CITY OF HAYWARD
AGENDA REPORT

AGENDA DATE 10/11/05
AGENDA ITEM 5
WORK SESSION ITEM

TO: Mayor and City Council

FROM: Director of Public Works

SUBJECT: Proposed Sewer Service Rate and Sewer Connection Fee Adjustments

RECOMMENDATION:

It is recommended that City Council adopt the attached resolution to approve the proposed sewer service rates and sewer connection fees and amend the Master Fee Schedule.

DISCUSSION:

At its September 20 worksession, the City Council reviewed the proposed sewer service rates and sewer connection fees and expressed concurrence with staff's recommendations. The agenda report and attachments for the worksession, which describe the proposed adjustments, are attached for reference.

It is recommended that all sewer rate adjustments be effective on January 1, 2006 rather than December 5, 2005, as was indicated in the worksession report, to provide sufficient time to meet noticing requirements.

Prepared by:

Alex Ameri, Deputy Director of Public Works

Recommended by:

Robert Bauman, Director of Public Works

Approved by:

Jesús Armas, City Manager

Attachment: Worksession Agenda Report dated September 20, 2005

CITY OF HAYWARD
AGENDA REPORT

AGENDA DATE 09/20/05
AGENDA ITEM _____
WORK SESSION ITEM _____

TO: Mayor and City Council

FROM: Director of Public Works

SUBJECT: Proposed Sewer Service Rate and Sewer Connection Fee Adjustments

RECOMMENDATION:

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

DISCUSSION:

In June 2005, the City Council was presented with recommended adjustments to sewer service rates and sewer connection fees for 2005-06. However, no action was taken at that time, due to the uncertainty regarding the construction cost for the Water Pollution Control Facility (WPCF) Phase I Improvement Project. Since the cost of this project could have a substantial impact on the recommended rates, staff suggested that the City Council defer discussion and adoption of sewer rates for 2005-06 until an analysis could be made regarding the options available to the City for obtaining construction services.

After appropriate Council action in July, the City procured construction services in the open market, and on September 13, the City Council awarded the construction contract for the WPCF project in the amount of $48.77 million. This amount, while lower than the bid amount received in May, is nonetheless significantly higher than the estimated cost. The total cost of the project, including design and construction services, is now about $57 million.

Staff reviewed the Sewer Revenue Program, which is used to calculate sewer service rates, and the sewer connection fee analysis to determine the effect of the higher WPCF project cost. Staff concluded that the proposed sewer service rate adjustments presented earlier this year could be revised, given that the State Revolving Fund loan repayment for the WPCF project will not begin until 2008-09 and that adjustments to the Capital Improvement Program could reduce the necessary transfers by $1 million each year in 2006-07 and 2007-08. Based on these adjustments, the new proposed sewer service rate for a single-family residence would increase by 14.9% to $18.95 per month effective Monday, December 5, 2005. Previously, staff had recommended an 18.2% increase in the basic residential rate, which would have resulted in a monthly charge of $19.50.

Staff also determined that the appropriate sewer connection fee is slightly higher than originally proposed. The existing single-family residential connection fee is currently $4,400 per unit. Earlier calculations had indicated that an increase to $5,660, to be implemented in two phases, was appropriate. Staff had proposed that the fee increase to $5,060 in FY 2005-06 and to $5,660

in FY 2006-07. However, in view of the higher-than-anticipated cost of construction, staff has recalculated the fee, and it is now recommended that the basic single-family residential sewer connection fee be adjusted to $5,236 on December 5, 2005 and to $6,148 on October 1, 2006.

Detailed discussions of both rate adjustments are presented in Exhibits A and B of this agenda report, along with comparisons of other nearby agencies. Even with these adjustments, Hayward's sewer rates and connection fees will continue to be lower than those charged by many nearby agencies.

It is recommended that all rate adjustments be effective on December 5, 2005, rather than the customary October 1, to provide sufficient time for staff to notify affected customers. Staff expects to come back to Council to request adoption of the recommended rates at a future regular meeting.

