

# **FY 2025 WATER UTILITY FINANCIAL PLAN**

## **FY 2025 TO FY 2029**

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SECTION 1: DEFINITIONS AND ABBREVIATIONS

<b>BAWSCA</b>	Bay Area Water Supply and Conservation Agency
<b>CCF</b>	The standard unit of measurement for water delivered to water customers, equal to one hundred cubic feet, or roughly 748 gallons.
<b>CIP</b>	Capital Improvement Program
<b>CPAU</b>	City of Palo Alto Utilities Department
<b>O&amp;M</b>	Operations and Maintenance
<b>RFC</b>	Raftelis Financial Consultants, Inc.
<b>SFPUC</b>	San Francisco Public Utilities Commission
<b>SFWD</b>	San Francisco Water Department
<b>UAC</b>	Utilities Advisory Commission
<b>WSIP</b>	The SFPUC’s Water System Improvement Program to seismically strengthen the transmission lines of the Hetch Hetchy Regional Water System.

SECTION 2: EXECUTIVE SUMMARY AND RECOMMENDATIONS

This document presents a Financial Plan for the City’s Water Utility for FY 2025 through FY 2029. This Financial Plan provides for revenues to cover the costs of operating the utility safely over that period while adequately investing for the future. It also addresses the financial risks facing the utility over the short term and long term and includes measures to mitigate and manage those risks.

SECTION 2A: OVERVIEW OF FINANCIAL POSITION

The City’s water rate schedules currently consist of a volumetric charge for each CCF (100 Cubic Feet or 748 gallons) of water consumed during the billing period and a monthly service charge for each customer, based on water meter size. The volumetric charge has two parts: a wholesale commodity rate (or San Francisco Public Utilities Commission or SFPUC wholesale rate), and a customer volumetric rate. Water rates are designed to recover the City’s costs of buying and distributing water while maintaining adequate financial reserves. The customer volumetric rate and the monthly service charge together are considered the distribution rates; revenue from those rates pay for the upkeep of Palo Alto’s distribution system. Revenue from the wholesale commodity rate pays for the City’s cost of buying water from the SFPUC.

The fiscal year (FY) 2025 Water Utility Financial Plan includes projections of the utility’s costs and revenues for FY 2024 through FY 2029. Due to the drought restrictions (SFPUC declared a drought emergency on November 23, 2021 through June 11, 2023 when voluntary conservation reductions ended) and water conservation efforts together with near record-setting precipitation and snowpack in the winter of 2022-2023, the water utility’s sales revenue declined in FY 2023 by \$4.864 million or 10% compared with sales revenue in FY 2021. Funding from the Operations Reserve together with a \$3 million transfer from the Rate Stabilization Reserve to the Operations Reserve offset the revenue declines. Water sales, net of supply cost savings, were \$2.4 million lower than forecasted. Staff expects water sales revenue to rebound in FY 2024 and FY 2025. Demand recovery is projected to be slow and as occurred following prior droughts, some conservation is projected to be permanent. Overall costs in the Water Utility are projected to rise on average by about 5.3% per year from Fiscal Year (FY) 2024 to 2029. Operations cost projections

rise on average by about 4% annually from FY 2024 to 2029, excluding one-time transfers and debt service. Debt service is expected to decline by 4.5% during this time because one bond is to be retired in 2026. SFPUC's FY 2024 wholesale water rate is \$5.21 per CCF. On February 15, 2024, SFPUC estimated its July 1, 2024 rate increase as \$5.55/CCF. Section 6A: Water Purchase Costs includes details. Staff plans to request authorization from the City Council to extend Palo Alto's pass-through provision for the SFPUC wholesale rate increase effective July 1, 2024 (see Section 3A: Rate Design for more detail).

Overall, this Financial Plan uses reserve funding (from the Operations Reserve, Rate Stabilization Reserve and CIP Reserve) together with rate increases to manage the decreased sales revenue and increasing costs from FY 2024 through FY 2029. While these rate increases can be perceived as decreasing the benefit of conservation, bills for customers who conserve will be lower in the future than they would have been without conservation.

Table 1 shows the costs for the Water Utility from FY 2023 through FY 2029. The "CIP" row in Table 1 includes capital expenditure and increased capital funding for reappropriations and commitments in FY 2023 and planned contributions from the Operations Reserve to the CIP Reserve for FY 2024 through FY 2029. This does not include the additional one-time transfers from the Operations Reserve to the CIP Reserve, shown in Table 4. This also differs from planned CIP which is shown in line 13 of Table 4, and is reflected as an expense in the CIP Reserve.

**Table 1: Expenses for FY 2023 to FY 2029 (Thousand \$'s)\***

Expenses (\$000)	FY 2023 (act.)	FY 2024 (est.)	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029
Water Purchases	21,744	24,383	26,435	27,505	28,516	30,145	30,892
Operations	21,961	23,679	23,186	24,247	24,406	25,256	26,135
CIP	13,084	4,000	9,000	9,486	9,998	11,790	12,427
TOTAL	56,789	52,062	58,621	61,238	62,921	67,191	69,454

\*Note: numbers in are rounded to the nearest thousand dollars.

### **End of Drought Water Use Restrictions**

On November 23, 2021, the SFPUC declared a local water shortage emergency calling for voluntary system-wide 10% water use reductions.<sup>1</sup> In alignment with State requirements, on May 24, 2022, SFPUC adopted a system-wide voluntary water use reduction of 11% compared to baseline water use during FY 2020, effective July 1, 2022.<sup>2</sup> SFPUC serves retail customers in San Francisco as well as in Palo Alto and 25 other wholesale customers in the Bay Area. The collective voluntary water purchase cutback level for the wholesale customers was 16% from FY 2020 levels, while Palo Alto's voluntary water purchase cutback level was 8% from FY 2020 levels.<sup>3</sup> The

<sup>1</sup> SFPUC Resolution No. 21-0177

<sup>2</sup> SFPUC Resolution No. 22-0098

<sup>3</sup> During water shortages up to 20% system-wide, the "Tier 1" formula allocates water between retail and wholesale customers; the "Tier 2" formula then allocates water among wholesale customers in accordance with an agreement

Palo Alto City Council implemented the water use restrictions in Stage I of the Water Shortage Contingency Plan on March 7, 2022 and added the water use restrictions in Stage II on June 20, 2022. Additionally, on June 20, 2022, the City Council restricted potable irrigation of ornamental landscape and lawn to two days per week other than to ensure the health of trees.<sup>4</sup>

SFPUC's April 17, 2023 Water Supply Availability Update noted precipitation well above long-term median levels and all-time record snowpack. On April 11, 2023, the SFPUC adopted a resolution to rescind its water shortage emergency that became effective on June 10, 2023 when the State Water Board's drought emergency regulations expired that required the SFPUC to implement the drought response actions of its Water Shortage Contingency Plan. Palo Alto's water use restrictions track both the State's regulation and SFPUC's water use regulation and also expired on June 10, 2023.

Additionally, Palo Alto's Stage I water use restrictions were effective through December 2023<sup>5</sup> and the State's requirement for no use of drinking water for watering decorative grass in commercial, industrial and institutional areas remains effective until June 2024.<sup>6</sup>

The cost of SFPUC water supply is increasing over the forecast period due to increasing debt service for a series of major capital projects on the Hetch Hetchy Regional Water System or Regional Water System as well as decreased water demand system-wide and also due to the draw down of the wholesale customer balancing account. SFPUC's water supply rates remained flat from FY 2017 through FY 2022 as SFPUC returned accumulated reserves to customers. On July 1, 2022, SFPUC increased the supply rate by 15.9% from \$4.10 per CCF to \$4.75 per CCF of water delivered to Palo Alto. Again on July 1, 2023, SFPUC increased the supply rate by 9.7% from \$4.75 per CCF to the current rate of \$5.21 per CCF. On February 15, 2024, the SFPUC notified Palo Alto that the wholesale rate is expected to be \$5.55 on July 1, 2024 (a 6.5% increase from current rates). For more information, see *Section 6A: Water Purchase Costs*. Staff expects SFPUC to provide a final rate notice around May 2024.

