



CITY OF HAYWARD
AGENDA REPORT

AGENDA DATE 05/08/07
AGENDA ITEM _____
WORK SESSION ITEM WS#3

TO: Mayor and City Council
FROM: Director of Public Works
SUBJECT: Proposed 2007-08 Water and Sewer Rates

RECOMMENDATION:

It is recommended that the City Council review and comment on this report.

DISCUSSION:

Staff has prepared cost of service analyses for providing water and sewer service to Hayward residents and businesses. Utility rate adjustments are normally considered as part of the budget review process. Staff is bringing proposed rates to the Council for discussion at this time in order to obtain direction and implement appropriate public noticing procedures prior to the public hearing, currently scheduled for July 10, 2007. The new rates, if approved, would become effective on October 1, 2007.

Pursuant to recent case law, adjustments in water and sewer charges are now subject to the noticing requirements of Proposition 218. A notice of public hearing must be sent to affected property owners at least 45 days in advance of the hearing, describing the proposed adjustments and the property owners' right to protest. Proposition 218 specified that Council may not take action on the rates if a majority of property owners (over 50 percent) protest the increase. In order to meet the 45-day noticing requirements for a July 10 hearing, staff must prepare and mail the notices no later than May 24.

This report will address water usage and service charges, which pay for water distribution and fixed service costs, and sewer service charges, which cover the costs of providing wastewater collection and treatment services. The results of the analyses indicate that rate increases are needed in 2007-08 for both water and sewer services. No changes are proposed at this time for sewer connection fees or water facilities fees that apply to new installations.

Water Rates

Water usage charges are billing charges that vary with water consumption. The charges are affected by the San Francisco Public Utilities Commission (SFPUC) wholesale rate, consumption trends, normal operating and replacement costs, and maintenance of an adequate working capital balance in the Water Operating Fund. The City implemented an increasing rate block structure several years ago to encourage water conservation by charging a higher rate for higher water use. Currently, the lowest block rate (1-10 units) is \$1.95 per unit, the second block

(11-30 units) is \$2.12 per unit, and the highest block rate is \$2.45 per unit. A unit of water is equal to 748 gallons. The average single-family bi-monthly water billing is \$47.70, which is the cost for 20 units of water in a two-month period or about 250 gallons per day.

Water rates were last increased in 2003-04 in response to a wholesale rate increase from San Francisco Public Utilities Commission (SFPUC) of 25%, plus normal inflationary cost increases in employee services and supplies. While it is the City's usual practice to adjust water rates every two years, the rates were not changed in 2005-06 because the wholesale rate was not increased, and the Water Fund balance was sufficient to cover the other increased costs associated with delivering water. The SFPUC did increase the wholesale rate for 2006-07 by nearly 20%, from \$1.02 to \$1.22. Because of the timing of the notification from SFPUC, and that it was not a year in which utility rates would typically be adjusted, the City did not increase its rates for 2006-07.

Although we do not have a firm commitment from SFPUC regarding the 2007-08 wholesale water rate, based on the most recent information from SFPUC staff, the increase may range from 5% to 11%. SFPUC has made no commitment to stay within that range, because a key factor in the calculation, water purchases during the spring months, is still unknown. An increase could reach or potentially exceed 11%. The final rate may not be communicated to the City until early June. Staff has assumed an 11% increase for 2007-08.

Future rate adjustments from SFPUC will be dependent on both the normal factors, such as consumption and operating costs, and implementation of the Water System Improvement Program (WSIP), a \$4.3 billion effort to improve the reliability and structural integrity of the regional water system. Hayward's share of these costs, based on the percentage of system usage, is expected to be in the mid \$200 million range. Significant wholesale water rate increases are anticipated over the next eight to ten years, as the various projects that make up the WSIP are constructed. SFPUC's projected 2015-16 rate is \$3.62, nearly three times the current rate. This is why the fund balance is so critical at this point; to the extent that the City can maintain a healthy balance, rate payers will have some protection against the upcoming steep increases in wholesale rates.

