



**FY 2026 Wastewater  
Collection Utility  
Rates Proposal**

**Finance Committee**

# Wastewater Rate Projections

## FY 2026 Projections

- **Proposal: 20% rate increase in FY 2026, approximately \$11/month increase for residential customers**
- Alternative: 16% rate increase in FY 2026 scenario

## Drivers

- Rebuild of regional treatment plant cost increases
- Personnel Cost-of-Living-Adjustment, merit increases, and filled vacancies
- Reserves depleted; need to restore reserves to within guideline range

## Compared with Preliminary Rates

- Added additional vehicle replacement costs of about \$100K to \$450K annually
- Added about \$0.35M-\$0.40M annually beginning FY27 to the sewer CCTV program to perform condition assessment in critical sections of the collection system and prioritize necessary sewer replacements

## Compared with FY 2025 Plan (Prior Year) Rates

- Build reserves to cover costs for Treatment Authorized Amount for Future Minor Capital

| Fiscal Year               | 2025 | 2026 | 2027 | 2028 | 2029 | 2030 |
|---------------------------|------|------|------|------|------|------|
| Proposal                  | 15%  | 20%  | 17%  | 15%  | 5%   | 5%   |
| Preliminary (Dec '24)     | 15%  | 18%  | 15%  | 15%  | 9%   | 9%   |
| FY 2025 Plan (prior year) | 15%  | 9%   | 9%   | 8%   | 7%   | -    |

# Wastewater Bill Comparisons (\$/Month) *January 2025*

## Residential

| Palo Alto | Neighboring Community Average | Neighboring Communities |              |             |               |           |         |
|-----------|-------------------------------|-------------------------|--------------|-------------|---------------|-----------|---------|
|           |                               | Menlo Park              | Redwood City | Santa Clara | Mountain View | Los Altos | Hayward |
| 55.93     | 70.40                         | 114.25                  | 97.74        | 52.37       | 54.60         | 59.23     | 44.19   |

**Palo Alto is 21% below comparison city average**

**With the proposed 20% rate increase, Palo Alto's residential rate would remain 5% below neighboring community average**

## General Commercial

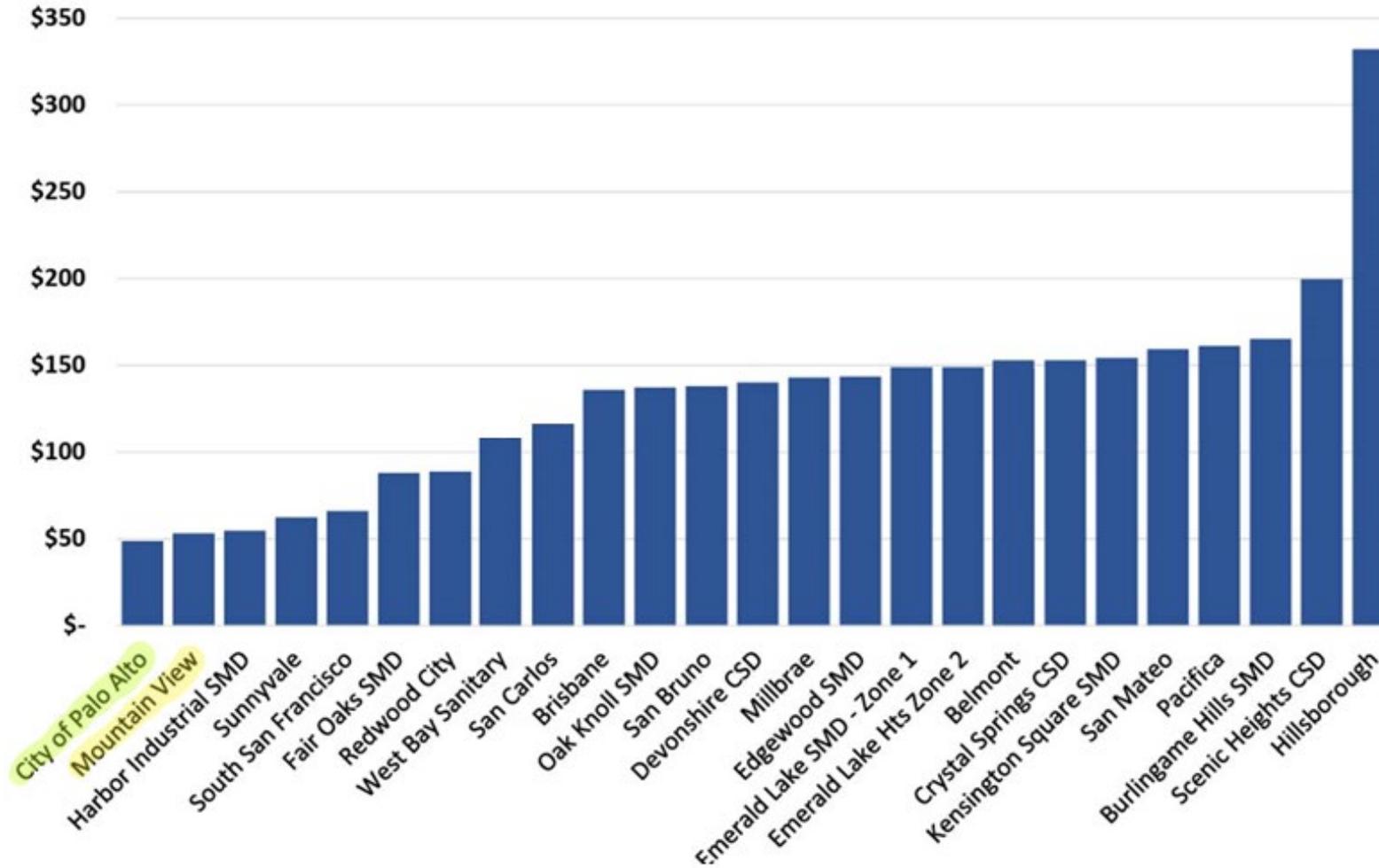
|                    | Palo Alto | Neighboring Community Average | Neighboring Communities |              |             |               |           |         |
|--------------------|-----------|-------------------------------|-------------------------|--------------|-------------|---------------|-----------|---------|
|                    |           |                               | Menlo Park              | Redwood City | Santa Clara | Mountain View | Los Altos | Hayward |
| General Commercial | 146.16    | 129.35                        | 154.70                  | 157.59       | 92.54       | 167.44        | 103.03    | 100.80  |
| Restaurant         | 592.04    | 639.73                        | 884.26                  | 1,065.51     | 608.38      | 538.08        | 279.67    | 462.46  |