### **Capital Improvement Program**

Staff plans for a water main replacement construction project every other year. Actual capital costs vary from year to year; however, this Financial Plan continues with a stable annual capital contribution from the Operations Reserve to the Capital Improvement Program Reserve (CIP Reserve). *Section 6C: Capital Improvement Program (CIP)* provides more detail.

### **Rate Proposal**

This Financial Plan projects that the Water Utility will need to implement the rate increases shown in Table 2 in order to generate sufficient revenues to cover costs and maintain reserves within

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among the wholesale customers. The Tier 2 formula considers each agency's Individual Supply Guarantee (or equivalent), seasonality of water usage and applies minimum and maximum cutbacks.

<sup>4</sup> For more information see <https://www.cityofpaloalto.org/Departments/Utilities/Sustainability/Water-Conservation-and-Drought-Updates>

<sup>5</sup><https://www.cityofpaloalto.org/files/assets/public/v/1/city-clerk/resolutions/resolutions-1909-to-present/2022/reso-10022.pdf>

<sup>6</sup>[https://www.waterboards.ca.gov/press\\_room/press\\_releases/2023/pr20230601-decorative-watering.pdf](https://www.waterboards.ca.gov/press_room/press_releases/2023/pr20230601-decorative-watering.pdf)

guideline levels. This Financial Plan also projects that water supply costs will increase 1.4% in FY 2025 and then increase 5.3% in FY 2027, 7.4% in FY 2028 and 3.6% in FY 2029, consistent with SFPUC staff's February 15 projection). Staff expects some water conservation measures implemented during the drought to be permanent while some water sales rebound over the next 3 years. There is little or no expected increase in non-sales revenue, such as interest, connection fees and capacity fees.

Table 2 shows the rate projections from the previous financial plan for FY 2023, as well as the expected impact of SFPUC's expected 6.5% wholesale rate increase when combined with Palo Alto's distribution rate increase.

**Table 2: Proposed and Projected Water Revenue Changes for FY 2025 to FY 2029**

Projection	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029
FY 2025 Plan (Current)	10%	8%	11%	11%	5%
FY 2024 Plan	4%	3%	4%	6%	-

Table 3 shows the proposed water rate increases broken out into the needed increases to commodity revenues, to cover the costs of purchasing water from SFPUC, and separately the distribution revenue increases to pay for the upkeep of Palo Alto's water distribution system. Given the uncertainty regarding drought conditions, the SFPUC wholesale rate forecast is highly uncertain after FY 2025.

**Table 3: Proposed Commodity and Distribution Water Rate Changes FY 2025 to FY 2029**

Projection	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029
Commodity Rate (SFPUC Wholesale Rate)	7%	1%	5%	7%	4%
Distribution Rate	13%	14%	15%	13%	6%
Total Rate	10%	8%	11%	11%	5%

## **Reserve Changes**

The Water Utility's Rate Stabilization Reserve provides funding to smooth rate increases over several years. At the end of FY 2023, the balance in the reserve was \$6.07 million. The use of the Rate Stabilization Reserve, together with the cost and revenue projections in this Financial Plan allow expected CPAU water distribution rates to increase by only 13% in FY 2025 and between 6 - 15% annually from FY 2026 through FY 2029. Without the use of the Rate Stabilization Reserve in FY 2024 and 2025, water distribution rate increases of at least 22% would be needed in FY 2025. This Financial Plan projects that the Rate Stabilization Reserve will be exhausted by the end of FY 2026 and begin to be refilled in FY 2029.

Table 4 shows the starting and ending balances for the Operations & Unassigned Reserves combined, Rate Stabilization Reserve, and CIP Reserve, minimum and maximum Operations Reserve guideline levels and projected reserve transfers over the forecast period.

This Plan updates the transfer proposals due to project cost and timing changes and available reserve balances. One-time transfers from the Operations Reserve to the CIP Reserve in FY 2027 through FY 2029 total \$14 million and will fund the one-time water reservoir rebuild or

rehabilitations for the Park and Dahl water reservoirs. In FY 2024, FY 2025 and FY 2026, transfers from the Rate Stabilization Reserve to the Operations Reserve will manage the trajectory of future year rate increases. This Financial Plan requests Council approval for the \$2.07 million transfer from the Rate Stabilization Reserve to the Operations Reserve in FY 2024. Staff will request Council approval for the remaining transfers in future Financial Plans, if needed, once the year-end FY 2024 reserve balances are known.

Line 10 of Table 4 shows the anticipated CIP Reserve transfers, or capital program contributions, in FY 2024 through FY 2029 from the Operations/Unassigned Reserve to the CIP Reserve. There is also approximately \$16 million in CIP budgeted in FY 2023 or prior years that is reappropriated or carried forward from previous years and is currently in the CIP Reappropriations and CIP Commitments Reserves. See Appendix B: Water Utility Capital Improvement Program (CIP) Detail for detailed information.

The CIP Reserve aims to stabilize uneven annual funding associated with ongoing CIP projects including water main replacements scheduled to occur every other year and is a source for one-time or immediately needed projects. In June 2020, Council approved consistent annual funding from the Operations to the CIP Reserves ([Resolution 9904](#)). This Financial Plan projects a capital program contribution of approximately \$9 million annually, increasing with inflation, (see line 10 of Table 4) from the Operations Reserve to the CIP Reserve based upon actual and projected revenue and expenses as well as FY 2023 year-end reserve balances (FY 2024 and FY 2025 are lower because the timeline for one reservoir replacement was moved from FY 2024 to FY 2027).

This Financial Plan projects that rate funding is needed to cover \$7.461 million of planned CIP in FY 2024. This figure is the portion of planned CIP in FY 2024 that will not be paid for through funds collected in prior years (the FY 2024 capital budget, less funds available in the CIP Reappropriations and Commitments Reserves), shown in line 13 of Table 4 for FY 2023. This capital budget is projected to be funded by the capital program contribution of \$4 million together with \$3.461 million from the CIP Reserve (calculated as the \$7.461 million minus \$4 million capital program contribution). Withdrawals from the CIP Reserve for use on capital projects require Council action.<sup>7</sup> This Financial Plan therefore requests Council approval to transfer up to \$3.461 million from the CIP Reserve to the Operations Reserve. The need for the transfer will be re-evaluated once the year-end reserve balances and final CIP spending for FY 2024 are known. Figure 10: Projected CIP Reserve Balances FY 2024 to FY 2029 shows the CIP Reserve year-end balances.

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<sup>7</sup> See Section 5(b) of the Water Utility Reserves Management Practices; Appendix C to the attached Water Financial Plan.



**Table 4: Operations & Unassigned, Rate Stabilization and CIP Reserves Starting and Ending Balances, Revenues, Transfers To/(From) Reserves and Capital Program Contribution To/(From) Reserves Projected for FY 2024 to FY 2029 (\$000)**

		FY 2024	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029
	<b>Starting Balance</b>						
(1)	Operations/Unassigned	7,957	9,180	8,799	10,267	9,333	10,089
(2)	Rate Stabilization	6,069	4,000	2,000	-	-	-
(3)	CIP	6,961	3,500	6,679	3,312	7,233	2,190
	<b>Revenues</b>						
(4)	Total Revenue	49,904	55,887	61,743	67,713	74,059	76,834
(5)	Transfers In	342	353	363	373	389	400
	<b>Transfers</b>						
(6)	Operations/Unassigned	3,040	2,000	600	(6,100)	(6,500)	(4,000)
(7)	Operating Commitments	(971)	-	-	-	-	-
(8)	Rate Stabilization	(2,069)	(2,000)	(2,000)	-	-	4,000
(9)	CIP	-	-	1,400	6,100	6,500	-
	<b>Capital Program Contribution</b>						
(10)	Operations/Unassigned	(4,000)	(9,000)	(9,486)	(9,998)	(11,790)	(12,427)
(11)	CIP	4,000	9,000	9,486	9,998	11,790	12,427
	<b>Expenses</b>						
(12)	Total Expenses other than CIP	(46,341)	(49,141)	(50,991)	(52,157)	(54,631)	(56,252)
(13)	Planned CIP	(7,461)	(5,821)	(14,253)	(12,177)	(23,334)	(6,627)
(14)	Transfers Out	(1,721)	(480)	(761)	(765)	(770)	(775)
	<b>Ending Balance</b>						
(1)+(4)+(5)+(6)+(10)+(12)+(14)	Operations/Unassigned	9,180	8,799	10,267	9,333	10,089	13,869
(2)+(8)	Rate Stabilization	4,000	2,000	-	-	-	4,000
(3)+(9)+(11)+(13)*	CIP	3,500	6,679	3,312	7,233	2,190	7,989
	<b>Operations Reserve Guideline Levels</b>						
(15)	Minimum	7,901	8,157	8,507	8,700	9,107	9,374
(16)	Maximum	15,801	16,314	17,014	17,399	18,214	18,749

\* Planned CIP (item 13) is reflected as an expense in the CIP Reserve and does not include CIP funded through Reappropriations or Commitments reserves.

