

List of Attachments for Public Hearing Item No. 4

– Sewer Rate Increase

Attachments:

- 4-A Ordinance No. 208.50 (for adoption)
- 4-B Property Owner Notice of Proposed Rate Increase
- 4-C Utility Rate Analysis Report

REGULAR

NUMBER: 208.50

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 May 19, 2015, upon motion by Councilmember Giordano and was adopted (second reading) by the City Council at its meeting of _____, upon motion by _____. This 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:

Gary Baum, Interim 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 2015-2016 shall be those set forth below.

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	FY15/16 Charge
Single Family	\$90.27
Multi-Family	\$69.32
Mobile Home Parks	\$56.97

(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 \$14.97 per bimonthly period to defray billing and sewer system administration costs.

(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	FY15/16 Rate
Motels, hotels & senior citizen housing developments	\$4.36
General offices, banks, government offices, general merchandise, retail, and shopping centers; building, hardware, and gardening material facilities; amusement centers, and theaters	\$4.67
City of Milpitas	\$4.18
Service stations, repair shops, and car washes	\$4.34
Eating and drinking establishments	\$7.49
Personal services – laundry, barber/beauty shops, cleaners	\$3.95
Jefferson Smurfit Corporation*	\$7.66
T. Marzetti Co.*	\$8.34
Prudential Overall Supply	\$6.70
Loral-Fairchild-Lockheed*	\$4.59
Siemens Water (previously US Filter)	\$4.91
Lucky Pure Water*	\$3.94
DS Water	\$4.59
Milpitas Materials*	\$3.94
Union Pacific Railroad	\$5.11
Headway Technology Corporation	\$4.53
Electrical and electronics design, fabrication, assembly and storage facilities	\$4.59
Metal fabrication, machinery, and tool fabrication facilities	\$6.08
Linear Technology Corporation	\$4.59
Recycled water cooling towers	\$4.59
Cisco*	\$4.59
Schools, colleges and churches	\$6.34
Convalescent hospitals, day care centers and health service facilities	\$4.23
Elmwood Rehabilitation center	\$5.49

*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: \$555 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. In the absence of amendment of the rates set forth herein or adoption of a new rate ordinance, the rates herein shall remain in effect for billing periods and service years subsequent to Fiscal Year 2015-16 until amended or repealed.

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 August 4, 2015, 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.



**CITY OF MILPITAS
PROPOSED WATER
AND SEWER RATE
INCREASES
EFFECTIVE SEPTEMBER 2015**



PUBLIC HEARING NOTICE

On August 4, 2015, the Milpitas City Council will hold a public hearing to consider public comment and protest on proposed water and sewer rates effective September 4, 2015. This hearing will be in the City Council Chambers at Milpitas City Hall, 455 E. Calaveras Blvd. at 7:00PM or as soon thereafter as this item can be heard.

PROTESTING RATE INCREASES

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 prior to the close of the public hearing on Tuesday, August 4, 2015. Email and fax protests NOT accepted. If more than 50% of property owners submit a written protest, the City will not raise water and sewer rates. A written protest must contain your full name, date, mailing address, signature, and a description of the parcel or parcels which you own (street address or assessor's parcel number) and be submitted prior to the end of the public hearing. Additional information about proposed rates and a fee study are available at the City Clerk's Office and www.ci.milpitas.ca.gov.

若要取得此資料的中文譯本，請致電 (408) 586-2605，並留下您的全名和郵寄地址。
Để nhận thông tin này bằng tiếng Việt, xin để lại tin nhắn tại số (408) 586-2605 cùng với tên họ và địa chỉ gửi thư của quý vị.
यह जानकारी हिंदी में प्राप्त करने के लिए, कृपया अपने पूरे नाम और डाक पते के साथ (408) 586-2605 पर एक संदेश छोड़ दें।



City of Milpitas
455 Calaveras Blvd.
Milpitas, CA 95035

Milpitas Property Owner

Para recibir esta información en español, por favor deje un mensaje al (408) 586-2605 incluyendo su nombre completo y domicilio postal.

WHY ARE RATE INCREASES NEEDED?

The rate analysis for water and sewer services shows that the City of Milpitas (City) needs to raise rates for the next year 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 are increasing faster than expected due to the drought that is affecting California because the fixed cost of supplying and treating water are now allocated over a smaller volume of water used. The San Francisco Public Utilities Commission (SFPUC) is anticipated to increase their wholesale rate by over 28% in Fiscal Year 2015-2016, followed by smaller increases in the following years. The Santa Clara Valley Water District (SCVWD) is anticipated to increase their wholesale rate by 20%, followed by more increases in subsequent years. Quantity and fixed charges provide revenue for water system operations. Also, Milpitas is improving its overall water supply with infrastructure investments.

