City of Hayward

2024 Sewer Rate and Connection Fee Study

Draft Executive Summary – November 2024

Prepared by: Water Resources Economics, LLC

Water Resources Economics

PROMOTING THE VALUE AND PRICE OF WATER SERVICE

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November 25, 2024

Alex Ameri
Public Works Director
City of Hayward
777 B Street
Hayward, CA 94541

Subject: City of Hayward Sewer Rate and Connection Fee Study

Dear Mr. Ameri,

Water Resources Economics, LLC (WRE) is pleased to submit the 2024 Sewer Rate and Connection Fee Study to the City of Hayward (City). This executive summary provides an overview of the results and recommendations of the City's study.

The goal of the study was to develop a five-year rate schedule of sewer rates and updated sewer connection fees. The resulting rates and fees will allow the City to sufficiently fund its operating and capital requirements, meet its financial performance targets, and comply with cost-of-service principles over the study period.

This study utilized industry-standard rate-setting methodology in accordance with guidelines developed by the Water Environment Federation. Our project team has a proven track record of developing fair and equitable rates for numerous public utility agencies in California over the past 25 years. We are confident in our ability to develop sewer rates that satisfy the requirements of Proposition 218.

It has been a pleasure assisting the City, and we appreciate the support provided by yourself, Ms. Trang Nguyen, the City Council, and other City staff during this study.

Sincerely,

Nancy Phan
Principal Consultant

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TABLE OF CONTENTS

LIST OF TABLES

LIST OF FIGURES

1. EXECUTIVE SUMMARY

1.1 RATE STUDY OVERVIEW

Public retail utility agencies in California typically conduct a cost-of-service study every five years to ensure that customers are appropriately charged for sewer service and to reestablish the cost-of-service nexus that is required by Proposition 218. The City's existing sewer rate structure was developed in 2021. Every two years, the City adopts updated sewer rates based on the cost-of-service rate structure developed in 2021 with additional rate increases to meet financial targets.

The City engaged Water Resources Economics, LLC (WRE) in 2024 to conduct a comprehensive sewer rate and connection fee study, with the following objectives:

- Develop a five-year sewer rate schedule for Fiscal Year (FY) 2026[1] through FY 2030
- Conduct a cost-of-service analysis based on most recent data and customer use characteristics
- Evaluate financial plan scenarios to meet financial targets for FY 2025 to FY 2030
- Calculate updated sewer connection fees based on most recent cost estimates

1.2 LEGAL REQUIREMENTS

Legal considerations relating to retail sewer rates in California focus heavily on Proposition 218, which was enacted in 1996 and is now reflected in Article XIII C and Article XIII D of the California Constitution. Proposition 218 states that "property related fees and charges" (which include sewer rates) 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. The practical implication is that public retail utility agencies in California must demonstrate a sufficient nexus between the costs incurred by the agency to provide sewer service and the rates charged to customers. The primary means by which retail sewer agencies address this requirement is by conducting a "cost-of-service analysis."

Proposition 218 also 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, the proposed rate changes cannot be adopted.

1.3 RATE-SETTING METHODOLOGY

This study was conducted using industry-standard methodology outlined by the Water Environment Federation (WEF) in its *Manual of Practice No. 27, Financing and Charges for Wastewater Systems.*

The rate study process includes the following steps:

1. **Financial Plan**: Annual revenues and expenses are projected over the rate-setting period to determine the magnitude of rate increases needed to maintain financial

[1] FY 2026 is the year starting July 1, 2025 and ending June 30, 2026.

sufficiency. Financial policies, such as reserve targets, are also evaluated and updated if necessary.

2. **Cost-of-Service Analysis**: Costs are allocated to customers in proportion to the use of and burden on the sewer system. The overall goal is to establish a robust nexus between the costs incurred by an agency and the rates charged to customers, as required by Proposition 218.
3. **Rate Design**: The existing rate structure is evaluated, and potential changes are identified. A multi-year proposed rate schedule is then calculated directly from the results of the financial plan and cost-of-service analysis.
4. **Rate Study Documentation**: A rate study report is developed to document the proposed rate development process. This provides transparency and enhances legal defensibility in light of Proposition 218 requirements. This document serves as the report for this rate study.

1.4 ADDITIONAL INFORMATION AND DISCLAIMERS

This report summarizes the data, analyses, processes, and results of the City's sewer rate and connection fee study. Some important information to keep in mind when reading the report includes the following:

- All study projections are based on the best available data as of November 2024.
- All table values are rounded to the nearest digit shown, unless stated otherwise. However, all calculations are based on precise values. Attempting to manually recreate the calculations described in this report from the values displayed in tables may therefore produce slightly different results.
- All current and proposed rates in this report are shown on a monthly basis.
- All current and proposed connection fees in this report are shown on an annual basis.

1.5 CURRENT SEWER RATES

The City's current sewer rate structure is based on the most recently adopted two-year plan. The current sewer rates were effective on October 1, 2023 and October 1, 2024.

The monthly residential sewer service charges (**Table 1-1**) include charges per residential unit for Standard Residential, Multi-Family, and Mobile Home customers. Residential customers that use less water each month are eligible for the Economy or Lifeline rates, which are sewer service charges for customers that use under 8 hundred cubic feet (ccf) of water (Economy) or under 4 ccf of water (Lifeline).

Table 1-1: Current Residential Sewer Rates

Line	Monthly Sewer Service Charges (Residential)	Adopted 10/1/2023	Adopted 10/1/2024
1	Standard Residential, per unit	$41.29	$44.19
2	Multi-Family, per unit	$36.75	$39.33
3	Mobile Home, per unit	$28.91	$30.94

4	Economy, 5 to 8 units of water usage	$19.34	$20.70
5	Lifeline, 0 to 4 units of water usage	$9.68	$10.36

The monthly commercial sewer service charges (**Table 1-2** and **Table 1-3**) include charges per ccf of water use for various customer categories, with and without a separate irrigation meter. Customers that do not have a separate irrigation meter are assumed to have a wastewater return factor of approximately 90%.