Prepared by:

Alex Ameri, Deputy Director of Public Works/Utilities

Recommended by:

Robert A. Bauman, Director of Public Works

Approved by:

Jesús Armas, City Manager

Exhibits:

A. Discussion of 2005-06 Sewer Service Rate Adjustments
B. Discussion of 2005-06 Sewer Connection Fee Adjustments
C Comparison of Nearby Single-Family Residential Monthly Sewer Rates
D. Comparison of Single-Family Residential Sewer Connection Fees

CITY OF HAYWARD
DEPARTMENT OF PUBLIC WORKS
September 14, 2005

TO: CITY MANAGER

FROM: DIRECTOR OF PUBLIC WORKS

SUBJECT: PROPOSED 2005-06 SEWER SERVICE RATES

BACKGROUND:

Each year staff evaluates utility service revenues and expenditures and prepares a cost-of-service analysis, also known as the sewer revenue program. Sewer service charges cover the costs of providing sewage collection and treatment services, including maintenance and replacement of worn equipment. The existing single-family rate, which became effective on October 1, 2003, is $16.49 per month. Staff is proposing increases to sewer service charges in 2005-06 in order to recover appropriate costs from all customer sectors.

The City Council did not take action on sewer rate adjustments in June, as part of the normal adoption of the Master Fee Resolution, due to the uncertainty of the construction cost for the Water Pollution Control Facility (WPCF) Phase I Improvement Project and the impact of this cost on the rate. The construction contract has now been negotiated with a contractor. On September 13, the City Council awarded the construction contract at a cost of $48.77 million.

DISCUSSION:

The cost-of-service analysis indicates that an increase in sewer service rates is necessary in 2005-06 in order to cover normal inflationary increases. The proposed rate increase will enable the Sewer Operating Fund to meet these obligations and to maintain an adequate working capital balance, which is essential to smooth out cash flows over time, provide funding for unforeseen emergencies, alleviate fluctuations in rate changes from year to year, and avoid sudden large rate increases when repayment of WPCF financing begins.

A 14.9% increase in residential sewer service charges is proposed, which would amount to monthly increases of: $2.46 for single-family homes, duplexes, triplexes, and fourplexes; $2.20 for multi-family units; and $1.73 for mobile home units. The Economy and Lifeline monthly rates would increase by about 11%, or $1.12 and $0.56 respectively. These lower rates are available to all customers who utilize ten or fewer units of water (for economy rate) and five or fewer units (for lifeline rate) in a billing period. For commercial and industrial dischargers, the flow component of the rate would increase by 29% percent. The cost of treating biochemical oxygen demand (BOD) and suspended solids (SS) would go up by 9% and 6% respectively. Estimated increases for current industrial users of the sanitary sewer system would range from 8% to 28% depending upon the estimated flow, BOD and SS for each industry, with average increases of about 16%. The largest industries would experience average increases of 13% to 21%.

Exhibit A

It is recommended that these sewer service charge increases become effective on December 5, 2005, in keeping with the City's past practice of implementing rate increases during a time that water usage is lower and to provide sufficient time to notify customers. At this time, staff does not anticipate recommending a sewer service rate adjustment in 2006-07.

The following table summarizes the proposed residential sewer service charge increases:

Service	Existing Monthly Sewer Service Charge	Proposed Monthly Sewer Service Charge (Effective Dec. 5, 2005)
Single-Family Home	$16.49	$18.95
Duplex, Triplex, Fourplex	$16.49	$18.95
Multi-Family Unit	$14.67	$16.87
Mobile Home	$11.54	$13.27
Economy Rate (10 CCF per billing period)*	$10.14	$11.26
Lifeline Rate (5 CCF per billing period)*	$5.07	$5.63

* One CCF is the equivalent of 748 gallons

Commercial and industrial customers are charged for sewer service based on the volume and strength of their discharge. The following table shows the parameters used in calculating sewer service charges for these dischargers, and the existing and proposed cost per unit:

Parameter/Unit	Existing	Proposed (Effective Dec 5, 2005)
Flow – Cost per 100 cubic feet (CCF)	$1.22	$1.58
Biochemical Oxygen Demand – Cost per pound	$0.41	$0.45
Suspended Solids – Cost per pound	$0.53	$0.56

There are several contributing factors to the proposed rate increases. First and most basic, the increases result primarily from the rising cost of providing sewer collection and treatment services. Rates did not increase in 2004-05, although budget expenditures rose by more than 5%. Budgeted expenses increased by another 5% in 2005-06. Higher energy, employee benefits and some goods and services costs over the past two years account for the overall budget increases.

Other factors in the sewer rate analysis are noteworthy. Recent residential wastewater sampling indicates that the average strength of the wastewater discharged from homes has risen significantly since the mid-1990s, when residential sampling was last performed. This is due, in part, to increases in household size, coupled with water conservation efforts that have kept water use low. Since wastewater strength is an important component of the rate, the proposed residential rates include an adjustment for the increased concentrations. However, the overall

increase is being factored into sewer service rates incrementally, so that the impact is less severe. The volume of wastewater discharged from the average home has also increased by about 3.5%.