Other costs that were factored into the proposed rates, such as employee services, supplies and services, and utilities are based on expenditures identified in the second year of the two-year 2006-08 recommended budget. There are no significant departures from the normal increases, and despite a significant addition to fixed assets (new reservoirs and pump stations), the \$2 million transfer to the Water System Replacement fund remains unchanged.

In addition to costs for purchasing and delivering water, consumption is a key component determining appropriate water rates. Water use is difficult to forecast accurately, because climatic conditions play a large role in outdoor water usage. Based on billing data to date, it is assumed that 2006-07 consumption will be similar to last year. However, recognizing the existing drought conditions and the need for, at least, voluntary conservation efforts consumption for next year is now anticipated to drop by 5%, which will impact revenues and fund balances.

The Water Fund ending balance in June 2007 is expected to be about \$16.9 million, a decrease of \$2.7 million over the previous year. Given the significant wholesale rate increase in 2006-07 and the anticipated increase in 2007-08, coupled with lower-than-anticipated water usage, the Water Operating Fund cannot sustain an adequate fund balance without a rate adjustment for Hayward customers in 2007-08.

The recommended rates are summarized in the table below. Based on an annualized average bi-monthly single-family usage of 20 units, single-family residential customers would experience a 17% average rate increase. The impact on businesses would be based on use. For example, a restaurant using 85 units per billing period (about 1,000 gpd), would pay about 20% more, and a large industrial customer would pay about 27% more, based on average water use of 2,500 units or about 30,000 gallons per day. To keep these percent increases in perspective, this would be the first increase in four years, and the average annual increase would be in the range of 3.4% to 5.4% per year.

Staff also recommends an increase in service charges. The service charge pays for the costs of providing water service which are unrelated to the amount of consumption. Water meter reading, meter maintenance, billing, and customer service are examples of services that would fall into this category. Service charges were last increased twelve years ago, in 1995. The bi-monthly charge for a 5/8-inch meter, which is the standard size for most single-family residential properties, is currently \$7, or \$3.50 per month. A cost analysis indicates that a \$1 increase per month, to \$4.50, is appropriate for this size meter. The bi-monthly charge on single-family water bills would be \$9. Service charges are based on meter size. The service charge for the very largest meters, of which there are very few and are typically used in large multi-family housing complexes, would increase by \$115 per month. The majority of business meters are 2 inches in size or smaller, which would result in an increase of anywhere from \$1 to \$8 per month.

The following table summarizes the proposed water rate increases and the impact on average single-family water usage:

Table 1

Bi-Monthly Water Consumption	WATER COST	
	Current Rate	Proposed Rate
0-10 ccf	\$1.95	\$2.15
11-30 ccf	\$2.12	\$2.53
Over 30 ccf	\$2.45	\$3.12
Average consumption charge for single-family residence (20 CCF)	\$40.70	\$46.80
Meter service charge	\$ 7.00	\$ 9.00
Total bill for two months	\$47.70	\$55.80

Note: 1 ccf = 100 cubic feet = 748 gallons

Table 2 lists the current and proposed meter service charges by size:

Meter Size	Current Service Charge (Per Month)	Proposed Service Charge (Per Month)
5/8 inch	\$3.50	\$4.50
3/4 inch	\$4.75	\$6.10
1 inch	\$7.20	\$9.25
1 1/2 inch	\$15.80	\$20.30
2 inch	\$27.75	\$35.70
3 inch	\$70.05	\$90.10
4 inch	\$138.85	\$178.50
6 inch	\$244.90	\$314.90
8 inch	\$339.00	\$435.90
10 inch	\$408.50	\$525.20

As noted earlier, staff has assumed a 5% reduction in water use next year for conservation purposes. Based on that assumption for water usage, staff expects the recommended rates to generate about \$21.0 million in water sales revenue and decrease the year-end fund balance to \$16.6 million. Exhibit A is a line graph to show recent and projected year-end fund balances.