Table 1-2: Current Commercial Sewer Rates (w/ Irrigation Meter)

Line	Monthly Sewer Service Charges (Commercial w/ Irrigation Meter)	Adopted 10/1/2023	Adopted 10/1/2024
1	**Per ccf of water use**		
2	Commercial/Government	$7.46	$7.99
3	Restaurant w/ Grease Interceptor	$9.75	$10.44
4	Restaurant w/o Grease Interceptor	$12.63	$13.52
5	Commercial Laundry	$7.54	$8.07
6	Bakery	$12.86	$13.77
7	Industrial Laundry	$11.71	$12.53
8	Beverage Bottling	$7.61	$8.15
9	Food Manufacturing	$28.35	$30.34
10	Meat Products	$14.36	$15.37
11	Slaughterhouse	$16.53	$17.69
12	Dairy Product Processors	$11.85	$12.68
13	Canning and Packing	$8.44	$9.04
14	Grain Mills	$11.12	$11.90
15	Fats and Oils	$8.01	$8.58
16	Pulp and Paper Manufacturing	$9.76	$10.45
17	Inorganic Chemicals	$13.56	$14.51
18	Paint Manufacturing	$21.14	$22.62
19	Leather Tanning	$27.84	$29.79
20	Fabricated Metal	$4.03	$4.32

Table 1-3: Current Commercial Sewer Rates (w/o Irrigation Meter)

Line	Monthly Sewer Service Charges (Commercial w/o Irrigation Meter)	Adopted 10/1/2023	Adopted 10/1/2024
1	**Per ccf of water use**		
2	Commercial/Government	$6.72	$7.20
3	Restaurant w/ Grease Interceptor	$8.78	$9.40
4	Restaurant w/o Grease Interceptor	$11.37	$12.17
5	Commercial Laundry	$6.78	$7.26

6	Bakery	$11.57	$12.38
7	Industrial Laundry	$10.53	$11.27
8	Beverage Bottling	$6.85	$7.33
9	Food Manufacturing	$25.51	$27.30
10	Meat Products	$12.93	$13.84
11	Slaughterhouse	$14.88	$15.93
12	Dairy Product Processors	$10.66	$11.41
13	Canning and Packing	$7.59	$8.13
14	Grain Mills	$10.01	$10.72
15	Fats and Oils	$7.21	$7.72
16	Pulp and Paper Manufacturing	$8.78	$9.40
17	Inorganic Chemicals	$12.21	$13.07
18	Paint Manufacturing	$19.03	$20.37
19	Leather Tanning	$25.04	$26.80
20	Fabricated Metal	$3.63	$3.89

The monthly industrial sewer service charges (**Table 1-4**) include charges per ccf of wastewater discharge, per pound of carbonaceous biochemical oxygen demand (CBOD), and per pound of suspended solids (SS). Customers that do not have a separate irrigation meter are assumed to have a wastewater return factor of approximately 90%.

Table 1-4: Current Industrial Sewer Rates

Line	Monthly Sewer Service Charges (Critical/Industrial Users)	Adopted 10/1/2023	Adopted 10/1/2024
1	Flow, per ccf of wastewater	$3.4516	$3.6932
2	CBOD, per lb of CBOD	$0.8230	$0.8806
3	SS, per lb of SS	$1.1060	$1.1835
4	Return Factor (w/o Irrigation Meter)	90%	90%

1.6 FINANCIAL PLAN

WRE worked closely with City staff to determine the financial plan scenario that best suits the City's needs over the study period (FY 2025 to FY 2030). The results and recommendations of the sewer rate study are driven by the City's projected financial performance, input and direction from City staff, and debt issuance and debt service projections from the City's financial advisor, NHA advisors.

FACTORS AFFECTING FINANCIAL PERFORMANCE

The sewer system's financial performance is driven by the ability of the current sewer rates to meet the City's funding needs. To maintain financial sufficiency, sewer rates must fully fund operations and maintenance (O&M) costs and capital improvement plan (CIP) expenditures. Sewer rates should also allow the City to meet all relevant financial policies, which include reserve policy targets and debt coverage requirements.

The City's capital plan is categorized between maintenance and expansion-related projects. The financial plan analyzes the Sewer Operating and Replacement funds (Funds 610 and 611) and recovers costs related to maintenance CIP. The sewer connection fee study, which is discussed in a separate section of the report, analyzes the Sewer Improvement fund (Fund

612) and recovers costs related to expansion CIP. Proposed debt issuances and debt service to fund the capital program are also categorized based on maintenance and expansion CIP and are accounted for in the financial plan/sewer rates and the sewer connection fees, respectively.

The key factors affecting financial performance include:

- **Substantial capital investment needs over the next five years:** The cost of planned capital maintenance projects over the study period (FY 2025 through FY 2030) totals approximately $372 million. Approximately $244 million of capital maintenance projects will be funded with new debt. Major projects include the Water Resource Recovery Facility (WRRF) Administration Building and Phase II Improvement Projects.
- **Debt coverage requirements:** The City plans to issue approximately $244 million in new debt to fund maintenance CIP. Annual debt service payments relating to new debt total approximately $1.6 million (FY 2026) to $8.4 million (FY 2030). The City must maintain a debt coverage ratio of 110% to meet debt coverage requirements[2].
- **Reserve policy targets:** The City's current reserve policy, which is shown in Error! Reference source not found., includes targets for operating, rate stabilization, and capital replacement reserves. The reserve policy in place allows the City to maintain cash on hand to meet short-term cash flow requirements, to execute CIP projects, and to respond to unexpected emergencies.

