



DATE: July 11, 2017
TO: Mayor and City Council
FROM: Director of Utilities & Environmental Services
SUBJECT: Recommended FY 2018 and FY 2019 Water and Sewer Service Rates

RECOMMENDATION

That Council adopts the attached resolution amending the Master Fee Schedule and approving the proposed water and sewer service rates.

BACKGROUND

At the May 16, 2017 [work session](#), the City Council reviewed the proposed water and sewer service rates for FY 2018 and FY 2019. The work session staff report, which provides an overview of cost of service issues, revenue requirements, and recommended FY 2018 and FY 2019 water and sewer service rates in detail, is included as an attachment for reference.

The recommended water rate adjustments would include no change to the water usage fee that is based on consumption, and, for a typical single-family residential home with a 5/8" water meter, a \$2 per month increase in each year for the fixed bimonthly water service fee. Similar percentage increases would apply to all other meter sizes. The recommended sewer rate adjustments would include an increase of 5% in residential rates in each of the two years, and increases of up to 7% per year in non-residential rates. The recommended rate adjustments would take effect on October 1, 2017 and October 1, 2018. Rate comparisons with other agencies have been updated to reflect more recent information and new comparison charts are included as separate attachments. Staff also recommends a two-year extension of a temporary provision, which went into effect during the onset of the economic recession, that reduces the sewer connection fee for some industrial and commercial businesses.

DISCUSSION

Water Rates

Based on anticipated overall costs of providing service during the next two years, staff is recommending water rate adjustments in FY 2018 and FY 2019 that will result in average

increases for most customers of about 3% in each year. The adjustments are comprised of no increase to the water usage charges, which are based on the quantity of water delivered to the customer as measured by a water meter, and for typical single-family residential homes with a 5/8" water meter, a \$2 per month (\$4 per bimonthly billing period) increase to the fixed service fee, which is independent of consumption. Even with the proposed adjustments, Hayward's fixed fee is still very low when compared to nearby water agencies. Lower fixed costs provide customers with greater control over their water bills through adjustments to water consumption levels.

Outside City Surcharge

Hayward has historically provided water service to a small number of customers outside of the City limits, typically at the outer reaches of the City water distribution system. Currently, just over 200 such properties, the vast majority of which are located in what is known as the Castle Homes area, receive Hayward water. The City's Municipal Code places a surcharge of 15% on the total charges for water service supplied to these customers. The intent of the surcharge, which had for years been at 50% and was reduced to 15% after an engineering study in 2013, is to recover additional costs to the City for providing service to customers who reside outside of City limits.

The surcharge is based on an evaluation of the additional effort needed to ensure that water delivered to outside City customers continues to meet drinking water quality standards. Most of the Hayward Water System is "looped," that is, the pipelines are designed so that water moves through a grid system and thereby remains fresh. Water service to the Castle Homes area, on the other hand, is mainly provided through excessively long dead-end pipelines, without the benefit of looping, and thus more effort is needed to maintain drinking water quality.

At the request of some of the residents in Castle Homes, made after the distribution of the City's notice of rate increase as required by Proposition 218, the City will perform an analysis of the updated costs associated with pipeline flushing and refreshing of the reservoir storage. These costs include water usage charges for water flushed from fire hydrants or directly from a water tank, labor, and equipment charges. Based on preliminary information regarding these costs, staff expects the surcharge to at least remain at the current level.

Incidentally, due to a billing error, ever since the current water rates went into effect in October 2016, outside City residential customers, primarily in the Castle Homes area, have been paying slightly more than the approved water rates. This was recently brought to staff's attention by a Castle Homes resident. Staff apologized for the error, corrected the affected unit cost, and will calculate and refund the over charges to all impacted customers. The total over charges is expected to be well below \$2,500, or about an average of ten-dollars per each affected customer.

Sewer Service Rates

Staff is recommending 5% increases in single-family residential sewer rates in FY 2018 and FY 2019. The same percent increases are proposed for multi-family and mobile home community customers. Staff is also recommending increases of 2.5% in the Economy and Lifeline rate tiers, combined with the reduction of the water consumption applicability thresholds for those rate tiers, in recognition of the overall reduction in customer water consumption. In other words, since overall water consumption and wastewater discharge have declined over the past four years due to the recent drought and proactive customer water conservation, the discharge volume eligibility threshold for lower Economy and Lifeline rates should also be reduced. Non-residential customers would see increases over the two-year period of up to 7% in each year, depending on the volume and strength of their wastewater discharge.