Sewer treatment costs are also poised to begin a rapid ascent. As part of its Master Plan, the San Jose-Santa Clara Water Pollution Control Plant (Plant) 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. The sewer rates include cost for short-term loans and to build-up reserves in preparation for bond issuance.

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BIMONTHLY QUANTITY CHARGES

Categories	Current Charges	FY 15/16 Charges**
Residential (per dwelling unit):		
0-10 hcf*	\$2.62	\$3.62
>10-20 hcf	\$3.48	\$4.60
>20-30 hcf	\$4.69	\$6.47
>30 hcf	\$5.29	\$7.30
Commercial, Industrial, Institutional and Construction Meter	\$5.29	\$7.30
Potable Irrigation	\$5.29	\$7.30
City of Milpitas Accounts	\$5.29	\$7.30
Ed Levin Park	\$3.08	\$3.75
Recycled Water: Irrigation	\$4.08	\$5.84
Recycled Water: Industrial/Dual Plumbed Construction Water	\$2.65	\$4.25
Recycled Water: City of Milpitas	\$2.51	\$4.15

* One hcf = 748 gallons

** Fiscal year (FY) = July 1st - June 30th

The City is increasing the corresponding recycled water rates in FY 15-16 and FY 16-17 so that all recycled water rates will be equivalent in FY 16-17 to match the updated wholesaler rate structure.

**BIMONTHLY FIXED METER CHARGES
(Similar Increases for Other Meter Sizes)**

Categories	Current Charges	FY 15/16 Charges
5/8" meter	\$27.36	\$27.91
3/4" meter	\$29.07	\$29.65
1" Meter	\$41.28	\$42.11
1-1/2" Meter	\$52.07	\$53.11
2" Meter	\$67.96	\$69.32
2" Fire Service	\$43.72	\$44.59
Fire Suppression	\$14.75	\$14.75

**Rate Questions? (408) 586-2605
Drought Hotline (408) 586-2666**



**Report water waste!
Get free conservation devices!**



Proposed Water and Sewer Rates

Recommended Rates for Metered Water Service for Fiscal Year 2015-2016

THE VALUE OF WATER AND SEWER SERVICES

A public health success story

Before modern water and sewage treatment and handling, water-borne disease was a serious threat. Recognizing the causes of disease and introducing disinfection and monitoring in the last century has greatly improved public health. The City of Milpitas buys high quality treated water from wholesalers and tests over 2,000 water samples each year. For water quality results, see the Consumer Confidence Report at www.ci.milpitas.ca.gov/government/pworks/water_quality.asp or call (408) 586-2605 to receive a mailed copy.

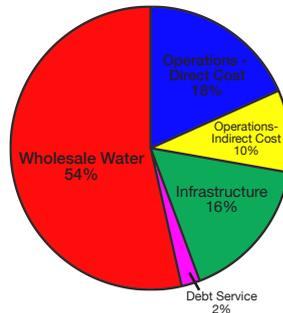
City crews operate and maintain the municipal water distribution and sewer collection systems to ensure optimum water quality. You may have seen crews flushing sediments from water hydrants or jetting sewer lines. These actions maintain our drinking water quality and also protect the environment from sewer spills. The California Regional Water Quality Control Board reports that Milpitas has one of the lowest rates of sewer overflows in the Bay Area.

WATER IS A BARGAIN

Drinking water piped to your home costs about 1¢ per gallon. No other household commodity comes close to being this economical. Bottled water can cost up to \$5 per gallon and you must carry it home from the store. Yet, municipal water is as safe to drink as bottled water. By law, it must be treated and tested to ensure it meets all Federal and State standards for consumption.

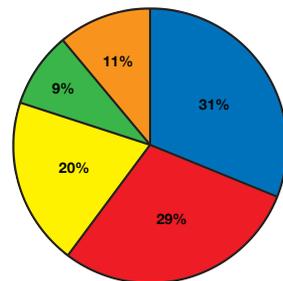
WHY ARE RATE INCREASES NEEDED? (continued)

At this time, Milpitas water and sewer rates remain comparable to those of surrounding agencies. The average Milpitas single family residence using 850 cubic feet of water per month currently pays about \$83 per month for water and sewer services. The proposed rate increases the average cost to about \$94 per month on September 4, 2015. All surrounding local agencies are under similar pressure to accommodate the rapidly increasing wholesale water and sewer treatment costs and are expected to implement similar increases.



