

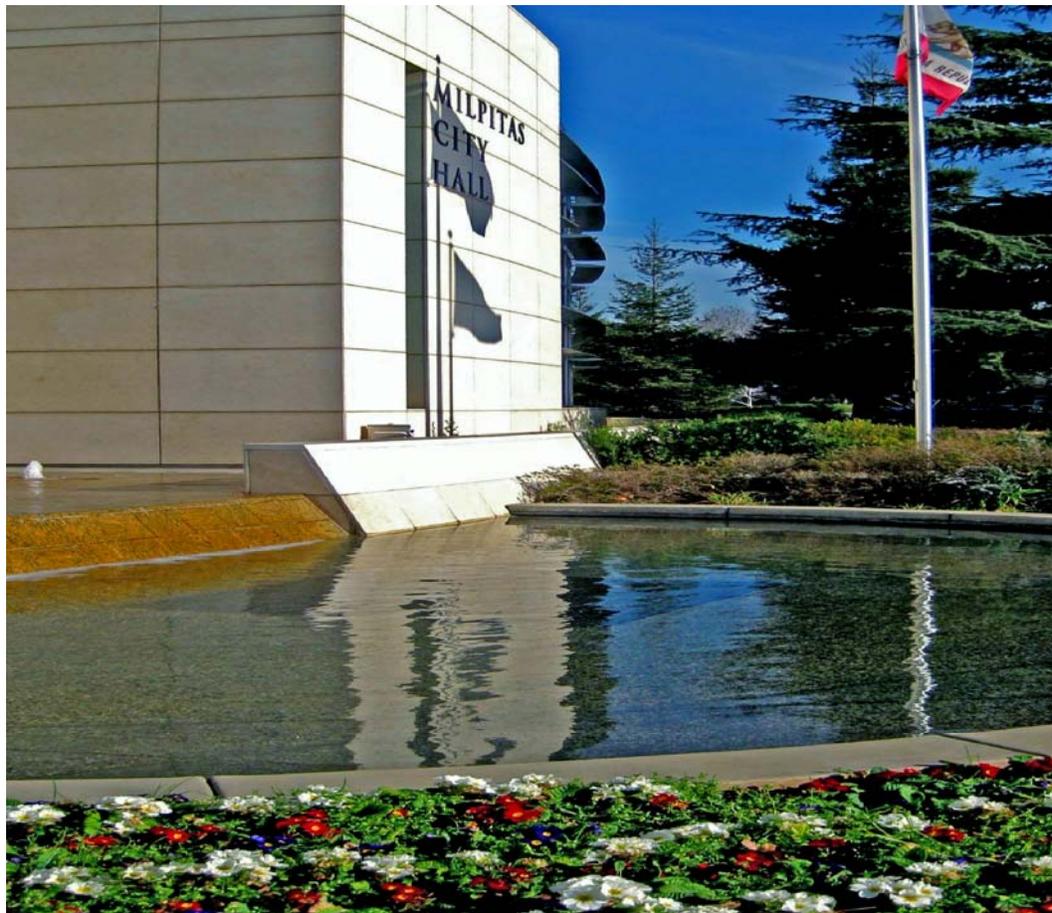
**LIST OF ATTACHMENTS FOR PUBLIC HEARING
ITEM NO. 1 – HOLD A PUBLIC HEARING AND
INTRODUCE WATER ORDINANCE NO. 120.46 AND
SEWER ORDINANCE NO. 208.47 TO AMEND TITLE
VIII OF THE MILPITAS MUNICIPAL CODE TO
ESTABLISH WATER AND SEWER RATES**

- A. 2011 Utility Rate Analysis Report**
- B. Proposition 218 Flyer**
- C. Ordinance No. 120.46**
- D. Ordinance No. 208.47**



Utility Rate Analysis

Water and Sewer Rate Recommendations



Utility Engineering Section
Public Works Department
February 15, 2011

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EXECUTIVE SUMMARY

This utility rate analysis was performed to support the water and sewer rate recommendations to be presented to the City Council on February 15, 2011.

Water Maximum Rate Recommendation

- Adopt maximum water rates which would be the highest rates the City could charge over the next four years. The actual rates for any given year are anticipated to be lower, and would need to be calculated each year based on actual cost.
- Split the current residential two-tier structure into four tiers to better coordinate the cost of service to the rate and to improve the incentive for conservation. The bimonthly cost for the average single-family residence using 23 hundred cubic feet (hcf) is projected to increase from \$68.97 in Fiscal Year 2010-11 (FY10/11) to \$82.23 in FY11/12, \$88.35 in FY12/13, \$95.04 in FY13/14 and \$102.43 in FY14/15. One hundred cubic feet is equal to 748 gallons and is a standard measurement of water .
- Raise other customer classes to better coordinate the cost of service to the utility rates.
- As per contract agreement with the County of Santa Clara, increase the rate for Ed Levin Park to match San Francisco Public Utilities Commission's (SFPUC) wholesale water rate.

Recycled Water Maximum Rate Recommendation

- Adopt maximum recycled water rates which would be the highest rates the City could charge over the next four years. However, the actual rates for any given year are anticipated to be lower, and would need to be calculated each year.
- Increase incentive for recycled water irrigation use by increasing the discount from the potable water rates from 80% to a projected 77% at the end of four years.

Sewer Maximum Rate Recommendation

- Adopt maximum sewer rates which would be the highest rates the City could charge over the next four years. However, the actual rates for any given year are anticipated to be lower, and would need to be calculated each year. The maximum rate anticipates the drawdown of the Sewer Fund balance from its current \$8 million to the target reserve of \$3 million over the next four years. The Sewer Fund balance is abnormally high due to a one time \$4.3 million reimbursement from the Transit Area Impact Fee Fund for the Main Sewer Pump Station reconstruction project as described in the Transit Area Specific Plan's financing plan.
- The bimonthly cost for single-family residences is projected to increase from \$70.94 in FY10/11 to \$75.92 in FY11/12, \$81.23 in FY12/13, \$86.92 in FY13/14 and \$93.00 in FY14/15.
- Make proportional rate increases for other residential and non-residential customers based on the flow and strength of discharge in accordance with the State of California Sewer Revenue Guidelines, as required by the City's "Master Agreement for Wastewater Treatment" with the Cities of San Jose and Santa Clara.

INTRODUCTION

As of this writing in February 2011, the lingering effects of the Great Recession of 2007 - 2009 are still being felt in Milpitas. Property values dropped nearly 30% and have not recovered, a number of commercial and industrial businesses reduced production or permanently closed their Milpitas facilities, and one in ten workers remains out of work. It seems a poor time for the City to consider raising customer rates on such basic necessities as water and sewer. Unfortunately, the City is subject to the same economic conditions as are its customers. Water sales are down over 20%, resulting in a two-year combined water and sewer fund revenue shortfall of \$4 million. Exacerbating this problem is the steeply increasing cost of wholesale water and sewer treatment.

WATER AND SEWER ENTERPRISE FUNDS

The City's policy and State law require that the water and sewer utilities be managed in a manner similar to private enterprises. The water and sewer finances are kept in separate funds and are neither subsidized by other revenue sources, nor do they generate a profit. Water and sewer customers pay the actual cost of their water and sewer usage, with the exception that residential water rates have discounted tiers for the purpose of encouraging water conservation. This is the only form of discounting allowed by State law and the subsidy comes from the larger water users. Ideally, water and sewer fees and user charges are set at a level that supports the total short-term and long-term direct and indirect costs of utility operation, including depreciation of infrastructure assets, overhead charges, and banking of reserves for unanticipated expenses and current and future capital improvement projects. However, the City's fees do not generate sufficient revenue to support all of the identified capital projects. The funds are each managed to maintain operating reserves to serve as contingency funds if revenues should be lower and/or expenses should be higher than expected. The operating reserve goal for water is 30% of the water fund annual operating budget, which amounts to approximately \$4 million. The operating reserve goal for sewer is about 25% of the sewer fund annual operating budget, which amounts to approximately \$3 million.

CONSEQUENCES OF NOT RAISING RATES TO MATCH COSTS

If the City fails to raise rates to a level sufficient to cover costs, the City will be forced to take funding from the general fund, its only source of discretionary funds, to subsidize the water and sewer rates at a level less than cost. This would mean that the Milpitas general public would subsidize the water and sewer customers, including the large commercial and industrial users. This transfer from the general fund would reduce the City's ability to provide other desired community services such as parks and recreation, street landscaping, and street maintenance. It would also conflict with City policy and standard government practice that water and sewer service funds be operated as self-supporting enterprise funds. In the first year, that City would need to take \$6 million from other services to balance the utility fund budgets. Over the course of four years, the cumulative utility funds shortfall would be \$32 million, an amount equal to about half of the City's annual general fund operating budget.

DESCRIPTION OF WATER AND SEWER COSTS

Through use of rigorous cost controls including employee layoffs, negotiated 7% labor salary concessions, and reduction in use of supplies and services, the City has contained its internal water and sewer operating costs to a stable level over the past three years. Unfortunately, the City's internal cost savings are more than offset by the tremendous increase in wholesale water costs driven by the \$4.6 billion SFPUC Water System Improvement Program and sewer treatment costs driven by the planned \$2.2 billion WPCP reconstruction program as more fully described in the "Utility Rate Analysis" report. These massive reinvestments into aging regional infrastructure are both necessary and beyond the City's control.

Water Costs

Sixty percent of the City's cost to provide water is the wholesale purchase price. The City holds long-term supply contracts for wholesale potable water from the San Francisco Public Utilities Commission (SFPUC) and the Santa Clara Valley Water District (SCVWD). These contracts allow these suppliers to set wholesale prices to recover their cost of service. The remaining forty percent of the City's water cost is for operation, maintenance and capital improvement of the water distribution system. The City owns a complex distribution network of over 200 miles of pipe, operated as seven distinct pressure zones through use of pumping stations and pressure regulating valves to ensure that all areas of the City have a constant supply of pressurized water for fire fighting, public health and sanitation. The City's internal cost breaks down further with about one-third devoted to continuous investment in aging infrastructure upkeep and two-thirds for daily operations, including the labor, equipment, power, and supplies needed to monitor, test, and distribute the water; comply with regulatory requirements; administer supply contracts; bill customer accounts; and provide management, finance, legal, human resources, and security support.

San Francisco Public Utilities Commission: In FY10/11, the City will pay SFPUC \$6 million for treated wholesale water. In FY11/12, SFPUC is proposing to increase wholesale rates 41% which increases the wholesale commodity cost to \$8 million. This follows previous annual double-digit increases that will raise SFPUC wholesale rates 146% in five years. By FY14/15, the City expects to pay \$10 million a year for SFPUC water.

