



DATE: December 3, 2024

TO: Mayor and City Council

FROM: Director of Public Works

SUBJECT: Recommended FY 2026 to FY 2030 Sewer Rates and Connection Fees (Report from Director of Public Works Ameri)

RECOMMENDATION

That Council reviews and comments on this report.

SUMMARY

Cost-of-service analyses have been prepared for sewer service to City residents and businesses to calculate appropriate sewer rates and service charges for FY 2026 to FY 2030. This report provides an overview of cost-of-service considerations, revenue requirements, and recommended FY 2026 to FY 2030 sewer service rates. The analyses were prepared by Water Resources Economics (WRE), a consulting firm that specializes in financial advising for utilities and public agencies. Staff is bringing the proposed rates to Council to obtain comments. After receiving and addressing Council's comments, staff will implement appropriate and required public noticing procedures in accordance with state law prior to a public hearing, currently scheduled for February 4, 2025. If adopted, annual sewer rate adjustments will go into effect on July 1 of each fiscal year from FY 2026 through FY 2030.

The Sewer Rate Study documents the City's sewer cost-of-service requirements for FYs 2026 to 2030, which will increase up to 12% annually. Staff recommend an overall increase to the total rate revenue up to 12% annually across all customer classes from FY 2026 through FY 2030, including all commercial and industrial customers. The recommended rate adjustments will allow the City to keep pace with the cost of sewer service collection, treatment, and disposal, as well as develop reserves to pay for upcoming capital costs, and ensure that costs are recovered equitably.

Sewer connection fee analyses have also been prepared by WRE. Connection fees are typically paid when a new development requests a new service connection. The sewer connection fees were last adjusted in September 2024. Based on WRE's analyses, staff is recommending a 10% annual increase to the sewer connection fee for FY 2026 and FY 2027.

The Executive Summary prepared by WRE, included as an attachment to this report, provides information regarding all the recommended rates and fee adjustments.

BACKGROUND

Sewer Service Charges

Sewer service charges are established to pay for the cost of collecting, treating, and disposing of wastewater. Calculations are consistent with industry practices to ensure that sufficient revenues are collected to operate and maintain the system and cover all obligations of the Wastewater Operating Fund. Sewer service charges are billed as standard fixed amounts for residential customers. For non-residential customers, sewer service charges are calculated as a cost per hundred cubic feet (CCF) of water consumed, based on the strength of the discharged wastewater. Sewer service rates were last adjusted two years ago, which resulted in a 7% increase in residential rates in FY 2024 and FY 2025, effective October 2023 and 2024, respectively.

Sewer Connection Fees

The City collects sewer connection fees to connect new services to the existing sewer system. These fees fund the expansion of the system necessary to accommodate development, defray the expenses paid by customers for improvements to the system, and incrementally cover the cost of future expansion and improvements. The connection fees are developed using standard procedures to ensure that costs are allocated fairly to new developments. Sewer connection fees were last adjusted in September 2024, resulting in an overall increase of 25%.

Wastewater Treatment Plant Capital Improvements

In response to growing concerns about the impacts of nutrients entering the Bay, the San Francisco Bay Regional Water Quality Control Board (Regional Water Board) has substantially increased regulatory requirements for 40 wastewater treatment facilities, including the City's Water Resource Recovery Facility (WRRF). Under the 3rd Nutrient Watershed Permit Order No. R2-2024-0013 (adopted July 2024), the City of Hayward, along with four other members of the East Bay Dischargers Authority, must reduce nutrients discharged into the Bay by 53% by 2034. As a result, the City is designing the WRRF Improvements - Phase II Project to meet these requirements, which are estimated to cost approximately \$488 million.

As part of the financing strategy for the WRRF Improvements – Phase II Project, the City is pursuing a loan through the Water Infrastructure Finance and Innovation Act (WIFIA) and also plans to issue revenue bonds. One of the factors that significantly impacts credit rating is the predictability of future revenue and ability to meet debt obligations. To make revenues from sewer service charges more predictable and stable, the City's financial advisor has recommended adopting rates for a longer five-year rate cycle from FY 2026 to FY 2030, rather than the typical two-year cycle.

