



DATE: February 18, 2025

TO: Mayor and City Council

FROM: Director of Public Works

SUBJECT: Utility Rate Adjustments: Adopt Resolutions Amending the Master Fee Schedule and Approving the Proposed FY 2026 through FY 2030 Sewer Rates and FY 2026 and FY 2027 Connection Fees, and Finding the Actions are Exempt from CEQA Review

RECOMMENDATION

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

SUMMARY

In response to the adoption of the 3rd Nutrient Watershed Permit Order No. R2-2024-0013 (Watershed Permit), on July 10, 2024 by the San Francisco Bay Regional Water Quality Control Board (Regional Water Board), and its environmental regulatory mandate of nutrients reduction to safeguard clean San Francisco Bay water, the City of Hayward (City) must substantially expand the wastewater treatment plant to meet these requirements, currently estimated to cost approximately \$488 million.

All costs are solely the responsibility of the City's Wastewater Enterprise Fund since there are no grants or other sources of funding available to finance this environmental regulatory mandate by this regional agency. As such, cost-of-service analyses have been prepared for providing sewer service to Hayward residents and businesses to calculate appropriate sewer service charges for FY 2026 through FY 2030. The analyses were prepared by Water Resources Economics, LLC (WRE), a consulting firm that specializes in financial advising for utilities and public agencies. Staff brought the proposed rates to City Council to obtain comments during a work session on December 3, 2024, 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 annually from July 1, 2025, to July 1, 2029.

The Sewer Rate Study documents the City's sewer cost-of-service requirements for FYs 2026 to 2030, which, if approved, increases 12% annually. Staff recommend an overall increase to the total rate revenue of 12% annually across all customer types from FY 2026 through FY 2030, including all residential, commercial, and industrial customers. The proposed rate adjustments will enable the City to fund the required borrowings to fund the implementation of improvements to meet the requirements of the San Francisco Regional Water Board's newly adopted 3rd Watershed Permit. The adjustments will also allow the City to keep pace with the cost of sewer service collection, treatment, and disposal. This includes building reserves for future capital costs and ensuring that costs are recovered equitably. The required increases are anticipated to moderate after the first five years.

Staff implemented the notification requirements as set forth by Proposition 218 for the proposed rate increase by sending written notice of the proposed rates to all affected property owners, about 34,000 in total. California Proposition 218 named the "Voter Approval for Local Government Taxes, Limitations on Fees, Assessments, and Charges. Initiative Constitutional Amendment" ensures that all government taxes and most fees or charges on property owners are subject to voter approval. The City Council may not take action on the proposed rates if a majority of property owners, about 17,663, submit written protests.

In the interest of full transparency, notices were also sent to an additional 16,000 billpayers and tenants on record and were informed that written protests must be submitted within 45 days of noticing. Attachment IV includes a summary of protest letters received and staff's response to the different types of protests.

Sewer connection fee analyses have also been prepared by WRE. Connection fees are typically paid at the time a new development requests sewer service. While the analyses recommend a 22% total increase in the sewer connection fee, staff is recommending a 10% increase per year for the sewer connection fee over two years, for FY 2026 and FY 2027.

Connection fees are not subject to Proposition 218 requirements and were not included in the Proposition 218 notice. As a courtesy, a separate notice of the proposed connection fee changes was sent to developers, Building Industry Association Bay Area, and the Chamber of Commerce Government Relationship Council (GRC). Staff presented the proposed sewer rates and connections fees to the GRC on Tuesday, February 4, 2025. Proposed connection 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 December 3, 2024¹ work session, Council reviewed the proposed sewer rates for FY 2026 to FY 2030 and connection fees for FY 2026 and FY 2027. The work session staff report provided 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.

¹ <https://hayward.legistar.com/LegislationDetail.aspx?ID=7032926&GUID=44939BA1-E0CE-4256-91F6-84F1A1651C97>

Wastewater Treatment Plant Capital Improvements

In response to growing concerns about the impacts of nutrients entering the Bay, the Regional Water Board has substantially increased regulatory requirements for about 40 wastewater treatment facilities, including the City's Water Resource Recovery Facility (WRRF). Under the Watershed Permit, 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 to meet the requirements which are currently 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) which can finance up to 49% of the Project cost 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.

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 FY 2025, effective September, resulting in an increase of 25%.

DISCUSSION

The City entered into an agreement with WRE to prepare the Wastewater 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, which, among other provisions, requires that property-related fees are commensurate with the cost of services received.

