

DATE: July 21, 2009
TO: Mayor and City Council
FROM: Director of Public Works
SUBJECT: Proposed FY 2010 and FY 2011 Water and Sewer Rates

RECOMMENDATION

That Council adopts the attached resolution approving the proposed water usage and sewer service charges, and amending the Master Fee Schedule.

DISCUSSION

At its June 2, 2009 worksession, the City Council reviewed the proposed water and sewer service rates for FY 2009 and FY 2010 and expressed concurrence with staff's recommendations. The agenda report and attachments for the worksession are included with this report for reference. (Note that some of the rate comparisons with other agencies have been updated to reflect current information.) The worksession report describes in detail the proposed water and sewer service charges and changes to the water rate structure. It is recommended that the adjustments be effective on October 1, 2009 and October 1, 2010, so that customers do not experience increases in the summer months when water usage is highest, without adequate notice. As indicated in the worksession report, staff also included language in the notice of public hearing and in the attached resolution to allow the Council to increase water and sewer rates in FY 2012 through FY 2014 based on inflationary adjustments and wholesale water rate increases without a Proposition 218 noticing process.

During the worksession, the Council discussed the need for more information for the public about the wholesale water rate increases from San Francisco Public Utilities Commission (SFPUC). As staff stated at the worksession, the wholesale rate was increased by 15.4% effective July 1, 2009, bringing the cost per hundred cubic feet (ccf) of water to \$1.65. (One hundred cubic feet equals about 750 gallons.) Over the next five years, wholesale rate increases are expected to average 17% every year. The major factor in wholesale water rate increases is implementation of the Water System Improvement Program (WSIP).

The WSIP consists of a series of projects to rebuild and retrofit the aging regional water system to improve water supply reliability and seismic safety, and to ensure that water quality standards will continue to be met. Many portions of the regional water system were constructed 50 to nearly 100 years ago, are aging, and do not meet current seismic standards. Some of the system's major

pipelines cross earthquake faults, making them vulnerable to serious damage in an earthquake and creating a potential temporary loss of water supply. Among other projects, the WSIP includes upgrades to Bay Division pipelines that bring water from the higher elevation to the Hayward turnout and to the Calaveras Dam. These improvements are vital. Numerous studies have shown that, without the improvements, the region could be without water for 60 days or more in the event of a large-scale earthquake. The economic impact to the region of such disruption in water delivery has been estimated in the tens of billions of dollars. The WSIP will bring the regional system up to current seismic standards and improve water supply reliability for residents and businesses.

The current estimated total cost of the WSIP is \$4.3 billion, the majority of which is for improvements to the regional water system. Two-thirds of the cost of fixing the regional system will be borne by wholesale customers of SFPUC water, including Hayward. The remaining one-third will be paid by SFPUC retail customers within San Francisco. Costs to the wholesale customers will be incorporated into the wholesale rates as individual projects are undertaken. The WSIP is scheduled to be completed by 2016, generating the need for significant rate increases in the next few years.

PUBLIC CONTACT

Changes in water and sewer service rates are subject to the noticing provisions of Proposition 218. Following the June 2 worksession, staff mailed the attached Notice of Public Hearing to nearly 30,000 property owners within the City's water and sewer service area. The notice describes the proposed increases and lists current and proposed rates. The notice also discusses the property owners' right to protest the rates increases. Proposition 218 specifies that the Council may not take action on the rate if a majority of property owners submit written protests. As of the writing of this report, 32 protests have been received. Most cited the state of the economy as the reason for their protest. The rest of the protests did not include a specific reason. In addition to the mailed notices, the notice of public hearing was published in the *Daily Review* on July 4 and 11.

FISCAL IMPACT

The fiscal impacts of the recommended rate adjustments are discussed in the worksession report. To summarize, the proposed increases will result in a reduction in the working capital balances of both the Water and Sewer Fund, especially in the Water Fund. This is because the Water Fund monies are being used to help prevent the need for even higher rate increases. Given that one of the purposes of the accumulated working capital funds is to provide for rate stability, this use is warranted and appropriate. With careful and prudent oversight of future costs and assuming that needed future rate increases will be implemented, staff believes that both funds can sustain the reduction and stay viable with the proposed adjustments and recover the lost ground in the future.

NEXT STEPS

If approved, the new rates would be effective on October 1, 2009 and October 1, 2010. Prior to these dates, staff will include notices in utility bills in preceding months to inform customers about the approved rates increases.

Prepared by:



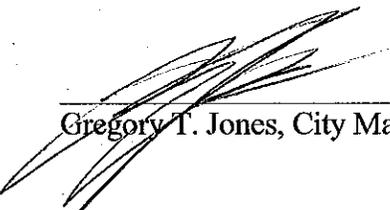
Alex Ameri, Deputy Director of Public Works

Recommended by:



Robert A. Bauman, Director of Public Works

Approved by:



Gregory T. Jones, City Manager

Attachments: A - Worksession Agenda Report dated June 6, 2009 (with attachments)
Draft Resolution



WS 2

DATE: June 2, 2009
TO: Mayor and City Council
FROM: Director of Public Works
SUBJECT: Discussion of Proposed FY 2010 and FY 2011 Water and Sewer Rates

RECOMMENDATION

That Council reads and comments on this report.

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 rates and sewer service charges for FY 2010 and 2011. This report provides an overview of cost of service issues, revenue requirements, and recommended FY 2010 and FY 2011 water and sewer service rates. Staff is bringing the proposed rates to Council for discussion at this time in order to obtain direction and implement appropriate public noticing procedures prior to a public hearing, currently scheduled for July 21, 2009.

Water Rates - The recommended water rate increase for single-family residential customers, based on average water consumption, would be 14% in each of the two years. The recommended adjustments would take effect on October 1 of this year and next year. Those who use less than the average water consumption will see a smaller percentage increase. Comparable increases are proposed for multi-family and non-residential customers. In addition to rate adjustments, staff is proposing changes to the water rate structure to distribute costs more equitably among customer classes and to further encourage water conservation.