Changes in industrial wastewater characteristics also affect rates across the range of customer classes. Improvements that several major industries made to their pretreatment processes have resulted in a significant decline in revenue from the industrial sector. The reductions in wastewater loading to the WPCF are beneficial to the facilities, but decrease revenues, which then must be made up through rate adjustments.

Because both the City's sewer collection and treatment facilities are aging, attention must be given to upgrading, replacing, and maintaining facilities. The City Council approved continuation of transfers of $1,000,000 and $2,000,000 annually to the Sewer Collection System Replacement Fund and Water Pollution Control Facility Replacement Fund respectively to pay for sewer line replacements and lift station maintenance, and WPCF maintenance and replacement. This work has direct benefit to existing customers, and it is appropriate that the costs of these projects be funded by sewer service charges.

In addition to normal maintenance and replacement work, the City is preparing to construct projects at the WPCF that will improve the efficiency, reliability and redundancy of the treatment process, both for existing demand and future development. Certain processes must be improved in order to meet current and future discharge requirements. Because the projects will benefit both existing users and new development, some of the costs, which are expected to total about $57 million, will need to be borne by existing ratepayers. The WPCF improvements will be funded primarily through long-term debt in the form of a local match loan from the State Water Resources Control Board Wastewater Revolving Loan Fund, which offers the most favorable interest rates for qualified projects.

Staff reviewed future debt service obligations for the State loan in preparing the Sewer Revenue Program. Annual debt service on the loan is expected to total about $2.7 million for twenty years, assuming a principle amount of $54 million. About $1.35 million, or 50 percent, will be paid from the Wastewater Operating Fund. (The remainder of the annual payment will come from the Sewer Capital Improvement Fund). However, under the conditions of the loan, repayment will begin in 2008-09, about one year after completion of construction. Given that repayment is three years away, staff is not proposing that future debt service be considered in the 2005-06 rates, but Council should be aware that this debt repayment will be a factor in future rate adjustments.

Based on a survey of neighboring sewer agencies, the Hayward sewer system will continue to offer very good service to its customers at competitive rates. As shown in Exhibit C of this agenda report, Hayward charges are still lower than many other agencies. It is important to note that some districts have a slight advantage over Hayward because they receive property tax revenue and may also utilize refuse collection franchise fees that they receive from refuse service providers. Also, many agencies do not offer lower rates for multi-family units or for low water usage (economy and lifeline).

CITY OF HAYWARD
DEPARTMENT OF PUBLIC WORKS
September 14, 2005

TO: **CITY MANAGER**

FROM: **DIRECTOR OF PUBLIC WORKS**

SUBJECT: **PROPOSED 2005-06 SEWER CONNECTION FEES**

BACKGROUND:
In order to ensure that utility connection fees are set at the appropriate level, prepared in a fair and equitable manner, and are in keeping with current law, the City hired the firm of Hilton, Farnkopf, and Hobson (HFH) in January 1999 to prepare a new sewer and water connection rate study. HFH recommended as part of its study that utility connection fees be reviewed at least every two years to revise costs as needed, add new projects, review assumptions regarding project cost allocations to new development, and update the number of new connections (known as equivalent dwelling units or EDUs) anticipated through the planning period. In accordance with this recommendation, City staff utilized the computer model developed by HFH to update the calculations in 2001, 2003 and again in 2005.

Sewer connection fees are one-time fees paid by those wishing to connect a new facility to the public sewer system or to increase the volume and/or waste strength of wastewater from an existing facility. The current residential sewer connection fee is $4,400 per dwelling unit. It is proposed that the fee be adjusted to $6,148. Commercial and industrial fees would also increase, as summarized below.

The purpose of utility connections fees are to: 1) defray the expenses paid for by the current customers over the years for development and improvement of the system to date, which makes it possible for new development to connect to the existing system; and 2) pay for the incremental cost of the future expansions and improvements that may be necessary to accommodate new development and future growth. Connection fees ensure that adequate funding is available for necessary improvements without shifting the burden of paying for system expansion to existing rate payers and without the risk that system improvements will fall short of the needs to accommodate future growth. The sewer connection fee is typically charged at the time that sewer connections are approved for new residential, commercial and industrial developments or when a current user desires to increase the strength and/or volume of wastewater discharge into the public sewer system.

The City Council did not take action on sewer connection fee adjustments in June, as part of the normal adoption of the Master Fee Resolution, due to the uncertainty of the construction cost for the Water Pollution Control Facility Phase I Improvement Project and the impact of this cost on the fee. The construction contract has now been negotiated, and on September 13, the City Council awarded the construction contract at a cost of $48.77 million.

