

City Council Meeting

1

Water and Wastewater Rate Analysis and Proposition 218 Notice

December 2, 2015



Current Status

2

- New and long-term normal of reduced water consumption
 - Long term water conservation mandate (20% reduction by 2020)
- Cost to purchase water has increased
- Water enterprise fund is being severely impacted
- Model used to establish current rate structure is no longer valid

Priorities and Goals – Why?

3

- Maintaining Public Health and Safety
 - Fight Fires and Protect Property
 - Provide Safe, Clean Drinking Water
 - Prevent Sewage Overflows and Spills by Addressing Aging Infrastructure
 - Maintain Reliable and Dependable Water and Wastewater Systems



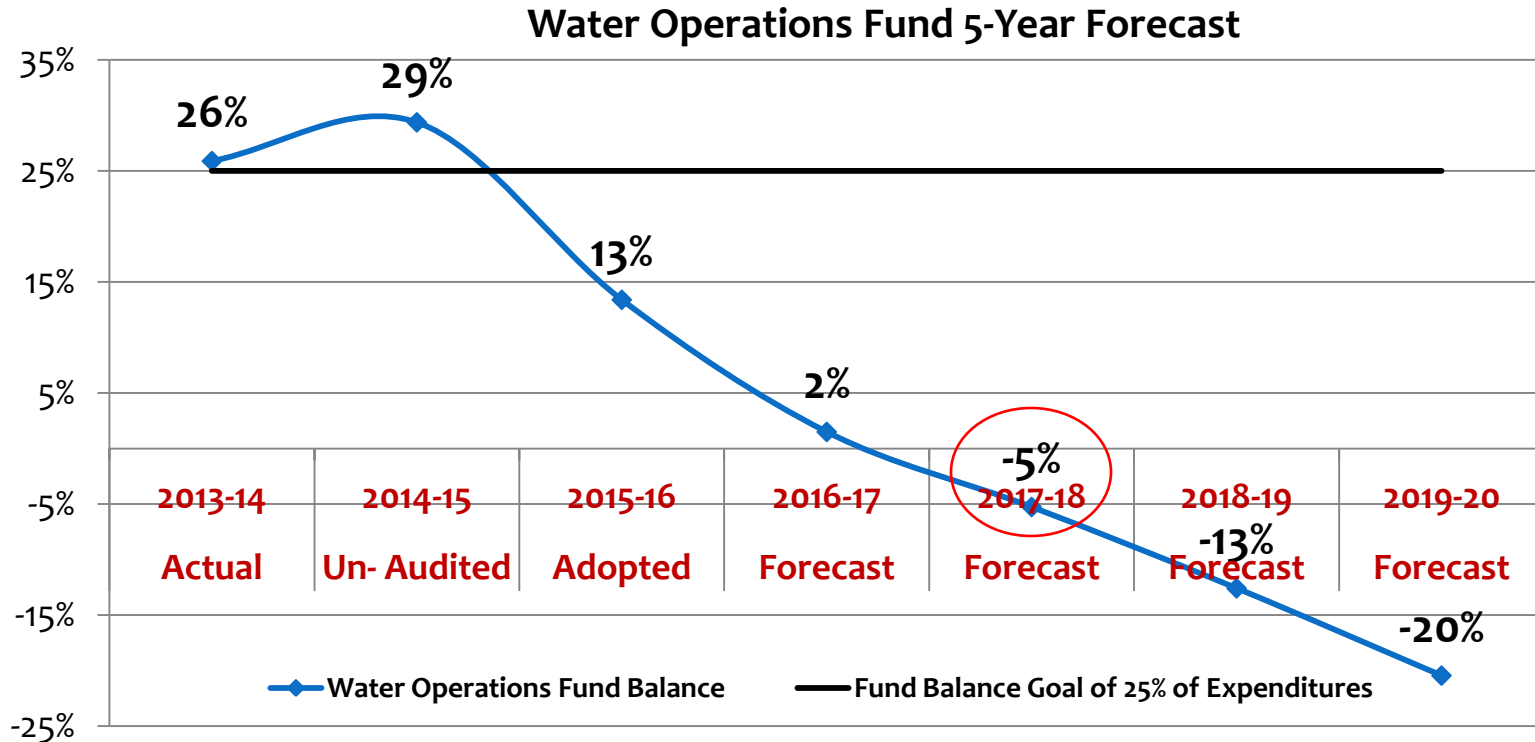
Essential Infrastructure

4

- Water and Wastewater Infrastructure – \$200 million assets
- Operational 24/7 to ensure public health and safety
- Daily O&M is essential
 - To provide safe and reliable water and wastewater service
 - To meet Community expectations
 - To comply with regulatory requirements
- Capital investment plan to address aging infrastructure
- Debt Financing
 - Requirement to meet debt coverage covenants
 - Need to maintain strong credit rating for future system improvements

Water Operations Fund: Projected Fund Balance

5



- Current revenue model heavily dependent on consumption while majority of costs are fixed