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 of serving 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 218.

Sewer Service Charge Rate

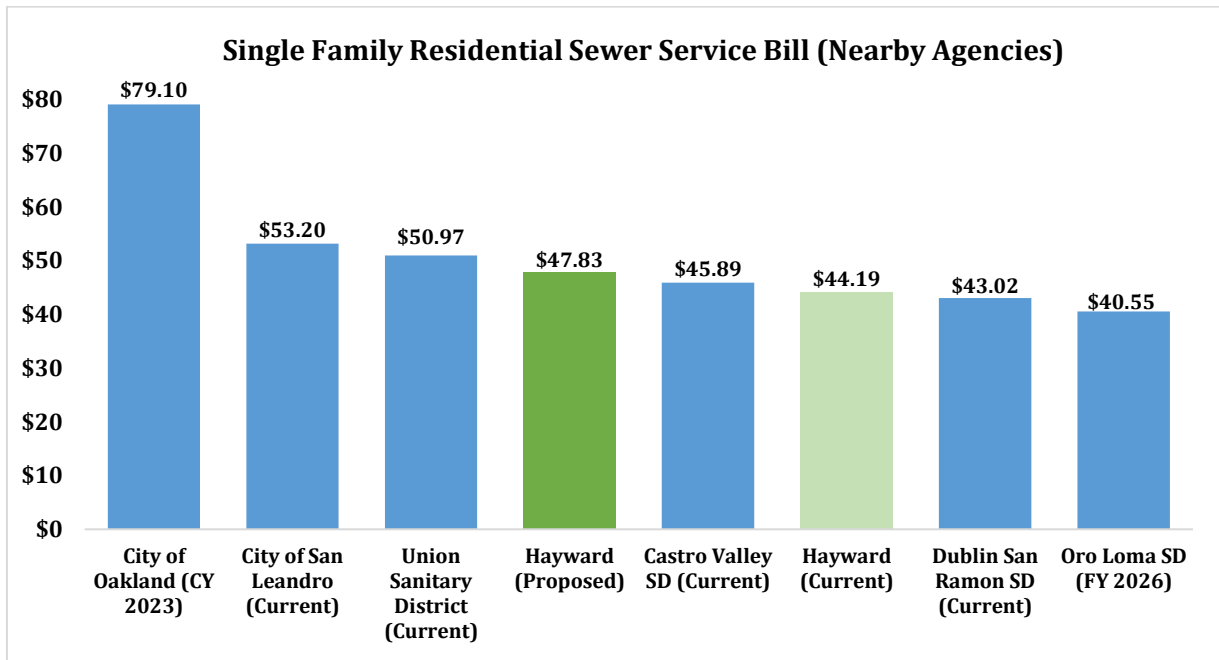
The recommended sewer rates for FY 2026 include a 12% increase in revenue requirements, which is in large part attributed to the WRRF Improvements – Phase II Project. The project will upgrade and expand the wastewater treatment plant to meet the standards set by the Watershed Permit, which is currently estimated to cost \$488 million. Other factors contributing to the need for rate increases include global supply chain issues, inflation, and escalating cost of supplies and services, such as chemicals for wastewater treatment. Staff is recommending a total rate revenue increase of up to 12% annually in sewer rates for all customer classes in each of the five years. In FY 2026, all customer classes will include a 12% rate increase, along with the reallocation of costs from the cost-of-service analysis, resulting in varying rates across all customer classes. From FY 2027 to FY 2030 the recommended 12% annual increase will be applied to all customer classes. The required increases are anticipated to moderate after the first five years.

As a result of these recommended changes, Standard Residential customers would see an 8% increase in the first year while Economy, and Lifeline customers, would see slightly higher increases compared to standard residential resulting in a monthly increase of \$3.64, \$1.82, and \$1.25 in their respective sewer bills. After the first year the recommended annual increase from FY 2027 through FY 2030 will be 12% for all customers. Economy and Lifeline rates are not related to household income; rather, they are applied automatically to single-family residential water customers when their water usage in a billing period is 5-8 CCF or 0-4 CCF respectively, compared with an estimated average water usage of 14 CCF from single-family homes. Among other neighboring agencies, Hayward is unique in offering these reduced rates, which are intended to encourage water conservation and reward customers who use low amounts of water, especially during the winter months with minimal irrigation. In FY 2024, approximately 45% of Hayward residents used less water and benefited from the economy and lifeline tiered rates, and the average sewer charge for a Hayward resident was roughly \$35 per month.

