



# Water Utility Financial Forecast and Proposed Rate Changes for FY 2026

## Utility Advisory Commission

March 5, 2025

[www.cityofpaloalto.org](http://www.cityofpaloalto.org)

# Water Rate Projection FY 2026

**Proposal:** 10% rate increase in FY 2026, *approximately \$11.40/month increase for residential customers*

## Drivers

- Revenue below cost due to the use of \$25 million of reserves over the past 3 years
- Personnel Cost-of-Living-Adjustment, merit increases, and filled vacancies
- Drought-related water sales reductions in recent years

## Compared with Preliminary Rates

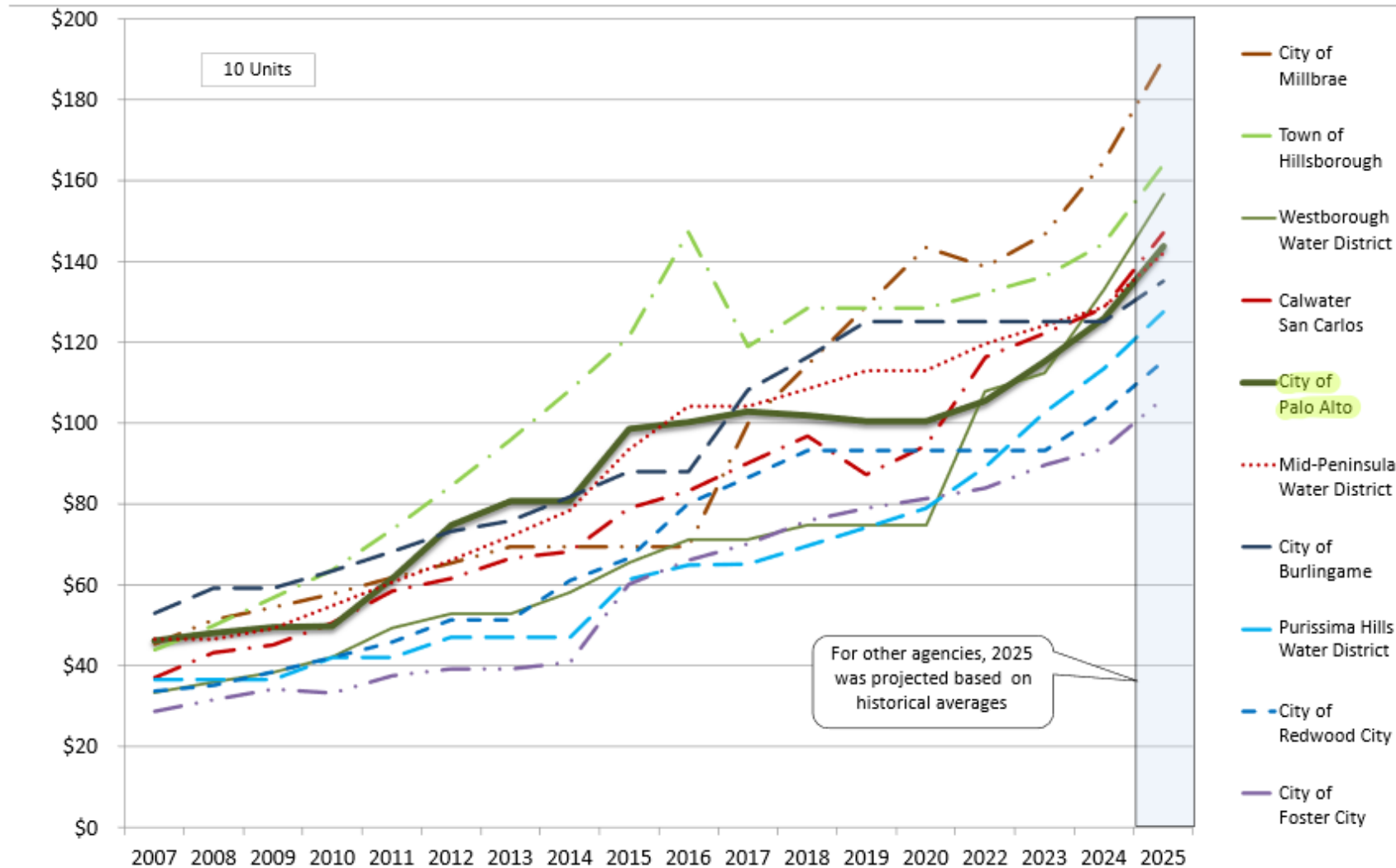
- Keep overall water rate increase to 10% by deferring \$4.6 million of CIP from FY 2026 and \$2.5 million of CIP from FY 2028 to beyond the 5-year forecast period, based on SFPUC's latest rate projection
- Deferring capital work increases costs (construction inflation, maintenance & emergency repairs)