DISCUSSION

The City entered into an agreement with WRE to prepare the Wastewater Rate and Connection Fee Study, including development of a long-term financial plan, cost-of-service analysis, and

rate recommendations consistent with industry standards and in compliance with Proposition 218, a California constitutional amendment which, among other provisions, requires that property-related fees be commensurate with the cost of providing services.

The agreement consisted of five main tasks:

1. Developing a long-term financial plan that documents the sewer utility's revenue requirements, including operations and maintenance (O&M) expenses and the capital improvement program (CIP), while adequately funding reserves in accordance with industry best practices and the City's historical practices.
2. Conducting a cost-of-service (COS) analysis that establishes a nexus between the cost to serve customers and the fees charged to each customer class, in compliance with Proposition 218 and based on industry standards.
3. Reviewing the current sewer rate structure and evaluating potential rate structure modifications, customer classes, and fixed and variable revenue recovery.
4. Developing five years of sewer rates that comply with Proposition 218 and ensuring financial sufficiency to fund operating, maintenance and capital costs over the study period.
5. Developing sewer connection fees to ensure new development fairly and adequately contributes to the cost of existing and planned infrastructure and compliance with Proposition 26.

The Executive Summary for the Wastewater Rate and Connection Fee Study, attached to this report, serves as an in-depth discussion of the recommended wastewater rates from FY 2026 to FY 2030 and connection fees for FY 2026 and FY 2027, including the current and recommended rates and fees for the next five years and comparisons with other wastewater agencies (Attachment II).

Sewer Service Charge

The recommended sewer rates for FY 2026 take into account the total rate revenue increase up to 12%, which is in large part attributed to the WRRF Improvements – Phase II Project, global supply chain issues and inflation, and escalating cost of supplies and services, such as chemicals for wastewater treatment. Staff is recommending a total rate revenue increase up to 12% annually in sewer rates for all customer classes in each of the five years.

As a result of these recommended changes, Standard Residential, Economy, and Lifeline customers, would see a monthly increase of \$4.56, \$2.18, and \$1.42 in their respective sewer bills. Economy and Lifeline rates are not related to household income; rather, they are applied automatically to single-family residential bills when water usage in a billing period is 0-4 CCF or 5-8 CCF respectively, compared with an estimated average water usage of 14 CCF from single-family homes. These reduced rates are intended to encourage water conservation and reward customers who use low amounts of water.

For large industrial users, staff use actual and anticipated sampling data to measure their impact and calculate appropriate rates based on their impact on the wastewater system. Appropriate fees for other business customers, such as restaurants, are based on water

consumption and standard waste strengths. Examples of maximum calculated impacts on common businesses are illustrated in Table 1 below.

