

Proposed Utility Rate Increases for FY 2016/17

Notices were mailed to utility customers to notify them of the public hearing scheduled for June 21 on the proposed utility rate increases for FY 2016/17. As proposed, the average residential customer will see their overall monthly utility bill (water, sewer, and garbage) increase by \$8.14. The City has received questions and comments from mobile home park residents who are concerned about substantive increases. All mobile home parks in Sunnyvale are served by the City through one or more large master meters. This is also common for apartment, condominium, and townhome developments. The notice issued by the City identifies the increases to the mobile home park service charge which are based on meter size. Since a City meter serves many mobile home park residents, the service charge is spread over the number of mobile home park residents served by the meter. Therefore, in general, the water rate increase for mobile home park customers is less than for single-family customers. In parks where the owner has installed private sub-meters, the California Public Utilities Code requires that the mobile home park owner must charge the same rates to their residents as would be charged if the City were to bill the mobile home park residents directly. Therefore, for residents with private sub-meters, the single-family water rate applies.

The City completed a water cost of service rate study (presented to Council at a March 29 Study Session), which recalibrates rates to reflect the current costs of providing water service to specific customer classes. The proposed rates include modifications to the City's pricing structure to more closely reflect the cost of providing service to each customer class by shifting more of the cost from variable water consumption charges to the fixed service charge. Additionally, in response to recent court decisions regarding water rates, these modifications include a single-tier or two-tier pricing structure, which will have a varying effect on different customer classes.

The overall increase needed in revenue for the water utility is 25 percent; individual rates may not increase by 25 percent and will vary by level of service and customer class. The majority of the cost (approximately 60 percent) to operate the water utility is to purchase water. The San Francisco Public Utilities Commission (Hetch Hetchy) and the Santa Clara Valley Water District have announced rate increases up to 8 percent and 19.9 percent respectively. Additionally, due to the drought, water sales have declined more than projected, resulting in lower revenue to cover operating costs.

In addition to the increasing cost of water, the City's water system is aging, with some portions of the system exceeding 50 years in age. Over the next 20 years, it is projected that more than \$100 million will be needed to replace water pipe, well and tank infrastructure.

The proposed water rate increase is projected to collect enough revenue to maintain the water fund in a sustainable financial position. However, even with the recent wet winter, the state continues to be in a drought causing increased volatility in the rates charged by the City's wholesale water suppliers. Therefore, a pass-through provision is proposed in order to recover any mid-year increase in wholesale water rates.

The proposed rate increase for wastewater service is 8 percent. Wastewater rates are driven by needed improvements to the City's aging wastewater collection, treatment infrastructure and increases in operating and regulatory compliance costs. Specifically, the City has begun a significant effort to rehabilitate its aging sewer treatment plant, anticipated be in excess of \$450 million over the next 15 to 20 years.

The proposed rate increased for solid waste and recycling services is 3.5 percent. Increases in rates are driven primarily by increases in collection and program costs as the City implements its Zero Waste Strategic Plan and responds to state mandates to increase diversion of food waste and other materials from landfill disposal.

Proposition 218 requires that if the City receives written protests from a majority of the owners or account holders, the proposed rates will not become effective and the current rates will remain in place. A majority of protests exists if approximately 15,700 valid written protests are received from the properties subject to the proposed fee. Information on the protest process was included in the mailing to utility customers.