Proactive Steps Taken to Reduce Costs

6

- Council savings initiative from bonds refinancing
 - ▣ Water in 2014 – \$1.5 million savings
 - ▣ Wastewater in 2015 – \$1.0 million savings

- Council pension cost-sharing leadership
 - ▣ Future City increases split 50/50 with employees

- Cut \$200,000 in expenditures from Water Operations in FY 15-16 after budget was adopted

Public Information and Outreach on Water System Financial Issues

7

- Adopted FY15 and Adopted FY16 budgets identified water financial issues
- City Council Goal Setting Retreat – January 2015
- Comprehensive Water Workshop – April 1, 2015
- Water's New Normal Workshop – May 20, 2015
- Two Rate Setting Workshops – October 21 and November 4, 2015
- Council Meeting – November 18, 2015

* All information broadly distributed through City communication channels

November 18th Council Meeting

8

- Staff reported on NBS rate study
- Council directed staff to return with more information on elevation zone surcharges
- No decision made on implementing elevation zone surcharges
- Council approved 5-year revenue adjustments

November 18th Council Meeting

9

- Approved 5-year revenue adjustments
- Revised calculation is 2% for last 4 years for Wastewater

	Jan 1, 2016	April 1, 2016	Jan 1, 2017	Jan 1, 2018	Jan 1, 2019	Jan 1, 2020
Water	6.25%	9.00%	7.25%	7.25%	7.25%	7.25%
Wastewater	0%	0%	2.00%	2.00%	2.00%	2.00%