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.

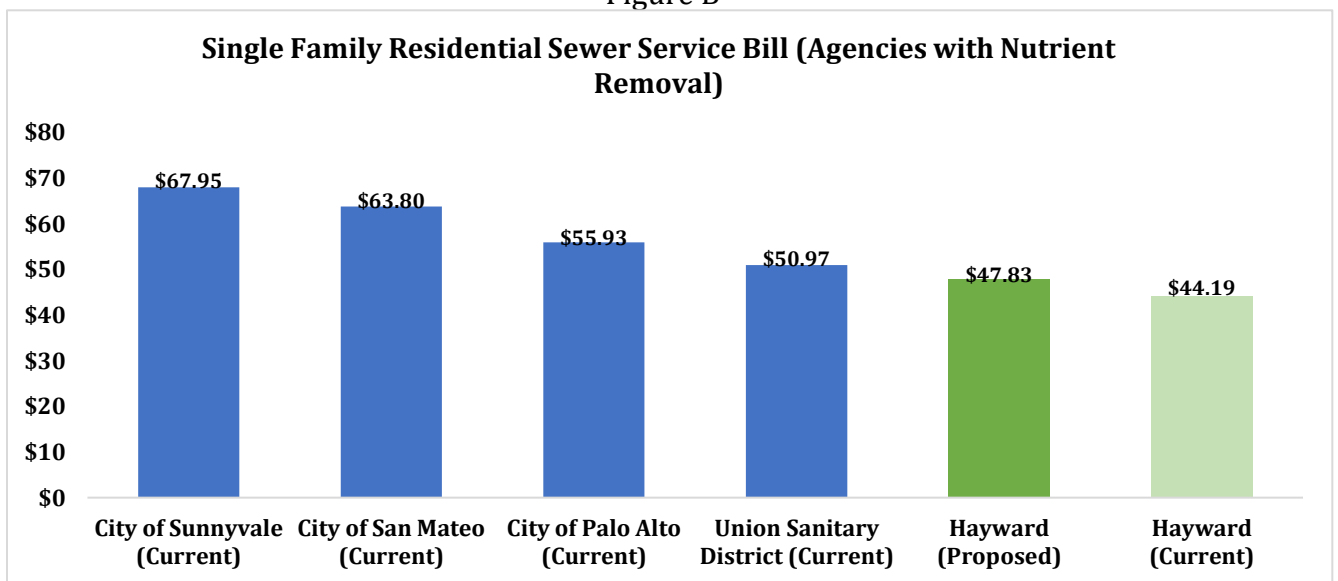
Figure A



*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



Appropriate fees for other business customers, such as restaurants, are based on water consumption and standard waste strengths. As shown in Figure C below, the recommended FY 2026 rates for a commercial customer such as a restaurant with an average use of 50 ccf of water every two months (623 gallons per day) would place Hayward in the mid-range compared to other nearby agencies.