Water Expenditures

Operations-Direct Cost	\$4.5 Million
Operations-Indirect Cost	\$2.5M
Infrastructure	\$4M
Debt service	\$0.5M
Wholesale Water	\$13M



Sewer Expenditures

This pie 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.

Plant Operations & Maintenance	\$5.5M
Plant Improvement Projects	\$5.2M
City Operations	\$3.5M
City Overhead	\$1.6M
City Improvement Projects	\$2M

■ Plant O & M
■ Plant CIP
■ City OPERATIONS
■ City OVERHEAD
■ City CIP

City of Milpitas Proposed Water and Sewer Rates

WATER SUPPLY

In order to maintain short and long-term water supply security, the City recently completed a Water Supply Augmentation Feasibility Report. Many water supply options were evaluated including: desalination, groundwater, surface water detention, recycled water, conservation, new water sources, and additional storage. A weighted sum decision matrix was used to evaluate the 'pros' and 'cons' of each option. The top recommendation for increasing water supply reliability was to improve production of existing wells and to drill additional wells. The report also emphasized the need to expand the recycled water system and expand water conservation efforts. The proposed water rates include costs to issue \$15 million bonds to begin implementation of a recycled water system expansion, improve well production, and expand conservation efforts.

WATER CONSERVATION

The State of California is experiencing a severe multi-year water supply shortage. On April 1, 2015, Governor Brown issued a Proclamation declaring a Continued State of Emergency due to extreme drought conditions and requiring a statewide 25% reduction. The State has assigned a specific conservation goal of 12% to Milpitas and will impose severe penalties for cities that fail to meet conservation goals. SCVWD requested a water conservation target of 30%. Due to this stringent request from our local water supply agency, the City requests that all water users reduce their water consumption by 30%. Together we can meet this conservation goal. For information on how you can save water, or to schedule a water-wise audit, please contact SCVWD at valleywater.org or call (408) 265-2600.

Proposed Sewer Rates for Residential Customers

Housing Type	Current Bi-monthly Rate	FY16
Single Family	\$86.93	\$90.27
Multi-family (apartments, condominiums)	\$52.22	\$69.32
Mobile Home	\$38.20	\$56.97

Proposed Sewer Rates for Commercial, Industrial and Institutional Customers

Name	Yearly Flow (hcf)	Current	FY16
Commercial Customers			
Motels and Hotels	106,099	\$3.60	\$4.36
General Office	195,141	\$3.70	\$4.67
City of Milpitas	10,350	\$3.40	\$4.18
Service Stations	13,370	\$3.57	\$4.34
Eat/Drink Establishments	225,446	\$6.16	\$7.49
Personal Services, Laundries	32,509	\$3.26	\$3.95
Industrial Customers*			
Jefferson Smurfit	1,414	\$4.21	\$7.66
T. Marzetti Co.	18,023	\$8.00	\$8.34
Prudential Overall Supply	15,885	\$4.65	\$6.70
Loral-Fairchild-Lockheed Martin	3,182	\$2.73	\$4.59
Siemens Water Tech	52,352	\$3.74	\$4.91
Lucky Pure Water	320	\$3.26	\$3.94
DS Water	714	\$3.10	\$4.59
Milpitas Materials	31	\$3.44	\$3.94
Union Pacific Railroad	54	\$4.03	\$5.11
Headway Technology	74,972	\$3.53	\$4.53
Electrical/Electronics	246,011	\$3.66	\$4.59
Machinery Manufactures	4,412	\$4.81	\$6.08
Linear Technology	102,487	\$3.15	\$4.59
Recycled water cooling tower	4,091	\$3.66	\$4.59
Cisco	14,182	\$3.66	\$4.59
Institutional Customers			
Schools/Colleges/Churches	29,612	\$4.81	\$6.34
Convalescent Hosp/Daycare	20,058	\$3.50	\$4.23
Elmwood Rehabilitation	102,131	\$3.81	\$5.49
City of San Jose**	0	\$492	\$550

*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 discharged to their sewer: Jefferson Smurfit, T. Marzetti Co., Loral-Fairchild, Lucky Pure Water, Milpitas Materials, Cisco.

**City of San Jose does not currently discharge into the City of Milpitas sewer system. If they do in the future, the rate is \$550 for up to 75,000 gallons.



Utility Rate Analysis

Water and Sewer Rate Recommendations



Utility Engineering Section
Public Works Department
May 19, 2015

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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 May 19, 2015.