Table 1-5: Reserve Policy Targets

Line	Reserve Policy	Policy Targets	FY 2025
1	Sewer Operating	25% of O&M expenses	$5,742,911
2	Rate Stabilization	25% of rate revenues	$7,817,387
3	Sewer Replacement	5-year avg. cash funded CIP	$18,742,376
4	**Combined Target (Funds 610 and 611)**		**$32,302,673**
5			
6	**Projected Reserves (Before Increases)**		**$36,069,526**

STATUS QUO FINANCIAL PLAN

The first step in evaluating the City's financial performance is to develop a "status quo financial plan," which is the scenario in which the City does not increase its sewer rate revenues. This exercise is to determine whether the City's current sewer rates are sufficient to meet key financial performance metrics. This section shows two important metrics: fund balance and debt coverage.

Table 1-6: Financial Plan Scenario (Status Quo)

Line	Fiscal Year	Revenue Adjustments	CIP Execution Rate	Debt Proceeds for CIP
1	2026	0%	100%	$38,573,543

[2] Debt coverage is calculated for the entire sewer utility (Replacement and Improvement funds combined).

2	2027	0%	100%	$131,201,096
3	2028	0%	100%	$31,341,627
4	2029	0%	100%	$33,484,410
5	2030	0%	100%	$0

Figure 1-1 shows the projected fund balances under the status quo scenario. The green bars represent the ending fund balances for the Operating and Replacement reserves (Funds 610 and 611), and the dashed line represents the reserve policy targets. In this scenario, the City will not meet its reserve targets starting in FY 2025. Projected fund balances will be negative starting in FY 2028. Without additional rate revenues, the City is constrained by its fund balances.

Figure 1-1: Projected Fund Balances (Status Quo)

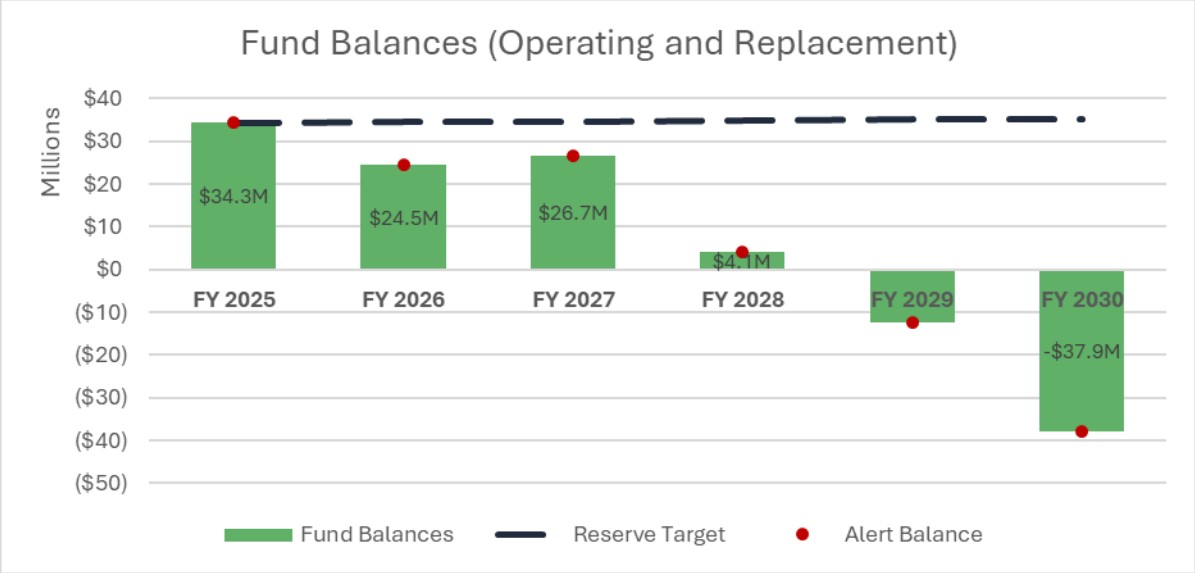
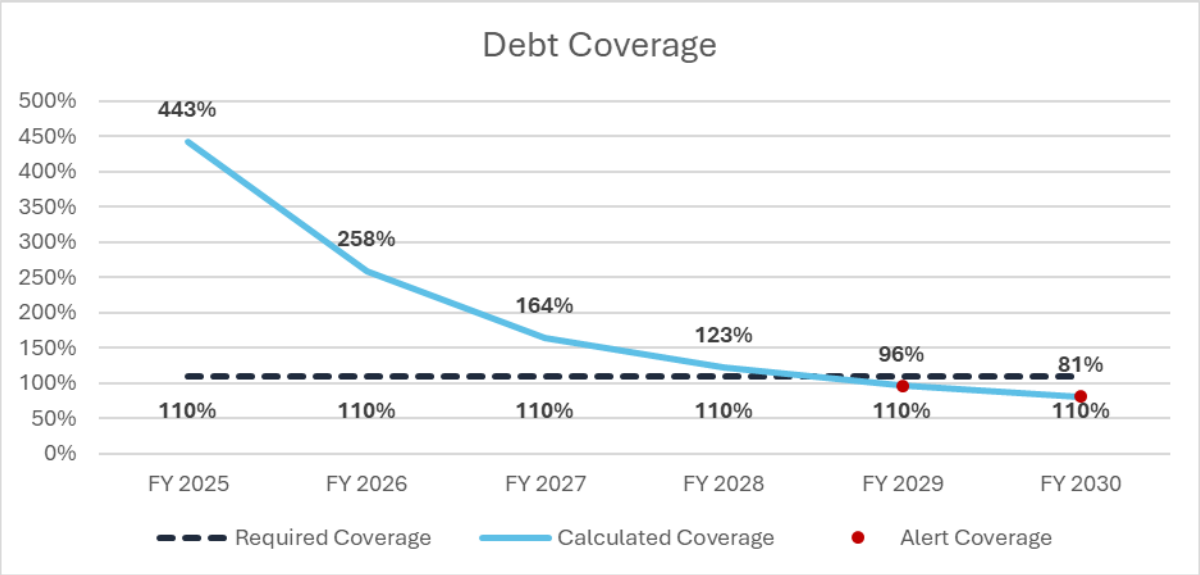


Figure 1-2 shows the projected debt coverage under the status quo scenario. The City's existing and proposed debt service has a required coverage of 110%. Debt coverage is calculated by dividing the net operating revenue (revenues less O&M expenses) by annual debt service payments. In this scenario, the City is not able to meet its debt coverage requirements starting in FY 2029.