Legal Requirements on Use of Ratepayer Revenue

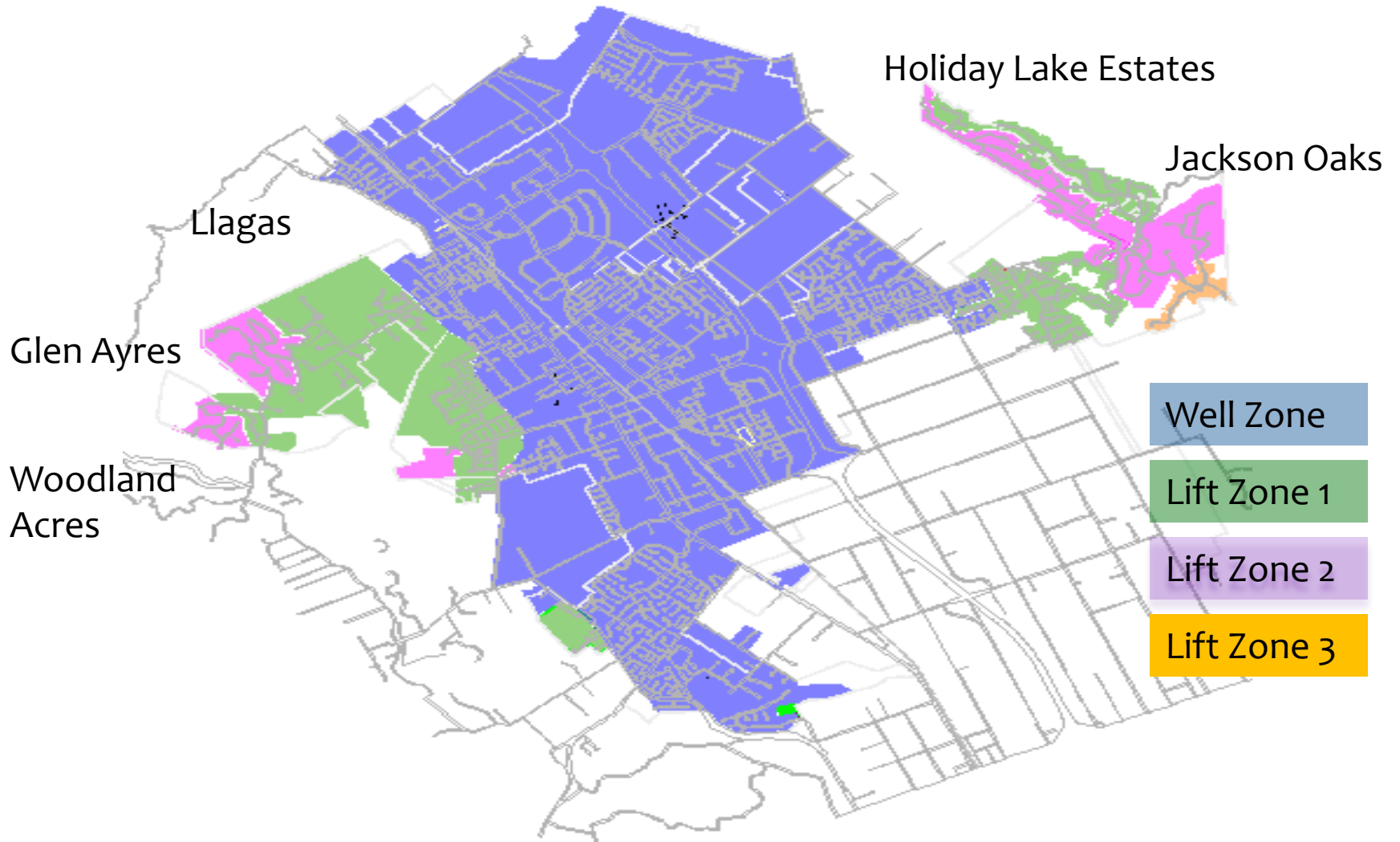
10

- Funds generated can only be used to provide utility service and pay for capital replacement
- City is not permitted to charge more than cost of services
- City is not permitted to use excess revenues for general fund purposes

Basis for Elevation Zone Surcharges

- Separate charge for particular usage characteristics outside of basic charge for service
- Reflects additional or incremental costs associated with pumping to higher elevation zones
- Aligns with industry standards and Prop 218 requirements for allocating costs for services provided

Water Zones Map



Wastewater Zones Map

13



Costs Specific to Elevation Zone Surcharge

14

- Electricity Costs
 - PG&E meter at each booster and lift station provides exact cost information
 - Water: \$180,770 per year
 - Wastewater: \$29,100 per year

- Facility Replacement Costs
 - Fixed cost to replace facility at end of expected life (40 years)
 - Water: \$243,279 per year
 - Wastewater: \$181,250 per year

Elevation Zone Surcharge Options

15

- Option A: Electricity Costs and Facility Replacement Costs
- Option B: Electricity Costs Only
- Option C: No Elevation Zone Surcharges

Average Monthly Elevation Zone Surcharge for Different Options*

16

- Rates Effective April 1, 2016

		November 18, 2015	December 2, 2015	
Customer Profile		Maintenance + Facility Replacement + Electricity Costs	Facility Replacement + Electricity Costs (Option A)	Electricity Costs Only (Option B)
Customer 1	W-0, WW-1 (Lowest Surcharge)	\$21.28	\$10.40	\$1.28
Customer 2	W-2, WW-2 (About Middle Surcharge)	\$70.44	\$33.78	\$7.82
Customer 3	W-2, WW-3 (Highest Surcharge)	\$111.32	\$55.88	\$13.46
Customer 4	W-3, WW-0 (Highest Elevation)	\$76.86	\$28.76	\$8.66

W = Water Zone, WW = Wastewater Zone

*Average user based on 14 units for water, 8 units for wastewater (1 unit = 748 gallons)

Average Monthly SFR Water Bill: Option A Zone Formula (Volumetric)