Exhibit B

DISCUSSION

Critical projects are being implemented at the WPCF to improve the efficiency, reliability and redundancy of the treatment process, both for existing demand and future development. As well, collection system projects that enhance the system's capacity are also included in the Capital Improvement Program. The improvements will benefit new development to varying degrees; thus, it is appropriate that a percentage of the estimates projects costs be allocated to new and expanding users of the system. Since the last fee analysis, the costs for the WPCF Improvement Project have escalated due mainly to higher costs of materials and general construction market conditions. The City has negotiated a construction contract totaling $48.77 million, bringing the total cost of the project to about $57 million. The updated study incorporates revised costs for WPCF improvement project and newly identified collection system projects that will increase capacity, resulting in a higher total cost to be divided among new and expanding customers.

The other critical factor in developing connection fees, the number of new equivalent dwelling units anticipated through 2020, was also revised, due in part to the number of units constructed since the last fee analysis and because of updated information in the Housing Element and other General Plan Elements. This number, which is essentially the "denominator" in the connection fee calculation, was reduced by about 6%, meaning that fewer EDUs are paying for higher project costs.

The sewer connection charge for a single-family residence in Hayward is now $4,400. The proposed connection fee of $6,148 represents a 39.7% overall increase over the existing connection fee. Connection fees for commercial and industrial development would continue to be calculated individually, because of variation in wastewater components, i.e., flow, biochemical oxygen demand, and suspended solids among different types of businesses. The cost of handling and treating these various parameters differ, and thus connection fees are also different for different types of businesses. For example, a business with a high flow and a low biochemical oxygen demand (BOD) in its discharge would see a higher connection fee percentage increase than a business with low flow but high BOD. This is because future facilities needed for treating hydraulic flow will cost more than the facilities for BOD. This formula is consistent with the premise that users pay for capacity in direct relationship to the demand they will place on the collection and treatment systems.

Notwithstanding the fact the proposed connection fees would compare favorably with those in other jurisdictions, staff recognizes that these fees can pose a financial challenge for some businesses. Therefore in order to ease the impact for business and commercial customers, the Hayward Municipal Code allows commercial and industrial users to pay the connection fees over a period of up to three years, if the fee exceeds $25,000. This allows new and expanding companies to spread the cost of purchasing sewer capacity over a longer period. Sewer connection fees for large residential developments are usually spread over a period of time as a practice because fees are paid as connections are made to the public sewer, rather than all at one time.

Staff recommends that sewer connection fees be increased effective December 5, 2005, allowing time for most projects that are currently in the building permit process to obtain sewer connections under the existing rates. Also, given the significant percentage increase, staff further recommends that the proposed sewer connection fees be implemented over the next two fiscal

years. The first 19% increase to $5,236 would be effective on December 5, 2005. The second increment, bringing the fee to $6,148, would be effective on October 1, 2006.

The following table summarizes the existing sewer and proposed connection fees for residential connections:

Unit Type	Existing Sewer Connection Fee	Proposed Sewer Connection Fee (Eff. 12-5-05)	Proposed Sewer Connection Fee (Eff. 10-1-06)
Single-Family Unit	$4,400	$5,236	$6,148
Duplex, Triplex, Fourplex (each residential living unit)	$4,400	$5,236	$6,148
High Density Residential, Mobile Home (each residential living unit)	$3,917	$4,661	$5,472

The next table summarizes existing sewer connection fees and proposed surcharges for commercial, industrial and institutional development:

Parameter	Existing Sewer Connection Fee	Proposed Sewer Connection Fee (Eff. 12-5-05)	Proposed Sewer Connection Fee (Eff. 10-1-06)
Flow (per gallon of daily discharge)	$12.934	$15.262	$17.752
Biochemical Oxygen Demand (per pound per year)	$8.008	$8.568	$9.071
Suspended Solids (per pound per year)	$6.032	$6.635	$7.271

In order to give Council a means of comparing sewer connection fees in other jurisdictions, staff polled neighboring jurisdictions and tabulated sewer connection fees for single-family residential properties in Exhibit D of this agenda report. The proposed sewer connection fee of $6,148 places the connection fee for connecting a single-family residential property to the Hayward public sewer system in the middle of the range of sewer connection fees collected by other agencies.