Sewer Rates - The recommended residential sewer service charge adjustment is 5% in each of the two years, effective October 1 of this year and next year. Non-residential sewer rate adjustments range from 3.8% to 5.7% in each year, depending on the wastewater characteristics.

DISCUSSION

Water Usage Rates

Water usage charges are the portion of customer water bills that vary with water consumption. The charges are affected by San Francisco Public Utilities Commission (SFPUC) wholesale water rates; water consumption trends; normal operating, maintenance and replacement costs; and other fees and charges. The City implemented an increasing tier rate structure in the 1990s to encourage water

conservation by charging a higher rate for higher water use. In a tier rate structure, customers pay a lower rate for all water use within the first tier and higher rates for all water use within subsequent tiers. Currently, Hayward water rate structure contains three tiers: 1 – 10 ccf; 11-30 ccf; and, over 30 ccf. (Note: ccf refers to one hundred cubic feet, a commonly used unit for measuring water, which is equal to 748 gallons.) The same rate structure is applied to all customer classes, (i.e., single-family residential, multi-family residential, commercial and industrial). While not all water agencies have adopted tier water rate schedules, tier rates are becoming an increasingly common water conservation measure as they provide a financial incentive for keeping water use as low as possible.

Hayward's water rates last increased in October 2007. In keeping with the City's recent practice of increasing rates every other year, no rate adjustment was implemented in FY 2009, despite a 10% wholesale rate increase from SFPUC. No increases to the fixed service fees, which are currently among the lowest within the surrounding area, are proposed in FY 2010 or FY 2011. (Refer to Attachment A for a list of service fees charged by other agencies.) The service fee is the portion of the water bill that pays for services, such as meter reading, billing, customer accounting, and meter maintenance, and that vary with water consumption. While a case can be made for increasing the fee, it is preferable from a water conservation view to keep the fixed charge as low as possible and achieve revenue goals through consumption-based charges. Also, keeping the fixed service fees low allows the customers to have control over a larger portion of their water bill.

The SFPUC has recently adopted a wholesale rate of \$1.65 per ccf for FY 2010, effective July 1, which is a 15.4% increase over the current rate of \$1.43 per ccf. Wholesale rate increases over the next few years are expected to be significant (e.g., 18% in FY 2011, 17% in 2012, 21% in 2013, and 14% in 2014). Over the next five years, the rate increases will average 17%, reaching \$3.14 in 2014. The increases emanate from the supplier and are related to implementation of the \$4.3 billion SFPUC Regional Water System Improvement Program to improve the reliability and structural integrity of the regional water system.

In anticipation of the significant rate adjustments that will be necessary to keep pace with the rising costs of purchasing water, the City has been building reserves in the Water Operating Fund that can be used in part to stabilize rates over the next few years. The fund balance as of June 30, 2008 was \$19.7 million. While there is a need to manage the fund balance carefully to provide for adequate cash flow and emergency funding needs, a portion of the reserves can be used to alleviate the impact of steep wholesale increases on the end user.

Water consumption is also a key factor in setting appropriate ccf water usage rates. While consumption is difficult to anticipate accurately due to weather, conservation, business activity, and other relevant factors, staff is anticipating that water purchases in this current year will be about 4% lower than last year. This reduction is expected to result in lower-than-anticipated water sales revenue in the current fiscal year, perhaps as much as nearly \$1 million. Further, with SFPUC's request for voluntary 10% reductions in water use in the coming year, media attention to the regional and state-wide water situation, and the potential impact of rate increases on consumption, staff is assuming that purchases could decrease by a further 5% next year. While such reductions mean less cost to the City for purchasing water from SFPUC, some other costs, such as staffing, are not as variable. Thus, the per ccf water rates must be set to recover the costs from a smaller amount of water sold.

As mentioned above, the City has historically implemented a single rate structure, which was applied to all customer types, including single and multi-family residential, commercial, industrial, and institutional. In addition to evaluating the per-ccf water rates, staff also reviewed the City's rate

structure. HDR Engineering was hired to assist the City in this effort by analyzing projected costs and water consumption, and providing recommendations for alternative rate structures that would distribute costs more equitably. As a result of this analysis, two modifications to the existing rate structure are proposed:

- Apply two rate structures, one for single-family residential accounts and another for multi-family (with five or more dwelling units) and non-residential accounts, to achieve more equitable distribution of costs.
- Adjust the consumption thresholds within each of the existing three tiers in the single-family residential rate structure, and add a fourth tier to further encourage conservation by very high residential water users.

The proposed rate structure for multi-family and non-residential customers reflects the differences in how these customers use water, compared to single-family residential customers, and encourages water conservation where practicable. Currently, most of the multi-family and non-residential customers do not sufficiently benefit from the two lower tier allotments because their water use is, by necessity, much higher than 30 ccf per billing period. A rate structure that sets the first tier allocation at a higher, more realistic threshold could provide incentive for water conservation to small and medium size businesses and multi-family customers. Additionally, a separate rate structure for multi-family and non-residential customers, a common practice among some water agencies, would improve the overall equity in recovering the costs for services because the average cost of a unit of water becomes more comparable among all types of uses.

The proposed single-family rate structure sets the lowest tier at 8 ccf, rather than the existing 10 ccf, in recognition that single-family residential usage has decreased in recent years and to further encourage water conservation. The second tier would likewise be adjusted downward. The third tier, which currently covers all water use over 30 ccf, would be applied to usage between 26 and 60 ccf, and a fourth tier would be added for use that exceeds 60 ccf, very high single-family consumption. This fourth tier would apply only to water use in excess of 750 gallons per day in a billing period, which is about three times the average single-family home use.