Figure 1-2: Projected Debt Coverage (Status Quo)



PROPOSED REVENUE ADJUSTMENTS AND DEBT ISSUANCES

Overall annual increases in sewer rate revenues resulting from rate increases are referred to as "revenue adjustments." WRE worked with City staff to determine the most appropriate financial plan scenario, which is shown in **Table 1-7**. The proposed financial plan scenario includes five years of revenue adjustments, which are required to maintain financial sufficiency and resiliency, and a CIP execution rate of 95%. Typically, retail agencies do not execute 100% of planned CIP each year, due to scheduling or other types of delays.

PROPOSED FINANCIAL PLAN

The proposed financial plan applies the revenue adjustments and CIP execution rate, shown in **Table 1-7**, to reevaluate financial performance based on the same two metrics: fund balance and debt coverage.

Table 1-7: Financial Plan Scenario (Proposed)

Line	Fiscal Year	Revenue Adjustments	CIP Execution Rate	Debt Proceeds for CIP
1	2026	12%	95%	$38,573,543
2	2027	12%	95%	$131,201,096
3	2028	12%	95%	$31,341,627
4	2029	12%	95%	$33,484,410
5	2030	12%	95%	$0

Figure 1-3 shows the projected fund balances under the proposed scenario. In this scenario, the City will meet its reserve targets for all years of the planning period.

Figure 1-3: Projected Fund Balances (Proposed)

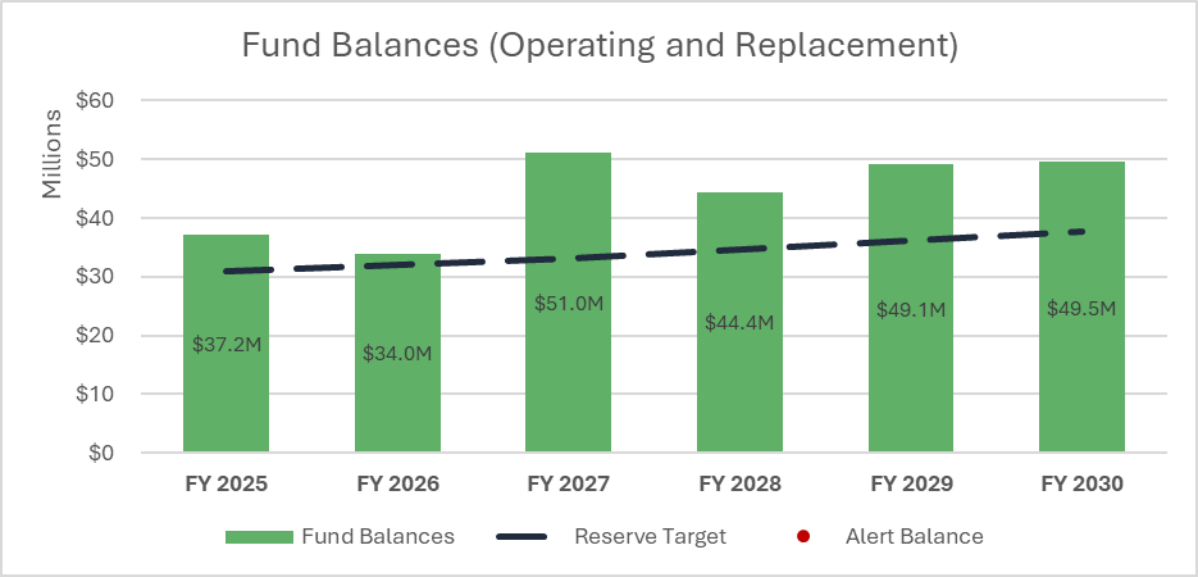
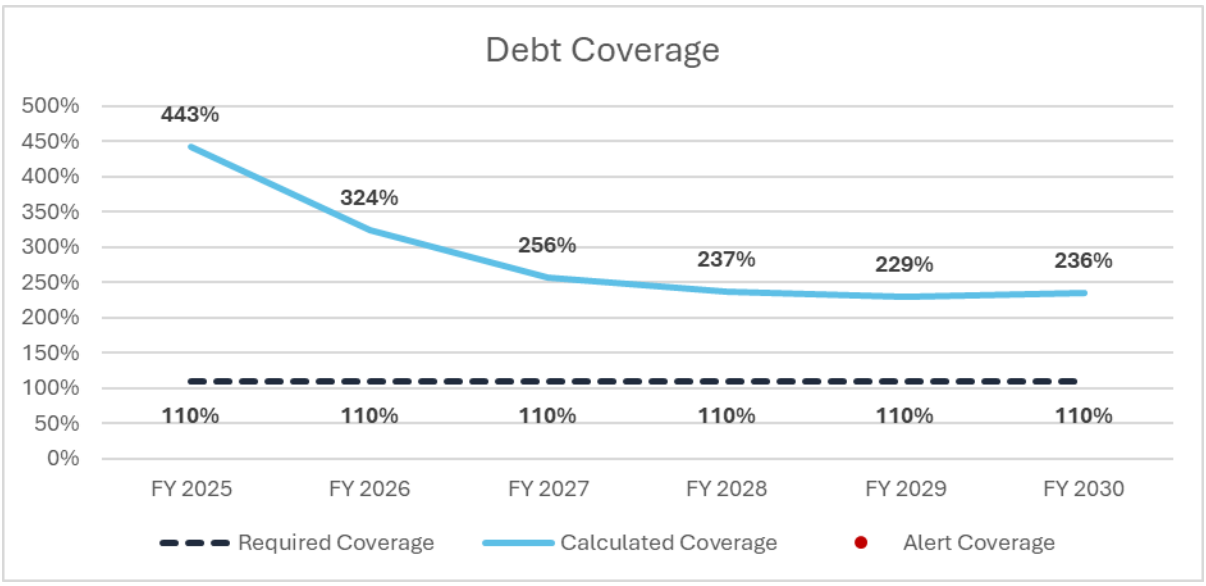