### **Cost Savings for Palo Alto from BAWSCA Bond Refunding**

In 2013, BAWSCA used bond financing to directly pay a debt the BAWSCA agencies (including Palo Alto) owed to SFPUC. This lowered the cost of repaying the debt. Since 2013, BAWSCA agencies, including Palo Alto have been separately paying the debt service for these bonds and those costs are separate from the wholesale water rate and add about \$0.35 to \$0.45 per CCF to the wholesale rate.

On January 5, 2023, BAWSCA completed the settlement of BAWSCA's revenue bond series 2023A to refund the 2013A bonds at an even lower rate. BAWSCA locked-in the bond rates in October 2021 at an all-in true interest rate of 2.06%. The refunding bond transaction will generate approximately \$27.1 million in net present value savings over the term of the bonds, or an

average of approximately \$2.5 million of savings per year for all Wholesale Customers, starting in fiscal year 2022-23.

## SECTION 2B: SUMMARY OF PROPOSED ACTIONS

Staff proposes the following Council action for the Water Utility in FY 2024 and FY 2025:

Adopt a resolution (Attachment A):

1. Approving the Fiscal Year (FY) 2025 Water Utility Financial Plan; and
2. Amending the following rate schedules to reflect increases effective July 1, 2024 (FY 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), and W-7 (Non-Residential Irrigation Water Service) (Attachment B)

## SECTION 3: DETAIL OF FY 2025 RATE AND RESERVES PROPOSALS

### SECTION 3A: RATE DESIGN

The Water Utility's rates are evaluated and implemented in compliance with the cost of service requirements and procedural rules set forth in Article XIII D of the California Constitution (Proposition 218) and applicable statutory law. The City structured current rates based on staff's assessment of the financial position of the Water Utility, and updated current rates using the methodology and rate structures developed by Raftelis Financial Consultants, Inc. (RFC) <sup>8</sup>. Staff plans to update the cost of service study in 1 to 2 years, unless any major changes occur to the utility's operations or customer base that would necessitate an earlier study. Before conducting any new cost of service study, staff will review current water rates and the scope of the study with the Utilities Advisory Commission (UAC) and Council to determine the City's policy priorities.

The Water Utility's rates are based on RFC's 2019 update to the 2015 cost of service study, which reviewed the City's most recent cost of service methodologies and rate structures and declared both fundamentally sound. With the onset of the COVID-19 pandemic, usage amongst residential customer classes increased as people worked and stayed at home rather than going to the workplace. Businesses operations were also affected by the COVID-19 pandemic and their collective water usage decreased. Additionally, calls for water conservation due to drought conditions, water use restrictions in Palo Alto, and weather influenced customer water usage patterns. In order to move toward full cost recovery while minimizing rate impacts in light of

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<sup>8</sup> RFC has developed 3 cost studies for the City: the March 2012 [Palo Alto Water Cost of Service & Rate Study](#), a 2015 study reviewing the 2012 methodology and analyzing drought rates entitled, [Memorandum: Proposed Water Rates](#), and a 2019 Memorandum analyzing the 2015 methodology and rate structure, titled ["Proposed FY 2020 Water Rates"](#).

pandemic-related economic challenges, staff recommends a distribution rate increase to all customer classes of 13%.

### SECTION 3B: CURRENT AND PROPOSED RATES

The current rates and surcharges became effective on July 1, 2023. CPAU has five rate schedules: separately metered residential customers (W-1), commercial and master-metered multi-family residential customers (W-4), irrigation-only services (W-7), services to fire sprinkler systems in buildings and private hydrants (W-3), and service to fire hydrant rental meters used for construction (W-2). All customers pay a monthly service charge based on the size of their inlet meter. This charge represents meter reading, billing, and other customer service costs, and also the cost of maintaining the capability to deliver a peak flow for that customer based on their meter size.

All customers are also charged for each CCF (one hundred cubic feet) of water used. Separately metered residential customers are charged on a tiered basis, with the first 0.2 CCF per day (6 CCF for a 30-day billing period) charged at the first-tier price per CCF, and all additional units charged a higher tier price per CCF. Commercial customers, including most multi-family customers, pay a uniform price for each CCF used. A separate rate per CCF exists for separately metered irrigation service.

Water rates are composed of two general types of costs: commodity and distribution. For July 1, 2024, staff proposes to increase the SFPUC wholesale water rate in accordance with SFPUC's rate notice in May 2024 (expected to be 6.5%) and to increase distribution rates by 13%.

Customers have a separate commodity rate for purchased water from SFPUC relative to the rest of the distribution-related portion of the volumetric rates. California Government Code Section 53756 (established by AB-3030) became effective January 1, 2009. This section of the Code authorizes public agencies providing water, sewer, and garbage services to adopt automatic pass-through rate adjustments to account for increases in wholesale water charges or wastewater treatment charges, as well as inflation. Pass-throughs must be adopted via the Proposition 218 process and can be effective for up to five years without additional Prop 218 authorization. In 2019 Palo Alto used the Prop 218 process and the Council adopted the pass-through process effective July 1, 2019 through June 30, 2024 pursuant to [Resolution 9844](#). The separate commodity charge passed-through SFPUC rate increases to customers. All customers pay this separate commodity rate, currently \$5.21 per CCF, for each unit of water in addition to the volumetric rate that is applicable for their customer class. The rates shown below are in addition to the pass-through commodity rate charged to Palo Alto's customers based on SFPUC supply charges. This year, Palo Alto staff plan to utilize the Prop 218 process to request Council approval to increase the commodity rate on July 1, 2024 while also asking Council approval to re-authorize the pass-through provision for the water commodity charge for another five-year period from July 1, 2024 through June 30, 2029 for use with commodity charge increases in future years. For further information and details about the proposed commodity rate, see Section 6A: Water Purchase Costs.

Distribution rates cover all the costs to deliver water within the City, such as operations, maintenance, metering, billing, and capital improvements. Through annual Council approvals,

the water utility provides steady funding to the CIP Reserve, which reflects actual fluctuations in CIP expenditures (money spent on actual projects in a given year). Previously, CIP expenditures were reflected in the Operations Reserve. In this way, although CIP expenditures fluctuate from year to year, staff projects the capital program contribution to the CIP reserve to remain fairly constant over the next five years. An exception to this is the one-time reservoir replacement costs that will be partly funded through one-time transfers from the Operations Reserve to the CIP Reserve. Once these reservoirs are replaced or rehabilitated, these costs will no longer be included in the ongoing CIP budget needs for the water utility. More detail regarding reserve transfers is in Section 3D: Proposed Reserve Transfers. Operations costs are discussed in *Section 6B: Operations*, below.

Table 5 shows the current and proposed consumption charges, which are distribution rates.

**Table 5: Current and Proposed Water Distribution Charges**

	<b>Current (7/1/2023)</b>	<b>Proposed (7/1/2024)</b>	<b>Change (\$/CCF)</b>	<b>Change (%)</b>
<b>W-1 (Residential) Volumetric Rates (\$/CCF)</b>				
Tier 1 Rates	2.72	3.07	0.35	13%
Tier 2 Rates	6.33	7.15	0.82	13%
<b>W-2 (Construction) Volumetric Rates (\$/CCF)</b>				
Uniform Rate	3.83	4.32	0.49	13%
<b>W-4 (Commercial) Volumetric Rates (\$/CCF)</b>				
Uniform Rate	3.83	4.32	0.49	13%
<b>W-7 (Irrigation) Volumetric Rates (\$/CCF)</b>				
Uniform Rate	5.83	6.58	0.75	13%

Table 6 and Table 7 show the current monthly service charges for rate schedules W-1, W-4 and W-7. These monthly service charges are also considered distribution rates.

