



DATE: July 2, 2019
TO: Mayor and City Council
FROM: Director of Public Works
SUBJECT: Adopt a Resolution Amending the Master Fee Schedule and Approving the Proposed Recycled Water Rates and Connection Fees

RECOMMENDATION

That Council adopts a resolution (Attachment II) amending the Master Fee Schedule and approving the proposed recycled water rates and connection fees.

SUMMARY

Staff has prepared a cost of service analysis for providing recycled water service to calculate appropriate rates and charges for FY 2020 and FY 2021. The recommended recycled water rate structure would include a uniform volume charge of \$5.16 per hundred cubic feet (CCF), which pays for the costs associated with recycled water production and deliveries, and a fixed bimonthly water service fee for recycled water, which is proposed to be the same rate as the water service fee for potable water. The recommended recycled water commodity rate at \$5.16 per CCF is 25.8% lower than the current potable water rate at \$6.95 per CCF for the first 200 CCF of usage. Staff is proposing the same commodity rate for FY 2020 and FY 2021.

Proposition 218 Compliance: Staff implemented notification requirements of Proposition 218 for this proposed rate, which mandates that written notice of proposed service rates be mailed to all affected property owners. While not legally required, notices were also mailed to bill payers of record. The notice, a copy of which is attached (Attachment VI), lists the proposed rates, and described the process for protesting the proposed rates. A total of 64 notices were mailed out.

The language in Proposition 218 specified that the Council may not take action on the proposed rates if a majority of property owners, or more than 15 owners, submit written protests. The City Clerk will tabulate the final number of protests at the end of the public hearing and certify the results. As of June 26, 2019, a total of zero (0) written protests had been received by the City Clerk's Office.

BACKGROUND

Recycled water deliveries to customers are anticipated to begin in March 2020. Therefore, a recycled water rate structure needs to be established and included in the Master Fee

Schedule for Fiscal Year 2020. Staff has prepared a cost of service analysis for providing recycled water service to calculate appropriate rates and charges for FY 2020 and FY 2021.

At the May 14, 2019 [work session](#)¹, the City Council reviewed the proposed recycled water rates and connection fees for FY 2020 and FY 2021. The work session staff report provides an overview of cost of service issues, revenue requirements, and recommended FY 2020 and FY 2021 recycled water rates and connection fees in detail.

DISCUSSION

Proposed Recycled Water Rates

Staff recommends a rate structure that offers an incentive to recycled water customers while adequately recovering costs over the life of the project. Based on anticipated overall costs of providing service during the next two years, staff is recommending a uniform tier commodity rate at \$5.16 per CCF and the same fixed meter fees as potable water in FY 2020 and FY 2021. The recommended recycled water commodity rate is 25.8% lower than the current potable water rate for the first 200 CCF and 37.8% lower than the current potable water rate for over 200 CCF. In comparison to other nearby agencies, the proposed commodity rates would place Hayward in the mid to high range of reduction from non-residential potable usage rate. This proposed rate aims to entice existing water customers to consider connecting to recycled water for irrigation demand in the first year.

However, recycled water customer's overall savings is dependent on both meter size and consumption of recycled water. The proposed recycled water rate structure is anticipated to result in an annual cost savings for Phase I customers ranging between 17% to 36%, or an average savings of approximately 30%, based on their average irrigation demand.

Recycled Water Connection Fees

At this time, the vast majority of recycled water customers are existing water customers who are being retrofitted to use recycled water at no connection fee. Recycled water connection fees are fees paid by new customers who will be required to connect to the recycled water system as required by the City's Recycled Water Use Ordinance. Staff proposes to use the same connection fee for potable water for new customers. Appropriate connection fees will be calculated after development of Recycled Water Master Plan.

ECONOMIC IMPACT

The economic impact of the proposed recycled water rates and connection fees is discussed in detail in the work session report. The proposed recycled water rate structure is

¹ <https://hayward.legistar.com/LegislationDetail.aspx?ID=3945375&GUID=AE72507B-35F6-46D4-B43C-F51BFE5F3320&Options=&Search=>

anticipated to result in an annual cost savings for Phase I customers ranging from 17% to 36%, or an average savings of approximately 30%, based on their average irrigation demand.

FISCAL IMPACT

The fiscal impacts of the proposed rate adjustments were fully discussed during the work session held with Council on May 14, 2019 and are included in the staff report for that meeting. The Recycled Water Enterprise Fund would track all revenue and expenses for recycled water deliveries separately from water and sewer transactions.

STRATEGIC INITIATIVES

This agenda item does not relate to strategic initiatives.

SUSTAINABILITY FEATURES

The use of recycled water will reduce the demand for drinking water and improve the reliability and availability of drinking water, while providing a sustainable and drought-proof water supply for some irrigation uses. It will also reduce the volume of wastewater and associated nutrients and residual pollutants discharged to San Francisco Bay, which is required to meet increasingly stringent discharge regulations.

ENVIRONMENTAL REVIEW

The California Environmental Quality Act (CEQA), includes an exemption for revisions to rates and charges that are for 1) meeting operating expenses; 2) purchasing or leasing supplies, equipment, and materials; 3) meeting financial reserve requirements; or 4) obtaining funds for capital projects necessary to maintain services and system reliability within existing service areas. No additional CEQA review is required.

PUBLIC CONTACT

Since 2017, staff has been working closely with potential recycled water customers on the design of on-site improvements needed to connect the site to the new recycled water distribution system. Staff will continue to maintain regular communications with customers throughout project implementation so that questions and concerns are addressed in a timely way and site supervisors are properly trained on the use of recycled water. As noted in the discussion, staff mailed 64 written notices regarding the proposed recycled water rates to potential recycled water parcel owners and rate payers of record forty-five days before this public hearing. In addition to the written notices, the notice of public hearing was published in The East Bay Times on June 14 and June 21. The notice, as well as a summary of the proposed fees were also posted on the City's website.

NEXT STEPS

If approved, the rates would be effective on October 1, 2019 and October 1, 2020. Prior to billing recycled water customers, staff will notify affected customers. The City's website will also be updated to include the approved rates.

Prepared by: Elli Lo, Management Analyst

Recommended by: Alex Ameri, Director of Public Works

Approved by:

A handwritten signature in black ink, appearing to read 'Kelly McAdoo', written in a cursive style.

Kelly McAdoo, City Manager