Staff recommends that the Council approve water rate adjustments on July 21 for both FY 2010 and FY 2011. This action would represent a departure from the City's recent practice of every-other-year increases. However, as the SFPUC moves forward with its continuous double-digit wholesale rate increases, maintaining bi-annual rate increases will result in the need for very significant adjustments. Staff estimates that increases of 20% each in 2012, 2014, and 2016 would be necessary if rates continued to be adjusted every other year. Hence, staff recommends that an increase of 14% each be approved for FY 2010 and FY 2011, and that annual rate adjustments be considered thereafter. Staff anticipates that annual adjustments of 10% for five years beginning in 2012 would be sufficient to meet our obligations and to sustain the Water Fund.

The recommended rates for both FY 2010 and FY 2011 are summarized in Table 1 below. Table 2 provides examples of typical billing increases for various categories of customers. Based on an annualized, average bi-monthly single-family use of 18 ccf (220 gallons per day), the increase for single-family customers will be 14% each in FY 2010 and FY 2011, including the fixed service fee. Customers that have very low water use, typically one- or two-person households with minimal outdoor use, will see increases of about 11% in each year, while single-family residential customers with very high use will experience increases in the 18% range in FY 2010 and 16% in FY 2011.

For multi-family and non-residential customers, typical bi-monthly increases range from 13% to 16% in FY 2010, including fixed service fees, with similar percent increases the following year. The multi-family and non-residential increases are in part a function of the proposed new rate structure and in part a result of the adjusted water rates.

**Table 1
CURRENT AND PROPOSED WATER RATES**

	Usage	Rate/ccf	
Current Rates (all customers)	1 – 10 ccf	\$2.15	
	11 – 30 ccf	\$2.53	
	Over 30 ccf	\$3.12	
	Usage	Rate/ccf (Oct 1, 2009)	Rate/ccf (Oct 1, 2010)
Proposed Single-Family Residential Rates (including duplex, triplex, and fourplex accounts)	1 – 8 ccf	\$2.50	\$2.90
	9 – 25 ccf	\$2.90	\$3.40
	26 – 60 ccf	\$3.65	\$4.25
	Over 60 ccf	\$4.00	\$4.65
	Usage	Rate/ccf (Oct 1, 2009)	Rate/ccf (Oct 1, 2010)
Proposed Multi-Family and Non- Residential Rates	1 – 200 ccf	\$3.25	\$3.65
	Over 200 ccf	\$3.65	\$4.20

Note: As noted in the text, one ccf of water equals 748 gallons. Charges are based on metered water consumption in each two-month billing period.

**Table 2
AVERAGE BI-MONTHLY BILLING INCREASES FOR TYPICAL CUSTOMERS
(INCLUDING SERVICE FEES)**

	Consumption (Ccf)	Current	Effective Oct 1 2009	% Inc	Effective Oct 1 2010	% Inc
Single-Family Residential						
Low Use	8	\$26.20	\$29.00	11%	\$32.20	11%
Average Use	18	\$50.74	\$58.00	14%	\$66.20	14%
High Use	60	\$174.70	\$206.05	18%	\$238.75	16%
Multi-Family and Non-Residential (examples based on representative use by specific customers)						
Sit-Down Restaurant	80	\$237	\$269	13%	\$300	12%
Supermarket	600	\$1,922	\$2,181	13%	\$2,481	14%
Food Processor	1,400	\$4,418	\$5,100	15%	\$5,841	15%
Large Apartment Complex	4,500	\$14,649	\$16,975	16%	\$19,420	14%
Hayward Unified School District	26,300	\$88,210	\$102,090	16%	\$116,525	14%

Recognizing that the increased cost of water can impact family and business budgets, the City has implemented an aggressive water conservation program, with information and incentives available to all customers. For example, residential customers can receive rebates for the purchase of high water

efficiency toilets and washing machines, as well as educational information to help them plan and implement water efficient landscaping. Business customers can also receive rebates to help them install high efficiency toilets. Information about these programs can be found on the City's website. The City will soon be embarking on an effort to assist customers with large landscaped areas to identify and implement strategies to reduce outdoor water use. The City is also ready to work with, and even provide funding to, public agencies like the Hayward Unified School District, to help implement innovative conservation programs, such as urinal and toilet replacements, that will help them achieve significant and verifiable water savings.

As is the City's normal practice, it is recommended that rate increases be effective on October 1 of each of the next two years so that Hayward customers are initially not impacted in the summer when water usage is highest. Even with the proposed increase, Hayward water rates will remain in the range that other nearby agencies charge, as shown on Attachment A.

Assuming that Council approves the recommended rates, the water sales revenue is expected to be \$24.9 million and \$28.1 million in FY 2010 and 2011 respectively. However, even with the rate adjustments proposed for the next two years and projected for future years, Water Fund balances are expected to decrease. Table 3 provides a summary of anticipated rate adjustments, revenues, and fund balance decreases over the next several years.

Table 3
SUMMARY OF PROJECTED WATER RATE ADJUSTMENTS, REVENUES AND YEAR-END FUND BALANCES

	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016
% Rate Adjustment	14%	14%	10%	10%	10%	10%	10%
Water Sales Revenue (\$ million)	\$24.9	\$28.1	\$31.2	\$34.8	\$38.3	\$42.5	\$46.7
Ending Fund Balance (\$million)	\$18.7	\$17.3	\$15.6	\$12.4	\$8.3	\$4.7	\$3.2

While a budget with a structural deficit is not sustainable over the long term, staff is cognizant of the fact that the current economic climate is causing hardship for customers and does not want to add to the burden with the higher increases that would be needed to balance the budget. Through careful planning and prudent expenditure of funds, the City has been able to develop a healthy working capital balance in the Water Fund, which can now be used in part to stabilize rates and lessen the need for excessively high rate increases.

Sewer Service Rates

Sewer service charges cover the costs of providing wastewater collection, treatment and disposal services, including maintenance and replacement of equipment. Sewer service rates were last adjusted in October 2007, and the current single-family residential rate is \$23.31 per month. Appropriate sewer rates are calculated in accordance with State Sewer Revenue Program guidelines that have been used for many years to distribute costs equitably among customer classes. The FY 2010 Sewer Revenue Program indicates that sewer service charge increases of about 10% for residential customers would be appropriate; however, staff is proposing that annual residential increases of 5% per year in 2010 and 2011 be adopted. Similar increases are proposed for non-residential customers.