Figure C

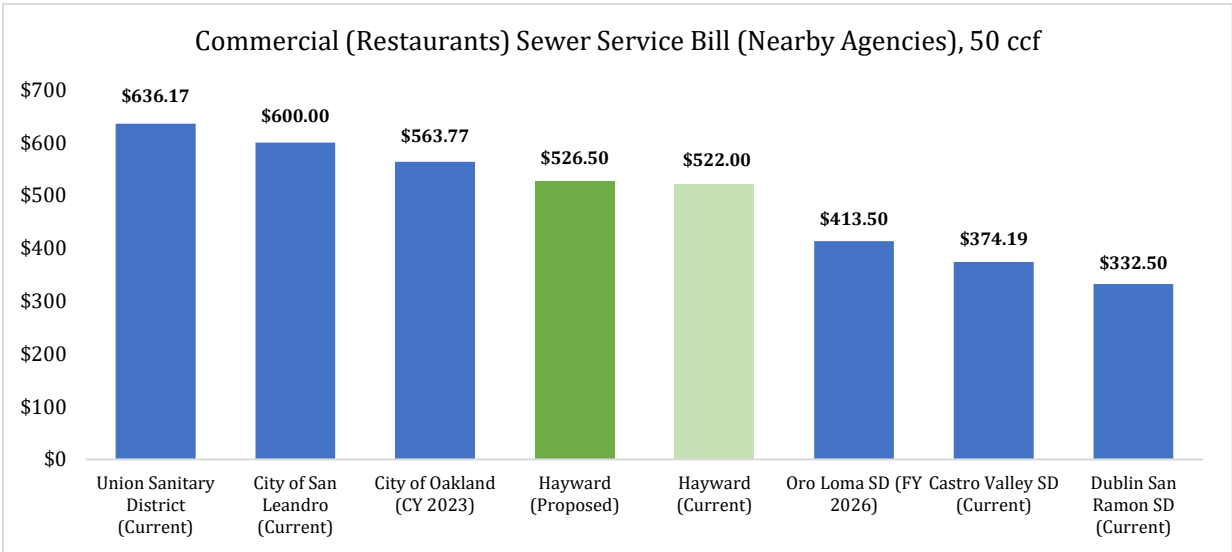
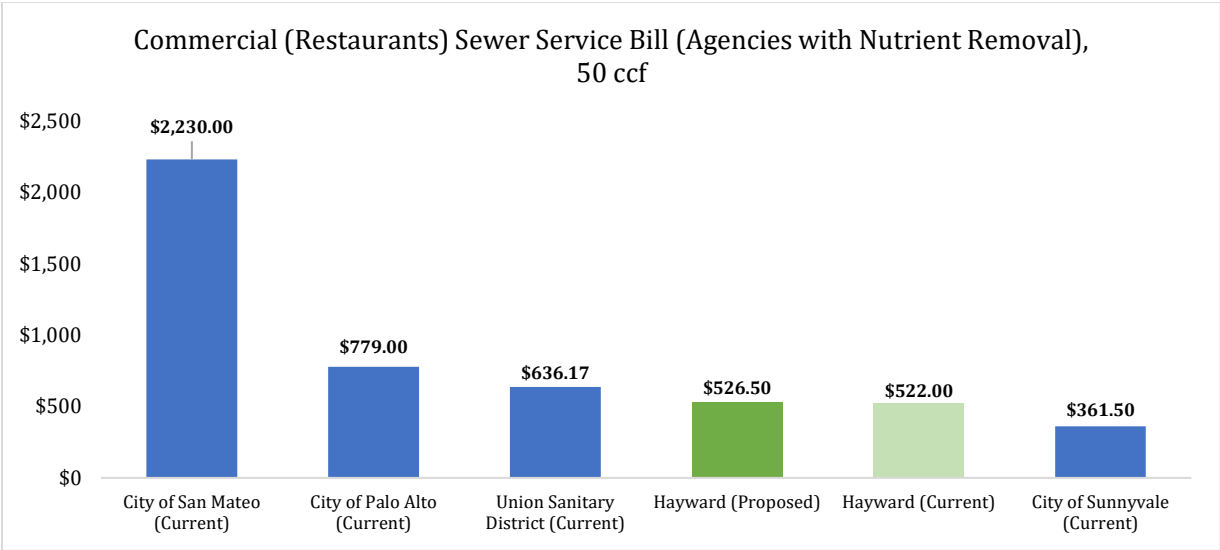


Figure D below compares Hayward with other local agencies that are also currently implementing a project to reduce nutrients by 2034.

Figure D



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.

