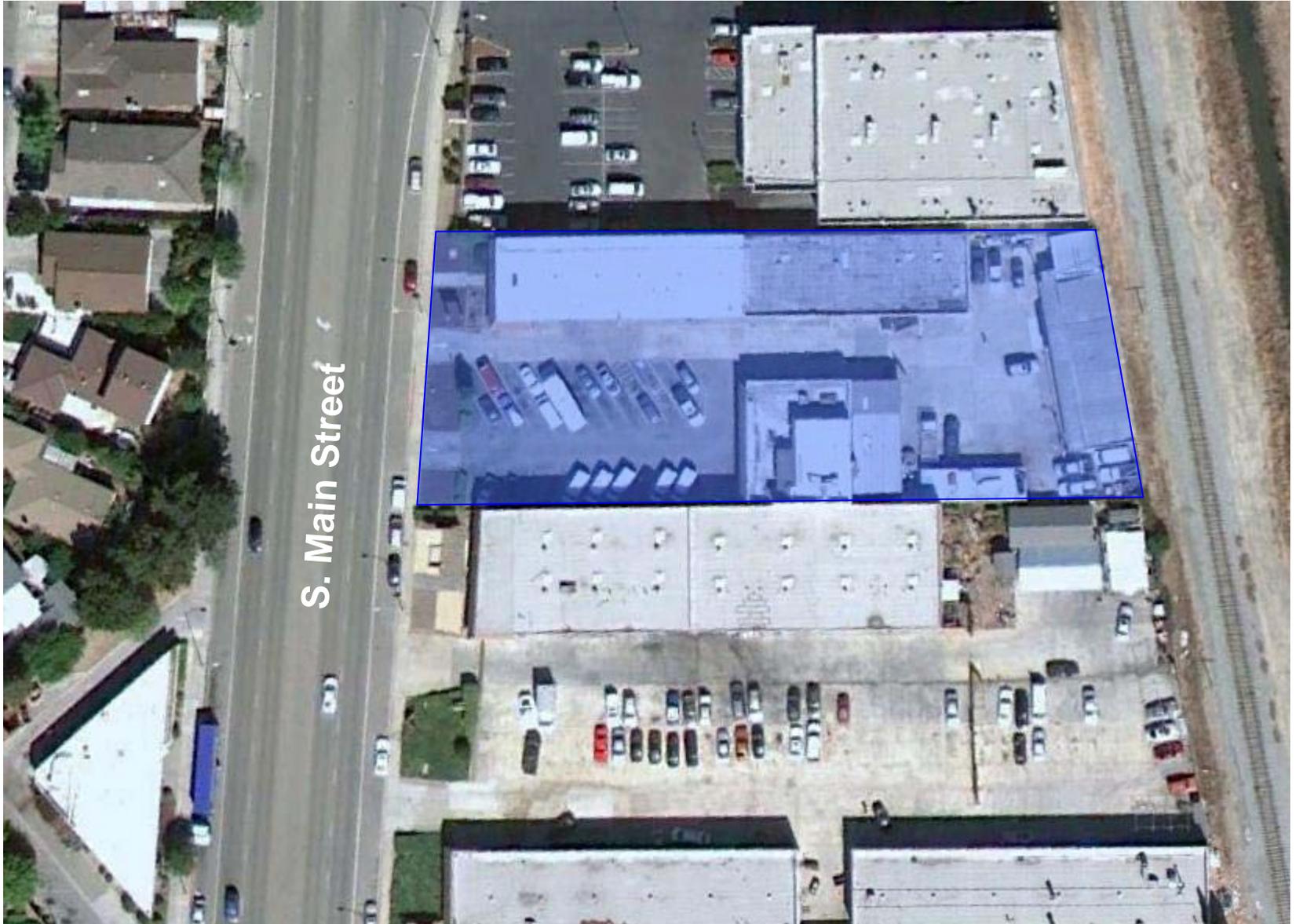
Meeting Date: February 15, 2011

Requested by:	Division Head:	Date:
	Department Head:	Date:
Reviewed by:	Finance Director: <i>Jane Campos for Emma Karlen</i>	Date: 2/10/11
Approved by:	City Manager:	Date:

Date approved by City Council, if required:

Confirmed by:

RA7: 1440 South Main Street





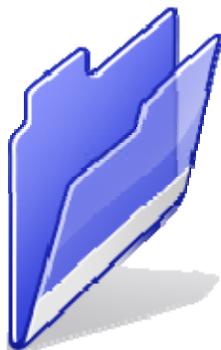
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RA8: Proposed Land Purchase

