



Agenda Report

20-127

Agenda Date: 6/23/2020

REPORT TO COUNCIL

SUBJECT

Public Hearing: Action on Resolutions Approving Water, Sewer and Recycled Water Rates to be Effective July 1, 2020 [Council Pillar: Deliver and Enhance High Quality Efficient Services and Infrastructure] Not to be heard prior to 6:00 PM

BACKGROUND

In November 1996, California voters approved Proposition 218, which amended the state Constitution to establish a new category of fees and charges referred to as “property-related fees and charges” and created new procedural requirements for their adoption. Under these requirements, water, sewer, and solid waste service fees or charges are subject to a written notice of proposed increases, public hearing on proposed fees or charges not less than 45 days after the mailing of the notice, and majority protest procedure for their approval. At the public hearing, all protests against the proposed fees or charges are tabulated and if protests are presented by a majority of owners (50% plus 1), the fees or charges cannot be imposed. If there is not a majority of owners protesting the proposed fees or charges, Council can make and act on a motion to approve increases.

The City updates the rates it charges Santa Clara residents and businesses for water, sewer and recycled water services on an annual 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 utility systems.

Staff is seeking approval of the attached resolutions. Attachment 1 assigns water and recycled water rates to be effective July 1, 2020 and Attachment 2 assigns sewer rates to be effective July 1, 2020.

For the last two years, the Water & Sewer Utilities Department engaged Black & Veatch Management Consulting, LLC (Black & Veatch) to conduct an ongoing study of water, sewer and recycled water rates charged to City residents and businesses.

DISCUSSION

In December 2018, staff initially contracted with Black & Veatch to do an updated study for rates charged to customers beginning in July 2019 and updates to those rates beginning in July 2020. Black & Veatch conducted a cost of service analysis for all three utilities, projected three years of rates and created a ten-year financial plan to fund operating and capital expenditures with adequate reserves. Black & Veatch also updated the rate study (Attachment 3) to reflect funding reserves analysis and financial plans on cost of service analyses. The methodology in the rate study allocates costs components of each utility’s 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, O&M costs, and capital infrastructure improvements for rehabilitation and replacement of aging infrastructure. On July 1, 2020, the San Francisco Public Utilities Commission (SFPUC) will adopt its rate for retail customers of 8% for Fiscal Year 2020/21, with no increase to its wholesale customers. On May 26, 2020, the Santa Clara Valley Water District (Valley Water) Board adopted a 0% increase for FY2020/21 for groundwater production and treated water costs charged to wholesale customers. The City's Water Utility is proposing to complete approximately \$25 million in CIP projects over the next five years to address aging infrastructure and ensure ongoing water quality. These costs, including O&M costs, have resulted in the need to propose a 3.4% increase in the potable water rate. For an average residential customer that uses 12 units (1 unit=1 HCF=748 gallons) of water, the monthly water bill will increase by \$2.52. In addition, there is an increase in minimum monthly charges for water service proposed that is based on water meter size. This increase is less than what was included in the mailer to account holders. That proposed maximum rate included an anticipated increase by Valley Water of 8.6% which would have resulted in an increase of 5.6%. For an average residential customer that uses 12 units (1 unit=1 HCF=748 gallons) of water, the monthly water bill would have increased by \$4.20. These increased rates and charges are sufficient to meet the revenue requirements of the Water Fund for FY 2020/21.

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 José - 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 sewer 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 five years is \$110.4 million after paying approximately \$50 million in FY 2019/20. These costs have resulted in the need to propose a 1.0% increase in the monthly service charge to residents for sewer service. Residential customers would see an increase of \$0.46 per month in their sewer bill. Non-residential sewer customers will see an average increase of 5.2% based on their flow and strength of that flow into the sewer system by customer class. These increased rates and charges are sufficient to meet the revenue requirements of the Sewer Fund for FY 2020/21.

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 José through South Bay Water Recycling (SBWR). SBWR is not anticipating any increases to wholesale water rates this year. Recycled water wholesale rates are based on the aforementioned rates charged by Valley Water. Therefore, there will not be rate increases for general customers. Some commercial customers will see increases due to removal of credits and a move towards uniform rates and customer classes. Current proposed rates and charges are sufficient to meet the revenue requirements of the Recycled Water Fund for FY 2020/21.

FISCAL IMPACT

The proposed rates are assumed in the FY 2020/21 operating budget as well as the Capital Budget. It should be noted that the water rate assumed in the FY 2020/21 Proposed Operating Budget was higher than what is now proposed. Amendments to the revenue and expenditure budgets related to this new water rate are recommended in the FY 2020/21 operating budget. These rates will ensure that each utility's revenue requirements for FY 2020/21 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 and to change the ten-year financial outlook for each of the utilities. A preliminary analysis was done by staff to estimate the fiscal impact if rate increases were delayed. This analysis showed that each month of delay would equate to a revenue loss of approximately \$211,000 per month.

COORDINATION

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

ENVIRONMENTAL REVIEW

The action being considered is subject to a statutory exemption from the California Environmental Quality Act ("CEQA") pursuant to Public Resources Code section 21080(b)(8) and CEQA Guidelines section 15273 as it concerns the establishment, modification, structuring, restructuring, or approval of rates, tolls, fares, or other charges that are for the purpose of (A) meeting operating expenses, (B) purchasing or leasing supplies, equipment, or materials, (C) meeting financial reserve needs and requirements, or (D) obtaining funds for capital projects necessary to maintain service within existing service areas. As described above, the proposed rate increases will cover operations and maintenance (O&M) costs, capital improvement program (CIP) projects and the funding of reserves associated with the respective utilities' systems.

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>> 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, 25,837 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. The proposed increase falls within the noticed range. This notice was mailed on May 1, 2020, more than 45 days prior to the June 23, 2020 Public Hearing date. Additionally, staff reached out to utility customers via social media platforms and through the creation of a utility rates page on the City's website.

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 approve increase in the utility rates limited to the range specified in the written notice.

ALTERNATIVES

1. Adopt Resolutions Establishing Water Rate Schedule 2020-01, Recycled Water Rate Schedule 2020-02, and Sewer Rate Schedule S-20.
2. Do Not Adopt Resolutions Establishing Water Rate Schedule 2020-01, Recycled Water Rate Schedule 2020-02, and Sewer Rate Schedule S-20 and direct staff to return to Council with the appropriate budget amendments.

RECOMMENDATION

Alternative 1:

Adopt Resolutions Establishing Water Rate Schedule 2020-01, Recycled Water Rate Schedule 2020-02, and Sewer Rate Schedule S-20.

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

Approved by: Deanna J. Santana, City Manager

ATTACHMENTS

1. Proposed Resolution Establishing Water and Recycled Water Rate Schedules
2. Proposed Resolution Establishing Sewer Rate Schedule
3. Final Updated 2020 Rate Study Report by Black & Veatch Management Consulting, LLC