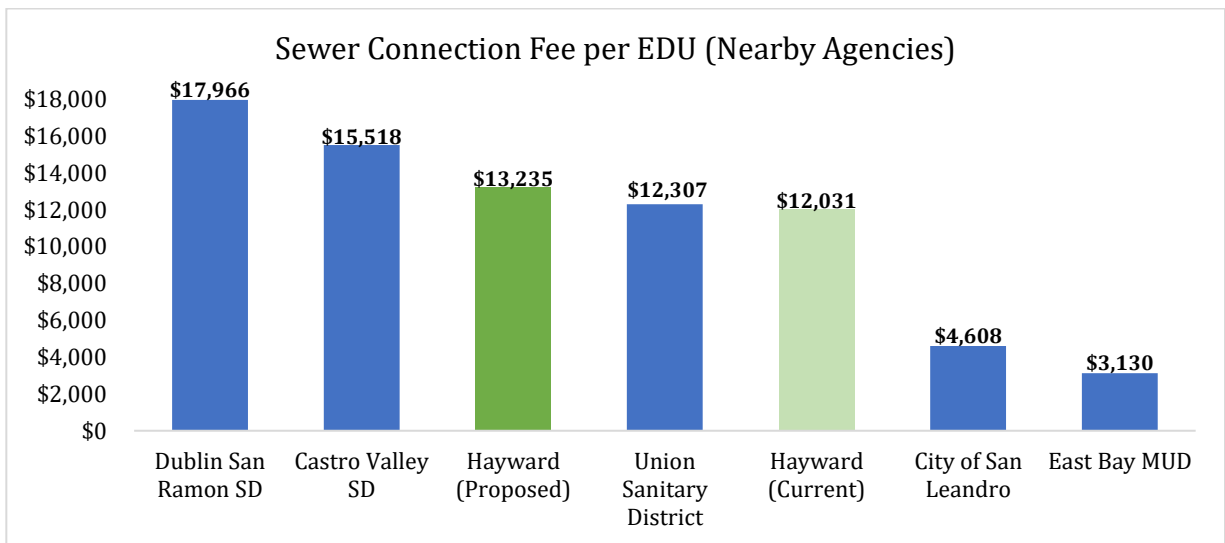
Sewer Connection Fees

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. The Connection Fee Study, prepared by WRE, indicates a 22% increase for sewer connection fees. Staff is recommending a phase-in approach, a 10% annual increase for sewer connection fees in FY 2026 and FY 2027, in the interest of fostering business development.

Comparisons with Other Agencies

Figure E 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' *current* fees.

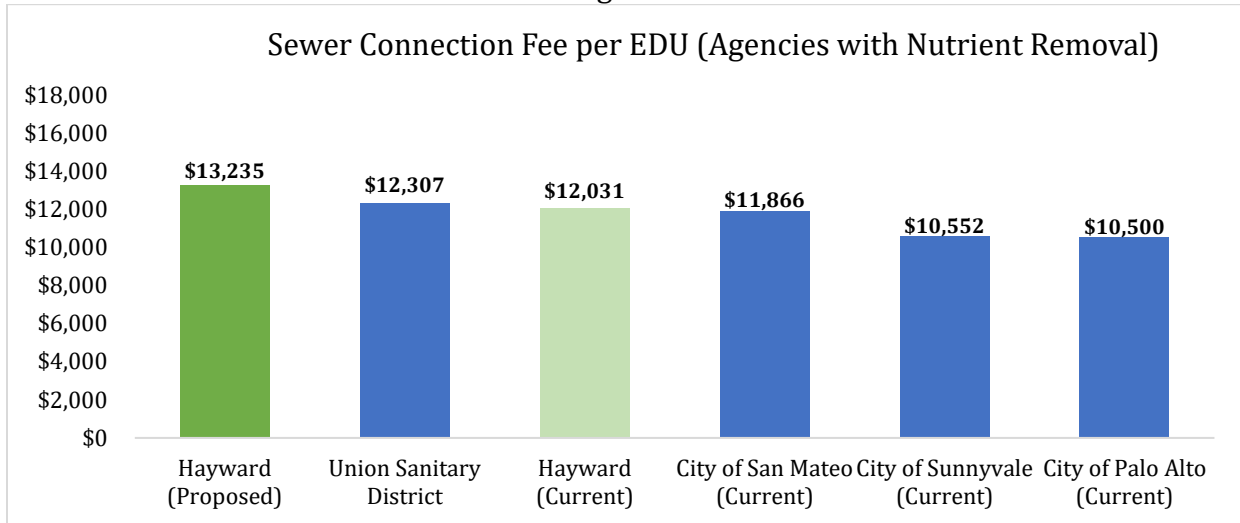
Figure E



(1) EBMUD Sewer Connection Fee for treatment services only

Figure F below compares Hayward with other local agencies that are also currently implementing a project to reduce nutrients by 2034. Although Hayward is displaying a higher sewer connection fee in comparison to agencies who are also required to reduce nutrients, some agencies may not have started the process and costs are not reflected in their current fees.

Figure F



ECONOMIC IMPACT

WRE conducted a cost-of-service analysis that established a nexus between the cost of serving customers and the fees charged to each customer class, resulting in reallocation of costs between all customer classes. The cost-of-service analysis, in addition to a 12% rate increase will result in varying rates across all customer classes. From FY 2027 to FY 2030 the recommended 12% annual increase will be applied to all customer classes. The typical single-family residential customer, with average bi-monthly water use of 14 ccf (175 gallons per day), will see an increase of \$3.64 per month in sewer cost in the first year, then 12% annual increase in the following four years, which is \$5.74 in the second year, \$6.43 in the third year, \$7.20 in the fourth year and \$8.07 in the fifth year. Single Family Residential that are also City water customers who use less water will continue to benefit from the Economy and Lifeline rates and will see smaller monthly impact, ranging from \$1.82 to \$3.80 more per month for economy and \$1.25 to \$1.96 more per month for lifeline in the five years. In FY 2024, approximately 45% of Hayward residents benefited from the economy and lifeline tiered rates.