Water Rate Recommendation

- Adopt a water rate increase of 38% for most customer classes for FY 15-16. The water rate increase from water wholesalers (Santa Clara Valley Water District, San Francisco Public Utilities Commission, and South Bay Water Recycling) is expected to be 20%, 28%, and 22%-47%, respectively, which drives the need for the City's water rate increase. Additionally, the severe State-wide drought has reduced City revenues from water sales and drives the need for local water supply projects, such as expanding the City's recycled water pipeline system to serve customers who are currently on potable water.
- The bimonthly cost for single-family residences is projected to increase from the current average of \$77.92 to \$97.71 for FY 15/16, given that the average single-family residence in Milpitas uses 17 hundred cubic feet (HCF) of water in a two month period. One hundred cubic feet is equal to 748 gallons. 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.
- Adopt a recycled water rate which would be 80% of the adopted potable water rate. In the South Bay Water Recycling memorandum "Wholesaler Recycled Water Rates for FY 2015-2016", dated March 18, 2015, SBWR made the decision to increase the Recycled Water: Industrial/Dual-Plumbing rate to the same wholesale structure as the Recycled Water Irrigation rate. The City is increasing the corresponding recycled water rates in FY 15-16 and proposing to increase in FY-16-17 so that all recycled water rates will be equivalent in FY 16-17 to match the revised wholesaler rate structure.
- Due to the drought, the City is proposing additional capital projects to improve water supply and reliability. The rates include debt service costs for \$15 million in bonds, beginning at the mid-point of the FY 15-16.

Sewer Rate Recommendation

- Adopt sewer rates which reflect changes in residential allocations and provides total revenue of \$17.4 million. Majority of costs are due to operations and capital projects at the Regional Wastewater Treatment Plant.
- The bimonthly cost for single-family residences is projected to increase from \$86.93 to \$90.27.
- 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.
- Participate in San Jose's commercial paper program for short-term capital funding.
- Contribute to reserve build-up for future Treatment Plant bond issuance.

INTRODUCTION

Although the economic recovery is helping boost the City economy and increase property values, the effects of the fourth year of drought are affecting the City, especially with regards to water revenue. Water sales are down due to robust conservation. 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. 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 \$6.2 million. The operating reserve goal for sewer is about 25% of the sewer fund annual operating budget, which amounts to approximately \$3.6 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. The City would need to take over \$9 million from other services to balance the utility fund budgets.

DESCRIPTION OF WATER AND SEWER COSTS

The City has reduced its operating costs through use of rigorous cost controls including employee layoffs, salary concessions, and reduction in use of supplies and services. 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. These massive reinvestments into aging regional infrastructure are both necessary and beyond the City's control. During a drought, utility costs are spread over a smaller volume, resulting in a higher unit cost.

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 proposed schedule includes these steps:

- April 24 – Public hearing notice published in the Milpitas Post notifying the community of the introduction of the water and sewer rate ordinances.
- May 8 – Public hearing notice again published in the Milpitas Post notifying the community of the introduction of the water and sewer rate ordinances.
- May 19 – Council will hear first reading of ordinances setting water and sewer rates. Staff will request direction to mail the Proposition 218 notice.
- June 9 – Proposition 218 notices must be mailed no later than this date to provide 45-day protest period before August 4 Council Meeting
- August 4 - Council Meeting for public protest hearing and adoption of rate ordinances. Staff will recommend that the City Council adopt ordinances setting water and sewer rates if there has not been a majority protest.
- September 4 – The proposed water and sewer rates for FY15/16 will be effective thirty (30) days after adoption by City Council.

WATER RATE ANALYSIS AND RECOMMENDATION

Water Costs

Fifty-four 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-six percent of the City's water cost is for operation, maintenance and capital improvement of the water distribution system, and debt servicing. 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 estimated FY 15/16 internal cost breaks down further with about thirty-six percent devoted to continuous investment in aging infrastructure upkeep and about sixty-four percent 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 FY15/16, the City expects to pay over \$10 million for SFPUC water supply.

SFPUC's water revenues will be lower than projected due to lagging water sales, attributable to the regional water conservation campaign due to the drought. The 2009 Master Agreement allows SFPUC to set wholesale rates to recover projected revenues shortfalls (Section 6.05). We anticipate that the reduced water sales due to conservation will continue for at least another year and so will impact next year's wholesale rate as well. If the drought continues, the SFPUC wholesale rate will continue to increase.

Santa Clara Valley Water District In FY15/16, the City expects to pay over \$2 million for SCVWD water supply.

SCVWD's water revenues will be lower than projected due to lagging water sales, attributable to the regional water conservation campaign due to the drought. We anticipate that the reduced water sales due to conservation will continue for at least another year and so will impact next year's wholesale rate as well. If the drought continues, the SCVWD wholesale rate will continue to increase.

South Bay Water Recycling In FY15/16, the City expects to pay over \$850,000 for recycled water from South Bay Water Recycling.