Sewer service rate adjustments result from increased costs of providing service, including normal operations, maintenance and replacement costs, and other fees and charges. Revenue requirements also take into consideration repayment of the \$54 million State Revolving Fund loan, obtained to fund construction of Phase I Water Pollution Control Facility (WPCF) Improvements, will begin in FY 2010. A portion of the debt service must be borne by existing rate payers, as they will benefit from the improvements, and is included in the Sewer operating budget. In order to offset some of the impact of this debt service, staff has recommended in the Capital Improvement Program (CIP) that annual transfers to the WPCF Replacement Fund from the Sewer operating budget be reduced from \$2 million per year to \$1 million in FY 2010 and 2011. (The WPCF Replacement Fund pays for replacement of facilities at the Water Pollution Control Facility.) This reduction is appropriate and possible because a similar increase was implemented a few years ago in order to maintain a positive fund balance. These transfers can be temporarily reduced without negative impact to the City's WPCF replacement program. Without this reduction, the required increase would be 8% per year.

There are other factors beyond the budgeted costs of providing service that contribute to sewer rates, notably the volume and composition of wastewater from residential and non-residential properties. Actual carbonaceous biochemical oxygen demand (CBOD) and suspended solids (SS) concentrations (these are measures of wastewater strength) have risen in recent years at the WPCF. These increases are due to changes in residential wastewater characteristics, in part related to the fact that the average number of occupants per dwelling unit has increased over the past several years. Also, as the volume of residential wastewater discharge decreases because of high efficiency fixtures and less wasteful practices, CBOD and SS become more concentrated in the wastewater, and thus more difficult and costly to remove. Residential wastewater monitoring in 2004 indicated significant increases in residential CBOD and SS. These changes have been implemented into the rates incrementally over the past two rate adjustments, and the FY 2010 proposed rates complete this process by utilizing actual residential waste strength concentrations. There is a direct effect on residential rates because a larger portion of treatment cost is apportioned to residential users.

At the same time, rates are affected by ongoing changes in industrial wastewater characteristics. Several major industrial users have ceased or reduced operations in Hayward, and others are making improvements to their processes in order to reduce sewer service costs. In some cases, it has become more cost effective for businesses with extremely high wastewater levels to treat their wastewater in-house so that the discharge to the public sewer is less polluted or to implement conservation practices to reduce their volumes. Industrial users pay for sewer service based on actual measured wastewater volume and waste strength. As the wastewater strength from some businesses decrease, their sewer billings likewise decrease to reflect the lower discharge. This reduction places pressure on other rate payers to meet revenue requirements, since many of the costs, such as employee services, do not vary.

Besides the standard residential sewer service charge, Hayward also offers reduced monthly sewer rates, known as the Economy and Lifeline rates. These reduced sewer rates are based on water use, as this is the most accurate measure of wastewater discharge. Thus, the Lifeline rate (for water use of 0 to 5 ccf) and the Economy rate (for water use of 6 to 10 ccf) are automatically applied to the sewer service charges for customers with metered water use within the lower ranges. Customers who qualify for these rates are typically one-or two-person households with low outdoor use.

As mentioned previously, in order not to implement a 10% increase all in one year, staff recommends that the Council approve 5% residential adjustments each year in FY 2010 and 2011. Under the annual increase approach, commercial and industrial increases would range from about 3.8% to 5.7% in each year depending on the characteristics of the wastewater. Because non-residential sewer charges are

based on different characteristics, their rate adjustments differ from residential and are unique to each type of business. For example, because the suspended solids component cost increased by the highest percentage (See Table 6 below), customers that discharge wastewater with high concentrations of suspended solids may see a percent increase that is slightly higher than a business with very low suspended solids. In future years, annual increases of 5% in 2012 and 2013 would be needed to maintain a reasonable fund balance, after which slightly lower percent increases may be possible.

Tables 4, 5 and 6 provide a summary of proposed rate increases.

**Table 4
CURRENT AND PROPOSED MONTHLY RESIDENTIAL SEWER SERVICE CHARGES**

	Current	Proposed (Oct 1, 2009)	Proposed (Oct 1, 2010)
Standard Residential (single-family unit)	\$23.31	\$24.48	\$25.70
Duplex, Triplex, Fourplex (per unit)	\$23.31	\$24.48	\$25.70
Multi-Family (per unit)	\$20.74	\$21.78	\$22.87
Mobile Home (per unit)	\$16.31	\$17.13	\$17.98
Economy (6 to 10 units of metered water usage)	\$13.65	\$14.33	\$15.05
Lifeline (0 to 5 units of metered water usage)	\$6.82	\$7.16	\$7.52

**Table 5
NON RESIDENTIAL SEWER SERVICE CHARGES FOR COMMERCIAL USERS* (per ccf of water)**

	With Separate Irrigation Meter			Without Separate Irrigation Meter		
	Current	Proposed (Oct 1, 2009)	Proposed (Oct 1, 2010)	Current	Proposed (Oct 1, 2009)	Proposed (Oct 1, 2010)
Commercial/Government	\$3.73	\$3.92	\$4.11	\$3.36	\$3.52	\$3.70
Restaurant w/ Grease Interceptor	\$6.06	\$6.33	\$6.60	\$5.46	\$5.70	\$5.96
Restaurant w/o Grease Interceptor	\$7.99	\$8.36	\$8.74	\$7.19	\$7.53	\$7.86
Commercial Laundry	\$4.49	\$4.69	\$4.88	\$4.04	\$4.21	\$4.39
Bakery	\$7.99	\$8.36	\$8.74	\$7.19	\$7.53	\$7.86
Beverage Bottling	\$4.57	\$4.76	\$4.96	\$4.11	\$4.28	\$4.46

*These are the most commonly used commercial classifications. Other, infrequently used classifications will be included in the final approval documents.

