



DATE: June 17, 2025

TO: Mayor and City Council

FROM: Director of Public Works

SUBJECT: Utility Rate Adjustments: Adopt a Resolution Amending the Master Fee Schedule, Approving the Proposed FY 2026 and FY 2027 Water and Recycled Rates and Facilities Fees, and Finding the Actions are Exempt from CEQA Review

RECOMMENDATION

That the City Council adopts resolutions amending the Master Fee Schedule, approving the proposed water and recycled water rates (Attachment II) and facilities fees (Attachment III), and finding the actions exempt from CEQA review.

SUMMARY

Staff prepared a cost-of-service analyses for providing water and recycled water service to Hayward residents and businesses to calculate appropriate water and recycled water rates and service charges for FY 2026 and FY 2027. This report provides an overview of cost-of-service issues, revenue requirements, and recommended FY 2026 and FY 2027 water and recycled water service rates. Staff presented the proposed rates to City Council to obtain comments during a work session on April 1, 2025, after which the appropriate and required public hearing notice procedures were implemented in accordance with state law prior to this evening's public hearing. If approved, the adopted rate adjustments would take effect on October 1, 2025, and October 1, 2026.

The City's water cost of service requirements for FYs 2026 and 2027, if approved, increases annually by 6% on October 1, 2025, and by another 6% on October 1, 2026. The recommended water rates for FY 2026 and FY 2027 include the same overall 6% increase to both bi-monthly fixed service fees and commodity rates in each of the two years for both residential and non-residential customers. If approved, the water rate increases will take effect on October 1 of each fiscal year, resulting in an annual fiscal year increase of approximately 4.5%. The proposed rate adjustments will allow the City to recoup some of the intended temporary use of reserves to cushion the impacts of the large San Francisco Public Utilities Commission (SFPUC) wholesale rate increases due to a 15.9% increase in FY

2023, 9.7% increase in FY 2024, an 8.8% increase in FY 2025 and a further increase of 2.3% effective July 1, 2025, from the wholesale water rate from SFPUC. Even with these proposed rate increases, it is anticipated that between \$4M to \$6M of the Water Fund reserves will be used during each of the next two fiscal years.

Additionally, as part of Hayward’s strategic roadmap to invest in infrastructure, the City Council has established a goal to replace an average of 2 miles of water pipelines each year. However, due to the increase in construction and material costs, at the current funding level, the City is replacing an average of 1.66 miles per year. In FY 2024, \$5.5 million was allocated to replace the water lines and \$6 million has been budgeted for FY 2025. To support these ongoing efforts, a portion of the water rate is allocated to funding the water lines replacement and the recommended FY 2026 – FY 2035 Capital Improvement Program (CIP) includes \$6 million in FY 2026 and \$6.3 million in FY 2027 to the water capital replacement fund. The costs associated with replacing and maintaining infrastructure through capital improvement programs are one of the financial driving factors influencing the water rate increases. Additionally, the continued escalation in construction and material costs further contributes to the need for rate adjustments.

Staff implemented the notification requirements of Proposition 218 for the proposed water rate increase by sending written notice of the proposed water rates to all affected property owners, about 36,000 in total. Written protests are only valid and counted if received from property owners within 45 days of noticing. Notices were also sent to an additional 9,000 billpayers and tenants to inform them of the proposed water rate increase. City Council may not take action on the proposed water rates if a majority of property owners, about 17,000, submit written protests.

The City’s recycled water’s current single-tier volume charge is proposed to change to a two-tier rate structure starting in FY 2026 to be consistent with the current rate structure for using drinking water for irrigation. The staff report for April 1, 2025, work session outlined the initial recommended recycled water commodity rate with two tiers: the first tier at \$7.70 per CCF for the first 170 CCF, and the second tier at \$9.80 per CCF for usage over 170 CCF in FY 2026. To reduce the rate impact on Hayward businesses, Staff have revised the initial recommendation and proposed a phased-in approach by lowering the second-tier rate from \$9.80 to \$8.70 per CCF in FY 2026. The proposed rates for FY 2026 and FY 2027 are displayed in the table below:

Recycled Water	Bi-Monthly Tiers (CCF)	Current	Proposed Oct 1, 2025	Proposed Oct 1, 2026
Tier 1	1 – 170 CCF	\$7.44	\$7.70	\$8.16
Tier 2	>170 CCF	\$7.44	\$8.70	\$10.39

With the proposed rates, the cost increase for customers in FY 2026 will range between 3.4% to 14.3% and the FY 2027 increase will range between 5.6% to 16.1%. Even with the proposed rate increases, the recycled water rates provide a discount of up to 33%, in the

first year and up to 25% in the second year, compared to the use of drinking water for irrigation. Similar to water service fees, the City's recycled water fixed service fee is proposed to increase by 6% in FY 2026 and another 6% in FY 2027. Staff recommend that the fixed service fee remain the same as the water service fee for potable water in FY 2026 and FY 2027.

Under the notification requirements of Proposition 218, written notice of the proposed recycled water rates was sent to 47 affected recycled water parcel owners. Notices were also sent to an additional 64 billpayers and tenants on record to inform them of the proposed recycled water rate increase. City Council may not take action on the proposed recycled water rates if a majority of parcels owners, about 23, submit written protests.

Water and Recycled Water Facilities Fees, also referred to as connection fees, are not subject to Proposition 218 requirements and were not included in the Proposition 218 notice. A separate notice of the proposed facilities fee increases was sent to developers, Building Industry Association, and the Chamber of Commerce Government Relationship Council (GRC). Staff attended a GRC meeting in May, presented the proposed water rates and facilities fees, and responded to questions. Proposed facilities fee adjustments information was posted on the City's website and public hearing notice of the proposed adjustment was published in the newspaper.

BACKGROUND

At the April 10, 2025¹ work session, the City Council reviewed the proposed water and recycled water rates and facilities fees for FY 2026 and FY 2027. The work session staff report provides a discussion of the cost-of-service issues, revenue requirements and recommended rates. Key information from the work session report is summarized in the following discussion.

DISCUSSION

Water Rates

The recommended water rate increase is 6% effective October 1, 2025, in FY 2026 and 6%, effective October 1, 2026, in FY 2027. Staff is recommending increases of 6% in fixed bimonthly service charges and water commodity rates across all customer classes in FY 2026 and FY 2027. As a result of these recommended changes, average residential users would see an overall increase of 6% in their water bills and non-residential users could see similar increases in their bills. If approved, the water rate increases will take effect on October 1 of each fiscal year, resulting in an annual increase of 4.5%. The proposed rate adjustments will allow the City to recoup some of the intended temporary use of reserves to cushion the impacts of the large San Francisco Public Utilities Commission (SFPUC) rate increases due to a 15.9% increase in FY 2023, 9.7% increase in FY 2024, an 8.8% increase in FY 2025 and a further increase of 2.3% effective July 1, 2025, from the wholesale water

¹ <https://hayward.legistar.com/LegislationDetail.aspx?ID=7283608&GUID=E77532EB-2E73-4B3C-B15B-19C11955BA73&Options=&Search=>

rate from SFPUC. Even with these proposed rate increases, it is anticipated that between \$4M to \$6M of the Water Fund reserves will be used during each of the next two fiscal years.

SFPUC Pass-Through

The City's proposed FY 2027 rate increase is based on SFPUC's current projection of 1% wholesale rate increase in FY 2027. Pursuant to California Government Code Section 53756, Staff is proposing to pass through any additional increases in SFPUC wholesale water rates when the actual SFPUC rates substantially exceed the estimates. The pass-through will allow Hayward to pass the additional increase to rate payers to recoup costs as necessary. Prior to implementing a pass-through of the SFPUC wholesale water rates, Staff will send written notification to all customers at least 30 days prior to the effective date. Rate payers were notified of the pass-through in the Proposition 218 notice.

Annual Water Pipeline Replacement Capital Improvement Program (CIP)

As part of Hayward's strategic roadmap to invest in infrastructure, the City Council has established a goal to replace an average of 2 miles of water pipelines each year. However, due to the increase in construction and material costs, at the current funding level, the City is replacing an average of 1.66 miles per year. In FY 2024, \$5.5 million was allocated to replace the water lines and \$6 million has been budgeted for FY 225. To support these ongoing efforts, a portion of the water rate is allocated to funding the water lines replacement and the recommended FY 2026 – FY 2035 Capital Improvement Program (CIP) includes \$6 million in FY 2026 and \$6.3 million in FY 2027 to the water capital replacement fund. The costs associated with replacing and maintaining infrastructure through capital improvement programs are one of the financial driving factors influencing the water rate increases. Additionally, the continued escalation in construction and material costs further contributes to the need for rate adjustments.