Exhibit B compares the proposed rates to the rates of nearby water agencies. The recommended rates would continue to allow Hayward to offer the highest quality water to its customers at competitive prices. At this time, it is unknown what rate adjustments are to be adopted by these agencies in 2007-08, so the rate shows are generally the current rates and may be higher next year.

Sewer Service Charges

Each year, staff prepares a sewer rate analysis to evaluate the revenues needed, by customer classification, to meet anticipated expenditures. Sewer service charges cover the costs of providing wastewater collection and treatment services, including maintenance and replacement of equipment. Sewer service rates last increased in January 2006. The current single-family residential rate is \$18.95. Proposed sewer rates for 2007-08 have been calculated in accordance with the State Sewer Revenue Program guidelines that have been used for many years by Hayward to distribute costs equitably among customer classes. The Sewer Revenue Program indicates that sewer service rate increases are appropriate for 2007-08.

The sewer service rate increases result from rising costs, including increased costs for employee services, utilities and supplies, and an increase in the transfer of funds to the Water Pollution Control Facility (WPCF) Replacement Fund from \$2 million to \$3 million in both 2006-07 and 2007-08 to cover project costs. This increased transfer is to pay for projects that will be constructed as part of Phase II of the WPCF Improvement Project. Since the WPCF Improvement Project will benefit existing ratepayers, it is appropriate to incorporate the higher transfer into the revenue requirement on which the 2007-08 sewer service charge is calculated.

Future sewer revenue programs will adjust the transfer amount to be consistent with the applicable CIP. In addition, the sewer revenue requirement includes \$1.3 million to begin addressing future debt service for the WPCF Improvement Project. The Council will recall that the City is constructing facilities at the WPCF to improve the efficiency, reliability and redundancy of the treatment processes, both for current users and future development. The project is being funded in large part by a loan from the State Water Resources Control Board Revolving Fund. Approximately half of the debt service, \$1.3 million annually, will need to be borne by existing ratepayers.

There are other factors beyond budgeted costs of providing service that contribute to the proposed rates, notably the volume and composition of wastewater from residential properties and changes in industrial wastewater discharge. First, actual average biochemical oxygen demand (CBOD) and suspended solids (SS) concentrations at the WPCF have risen significantly over the concentrations used in previous rate analyses. Changes in residential wastewater characteristics is a major factor. In recent years, we have assumed that an average single-family residential household discharged about 200 gallons per day of wastewater with CBOD of 211 mg/L and SS of 214 mg/L. These assumptions were based on monitoring results from the mid 1990s. However, extensive residential sampling in 2004 and 2005 caused a reassessment of assumptions about residential wastewater strength. Discharge from residential properties has risen over the past decade, due in part to increased household size. The City began addressing these changes in the 2005-06 rates, and continues to implement them, incrementally, in the current rate calculations. There is a direct effect on the residential rates, as a larger portion of treatment costs is appropriately shifted to residential users.

At the same time, the rates are affected by ongoing changes in industrial wastewater characteristics. Specifically, improvements several major industries have made or are in the process of making to their pretreatment processes have resulted in a decline in sewer revenue from this sector. These reductions, while beneficial to the WPCF processes, put pressure on other ratepayers to make up the lost revenue.

Based on the factors described, the sewer revenue analysis indicates that a 23% increase in the single family residential monthly rate, from \$18.95 to \$23.31 per month, is needed to recover appropriate costs from this customer sector. Similar percentage increases are indicated for multi-family and mobile home customers. Commercial and industrial increases would range from about 19% to 26%, depending on the characteristics of the wastewater discharge, with an average increase of 21.3%. The largest industrial customers, Kobe, Pepsi and Berkeley Farms, would see average increases of 19% to 21%. Sewer bills for restaurants would increase by about 23%. An increase in 2008-09 is not anticipated; the average increase per year over the next two years would range from 9% to 13%.

