



DATE: June 20, 2023

TO: Mayor and City Council

FROM: Director of Public Works

SUBJECT: Utility Rate Adjustments: Adopt a Resolution Amending the Master Fee Schedule and Approving the Proposed FY 2024 and FY 2025 Water, Sewer, Recycled Water Rates and Connection Fees and Finding the Action is Exempt from CEQA Review

RECOMMENDATION

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

SUMMARY

Cost-of-service analyses have been prepared for providing water, sewer, and recycled water service to Hayward residents and businesses to calculate appropriate water, sewer, and recycled water rates and service charges for FY 2024 and FY 2025. The analyses were prepared by Raftelis Financial Consultants, Inc., (Raftelis), a consulting firm that specializes in financial advising for utilities and public agencies. Staff brought the proposed rates to Council to obtain comments during a work session on April 18, after which the appropriate and necessary public noticing procedures were implemented in accordance with state law prior to the public hearing. If approved, the adopted rate adjustments would take effect on October 1, 2023, and 2024.

The Water Rate Study documents the City's water cost of service requirements for FYs 2024 and 2025, which will increase by 10% in FY 2024 and are anticipated to increase by another 10% in FY 2025. The recommended water rates for FY 2024 and FY 2025 include an overall 10% increase to both bi-monthly fixed service fees and commodity rates in each of the two years for both residential and non-residential customers. The proposed rate adjustments will allow the City to recoup some of the revenue losses and the use of reserves last year due to a 15.9% increase in the wholesale water rate from San Francisco Public Utilities Commission (SFPUC) and in anticipation of a further increase of 9.7% effective July 2023.

The Sewer Rate Study documents the City's sewer cost-of-service requirements for FYs 2024 and 2025, which will increase by 7% in FY 2024 and are anticipated to increase by another 7% in FY 2025. Staff recommends an overall increase of 7% across all customer classes per year, including all commercial and industrial customers. The proposed rate adjustments will allow the City to

keep pace with the cost of sewer service collection, treatment, and disposal, including developing reserves to pay for upcoming capital costs, and ensure that costs are recovered equitably.

The Recycled Water Rate Study documents the City's recycled water cost of service requirements for FYs 2024 and 2025, which will increase by 35% in FY 2024 and by 10% in FY 2025. Staff recommends that the service fee be the same as the water service fee for potable water in FY 2024 and FY 2025. The recommended recycled water commodity rate at \$6.76 per CCF is 23% lower than the proposed potable irrigation water rate at \$8.80 per CCF for the first 170 CCF or 348 gallons per day, and 40% lower than proposed potable irrigation water rate at \$11.20 for over 170 CCF.

Water, Sewer, and Recycled Water connection fee analyses have also been prepared by Raftelis. Connection fees are typically paid at the time a new development requests water, sewer, and recycled water service. The water connection fees (also known as Water Facilities Fees) have not been adjusted since 2012 and sewer connection fees were last adjusted in 2011. While the analyses recommend a 23% increase for water connection fee and a 102% increase for sewer connection fee, staff is recommending phase-in increases of 10% for water and 25% for sewer fees in the interest of maintaining the economic recovery and fostering business development. For recycled water connection fee, staff recommends the fee to be the same as the recommended water connection fee, as the City plans for expansion of the recycled water system and adding more customers.

Staff implemented the notification requirements of Proposition 218 for the proposed rate increase by sending written notice of the proposed rates to all affected property owners. Notices were also sent to bill payers of record and tenants in the interest of full transparency. Council may not take action on the proposed rates if a majority of property owners, about 19,000, submit written protests. The City Clerk will tabulate and report the final number at the end of the public hearing.

Capacity charges are not subject to Proposition 218 requirements and were not included in the Proposition 218 notice. A separate notice of the proposed connection fee changes was sent to developers, Building Industry Association, and the Chamber of Commerce Government Relations Committee (GRC). Proposed connection fee adjustments information was posted on the City's website and public hearing notice of the proposed adjustment was published on the newspaper.

BACKGROUND

At the April 18, 2023¹ work session, Council reviewed the proposed water, sewer, and recycled water rates and connection fees for FY 2024 and FY 2025. 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

The City entered into an agreement with Raftelis to prepare the Water, Wastewater, and Recycled Water Rate Studies and Connection Fee Study, including development of a long-term

¹ <https://hayward.legistar.com/LegislationDetail.aspx?ID=6171589&GUID=3A570863-9132-4623-88CE-B72AAE236BB1>

financial plan, cost-of-service analysis, and rate recommendations consistent with industry standards and in compliance with Proposition 218, which, among other provisions, requires that property-related fees are commensurate with the cost of services received.