Low-Income Service Fee

Staff is proposing to retain the low-income bi-monthly service fee for single-family residential customers who meet certain income thresholds, a policy that has long been supported by the City Council. Customers that qualify for this discount are charged a reduced bi-monthly water service charge, equal to 35% of the service charge, or a 65% discount. This discount does not violate the requirements of proposition 218 because revenues that are not generated from rates, e.g., revenue from water installation fees are used to fund the discounts. They are discretionary funds, not subject to the strict requirements of Prop 218. That means, to the extent that the total cost of the discounts does not exceed the available discretionary fund amount, the use of these funds for this purpose is not unreasonable, and that other customers are not unfairly subsidizing others.

Proposition 218

Proposition 218, now a part of the California constitution, states that "property related fees and charges" may not exceed the proportional cost of providing the service to the customer and may not be used for any purpose other than providing said service to the customer and may not be used for any purpose other than providing said service. It affects the rate adoption process by requiring agencies to hold a public hearing to adopt rates. The agency

must mail public hearing notices to all customers no fewer than 45 days prior to the public hearing. The public hearing notices must clearly show all proposed rate changes, provide information on the public hearing date/time/location, and provide instructions on how customers may protest the proposed rate changes. If a majority of customers submit a protest in writing, the proposed rate changes cannot be adopted.

Drought Surcharge

The purpose of the drought surcharge is to recover revenues that may be lost as a result of substantially reduced consumption or drought-related wholesale rate increases by SFPUC in the event of a water supply shortage, or other local water use restrictions. Drought rates are not needed at this time as the reservoirs have been replenished from recent storms. SFPUC has stated they do not anticipate calling for mandatory cutbacks. If such rates are required in the next two years, staff will return to City Council for fuller discussion and make recommendations.

Comparison with Other Agencies

Figure A and Figure B show how the City's current and proposed water rates compare to other neighboring and nearby agencies. While this comparison is provided in keeping with a long-standing practice and the City Council's desire to know how the City's rates compare with neighboring agencies, some factors should be considered regarding this information. The agencies in "Figure A – Immediate Area Water Agencies" are either not dependent on SFPUC's expensive (and high quality) water (such as East Bay Municipal Utility District) or use a small fraction of SFPUC water (such as Alameda County Water District). Therefore, they are not affected, or affected to a much lesser degree, by the high cost and significant wholesale water rate increases imposed by SFPUC.