Figure 1-4 shows the projected debt coverage under the proposed scenario. In this scenario, the City will meet its debt coverage requirements for all years of the planning period.

Figure 1-4: Projected Debt Coverage (Proposed)



1.7 COST-OF-SERVICE ANALYSIS

A cost-of-service analysis is a technical process used to determine the cost of providing sewer service to the City's customers based on each customer's use of and burden on the sewer system. The cost-of-service analysis is the basis of the nexus between the costs incurred by the utility to provide sewer service and the sewer rates charged to customers, which is a requirement of Proposition 218.

COST-OF-SERVICE METHODOLOGY

The cost-of-service methodology is based on industry standards set forth by WEF. The overall goal of the cost-of-service analysis is to develop "unit costs," which provide the basis from which proposed rates are directly calculated from. Note that although the study period spans three years, the cost-of-service analysis is limited to a single representative year referred to as the "test year." The test year in this study is FY 2025.

The key steps in conducting a cost-of-service analysis are outlined below:

- **Revenue requirement determination**: The total rate revenue requirement for the test year is determined based on the results of the proposed financial plan and divided into primary sub-components (operating, capital, etc.).
- **Cost functionalization**: Operating and capital costs are evaluated and assigned to "functional categories" in the sewer system (e.g., flow, treatment, billing, etc.). This provides a proportional breakdown of system costs by functional category.
- **Revenue requirement allocation to cost causation components**: Functionalized costs are allocated to "cost causation components" (e.g., flow, CBOD, SS, billing, etc.), which is used to attribute customers' use of the system to the City's incursion of costs.
- **Unit cost development**: The allocation of rate revenue requirements for each individual cost causation component is divided by the appropriate units of service to establish unit costs for the test year. Unit costs provide the basis from which proposed rates are calculated.

1.8 PROPOSED SEWER RATES

The proposed five-year sewer rate schedule in this section are based on the updated cost-of-service analysis and the proposed revenue adjustments in the five-year period. The rate schedule shows the proposed sewer rates to be implemented in July 2025 through July 2029.

Table 1-8, **Table 1-9**, **Table 1-10**, and **Table 1-11** show the proposed monthly sewer service charges for residential customers, commercial customers with separate irrigation meters, commercial customers without separate irrigation meters, and industrial users, respectively.

Table 1-8: Proposed Residential Sewer Rates

Line	Monthly Sewer Service Charges (Residential)	Proposed 7/1/2025	Proposed 7/1/2026	Proposed 7/1/2027	Proposed 7/1/2028	Proposed 7/1/2029
1	Standard Residential, per unit	$48.75	$54.60	$61.16	$68.50	$76.72
2	Multi-Family, per unit	$44.18	$49.49	$55.43	$62.09	$69.55
3	Mobile Home, per unit	$32.85	$36.80	$41.22	$46.17	$51.72
4	Economy, 5 to 8 units of water usage	$22.88	$25.63	$28.71	$32.16	$36.02
5	Lifeline, 0 to 4 units of water usage	$11.78	$13.20	$14.79	$16.57	$18.56

Table 1-9: Proposed Commercial Sewer Rates (w/ Irrigation Meter)

Line	Monthly Sewer Service Charges (Commercial w/ Irrigation Meter)	Proposed 7/1/2025	Proposed 7/1/2026	Proposed 7/1/2027	Proposed 7/1/2028	Proposed 7/1/2029
1	**Per ccf of water usage**					
2	Commercial/Government	$8.07	$9.04	$10.13	$11.35	$12.72
3	Restaurant w/ Grease Interceptor	$13.34	$14.95	$16.75	$18.76	$21.02

4	Restaurant w/o Grease Interceptor	$18.36	$20.57	$23.04	$25.81	$28.91
5	Commercial Laundry	$10.41	$11.66	$13.06	$14.63	$16.39
6	Bakery	$26.06	$29.19	$32.70	$36.63	$41.03
7	Industrial Laundry	$33.56	$37.59	$42.11	$47.17	$52.84
8	Beverage Bottling	$13.32	$14.92	$16.72	$18.73	$20.98
9	Food Manufacturing	$56.99	$63.83	$71.49	$80.07	$89.68
10	Meat Products	$28.93	$32.41	$36.30	$40.66	$45.54
11	Slaughterhouse	$19.82	$22.20	$24.87	$27.86	$31.21
12	Dairy Product Processors	$14.21	$15.92	$17.84	$19.99	$22.39
13	Canning and Packing	$16.91	$18.94	$21.22	$23.77	$26.63
14	Grain Mills	$13.33	$14.93	$16.73	$18.74	$20.99
15	Fats and Oils	$9.61	$10.77	$12.07	$13.52	$15.15
16	Pulp and Paper Manufacturing	$11.71	$13.12	$14.70	$16.47	$18.45
17	Inorganic Chemicals	$16.26	$18.22	$20.41	$22.86	$25.61
18	Paint Manufacturing	$34.64	$38.80	$43.46	$48.68	$54.53
19	Leather Tanning	$33.37	$37.38	$41.87	$46.90	$52.53
20	Fabricated Metal	$4.17	$4.68	$5.25	$5.88	$6.59