Exhibit C provides a summary of proposed residential rate increases and a sampling of industrial/commercial increases. The Wastewater Fund ending balance in June 2007 is expected to be about \$6.5 million, a decrease of \$2.1 million over the previous year. Based on current knowledge, staff expects the recommended rates to generate about \$15 million in sewer service revenue and result in a year-end fund balance of about \$5.7 million. The fund would remain in deficit in 2008-09. A 23% increase would be needed in 2009-10 to eliminate the deficit.

Given the significant debt service that will result from the State Revolving Fund loan and lower-than-anticipated revenues during the past few years, the Sewer Operating Fund cannot sustain an adequate fund balance without a rate adjustment for Hayward customers in 2007-08. Exhibit D is a line graph to show recent and projected year-end fund balances.

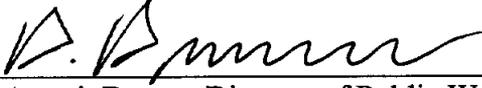
Exhibit E compares the City's proposed sewer rates with other nearby agencies. As with water rates, it is not yet known what rate adjustments may be made by various agencies in 2007-08. The information presented at this time is based on current rates. Nonetheless, the comparisons show that Hayward will continue to offer high quality sewer collection and treatment service at competitive rates.

To summarize the impact on residential billings, both monthly and during a two-month billing period, the following table illustrates in terms of dollars the existing and proposed water and sewer rates:

Table 3

Fee	Current Average Bill	Proposed Average Bill	Difference
Water (20 units)	\$47.70	\$55.80	\$8.10
Sewer	<u>\$37.90</u>	<u>\$46.62</u>	<u>\$8.72</u>
Total (per billing period)	\$85.60	\$102.42	\$16.82
Total (per month)	\$42.80	\$51.21	\$8.41

Prepared by:



Alex Ameri, Deputy Director of Public Works

Recommended by:



Robert Bauman, Director of Public Works

Approved by:

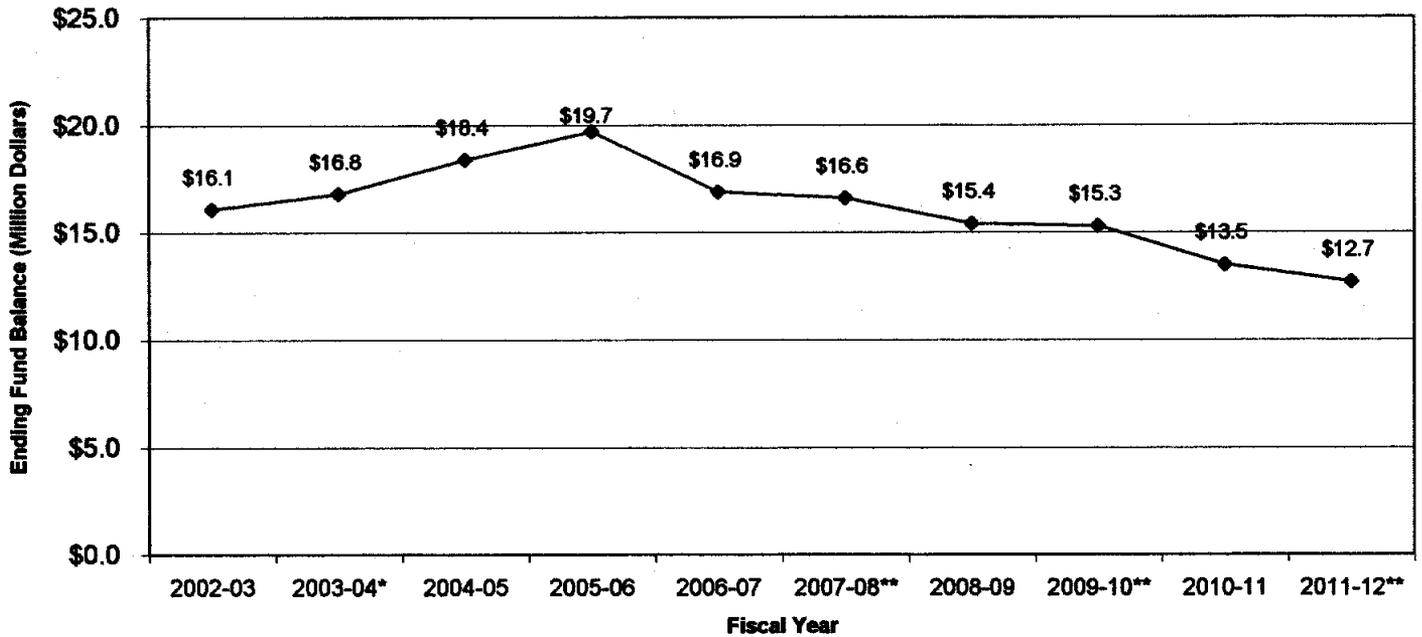


Jesús Armas, City Manager

- Exhibits:
- A. Water Fund Ending Working Capital Balances
 - B. Water Rates from Nearby Agencies
 - C. Proposed Sewer Service Charges
 - D. Sewer Fund Ending Working Capital Balances
 - E. Sewer Service Charges of Nearby Agencies

Exhibit A

**ACTUAL AND PROJECTED WATER FUND WORKING CAPITAL BALANCES
2001-02 to 2011-12**



* Rate Increase Implemented

** Rate Increase Proposed/Projected

Exhibit B

**Water Rate Comparisons with Nearby Agencies
(Based on Bi-Monthly Consumption of 20 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)	\$2.28/ccf	\$31.00	\$76.60
City of Redwood City	1-10 ccf: \$1.28/ccf 11-25 ccf: \$2.26/ccf 11-50 ccf: \$2.84/ccf 11-75 ccf: \$3.63/ccf >75 ccf: \$4.42 ccf	\$28.50	\$63.90
City of Hayward (proposed)	1-10 ccf: \$2.15 11-30 ccf: \$2.53 >30 ccf: \$3.12	\$9.00	\$55.80
Alameda County Water District (Fremont, Newark, Union City)	\$2.285/ccf	\$10.08	\$55.78
Dublin San Ramon Services District	1-30 ccf: \$1.96/ccf >30 ccf: \$2.11/ccf	\$16.00	\$55.20
EBMUD (Castro Valley, San Lorenzo)	0-172 gpd: \$1.65/ccf 173-393 gpd: \$2.05/ccf >393 gpd: \$2.51/ccf	\$18.90	\$54.30
City of Foster City	\$1.26/ccf	\$25.00	\$50.20
City of Hayward (current)	1-10 ccf: \$1.95/ccf 11-30 ccf: \$2.12/ccf >30 ccf: \$2.45/ccf	\$7.00	\$47.70

19-Apr-07

EXHIBIT C

PROPOSED 2007-08 SEWER SERVICE CHARGES

Residential Charges

<u>Service</u>	<u>Existing Monthly Sewer Service Charge</u>	<u>Proposed Monthly Sewer Service Charge</u>
Standard Residential	\$18.95	\$23.31
Duplex, Triplex, Fourplex	\$18.95	\$23.31
Multi-Family Unit	\$16.87	\$20.74
Mobile Home	\$13.27	\$16.31
Lifeline – 0-5 ccf per billing period	\$5.63	\$6.82
Economy – 6-10 ccf per billing period	\$11.26	\$13.65