Sewer Rate Comparisons with Nearby Agencies
(Single-Family Residential Units)

Agency	Sewer Service Charge 2004-05	2005-06	2006-07
City of Livermore	$36.60	$37.60	(1)
Dublin San Ramon Services District	$27.25	$27.25	(1)
City of San Leandro	$19.99	$24.93	(1)
City of Oakland (City charge plus EBMUD)	$23.57	$24.09	(1)
Central Sanitary District (Concord, Pleasant Hill, Walnut Creek)	$23.33	$23.33	(1)
City of Hayward	$16.49	$18.95	$18.95
Union Sanitary District (Fremont, Union City, Newark)	$16.45	$17.11	(1)
Oro Loma Sanitary District (San Lorenzo)	$12.75	$14.42	$16.08
Castro Valley Sanitary District	$12.66	$13.58	(1)

(1) Information about 2006-07 Rates Not Available

(Prep. 8/30/05)

Exhibit C

Sewer Connection Fee Comparisons with Nearby Agencies
(Single-Family Residential Units)

Agency	Sewer Connection Fee 2004-05	2005-06	2006-07
Dublin San Ramon Services District	$11,050	$11,050	(1)
City of Livermore	$8,900	$8,900	(1)
Castro Valley Sanitary District	$8,500	$8,500	(1)
Oro Loma Sanitary District (San Lorenzo)	$6,247	$6,394	$6,739
City of Hayward	$4,400	$5,236	$6,148
Central Sanitary District (Concord, Pleasant Hill, Walnut Creek)	$5,000	$5,000	(1)
Union Sanitary District (Fremont, Union City, Newark)	$2,846	$2,987	(1)
City of Oakland (City charge plus EBMUD)	$1,757	$1,757	(1)
City of San Leandro	$1,200	$1,200	(1)

(1) Information about 2006-07 Fees Not Available

(Prep. 8/30/05)

Exhibit D

DRAFT

HAYWARD CITY COUNCIL

RESOLUTION NO.____

Introduced by Council Member_____

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 operations and maintenance expenses, including employee wage rates and fringe benefits;

2. Purchasing or leasing supplies, equipment, or materials;

3. Meeting financial reserve needs and requirements;

4. Obtaining funds necessary for capital projects necessary to maintain service within existing service areas; and

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 sewer rates and connection fees of the City of Hayward, a copy of which is on file in the office of the City Clerk.

Service	Proposed Monthly Sewer Service Charge (Effective January 1, 2006)
Single-Family Home	$18.95
Duplex, Triplex, Fourplex	$18.95
Multi-Family Unit	$16.87
Mobile Home	$13.27
Economy Rate (10 CCF per billing period)*	$11.26
Lifeline Rate (5 CCF per billing period)*	$5.63

*One CCF is equivalent to 748 gallons

Parameter/Unit	Proposed (Effective January 1, 2006)
Flow-Cost per 100 cubic feet (CCF)	$1.58
Biochemical Oxygen Demand-Cost per pound	$0.45
Suspended Solids-Cost per pound	$0.56

Unit Type	Proposed Sewer Connection Fee (Eff. 01-01-06)	Proposed Sewer Connection Fee (Eff. 10-01-06)
Single Family Unit	$5,236	$6,148
Duplex, Triplex, Fourplex (each residential living unit)	$5,236	$6,148
High Density Residential, Mobile Home (each residential living unit)	$4,661	$5,472

The next table summarizes existing sewer connection fees and proposed surcharges for commercial, industrial and institutional development:

Parameter	Proposed Sewer Connection Fee (Eff. 01-01-06)	Proposed Sewer Connection Fee (Eff. 10-01-06)
Flow (per gallon of daily discharge)	$15.262	$17.752
Biochemical Oxygen Demand (per pound per year)	$8.568	$9.071
Suspended Solids (per pound per year)	$6.635	$7.271

BE IT FURTHER RESOLVED that the City Council finds the above-listed adjustments are necessary to protect public health and safety in that they will be utilized, in part, to pay for necessary improvements to the WPCF; that the charges are not discriminatory or excessive; that such charges will be sufficient to repay the SRF loan; that public notice was provided pursuant to Government Code Section 54354.5; and that such modifications are in compliance with the law and have been adopted pursuant to the requirements of the State of California Government Code.

IN COUNCIL, HAYWARD, CALIFORNIA _____, 2005

ADOPTED BY THE FOLLOWING VOTE:

AYES: COUNCIL MEMBERS:
MAYOR:

NOES: COUNCIL MEMBERS:

ABSTAIN: COUNCIL MEMBERS:

ABSENT: COUNCIL MEMBERS:

ATTEST:_____
City Clerk of the City of Hayward

APPROVED AS TO FORM:

_____
City Attorney of the City of Hayward