Figure A - Immediate Area Water Agencies - Bimonthly Water Bill Comparison

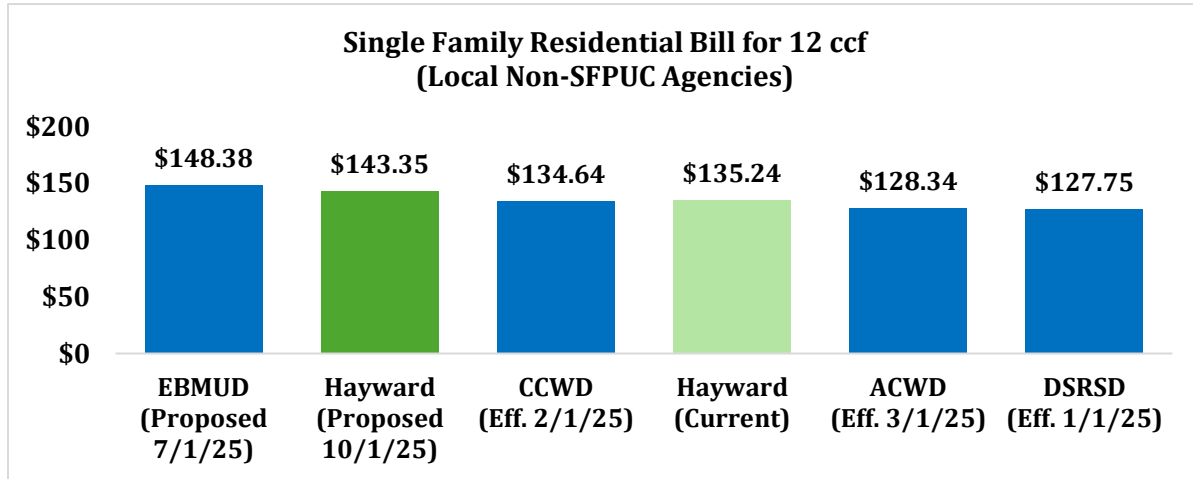


Figure B - Immediate Area Water Agencies - Bimonthly Water Bill Comparison

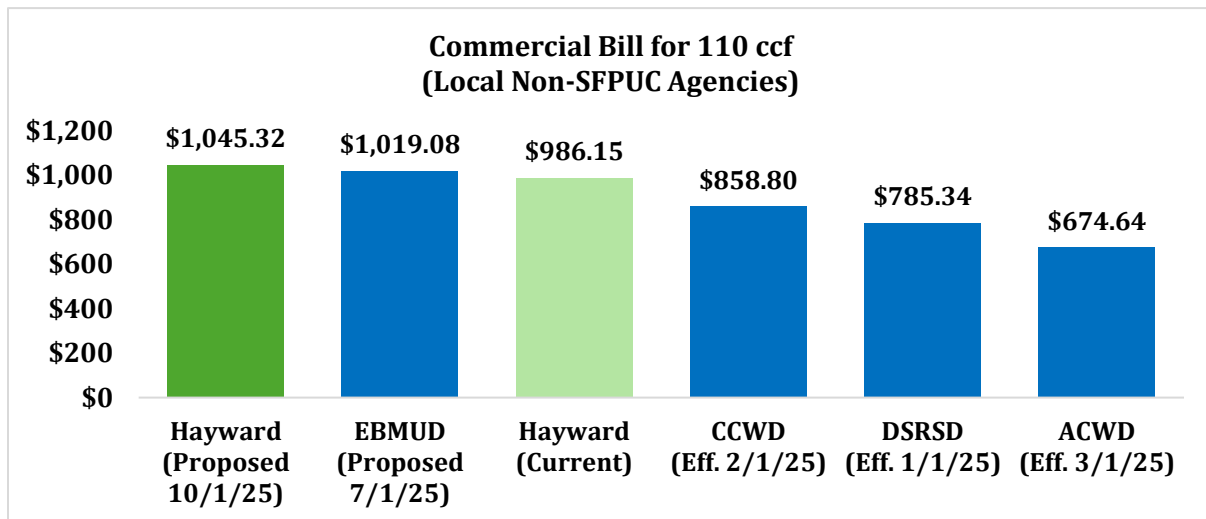


Figure C and Figure D compare the City's water rates with agencies with the same water supply provider. Among SFPUC wholesale agencies, Hayward's proposed rates rank near the lowest for Single Family Residential bills and are the lowest for Commercial customers, such as restaurants. Apart from Mountain View, the cities of Hayward, Redwood City, and Palo Alto purchase 100% of their water supply from SFPUC. Mountain View purchases approximately 87% of their water supply from SFPUC and the remaining 13% from the Santa Clara Valley Water District and local groundwater supplies. If Mountain View were to purchase 100% of its water supply from SFPUC, its water rates would likely be higher than the rates currently proposed by the City of Hayward.

In May 2025, the City of Palo Alto issued a notice to customers indicating that, in addition to the City's approved 10% increase, a 2.3% rate increase from SFPUC for FY 2026 would also be passed through, effective July 1, 2025.