Fiscal Year	2026	2027	2028	2029	2030
SFPUC Commodity Rate Projection (as of Feb '25)	2%	1%	1%	5%	8%
Distribution Rate Projection	17%	16%	15%	12%	11%
<b>Overall Rate Projection</b>	<b>10%</b>	<b>10%</b>	<b>10%</b>	<b>10%</b>	<b>10%</b>

**Alternative:** Seek to issue debt for major CIP tank replacements but maintain 10% rate increase for FY 2026



# Water Single-Family Residential Bill Comparisons (\$/Month)



**Single-Family Residential Bill Comparisons Over Time With Other Agencies with 100% SFPUC Supply**

**Palo Alto water bills are near the average among agencies with 100% SFPUC supply**

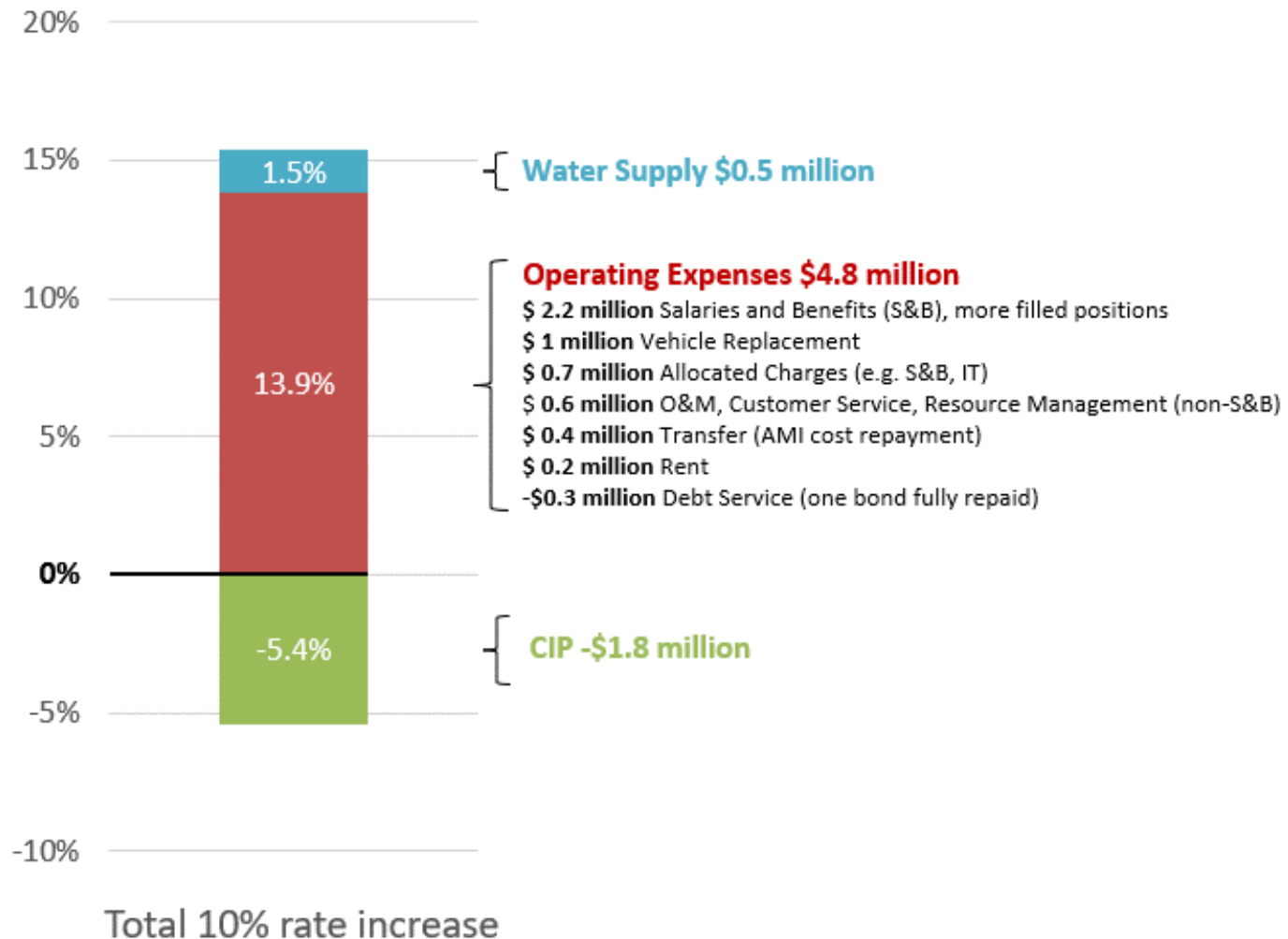
*Source: Mid-Peninsula Water District Staff, with Adjustments*