**Palo Alto is 13% higher than comparison city average  
Restaurant – Palo Alto is 7% below comparison city average**



# From Silicon Valley Clean Water Long Range Financial Plan

Monthly Single Family Residential Sewer Rate Survey (July 2023)  
Based on flat rate or 8 hcf of monthly winter water use



With the proposed 20% rate increase, Palo Alto's residential rate would remain 5% below neighboring community average

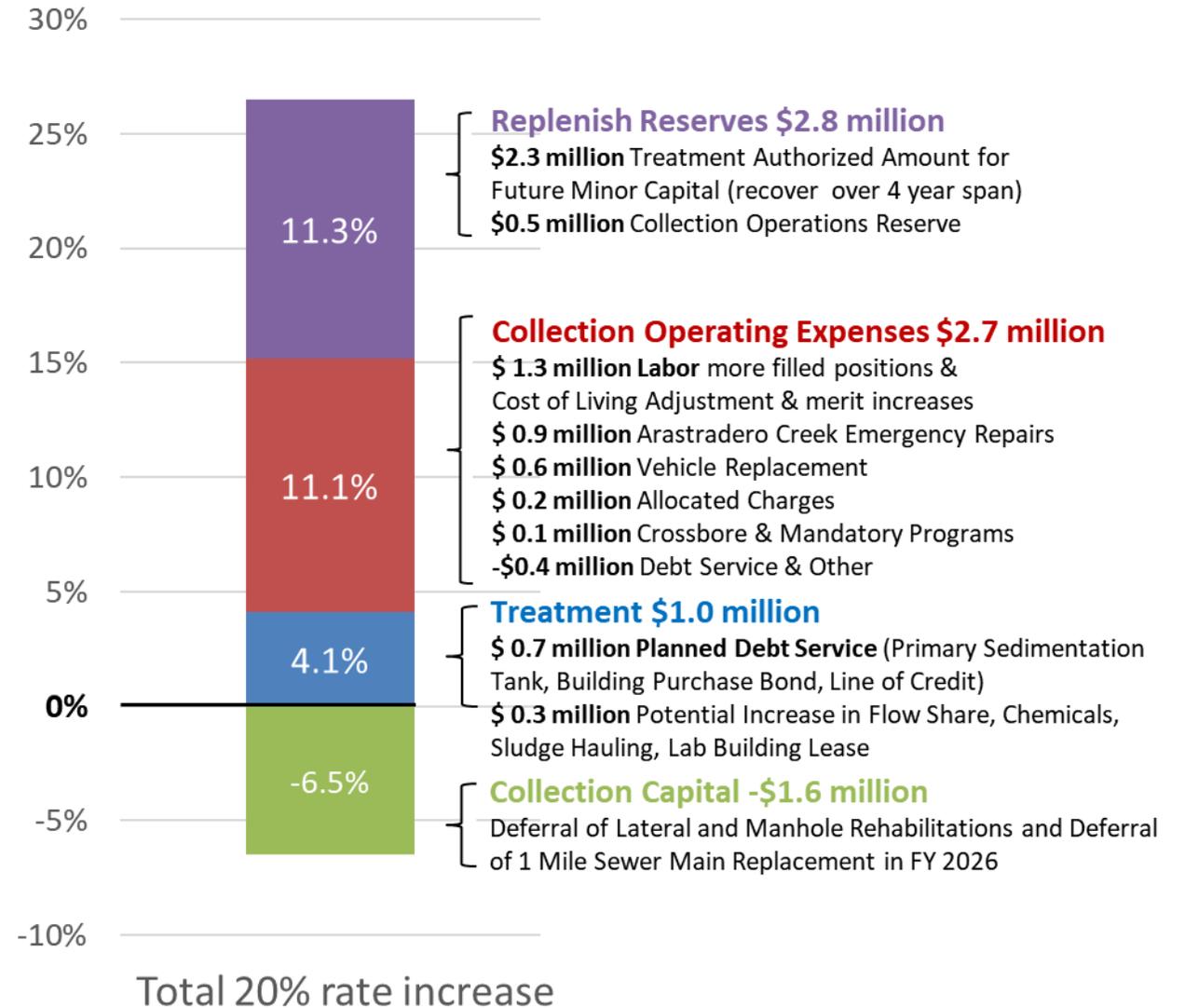