In the South Bay Water Recycling memorandum "Wholesaler Recycled Water Rates for FY 2015-2016", dated March 18, 2015, SBWR made the decision to increase the Recycled Water: Industrial/Dual-Plumbing rate to the same wholesale structure as the Recycled Water Irrigation

rate which resulted in a 22% increase in recycled water for irrigation and a 47% increase in recycled water for industrial/dual-plumbing use.

Water Rate Analysis

The water rate analysis is performed by starting with the actual July 1, 2014 water fund balance and estimating revenues and expenses to project an expected fund balance at the end of FY14-15. Estimated FY 15-16 expenses are deducted from this balance to determine needed revenues. Water fund revenues are derived from fixed charges and quantity charges. Fixed charges are increased 2% in accordance with the consumer price index. The quantity charges within the water rate structure are then adjusted to yield the needed revenues. 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 consumption.

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).
- Target maintaining a reserve in the Water Fund that is at least 30% of Operating Expenses.
- Establish recycled water rates that are lower than potable water rates to encourage recycled water use and decrease dependence on potable water.

Recommended Rates

- Adopt a water rate increase of 38% for most customer classes for FY 15-16. The water rate increase from water wholesalers (Santa Clara Valley Water District and San Francisco Public Utilities Commission) is expected to be 20% and 28%, respectively, which drives the need the City's water rate increase. Additionally, severe State-wide drought has reduced City revenues from water sales and demands the need for local water supply projects, such as expanding the City's recycled water pipeline system to serve customers who are currently on potable water.
- The bimonthly cost for single-family residences is projected to increase from the current average of \$77.92 to \$97.71 for FY 15/16, given that the average single-family residence in Milpitas uses 17 hundred cubic feet (HCF) of water in a two month period.
- 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.
- Adopt a recycled water rate which would be 80% of the adopted potable water rate. In the "Wholesaler Recycled Water Rates for FY 2015-2016" memorandum, dated March 18, 2015, SBWR made the decision to increase the Recycled Water: Industrial/Dual-Plumbing rate to the same wholesale structure as the Recycled Water Irrigation rate. The City is increasing the corresponding recycled water rates in FY 15-16 and FY-16-17 so that all recycled water rates will be equivalent in FY 16-17 to match the revised wholesaler rate structure.

- Due to the drought, the City is proposing additional capital projects to improve water supply and reliability. The rates include debt service costs for \$15 million in bonds, beginning at the mid-point of the FY 15-16.

Projected Water Fund Balance

- The beginning Water Fund balance is projected to be \$8.9 million on July 1, 2015.
- The Water Fund balance is expected to be roughly \$6.4 million on June 30, 2016, given the proposed 38% rate increase.

Projected FY 15/16 Revenues (Exhibit W-1)

- \$22.2 million

Projected FY 15/16 Expenditures (Exhibit W-1)

- \$24.7 million
 - Wholesale water purchases:
 - SFPUC: \$10 million
 - SCVWD: \$2.3 million
 - SBWR: \$850,000
 - City infrastructure improvements: \$4 million
 - City operations: \$4.5 million
 - City overhead: \$2.5 million
 - Debt servicing (proposed Bond): \$550,000

Basis for FY 15/16 Cost Assumptions and Findings

- SFPUC projects a wholesale rate increase of 28%
- SCVWD projects a wholesale rate increase of 20%
- The South Bay Water Recycling Program (SBWR) projects annual wholesale rate increases of 22% for irrigation use and 47% for industrial/dual-plumbing use.
- 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.
- Conservation programs will reduce outdoor water consumption to a greater degree than indoor consumption.

PROPOSED WATER RATES

For metered water service, staff recommends the following rates for FY 15-16.

BIMONTHLY QUANTITY CHARGES

Categories	Current Charges	FY 15/16 Charges
Residential (per dwelling unit):		
0 - 10 hcf	\$2.62	\$3.62
>10 - 20 hcf	\$3.48	\$4.80
>20 - 30 hcf	\$4.69	\$6.47
>30 hcf	\$5.29	\$7.30
Commercial, Industrial, Institutional and Construction Meter	\$5.29	\$7.30
Potable Irrigation	\$5.29	\$7.30
City of Milpitas Accounts	\$5.29	\$7.30
Ed Levin Park	\$3.08	\$3.75
Recycled Water: Irrigation	\$4.08	\$5.84
Recycled Water: Industrial / Dual Plumbed/ Construction Water	\$2.65	\$4.25
Recycled Water: City of Milpitas	\$2.51	\$4.15
Fire Suppression	\$14.75	\$14.75

In the South Bay Water Recycling “Wholesaler Recycled Water Rates for FY 2015-2016” memorandum, dated March 18, 2015, SBWR made the decision to increase the Recycled Water: Industrial/Dual-Plumbing rate to the same wholesale structure as the Recycled Water Irrigation rate. The City is increasing the corresponding recycled water rates in FY 15-16 and FY-16-17 so that all recycled water rates will be equivalent in FY 16-17 to match the revised wholesaler rate structure.