Figure C - 100% SFPUC Wholesale Agencies - Bimonthly Water Bill Comparison

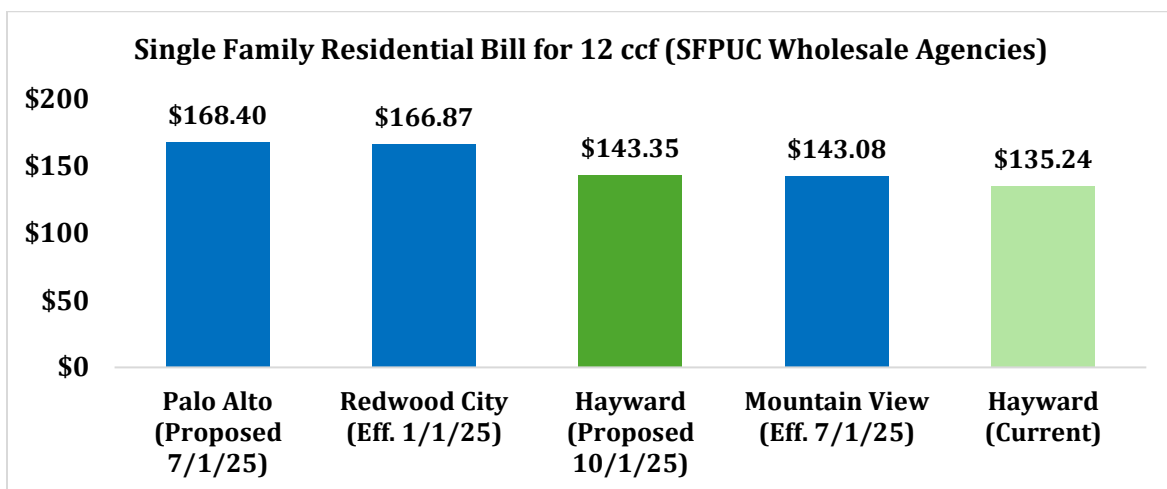
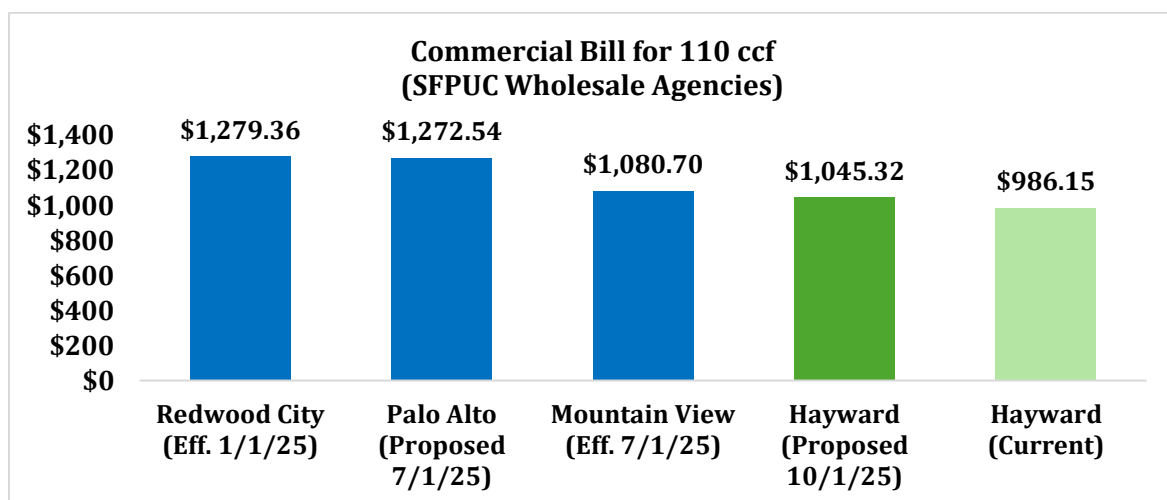


Figure D - 100% SFPUC Wholesale Agencies - Bimonthly Water Bill Comparison



Offering discounts to low-income residents, as the City does, which is not common, also affects the rates. Finally, an agency's water rates should be considered in light of the system's performance, its operational robustness, its maintenance record, and its flexibility to operate in both normal and emergency situations. In that respect, the City's water system is among the best.

