



DATE: July 2, 2019

TO: Mayor and City Council

FROM: Director of Public Works

SUBJECT: Adopt a Resolution Amending the Master Fee Schedule and Approving the Proposed Water and Sewer Service Rates and Connection Fees

RECOMMENDATION

That Council adopts a resolution (Attachment II) amending the Master Fee Schedule and approving the proposed water and sewer service rates.

SUMMARY

Staff has prepared cost of service analyses for providing water and sewer service to Hayward residents and businesses in order to calculate appropriate water and sewer rates and service charges for FY 2020 and FY 2021. 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, which would result in about a 3.1% increase for a single family home with average water consumption. Similar percentage increases would apply to all other meter sizes. The recommended sewer rate adjustments would include an increase of 4.4%, or \$1.51 per month in standard residential rates in each of the two years and increases between 3.1% and 7.3% per year in non-residential rates. The recommended water and sewer rate adjustments would take effect on October 1, 2019 and October 1, 2020. No changes are recommended to the sewer and water connection fees. Furthermore, staff recommends a two-year extension of a temporary provision that reduces the sewer connection fee for some industrial and commercial businesses, which went into effect during the 2008 economic recession.

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, in the interest of full transparency, notices were also mailed to bill payers of record and tenants who may be impacted by the increased rates. 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 61,000 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 June 26, 2019, a total of ninety-four (94) written protests had been received by the City Clerk's Office.

BACKGROUND

At the May 14, 2019 [work session](#)¹, the City Council reviewed the proposed water and sewer service rates for FY 2020 and FY 2021. The work session staff report provides an overview of cost of service issues, revenue requirements, and recommended FY 2020 and FY 2021 water and sewer service rates in detail. Rate comparisons with other agencies have been updated to reflect more recent information and new comparison charts are included as separate attachments.

DISCUSSION

Water Rates

Based on anticipated overall costs of providing service during the next two years, staff is recommending water rate adjustments in FY 2019 and FY 2020 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-inch 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 receive Hayward water, the vast majority of which are located in what is known as the Castle Homes area. 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

¹ <https://hayward.legistar.com/LegislationDetail.aspx?ID=3945375&GUID=AE72507B-35F6-46D4-B43C-F51BFE5F3320&Options=&Search=>

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.

The City will perform analyses of the 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 the current information regarding these costs, staff expects the surcharge to at least remain at the current level.

Sewer Service Rates

Staff is recommending 4.4% increases in standard single-family residential sewer rates in FY 2019 and FY 2020. The same percent increases are proposed for multi-family and mobile home community customers. Staff is also recommending a reduction of 4.3% in the Economy and Lifeline rate tiers. Non-residential customers would see increases over the two-year period of between 3.1% to 7.3% in each year, depending on the volume and strength of their wastewater discharge.

Connection Fees

Water and sewer connection fees are fees paid by those customers needing 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 for FY 2020 and FY 2021.

While necessary and appropriate, non-residential sewer connection fees can represent a significant expense for some businesses with significant wastewater discharge. To continue encouraging the establishment of businesses in Hayward, 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. 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 by October 1, 2021 to either retain, amend or repeal it.

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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 June 26, 2019, a total of (94) written protests had been received by the City Clerk's Office. Of the 94 protest letters received, a notable amount being form letters.

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. A typical residential account will experience a \$2 per month increase in water cost and \$1.51 per month increase in sewer service cost. The proposed extension of the reduction in sewer connections fees for certain commercial and industrial businesses 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 14, 2019 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 2020. 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.

STRATEGIC INITIATIVES

This agenda item supports the Complete Communities Strategic Initiative. The purpose of the Complete Communities initiative is to create and support structures, services, and amenities to provide inclusive and equitable access with the goal of becoming a thriving and promising place to live, work and play for all. Setting water and wastewater service rates at reasonable levels to fund the necessary operations and maintenance allows the City to provide safe and reliable water and wastewater services to ensure communities thrive.

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. While, in light of the end of the drought, many water agencies have ended or curtailed their water conservation programs, these, and other programs will continue to be funded in FY 2020 and FY 2021.

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. It will also enable the City to continue the operation of the existing green and renewable energy generation systems in sewer utility and their expansion over time.

PUBLIC CONTACT

As noted in the discussion, staff mailed over 61,000 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 the public hearing was published in The Daily Review on June 14 and June 21. 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, 2019 and October 1, 2020. 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: Elli Lo, Management Analyst

Recommended by: Alex Ameri, Director of Public Works

Approved by:

A handwritten signature in black ink, appearing to read 'K. McAdoo', written in a cursive style.

Kelly McAdoo, City Manager