There are two reasons for SFPUC's steep rate increases:

- The \$4.6 billion Water System Improvement Plan (WSIP) financing plan requires 10 years of double-digit wholesale rate increases to nearly triple rates from FY05/06 to FY15/16. State legislation (AB 1823) requires SFPUC to complete the WSIP to seismically upgrade the Hetch Hetchy distribution system and these program costs are well defined at <http://bawsca.org/water-supply/wsip/>. The 2009 Master Agreement allows SFPUC to pass through a proportionate share of WSIP costs to retailers in the wholesale rates (Section 5.04). The WSIP cost represents about one-third of the proposed wholesale rate increase for FY11/12.
- SFPUC's FY10/11 water revenues will be lower than projected due to lagging water sales, attributable to the poor economy and the regional water conservation campaign. FY10/11 wholesale purchases are coming in about 12.5% lower than SFPUC projected in its budget, producing a \$15-\$20 million negative balance in SFPUC's balancing account by fiscal year end. The 2009 Master Agreement allows SFPUC to set wholesale rates to recover projected revenues shortfalls (Section 6.05). The revenue shortfall

represents about two-thirds of the proposed cost increase for FY11/12. We anticipate that the lagging water sales will continue for at least another year and so will impact next year's wholesale rate as well.

Santa Clara Valley Water District. In FY 10/11, the city will pay the District \$2 million for treated wholesale water and this cost is expected to increase about \$300,000 a year to slightly over \$3 million in FY14/15. The District has not raised wholesale rates since FY07/08, but expects to increase rates 10% per year for at least the next five years. The District postponed rate increases while it responded to the Great Oaks Water Company lawsuit and retailer calls for cost efficiency. During this period, it reduced staff by 10%, consultant services by 19%, and deferred capital improvement projects. It also saw revenue shortfalls of about \$6 million per year due to a 13% drop in water sales since 2007, and another \$1 million per year in property tax distributions.

Sewer Costs

The costs for sewer have a similar distribution for the external treatment costs and the City's internal operation and maintenance costs. The City's sewer system contains over 180 miles of pipe and two pumping stations that collect and transport the sewage to the San Jose/Santa Clara Water Pollution Control Plant (WPCP) for treatment. About 60 percent the City's cost goes to pay City of San Jose for sewage treatment and the remaining 40 percent is for the City's operation, maintenance, and capital improvement of its sewer collection system.

At this time, the Sewer Fund has an anomalously high balance of about \$8 million, over twice the target reserve level of \$3 million. This is because in August 2010, the Sewer Fund received a \$4.3 million reimbursement from the Transit Area Impact fee for the portion of the Main Sewer Pump Station reconstruction cost that was attributable to increased pumping capacity included to accommodate the future planned growth in the Transit Area Specific Plan. The drawdown of the Fund balance is an example of two utility fund principles. First, "growth pays for growth," meaning that the new customers entering the system pay for upsizing infrastructure, rather than the existing ratepayers who have already paid for their infrastructure needs. Second, the utility rates are adjusted to provide only as much funding as the City needs to provide the service. In this case, over the next four years, the rates are projected to provide less than the expected annual expenses and difference will draw from the Sewer Fund balance until it reaches the target reserve.

San Jose/Santa Clara Water Pollution Control Plant: The City of San Jose operates the San Jose/Santa Clara Water Pollution Control Plant and by a "Master Agreement," accepts up to 14.25 million gallons per day of sewage from City of Milpitas for treatment. By the terms of the agreement, rather than paying a wholesale rate, the City pays a proportionate share of the Plant's operation costs and capital improvement costs each year. San Jose's plant is one of the oldest sewage treatment plants in the Bay Area, and its infrastructure is overdue for replacement and modernization. Reconstruction of the treatment process units will cost on the order of \$2.2 billion and take 30 years to complete.

The master plan capital improvement work will be funded by the sewer rate payers in San Jose, Santa Clara, Milpitas, West Valley Sanitation District, and Cupertino Sanitary District. The City's share of the capital improvement costs are approximately \$168 million, to be paid over the next thirty years. This is expected to raise the capital portion of the City's payment from

the current average of about \$2.2 million per year to \$6.4 million in FY14/15. It should be noted that capital expenses can vary greatly year-to-year depending on the magnitude of the actual projects under construction. The City's share of the Plant operating expenses are expected to increase 4% per year, from \$4.5 million to \$6.4 million over the next four years.

Proposed Maximum and Inflation Pass-Throughs

Rates for FY11/12 are proposed for adoption. Rates for subsequent years will be set at or below the proposed maximum rate as determined administratively by City staff to cover personnel, overhead, and capital costs of the utility service. Rates shall not exceed the cost of providing the service.

Inflationary costs in excess of 2% caused by labor or commodity cost increases, as recorded in the San Francisco Bay Area Engineering News Record Construction Cost Index, will be passed through to the water rates. Changes in the wholesale water cost not projected into the maximum rates will also be passed through to the water rates. This wholesale rate pass-through shall only be implemented with at least 30 days notice to ratepayers.

Residential Rate Tiers

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 is accomplished by splitting the first tier of 0 to 20 units in to two equal tiers of 0 to 10 units and 11 to 20 units, and splitting 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. Staff analysis determined that the current rate structure has a discounted first tier which is too large 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 revenue to better coordinate it to the cost of services. In a bimonthly billing period, the typical single family in Milpitas uses 23 units of water. A unit is one hundred cubic feet which is equivalent to 748 gallons.

Public Notification

California State Constitution Article XIII(D), also known as "Proposition 218," gives land owners receiving water and sewer services the right to protest water and sewer rate increases. The process is specifically limited to the owner of the land, whether a business or resident, receiving the water or sewer service. This is not an election open to registered voters, the general public, or even the utility rate payers unless they are also the property owner. The City is required to notify property owners of its intent to adopt utility rate increases and give property owners the opportunity to protest the increases. The City must mail notification to each parcel owner receiving water and/or sewer services, allow a 45-day protest period, and then conduct a public hearing to receive public comment. Each parcel may submit only one protest no matter how many people co-own the land, and the City may adopt rates if less than a majority of parcels receiving water and sewer services have had protests submitted by their owners. The notification schedule includes these steps:

- February 4 – Public hearing notice published in the Milpitas Post notifying the community of the introduction of the water and sewer rate ordinances.
- February 15 – Council will hear first reading of ordinances setting water, recycled water, and sewer rates. Staff will request direction to mail the Proposition 218 brochure.
- March 19 – This date is 45 days prior to the public protest hearing and the last date to mail the Proposition 218 brochure.
- May 3 – Public protest hearing and adoption of rate ordinances. Staff will recommend that the City Council adopt ordinances setting water, recycled water, and sewer rates if there has not been a majority protest.
- June 2 – The proposed water, recycled water and sewer rates for FY11/12 will be effective thirty (30) days after adoption by City Council. These rates apply to services received on or after this date. Utility bills issued on or around August 22, 2011 will reflect the FY11/12 rates.

WATER RATE ANALYSIS AND RECOMMENDATION

The water rate analysis is performed by starting with the actual July 1, 2010 water fund balance and estimating revenues and expenses to project an expected fund balance at the end of FY10/11. Estimated FY11/12 expenses are deducted from this balance to determine needed revenues. The unit rates within the water rate structure are then adjusted to yield the needed revenues. This process is repeated for FY12/13 to identify revenue needs for the second year, and for then for subsequent three years. As with all predictive models, the accuracy of the fund balance projection depends upon the accuracy of the cost and revenue estimates and upon the validity of assumptions about future growth and consumption. The forecasted results are most reliable in the short-term of one year or so, and are progressively less reliable as the projection is extended out to five years. Any errors in the assumptions in the early years tend to compound in subsequent years.

The policy for estimating rates and expenses includes the following:

- Maintain 1st-tier residential rate at no less than the average of wholesale rates (October 1995 Council policy).
- Set aside up to \$2 million annually from the Water Fund for long-term aging infrastructure replacement.
- Target maintaining a \$4 million minimum reserve in the Water Fund

Recommended Maximum Rates

- Adopt maximum water rates which would be the highest rates the City could charge over the next four years. However, the actual rates for any given year are anticipated to be lower, and would need to be calculated each year.
- Split the current residential two-tier structure into four tiers. Currently, the residential first-tier (0-20 hcf) rate of \$1.77 per hcf is lower than the SFPUC wholesale rate of \$1.90 per hcf. Therefore, the average single-family residence using 23 hcf bimonthly is purchasing almost 90% of its water below the City's cost. By splitting the tiers, the City would better coordinate the cost of service to the rates and also improve incentive for water conservation. The bimonthly cost for the average single-family residence is projected to increase from \$68.97 in FY10/11 to \$82.23 in FY11/12, \$88.35 in FY12/13, \$95.04 in FY13/14 and \$102.43 in FY14/15.
- Raise other customer rate classes to continue better coordination of the cost of service to the utility rates.
- Increase the rate for Ed Levin Park to match the SFPUC wholesale water rate, as stated in the agreement between the City and the County of Santa Clara.

Projected Water Fund Balance (Exhibit W-1)

- Beginning Water Fund balance is projected to be \$5.0 million on July 1, 2011¹.

¹ January 15, 2011, City of Milpitas Finance Department projection.

- The Water Fund balance will range between \$3.7 million and \$4.3 million through June 30, 2015.

Projected Revenues (Exhibit W-2)

- \$18.5 million for FY11/12, \$19.6 million for FY12/13, \$20.9 million for FY13/14 and \$22.2 million for FY14/15.

Projected Expenditures (Exhibits W-2 and W-3)

- \$19.1 million for FY11/12, \$20.1 million for FY12/13, \$21.0 million for FY13/14 and \$22.0 million for FY14/15.
 - Wholesale water purchases:
 - SFPUC: \$8.3 million for FY11/12, \$9.0 million for FY12/13, \$9.7 million for FY13/14 and \$10.2 million for FY14/15².
 - SCVWD: \$2.3 million for FY11/12, \$2.5 million for FY12/13, \$2.7 million for FY13/14 and \$2.9 million for FY14/15³.
 - City infrastructure improvements: \$3 million annually
 - Capital Improvement Program (CIP) projects: \$2 million
 - Infrastructure: \$1 million
 - City operations: \$3.7 million to \$3.8 million annually.⁴
 - City overhead: \$1.9 million to \$2.0 million annually.