Recycled Water Rates

Staff recommend modifying the single-tier volume charge into a two-tier rate structure that offers an incentive to utilize recycled water while adequately recovering costs over the life of the project. Staff is proposing to charge the same bimonthly service charges as drinking water used for irrigation in FY 2026 and FY 2027. The staff report for April 1, 2025, work session outlined a recommended recycled water commodity rate with two tiers: the first tier at \$7.70 per CCF for the first 170 CCF, and the second tier at \$9.80 per CCF for usage over 170 CCF in FY 2026. To reduce the rate impact on Hayward businesses, staff revised the initial recommendation and proposed a phased-in approach by lowering the second-tier rate from \$9.80 to \$8.70 per CCF in FY 2026. The proposed rates for FY 2026 and FY 2027 are displayed in the table below:

Table 1 – Recycled Water Proposed Rate

Recycled Water	Bi-Monthly Tiers (CCF)	Current	Proposed Oct 1, 2025	Proposed Oct 1, 2026
Tier 1	1 – 170 CCF	\$7.44	\$7.70	\$8.16
Tier 2	>170 CCF	\$7.44	\$8.70	\$10.39

With the proposed rates, the cost increase for customers in FY 2026 will range between 3.4% to 14.3%. The FY 2027 increase will range between 5.6% to 16.1%. Even with proposed rate increases, the recycled water rates provide a discount of up to 33% in the first year and up to 25% in the second year, compared to the use of drinking water for irrigation. The recycled water Proposition 218 notice distributed on April 18, 2025, indicated a potential discount of up to 42% compared to drinking water for irrigation. However, staff would like to clarify that the correct maximum discount is up to 33%. Table 2 below presents the irrigation rate to highlight the difference between irrigation and recycled water rates.

Table 2 – Irrigation Proposed Rate

Irrigation (Drinking Water)	Bi-Monthly Tiers (CCF)	Current	Proposed Oct 1, 2025	Proposed Oct 1, 2026
Tier 1	1 – 170 CCF	\$9.68	\$10.27	\$10.89
Tier 2	>170 CCF	\$12.32	\$13.06	\$13.84

Water and Recycled Water Facilities Fees

Staff recommend a 10% annual increase for the water facilities fee and a 10% annual increase for recycled water facilities fee in each FY 2026 and FY 2027. Staff is proposing to use the same recommended potable water facilities fee for the small number of new recycled water customers, as the City plans for expansion of the recycled water system and adding more customers. Appropriate facilities fees will be calculated after development of the Recycled Water System Master Plan.

ECONOMIC IMPACT

The typical single-family residential customer, with average bi-monthly water use of 12 ccf (150 gallons per day), will see an increase of \$4.09 per month in water cost in the first year and \$4.34 in the second year. About two-thirds of these pay for SFPUC's water purchases. While staff recognize that any rate increase will affect customers and should be minimized, it is critical that the City maintain reliable and robust utilities systems, in conformance with ever more stringent federal and state rules and regulations on the onset of the climate crisis, in the interest of economic viability, quality of life, and maintaining public health, and meeting increasingly stringent regulations.

The customers who are adversely impacted by the \$4.09 per month increase in the first year can offset this cost by reducing their daily usage by 11 gallons, based on the average single-family household consumption of 150 gallons per day. In the second year, the additional increase of \$4.34 per month can be offset by a reduction of 11 gallons per day, from the first year, over the same average usage.

FISCAL IMPACT

The Water and Recycled Water Funds each maintain a working capital balance, or fund balance, in order to manage emergencies, maintain positive cash flows, the fund's credit worthiness and, at times, smooth out needed rate adjustments so that the City is not forced to implement a significant increase in a single year, which can result in customer discontent. Water facilities fees support Capital Improvement Program (CIP) projects in the Water Improvement Fund.

There are no impacts on the General Fund related to water and recycled water rate adjustments or facilities fees.

Water Fund

The Water Enterprise Fund reserves are recommended to manage operating costs, capital expenditures and rate stabilization to protect customers from steep rate adjustments in the event of larger-than-anticipated increases in wholesale water rates. In general, it is recommended that the City maintains a reserve target of approximately 25% of operating and maintenance expenses in one year, 100% of the rolling average of five years of rate-funded capital, and 25% of commodity rate revenues. It is also recommended that the City maintains approximately one year of operating costs in reserve, which is approximately \$40 million in FY 2025. However, a portion of the water fund's working capital reserve is

anticipated to be spent down in FY 2025 and the use of reserve will continue in the next few years in order to cushion the impacts of SFPUC's rate increases on City residents and businesses, and to not pass the increases on to ratepayers in the form of steep rate adjustments.