# FY 2026 Rate Increase Drivers

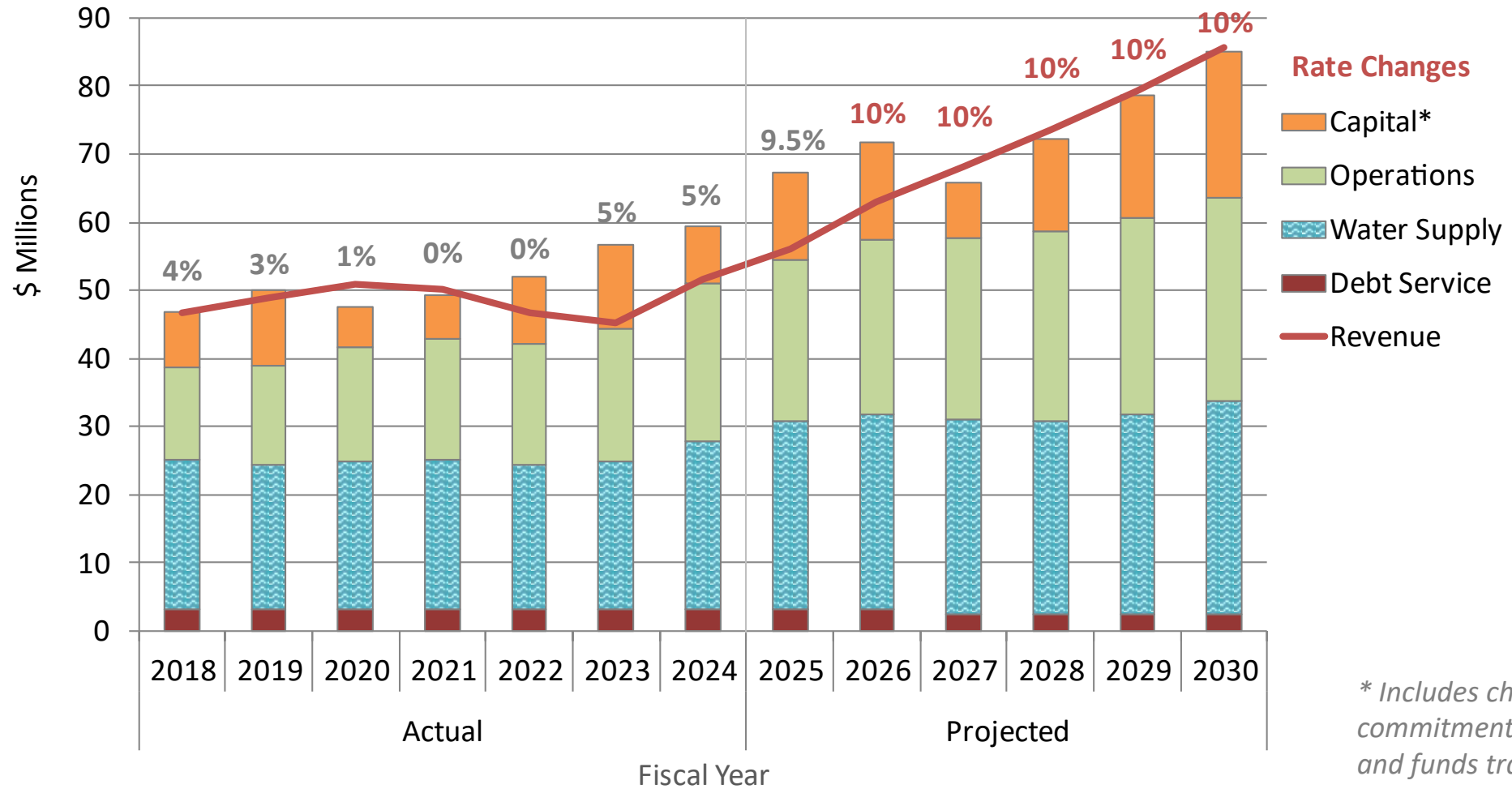
- Last year, a 9% overall rate increase was forecasted compared to the currently recommended 10% overall rate increase
- To maintain a 10% overall rate increase, the following costs management strategies are assumed:
  - Use of \$4 million from reserves
  - Deferral of \$1.8 million CIP replacement

## Calculation Notes:

- Rate increases based on projected FY 2026 revenues apportioned by 4-year average of actual costs
- Rate increases apply to sales revenue; Revenue includes some non-rate revenue.