Basis for Cost Assumptions and Findings

- SFPUC projects a wholesale rate increase of 41% for FY11/12 (from \$1.90 per hcf to \$2.68 per hcf), followed by annual increases ranging from 6 to 14%. SFPUC is in the middle of its \$4.6 billion Water System Improvement Program, and thus has significantly increased its wholesale rates to help fund the project.
- SCVWD projects a wholesale rate increase of 10% for FY11/12 (from \$1.42 per hcf to \$1.56 per hcf), followed by annual 10% increases for the next few years. SCVWD has not raised its rates since FY08, and SCVWD is also planning a significant long-term master plan for the rehabilitation of its water infrastructure.
- Annual water sales will be constant at 4.1 million hcf.
- Recycled water reimbursement from the Recycled Water Fund to the Water Fund represents the loss of potable water sales due to recycled water sales. This reimbursement is made in order to keep potable water operations level and whole.

² Based on 1/13/11 SFPUC proposed wholesale water rates.

³ Based on SCVWD projected wholesale water rates.

⁴ City of Milpitas FY2010/11 budget, projected to increase 2% annually thereafter.

PROPOSED WATER RATES

For metered water service, staff recommends the following maximum rates, which are projected to increase annually to the following:

BIMONTHLY QUANTITY CHARGES

Categories	Current	FY12	FY13	FY14	FY15	Max
Residential (per dwelling unit):						
0 - 10 hcf	\$1.77	\$1.77	\$2.02	\$2.30	\$2.62	\$2.62
>10 - 20 hcf	\$1.77	\$2.76	\$2.98	\$3.22	\$3.48	\$3.48
>20 - 30 hcf	\$3.72	\$3.72	\$4.02	\$4.34	\$4.69	\$4.69
>30 hcf	\$3.72	\$4.17	\$4.50	\$4.86	\$5.29	\$5.29
Commercial, Industrial, Institutional and Construction Meter	\$4.04	\$4.32	\$4.62	\$4.94	\$5.29	\$5.29
Potable Irrigation	\$4.62	\$4.79	\$4.97	\$5.16	\$5.29	\$5.29
City of Milpitas Accounts	\$1.81	\$2.35	\$3.06	\$3.98	\$5.29	\$5.29
Ed Levin Park	\$1.94	\$2.68	\$2.91	\$3.12	\$3.32	\$3.32

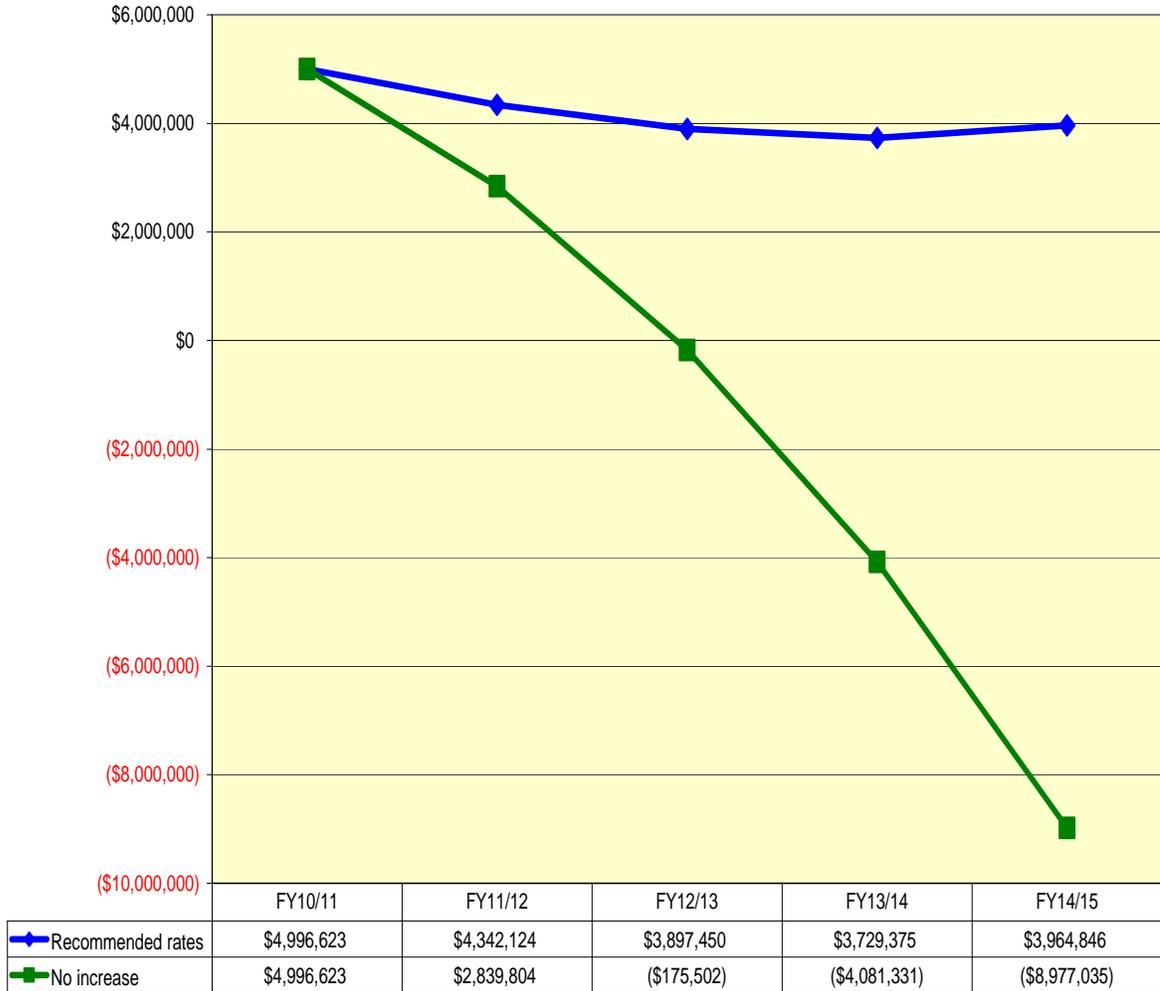
BIMONTHLY FIXED METER CHARGES

(Similar Increases for Other Meter Sizes)

Categories	Current	FY12	FY13	FY14	FY15
5/8" Meter	\$22.41	\$25.77	\$26.29	\$26.82	\$27.36
3/4" Meter	\$23.82	\$27.39	\$27.94	\$28.50	\$29.07
1" Meter	\$33.83	\$38.90	\$39.68	\$40.47	\$41.28
1-1/2" Meter	\$42.67	\$49.07	\$50.05	\$51.05	\$52.07
2" Meter	\$55.69	\$64.04	\$65.32	\$66.63	\$67.96
2" Fire Service	\$35.83	\$41.20	\$42.02	\$42.86	\$43.72

Exhibit W-1 Projected Water Fund Balance

The upper line shows the year-end Water Fund balance for the four-year period between FY11/12 and FY14/15, assuming the recommended rates and expenditures as described previously. For comparison, the lower line shows the Water Fund balance with the same expenditures and no rate increases.



**EXHIBIT W-2: WATER
REVENUES & EXPENDITURES**

	FY11/12	FY12/13	FY13/14	FY14/15
STARTING BALANCE (July 1)	\$4,996,623	\$4,342,124	\$3,897,450	\$3,729,375
REVENUES:				
Metered Water Sales	\$17,238,741	\$18,373,741	\$19,618,941	\$20,992,349
Recycled Water				
Reimbursement	\$976,648	\$980,320	\$983,991	\$969,305
Other Revenues	\$265,232	\$260,844	\$252,431	\$249,559
Total Revenues	\$18,480,621	\$19,614,905	\$20,855,363	\$22,211,213
REVENUES + STARTING BALANCE	\$23,477,244	\$23,957,029	\$24,752,813	\$25,940,588
EXPENSES:				
City infrastructure improvements	\$3,000,000	\$3,000,000	\$3,000,000	\$3,000,000
Overhead	\$1,848,085	\$1,885,047	\$1,922,748	\$1,961,203
Operations	\$3,664,266	\$3,667,684	\$3,753,122	\$3,840,631
Wholesale				
SFPUC	\$8,326,238	\$9,026,362	\$9,665,606	\$10,274,410
SCVWD	<u>\$2,296,531</u>	<u>\$2,480,487</u>	<u>\$2,681,963</u>	<u>\$2,899,498</u>
Subtotal:	\$10,622,769	\$11,506,849	\$12,347,569	\$13,173,908
Total Expenses	\$19,135,120	\$20,059,579	\$21,023,438	\$21,975,742
ENDING BALANCE (June 30)	\$4,342,124	\$3,897,450	\$3,729,375	\$3,964,846

NOTE: The ending balance for a given fiscal year is carried over as the starting balance for the following fiscal year.

Exhibit W-3

Water Expenditures

The stacked bar chart shows the projected expenditures from the Water Fund.



RECYCLED WATER RATE ANALYSIS AND RECOMMENDATION

The policies guiding the recycled water rate analysis are:

- Establish rates that are lower than potable water rates to encourage recycled water use and decrease dependence on potable water.
- Maintain a \$250,000 minimum reserve in the Recycled Water Fund.

Recommended Maximum Rate

- Adopt maximum recycled water rates which would be the highest rates the City could charge over the next four years. However, the actual rates for any given year are anticipated to be lower, and would need to be calculated each year.
- Increase incentive for recycled water irrigation use by increasing the discount from the potable water rates from 80% to a projected 77% at the end of four years. Draw down the current balance to the target reserve of \$250,000.

Recycled Water Fund Balance (Exhibit R-1)

- Beginning Recycled Water Fund balance is \$870,000 as of July 1, 2011⁵.
- The Recycled Water Fund balance will decrease to \$230,000 by June 30, 2015.

Estimated Revenues (Exhibit R-2)

- Approximately \$1.4 to \$1.5 million annually⁶.

Estimated Expenditures

- Total expenditures are approximately \$1.6 to \$1.7 million annually:
 - Wholesale recycled water purchases: \$380,000 in FY11/12, \$420,000 in FY12/13, \$470,000 in FY13/14 and \$510,000 in FY14/15.
 - Reimbursement to Water Fund: Approximately \$1 million annually.

Basis for Cost Assumptions and Findings

- Annual recycled water purchases will be constant at 370,000 hcf.
- The South Bay Water Recycling Program (SBWR) projects annual wholesale rate increases of 10%.
- SBWR will reimburse a portion of the City's operational expenses for needed maintenance of the distribution system under the O&M agreement between the City and SBWR. Past reimbursements have ranged from \$20,000 to \$77,500 per year.

⁵ City of Milpitas Finance Dept projection.