**Table 6
NON RESIDENTIAL SEWER SERVICE CHARGES FOR CRITICAL INDUSTRIAL USERS**

	Current	Proposed (Oct 1, 2009)	Proposed (Oct 1, 2010)
Flow – Cost per 100 cubic feet of wastewater	\$1.86	\$1.94	\$2.03
Carbonaceous Biochemical Oxygen Demand – Cost per pound	\$0.56	\$0.58	\$0.60
Suspended Solids – Cost per pound	\$0.71	\$0.75	\$0.80

Attachment B compares the City's proposed sewer rates with other nearby agencies. The comparison indicates that Hayward continues to offer sewer collection and treatment services within the range of rates of other Bay Area agencies.

The proposed increases are expected to generate \$16.9 million in FY 2010 and \$17.8 million in FY 2011, resulting in ending fund balances of \$8.7 million and \$8.8 million respectively, a decrease of about \$200,000 from the anticipated ending balance in June 2009. This decrease in fund balance is a result of spreading the rate adjustments over two years and using some of the existing fund balance as a "rate stabilization" fund. Table 7 provides a summary of projected sewer rate adjustments, revenues and year-end fund balances over the next few years.

Table 7
SUMMARY OF PROJECTED SEWER RATE ADJUSTMENTS, REVENUES AND YEAR-END FUND BALANCES

	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016
Percent Rate Adjustment	5%	5%	5%	5%	3%	3%	3%
Sewer Service Revenue (\$million)	\$16.9	\$17.8	\$18.6	\$19.5	\$20.2	\$20.9	\$21.5
Ending Fund Balance (\$million)	\$8.7	\$8.8	\$8.1	\$7.5	\$7.0	\$6.5	\$6.1

Table 8 illustrates the combined impact of the proposed water and sewer rate increases on single-family residential customers with average water consumption.

Table 8
PROPOSED AVERAGE SINGLE-FAMILY RESIDENTIAL WATER AND SEWER BILLINGS

	Current Average Bill	Proposed Average Bill Oct. 1, 2009	Difference	Proposed Average Bill Oct 1, 2010	Difference
Water Usage (18 ccfs)	\$41.74	\$49.00	\$7.26	\$57.20	\$8.20
Service Fee	\$9.00	\$9.00	\$0.00	\$9.00	\$0.00
Sewer Service Charge	<u>\$46.62</u>	<u>\$48.96</u>	<u>\$2.34</u>	<u>\$51.40</u>	<u>\$2.44</u>
Total Bimonthly Bill	\$97.36	\$106.96	\$9.60	\$117.60	\$10.64
Total Monthly Cost	\$48.68	\$53.48	\$4.80	\$58.80	\$5.32

Process to Increase Water and Sewer Rates

Under the provisions of Proposition 218, agencies are required to mail notices to all affected property owners regarding proposed water and sewer rate increases. Property owners are given an opportunity to protest the proposed increase. Each mailing to our 33,000 customers costs approximately \$16,000. Recent legislation allows agencies to adopt increases for water and sewer service that pass through inflationary adjustments (e.g., consumer price index adjustments) and wholesale water charges, without the need for additional notification, as long as appropriate language is included in the initial

public hearing notice. These increases may be authorized for up to five years. Staff has incorporated language into the notice that will be mailed shortly that would enable City Council to adjust rates for inflation and wholesale water rate increases, if Council so desires. These adjustments would not be automatic and Council would still have the prerogative to issue Proposition 218 notices regarding any future rate increases.

PUBLIC CONTACT

Changes in water and sewer service rates are subject to the noticing provisions of Proposition 218. A notice of public hearing (See Exhibit C) will be sent to affected property owners 45 days in advance of the hearing, describing the proposed adjustments and the property owners’ right to protest. Proposition 218 specifies that Council may not take action on the rates if a majority of property owners (over 50%) submit written protests. In order to meet the 45-day noticing requirements for a July 21 hearing, the notices must be mailed no later than June 5.

FISCAL IMPACT

The fiscal impacts of the recommended rate adjustments have been discussed earlier in this report. To summarize, the proposed increases will result in a reduction in the working capital balances of both the Water and Sewer Fund. However, based on estimated future costs and assumptions about future rate increases, staff believes that the Funds can sustain the reduction and stay viable with the proposed adjustments and recover the lost ground in the future. Table 9 summarizes anticipated working capital balances in the Water and Sewer Funds through FY 2016.

Table 9
ANTICIPATED YEAR-END WORKING CAPITAL BALANCES (IN \$ MILLION)

	FY 2009	FY 2010	FY 2011	FY 2013	FY 2014	FY 2015	FY 2016
Water Fund	\$18.7	\$17.3	\$15.6	\$12.4	\$8.3	\$4.7	\$3.2
Sewer Fund	\$8.7	\$8.8	\$8.1	\$7.5	\$7.0	\$6.5	\$6.1

NEXT STEPS

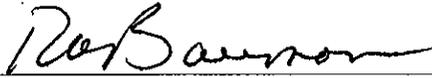
As noted above, staff will implement the noticing requirements of Proposition 218. Council is scheduled to consider rate adjustments during a Public Hearing on July 21. If approved, the new FY 2010 rates would go into effect on October 1, 2009 and the FY 2011 rates would be effective on October 1, 2010.

