



## Agenda Report

18-152

Agenda Date: 6/12/2018

### REPORT TO COUNCIL

#### SUBJECT

Public Hearing: Action on Resolutions Approving Water, Recycled Water and Sewer Rates to be Effective July 1, 2018

#### BACKGROUND

The City updates the rates it charges Santa Clara residents and businesses for water, sewer, and recycled water services on a yearly basis. Each of these three utilities is self-sustaining and rates are adopted to pay for revenue requirements associated with operations and maintenance (O&M) costs, capital improvement program (CIP) projects and the funding of reserves associated with the respective utilities' systems.

Staff is seeking approval of the attached resolutions assigning water, sewer, and recycled water rates to be effective immediately for water, sewer, and recycled water services delivered on or after July 1, 2018 (Attachments 1 & 2).

Though the City updates its rates on a yearly basis at the staff level, as a best practice utilities should conduct an independent review of their rates and rate setting process approximately every five (5) years. The last such independent review of Santa Clara utility rates was completed in 2009, and only reviewed sewer rates. The City selected Black & Veatch Management Consulting, LLC to conduct a study of water, sewer, and recycled water rates charged to City residents and businesses. The results of that study informed the proposed rates in the attached resolutions.

#### DISCUSSION

On October 6, 2017, City Water & Sewer Utilities Staff issued a request for proposals (RFP) seeking a study of water, sewer, and recycled water rates charged to Santa Clara residents and businesses. On October 27, 2017, staff received seven (7) proposals, and after internal scoring and follow up interviews, selected Black & Veatch Management Consulting, LLC to conduct the study.

The attached study (Attachment 3) is intended to inform the new rates charged to water, sewer, and recycled water customers served by the City of Santa Clara's utilities. The study was presented to Council at a Study Session on May 22, 2018. Using cost of service analyses, the study allocates costs components of each utility operation and capital costs to customers and customer classes within each utility based on their use of the respective systems.

#### Water Rates

The potable water rates charged to Santa Clara residents and businesses are primarily driven by wholesale water purchases and capital infrastructure improvements for rehabilitation and replacement. On April 10, 2018, the San Francisco Public Utilities Commission (SFPUC) adopted its rates for Fiscal Year 2018-19, with a 0% increase to its wholesale customers. On April 24, 2018, the

Santa Clara Valley Water District (SCVWD) adopted a 9.7% increase in groundwater production charges and an 8.9% increase in treated water costs charged to wholesale customers. The two SCVWD sources of water account for just over 70% of the City's overall supply. The City's Water Utility is also proposing to complete approximately \$21 million in capital improvement projects over the next five years to address aging infrastructure, and ensure ongoing water quality. These costs have resulted in the need to propose a 5.1% increase in the potable water rate. For an average residential customer that uses 12 units of water (1 unit=1 HCF=748 gallons), the monthly water bill will increase by \$3.48. In addition, the minimum monthly charges for water service are proposed to increase but the amount of increase customers will see in this charge is based on meter size. These increased rates and charges are sufficient to meet the revenue requirements of the Water Fund for FY 2018-19.

#### Sewer Rates

The sewer rates charged to Santa Clara residents and businesses are primarily driven by capital and O&M costs associated with the San Jose/Santa Clara Regional Wastewater Facility (RWF), of which the City is a co-owner, as well as ongoing operations and capital costs with the City's collection system. The RWF is currently undergoing a large rehabilitation/replacement project that may last 30 years. The City of Santa Clara's share of this project's cost over the next 5 years is \$146.8 million. These costs have resulted in the need to propose a 3% increase in the monthly service charge to residents for sewer service. Residential customers would see an increase of \$1.26 per month in their sewer rate. Non-residential sewer customers will see an average increase of 9.6%, but each customer's increase will be based on their flow and strength of that flow into the sewer system, based on their customer class. These increased rates and charges are sufficient to meet the revenue requirements of the Sewer Fund for FY 2018-19.