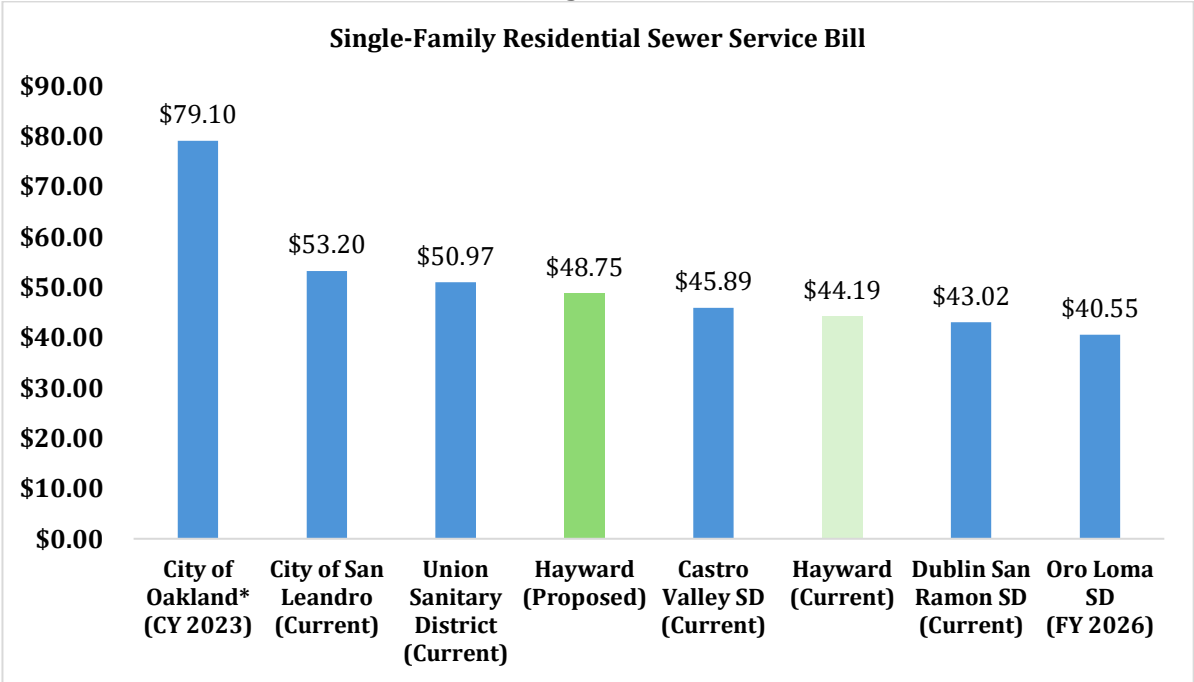
Table 1

Customer Type (without separate irrigation)	Current Rate/ CCF of Water	Proposed FY 2026	Proposed FY 2027	Proposed FY 2028	Proposed FY 2029	Proposed FY 2030
Restaurants (no grease interceptor)	\$13.52	\$18.36	\$20.57	\$23.04	\$25.81	\$28.91
Restaurants (with grease interceptor)	\$10.44	\$13.34	\$14.95	\$16.75	\$18.76	\$21.02
Commercial Laundry	\$8.07	\$10.41	\$11.66	\$13.06	\$14.63	\$16.39
Offices and Retail Stores	\$7.99	\$8.07	\$9.04	\$10.13	\$11.35	\$12.72

Comparisons with Other Wastewater Agencies

As shown in Figure A below, the recommended FY 2026 rates would place Hayward in the mid-range compared to other nearby agencies with the majority of their current rates. It must be noted that unlike the overwhelming majority of other sewer agencies, the City not only provides a lower rate for multi-family and mobile home units, but also in effect offers tiered sewer rates to all single-family customers, based on water usage.