Prepared by:



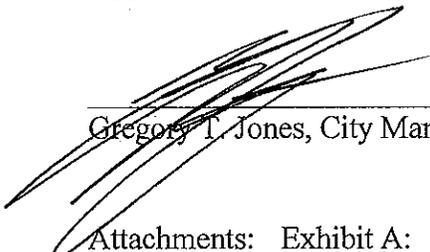
Alex Ameri, Deputy Director of Public Works

Recommended by:



Robert A. Bauman, Director of Public Works

Approved by:



Gregory T. Jones, City Manager

Attachments: Exhibit A: Comparison of Proposed Water Rates with Nearby Agencies
Exhibit B: Comparison of Proposed Sewer Service Charges with Nearby Agencies
Exhibit C: Notice of Proposed Water and Sewer Rate Changes

Attachment A-1

Water Rate Comparisons with Nearby Agencies
 (Based on Single-Family Bi-Monthly Consumption of 18 ccf through 5/8" meter)

	<u>Volume Rates</u>	<u>Service Charge</u>	<u>Total Bi-Monthly Billing</u>
Contra Costa Water District (Concord, Walnut Creek)	\$2.63/ccf	\$32.40	\$79.74
City of Redwood City	1-10 ccf: \$1.96/ccf 11-25 ccf: \$2.50/ccf 26-50 ccf: \$4.08/ccf >50 ccf: \$5.76/ccf	\$32.10	\$71.70
Dublin San Ramon Services District	1-20 ccf: \$2.84/ccf >20 ccf: \$2.99/ccf	\$16.00	68.32 ⁽¹⁾
EBMUD (Castro Valley, San Lorenzo)	0-172 gpd: \$2.28/ccf 173-393 gpd: \$2.83/ccf >393 gpd: \$3.47/ccf	\$20.82	\$65.40 ^(1,2)
City of Foster City	\$1.60/ccf	\$31.20	\$60.00
Alameda County Water District	\$2.68/ccf	\$10.68	\$58.92 ⁽³⁾
City of Hayward (proposed)	1-8 ccf: \$2.50/ccf 9-25 ccf: \$2.90/ccf 26-60 ccf: \$3.65/ccf >60 ccf: \$4.00/ccf	\$9.00	\$58.00
City of Hayward (current)	1-10 ccf: \$2.15 11-30 ccf: \$2.53 >30 ccf: \$3.12	\$9.00	\$50.74

(1) Proposed FY 2010 Rates; Not yet approved

(2) Includes seismic improvement charge and supplemental supply surcharge

(3) For water purchased exclusively from SFPUC

Attachment A-2

Water Rate Comparisons with Nearby Agencies
 (Based on Non-Residential Bi-Monthly Consumption of 200 ccf through 1.5" meter)

	Volume Rates	Service Charge	Total Bi-Monthly Billing
City of Redwood City	1-15 ccf: \$2.50/ccf >15 ccf: \$4.08/ccf	\$160.00	\$953
Dublin San Ramon Services District	\$2.99 - \$3.19/ccf (Seasonal Rates)	\$80.00	\$678 - \$718 ⁽¹⁾
Contra Costa Water District (Concord, Walnut Creek)	\$2.6345/ccf	\$163.00	\$690
City of Hayward (proposed)	1-200 ccf: \$3.25/ccf > 200 ccf: \$3.65/ccf	\$40.60	\$690
EBMUD (Castro Valley, San Lorenzo)	\$2.99/ccf	\$61.98	\$660 (1,2)
City of Hayward (current)	1-10 ccf: \$2.15 11-30 ccf: \$2.53 >30 ccf: \$3.12	\$40.60	\$643
Alameda County Water District	\$2.68/ccf	\$27.05	\$563 ⁽³⁾
City of Foster City	\$1.60/ccf	\$156.00	\$476

(1) Proposed FY 2010 Rates; Not yet approved

(2) Includes seismic improvement charge and supplemental supply surcharge

(3) For water purchased exclusively from SFPUC

Attachment A-3

Water Rate Comparisons with Nearby Agencies
 (Based on Non-Residential Bi-Monthly Consumption of 4500 ccf through 6" meter)

	Volume Rates	Service Charge	Total Bi-Monthly Billing
City of Redwood City	1-15 ccf: \$2.50/ccf >15 ccf: \$4.08/ccf	\$1,604.00	\$19,941
City of Hayward (proposed)	1-200 ccf: \$3.25/ccf > 200 ccf: \$3.65/ccf	\$630.00	\$16,975
Dublin San Ramon Services District	\$2.99 - \$3.19/ccf (Seasonal Rates)	\$1,600.00	\$15,055-\$15,955 ⁽¹⁾
City of Hayward (current)	1-10 ccf: \$2.15 11-30 ccf: \$2.53 >30 ccf: \$3.12	\$630.00	\$14,648
EBMUD (Castro Valley, San Lorenzo)	\$2.99/ccf	\$510.06	\$13,950 ^(1,2)
Contra Costa Water District (Concord, Walnut Creek)	\$2.6345/ccf	\$1,626.00	\$13,481
Alameda County Water District (1)	\$2.68/ccf	\$514.00	\$12,574 ⁽³⁾
City of Foster City	\$1.60/ccf	\$458.00	\$7,568

(1) Proposed FY 2010 Rates; Not yet approved

(2) Includes seismic improvement charge and supplemental supply surcharge

(3) For water purchased exclusively from SFPUC

Attachment B

Sewer Rate Comparisons with Nearby Agencies
(Standard Residential Rates)

<u>Agency</u>	<u>Monthly Sewer Service Charge</u>
City of Livermore	\$40.75
City of Pleasanton	\$30.15
Central Contra Costa Sanitary District (Concord, Walnut Creek, Martinez)	\$26.75 ⁽¹⁾
City of Oakland (City charge plus EBMUD)	\$26.60 ⁽¹⁾
City of San Leandro	\$26.29
City of Hayward (proposed)	\$24.48
Dublin San Ramon Services District	\$24.34
City of Hayward (current)	\$23.31
Union Sanitary District (Fremont, Union City, Newark)	\$21.60
Castro Valley Sanitary District	\$18.42
Oro Loma Sanitary District (San Lorenzo)	\$14.83

(1) Proposed FY 2010 Rate; Not yet adopted

14-May-09



FINAL

NOTICE OF PROPOSED WATER AND SEWER RATE CHANGES
June 4, 2009

TO: Water and Sewer Ratepayers and Parcel Owners in the City of Hayward Service Area (please forward this notice to the ratepayer)

The City of Hayward is proposing increases in water and sewer rates, effective October 1, 2009 and October 1, 2010. A public hearing will be held by the Hayward City Council regarding the proposed rate adjustments on Tuesday, July 21, 2009, at 8:00 p.m., at the Hayward City Hall, 777 B Street. Rates and charges, which will be adopted at the conclusion of the public hearing, will not exceed the proposed rates presented in this notice.