17

	Current Bill	4/1/16 Bill *	Average Zone Charge	4/1/16 Total Bill	% Increase
Valley Floor Customers	\$37.79	\$46.84	\$0.00	\$46.84	24%
Customers in Water Zone 1 ▪ \$0.29 per unit	\$37.79	\$46.84	\$4.06	\$50.90	35%
Customers in Water Zone 2 ▪ \$0.91 per unit	\$37.79	\$46.84	\$12.74	\$59.58	58%
Customers in Water Zone 3 ▪ \$2.05 per unit	\$37.79	\$46.84	\$28.70	\$75.54	100%

Option A = Facility Replacement + Power Costs

*April 1, 2016 bill includes increases in January 1, 2016 (6.25%) and April 1, 2016 (9%)

Average Monthly SFR Water Bill: Option B Zone Formula (Volumetric)

18

	Current Bill	4/1/16 Bill *	Average Zone Charge	4/1/16 Total Bill	% Increase
Valley Floor Customers	\$37.79	\$46.84	\$0.00	\$46.84	24%
Customers in Water Zone 1 ▪ \$0.14 per unit	\$37.79	\$46.84	\$1.96	\$48.80	29%
Customers in Water Zone 2 ▪ \$0.37 per unit	\$37.79	\$46.84	\$5.18	\$52.02	38%
Customers in Water Zone 3 ▪ \$0.62 per unit	\$37.79	\$46.84	\$8.68	\$55.52	47%

Option B = Power Costs Only

*April 1, 2016 bill includes increases in January 1, 2016 (6.25%) and April 1, 2016 (9%)

Average Monthly SFR Wastewater Bill: Option A Zone Formula (Volumetric)

19

	Current Bill	4/1/16 Bill	Average Zone Charge	4/1/16 Total Bill	% Increase
Valley Floor Customers	\$49.98	\$49.98	\$0.00	\$49.98	0%
Customers in Wastewater Zone 1 ▪ \$1.30 per unit	\$49.98	\$49.98	\$10.40	\$60.38	21%
Customers in Wastewater Zone 2 ▪ \$2.63 per unit	\$49.98	\$49.98	\$21.04	\$71.02	42%
Customers in Wastewater Zone 3 ▪ \$5.39 per unit	\$49.98	\$49.98	\$43.12	\$93.10	86%

Option A = Facility Replacement + Power Costs

Average Monthly SFR Wastewater Bill: Option B Zone Formula (Volumetric)

20

	Current Bill	4/1/16 Bill	Average Zone Charge	4/1/16 Total Bill	% Increase
Valley Floor Customers	\$49.98	\$49.98	\$0.00	\$49.98	0%
Customers in Wastewater Zone 1 ▪ \$0.16 per unit	\$49.98	\$49.98	\$1.28	\$51.26	3%
Customers in Wastewater Zone 2 ▪ \$0.34 per unit	\$49.98	\$49.98	\$2.72	\$52.70	5%
Customers in Wastewater Zone 3 ▪ \$1.04 per unit	\$49.98	\$49.98	\$8.32	\$58.30	17%

Option B = Power Costs Only

Elevation Zone Surcharge: Other Agencies?

21

Agencies	Elevation Zone Surcharge Criteria
San Jose Municipal Water	Pumping costs to 6 zones
City of Gilroy	Energy costs for elevation zones
Contra Costa Water District	Energy surcharge to 10 zones
East Bay Municipal Utility District	Pumping costs to 2 zones
Statewide (13 water-sector utilities)	Energy, power, or pumping
Morgan Hill	a) Facility replacement and electricity costs, or b) electricity costs only to 3 zones for water and wastewater

Options and Actions for Council Consideration

22

1. Determination on zone charges
 - a. Option A: Facility replacement plus electricity
 - b. Option B: Electricity only
 - c. Option C: No elevation zone surcharges
2. Determination on zone charge methodology
 - a. Volumetric
 - b. Volumetric + Fixed
3. Confirm 5-year revenue adjustments for Proposition 218 notice
4. Adopt resolutions to proceed with Proposition 218 process

Next Steps

1. Mail Proposition 218 Notices, December 5, 2015
2. Public Hearing, January 20, 2016
3. Adopt Rates, January 27, 2016
4. New Rates Effective, March 28, 2016