BIMONTHLY FIXED METER CHARGES

(Similar Increases for Other Meter Sizes)

Categories	Current Charges	FY 15/16 Charges
5/8” Meter	\$27.36	\$27.91
3/4” Meter	\$29.07	\$29.65
1” Meter	\$41.28	\$42.11
1-1/2” Meter	\$52.07	\$53.11
2” Meter	\$67.96	\$69.32
2” Fire Service	\$43.72	\$44.59

**EXHIBIT W-1
WATER
ESTIMATED REVENUES & EXPENDITURES**

	FY 15/16
STARTING BALANCE July 1, 2015	\$8.9 M
REVENUES:	
Metered Water Sales	\$21.9 M
Other Revenues	\$0.3 M
Total Revenues	\$22.2 M
REVENUES + STARTING BALANCE	\$31.1 M
EXPENSES:	
City infrastructure improvements	\$4.0 M
Overhead	\$2.5 M
Operations	\$4.5 M
Wholesale	
SFPUC	\$10.0 M
SCVWD	\$2.3 M
SBWR	\$0.85 M
Debt Service	\$0.55 M
Total Expenses	\$24.7 M
ENDING BALANCE June 30, 2016	\$6.4 M

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SEWER RATE ANALYSIS AND RECOMMENDATION

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. 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.

The City of San Jose has prepared a preliminary 10-year estimate of operating and capital costs necessary for the regional wastewater treatment facility. In FY 15-16 alone, the City's projected share of capital cost is \$11.87M. This \$11.87M includes construction cost (\$8.63M), Milpitas share of projected financing requirements (\$2.14M), other non-construction costs (\$0.97M) and cost of commercial paper (0.13M). It is necessary to finance costs of this magnitude. San Jose is planning to use short-term commercial paper for FY 15-16 and FY 16-17, and issue long-term bonds in FY 17-18. The City may choose to participate in San Jose's commercial paper program if the costs are reasonable. These programs require an additional reserve which will be built up over the next several years.

The City of San Jose recently completed a residential flow study that updated population per dwelling unit and per capita discharge from 1975 data. The flow study recommendation is shown in the table below.

	1975 data			2014 data		
	No. of persons	Flow per person gallons per day (gpd)	People x flow per person = gpd per household	No. of persons	Flow per person gpd	People x flow per person = gpd per household
Single family	3.37	65	219	3.54	51	181
Multi-family	2.05	60	123	2.73	51	139
Mobile homes	1.90	65	124	2.24	63	141

The Residential Flow Study states that the water consumption data for Milpitas mobile home parks is inconsistent and is therefore disregarded. A weighted average of the San Jose and West Valley data is used for Milpitas. This data is used to determine the Milpitas share of costs at the regional wastewater treatment facility.

Staff has investigated the mobile home park water consumption and agrees that the data is inconsistent. The water meters at the three mobile home parks are past their useful life and are scheduled to be replaced. Staff is having difficulty in collecting mobile home water consumption from neighboring agencies to use in determining a reasonable range for use in the interim until actual data is available. Mobile home usage ranges from 83 gallons per day (GPD) per household to 157 GPD per household for six Bay Area communities. In parallel, staff is evaluating a quote to perform sewer flow metering to evaluate mobile home discharge, although flow metering will be delayed until VTA-BART construction is completed on Dixon Landing. For the purpose of this single year rate analysis, staff recommends using 2.24 persons per household from the San Jose Study and 51 gallons per day per capita (gpdpc) (instead of 63 gallons per capita) to set the mobile home park sewer rate. The 51 gpdpc is equivalent to the Milpitas single and multi-family values and is more closely aligned with the lower water use per capita that is seen in Milpitas mobile home parks. The more accurate data from the new water meters and sewer flow monitoring will be incorporated into future rate analyses.

The planned expenses include participation in a commercial paper program and a contribution to build up reserves for the commercial paper and bond programs. The proposed rate increase is needed to generate sufficient revenue to meet expenses. The staff recommendation is to increase sewer rates to generate an overall increase in revenue from \$14.3M to \$17.4M. Residential customers are billed a fixed bimonthly amount per dwelling unit (du) and non-residential customers are billed on volume of water used, expressed as hundred cubic feet (hcf).