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, monthly sewer increases per unit for multi-family customers would be \$4.16 in the first year, \$5.22 in the second year, \$5.85 in the third year, \$6.55 in the fourth year, and \$7.34 in the fifth year.

For FY 2026, some commercial and industrial customers will see increases and others will see decreases in their sewer bills as shown in Table 1 below.

Table 1

Monthly Difference	FY26	FY27	FY28	FY29	FY30
Small Business	(\$30.80)	\$85.80	\$96.25	\$107.80	\$120.45
Medium Business	(\$67.20)	\$187.20	\$210.00	\$235.20	\$262.80
Large Business	\$1,894.57	\$1,110.68	\$1,243.85	\$1,393.14	\$1,560.25

Smaller businesses are mid-sized full-service restaurants in downtown Hayward, while fast-food restaurants are considered medium-sized businesses. Businesses, such as food processing manufacturers, would be considered large industrial businesses. As a reminder, the sewer bill for large industrial businesses is determined by actual water usage and waste strength sampling data, which staff collects every other month. Therefore, the monthly sewer charges for different industrial businesses vary depending on the type of business and their specific operations.

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.

FISCAL IMPACT

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.

As part of the financing strategy for the WRRF Improvements – Phase II Project, the City is pursuing a loan through the WIFIA and also plans to issue revenue bonds. One of the factors that significantly impacts credit rating is the reserve and ability to meet debt obligations. Investors and credit rating agencies look at reserves as part of their evaluation of the probability of a default. Lowering reserves increases the cost of borrowing and could result in lower credit ratings. A lower credit rating has an impact on the required financing interest rate, which would result in higher payments by all sewer system customers. Furthermore, on December 3, 2024, the City Council approved prepayment of the \$14.1 million 2016 Clean Water State Revolving Loan (2016 SRF Loan) to improve credit worthiness of the Sewer Enterprise Fund. This prepayment significantly lowered the sewer fund reserve. Staff anticipate that ongoing rate revenue adjustments of 12% will be needed in the first five years to maintain sufficient working capital balances and the recommended level of reserves. The required increases are anticipated to moderate after the first five years.

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.

A detailed discussion of fiscal impacts on the Wastewater Funds is included in the work session draft 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. 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.

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 wastewater collection and treatment system. Reliable utility services support other priorities such as housing and economic growth.

SUSTAINABILITY FEATURES

The proposed 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, 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 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

With the City Council's concurrence, staff implemented the legal noticing requirements of Proposition 218. Legally, written notice of the proposed rates to all affected property owners are required to be sent 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 is received. Therefore, notices were sent 60 days in advance to accommodate sufficient time for delivery and for the City to prepare 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 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 letters of the protest received to date with information on the economy

² <https://hayward.legistar.com/LegislationDetail.aspx?ID=7032926&GUID=44939BA1-E0CE-4256-91F6-84F1A1651C97>

and lifeline rates, as well as low-income discounts for water service charge if the letter indicates any financial hardship. Attachment IV includes a summary of the protest letters and staff's response to the different types of protests.

Staff have also addressed protest notices outlining the reasons why the proposed rates comply with Proposition 218. The City Council may not take action on the rates if a majority of affected property owners file about 17,663 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 Proposition 218 notifications, the public hearing notice was published twice in the *Daily Review* on January 31 and February 7, and on the City's website.

Capacity charges are not subject to Proposition 218's requirements and were not included in the Proposition 218 notice. However, a notice of the proposed connection fee changes was sent to developers, Building Industry Association Bay Area, and the Hayward Chamber of Commerce Government Relationship Council (GRC). Staff are planning a presentation to the GRC before this public hearing date. Information was also posted on the City's website. A public hearing notice was published in the *Daily Review* on January 31 and on the City's website.

NEXT STEPS

If approved, the new rates would be effective annually from July 1, 2025, to July 1, 2029, and the connection fee adjustments would be effective on September 1, 2025, and September 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:



Dr. Ana M. Alvarez, City Manager