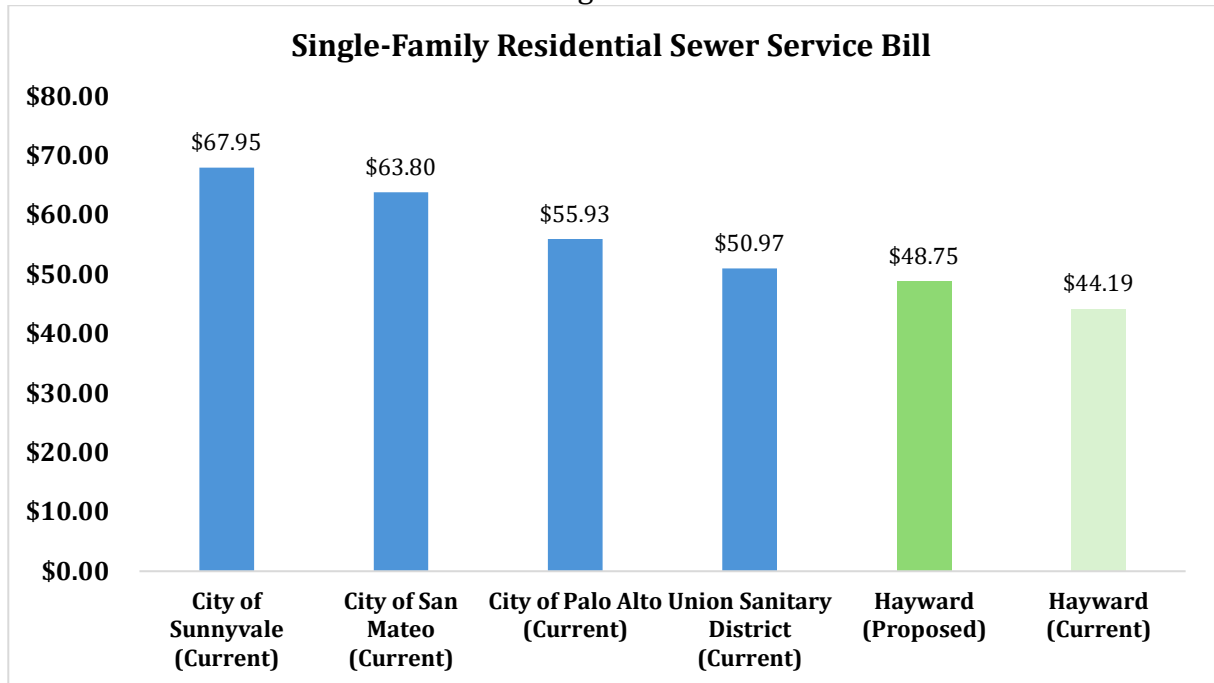
Figure A



*City of Oakland includes the City's sewer collection system fee and EBMUD's treatment service fee.

Figure B below compares Hayward with other local agencies that are also currently implementing a project to reduce nutrients by 2034.

Figure B

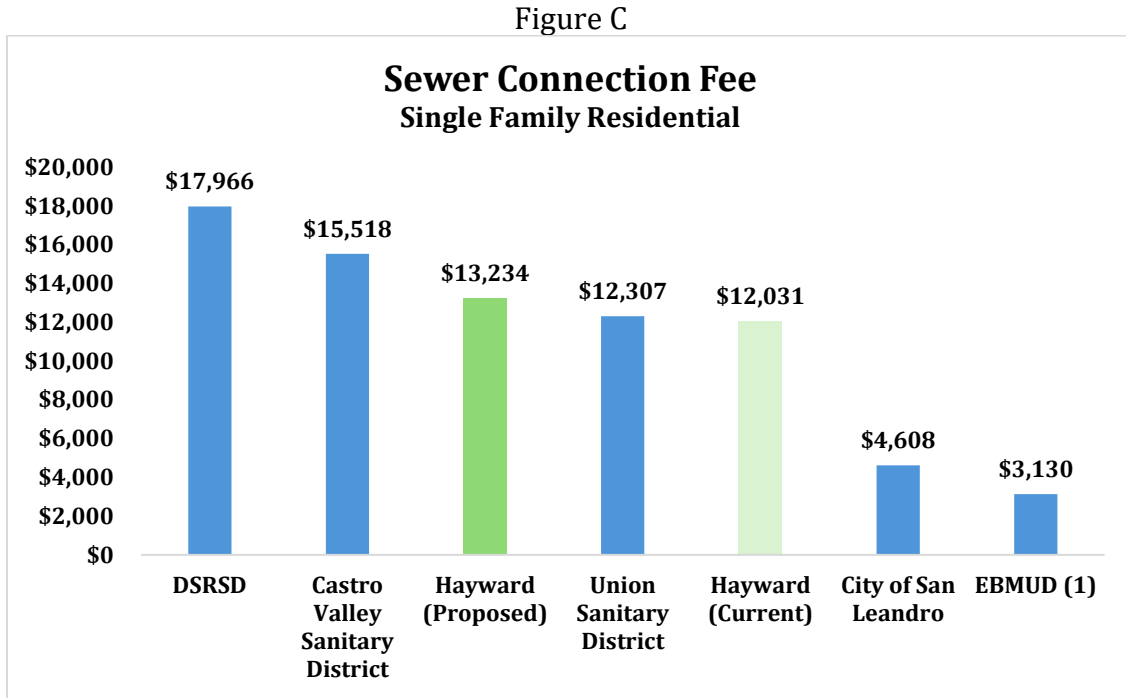


Sewer Connection Fees

Capacity fee analyses have also been prepared for sewer connection fees, which are the fees typically paid at the time a new development requests sewer service. Based on the Connection Fee Study, prepared by WRE, staff recommend implementing a 10% annual increase for sewer connection in FY 2026 and FY 2027.

Comparisons with Other Agencies

Figure C below shows how Hayward’s recommended sewer connection fees compare to other agencies. With the 10% recommended increase to the sewer connection fee, Hayward is still in the mid-range compared to other agencies.



(1) EBMUD Sewer Connection Fee for treatment services only

ECONOMIC IMPACT

A single-family residential customer will see the annual increase to monthly sewer rates over the next five years shown in Table 3 below.