Note: One ccf equals 748 gallons

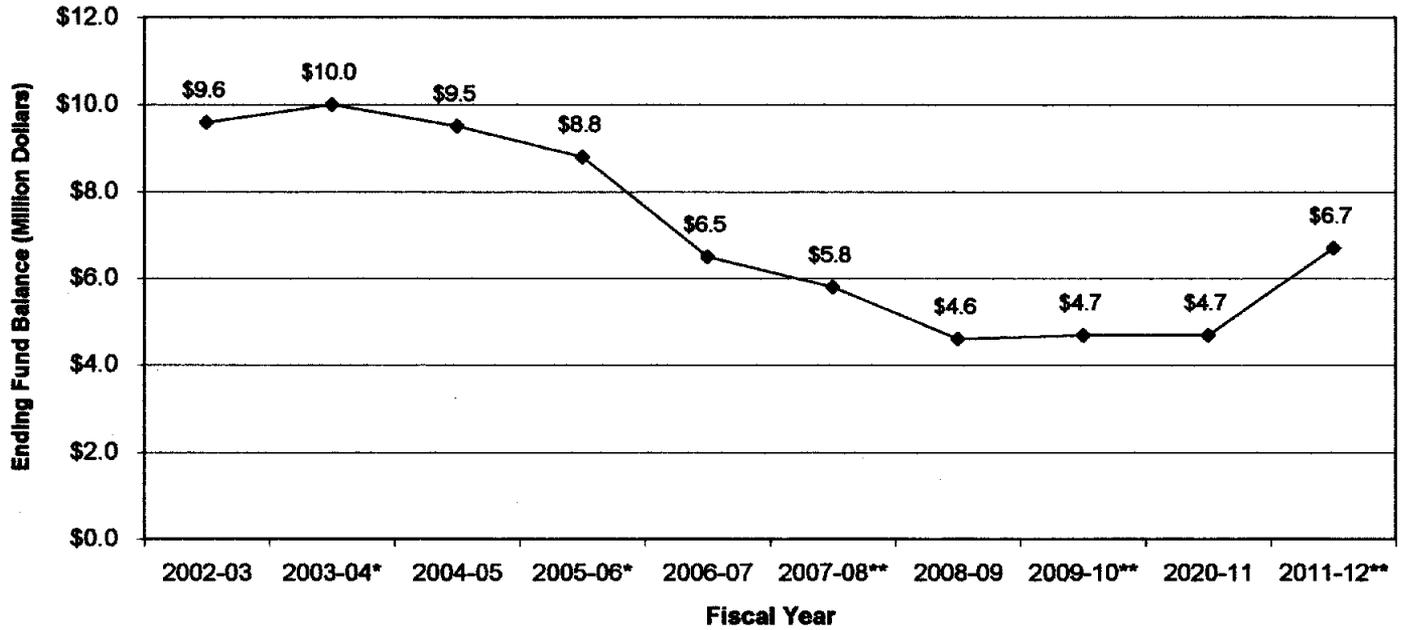
Non-Residential Charges

Commercial and industrial customers are charged for sewer service based on the volume and strength of their discharge. The following table shows the existing and proposed charges for each parameter used in calculating sewer service charges for commercial and industrial users:

<u>Parameter/Unit</u>	<u>Existing</u>	<u>Proposed</u>
Flow – Cost per 100 cubic feet (ccf)	\$1.58	\$1.86
Biochemical Oxygen Demand - Cost per pound	\$0.45	\$0.56
Suspended Solids - Cost per pound	\$0.56	\$0.71

Exhibit D

ACTUAL AND PROJECTED SEWER FUND WORKING CAPITAL BALANCES 2001-02 to 2011-12



* Rate Increase Implemented

** Rate Increase Proposed/Projected

Exhibit E

Sewer Rate Comparisons with Nearby Agencies
(Standard Residential Rates)

<u>Agency</u>	<u>Monthly Sewer Service Charge</u>
City of Livermore	\$38.75
City of Pleasanton	\$31.50
City of Oakland (City charge plus EBMUD)	\$28.42
Dublin San Ramon Services District ⁽¹⁾	\$25.55
City of San Leandro	\$25.43
City of Hayward (proposed)	\$23.31
Union Sanitary District ⁽¹⁾ (Fremont, Union City, Newark)	\$20.28
City of Hayward (current)	\$18.95
Castro Valley Sanitary District ⁽¹⁾	\$17.50
Oro Loma Sanitary District (San Lorenzo)	\$16.08

(1) Proposed rate; not yet adopted

27-Apr-07