⁶ City of Milpitas FY 2010/11 budget, projected to increase 2% annually

- The Recycled Water Fund will reimburse the Water Fund due to recycled water sales replacing potable water sales. This reimbursement keeps the Water Fund "whole" (retain the same level of funding to meet water operating expenses) and is calculated by applying the potable margin (retail rate less wholesale cost) to the usage of the former potable water customers.

PROPOSED RECYCLED WATER RATES

For metered recycled water service, staff recommends the following maximum rates, which are projected to increase annually to the following:

BIMONTHLY QUANTITY CHARGES

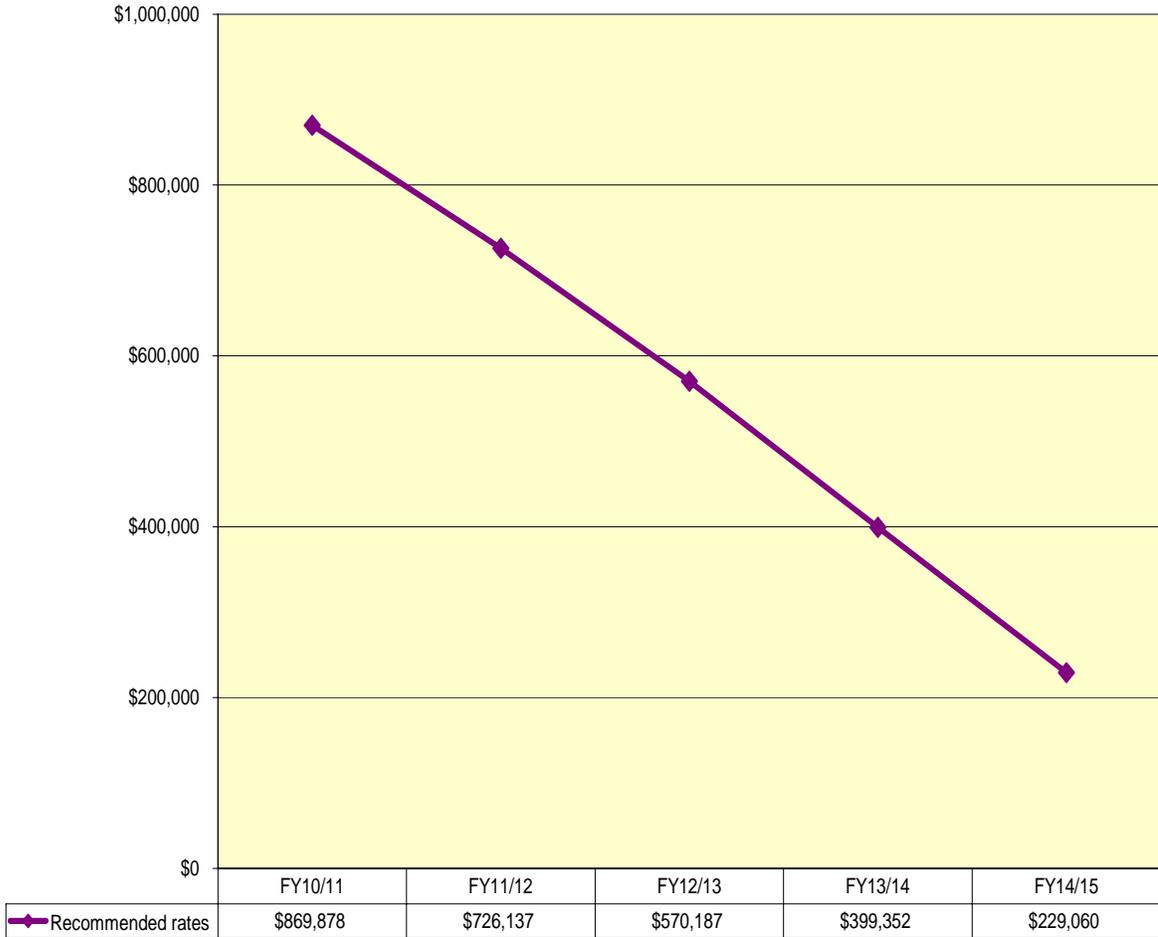
Categories	Current	FY12	FY13	FY14	FY15	Max
Irrigation	\$3.70	\$3.79	\$3.89	\$3.98	\$4.08	\$4.08
Industrial / Dual Plumbed	\$2.02	\$2.16	\$2.31	\$2.47	\$2.65	\$2.65
City of Milpitas	\$1.03	\$1.29	\$1.61	\$2.01	\$2.51	\$2.51

BIMONTHLY FIXED METER CHARGES:

Same as the meter charges proposed in Page 9 of this report.

Exhibit R-1 Projected Recycled Water Fund Balance

The line represents the year-end Recycled Water Fund balance for the four-year period between FY11/12 and FY14/15, assuming the recommended increases and expenditures as described previously.



**EXHIBIT R-2: RECYCLED WATER
REVENUES & EXPENDITURES**

	FY11/12	FY12/13	FY13/14	FY14/15
STARTING BALANCE (July 1)	\$869,878	\$726,137	\$570,187	\$399,352
REVENUES:				
Metered Water Sales	\$1,418,443	\$1,456,622	\$1,496,331	\$1,537,741
Other Revenues	\$67,398	\$64,523	\$61,404	\$57,987
Total Revenues	\$1,485,841	\$1,521,145	\$1,557,735	\$1,595,728
REVENUES + STARTING BALANCE	\$2,355,719	\$2,247,282	\$2,127,922	\$1,995,080
EXPENSES:				
Reimbursement to Water Fund	\$976,648	\$980,320	\$983,991	\$969,305
Overhead	\$119,701	\$122,095	\$124,537	\$127,028
Operations	\$148,448	\$151,417	\$154,445	\$157,534
Wholesale	\$384,785	\$423,263	\$465,597	\$512,153
Total Expenses	\$1,629,582	\$1,677,095	\$1,728,570	\$1,766,020
ENDING BALANCE (June 30)	\$726,137	\$570,187	\$399,352	\$229,060

NOTE: The ending balance for a given fiscal year is carried over as the starting balance for the following fiscal year.

SEWER RATE ANALYSIS AND RECOMMENDATION

As required by the City's Master Agreement for Wastewater Treatment with the City of San Jose, staff prepared the Sewer Revenue Program recommendations in accordance with the State of California State Revenue Guidelines. These require that the City set sewer services charges in proportion to the benefits received by the customers. Benefits are defined as flow volume and strength of the waste, as measured by biochemical oxygen demand, suspended solids, and ammonia. 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 flow or strength results in reallocation of costs to other users' rates.

As is the case with the water analysis, the sewer analysis is guided by policy objectives and principles, including:

- A goal of setting aside of up to \$2 million annually from the Sewer Fund for long-term aging infrastructure improvements.
- Maintain a \$3 million minimum reserve in the Sewer Fund.

At this time, the Sewer Fund has an anomalously high balance of about \$8 million, over twice the target reserve level of \$3 million. This is because in August 2010, the Sewer Fund received a \$4.3 million reimbursement from the Transit Area Impact fee for the portion of the Main Sewer Pump Station reconstruction cost that was attributable to increased pumping capacity included to accommodate the future planned growth in the Transit Area Specific Plan. The drawdown of the Fund balance is an example of two utility fund principles. First, "growth pays for growth," meaning that the new customers entering the system pay for upsizing infrastructure, rather than the existing ratepayers who have already paid for their infrastructure needs. Second, the utility rates are adjusted to provide only as much funding as the City needs to provide the service. In this case, over the next four years, the rates are projected to provide less than the expected annual expenses and difference will draw from the Sewer Fund balance until it reaches the target reserve.

Recommended Maximum Rates

- Adopt maximum sewer rates which would be the highest rates the City could charge over the next four years. However, the actual rates for any given year are anticipated to be lower, and would need to be calculated each year. Based on staff's annual projections, this would increase the bimonthly cost for a single-family residence from \$70.94 in FY10/11 to \$75.92 in FY11/12, \$81.23 in FY12/13, \$86.92 in FY13/14 and \$93.00 in FY14/15.
- Make proportional rate increases for other residential and non-residential customers based on flow and strength of discharge.

Sewer Fund Balance (Exhibit S-1)

- Beginning Sewer Fund balance is \$8.7 million on July 1, 2011⁷.
- The Sewer Fund balance will reduce to \$3.2 million by June 30, 2015.

Projected Revenues (Exhibit S-2)

- \$12.6 million for FY11/12, \$13.5 million for FY12/13, \$14.4 million for FY13/14 and \$15.5 million for FY14/15.

Projected Expenditures (Exhibits S-2 and S-3)

- \$12.8 million for FY11/12, \$15.0 million for FY12/13, \$15.9 million for FY13/14 and \$17.8 million for FY14/15.
 - Wholesale sewer treatment charges:
 - WPCP O&M: \$4.6 million for FY11/12, \$4.8 million for FY12/13, \$5.0 million for FY13/14 and \$5.2 million for FY14/15⁸.
 - WPCP CIP: \$2.2 million for FY11/12, \$4.2 million for FY12/13, \$4.8 million for FY13/14 and \$6.4 million for FY14/15⁹.
 - City infrastructure improvements: Approximately \$2.5 million annually
 - CIP projects: \$750,000
 - Infrastructure: \$1 million
 - Payment of bond for Main Sewer Lift Station: \$680,000
 - City operations: \$2.1 million to \$2.2 million annually¹⁰.
 - City overhead: \$1.5 million to \$1.6 million annually⁵.

Basis for Cost Assumptions and Findings

- WPCP O&M costs are projected to increase to 4% annually.
- WPCP CIP costs have large changes when compared year-to-year.
- Sewer discharge will be constant at approximately 8 million gallons per day.

⁷ City of Milpitas Finance Department projection.

⁸ Preliminary budget estimates from San Jose staff, dated 2/7/11.

⁹ City of San Jose, FY10/11 budget allocation.

¹⁰ City of Milpitas FY2010/11 budget, projected to increase 2% annually thereafter.

PROPOSED SEWER RATES

For sewer service, staff recommends the following maximum rates. Actual rates are projected to increase for the current to the maximum over four years.

BIMONTHLY QUANTITY CHARGES

Categories	Current	FY12	FY13	FY14	FY15	Max
Single-family residential	\$70.94	\$75.92	\$81.23	\$86.92	\$93.00	\$93.00
Multi-family residential	\$50.68	\$51.06	\$51.44	\$51.93	\$52.22	\$52.22
Mobile Home	\$31.18	\$33.36	\$35.69	\$38.20	\$40.87	\$40.87

SEE EXHIBIT S-4 FOR COMMERCIAL, INDUSTRIAL AND INSTITUTIONAL.