Recycled Water Fund

The Recycled Water Enterprise Fund is a separate enterprise with its own rate structure. Revenue and expense for delivering recycled water are tracked separately from water transactions. While the expenses and revenues in the Recycled Water Fund would be modest initially, they would increase as new customers are added, and future project phases are implemented.

Capital Improvement Program

Water Improvement Fund

All revenues derived from Water Facilities Fees are deposited in the Water System Capital Improvement Fund and used only for planned existing and future capital projects related to improvement and expansion of the water system, such as the System Seismic Upgrades and New Emergency Well B2 projects.

The revenues derived from Recycled Water Facilities Fees will be deposited into the Water or Sewer Improvement Fund, as appropriate, to fund projects related to expanding or improving the Recycled Water System.

STRATEGIC ROADMAP

The proposed rate adjustments align with the City's current Strategic Priority of improved infrastructure by providing the funding necessary to maintain and improve the water distribution system and recycled water treatment and distribution system. Reliable utility services support other priorities such as housing and economic growth.

SUSTAINABILITY FEATURES

Water Conservation

Water conservation programs, such as the high efficiency fixture replacement and lawn replacement rebate programs, are funded through water rate revenue and provide customers with the tools to assist them in efficiently managing water usage.

Recycled Water

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 and eventually industrial 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

Section 15273 of the California Environmental Quality Act (CEQA) Guidelines includes an exemption of environmental review for revisions to rates and charges that are for the purpose of 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

With the City Council's concurrence, staff implemented the legal notice requirements of Proposition 218, which mandates written notice of the proposed rates to all affected property owners at least 45 days in advance of the public hearing. A new law, AB 2257, encourages written responses to written protests received before a public hearing. Therefore, notices were sent 60 days in advance to accommodate sufficient time for delivery and City preparing written response to any written objections if needed. Although not required, in instances where a party, other than the property owner, is the account holder on record, notices were also sent to notify them of the proposed water rates. The notice described the proposed increases and listed current and proposed rates, and the property owners' right to protest the rates. In addition, the notice also included resources to the City's water conservation programs, water customer portal, and low-income discount eligibility information. Attachment IV includes a summary of the protest letters and staff's response to the different types of protests.

Regarding the 19 protest letters related to water received through June 2, 2025, staff conducted a review of the average water consumption for each customer to assess the financial impact and explore options for mitigating the impact of the proposed rate increases. Water consumption among customers varies significantly, with daily usage ranging from a high of approximately 400 gallons to a low of 50 gallons per day per household, versus the average of 150 gallons per day. Staff may initiate outreach to discuss strategies for reducing consumption and to share information about available water conservation programs that may help lower usage and costs. For customers with higher-than-average water usage, it may not be too difficult to reduce their usage by a few percentage points to lessen the impact of the proposed rate increases.

City Council may not take action on the water or recycled water rates if a majority of affected property owners, file written protests: about 17,000 for water and about 23 for recycled water. Staff will report on the number of written protests received by the City Clerk at the close of the public hearing.

In addition to Proposition 218 notifications, the public hearing notice was published twice in the *Daily Review* on May 30 and June 6, and on the City's website.

Water and Recycled Water Facilities charges are not subject to Proposition 218 requirements and were not included in the Proposition 218 notice. However, a notice of the proposed facilities fee changes was sent to developers, Building Industry Association, and

the Hayward Chamber of Commerce Government Relationship Council (GRC). Staff also presented the proposed facilities fee adjustments at the Hayward Chamber of Commerce GRC meeting and responded to questions. Information was also posted on the City's website. A public hearing notice was published in the *Daily Review* on May 30 and on the City's website.

NEXT STEPS

If approved, the new rates would be effective on October 1, 2025, and October 1, 2026. Prior to these dates, staff will include notices in utility bills to inform customers about the rate adjustments and will update the website with the approved rates.

Prepared by: Trang Nguyen, Management Analyst II

Recommended by: Alex Ameri, Director of Public Works

Approved by:

A handwritten signature in blue ink, appearing to read 'M. Lawson', is positioned above a horizontal line.

Michael Lawson, J.D.
Acting City Manager