Sewer Rate Analysis

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. The sewer rate analysis is based on projected discharge of 6.49 million gallons per day.

As is the case with the water rate analysis, the sewer rate analysis is guided by policy objectives and principles to target a Sewer Fund reserve of at least 25% of operating expenses.

Recommended Sewer Rates

The rate subcommittee recommended the following rate changes:

- \$3.34 increase in single family bimonthly bill (from \$86.93 to \$90.27)
- \$18.77 increase in mobile home family bimonthly bill (from \$38.20 to \$56.97)
- \$17.10 increase in multi family bimonthly bill (from \$52.22 to \$69.32)
- For commercial customers per hcf rate change
 - 6 categories - 12.97% increase to 26.22% increase
- For industrial customers per hcf rate change
 - 15 categories – 4.25% increase to 81.95% increase
- For institutional customers per hcf rate change
 - 3 categories – 20.86% increase to 44.09% increase

Flat rate increase for non-residential customers: 2%

Sewer Fund Balance

- Beginning Sewer Fund balance is \$7.95 million on July 1, 2015.
- The Sewer Fund balance will remain unchanged by June 30, 2016.

Projected Revenues

- \$17.83 million

Projected Expenditures (Exhibit S-1)

- \$17.83M
 - Wholesale sewer treatment expenditures:
 - WPCP O&M: \$5.54 million
 - WPCP CIP: \$5.24 million
 - City expenditures:
 - City infrastructure improvements: \$1.57 million
 - CIP projects: \$1.32M
 - Payment of bond for Main Sewer Lift Station: \$684,348
 - City operations: \$3.49 million.

Basis for Cost Assumptions and Findings

- WPCP CIP costs have large changes when compared previous years
- Revised flow allocation per capita for residential customers
- Revised density for residential customers
- Sewer discharge 6.49 million gallons per day.

PROPOSED SEWER RATES

For sewer service, staff recommends the following rates.

BIMONTHLY QUANTITY CHARGES

Categories	Current Charges	FY 15/16 Charges
Single-family residential	\$86.93	\$90.27
Multi-family residential	\$52.22	\$69.32
Mobile Home	\$38.20	\$56.97

- a) Flat Rate: For non-residential accounts, flat rate assessed every billing cycle, regardless of the amount of sewage discharge is recommended to increase from \$14.68 to \$ 14.97.
- b) Quantity and strength charges: For each commercial, industrial, and institutional customers, a charge for one hundred cubic feet of water used per billing cycle are shown in Exhibit S-3.

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 \$550.00 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
Sewer Revenues & Expenditures

	FY 15/16
STARTING BALANCE - July 1, 2015	\$7.9 M
REVENUES:	
Use charges + flat fees	\$17.4 M
Taxes + Interest etc.	\$0.4 M
Total Revenues	\$17.8 M
REVENUES + STARTING BALANCE	\$25.7 M
EXPENSES:	
City infrastructure improvements	\$1.3 M
City's Debt Service	\$0.7 M
Overhead	\$1.6 M
Operations	\$3.5 M
Wholesale	
WPCP O&M	\$5.5 M
WPCP CIP	<u>\$5.2 M</u>
Subtotal:	\$10.7 M
Total Expenses	\$17.8 M
ENDING BALANCE – June 30, 2016	\$7.9 M

Exhibit S-2 Sewer Expenditures

The pie 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.

WPCP O & M	\$5,535,700
WPCP CIP	\$5,237,968
City Operations	\$3,487,546
City Overhead	\$1,573,207
City CIP	\$1,999,348