Table 3

Fiscal Year	Increase to Monthly Sewer Rate
2026	\$4.56
2027	\$5.85
2028	\$6.56
2029	\$7.34
2030	\$8.22

Most commercial and industrial customers will likewise see increases in their utility bills. While staff recognize the importance of minimizing the impacts of rate increases on customers, it is also critical that the City comply with increased regulatory requirements, as well as maintain reliable and robust wastewater infrastructure in the interest of economic viability, quality of life, and maintaining public health.

FISCAL IMPACT

The Wastewater Funds each maintain a working capital balance, or fund balance, in order to manage emergencies, maintain positive cash flows and the fund's credit worthiness. At times, the working capital is also needed to smooth out the needed rate adjustments for customers who would otherwise see sharp increases in rates. Sewer connection fees support Capital Improvement Program (CIP) projects in the Sewer Improvement Fund. There are no impacts on the General Fund related to sewer rate adjustments or connection fees.

Fund Reserves

Wastewater Operating Fund and Sewer Replacement Fund

Given the stringent current and anticipated regulations, the onset of the impacts of the climate crisis, and the cost of operating and maintaining a wastewater treatment facility, it is also appropriate to maintain a reserve target equal to 100% of a four-year average rate funding Capital Improvement Project in the Wastewater Operating and Sewer Replacement Funds. Staff anticipate that ongoing rate revenue adjustments in the range not-to-exceed 12% will be needed to maintain sufficient working capital balances and the recommended level of reserves.

Sewer Improvement Fund

All revenues derived from Sewer Connection Fees are deposited in the Sewer Capital Improvement Fund and used only for planned existing and future capital projects related to expansion of the sewer system, such as the WRRF Improvements – Phase II Project.

STRATEGIC ROADMAP

The proposed rate adjustments align with the City's Strategic Priority of improved infrastructure by providing the funding necessary to maintain the wastewater collection and treatment system. Reliable utility services support other priorities such as housing and economic growth. Specifically, this item relates to the implementation of the following project:

Project N21: Design Water Pollution Control Facility Phase II upgrade

SUSTAINABILITY FEATURES

The recommended sewer rates will allow the City to continue to operate and maintain the sewer collection system and WRRF in a manner to meet all legal and regulatory requirements to protect public health and the environment. This includes supporting the upcoming WRRF Improvements – Phase II Project, which will enhance the quality of the wastewater discharged and protect the health of the San Francisco Bay. The revenue derived from the recommended rates will also enable the City to continue funding the existing green and renewable energy generation systems at the WRRF and their expansion over time.

ENVIRONMENTAL REVIEW

The California Environmental Quality Act (CEQA) 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

Following Council’s comments on the recommended rates, staff will incorporate any required modifications and implement the legal notice of Proposition 218, which mandates written notice of the proposed rates to all affected property owners at least forty-five days in advance of the public hearing, currently scheduled for February 4, 2025. In instances where a party other than the property owner, such as a tenant, is the account holder of record, notice will also be sent to that party. The notice describes the proposed adjustments and recommended rates for FY 2026 to FY 2030 and their impact on various customer classes. Proposed sewer rates and impacts on residential and non-residential customers are also described. The notice will also discuss the property owners’ right to protest the rates. Council may not take action on the rates if a majority of affected property owners file written protests. Staff will also post the information on the City’s website and publish the required notice in the newspaper.

Connection fees, also referred to as capacity charges, are one-time fees that were included in the connection fee study and are shown on Attachment II. They are not subject to Proposition 218 requirements and will not be included in the Proposition 218 notice, but staff will post the information on the City’s website¹ and publish notice of the proposed adjustment.

NEXT STEPS

Council is scheduled to consider the rate adjustments and hold a public hearing at its February 4, 2025, meeting. If adopted, sewer rate adjustments would be effective annually from July 1, 2025, through July 1, 2029, and the connection fee adjustments would be effective annually from September 1, 2025, through September 1, 2026. Council has traditionally used October 1 as an effective date for all utility rates, rather than July 1 when the wholesale rate adjustment takes effect in order to avoid increasing rates during the summer period when water use is highest.

Prepared by: Trang Nguyen, Management Analyst

Recommended by: Alex Ameri, Director of Public Works

Approved by:



Dustin Claussen, Interim City Manager

¹ <https://www.hayward-ca.gov/residents/utilities/water-and-sewer-rates>