BIMONTHLY FIXED CHARGES

Categories	Current	FY12	FY13	FY14	FY15	Max
Non-residential	\$11.98	\$12.82	\$13.72	\$14.68	\$15.71	\$15.71

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 \$492.00 bimonthly 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.

Exhibit S-1 Projected Sewer Fund Balance

The upper line represents the year-end Sewer Fund balance for the four-year period between FY11/12 and FY14/15, assuming the recommended rates and expenditures as described previously. For comparison, the lower line shows the Sewer Fund balance with the same expenditures and no rate increases.



**EXHIBIT S-2: SEWER
REVENUES & EXPENDITURES**

	FY11/12	FY12/13	FY13/14	FY14/15
STARTING BALANCE (July 1)	\$8,666,011	\$8,412,874	\$6,920,023	\$5,464,589
REVENUES:				
Use charges + flat fees	\$12,168,961	\$13,146,205	\$14,091,157	\$15,167,536
Other Revenues	\$402,844	\$392,036	\$344,166	\$297,549
Total Revenues	\$12,571,805	\$13,538,241	\$14,435,323	\$15,465,085
REVENUES + STARTING BALANCE	\$21,237,816	\$21,951,115	\$21,355,346	\$20,929,674
EXPENSES:				
City infrastructure improvements	\$2,436,528	\$2,437,965	\$2,433,965	\$2,434,528
Overhead	\$1,470,992	\$1,500,412	\$1,530,420	\$1,561,028
Operations	\$2,067,378	\$2,108,726	\$2,150,900	\$2,193,918
Wholesale				
WPCP O&M	\$4,627,548	\$4,812,650	\$5,005,155	\$5,205,362
WPCP CIP	<u>\$2,222,496</u>	<u>\$4,171,339</u>	<u>\$4,770,317</u>	<u>\$6,379,137</u>
Subtotal:	\$6,850,044	\$8,983,989	\$9,775,472	\$11,584,499
Total Expenses	\$12,824,942	\$15,031,092	\$15,890,757	\$17,773,973
ENDING BALANCE (June 30)	\$8,412,874	\$6,920,023	\$5,464,589	\$3,155,701

Exhibit S-3 Sewer Expenditures

The stacked bar chart shows the projected expenditures from the Sewer Fund. Expenditures for the CIP include funding for City sewer improvement projects and debt service for the Main Sewer Pump Station bonds.

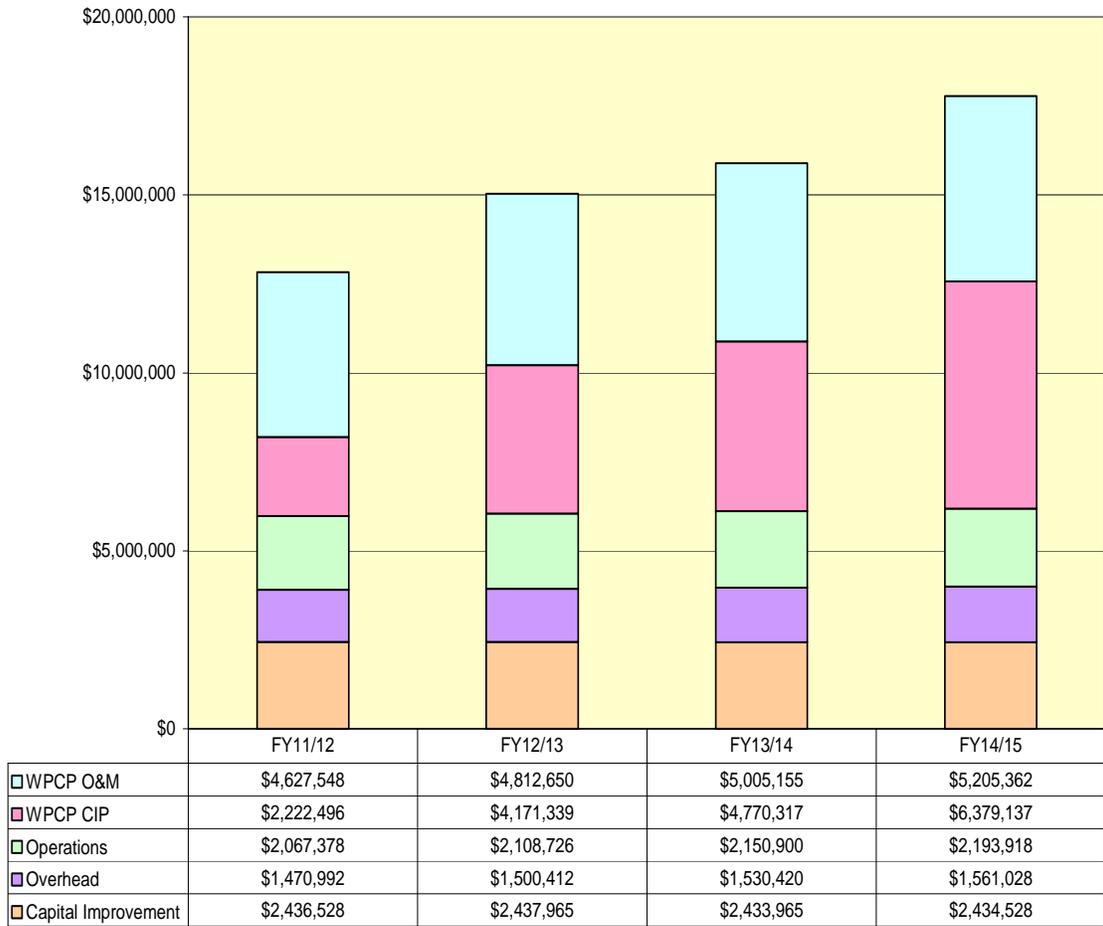


Exhibit S-4 Proposed Sewer Rates for Commercial, Industrial and Institutional Customers

Name	Yearly Flow (hcf)	Current	FY12	FY13	FY14	FY15	Max
COMMERCIAL							
Motels and Hotels	106,653	\$2.74	\$3.14	\$3.42	\$3.66	\$3.95	\$3.95
General Office	176,397	\$2.74	\$3.23	\$3.64	\$3.92	\$4.33	\$4.33
City of Milpitas	12,403	\$2.74	\$2.97	\$3.29	\$3.53	\$3.85	\$3.85
Service Stations	1,448	\$2.89	\$3.12	\$3.39	\$3.63	\$3.93	\$3.93
Eat/Drink Establishments	206,287	\$4.52	\$5.38	\$5.65	\$6.06	\$6.41	\$6.41
Personal Services, Laundries	37,553	\$2.52	\$2.85	\$3.12	\$3.34	\$3.63	\$3.63
INDUSTRIAL							
Jefferson Smurfit	8,908	\$3.40	\$3.68	\$3.89	\$4.17	\$4.46	\$4.46
T. Marzetti Co.	19,752	\$7.61	\$6.99	\$7.40	\$7.96	\$8.47	\$8.47
Prudential Overall Supply	14,849	\$3.35	\$4.06	\$4.51	\$4.87	\$5.33	\$5.33
Loral-Fairchild-Lockheed Martin	23,218	\$2.15	\$2.38	\$2.66	\$2.84	\$3.12	\$3.12
Siemens Water Tech (previously US filters)	63,199	\$2.39	\$3.27	\$3.68	\$3.97	\$4.38	\$4.38
Lucky Pure Water	1,243	\$2.51	\$2.85	\$3.12	\$3.34	\$3.62	\$3.62
DS Water (previously Arrowhead)	504	\$0.72	\$2.71	\$3.12	\$3.36	\$3.75	\$3.75
Milpitas Materials	2,802	\$3.00	\$3.00	\$3.12	\$3.34	\$3.62	\$3.62
Union Pacific Railroad	96	\$3.24	\$3.52	\$3.95	\$4.26	\$4.69	\$4.69
Headway Technology	100,754	\$2.68	\$3.08	\$3.50	\$3.77	\$4.18	\$4.18
Electrical/Electronics	268,301	\$2.64	\$3.20	\$3.60	\$3.88	\$4.27	\$4.27
Machinery Manufacture	4,855	\$3.52	\$4.20	\$4.64	\$5.01	\$5.46	\$5.46
Linear Technology	82,132	\$2.32	\$2.75	\$3.02	\$3.23	\$3.50	\$3.50
Recycled water cooling tower	8,098	\$2.64	\$3.20	\$3.60	\$3.88	\$4.27	\$4.27
INSTITUTIONAL							
Schools/Colleges	27,842	\$3.20	\$4.20	\$4.85	\$5.27	\$5.91	\$5.91
Convalescent Hosp/Daycare	16,356	\$2.68	\$3.06	\$3.33	\$3.57	\$3.85	\$3.85
Elmwood Rehabilitation	121,971	\$2.86	\$3.33	\$3.60	\$3.85	\$4.15	\$4.15

City of San Jose: \$492 bimonthly for discharges up to 75,000 gallons per day (maximum flow).
Excess flow charge of \$100 for each 1,000 gallons per day.

(Per agreement with San Jose for future wastewater from the North McCarthy Blvd. area within San Jose city limits)

**Per their Sewer Flow Adjustment Agreements, the following industrial customers are subject to sewer charge adjustments to account for the portion of their water use (the basis for the sewer billing) that is not wasted to their sewer:

- Jefferson Smurfit
- T. Marzetti Co.
- Loral-Fairchild
- Lucky Pure Water
- Milpitas Materials

CONCLUSION

The rate analysis for water and sewer services shows that the City needs to raise rates for the next four years to generate sufficient revenue for the City's short- and long-term needs. Wholesale water and sewer treatment costs are the largest component of the City's costs and are beyond the City's ability to control. The agencies providing water and sewer treatment services are all planning further substantial investment into their infrastructure in the near term, and have already started passing these costs to their retail customers and tributary agencies. Therefore, it is important that the City prepare for these substantial cost increases by planning to structure rates to accommodate the pass-through costs.

Wholesale water rates, which have already exceeded the City's first-tier residential rate, are increasing at a much faster pace than the City's retail rates. SFPUC is anticipated to increase their wholesale rate by 41% in FY11/12, followed by smaller increases in the following years. SFPUC is currently in the middle of constructing their \$4.6 billion Water System Improvement Program, which will enhance their water system's reliability after a major seismic event. The City's share in the cost is approximately \$100 million. SCVWD is anticipated to increase their wholesale rate annually by 10%. SCVWD long-term cost projections have not yet incorporated the substantial costs of its planned Infrastructure Seismic Reliability Program.