Connection Fees

No changes to water or sewer connection fees are proposed for FY 2018 and FY 2019.

Water and sewer connection fees are fees paid by those customers wanting to connect a new development to the public water and sewer system to pay for improvement and expansion of the 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. Staff proposes no change to water or sewer connection fees.

While necessary and appropriate, non-residential sewer connection fees can represent a significant expense for some businesses wishing to locate in Hayward. To assist business in this lingering economic recession, staff recommends extending the temporary provision in the Master Fee Schedule that reduces the fee for some commercial and industrial businesses. Non-residential connection fees are calculated individually (as opposed to standard residential fees), based on anticipated volume of wastewater discharge, and waste strength in the form of suspended solids (SS) and carbonaceous biochemical oxygen demand (CBOD). The Master Fee Schedule currently includes a provision that lowers SS and CBOD by 70% to calculate non-residential sewer connection fees. This reduction especially affects businesses with high wastewater strength, such as food processing and restaurants. The volume component of the fee would continue to be charged at 100% because water usage can be better controlled, and the standard rate may encourage efficient water use.

Council approved the provision initially in 2009 and has since extended it periodically, including most recently in October 2015. The Wastewater System Improvement Fund, which is the recipient of sewer connection fees, can withstand the impact of the decreased revenue for a period of time. Staff recommends reviewing the reduced connection fee provision no later than October 1, 2019 to either retain, amend or repeal it.

Proposition 218 Compliance

Staff implemented notification requirements of Proposition 218 for this rate increase, which mandates that written notice of proposed service rate increases 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 current and proposed rates, and described the process for protesting the proposed rates. A total of over 54,000 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 about 19,000, 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 July 3, 2017, a total of fourteen (14) written protests had been received by the City Clerk's Office.

ECONOMIC IMPACT

The economic impact of the proposed water and sewer service rate adjustments is discussed in detail in the work session report. While staff recognizes that the rate adjustments will affect customers, it is critical that the City maintain reliable utilities systems in the interest of economic viability and quality of life for its residents and businesses, as well as protection of public health and the environment.

The proposed extension of the reduction in sewer connections fees will continue to make establishment of businesses in Hayward more economically viable.

FISCAL IMPACT

The fiscal impacts of the proposed rate adjustments were fully discussed during the work session held with Council on May 16, 2017 and are included in the [staff report](#) for that meeting. To summarize, the proposed rates will result in modest increases in the working capital balances of both the Water and Sewer Funds in FY 2018. Note that the Water Fund working capital goal is 50% of annual expenditures, while the working capital goal for the Sewer Fund is 100% of annual expenditures.

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.

SUSTAINABILITY FEATURES

Maintaining reliable and robust infrastructure, including water distribution, sewer collection, and wastewater treatment and disposal, is an important part of a sustainable community, in that it allows the City to meet increasingly stringent regulatory requirements to ensure protection of public health and the environment. The relatively modest rate adjustments will also permit staff to continue to implement the Council's direction to operate and maintain sustainable utilities infrastructure, and minimize its environmental footprint.

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. These and other conservation programs will continue to be funded in FY 2018 and FY 2019 (projected annual budget of \$500,000). The proposed sewer rates will enable the City to continue the operation of the existing green and renewable energy generation systems in sewer utility and expansion of those systems over time.

PUBLIC CONTACT

As noted in the discussion, staff mailed over 54,000 written notices regarding the proposed water and sewer rates to all property owners and bill 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 24 and in The Daily Review on June 30. The notice, as well as a summary of the proposed fees were also posted on the City's website.

NEXT STEPS

If approved, the new rates would be effective on October 1, 2017 and October 1, 2018. Prior to these dates, staff will include notices in utility bills to inform customers about the rate adjustments. The City's website will also be updated to include the approved rates.

Upon completion, the results of the outside City surcharge analysis will be presented to the City Council for review in the fall.

Prepared by: Corinne Ferreyra, Senior Management Analyst

Recommended by: Alex Ameri, Director of Utilities & Environmental Services

Approved by:



Kelly McAdoo, City Manager