**Table 6: Current and Proposed Monthly Service Charges for Residential W-1**

Meter Size	Monthly Service Charge (\$/month based on meter size)		Change	
	Current (7/1/2023)	Proposed (7/1/2024)	\$	%
5/8"	21.48	24.27	2.79	13%
3/4"	21.48	24.27	2.79	13%
1"	21.48	24.27	2.79	13%
1 ½"	69.38	78.39	9.01	13%
2"	107.32	121.27	13.95	13%
3"	227.48	257.05	29.57	13%
4"	404.56	457.15	52.59	13%
6"	828.27	935.94	107.67	13%
8"	1,523.92	1,722.02	198.10	13%
10"	2,409.29	2,722.49	313.20	13%
12"	3,168.19	3,580.05	411.86	13%

**Table 7: Current and Proposed Monthly Service Charges for W-4 and W-7**

Meter Size	Monthly Service Charge (\$/month based on meter size)		Change	
	Current (7/1/2023)	Proposed (7/1/2024)	\$	%
5/8"	18.78	21.22	2.44	13%
3/4"	25.11	28.37	3.26	13%
1"	37.76	42.66	4.90	13%
1 ½"	69.38	78.39	9.01	13%
2"	107.32	121.27	13.95	13%
3"	227.48	257.05	29.57	13%
4"	404.56	457.15	52.59	13%
6"	828.27	935.94	107.67	13%
8"	1,523.92	1,722.02	198.10	13%
10"	2,409.29	2,722.49	313.20	13%
12"	3,168.19	3,580.05	411.86	13%

Table 8 shows the current and proposed monthly service charges for rate schedule W-3.

**Table 8: Current and Proposed Monthly Service Charges for Fire Services (W-3)**

Meter Size	Monthly Service Charge (\$/month based on meter size)		Change	
	Current (7/1/2023)	Proposed (7/1/2024)	\$	%
2"	4.42	4.99	0.57	13%
4"	27.38	30.93	3.55	13%
6"	79.51	89.84	10.33	13%
8"	169.45	191.47	22.02	13%
10"	304.74	344.35	39.61	13%
12"	492.24	556.23	63.99	13%

### SECTION 3C: BILL IMPACT OF PROPOSED RATE CHANGES

Table 9 shows the impact of the proposed July 1, 2024 rate changes on the median residential bill. The system average increase is projected to be 10 percent, but some customers will see higher or lower increases due to changes in the composition of the customer's utilization of the system over time, as well as changes in the utility's costs. Table 9 shows the impact of the proposed July 1, 2024 rate changes on the median commercial bill.

**Table 9: Impact of Proposed Water Rate Changes on Residential Bills**

Usage (CCF/mo.)	Bill under Current Rates (7/1/2023)	Bill under Proposed Rates (7/1/2024)	Change	
			\$/mo.	%
4	\$53.20	\$58.75	\$5.55	10%
(Winter median) 7	\$80.60	\$88.69	\$8.09	10%
(Annual median) 9	\$103.68	\$114.09	\$10.41	10%
(Summer median) 14	\$161.38	\$177.59	\$16.21	10%
25	\$288.32	\$317.29	\$28.97	10%

**Table 10: Impact of Proposed Water Rate Changes on Commercial Bills**

Usage (CCF/mo.)	Bill under Current Rates (7/1/2023)	Bill under Proposed Rates (7/1/2024)	Change	
			\$/mo.	%
Commercial (W-4) (5/8" meters)				
(Annual median) 12	\$127.26	\$139.66	\$12.40	10%
(Annual average) 64	\$597.34	\$652.90	\$55.56	9%
Irrigation (W-7) (1 ½" meters)				
(Winter median) 9	\$168.74	\$187.56	\$18.82	11%
(Summer median) 37	\$477.86	\$527.20	\$49.34	10%
(Winter average) 56	\$687.62	\$757.67	\$70.05	10%
(Summer average) 199	\$2,266.34	\$2,492.26	\$225.92	10%

### SECTION 3D: PROPOSED RESERVE TRANSFERS

A transfer of approximately \$2.07 million in FY 2024, \$2 million in FY 2025 and \$2 million in FY 2026 from the Rate Stabilization Reserve to the Operations Reserve will mitigate the need for distribution rate increases. See Table 4 above, row 8, for a summary of the projected reserve transfers out of the Rate Stabilization Reserve. This meets the requirement in the Water Utility Reserves Management Practices that states if there are funds in the Rate Stabilization Reserve at the end of any fiscal year, any subsequent Water Utility Financial Plan must result in the withdrawal of all funds from this reserve by the end of the Financial Planning Period. Note that in FY 2029, this Financial Plan replenishes the Rate Stabilization Reserve with \$4 million.

Section 2A: Overview of Financial Position describes the proposed transfers to and from the CIP Reserve. Table 4 shows the proposed capital program contributions in row 11.

This Financial Plan projects one-time transfers from the Operations Reserve to the CIP Reserve to fund reservoir work for the upcoming Dahl and Park reservoir replacement or rehabilitation costs. These one-time transfers total \$14 million between FY 2026 and FY 2028, which is equal to the total estimated cost of replacing the two reservoirs. Table 4 shows these one-time transfers from the Operations Reserve to the CIP Reserve on line 9. Additionally, Section 4E: Reserves Structure and Appendix A: Water Utility Financial Forecast Detail shows details of reserves levels.

### SECTION 4: UTILITY OVERVIEW

This section provides an overview of the utility and its operations. It provides general background information and helps readers better understand the forecasts in *Section 5: Utility Financial Projections* and *Section 6: Details and Assumptions*.

### SECTION 4A: WATER UTILITY HISTORY

The Water Utility was established on May 9, 1896, two years after the City was incorporated. Voters of the 750-person community approved a \$40,000 bond to buy local, private water companies who operated one or more shallow wells to serve the nearby residents. The city grew

and the well system expanded until nine wells were in operation in 1932. Palo Alto began receiving water from the San Francisco Water Department (SFWD) in 1937 to supplement these sources.

A 1950 engineering report noted, “the capricious alternation of well waters and the San Francisco Water Department water...has made satisfactory service to the average customer practically impossible”. By 1950, only eight wells were still in operation. Despite this, groundwater production increased in the 1950s leading to lower groundwater tables and water quality concerns. In 1962, a survey of water softening costs to CPAU customers determined that CPAU should purchase 100% of its water supply needs from the SFWD. CPAU signed a 20-year contract with SFWD, and CPAU’s wells were placed in standby condition. The SFWD later became known as the SFPUC. Since 1962 (except for some very short periods) CPAU’s entire supply of potable water has come from the SFPUC.

As the city grew, so did the number of mains in the water system, while existing sections of the system continued to age. In the mid-1980s, the number of breaks in cast iron mains installed during the 1940s and earlier started to accelerate. In FY 1994, to combat deterioration of older sections of the system, CPAU performed an analysis of cost-effective system improvements and increased the rate of main replacement from one mile per year to three. CPAU began a plan to replace 75 miles of deficient mains within 25 years.

In 1999, a study of system reliability concluded that the distribution system needed major upgrades to provide adequate water supply during a natural disaster. This ultimately resulted in the \$40 million Emergency Water Supply and Storage Project, completed in 2013, which involved a new underground reservoir in El Camino Park, the siting and construction of several emergency supply wells, and the upgrade of several existing wells and the Mayfield pump station. Upon completion, the City began to focus reliability efforts on its system of water storage reservoirs and transmission lines in the Foothills.