Table 1-10: Proposed Commercial Sewer Rates (w/o Irrigation Meter)

Line	Monthly Sewer Service Charges (Commercial w/o Irrigation Meter)	Proposed 7/1/2025	Proposed 7/1/2026	Proposed 7/1/2027	Proposed 7/1/2028	Proposed 7/1/2029
1	**Per ccf of water usage**					
2	Commercial/Government	$7.27	$8.15	$9.13	$10.23	$11.46
3	Restaurant w/ Grease Interceptor	$12.00	$13.44	$15.06	$16.87	$18.90
4	Restaurant w/o Grease Interceptor	$16.52	$18.51	$20.74	$23.23	$26.02
5	Commercial Laundry	$9.38	$10.51	$11.78	$13.20	$14.79
6	Bakery	$23.48	$26.30	$29.46	$33.00	$36.96
7	Industrial Laundry	$12.63	$14.15	$15.85	$17.76	$19.90
8	Beverage Bottling	$12.02	$13.47	$15.09	$16.91	$18.94
9	Food Manufacturing	$30.58	$34.25	$38.36	$42.97	$48.13
10	Meat Products	$26.20	$29.35	$32.88	$36.83	$41.25
11	Slaughterhouse	$17.85	$20.00	$22.40	$25.09	$28.11
12	Dairy Product Processors	$12.78	$14.32	$16.04	$17.97	$20.13
13	Canning and Packing	$15.19	$17.02	$19.07	$21.36	$23.93
14	Grain Mills	$12.01	$13.46	$15.08	$16.89	$18.92
15	Fats and Oils	$32.25	$36.12	$40.46	$45.32	$50.76
16	Pulp and Paper Manufacturing	$10.63	$11.91	$13.34	$14.95	$16.75
17	Inorganic Chemicals	$14.64	$16.40	$18.37	$20.58	$23.05
18	Paint Manufacturing	$22.82	$25.56	$28.63	$32.07	$35.92
19	Leather Tanning	$30.02	$33.63	$37.67	$42.20	$47.27
20	Fabricated Metal	$3.76	$4.22	$4.73	$5.30	$5.94

Table 1-11: Proposed Industrial Sewer Rates

Line	Monthly Sewer Service Charges (Critical/Industrial Users)	Proposed 7/1/2025	Proposed 7/1/2026	Proposed 7/1/2027	Proposed 7/1/2028	Proposed 7/1/2029
1	Flow, per ccf of wastewater	$3.2283	$3.6157	$4.0496	$4.5356	$5.0799
2	CBOD, per lb of CBOD	$1.2167	$1.3628	$1.5264	$1.7096	$1.9148
3	SS, per lb of SS	$0.8198	$0.9182	$1.0284	$1.1519	$1.2902

4	Return Factor (w/o Irrigation Meter)	90%	90%	90%	90%	90%

1.9 CUSTOMER IMPACTS

Table 1-12 shows the customer impacts to residential customers based on the first year of proposed sewer rates. Standard Residential, which makes up approximately 38% of all customer bills, will see a monthly impact of $4.56 due to the proposed sewer rates.

Table 1-12: Residential Customer Impacts

Line	Monthly Customer Impacts	Current Bill	Proposed Bill	Difference ($)	Difference (%)
1	Standard Residential	$44.19	$48.75	$4.56	10%
2	Multi-Family	$39.33	$44.18	$4.85	12%
3	Mobile Home	$30.94	$32.85	$1.91	6%
4	Economy	$20.70	$22.88	$2.18	11%
5	Lifeline	$10.36	$11.78	$1.42	14%

Figure 1-5 shows the single family bill comparisons between the City and other nearby agencies. With the proposed sewer rates, the City is within the middle range of single family bills in the region.

Figure 1-5: Single Family Bill Comparisons (Nearby Agencies)

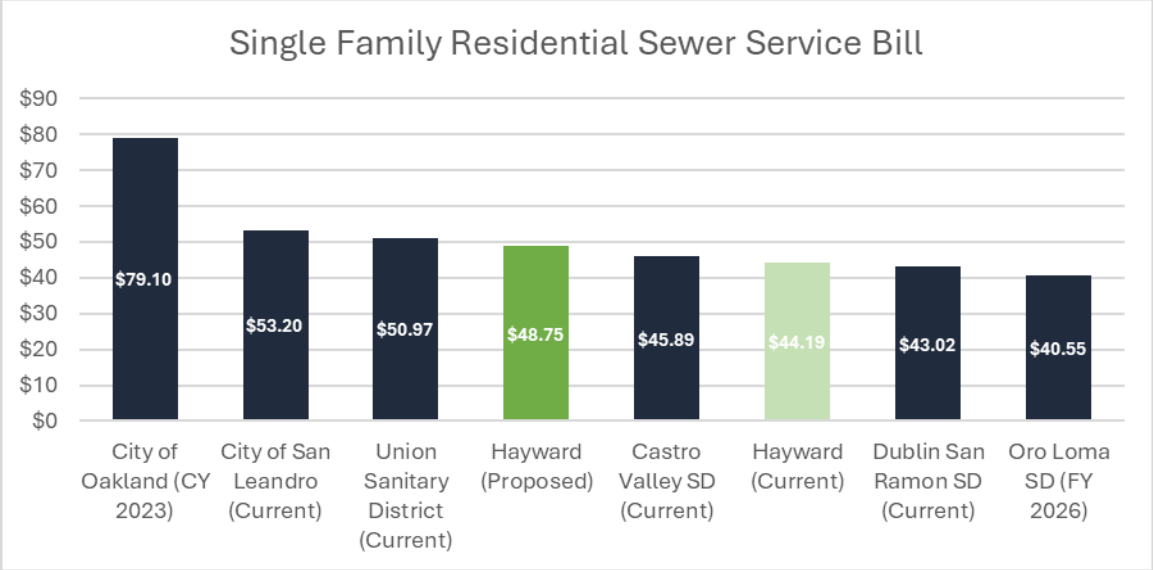


Figure 1-6 shows the single family bill comparisons between the City and other agencies that are also currently implementing a project to reduce nutrients by 2034. With the proposed sewer rates, the City is on the lower end of comparable bills.