WATER RATES

Water rates were last adjusted in October 2007. Water usage charges pay for the costs of delivering water and are based on quantity of water used in your home or business, as measured by your water meter. Significant increases in the wholesale cost of purchasing water from the San Francisco Public Utilities Commission, Hayward's sole water supplier, plus general operating cost increases, have resulted in the need to adjust water usage rates as shown in Table 1. Water service fees, which are based on meter size, pay for the fixed costs of providing water service and do not vary according to the quantity of water delivered. No changes to the water service charges are proposed.

In addition to rate adjustments, the City is proposing changes to the water rate structure to encourage customers to conserve water and to more equitably distribute the costs of providing services. Currently, a three tier-structure is applied to all customers. Beginning in October 2009, two specific changes are proposed:

- Separate rate structures would be applied to single-family residential accounts, and to multi-family (with five or more dwelling units) and non-residential accounts, to reflect differences in water use; and
- A fourth tier would be added to the single-family residential rate structure to further encourage conservation for very high residential water use. The fourth tier would apply only to water use in excess of 750 gallons per day in a billing period, which is about three times the average single-family home use.

CURRENT AND PROPOSED WATER RATES

Current Rates (all customers)	Usage	Rate/Unit	
		1 – 10 units	\$2.15
	11 – 30 units	\$2.53	
	Over 30 units	\$3.12	

Proposed Single-Family Residential Rates (Including duplex, triplex, and fourplex accounts)	Usage	Rate/Unit (Oct 1, 2009)	Rate/Unit (Oct 1, 2010)
		1 – 8 units	\$2.50
	9 – 25 units	\$2.90	\$3.40
	26 – 60 units	\$3.65	\$4.25
	Over 60 units	\$4.00	\$4.65

Proposed Multi-Family and Non-Residential Rates	Usage	Rate/Unit (Oct 1, 2009)	Rate/Unit (Oct 1, 2010)
		1 – 200 units	\$3.25
	Over 200 units	\$3.65	\$4.20

Note: One unit of water equals 748 gallons. Charges are based on metered water consumption in each two-month billing period.

Current average annual water use for single-family residential customers is 18 units per two-month billing period, or about 225 gallons per day. Based on this level of usage, single-family customers will see an average increase in their bi-monthly billing of \$8.20, from \$58.00 to \$66.20, including both the water usage charge and service fee.

SEWER SERVICE CHARGES

Sewer service charges were last adjusted in October 2007. This fee pays for the collection, treatment and disposal of wastewater from residences and businesses and is based on the type and volume of wastewater disposed. Increases in the costs of providing these services and capital costs related to improving the wastewater treatment facility have resulted in the need for rate adjustments. The treatment facility improvements are needed to meet State and Federal requirements for discharging to the San Francisco Bay and to improvement the reliability of treatment processes.

Residential Rates

The standard residential rate is proposed to increase by 5% from the currently monthly charge of \$23.31 to \$24.48 on October 1, 2009 and by 5% to \$25.70 on October 1, 2010. Lower monthly rates, called Economy and Lifeline rates, are automatically applied to billings where metered water consumption is lower than the standard usage, as shown below. The following table lists the current and proposed residential sewer service charges.

CURRENT AND PROPOSED MONTHLY RESIDENTIAL SEWER SERVICE CHARGES			
	Current	Proposed (Oct 1, 2009)	Proposed (Oct 1, 2010)
Standard Residential (single-family unit)	\$23.31	\$24.48	\$25.70
Duplex, Triplex, Fourplex (per unit)	\$23.31	\$24.48	\$25.70
Multi-Family (per unit)	\$20.74	\$21.78	\$22.87
Mobile Home (per unit)	\$16.31	\$17.13	\$17.98
Economy (6 to 10 units of metered water usage)	\$13.65	\$14.33	\$15.05
Lifeline (0 to 5 units of metered water usage)	\$6.82	\$7.16	\$7.52

Non Residential Rates

Non-residential customers are classified as either coded or critical users. Most non-residential customers are in the first category and classified by the type of businesses that most closely resembles the nature of wastewater generated. The coded sewer rates also take into account whether customers have separate irrigation meters. Critical users are billed according to actual measured wastewater strength and volume. The following table lists non-residential sewer service charges for the most common businesses and for critical users. A complete list of charges can be found at www.hayward-ca.gov or you can call (510) 583-4700 to request a copy by mail.

NON RESIDENTIAL SEWER SERVICE CHARGES FOR CODED USERS* (per unit of water)						
	With Separate Irrigation Meter			Without Separate Irrigation Meter		
	Current	Proposed (Oct 1, 2009)	Proposed (Oct 1, 2010)	Current	Proposed (Oct 1, 2009)	Proposed (Oct 1, 2010)
Commercial/Government	\$3.73	\$3.92	\$4.11	\$3.36	\$3.52	\$3.70
Restaurant w/ Grease Interceptor	\$6.06	\$6.33	\$6.60	\$5.46	\$5.70	\$5.96
Restaurant w/o Grease Interceptor	\$7.99	\$8.36	\$8.74	\$7.19	\$7.53	\$7.86
Commercial Laundry	\$4.49	\$4.69	\$4.88	\$4.04	\$4.21	\$4.39
Bakery	\$7.99	\$8.36	\$8.74	\$7.19	\$7.53	\$7.86
Beverage Bottling	\$4.57	\$4.76	\$4.96	\$4.11	\$4.28	\$4.46

NON RESIDENTIAL SEWER SERVICE CHARGES FOR CRITICAL USERS*			
	Current	Proposed (Oct 1, 2009)	Proposed (Oct 1, 2010)
Flow – Cost per 100 cubic feet of wastewater	\$1.86	\$1.94	\$2.03
Carbonaceous Biochemical Oxygen Demand – Cost per pound	\$0.56	\$0.58	\$0.60
Suspended Solids – Cost per pound	\$0.71	\$0.75	\$0.80

*Calculated based on formula and not straight 5% increase per year.

