



DATE: September 20, 2022

TO: Mayor and City Council

FROM: Director of Public Works

SUBJECT: Adopt Resolutions Authorizing the City Manager to 1) Execute a Professional Services Agreement with Raftelis to Prepare the FY24 and FY25 Water, Wastewater, Recycled Water Rate Studies and Connection Fee Study in an Amount not-to-Exceed \$200,000 and Transfer \$10,000 from the Water Fund to Recycled Water Fund, and 2) Appropriate \$200,000 from the Utilities Enterprise Funds

RECOMMENDATION

That Council adopts two resolutions:

1. Authorizing the City Manager to execute a professional service agreement (PSA) with Raftelis, in a form to be approved by the City Attorney, to prepare the FY24 and FY25 water, wastewater, recycled water (Utilities) rate study and connection fee study in an amount not-to-exceed \$200,000, and transfer \$10,000 from the Water System Operating Fund to the Recycled Water Operating Fund (Attachment II); and
2. Appropriating \$95,000 in the Water System Operating Fund, \$95,000 in the Wastewater Operating Fund, and \$10,000 in the Recycled Water Operating Fund for a total of \$200,000 for this project (Attachment III).

SUMMARY

The purpose of utility rate studies is to recommend rate structures that will fully recover operating costs and maintenance of the utilities system infrastructure, maintain adequate utilities enterprise fund balances, and comply with all applicable laws and regulations, including Proposition 218 and Proposition 26. Proposition 218 requires that property-based fees not exceed the cost of providing service, and Proposition 26 allows Council to approve fees imposed as a condition of property development. The City reviews and prepares utility rate studies every two years. Connection fees are reviewed periodically as new infrastructure is constructed and future capital improvements are needed to serve new development. The purpose of connection fee studies is to recommend fees that will

ensure that new development fairly and adequately contributes to the cost of existing and planned infrastructure.

Staff recommends that Council approve a PSA with Raftelis, in an amount not-to-exceed \$200,000, for preparation of the FY24 and FY25 utilities rates and connection fees to ensure continued compliance with Proposition 218 for utilities rates, as well as that new development fairly and adequately contributes to the cost of existing and planned infrastructure. Staff also recommends that the work be funded from the Water System Operating Fund, Wastewater Operating Fund, and Recycled Water Operating Fund and a total of \$200,000 be appropriated from the fund balances for this service.

BACKGROUND

The City's utilities enterprises are funded solely by revenues generated from usage rates and service fees and do not rely on General Fund monies. The utilities rates support related system operating and maintenance costs, including staffing, debt service obligations, and replacements. In addition, the water rates cover costs, including wholesale water purchases, and the wastewater rate supports costs associated with the Industrial Pretreatment Program, consisting of permitting, inspection, and monitoring of industrial wastewater to ensure compliance with all federal, State, and local discharge regulations for protection of the Water Pollution Control Facility and the public waters. The Council approved the last water and sewer rate adjustments in July 2021 for FY22 and FY23. The most recent water rate study was completed by an external consultant to ensure compliance of all applicable laws and regulations, including Proposition 218.

The recycled water rate pays for the costs of treatment and delivery of recycled water to customers and is determined through an assessment of revenue requirements and anticipated recycled water purchase volumes. The recycled water rate study was last prepared by staff in 2019.

Water and sewer connection fees are paid to connect a new development to the public water and sewer system and are used to fund improvement and expansion of water and sewer systems to accommodate the development and to defray the expenses paid by customers over the recent years for development and improvement of the systems. The fees also cover an incremental cost of future expansion and improvements necessary to accommodate new developments. Water connection fees were last adjusted in October 2015 and the sewer connection fees have not been adjusted since October 2011.

While the City periodically prepares rate studies in house, the laws and regulations related to utilities rates and fees have become increasingly complex and subject to new laws. The current water usage and service fees were prepared with consultant support. Staff recommends that the full suite of FY24 and FY25 utilities rates and fees be developed by a consultant to ensure that the City is in compliance with all applicable requirements.

DISCUSSION

Staff issued a Request for Proposals on July 11, 2022, to three qualified consulting firms to obtain professional services for preparation of the FY24 and FY25 utilities rates study and connection fee study. The scope of work includes development of long-term financial

plans, costs of service analysis, and proposed utilities usage and service fees for water, wastewater, and recycled water service consistent with industry standards and Proposition 218, as well as proposed connection fees for water and wastewater that will ensure new development fairly and adequately contributes to the cost of existing and planned infrastructure.

The City received proposals from two qualified firms: NBS and Raftelis. The proposals were evaluated and ranked by a team of staff members based on qualifications, experience, proposed work plan, and the reasonableness of the labor hours and rates. Based on this objective evaluation, staff recommends that the City execute an agreement with Raftelis.

Raftelis has proposed a knowledgeable and experienced project team, with extensive experience in utilities rate studies and connection fee studies specific to public agencies. Raftelis prepared Hayward’s water rate study in 2020, and has experience with other agencies who, like Hayward, purchase water from the San Francisco Public Utilities Commission (SFPUC), including Alameda County Water District, City of Palo Alto, City of San Jose, and Coastside County Water District. The firm demonstrated knowledge of Proposition 218 requirements and has prepared a work plan and detailed schedule to meet the City’s requirements and timeline, including sufficient time for City staff review. The number of labor and hourly rates are reasonable for the scope of work.

ECONOMIC IMPACT

There are no direct economic impact associated with approving this item. Staff will return to the Council with recommendations for rate and fee adjustments, if justified, once the studies have been completed.

FISCAL IMPACT

Staff is requesting a total of \$10,000 be transferred from the Water System Operating Fund (Fund 605) to the Recycled Water Operating Fund (Fund 630).

Additionally, Staff is requesting a total of \$200,000 be appropriated from the Water System Operating Fund, Wastewater System Operating Fund, and Recycled Water Operating Fund as follows:

Fund	Amount
Water System Operating Fund	\$95,000
Wastewater Operating Fund	\$95,000
Recycled Water Operating Fund	\$10,000
Total	\$200,000

There will be no impact to the General Fund.

STRATEGIC ROADMAP

This agenda item is a routine operational item and does not relate to one of the Council's six Strategic Priorities.

SUSTAINABILITY FEATURES

There are no direct sustainability features associated with this item.

PUBLIC CONTACT

The public will be engaged during the Council review of the draft rates.

NEXT STEPS

If Council approves staff's recommendation, staff will take the steps necessary to execute a PSA with Raftelis and prepare the FY24 and FY25 utilities rates and connection fees in compliance with all mandated requirements and submittal deadlines. If any utilities connection fees adjustments are proposed, staff will consider including the proposed fees as part of the Master Fee Schedule process around March 2023. Council is scheduled to consider the utilities rate adjustments in a work session around April 2023 and hold a public hearing around June 2023.

Prepared by: Trang Nguyen, Management Analyst

Recommended by: Alex Ameri, Director of Public Works

Approved by:



Kelly McAdoo, City Manager