Figure 1-6: Single Family Bill Comparisons (Nutrient Removal Projects)

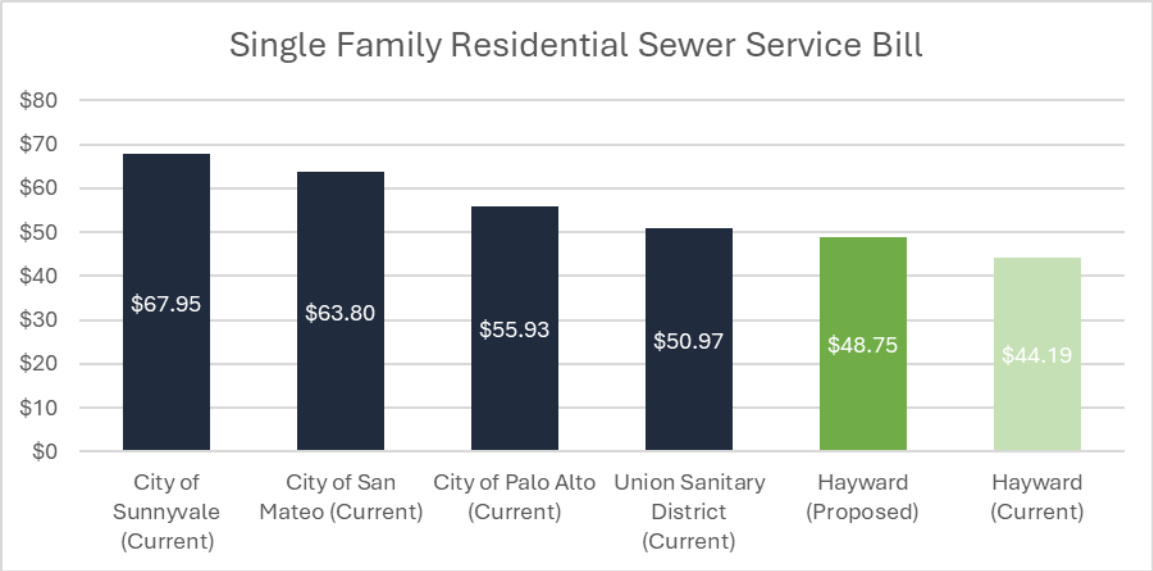


Table 1-13 shows the customer impacts to general commercial and restaurant customers based on the first year of proposed sewer rates. Commercial/Government with a separate irrigation meter (Line 2) makes up approximately 34% of all commercial bills and will see a monthly impact of $1.28 based on 16 ccf of median water use. Commercial/Government without a separate irrigation meter (Line 7) makes up approximately 60% of all commercial bills and will see a monthly impact of $0.49 based on 7 ccf of median water use.

Table 1-13: Commercial Customer Impacts

Line	Monthly Customer Impacts	Water Use (ccf)	Current Bill	Proposed Bill	Difference ($)	Difference (%)
1	**With Separate Irrigation Meter**					
2	Commercial/Government	16	$127.84	$129.12	$1.28	1%
3	Restaurant w/ Grease Interceptor	42	$438.48	$560.28	$121.80	28%
4	Restaurant w/o Grease Interceptor	40	$540.80	$734.40	$193.60	36%
5						
6	**Without Separate Irrigation Meter**					
7	Commercial/Government	7	$50.40	$50.89	$0.49	1%
8	Restaurant w/ Grease Interceptor	65	$611.00	$780.00	$169.00	28%
9	Restaurant w/o Grease Interceptor	26	$316.42	$429.52	$113.10	36%

1.10 CONNECTION FEE METHODOLOGY

New customer connections to the City's sewer system are subject to a sewer connection fee, which is necessary to ensure that existing users are not unfairly burdened by costs incurred to provide capacity for new users. The overall purpose of a connection fee is to equitably recover capital costs incurred by the agency to provide system capacity to new users. Wastewater capacity charges in California are typically developed based on one of three common methodologies outlined by the American Water Works Association (AWWA) in its

Manual of Water Supply Practices M1: Principles of Water Rates, Fees and Charges, Seventh Edition.

The three methodologies include:

1. **Buy-in Method**: The Buy-in Method establishes connection based on the value of the system's existing capital assets and is typically most appropriate when a system's current capacity is sufficient to serve both short-term and long-term projected demands. The rationale underlying the Buy-in Method is that new customers should pay to "buy-in" to existing system capacity funded by past and current users.
2. **Incremental Cost Method**: The Incremental Cost Method establishes connection fees based on the cost of planned capital expenditures required to expand system capacity and is typically most appropriate when a system's current capacity is already fully utilized by existing users. The rationale underlying the Incremental Cost Method is that new users should fund planned capital projects that are necessary to accommodate growth in the service area.
3. **Hybrid Method**: The Hybrid Method[3] establishes capacity charges based on a combination of the Buy-in Method and the Incremental Cost Method. The Hybrid Method is typically most appropriate when some existing capacity is available to new users, but capacity expansion is still necessary to accommodate long-term demands.