Water Rates

In summary, Cost of Service requirements are expected to increase by 10% in FY 2024 and 10% in FY 2025. Staff is recommending increases of 10% in fixed bimonthly service charges and water commodity rates across all customer classes in FY 2024 and FY 2025. As a result of these recommended changes, average residential users would see an overall increase of 10% in their water bills and non-residential users could see similar increases in their bills.

Proposition 218 requires that water rates be set to recover the costs of providing service and that one customer class does not subsidize another. The courts have confirmed that it is legal to have tiered rates, but there must be a nexus between the cost of service and rates, and justification for the tier breakpoints. Non-residential usage varies greatly depending on the business; thus it is appropriate and defensible to set the first tier based on average usage and a second tier for above-average usage. It is difficult to develop a basis for a third tier. Residential usage, although somewhat variable depending on the size of the home and the lot, tends to be more uniform and usage data can support three tiers. Information on Hayward's largest water users by customer class is included in Attachment IV.

Two other notes of interest:

- The low-income bi-monthly service fee for single-family residential customers who meet certain income thresholds is proposed to be retained
- Drought surcharges are not needed at this time as the reservoirs have been replenished from recent storms and the State has recently rescinded some of the water use restrictions

Sewer Service Charge

The recommended sewer rates for FY 2024 include a 7% increase in revenue requirements, which is in part attributed to the global supply chain issues and inflation, escalating cost of supplies and services, such as chemicals for wastewater treatment. Staff is proposing increases of 7% in sewer rates for all customer classes in each of the two years.

As a result of these proposed changes, average single-family residential users would see an overall increase of 7% in their sewer bills in FY 2024, and 7% in FY 2025. The same percent increases are proposed for multi-family and mobile home community customers, as well as Lifeline and Economy customers. As a reminder, the reduced Lifeline and Economy rates 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 discharge of 12 CCF from single-family homes. These rates are intended to encourage water conservation and reward customers who use low amounts of water.

Non-residential customers would see an average of 7% increase per year. For large industrial users, staff uses actual and anticipated sampling data to measure their impact and calculates appropriate rates based on their contribution to the wastewater system. Appropriate fees for other business customers, such as restaurants, are based on water consumption and standard waste strengths.

Recycled Water Rates

Staff recommends continuing a rate structure that offers an incentive to utilize recycled water while adequately recovering costs over the life of the project. The cost-of-service analysis indicates increases of 35% in revenue requirements in FY 2024 and 10% in FY 2025, resulting in proposed adjustments to the fixed bimonthly service charges and the uniform tier commodity rate. Staff is proposing to charge the same bimonthly service charges as potable water. The recommended recycled water commodity rate at \$6.76 per CCF is 23% lower than the proposed potable irrigation water rate at \$8.80 per CCF for the first 170 CCF or 348 gallons per day, and 40% lower than proposed potable irrigation water rate at \$11.20 for over 170 CCF.

Water, Sewer, and Recycled Water Connection Fees

The Connection Fee Study, prepared by Raftelis, indicates a 23% increase for water connection fee, a 102% increase for sewer connection fee, and a 425% increase for recycled water connection fee. Staff is recommending a phase-in approach for water and sewer connection fees, increasing 10% for water and 25% for sewer fees in the interest of maintaining the economic recovery and fostering business development. The water connection fee is determined by the water meter size required to meet the indoor demand, excluding fire service demand, and outdoor demand of the residence as determined by the City, based on fixture unit count. The sewer connection fee varies by the type of property. The proposed sewer connection fee for ADUs is proportionate to the average size of ADUs as compared to the average size of a Single Family Residential home in Hayward. For recycled water connection fee, staff is proposing to use the same recommended water connection fee for the minimal number of new recycled water customers, as the City plans for expansion of the recycled water system and adding more customers. Appropriate connection fees will be calculated after development of Recycled Water Master Plan.

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.

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 \$5.61 per month in water cost in the first year and \$6.18 in the second year. Monthly sewer increases for single family customers would be \$2.71 in the first year, and \$2.90 in the second year. This is a total for all increases of \$8.32 per month in the first year and a total of \$9.08 per month in the second year.

