



DATE: September 15, 2020

TO: Mayor and City Council

FROM: Director of Public Works

SUBJECT: Adopt a Resolution Amending the FY 2020-21 Master Fee Schedule to Postpone the Effective Date of the Increase in Bimonthly Water Service Fees from October 1, 2020 to January 1, 2021

RECOMMENDATION

That Council adopts a resolution (Attachment II) amending the FY 2020-21 Master Fee Schedule to change the effective date of the increase in Bimonthly Water Service Fees from October 1, 2020 to January 1, 2021.

SUMMARY

On July 2, 2019, the Council approved water and sewer rates for FY 2020 and FY 2021. Adjustments were adopted for water service fees and sewer service rates. Water usage rates were not changed. The second of the two adjustments is effective on October 1, 2020. Since the rates were adopted, COVID-19 has caused economic insecurity for many Hayward residents and businesses. In order to support the community during this time of uncertainty, staff recommends that the Bimonthly Water Service Fee increases be delayed from October 1 to January 1. The Water Enterprise Fund can sustain this three-month revenue loss.

BACKGROUND

Water rates are established to pay for the costs of purchasing and delivering water to customers. Bimonthly water bills are comprised of two parts: 1) the fixed service fee, which is based on the size of the meter, and pays for services that do not vary with the volume of water purchased, such as meter maintenance and debt service; and 2) the water usage fee, which pays for costs associated with water consumption, such as the wholesale cost of purchasing water and energy related expenses. On July 2, 2019, the City Council approved adjustments to the fixed water service fees for FY 2020 and FY 2021 in order to keep pace with increasing costs. The fees increased by \$2 per month (\$4 per bimonthly billing period) in each year for typical residential customers and small businesses. There were no changes to the water usage fee in either year.

These approved changes result in an average water billing increase of 3.1% each year for most residential customers. The first approved increase was effective on October 1, 2019. The second of the fee adjustments is scheduled to go into effect on October 1, 2020. Council also approved sewer service rate increases of 4.4% in each year, bringing the single family residential sewer fee to \$35.81 in FY 2021.

COVID-19 has created economic uncertainty for many Hayward residents and businesses. Recognizing the toll that the virus has taken and will continue to take on the community, the City Council has implemented a number of programs to provide assistance during this time, including various economic assistance programs and the suspension of water shut-offs due to late payments. In order to further assist customers, staff has reviewed the approved utility rate adjustments scheduled for October 1, 2020 to determine the feasibility of delaying implementation.

DISCUSSION

Staff recommends that the Council amend the FY 2021 Master Fee Schedule to delay the water service fee increase to January 1, 2021. Retaining the existing service fee, coupled with the normal decline in water use as landscape irrigation decreases in the fall, would provide a small measure of economic relief to customers during this time of uncertainty. On a separate but related note, the City has a residential low-income water service fee for qualified customers, with many customers benefitting from it. Revenue staff is available to assist customers in determining if they qualify for this reduced fee and submitting the appropriate documentation.

The following table summarizes the current and approved service fees:

Table 1. Current and Approved Water Service Fees

Meter Size	Current Fee		Approved Fee Effective October 1, 2020	
	Monthly Fee	Bimonthly Billing	Monthly Fee	Bimonthly Billing
5/8" (Low Income)	\$4.90	\$9.80	\$5.60	\$11.20
5/8"	\$14.00	\$28.00	\$16.00	\$32.00
3/4"	\$19.04	\$38.07	\$21.76	\$43.51
1"	\$28.84	\$57.67	\$32.96	\$65.91
1 1/2"	\$63.14	\$126.27	\$72.16	\$144.31
2"	\$112.63	\$222.25	\$127.00	\$254.00
3"	\$280.44	\$560.88	\$320.50	\$641.00
4"	\$555.54	\$1,111.08	\$634.90	\$1,269.80
6"	\$980.00	\$1,960.00	\$1,120.00	\$2,240.00
8"	\$1,356.69	\$2,713.38	\$1,550.50	\$3,101.00

Residential customers and businesses with larger meters would benefit proportionately. For example, typical small- and medium-size restaurants have water meters that generally range from 1 to 2 inches in size. If Council approves the recommended delay, these businesses will

continue to pay \$86 to \$338 in water service fees for the three-month period between October and December, rather than \$99 to \$381.

As noted earlier, the water service fee pays for fixed costs that do not vary regardless of water consumption. Given the current financial position of the Water Enterprise Fund, staff believes that the Fund can sustain this short-term revenue loss. If necessary, prudent use of fund reserves can also help manage the revenue impact. Staff would monitor the impacts to the Fund during the three-month delay.

Staff does not recommend a delay in the sewer service fee increases. These fees are calculated in accordance with State Water Resources Control Board guidelines and ensure that the costs of collecting, treating, and discharging wastewater are equitably distributed among customer classes. These costs are largely unavoidable and delaying the implementation of the needed increases could result in service impacts. In addition, regulations regarding collection, treatment and disposal of wastewater are constantly evolving. For example, the new regulations related to nutrients management, combined with the need to upgrade the existing facilities at the City's Water Pollution Control Facility, are estimated to cost close to \$100 million. Delaying this relatively modest increase at this time would increase the pressure in rates next year and years to come.

STRATEGIC ROADMAP

This item does not relate directly to any of the projects outlined in the Council's Strategic Roadmap.

ECONOMIC IMPACTS

The water service fee is fixed and does not vary with water consumption, so customers cannot control the cost as they can with the water usage fee. Delaying the approved water service fee increase until January 1, 2021 would benefit water customers by retaining the existing fixed fee for three months. Staff would evaluate the impacts, and if feasible and warranted, return to Council prior to January 1 to determine whether the increase should be further delayed.

FISCAL IMPACT

Staff estimates that the recommended delay would impact the Water Enterprise Fund by about \$60,000. This revenue loss can be mitigated through delaying some routine maintenance and prudent use of the Fund's reserves. There would be no impact on the General Fund. Staff anticipates using an outside consultant to assess the City's revenue needs and to prepare recommended water rates for FY 2022.

SUSTAINABILITY FEATURES

The recommended action does not impact the City's sustainability efforts. Programs such as water conservation are funded from water usage fees and would not be affected.

PUBLIC CONTACT

No specific public outreach was conducted for this specific item. If approved, staff would notify customers of the delay through a billing insert and the City's website.

NEXT STEPS

If the City Council concurs, staff will implement the current water service fees effective January 1, 2021.

Prepared by: Marilyn Mosher, Senior Management Analyst

Recommended by: Alex Ameri, Director of Public Works

Approved by:

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

Kelly McAdoo, City Manager