Sewer treatment costs are also poised to begin a rapid ascent. As part of its Master Plan, the WPCP has conceptually estimated \$2+ billion in improvements for the upgrade of this 50-year old facility. The City's share in the cost would be approximately \$168 million over the next 30 years. Depending on the actual magnitude and schedule of the WPCP capital improvements, either the WPCP or the City may need to obtain alternate funding, such as from bonds, to level the impact of WPCP improvements on future rates.

At this time, Milpitas water and sewer rates remain comparable to those of surrounding agencies as shown in the following exhibits. All surrounding local agencies are under similar pressure to accommodate the rapidly increasing wholesale water and sewer treatment costs and so are expected to need to implement similar increases in the next four years.

Exhibit C- 1 Bimonthly Utility Charge Comparison (Single-Family Residents)*

City	Service Provider	Water	Sewer	Total
Santa Clara	+	\$63.02	\$38.80	\$101.82
Fremont	W2, S3	\$74.96	\$48.31	\$123.27
Sunnyvale		\$65.48	\$58.46	\$123.94
Mountain View	+	\$79.04	\$48.40	\$127.44
S.J. (Muni)	+	\$71.34	\$65.72	\$137.06
Cupertino	+W1, S2	\$91.84	\$48.00	\$139.84
MILPITAS 10/11	+	\$68.97	\$70.94	\$139.91
Campbell	+W1, S1	\$91.84	\$49.04	\$140.88
S.J. (Water Co.)	+	\$91.84	\$65.72	\$157.56
MILPITAS 11/12	+	\$82.23	\$75.92	\$158.15
Palo Alto		\$115.90	\$49.30	\$165.20
San Mateo	W3	\$104.80	\$123.28	\$228.08

NOTE: Costs based on average single-family consumption of 23 HCF water.

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

* Utility Service provided by the indicated city unless it is noted as part of one of the following special districts:

WATER SERVICE:

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

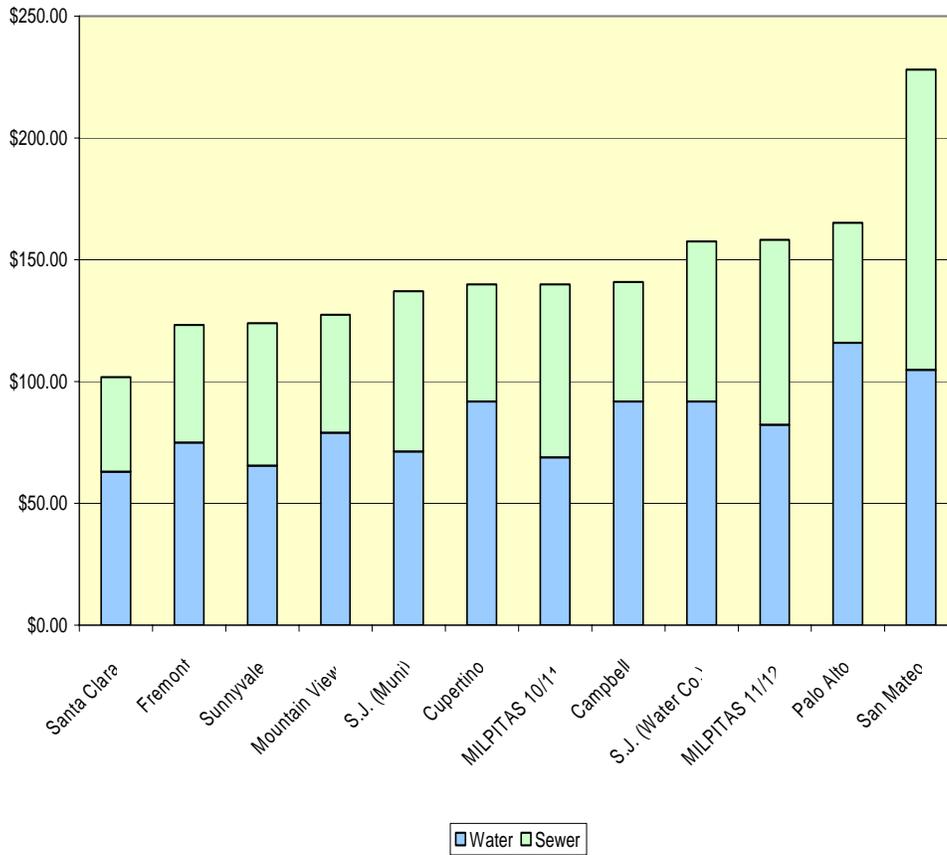
SEWER SERVICE:

- S1 West Valley Sanitation District
- S2 Cupertino Sanitary District
- S3 Union Sanitary District

Exhibit C-2

Utility Charge Comparison

This graph compares the current rates for average residential customers in surrounding agencies with the City's current rate, showing that Milpitas remains within the mid-range of the scale. The graph also shows where the City's proposed rates would fall in FY11/12. However, a direct comparison is not possible at this time. The surrounding agencies are expected to raise their rates as well, but this data are not yet available for comparison.



City of Milpitas Proposed Water and Sewer Rates



City of Milpitas
455 Calaveras Blvd
Milpitas, CA 95035

*Proposed
Water
and Sewer
Rates*

PRSR1 STD
U.S. POSTAGE
PAID
Milpitas, CA
Permit No. 4

PROPOSED WATER AND SEWER RATE INCREASES EFFECTIVE JULY 2011

PUBLIC HEARING NOTICE

May 3, 2011 is the scheduled date the Milpitas City Council will hold a public hearing to consider public comment on proposed water and sewer rates to be effective June 2, 2011. This hearing will be in the Council Chambers at City Hall, 455 E. Calaveras Blvd, Milpitas at 7:00 p.m. or as soon thereafter as the item can be heard.

PROTESTING RATE INCREASES

If more than 50% of property owners submit written protests, the City will not raise water and sewer rates. If the City does not raise rates, it will sell the water and sewer services below cost. This subsidy would require taking funds from other City discretionary programs such as parks, recreation, and street landscaping.

Property owners who want to protest the proposed rate increases may submit a written protest to the City Clerk at 455 E. Calaveras Blvd, Milpitas, CA 95035 on or before 5:00 p.m. on Tuesday, May 3, 2011. Comments may be emailed, but will not be accepted as protests. Protests must contain your name, date, mailing address, signature, and the parcel(s) that you own identified by the street address or assessor's parcel number.

THE VALUE OF WATER AND SEWER SERVICES

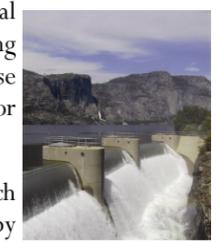
Water and sewer services are essential for our community's prosperity, health, safety, and quality of life, but as with all goods and services, they cost money to obtain and provide. The City's water and sewer are self-supporting enterprises, solely funded by customer rates. The City needs to raise rates to pay cost increases driven by major regional infrastructure reconstruction outside the City's control. The City cannot refuse to buy adequate supplies of wholesale water or sewage treatment, as this would put public health and safety at risk. If the City does not raise sufficient revenue from customer rates, it would be forced to take funding from other desirable community services and assets.

REGIONAL SUPPLIERS

Milpitas benefits from three regional public works systems for drinking water and sewage treatment. These systems are aging and require major improvements to ensure reliability:

- \$4.6 billion upgrade to the Hetch Hetchy water delivery system by the San Francisco Public Utilities Commission;
- \$2 billion rebuild planned by the San Jose/Santa Clara Water Pollution Control Plant, and;
- \$0.8 billion water supply capital improvements programmed by the Santa Clara Valley Water District.

The City of Milpitas and its customers are committed to paying fair shares of these upgrades under the long-term contractual agreements that establish the City's rights to water supply and sewage treatment.



Hetch Hetchy Reservoir



World War II-era combustion engines still in use at the San Jose/Santa Clara Water Pollution Control Plant

CITY SYSTEM

Milpitas property owners can take pride in shared ownership of the water distribution and sewer collection systems.

The water distribution system has over 200 miles of pipe, plus storage reservoirs and pumping stations, with a replacement value of \$350 million. The City reliably operates this system to deliver 10 million gallons of water a day to the 19,000 homes and businesses of Milpitas and provide fire fighting water for public safety.



Milpitas Water Operator



Milpitas Sewer Crew

Wastewater from indoor plumbing is collected and sent for treatment via the sewer system: 175 miles of pipe and pumping stations with a replacement value of \$375 million. The City operates the system to collect 8 million gallons per day of sewage.

The City budgets for crew labor and supplies to operate, maintain, repair, and replace aging system components and complies with regulatory testing and reporting requirements to protect public health and the environment.



Milpitas Fire Fighter

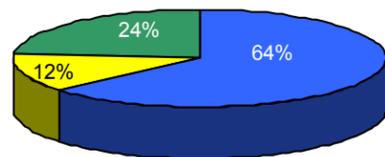
City of Milpitas Proposed Water and Sewer Rates



WATER RATES PER HUNDRED CUBIC FOOT (hcf)*							
Customer	Current	Expected Fiscal Year Rates**				Proposed Maximum	
		2011/12	2012/13	2013/14	2014/15		
Residential Tiers (hcf)	0-10	\$1.77	\$1.77	\$2.02	\$2.30	\$2.62	\$2.62
	11-20	\$1.77	\$2.76	\$2.98	\$3.22	\$3.48	\$3.48
	21-30	\$3.72	\$3.72	\$4.02	\$4.34	\$4.69	\$4.69
	31+	\$3.72	\$4.17	\$4.50	\$4.86	\$5.29	\$5.29
Commercial, Industrial, Institutional		\$4.04	\$4.32	\$4.62	\$4.94	\$5.29	\$5.29
Irrigation		\$4.62	\$4.79	\$4.97	\$5.16	\$5.29	\$5.29
Ed Levin Park		\$1.94	\$2.68	\$2.91	\$3.12	\$3.32	\$3.32
Recycled - Irrigation		\$3.70	\$3.79	\$3.89	\$3.98	\$4.08	\$4.08
Recycled - Industrial/Dual Plumbed		\$2.02	\$2.16	\$2.31	\$2.47	\$2.65	\$2.65
WATER FIXED RATE							
Bimonthly Meter Charge***	5/8" Service	\$22.41	\$25.77	\$26.29	\$26.82	\$27.36	na
	3/4" Service	\$23.82	\$27.39	\$27.94	\$28.50	\$29.07	na
	1" Service	\$33.83	\$38.90	\$39.68	\$40.47	\$41.28	na
	1 1/2" Service	\$42.67	\$49.07	\$50.05	\$51.05	\$52.07	na
	2" Service	\$55.69	\$64.04	\$65.32	\$66.63	\$67.96	na
	2" Fire Service	\$35.83	\$41.20	\$42.02	\$42.86	\$43.72	na

*One hcf = 748 gallons; **Fiscal year is July 1 - June 30; ***Meter charges increase 2% per year after 2012.