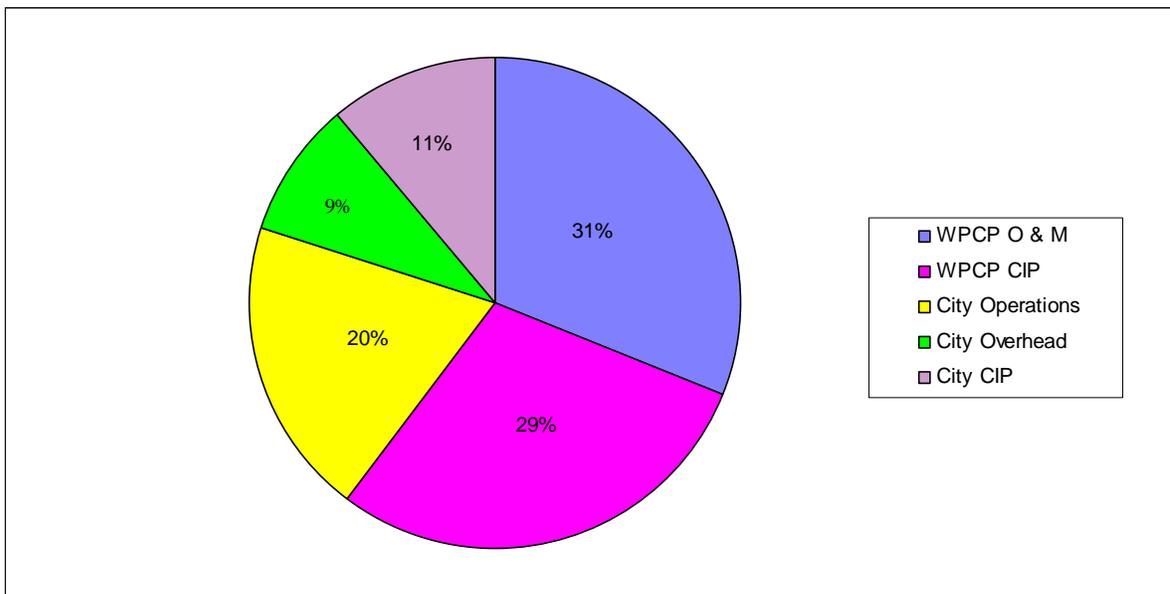


Exhibit S-3
Proposed Sewer Rates
for
Commercial, Industrial and Institutional Customers

Name	Yearly Flow (hcf)	Current	FY16
Commercial Customers			
Motels and Hotels	106,099	\$3.60	\$4.36
General Office	195,141	\$3.70	\$4.67
City of Milpitas	10,350	\$3.70	\$4.18
Service Stations	13,370	\$3.57	\$4.34
Eat/Drink Establishments	225,446	\$6.16	\$7.49
Personal Services, Laundries	32,509	\$3.26	\$3.95
Industrial Customers			
Jefferson Smurfit	1,414	\$4.21	\$7.66
T. Marzetti Co.	18,023	\$8.00	\$8.34
Prudential Overall Supply	15,885	\$4.65	\$6.70
Loral-Fairchild-Lockheed Martin	3,182	\$2.73	\$4.59
Siemens Water Tech (previously US filters)	52,352	\$3.74	\$4.91
Lucky Pure Water	320	\$3.26	\$3.94
DS Water (previously Arrowhead)	714	\$3.10	\$4.59
Milpitas Materials	31	\$3.44	\$3.94
Union Pacific Railroad	54	\$4.03	\$5.11
Headway Technology	74,972	\$3.53	\$4.53
Electrical/Electronics	246,011	\$3.66	\$4.59
Machinery Manufacture	4,412	\$4.81	\$6.08
Linear Technology	102,487	\$3.15	\$4.59
Recycled water cooling tower	4,091	\$3.66	\$4.59
Cisco	14,182	\$3.66	\$4.59
Institutional Customers			
Schools/Colleges	29,612	\$4.81	\$6.34
Convalescent Hosp/Daycare	20,058	\$3.50	\$4.23
Elmwood Rehabilitation	102,131	\$3.81	\$5.49

**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 discharged to their sewer:

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

CONCLUSION

The rate analysis for water and sewer services shows that the City needs to raise rates for the next year 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 are increasing faster than expected due to the drought that is affecting the entire State. SFPUC is anticipated to increase their wholesale rate by over 28% in FY15/16, followed by smaller increases in the following years. SCVWD is anticipated to increase their wholesale rate annually by 20%, followed by more increases in the subsequent years. In addition, the City is proceeding with its own capital improvement 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.

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

City	Service Provider	Water	Sewer	Total
Santa Clara	+	\$88.30	\$69.30	\$101.82
Fremont	W2, S3	\$90.77	\$59.50	\$123.27
Sunnyvale		\$70.60	\$73.54	\$123.94
Mountain View	+	\$110.52	\$57.30	\$127.44
S.J. (Muni)	+	\$74.74	\$67.66	\$137.06
Cupertino	+W1, S2	\$101.60	\$63.52	\$139.84
MILPITAS FY 14-15	+	\$77.92	\$86.93	\$164.85
Campbell	+W1, S1	\$101.60	\$66.68	\$140.88
S.J. (Water Co.)	+	\$101.60	\$67.66	\$157.56
MILPITAS (Proposed FY 15-16)	+	\$97.71	\$90.27	\$187.98
Palo Alto		\$142.66	\$58.62	\$165.20
San Mateo	W3	\$109.07	\$125	\$228.08

NOTE: Costs based on average single-family consumption of 17 HCF water in 60 days.

- + 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
Bi-Monthly Utility Charge Comparison FY 14/15
(Single-Family Residence)**

This graph compares the current water 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 FY15-16. 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.