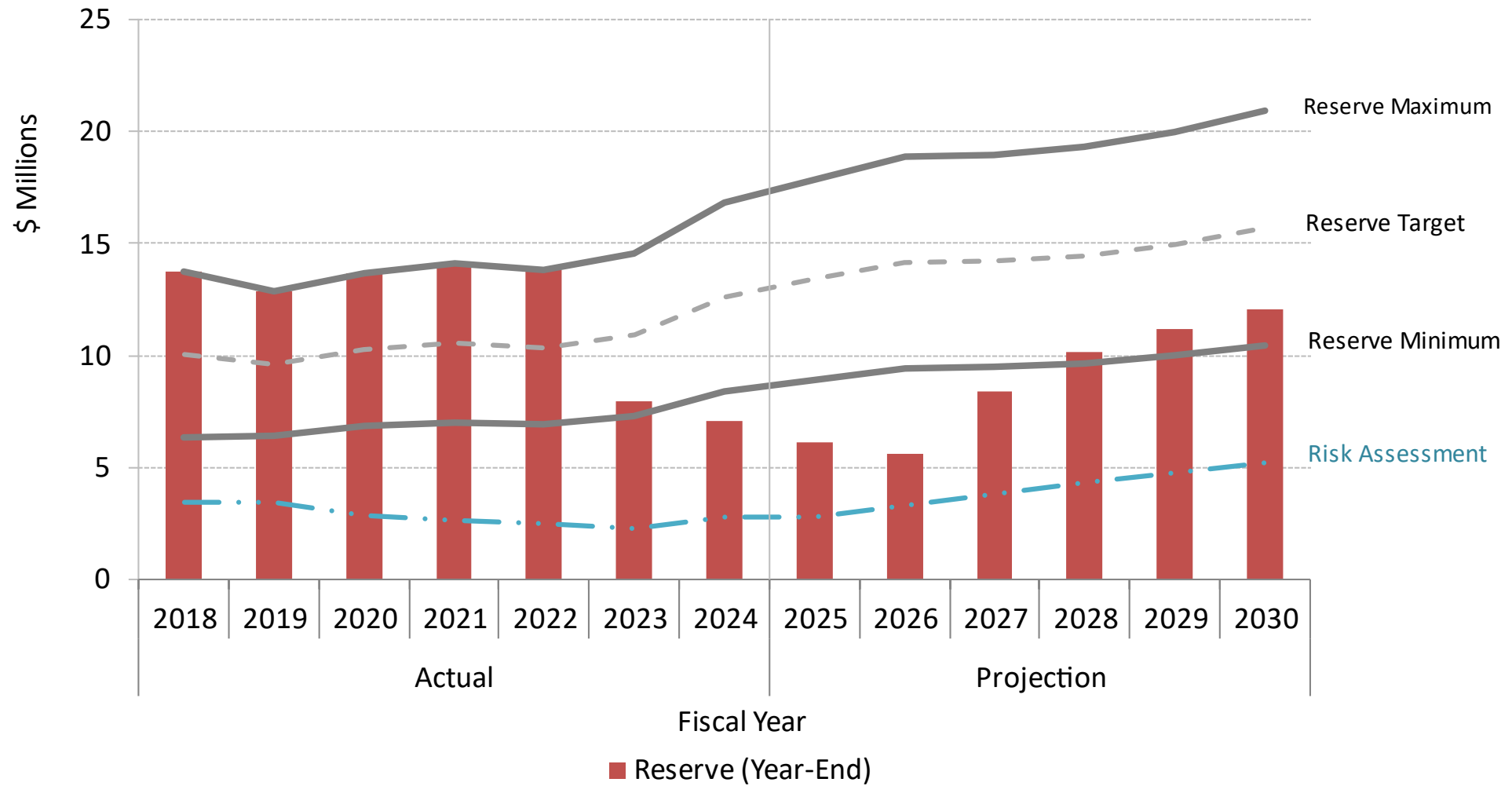
# Water Cost and Revenue Projections



*\* Includes changes due to commitments/reappropriations and funds transferred to the CIP Reserve*



# Water Operations Reserve Projections





## Recommendation

---

Staff Recommends the Utilities Advisory Commission Recommend that the City Council Adopt a Resolution:

- Approving a Fiscal Year 2025 Reserve Transfer
- Approving the Fiscal Year 2026 Water Utility Financial Forecast including Reserve Transfers; and
- Amending Rate Schedules (Attachment B) effective July 1, 2025:
  - W-1 (General Residential Water Service)
  - W-2 (Water Service from Fire Hydrants)
  - W-3 (Fire Service Connections)
  - W-4 (Residential Master-Metered and General Non-Residential Water Service)
  - W-7 (Non-Residential Irrigation Water Service)