WHERE DO RATE PAYMENTS GO?



- Wholesale water and sewer treatment ~ \$17.5 million
- City Infrastructure ~ \$5.7 million
- City Operations ~ \$9.1 million

Water and sewer rates pay the City's annual direct and indirect costs for water and sewer services as shown.

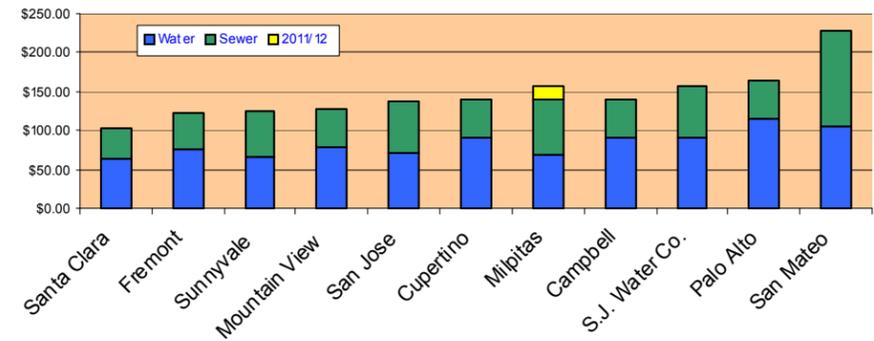
Important Environmental Dates

- March 22 World Water Day
- Date Here Community Meetings
- April 22 Earth Day
- May Water Awareness Month

COMPARING MILPITAS RATES

Milpitas monthly water and sewer costs are comparable to those of surrounding cities. The average Milpitas single family residence using 1,150 cubic feet of water per month currently pays about \$70 a month for water and sewer. The first annual increase would raise this to about \$79. Other utility providers are also expected to adopt comparable increases, but the actual values of these increases are not yet available.

MONTHLY WATER & SEWER COSTS



MAXIMUM RATES

In accordance with California Constitution Article XIIIID, the City proposes adopting the Maximum Rates shown in these tables. Rates in any year will not exceed the City's service cost. The City expects to collect rates at or below the proposed maximum only as needed to meet the City's costs of service. For informational purposes, the tables show the expected rates the City anticipates setting each year based on current financial projections. The City will continue controlling costs and implement savings wherever possible.

RESIDENTIAL BIMONTHLY SEWER RATES							
Customer	Current	Proposed 2011/12	Expected Fiscal Year Rates			Proposed Maximum	
			2012/13	2013/14	2014/15		
Residential (bimonthly)	Single Family Dwelling	\$ 70.94	\$75.92	\$81.23	\$86.92	\$93.00	\$93.00
	Multifamily Dwelling	\$ 50.68	\$51.06	\$51.44	\$51.83	\$52.22	\$52.22
	Mobile Home Dwelling	\$ 31.18	\$33.36	\$35.69	\$38.20	\$40.87	\$40.87
COMMERCIAL, INDUSTRIAL, & INSTITUTIONAL UNIT RATES (PER HCF)							
Nonresidential	Flat Fee (bimonthly)	\$11.98	\$12.82	\$13.72	\$14.68	\$15.71	\$15.71
Commercial	Auto service stations	\$2.89	\$3.12	\$3.39	\$3.63	\$3.93	\$3.93
	Eat/drink establishments	\$4.52	\$5.38	\$5.65	\$6.06	\$6.41	\$6.41
	Electrical & Electronics facilities	\$2.64	\$3.20	\$3.60	\$3.88	\$4.27	\$4.27
Industrial, & Institutional (per hcf)	General office, retail centers	\$2.74	\$3.23	\$3.64	\$3.92	\$4.33	\$4.33
	Hospitals, day care centers	\$2.68	\$3.06	\$3.33	\$3.57	\$3.85	\$3.85
Large Dischargers (per hcf)	Machinery & tool fabrication	\$3.52	\$4.20	\$4.64	\$5.01	\$5.46	\$5.46
	Motels, hotels	\$2.74	\$3.14	\$3.42	\$3.66	\$3.95	\$3.95
	Personal services	\$2.52	\$2.85	\$3.12	\$3.34	\$3.63	\$3.63
	Schools and churches	\$3.20	\$4.20	\$4.85	\$5.27	\$5.91	\$5.91
	Jefferson Smurfit Corporation	\$3.40	\$3.68	\$3.89	\$4.17	\$4.46	\$4.46
Large Dischargers (per hcf)	DS Waters	\$0.72	\$2.71	\$3.12	\$3.36	\$3.75	\$3.75
	Elmwood Rehabilitation Center	\$2.86	\$3.33	\$3.60	\$3.85	\$4.15	\$4.15
	Headway Technology	\$2.68	\$3.08	\$3.50	\$3.77	\$4.18	\$4.18
	Linear Technology	\$2.32	\$2.75	\$3.02	\$3.23	\$3.50	\$3.50
	Loral - Fairchild - Lockheed	\$2.15	\$2.38	\$2.66	\$2.84	\$3.12	\$3.12
	Lucky Pure water	\$2.51	\$2.85	\$3.12	\$3.34	\$3.62	\$3.62
	Milpitas Materials	\$3.00	\$3.06	\$3.12	\$3.34	\$3.62	\$3.62
	Lifescan RW Cooling Tower	\$2.64	\$3.20	\$3.60	\$3.88	\$4.27	\$4.27
	Prudential Overall Supply	\$3.35	\$4.06	\$4.51	\$4.87	\$5.33	\$5.33
	Siemens Water	\$2.39	\$3.27	\$3.68	\$3.97	\$4.38	\$4.38
Large Dischargers (per hcf)	T. Marzetti Corporation	\$7.61	\$6.99	\$7.40	\$7.96	\$8.47	\$8.47
	Union Pacific Railroad	\$3.24	\$3.52	\$3.95	\$4.26	\$4.69	\$4.69

WHOLESALE COST AND INFLATION "PASS-THROUGH" PROVISION

Inflationary costs exceeding 2% caused by labor or commodity cost increases, as recorded in the San Francisco Bay Area Engineering News Record Construction Cost Index, will be passed-through to the water rates. Changes in the wholesale water cost not projected into the maximum rates will also be passed-through to the rate. At least 30 days notice to ratepayers will be given prior to an inflation pass-through to rates.

REGULAR

NUMBER: 120.46

TITLE: AN ORDINANCE OF THE CITY OF MILPITAS AMENDING CHAPTER 1 OF TITLE VIII OF THE MILPITAS MUNICIPAL CODE RELATING TO WATER SERVICE CHARGES.

HISTORY: This Ordinance was introduced (first reading) by the City Council at its meeting of _____, upon motion by _____ and was adopted (second reading) by the City Council at its meeting of _____, 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:

Michael J. Ogaz, City Attorney

RECITALS AND FINDINGS:

WHEREAS, the provision of potable and recycled services by the City of Milpitas (“City”) require the City to incur capital, operating, maintenance, replacement, and other costs related to the provision of such services; and

WHEREAS, the City provided written notice by mail of proposed water service charge increases to pay for such services, held a public hearing, and complied with other provisions of Article XIID of the California Constitution (commonly known as Proposition 218); and

WHEREAS, the City Council has determined that increases in water service charges are in the best interests of the City and in keeping with sound business and financial management of the water enterprises and does not exceed the cost of providing such services; and

WHEREAS, the adoption of the proposed increases to water service charges are statutorily exempt from the requirements of the California Environmental Quality Act under California Resources Code Section 21080 (b)(8).

NOW THEREFORE, the City Council of the City of Milpitas does ordain as follows:

SECTION 1. RECORD AND BASIS FOR ACTION

The City Council has duly considered the full record before it, which may include but is not limited to such things as the City staff report, testimony by staff and the public, and other materials and evidence submitted or provided to the City Council. Furthermore, the recitals set forth above are found to be true and correct and are incorporated herein by reference.

SECTION 2. AMENDMENT OF MILPITAS MUNICIPAL CODE VIII-1-6.13

Section VIII-1-6.13 of the Milpitas Municipal Code is hereby repealed in its entirety and replaced with the text below to read as follows:

VIII-1-6.13 Quantity Charges:

The quantity charges per hundred cubic feet for metered water service shall be as set forth below and are limited to the actual cost of providing water service. The rates for Fiscal Year 2011/12 shall be those set forth in the first column, unless modified by inflation or unanticipated wholesale supplier cost increases, as provided herein. Rates for all years subsequent to Fiscal Year 2011/12 shall be at or below the proposed maximum rate as determined administratively by City staff after calculating total personnel, overhead, and capital costs incurred to provide the service and shall be based upon an annual review of utility finances. In no event shall rates exceed the cost of providing the service.

The maximum water rates listed below account for a possible inflation rate of 2%. Inflationary costs in excess of 2% caused by labor or commodity cost increases recorded in such indices as the Construction Cost Index, published in the Engineering News Record for the San Francisco Bay Area, and utility section financial reviews shall be passed through administratively to the ratepayer. The City shall also administratively calculate and pass through unanticipated changes in the wholesale water cost that were not projected in the calculation of the maximum rates. This wholesale water cost pass-through provision applies to wholesale rates, water management charges, and other regulatory or environmental charges that the City is required to pay its wholesale water suppliers. These rate pass-throughs shall only be implemented with at least 30 days notice to ratepayers.

	FY11/12 Rate	FY12/13 to FY14/15 Maximum Rate
Residential:		
0-10 hcf	\$1.77	\$2.62
11 - 20 hcf	\$2.76	\$3.48
21 - 30 hcf	\$3.72	\$4.69
31+ hcf	\$4.17	\$5.29
Commercial / Industrial / Institutional / Construction Meter	\$4.32	\$5.29
Irrigation (potable)	\$4.79	\$5.29
City Accounts (potable)	\$2.35	\$5.29
Ed Levin Park	\$2.68	\$3.32
Recycled - Irrigation	\$3.79	\$4.08
Recycled - Industrial / Dual Plumbed	\$2.16	\$2.65
City Accounts (recycled)	\$1.29	\$2.51

FY = Fiscal Year

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.