At the same time that CPAU was evaluating the reliability of its own system, the SFPUC, in consultation with BAWSCA members, was evaluating the reliability of the Hetch Hetchy Regional Water System, which crosses two major fault lines between the Sierras and the Bay Area. That evaluation concluded that major upgrades to the system were required for improved seismic resilience. This planning process culminated in the SFPUC’s \$4.8 billion Water System Improvement Project (WSIP), which is ongoing. This has resulted and will continue to result in large increases in the annual debt service costs assigned to wholesale customers like Palo Alto. After SFPUC completes each WSIP project, wholesale customers must start paying the debt service costs within 3 to 4 years. Wholesale customers will pay off the majority of those costs, funded with bond financing, over approximately 30 years. The SFPUC continues to evaluate its aging system for other needed infrastructure improvements; future major improvements include dam safety and Mountain Tunnel repairs.

## SECTION 4B: CUSTOMER BASE

CPAU’s Water Utility provides water service to the residents and businesses of Palo Alto, plus a handful of residential customers not in Palo Alto (primarily in Los Altos Hills). There are approximately 20,200 customers connected to the water system. Approximately 17,300 (86%) of



these are separately metered residential customers and approximately 2,900 (14%) of these are commercial, master-metered residential, irrigation, and fire service customers.

Judging from seasonal consumption patterns, Palo Alto's customers collectively use between 35% and 50% of the water for irrigation, and that consumption is heavily weather dependent. It also varies significantly by season. As a result of these two factors, there is significant variability in the amount of water demanded from the system month to month and year to year.

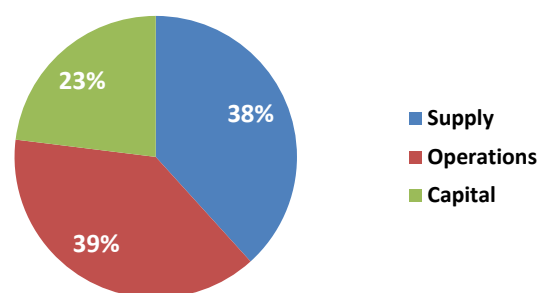
## SECTION 4C: DISTRIBUTION SYSTEM

To deliver water to its customers, CPAU owns and operates roughly 236 miles of mains (which transport the water from the SFPUC meters at the city's borders to the customer's service laterals and meters), eight wells (to be used in emergencies), five water storage reservoirs (also for emergency purposes) and several tanks used to moderate pressure and deal with peaks in flow and demand (due to fire suppression, heavy usage times, etc.). These represent the vast majority of the infrastructure used to distribute water in Palo Alto.

## SECTION 4D: COST STRUCTURE AND REVENUE SOURCES

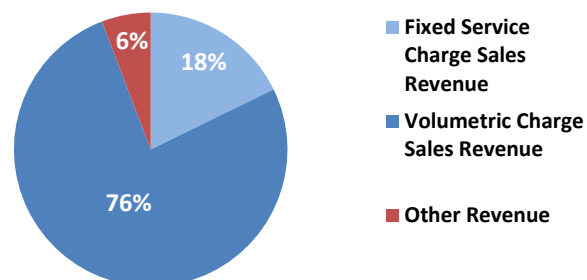
Figure 1 shows that in FY 2023, 38% of the Water Utility's costs were for water commodity purchases, 39% were for operations and maintenance costs, and the remaining 23% were for capital investment. Staff projects these percentage distributions to remain similar over the forecast period.

Figure 1: Cost Structure (FY 2023)



The Water Utility's revenue comes mainly from the sale of water, with the rest coming from capacity and connection fees, interest on reserves, and other sources. About 18% of the utility's revenues come from fixed service charges, though most of the utility's costs are fixed. *Appendix A: Water Utility Financial Forecast Detail* provides more detail on the utility's cost and revenue structures.

Figure 2: Revenue Structure (FY 2023)



## SECTION 4E: RESERVES STRUCTURE

CPAU maintains six reserves for its Water Utility to manage various types of contingencies. The descriptions below summarize these reserves; see *Appendix C: Water Utility Reserves Management Practices* for more detailed definitions and guidelines for reserve management:

- **Reserve for Commitments:** A reserve equal to the utility's outstanding contract liabilities for the current fiscal year. Most City funds, including the General Fund, have a Commitments Reserve.
- **Reserve for Reappropriations:** A reserve for funds dedicated to projects reappropriated by the City Council, nearly all of which are capital projects. Most City funds, including the General Fund, have a Reappropriations Reserve.
- **Capital Improvement Program (CIP) Reserve:** The CIP reserve can be used to accumulate funds for future expenditure on CIP projects, as well as to manage cash flow for ongoing capital projects. This reserve can also act as a contingency reserve for the CIP. This type of reserve is used in other utility funds (Electric, Gas, and Wastewater Collection) as well.
- **Rate Stabilization Reserve:** This reserve is intended to be empty unless the city anticipates one or more large rate increases in the forecast period. In that case, funds can be accumulated to spread the impact of those future rate increases across multiple years. This type of reserve is used in other utility funds (Electric, Gas, and Wastewater Collection) as well.
- **Operations Reserve:** This is the primary contingency reserve for the Water Utility, and is used to manage yearly variances from the budget for operational water supply costs. This type of reserve is used in other utility funds (Electric, Gas, and Wastewater Collection) as well.
- **Unassigned Reserve:** This reserve is for any funds not assigned to the other reserves and funds in this reserve are assigned or returned to Water Utility ratepayers by the end of the first fiscal year of the next financial planning period.

## SECTION 4F: COMPETITIVENESS

Table 11 compares the current water bills for single-family residential customers in Palo Alto with those of neighboring communities. While Palo Alto is among the highest monthly bills among these communities, the difference between Palo Alto's bills and those of the surrounding cities has decreased in recent years as other agencies have increased their capital investments. Additionally, bills for smaller water users in Palo Alto are lower than in some neighboring communities. These comparison cities are the ones that Palo Alto compares itself to in the annual budget across all industries.

**Table 11: Single-Family Residential Monthly Water Bill Comparison**

Usage (CCF/month)	Residential monthly bill comparison (\$/month)* As of February 2024							
	Palo Alto	Menlo Park	Mountain View	Hayward	Redwood City	Santa Clara	Los Altos	Average of Surrounding Communities
4	\$53.20	\$65.20	\$46.95	\$45.17	\$64.16	\$31.88	\$58.71	\$52.01
(Winter median) 7	80.60	91.00	72.69	69.59	86.27	55.79	79.51	75.81
(Annual median) 9	103.68	108.19	89.85	85.87	112.31	71.73	93.38	93.55
(Summer median) 14	161.38	155.10	132.75	135.87	180.22	111.58	131.23	141.12
25	288.32	271.23	278.63	245.87	340.49	199.25	233.01	261.41

\* Based on the FY 2013 BAWSCA survey, the percentage of SFPUC as the source of potable water supply was 100% for Palo Alto, 95% for Menlo Park, 100% for Redwood City, 87% for Mountain View, 10% for Santa Clara and 100% for Hayward. Los Altos does not receive water supply from SFPUC.