WRE recommends the Hybrid Method for the City's sewer connection fees. The existing system has some capacity to serve new customers, and the City will be investing in additional capacity over the next several years. **Table 1-14** shows the sewer connection fee calculation based on the Hybrid Method. Buy-In costs are allocated to the current system; Incremental costs are allocated to the future system. The proposed sewer connection fee per equivalent dwelling unit (EDU) is the sum of current system and future system unit costs (Line 10), which represents an increase of approximately 22% to the current sewer connection fees.

Table 1-14: Sewer Connection Fee Calculation

Line	Connection Fee Calculation	Current System	Future System	Total
1	Buy-In	$55,777,458	$0	$55,777,458
2	Incremental - Expansion CIP	$0	$3,594,517	$3,594,517
3	Incremental - WRRF Phase II Project Costs	$0	$202,384,455	$202,384,455
4	Incremental - WRRF Financing Costs	$0	$13,518,644	$13,518,644

[3] The Hybrid Method is referred to by the AWWA as the "Combined Cost Approach."

5	**Total Value**	**$55,777,458**	**$219,497,617**	**$275,275,075**
6				
7	Estimated Wastewater Flow (gpd) per EDU	135	135	
8	Estimated EDUs Served	89,146	15,600	
9				
10	**Proposed Connection Fee per EDU**	**$626**	**$14,070**	**$14,696**
11	**Current Connection Fee per EDU**			**$12,031**
12	*Difference ($)*			*$2,665*
13	*Difference (%)*			*22%*

1.11 PROPOSED SEWER CONNECTION FEES

Table 1-15 shows the proposed sewer connection fees (WRE recommended) based on the results of the sewer connection fee study. The second year of proposed connection fees assumes a 4% increase based on the Construction Cost Index. Sewer connection fees for commercial, industrial, and other customers (Lines 6-10) are calculated based on an updated EDU definition derived from the most recent sewer customer data.

Table 1-15: Proposed Sewer Connection Fees (WRE Recommended)

Line	Proposed Sewer Connection Fees (WRE Recommended)	Proposed 9/1/2025	Proposed 9/1/2026
1	**Residential**		
2	Single Family, Low Density Residential	$14,696	$15,284
3	Multi-Family, High Density Residential (per unit)	$13,082	$13,606
4	Accessory Dwelling Unit (per unit)	$5,880	$6,116
5			
6	**Commercial, Industrial, Other**		
7	Wastewater capacity (per gpd)	$36.62	$38.09
8	CBOD (per lb per year)	$37.88	$39.40
9	SS (per lb per year)	$24.80	$25.80
10	Minimum Charge	$14,696	$15,284

Table 1-16 shows the proposed sewer connection fees (staff recommended) based on a lower increase of 10% applied over two years, which is recommended by staff to smooth out impacts to the sewer connection fee. Sewer connection fees for commercial, industrial, and other customers (Lines 6-10) are calculated based on an updated EDU definition derived from the most recent sewer customer data.

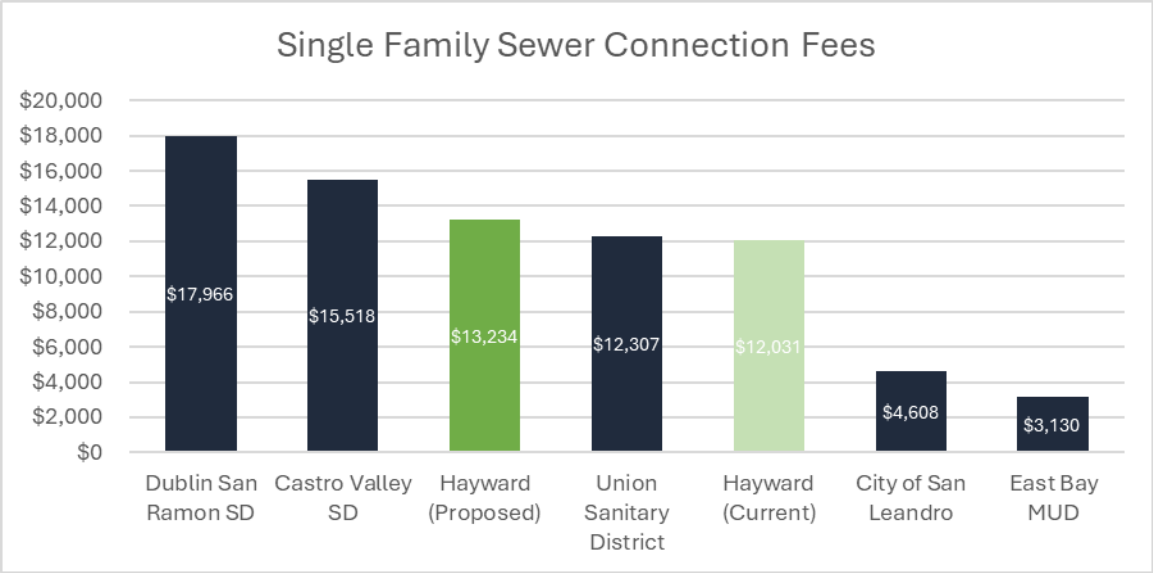
Table 1-16: Proposed Sewer Connection Fees (Staff Recommended)

Line	Proposed Sewer Connection Fees (Staff Recommended)	Proposed 9/1/2025	Proposed 9/1/2026
1	**Residential**		
2	Single Family, Low Density Residential	$13,235	$14,559
3	Multi-Family, High Density Residential (per unit)	$11,781	$12,960
4	Accessory Dwelling Unit (per unit)	$5,295	$5,825
5			
6	**Commercial, Industrial, Other**		

7	Wastewater capacity (per gpd)	$32.98	$36.28
8	CBOD (per lb per year)	$34.11	$37.53
9	SS (per lb per year)	$22.34	$24.58
10	Minimum Charge	$13,235	$14,559

Figure 1-7 shows the single family connection fee comparisons between the City and other agencies based on the staff recommended fees.

Figure 1-7: Single Family Sewer Connection Fee Comparisons



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