SECTION 3. AMENDMENT OF MILPITAS MUNICIPAL CODE VIII-1-6.14

Section VIII-1-6.14 of the Milpitas Municipal Code is hereby repealed in its entirety and replaced with the text below to read as follows:

VIII-1-6.14 Bimonthly Water Meter Charges:

(a) Water Meter Charges:

The bimonthly charges for water meters shall be as follows:

Water Meter Size	FY11/12 Charge	Subsequent Years
5/8"	\$ 25.77	2% annual increase for all sizes
3/4"	\$ 27.39	
1"	\$ 38.90	
1-1/2"	\$ 49.07	
2"	\$ 64.04	
3"	\$171.45	
4"	\$217.27	
6"	\$331.57	
8"	\$434.40	
10"	\$628.82	

(b) For Temporary Construction Meter Customers:

\$150.00 bimonthly

SECTION 4. AMENDMENT OF MILPITAS MUNICIPAL CODE VIII-1-6.15

Section VIII-1-6.15 of the Milpitas Municipal Code is hereby repealed in its entirety and replaced with the text below to read as follows:

VIII-1-6.15 Fire Service Charges:

The bimonthly charges for “ready to serve” detector check valve fire suppression systems shall be made on the basis of the size of the detector check valve, and shall be as follows:

Detector Check Valve Size	FY11/12 Charge	Subsequent Years
2”	\$ 41.20	2% annual increase for all sizes
3”	\$ 61.89	
4”	\$ 68.78	
6”	\$ 89.45	
8”	\$110.04	
10”	\$130.69	

Water flowing through 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 through detector check valve fire suppression systems is used for purposes other than for fire protection or the testing of such fire protection systems, 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.

SECTION 5. AMENDMENT OF MILPITAS MUNICIPAL CODE VIII-1-6.16

Section VIII-1-6.16 of the Milpitas Municipal Code is hereby repealed in its entirety and replaced with the text below to read as follows:

VIII-1-6.16 Billing and Effective Dates of Water Rates and Charges

(a) Billing. After the Ordinance adopting the charges set forth in this Section goes into effect, customers shall be subject to the water charges, set forth in 6.13 (Quantity Charges), 6.14 (Bimonthly Water Meter Charges), and 6.15 (Fire Service Charges), in effect as of the beginning date of the bimonthly billing period or deposit period for which a customer is charged.

(b) Rate Program. The water service charges for the annual periods of Year 1 (June 2, 2011 to April 18, 2012), Year 2 (April 19, 2012 to April 18, 2013), Year 3 (April 19, 2013 to April 18, 2014) and Year 4 (April 19, 2014 to June 30, 2015) shall be calculated administratively, subject to adjustments to reflect the previous year’s actual budget balances and annual revenue and expenditures, but the annual rate shall not exceed the maximum allowed in this Section. In the absence of amendment of the rates set forth herein or adoption of a new rate ordinance, the maximum rate shall remain in effect for billing periods and service years subsequent to Fiscal Year 2014-15.

SECTION 6. SEVERABILITY

The provisions of this Ordinance are separable, and the invalidity of any phrase, clause, provision or part shall not affect the validity of the remainder.

SECTION 7. EFFECTIVE DATE AND POSTING

This Ordinance shall be ineffective if, at the conclusion of the public hearing to hear protests to the proposed increase in sewer service charges held on May 3, 2011, the City Council determines that a majority protest exists pursuant to Section 6 of Article XIII(D) of the California Constitution. In the absence of a majority protest, in accordance with Section 36937 of the Government Code of the State of California, this Ordinance shall take effect thirty (30) days from and after the date of its passage. The City Clerk of the City of Milpitas shall cause this Ordinance or a summary thereof to be published in accordance with Section 36933 of the Government Code of the State of California.

REGULAR

NUMBER: 208.47

TITLE: AN ORDINANCE OF THE CITY OF MILPITAS AMENDING CHAPTER 2 OF 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 _____, upon motion by _____ and was adopted (second reading) by the City Council at its meeting of _____, 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:

Michael J. Ogaz, City Attorney

RECITALS AND FINDINGS:

WHEREAS, the sewage collection and treatment services of the City of Milpitas (“City”) require the City to incur capital, operating, maintenance, replacement, treatment, and other costs related to providing such services; and

WHEREAS, the City provided written notice by mail of proposed sewer fee or charge increases to pay for such services, held a public hearing, and complied with other provisions of Article XIID of the California Constitution (commonly known as Proposition 218); and

WHEREAS, the City Council has determined that increases in sewer service charges are in the best interests of the City and in keeping with sound business and financial management of the sewer enterprises and do not exceed the cost of providing such services; and

WHEREAS, the adoption of the proposed increases to sewer service charges is statutorily exempt from the requirements of the California Environmental Quality Act under California Resources Code Section 21080 (b)(8).

NOW THEREFORE, the City Council of the City of Milpitas does ordain as follows:

SECTION 1. RECORD AND BASIS FOR ACTION

The City Council has duly considered the full record before it, which may include but is not limited to such things as the City staff report, testimony by staff and the public, and other materials and evidence submitted or provided to the City Council. Furthermore, the recitals set forth above are found to be true and correct and are incorporated herein by reference.

SECTION 2. AMENDMENT OF MILPITAS MUNICIPAL CODE VIII-2-6.01.

Section VIII-2-6.01 of the Milpitas Municipal Code is hereby repealed in its entirety and replaced with the text below to read as follows:

VIII-2-6.01 Sewer Service Charges

The charges for sewer service shall be as set forth below and are limited to the actual cost of providing sewer service. The rates for Fiscal Year 2011/12 shall be those set forth in the first column, unless modified by inflation, as provided herein. Rates for all years subsequent to Fiscal Year 2011-12 shall be at or below the proposed maximum rate as determined administratively by City staff after calculating total personnel, overhead, and capital costs incurred to provide the service, and shall be based upon an annual review of utility finances and the sewer revenue program. In no event shall rates exceed the cost of providing the service.

The maximum sewer rates listed below account for current projected treatment costs and inflationary cost increases of 2% for City treatment costs, which is based upon past historical averages and norms. Inflationary costs in excess of 2% or not provided for in the sewer revenue program caused by labor or commodity cost increases recorded in such indices as the Construction Cost Index, published in the Engineering News Record for the San Francisco Bay Area, and utility section and treatment plant financial reviews shall be passed through administratively to the ratepayer. Inflation pass-throughs in excess of the projected maximum sewer rate shall only be implemented with at least 30 days notice to ratepayers.

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

(a) Residential- Bimonthly for each dwelling unit

Category	FY11/12 Charge	FY12/13 to FY14/15 Maximum Charge
Single Family	\$75.92	\$93.00
Multi-Family	\$51.06	\$52.22
Mobile Home Parks	\$33.36	\$40.87

(b) Commercial, Industrial and Miscellaneous Premises.

(1) 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 \$12.82 per bimonthly period to defray billing and sewer system administration costs, effective June 2, 2011. This amount will increase to \$13.72 per bimonthly billing period, effective April 19, 2012. This amount will increase to \$14.68 per bimonthly billing period, effective April 19, 2013. This amount will increase to \$15.72 per bimonthly billing period, effective April 19, 2014.

(2) 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	FY11/12 Rate	FY12/13 to FY14/15 Maximum Rate
Motels, hotels & senior citizen housing developments	\$3.14	\$3.95
General offices, banks, government offices, general merchandise, retail, and shopping centers; building, hardware, and gardening material facilities; amusement centers, and theaters	\$3.23	\$4.33
City of Milpitas	\$2.97	\$3.85
Service stations, repair shops, and car washes	\$3.12	\$3.93
Eating and drinking establishments	\$5.38	\$6.41
Personal services – laundry, barber/beauty shops, cleaners	\$2.85	\$3.63
Jefferson Smurfit Corporation*	\$3.68	\$4.46
T. Marzetti Co.*	\$6.99	\$8.47
Prudential Overall Supply	\$4.06	\$5.33
Loral-Fairchild-Lockheed*	\$2.38	\$3.12
Siemens Water (previously US Filter)	\$3.27	\$4.38
Lucky Pure Water*	\$2.85	\$3.62
DS Water	\$2.71	\$3.75
Milpitas Materials*	\$3.00	\$3.62
Union Pacific Railroad	\$3.52	\$4.69
Headway Technology Corporation	\$3.08	\$4.18
Electrical and electronics design, fabrication, assembly and storage facilities	\$3.20	\$4.27
Metal fabrication, machinery, and tool fabrication facilities	\$4.20	\$5.46
Linear Technology Corporation	\$2.75	\$3.50
Recycled water cooling towers	\$3.20	\$4.27
Schools, colleges and churches	\$4.20	\$5.91
Convalescent hospitals, day care centers and health service facilities	\$3.06	\$3.85
Elmwood Rehabilitation center	\$3.33	\$4.15

*These industrial customers are subject to sewer charge adjustments based on their sewer volumes, as indicated in their Sewer Flow Adjustment Agreements.

(3) 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.

(c) Purpose of Charge. The purpose of the sewer service charges stated herein is to defray the City's cost for operation and maintenance of the City's facilities, capital improvement costs, the City's proportionate share of costs at the San Jose-Santa Clara Water Pollution Control Plant and the debt service related thereto, and other costs related to the provision of sewage collection and treatment.

(d) Billing. After the Ordinance adopting the charges set forth herein goes into effect, customers shall be subject to the sewer service charges set forth in 6.01, in effect as of the beginning date of the bimonthly billing period for which a customer is charged.

(e) Rate Program. The sewer service charges for the annual periods of Year 1 (June 2, 2011 to April 18, 2012), Year 2 (April 19, 2012 to April 18, 2013), Year 3 (April 19, 2013 to April 18, 2014) and Year 4 (April 19, 2014 to June 30, 2015) shall be calculated administratively, subject to adjustments to reflect the previous year's actual budget balances and annual revenue and expenditures, but the annual rate shall not exceed the maximum allowed in this Section. In the absence of amendment of the rates set forth herein or adoption of a new rate ordinance, the maximum rate shall remain in effect for billing periods and service years subsequent to Fiscal Year 2014-15.

SECTION 3. SEVERABILITY

The provisions of this Ordinance are separable, and the invalidity of any phrase, clause, provision or part shall not affect the validity of the remainder.

SECTION 4. EFFECTIVE DATE AND POSTING

This Ordinance shall be ineffective if, at the conclusion of the public hearing to hear protests to the proposed increase in sewer service charges held on May 3, 2011, the City Council determines that a majority protest exists pursuant to Section 6 of Article XIII(D) of the California Constitution. In the absence of a majority protest, in accordance with Section 36937 of the Government Code of the State of California, this Ordinance shall take effect thirty (30) days from and after the date of its passage. The City Clerk of the City of Milpitas shall cause this Ordinance or a summary thereof to be published in accordance with Section 36933 of the Government Code of the State of California.