## SECTION 5: UTILITY FINANCIAL PROJECTIONS

### SECTION 5A: LOAD FORECAST

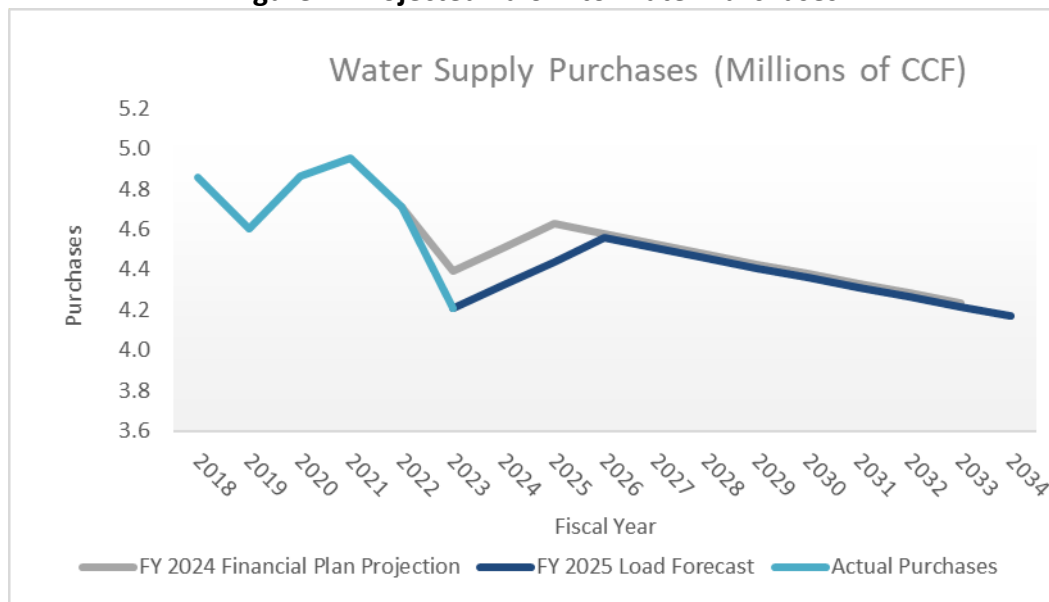
Figure 3 shows 48 years of water consumption history in Palo Alto. Despite population growth, average water use has trended downward over time. This is due to significant water use reductions particularly during drought periods, such as 1976-77, 1988-92 and 2014-17, and 2021-23. During these periods, customers invested in efficient equipment and modified their behavior to achieve water reduction goals. These reductions persisted even after the droughts ended. Additionally, water sales decreased during the 2007-2009 recession and drought and again during the 2014-2017 drought. Water usage returned to pre-drought levels in 2018 after the drought. However, the Covid-19 pandemic led to an increase in water use in Palo Alto in 2020-21. During the months affected by pandemic impacts, but prior to Governor Newsom's Executive Order N-10-21 calling on Californians to voluntarily reduce water use 15% from 2020 levels, (March 2020 – June 2021), overall water sales increased approximately 3-6% from recent years. Because weather was also dry during the same time period, which also tends to increase water sales, pandemic-related sales impacts are not able to be determined with specificity. During FY 2022 and FY 2023 water use restrictions due to drought also reduced water demand. Staff will continue to monitor water sales and will recommend adjustments in next year's financial plan as needed.

**Figure 3: Historical Palo Alto Water Purchases (Rolling 12-Month)**



Figure 4 shows the FY 2025 Financial Plan water purchases forecast, compared to the projected water purchases in the FY 2024 Financial Plan.

**Figure 4: Projected Palo Alto Water Purchases**



Actual water purchases in FY 2023 were 4,210,399 CCF, about 4.1% lower than projected in the FY 2024 Financial Plan and 10.6% lower than actual water purchases in FY 2022. This forecast begins with the most recent water purchases and assumes a drought recovery over three years back to the pre-drought long-term trend (average annual decrease of 1.1% observed from FY 2002 to FY 2021). The current forecast for FY 2024 is 4,322,676 CCF and 4,437,947 CCF in FY 2025.

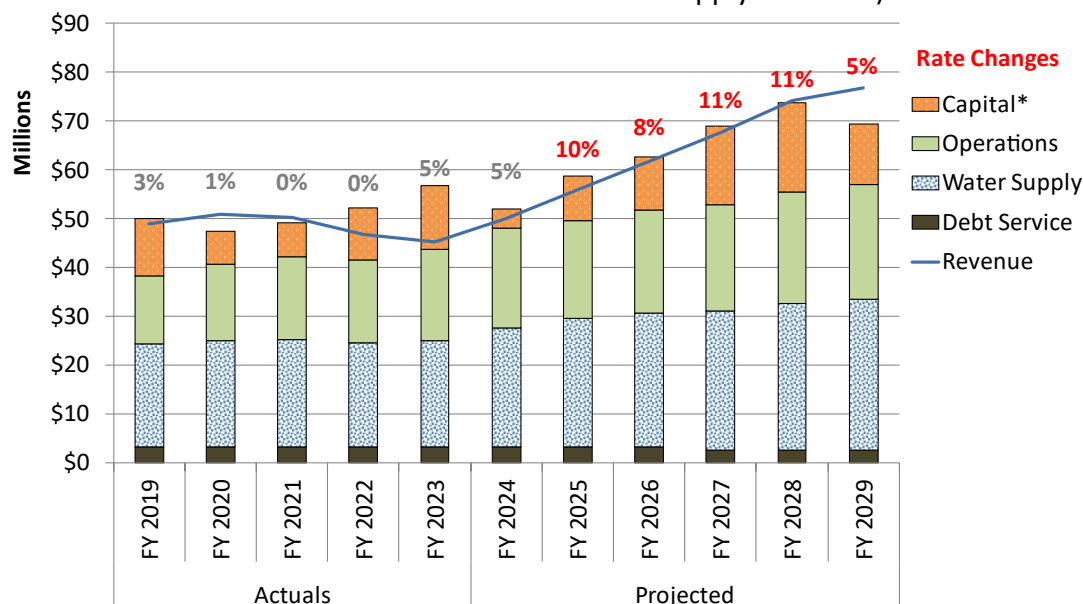
## SECTION 5B: FY 2019 TO FY 2023 COST AND REVENUE TRENDS

Figure 5 and the tables in *Appendix A: Water Utility Financial Forecast Detail* show how costs have changed during the last five years as well as how staff projects they will change over the next five years.

The annual expenses for the Water Utility rose by 3.2% annually on average between FY 2019 and FY 2023. The increases were primarily related to operations costs. SFPUC held its wholesale water rate at \$4.10 from July 2016 to June 2022 and then increased the rate to \$4.75 on July 1, 2022. At the same time that prices increased in FY 2023, customers used less water and the utility's overall purchase costs remained fairly flat over this time period growing at an average of 0.6% annually from FY 2019 to FY 2023. *Section 6A: Water Purchase Costs* contains a more in-depth discussion of water purchase costs. Operations costs other than purchased water and CIP increased by about 6.5% annually from FY 2019 to FY 2023, primarily due to increases in allocated costs, rent, one-time transfers out for capital projects, resource management, engineering and customer service. CIP costs have generally increased but fluctuated down in certain years. In FY 2024 there is \$16 million of CIP Reappropriations and Commitments budgeted in previous years and carried over to FY 2024. One reservoir replacement is being moved from FY 2024 to FY 2027 which is the reason a lower capital contribution is expected to be needed in FY 2024. *Section 6B:*

Operations contains more detail regarding operations costs and Section 6C: Capital Improvement Program (CIP) provides more detail regarding CIP costs.

**Figure 5: Water Utility Expenses, Revenues, and Rate Changes:**  
Actual Expenses through FY 2023 and Projections through FY 2029 (Including SFPUC's rate increase of 6.5% in the "Water Supply" cost bar)



\* Note: in Figure 5, Capital Investment in the projected years reflects one-time transfers from the Operations Reserve to the CIP Reserve, the annual capital program contribution to the CIP Reserve, as well as increases in CIP Reappropriations and Commitments.

## SECTION 5C: FY 2023 RESULTS

Actual sales revenues for FY 2023 were 7.3% lower than projected in the FY 2024 Financial Plan (\$42.6 million vs. \$45.9 million). Water losses also increased in FY 2023 and water purchase volume was only 4.1% below forecasted. Correspondingly, actual FY 2023 water purchase costs were 4.1% lower than forecast. During the first half of FY 2023, Palo Alto implemented voluntary water use restrictions due to ongoing drought conditions as well as a drought declaration by the SFPUC, Palo Alto's water supplier. During the winter of 2022-2023 the drought ended due to very wet weather. Other revenues were 5.4% lower than forecasted in the FY 2024 Financial Plan primarily due to reductions in transfers in.

In FY 2022, unrealized gains/losses were separated out from the operations reserve into a separate reserve. There was a subsequent accounting adjustment to the year-end FY 2022 operations reserve balance to also remove unrealized gains/losses from prior years from the Operations Reserve and reflect those in the unrealized gains/losses reserve. This reduced the operations reserve by \$0.7 million. Additionally, operating expenses were higher than expected due to a transfer out to the capital projects fund. CIP related costs for FY 23 including CIP reappropriations and commitments totaled \$25.8 million in the FY 2024 Financial Plan estimate for FY 2023 and the actual spending plus pending CIP reappropriations and commitments for FY 2023 is \$26.1, a difference of \$0.3 million or 1%.

