



DATE: July 20, 2021

TO: Mayor and City Council

FROM: Director of Public Works

SUBJECT Recommended FY 2022 and FY 2023 Water and Sewer Rates: Adopt a Resolution Amending the Master Fee Schedule and Approving the Proposed Water and Sewer Service Rates

RECOMMENDATION

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

SUMMARY

Cost of service analyses have been prepared for providing water and sewer service to Hayward residents and businesses to calculate appropriate water and sewer rates and service charges for FY 2022 and FY 2023. Staff prepared the sewer cost of service analysis and recommended rates. The water analysis was prepared by Raftelis Financial Consultants Inc., 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 June 1, after which the appropriate and necessary public noticing procedures were implemented in accordance with state law prior to the public hearing. If approved, the rate adjustments would take effect on October 1, 2021, and 2022.

The Water Rate Study prepared by Raftelis documents the City's water revenue requirements for FYs 2022 and 2023, as well as customer demand patterns and rate equity. For FY 2022, revenue requirements will remain unchanged. The recommended water rates for FY 2022 incorporate the results of the cost-of-service analysis and include adjustments to the bimonthly fixed service fees, along with modifications to the tier rates to reflect new customer usage and improve equity. These modifications caused a shift in costs among customer classes and a recommended revenue-neutral water rate structure that would result in an overall 1.2% increase for average residential water user in FY 2022 and commercial and industrial entities would see modest increases, and in some cases, small decreases in water fees. The revenue requirements for FY 2023 increase by 3% and corresponding 3% water rates adjustments are proposed. The executive summary prepared by Raftelis, included as an attachment to this report, provides information regarding the proposed adjustments.

Staff is proposing increases of 3.8% in residential sewer rates in each of the two years, with non-residential increases between 3.5% to 3.8% per year. Industrial customers with very large volume and/or varying degrees of complexity in their wastewater discharge, would see increases

between 3.5% to 3.8% per year. Staff is further proposing to delay implementation of the sewer rate adjustment for restaurants, given the significant impact of the COVID-19 pandemic on this commercial sector. The proposed rate adjustments will allow the City to keep pace with the cost of sewer service collection, treatment, and disposal, including capital costs.

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.

BACKGROUND

At the June 1, 2021¹ work session, Council reviewed the proposed water and sewer service rates for FY 2022 and FY 2023. 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

Water Rates

The City entered into an agreement with Raftelis Financial Consultant, Inc., to prepare a Water Rate Study, including development of a long-term financial plan, cost of service analysis, and proposed water usage and service fees consistent with industry standards and in compliance with Proposition 218. The executive summary for the Study, attached to this report, provides a full discussion of proposed water rates for FY 2022 and FY 2023.

In summary, no increases in the revenue requirement for 2022 is anticipated. Revenue neutral adjustments are proposed to the fixed bimonthly service fees and to the tiered usage water rates to improve equity, harmonize the residential rate classes, better reflect current usage patterns, and separate irrigation water use for non-residential customers. As a result, average residential customers would see an overall increase of about 1.2%, and non-residential users would see similarly modest increases, and in some cases, decreases in their bills. The revenue requirement for FY 2023 is expected to increase by 3%, and therefore, 3% adjustments are recommended for FY 2023.

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

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- The 15% surcharge for customers whose properties are outside of the City limits is proposed to be eliminated in order to simplify the administration of rates

Sewer Service Charge

Staff is recommending increases in residential sewer rates in FY 2022 and FY 2023 of 3.8% in each year. The current monthly charge for a single-family residential property is \$35.81. The proposed increase would bring this charge to \$37.17 in FY 2022 and \$38.58 in the following year. 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 two reduced rates encourage water conservation and reward customers who use low amounts of water. The rates are automatically applied based on water usage during a billing period and are not dependent on income. Non-residential customers would see increases over the two-year period between 3.5% and 3.8%, depending on the volume and strength of their wastewater discharge.

Sewer rates are affected primarily by two factors:

- Operating, Maintenance and Replacement Costs. Sewer rate adjustments result primarily from the increasing costs of providing service. The revenue requirement has increased by 5.2% over the costs on which the current sewer rates are based.
- Changes in Industrial Wastewater Discharge - As industrial manufacturing and food processing facilities shift to other uses, more of the sewer system revenue requirement has also shifted to other customers. An impactful change in this regard was the recent closure of Berkeley Farms, one of the largest wastewater dischargers in the City.

Deferral of Sewer Rate Increase for Restaurants

One of the business sectors hardest hit by COVID-19 restrictions were restaurants. Due to limited options for providing service, restaurants had a difficult time retaining customers, especially smaller, independently owned establishments. Even as many businesses have opened up and are expected to be back to full “normal” operation by the fall, dining out is discretionary for many people. It may take more time for customers to feel comfortable about patronizing restaurants. Staff recommends that sewer rate adjustment for this customer class be phased in as follows:

- Defer FY 2022 sewer rate adjustments for one year
- Effective October 1, 2022, implement 50% of the FY 2022 increase, plus the full amount of the FY 2023 adjustment
- Effective October 1, 2023, implement 50% of the FY 2022 increase, plus the full amount of whatever adjustment is approved for FY 2024

ECONOMIC IMPACT

Economic impacts are discussed in the work session report. In general, the typical single-family residential customer, with average bimonthly water use of 15 ccf (187 gallons per day), will see an increase of \$0.74 per month in water cost and \$2.00 per month in the second year. Monthly sewer bills for single-family customers would be \$1.36 in the first year and \$1.41 in the second. In total, residents would see an increase of \$2.10 per month in the first year and \$3.41 in the second year for water and sewer service. Most commercial and industrial rates will likewise see modest increases in each year.

FISCAL IMPACT

A detailed discussion of fiscal impacts on the Water and Wastewater Funds are included in the work session report. 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. There are no impacts to the General Fund.

STRATEGIC ROADMAP

The proposed rate adjustments align with the City's Strategic Priority of improved infrastructure by providing the funds necessary to maintain and improve the water distribution system and wastewater collection and treatment facilities. Reliable utility services support other priorities such as housing and economic growth.

ENVIRONMENTAL REVIEW

The California Environmental Quality Act (CEQA) includes an exemption 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 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. Council may not take action on the rates if a majority of affected property owners file 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

NEXT STEPS

If approved, the new rates would be effective on October 1, 2021, and October 1, 2022. 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: Marilyn Mosher, Senior Management Analyst

Recommended by: Alex Ameri, Director of Public Works

Approved by:

A handwritten signature in black ink, appearing to read 'K. McAdoo', is positioned above a horizontal line.

Kelly McAdoo, City Manager