# FY 2026 Rate Increase Drivers

- Last year, a 9% rate increase was forecasted compared to this recommended 20% rate increase
  - 11.3% of the recommended increase is to replenish reserves (2% collection system, 9%) over a 4-year span
  - Assumes deferral of 1 mile sewer main replacement
- Reserve replenishment is a policy choice on timing/risk

*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.



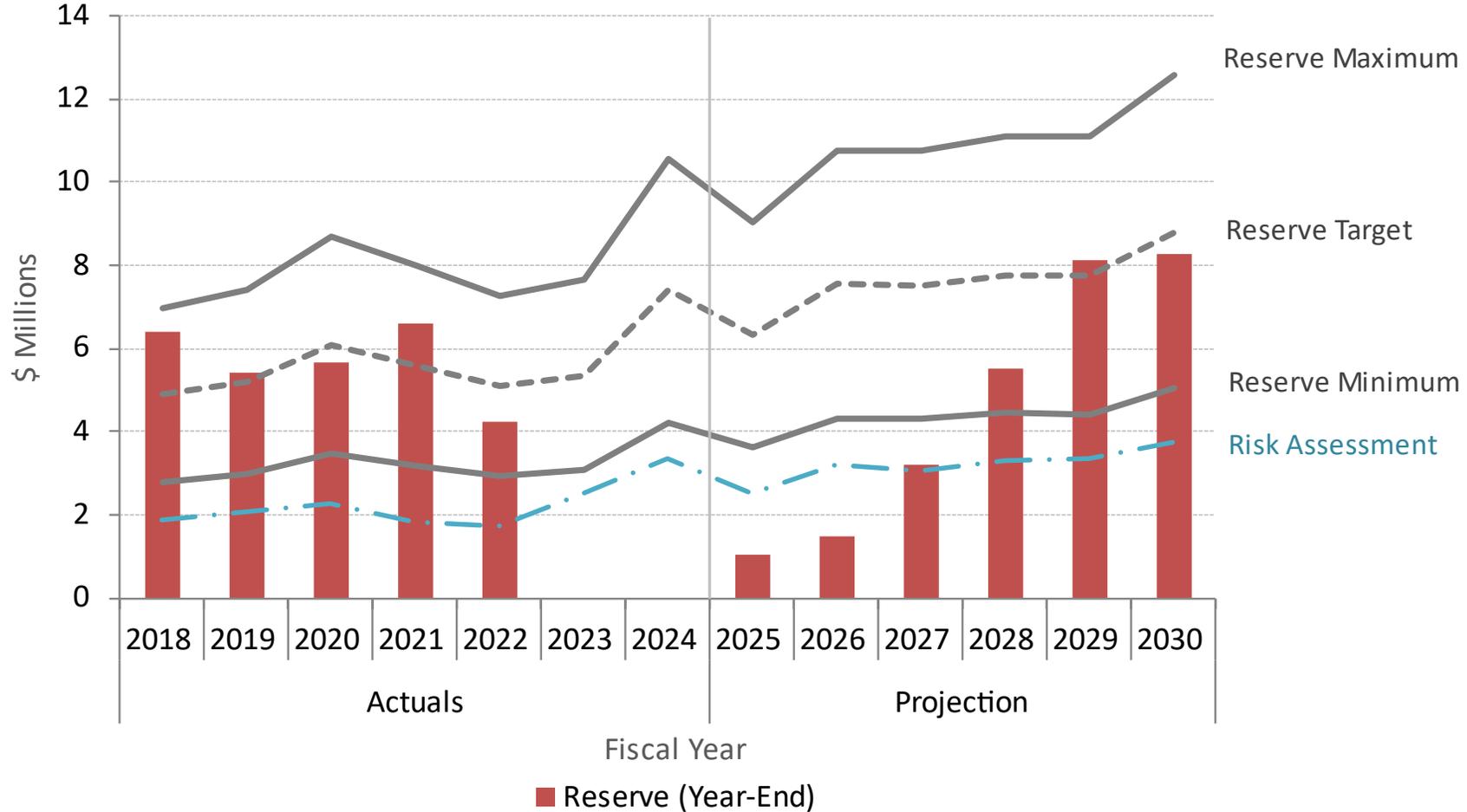
# Wastewater Cost and Revenue Projections