Table 12 summarizes the variances from forecast.

**Table 12: FY 2023, Actual Results vs. Financial Plan Forecast**

	Net Cost/ (Benefit) (\$000)	Type of change
Lower sales revenues	\$3,336	Lower revenues
Lower other revenue	\$148	Lower revenues
Capital-related costs including CIP reappropriations/commitments	\$292	Cost increase
Water purchases lower than expected	\$(939)	Cost decrease
Expense higher than expected	\$677	Cost increase
Accounting adjustment to Operations Reserve	\$671	Cost increase
<b>Net Cost / (Benefit) of Variances</b>	<b>\$4,185</b>	

## SECTION 5D: FY 2024 PROJECTIONS

Staff estimates sales revenues in FY 2024 to be \$2.6 million or 4.5% lower than forecasted in the FY 2024 Financial Plan as a result of reductions in water use due to drought and drought rebound. Of this total, about \$1.3 million is reduction in distribution sales revenue. Staff currently estimates water sales volumes to be 9.6% lower than the FY 2024 Financial Plan forecast, which had assumed some drought recovery in FY 2024. This puts additional upward pressure on water rates. Staff expects other revenue to be higher than forecasted in the FY 2024 Financial Plan by \$0.2 million in FY 2024 primarily due to increases in income based on the most recent year. Revenue reductions are offset by approximately \$1.1 million in lower water purchase costs also resulting from the lower sales forecast.

The allocated cost forecast decreased by \$0.4 million while transfers out increased due to an expected one-time transfer true-up in FY 2024. The estimate for resource management costs increased by 0.2 million, while operations and maintenance and engineering cost estimates decreased by \$0.6 million. Total operations and maintenance costs other than water purchases increased by \$1.4 million. Table 13 summarizes the changes.

The FY 2024 Financial Plan estimated a 5-year capital project budget for FY 2024 through FY 2028 of \$54.7 million (not including carry-forward budgets from prior years). This budget increased 1.2% in the current Financial Plan to \$55.3M. The FY 2024 capital budget in the FY 2024 Financial Plan was \$13.0 million, including allocated costs; in the FY 2025 Financial Plan, the FY 2024 capital budget is \$7.5 million. This reduction is because the reservoir tank replacement/rehabilitation construction completion date was delayed to FY 2028 to allow time for additional analysis and project phasing. This delayed the capital funding need. Additionally, the FY 2024 budgeted \$2.9 million for ongoing projects in FY 2024 and based upon current estimates, the CIP Reappropriations and Commitments reserve funding will cover more of this budget and only \$1.6 million is expected to need to be recovered from rate funding in FY 2024 (a difference of \$1.3 million). Additional CIP-related costs increased in the current Financial plan including CIP allocated overhead and unallocated salaries and benefits together increased \$0.85 million in FY 2024.

In addition to the items described above and shown in Table 13, operating commitments grew by \$1 million, and CIP-Commitments and Reappropriations together grew by \$3.9 million and both of those reduced the Operations Reserve FY 23 year-end balance.

**Table 13: FY 2024 Change in Projected Results, 2024 Forecast vs 2025 Forecast (\$000)**

	Net Cost/ (Benefit)	Type of Change
Sales Revenue	\$2,545	Revenue decrease
Other Revenue	\$(195)	Revenue decrease
Water Purchases	(\$1,064)	Cost savings
Capital costs (project, allocated, and unallocated salaries and benefits)	(\$6,748)	Cost deferral
Other Operating Costs	\$1,359	Cost decrease
<b>Net Cost / (Benefit) of Variances</b>	<b>(\$4,102)</b>	

## SECTION 5E: FY 2025 – FY 2029 PROJECTIONS

On average the Water Utility's costs projected to increase by 4.3% annually from FY 2025 through FY 2029 (see Figure 5 and Table 14).

**Table 14: Average Annual Percentage Cost Change for Water Utility Expenses**

Water Utility Expense	Average annual percentage cost change FY 2025 – FY 2029
Capital Program Contribution	8.4%
Operations (other than debt service)	4.2%
Water Supply	4.0%
Debt Service	(4.5%)
<b>Total</b>	<b>4.3%</b>

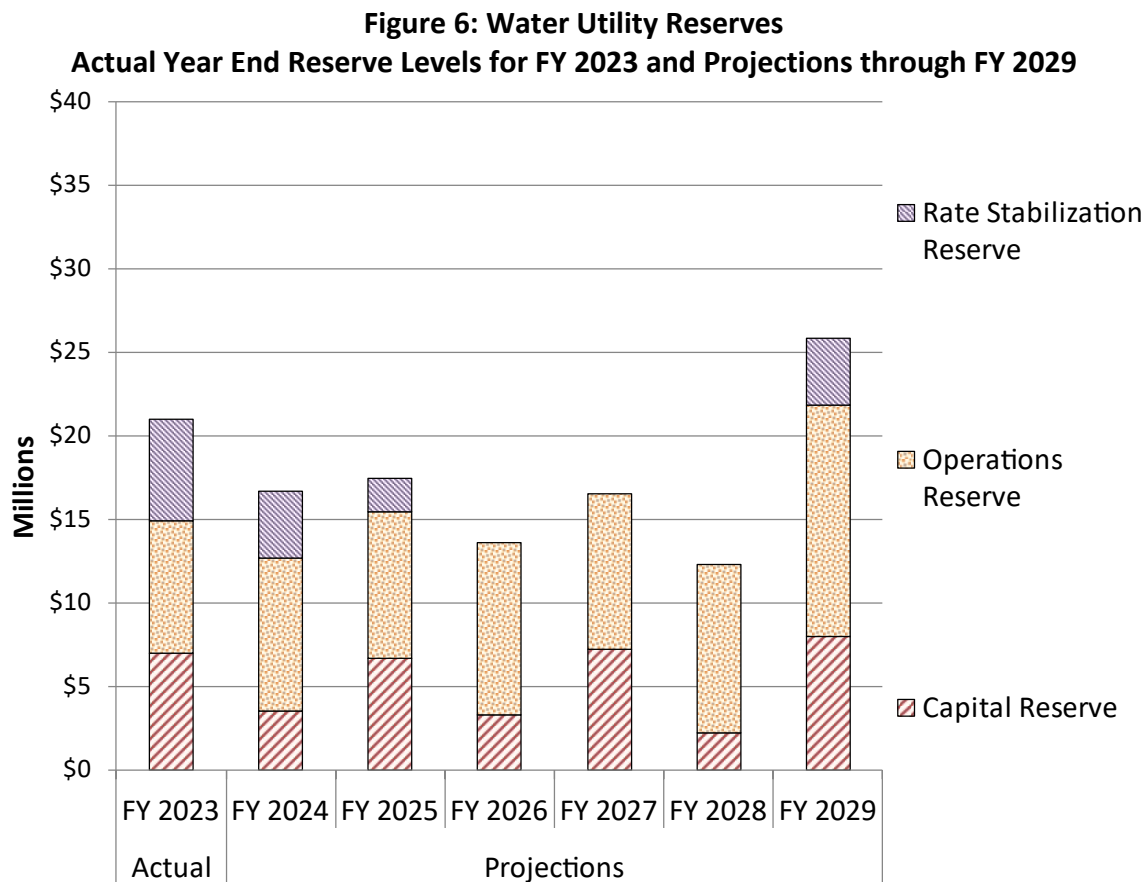
This plan anticipates that water supply costs will increase 4.3% annually on average over the forecast period FY 2025 – FY 2029. Staff projects operations costs other than debt service to increase by 4.2% annually on average and capital contributions to the CIP Reserve to increase 8.4% on average each year. While staff has revised future CIP costs upwards to reflect the higher construction costs seen in recent projects, there is still uncertainty with regard to the utility's future costs for water main replacements. See *Section 6: Details and Assumptions* for more detail on the costs that make up these projections, as well as the various assumptions underlying the projections. Debt service costs are declining during the FY 2025 – FY 2029 time period because the 2011 Utility Revenue Refunding Bond, Series A, is scheduled to be retired in 2026.