In the case of multi-family rental properties with five or more units, tenants typically do not receive individual utility bills from the City as the account is listed under the property owner or property management. Each property determines and handles utility billing differently; some include utilities cost in the rent and some require separate payment. In terms of bill impact per unit, multifamily residential customers will see similar impact as the typical single-family. Smaller apartment complexes between 5 to 10 units, with average bi-monthly water use of 110

ccf (137 gallons per day per unit), will see an average increase of \$5.15 per month per unit in water cost in the first year and \$5.68 in the second year. Larger apartment complexes with more than 50 units, with average bi-monthly water use of 741 ccf (185 gallons per day per unit), will see an average increase of \$6.91 per month per unit in water cost in the first year and \$7.61 in the second year. Monthly sewer increases for multi-family customers would be \$2.41 per unit in the first year, and \$2.58 per unit in the second year.

Most commercial and industrial customers will see likewise increases in their utility bills. Smaller businesses, such as mid-sized full service restaurants in downtown Hayward with average bi-monthly water use of 68 ccf (848 gallons per day), will see a monthly increase of \$24.74 in water cost and \$25.50 in sewer cost in the first year, and \$27.28 in water cost and \$27.20 in sewer cost in the second year. Medium size businesses, such as fast-food restaurants with average bi-monthly water use of 105 ccf (1,309 gallons per day), will see a monthly increase of \$39.23 in water cost and \$39.38 in sewer cost in the first year, and \$43.25 in water cost and \$42.00 in sewer cost in the second year. Large industrial businesses, such as food processing manufacturers with average bi-monthly water use of 1,331 ccf (16,594 gallons per day), will see an average monthly increase of \$536.34 in water cost and \$335.61 in sewer cost in the first year, and \$590.07 in water cost and \$359.11 in sewer cost in the second year. As a reminder, the sewer bill for large industrial businesses is calculated based on the actual water usage and the waste strength sampling data obtained by staff every other month. Hence, monthly sewer impact for the different industrial businesses varies by the type of business and their operations.

While staff recognizes 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.

FISCAL IMPACT

A detailed discussion of fiscal impacts on the Water, Wastewater, and Recycled Water Funds are included in the work session report². In general, the proposed rate adjustments are needed to maintain reasonable reserves, manage emergency situations, and reduce the need for higher increases in the future. Water and Sewer connection fees support Capital Improvement Program (CIP) projects in the Water Improvement Fund and Sewer Improvement Fund. The revenues derived from Recycled Water Connections 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. There are no impacts on the General Fund related to water, sewer, and recycled water rate adjustments or connection fees.

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, wastewater collection and treatment system, and recycled water treatment and distribution system. Reliable utility services support other priorities such as housing and

² <https://hayward.legistar.com/LegislationDetail.aspx?ID=6171589&GUID=3A570863-9132-4623-88CE-B72AAE236BB1>

economic growth.

SUSTAINABILITY FEATURES

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 2024 and FY 2025 (projected annual budget of \$300,000).

The proposed sewer rates will allow the City to continue to operate and maintain the sewer collection system and WPCF in a manner to meet all legal and regulatory requirements to protect public health and the environment. This includes supporting the upcoming WPCF Nutrient Management Project, which will enhance the quality of the wastewater discharged, to bring positive impact on protecting the health of the San Francisco Bay. The revenue derived from the proposed rates will also enable the City to continue funding the existing green and renewable energy generation systems at the WPCF and their expansion over time. The Lifeline and Economy Sewer Rates for low water use may contribute to sustainability by incentivizing water conservation and efficient water use.

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.

PUBLIC CONTACT

With the Council's concurrence with the proposed rates, staff implemented the legal noticing requirements 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. Although not required, in instances where a party other than the property owner is the account holder of record, notices were also sent to account holders. The notice described the proposed increases and listed current and proposed rates, and the property owners' right to protest the rates. Staff have responded to the protest letters received to date with information on low-income discounts if the letter indicates any financial hardship. Council may not take action on the rates if a majority of affected property owners file, about 19,000, written protests. Staff will report on the number of written protests received by the City Clerk at the close of the public hearing.

In addition to the Proposition 218 notifications, the public hearing notice was published twice in the *Daily Review* on June 2 and June 9, and on the City's website.

Capacity charges are not subject to Proposition 218 requirements and was not included in the Proposition 218 notice. However, a notice of the proposed connection fee changes was sent to developers, Building Industry Association, and the Hayward Chamber of Commerce Government Relations Council (GRC). Staff also presented the proposed connection fee adjustment to the Hayward Chamber of Commerce GRC at their June 2, 2023 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 June 2 and on the City's website.

NEXT STEPS

If approved, the new rates would be effective on October 1, 2023, and October 1, 2024. 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: Elli Lo, Senior Management Analyst

Recommended by: Alex Ameri, Director of Public Works

Approved by:

A handwritten signature in black ink, appearing to read 'K. McAdoo', with a long horizontal stroke extending to the right.

Kelly McAdoo, City Manager