#### Recycled Water Rates

The recycled water rates charged to City customers are primarily driven by wholesale recycled water rates charged by the City of San Jose through the South Bay Water Recycling Project (SBWRP). Recycled water wholesale rates are based on the aforementioned rates charged by the SCVWD. Therefore, this increase in charges to the City has resulted in the need to propose increases in recycled water rates that include a 6.9% increase for general customers, which will result in a \$52 increase for the average general customer. Even after proposed increases to the recycled water rate, recycled water is still significantly less expensive than potable water. These increased rates and charges are sufficient to meet the revenue requirements of the Recycled Water Fund for FY 2018-19.

#### **FISCAL IMPACT**

The proposed rates are assumed in the development of the FY 2018/19 Proposed Operating and Capital Budgets and will ensure that each utility's revenue requirements for Fiscal Year 2018-19 are met. Failure to adopt the proposed rates will result in lower than expected revenues, and the need to amend the upcoming budgets by drawing down reserve funds for the three utilities.

#### **COORDINATION**

This report has been coordinated with the Finance Department and City Attorney's Office.

**ENVIRONMENTAL REVIEW**

The action being considered does not constitute a “project” within the meaning of the California Environmental Quality Act (“CEQA”) pursuant to CEQA Guidelines section 15378(a) as it has not potential for resulting in either a direct physical change in the environment, or as a reasonably foreseeable indirect physical change in the environment

**PUBLIC CONTACT**

Public contact was made by posting the Council agenda on the City’s official-notice bulletin board outside City Hall Council Chambers. A complete agenda packet is available on the City’s website and in the City Clerk’s Office at least 72 hours prior to a Regular Meeting and 24 hours prior to a Special Meeting. A hard copy of any agenda report may be requested by contacting the City Clerk’s Office at (408) 615-2220, email [clerk@santaclaraca.gov](mailto:clerk@santaclaraca.gov) <<mailto:clerk@santaclaraca.gov>> or at the public information desk at any City of Santa Clara public library.

**Additional Outreach**

A notice, as required by Article XIII D of the California Constitution (Proposition 218), was sent to all current utility customers in the City, 25,733 independent utility customers from the City’s Utility Billing System with a range of possible rate increases for the water, sewer, and recycled water utilities. This notice was mailed on April 26, 2018, more than 45 days prior to the June 12, 2018 Public Hearing date. In addition, City staff reached out to the Citizen’s Advisory Committee and Santa Clara Chamber of Commerce in order to provide a presentation of the proposed rate increases. Lastly, staff presented the Draft Rate Study Report to Council at a Study Session on May 22, 2018.

At the Council meeting, Council will open the Public Hearing to hear protests regarding the proposed rates. In addition, the Council meeting will be the last opportunity for City utility customers to return written protests against the proposed rates. At the close of the Public Hearing the protests will be tabulated. If a majority of utility customers protest the proposed rates, the Council will be unable to raise the water, sewer, and recycled water rates. If there is not a majority protest of the rates, Council may increase the utility rates limited to the range specified in the written notice.

**ALTERNATIVES**

1. Adopt Resolutions Establishing Water Rate Schedule 2018-01, Recycled Water Rate Schedule 2018-02, and Sewer Rate Schedule S-18.
2. Do Not Adopt Resolutions Establishing Water Rate Schedule 2018-01, Recycled Water Rate Schedule 2018-02, and Sewer Rate Schedule S-18 and direct staff to return to Council with the appropriate budget amendments.

**RECOMMENDATION**

Adopt Resolutions Establishing Water Rate Schedule 2018-01, Recycled Water Rate Schedule 2018-02, and Sewer Rate Schedule S-18.

Reviewed by: Gary Welling, Director, Water & Sewer Utilities

Approved by: Deanna J. Santana, City Manager

**ATTACHMENTS**

1. Proposed Resolution Establishing Water Rate Schedule 2018-01 and Recycled Water Rate Schedule 2018-02
2. Proposed Resolution Establishing Monthly Sewer Service Charges and Establishing Sewer Rate Schedule S-18
3. Water and Sewer Rate Study by Black & Veatch Management Consulting, LLC