*\*FY25 Commitments and Reappropriations reserves balances for Operations and Capital Investment are anticipated to be utilized in FY26 and FY27*



# Wastewater Operations Reserve Projections



*Note: The Wastewater Collection Utility borrowed \$3 million in a short-term loan from the Fiber Optics Utility in FY 2024 to cover cash needs and will repay the loan in FY 2026 plus interest.*



# Alternative FY 2026 Rate Projection

- **Alternative: 16% rate increase in FY 2026**, *approximately \$9/month increase for residential customers*
- Assumes a 10-year reserve replenishment (instead of 4-year) for outstanding Treatment Authorized Amount for Future Minor Capital
- Request Council approval of an additional loan of up to \$2.5 million from the Fiber-Optics Utility to cover the additional risk, this amount is equal to the risk assessment level of the wastewater operations reserve

| Fiscal Year | 2025 | 2026 | 2027 | 2028 | 2029 | 2030 |
|-------------|------|------|------|------|------|------|
| Alternative | 15%  | 16%  | 16%  | 15%  | 12%  | 8%   |
| Proposal    | 15%  | 20%  | 17%  | 15%  | 5%   | 5%   |

# Communication and Outreach

## Key Messages

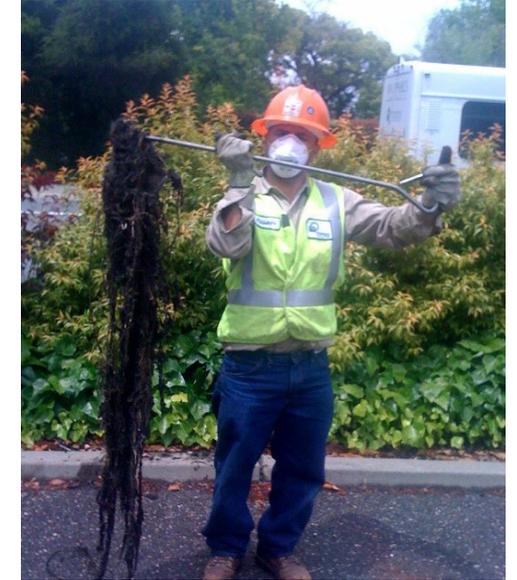
- Reasons for rate increases and benefits to customers
- Competitive rates to other utilities and neighboring cities
- What the City is doing to keep costs down
- City programs and services to help customers keep utility bill costs low

## Outreach Strategies

- Public Meetings: UAC, Finance, City Council
- Digital Communication: website, social media, email newsletters, City blog, videos
- Direct Mail: utility bill inserts, Proposition 218 notice, SFPUC rates postcard
- Local Media Engagement: articles, interviews



*Sanitary Sewer Replacement  
Project on El Camino Real*



*Wastewater staff clean  
out massive root, hair,  
and grease ball from a  
sewer lateral*



## Recommendation

---

The Utilities Advisory Commission and Staff Recommends the Finance Committee Recommend that the City Council Adopt a Resolution:

- Approving the Fiscal Year 2026 Wastewater Collection Utility Financial Forecast; and
- Amending Rate Schedules (Attachment B) effective July 1, 2025:
  - S-1 (Residential Wastewater Collection and Disposal)
  - S-2 (Commercial Wastewater Collection and Disposal)
  - S-6 (Restaurant Wastewater Collection and Disposal), and
  - S-7 (Commercial Wastewater Collection and Disposal – Industrial Discharger); and
- Repealing Rate Schedules effective July 1, 2025:
  - S-3 (Industrial Waste Laboratory and Analysis Charges)
  - S-4 (Hauled Liquid Waste Charges)