If you need assistance in calculating the impact of the proposed rate adjustments, please contact the Department of Public Works, Utilities Administration at (510) 583-4723 or by e-mail at utilities.administration@hayward-ca.gov.

The water usage and sewer service charges are proposed to include an annual rate adjustment in FY 2012, 2013 and 2014 based upon the change in Consumer Price Index (CPI), and in the case of the water rate, the change in the cost of wholesale water. It is proposed the rates will be adjusted by the Hayward City Council based on the percentage change of the most recent CPI and the cost of wholesale water. The rates will be adopted in June of each year and will be effective on October 1. Customers will be notified of the new rates at least 30 days in advance of the effective date.

The proposed rate changes will not take effect if protests are received from a majority of affected property owners and tenants responsible for paying utilities bills. If you wish to protest the proposed service rate increases, the City must receive your written protest by mail or hand delivery before the close of the public hearing on July 21, 2009. Mail or deliver written protests to: City of Hayward, 777 B Street, Hayward, CA 94541, Attention: City Clerk. For your protest to be counted, it must indicate your name, and either the address(es) or water/sewer account number(s) of the property or properties that you own in Hayward.

Assistance will be provided to those requiring accommodations for disabilities in compliance with the Americans with Disabilities Act of 1990. Interested persons must request the accommodations at least 48 hours in advance of the meeting by contacting the City Clerk at (510) 583-4400 or TDD (510) 247-3340.

DRAFT

NH
7/1/09

HAYWARD CITY COUNCIL

RESOLUTION NO. 09-___

Introduced by Council Member _____

RESOLUTION AMENDING THE MASTER FEE SCHEDULE AND APPROVING WATER AND SEWER RATES

WHEREAS, Section 15273 of the California Environmental Quality Act Guidelines states that CEQA does not apply to the establishment, modification, structuring, restructuring, or approval of rates, tolls, fares and other charges by public agencies which the public agency finds are for the purpose of:

1. Meeting operating expenses, including employee wage rates and fringe benefits,
2. Purchasing or leasing supplies, equipment or materials,
3. Meeting financial reserve needs and requirements, or
4. Obtaining funds for capital projects necessary to maintain service within existing service areas.

WHEREAS, the City Council finds and determines that this action is exempt from CEQA based on the foregoing provisions.

NOW, THEREFORE, BE IT RESOLVED that the City Council of the City of Hayward hereby amends the Master Fee Schedule and approves the following water and sewer rates of the City of Hayward, a copy of which is on file in the Office of the City Clerk. The approved water and sewer rates shall be effective on October 1, 2009 and October 1, 2010, as shown.

Water Usage Charges

The water usage charge, based on the number of cubic feet supplied during each billing period, shall be as follows:

Single-Family Residential Rates (including duplex, triplex, and fourplex accounts)

<u>Usage</u>	<u>Oct. 1, 2009</u>	<u>Oct. 1, 2010</u>
0 - 8 hundred cubic feet (ccf)	\$2.50 per ccf	\$2.90 per ccf
9 - 25 ccf	\$2.90 per ccf	\$3.40 per ccf
26 - 60 ccf	\$3.65 per ccf	\$4.25 per ccf
Over 60 ccf	\$4.00 per ccf	\$4.65 per ccf

Multi-Family and Non-Residential Rates

<u>Usage</u>	<u>Oct. 1, 2009</u>	<u>Oct. 1, 2010</u>
1-200 hundred cubic feet (ccf)	\$3.25 per ccf	\$3.65 per ccf
Over 200 ccf	\$3.65 per ccf	\$4.20 per ccf

Sewer Service Charges

Residential Service	Monthly Charge Oct. 1, 2009	Monthly Charge Oct. 1, 2010
Standard Residential Unit	\$24.48	\$25.70
Duplex, Triplex, Fourplex (per unit)	\$24.48	\$25.70
Multi-Family (per unit)	\$21.78	\$22.87
Mobile Home Unit	\$17.13	\$17.98
Economy	\$14.33	\$15.05
Lifeline	\$7.16	\$7.52

Non-Residential Service – Coded Users				
Customer Classification	Sewer Service Charge Per 100 cubic feet (with irrigation meter)		Sewer Service Charge Per 100 cubic feet (without irrigation meter)	
	Oct. 1, 2009	Oct. 1, 2010	Oct. 1, 2009	Oct. 1, 2010
Commercial/Government	\$3.92	\$4.11	\$3.52	\$3.70
Restaurant (w/grease interceptor)	\$6.33	\$6.60	\$5.70	\$5.96
Restaurant (w/o grease interceptor)	\$8.36	\$8.74	\$7.53	\$7.86
Commercial Laundries	\$4.69	\$4.88	\$4.21	\$4.39
Industrial Laundries	\$7.55	\$7.90	\$6.80	\$7.11
Bakeries	\$8.36	\$8.74	\$7.53	\$7.86
Beverage Bottling	\$4.76	\$4.96	\$4.28	\$4.46
Food Manufacturing	\$19.10	\$19.91	\$17.19	\$17.92
Meat Products	\$9.45	\$9.83	\$8.50	\$8.84
Slaughterhouse	\$10.83	\$11.36	\$9.76	\$10.23
Dairy Product Processors	\$7.69	\$8.01	\$6.92	\$7.21
Canning and Packing	\$5.31	\$5.54	\$4.78	\$4.99
Grain Mills	\$7.13	\$7.47	\$6.42	\$6.72
Fats and Oils	\$5.00	\$5.23	\$4.51	\$4.71
Pulp and Paper Mfg	\$6.20	\$6.49	\$5.58	\$5.84
Inorganic Chemicals	\$8.76	\$9.22	\$7.88	\$8.30
Paint Manufacturing	\$14.05	\$14.70	\$12.65	\$13.23
Leather Tanning	\$18.69	\$19.53	\$16.82	\$17.57
Fabricated Metal	\$2.27	\$2.37	\$2.04	\$2.13