Both the FY 2024 and current Financial Plans utilize all of the \$6.06 million in the Rate Stabilization Reserve by the end of FY 2026 to stabilize rates and cover operational and capital costs.

As shown in Table 3, the Water Utility requires distribution rate increases between 6% and 13% per year through FY 2029 to provide sufficient revenues to fund annual expenses for the distribution system. The overall average system rate increase needed with SFPUC's projected rate increase is 10% per year through FY 2029.

Figure 6 shows reserves trends based on these cost and revenue projections. The figure shows the transfers from the Rate Stabilization Reserve to the Operations Reserve in FY 2023 through FY 2026 and that the fund is able to return \$4 million to the Rate Stabilization Reserve in FY 2029.

Staff expects the Operations Reserve, the main contingency reserve, to be within the target range throughout the forecast period, and that this reserve will be adequate to meet all identified risks, as discussed in *Section 5F: Risk Assessment and Reserves Adequacy*.



## SECTION 5F: RISK ASSESSMENT AND RESERVES ADEQUACY

The Water Utility's main contingency reserve is the Operations Reserve, and this Financial Plan projects the Operations reserve to remain within the guideline levels throughout the forecast period, as shown in Figure 7. Staff will consider funds in the Operations Reserve in excess of the maximum to be unassigned. Staff projects the Operations Reserve to exceed both the minimum reserve level and the short-term risk assessment level throughout the forecast period.



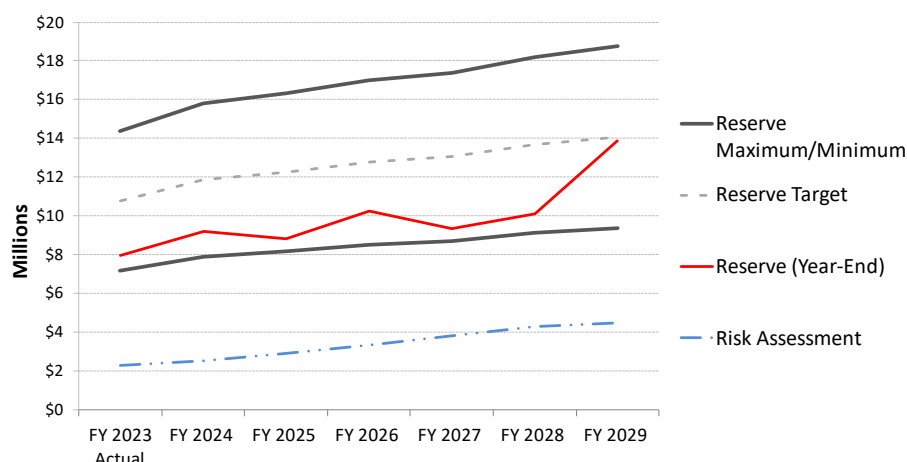
**Figure 7: Operations Reserve Adequacy**


Table 15 summarizes the risk assessment calculation for the Water Utility through FY 2029. The risk assessment includes the revenue shortfall of 14% that could accrue due to lower than forecasted sales revenue.

**Table 15: Water Risk Assessment (\$000)**

	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029
Total Non-Commodity Revenue	\$30,103	\$34,958	\$39,878	\$44,609	\$46,680
Max. Revenue Variance, Previous Ten Years	14%	14%	14%	14%	14%
Risk of Revenue Loss	\$2,884	\$3,349	\$3,820	\$4,273	\$4,471
<b>Total Risk Assessment Value</b>	<b>\$2,884</b>	<b>\$3,349</b>	<b>\$3,820</b>	<b>\$4,273</b>	<b>\$4,471</b>

## SECTION 5G: ALTERNATE SCENARIO

There is no alternate scenario included in this Financial Plan.

## SECTION 5H: LONG-TERM OUTLOOK

CPAU has put its Water Utility on strong footing by investing in its distribution system infrastructure and emergency water facilities over the last 20 years. The Water System Master Plan, completed in FY 2016, evaluated the current state of the distribution system and determined the necessary rate of main replacement in the next 20 years. This study factored in seismically vulnerable mains as well as deteriorating mains. In addition, CPAU's water supplier, the SFPUC, has replaced and seismically strengthened its water transmission infrastructure, which will benefit Palo Alto and all Hetch Hetchy Regional Water System customers over the long term.

The opportunities for CPAU's Water Utility to obtain additional supplies over the long term may be in alternative water supplies such as recycled water, groundwater, and water from Valley Water. Staff have analyzed these alternatives in the past and analyzed them again most recently in the 2017 Water Integrated Resource Plan.<sup>9</sup> Some of these alternatives may provide cost savings or increased drought protection. For example, in November, 2019, the City of Palo Alto entered into an agreement with Valley Water and the City of Mountain View that will provide (1) funding for a salt removal facility at the Regional Water Quality Control Plant in Palo Alto to improve the quality of non-potable recycled water used in Palo Alto and Mountain View, (2) a transfer of treated wastewater from Palo Alto to Valley Water for use in the county south of Mountain View, and (3) Palo Alto and Mountain View will have a future option to request new potable or non-potable water supply from Valley Water, if needed.

Climate change may begin to present challenges for the Water Utility over the next 20 to 40 years. Availability of water from SFPUC's Regional Water System may change with changing seasonal precipitation patterns. Water consumption patterns may change. Consumption could increase due to drier weather or decrease as customers become even more focused on water conservation. Droughts may become more frequent. The risk of wildfire in the foothills could increase, possibly threatening utility infrastructure or placing greater demands on it. Sea level rise could result in greater exposure of utility infrastructure to inundation, possibly resulting in higher maintenance and replacement costs. As part of the Sustainability/Climate Action Plan, CPAU is currently working on a Climate Change Adaptation Roadmap that will begin to assess some of these risks.

Palo Alto staff is in the process of developing a One Water supply plan to enhance and preserve Palo Alto's potable water supply. The Palo Alto City Council approved a Contract with Carollo Engineers for this work in June 2022 ([Staff Report #13434](#)). The One Water Plan will be used as an adaptable water supply plan for implementing a One Water portfolio over a 20-year planning horizon. This work aims to address how Palo Alto can mitigate the impact of future uncertainties such as severe multi-year drought, changes in climate, water demand and regulations through integrated water resources supply planning. More information is available on the [One Water webpage](#).

SFPUC recently conducted a study of long-term vulnerabilities of the Regional Water System in partnership with The Water Research Foundation. The [Long-Term Vulnerability Assessment](#) covers the risks associated with potential climate change in the context of effects from other drivers of change.

## SECTION 6: DETAILS AND ASSUMPTIONS

### SECTION 6A: WATER PURCHASE COSTS

CPAU purchases all of its potable water supplies from the SFPUC, which owns and operates the Hetch Hetchy Regional Water System. CPAU is one of several agencies that purchase water from

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<sup>9</sup> 2017 Water Integrated Resource Plan: <https://www.cityofpaloalto.org/civicax/filebank/documents/56088>

the SFPUC, all of whom are members of the Bay Area Water Supply and Conservation Agency (BAWSCA). Palo Alto uses roughly 7% of the water delivered by the SFPUC to BAWSCA member agencies.

On February 15, 2024 SFPUC notified BAWSCA that it expects the FY 2025 Wholesale Water Rate to be \$5.55/CCF (an increase of between 6.5% from the current rate of \$5.21/CCF. Additionally, SFPUC disclosed that it is updating the fixed monthly service charges to reflect new meter types being installed and update the charges for all existing meters.

SFPUC cited three main drivers for the rate increase – growth in capital spending, continued low water sales volumes, and the draw down of the balancing account. Capital costs are rising due to increased debt service on existing and newly-issued bonds. Water sales volumes are uncertain due to uncertainty about the amount that customers will rebound from drought and unpredictable weather conditions affecting water usage patterns. During FY 2017 through FY 2021, the balancing account for SFPUC’s wholesale customers built up an over-collection of revenue due to wholesale customer revenues exceeding costs. There are several reasons contributing to this: SFPUC sold more wholesale water than its sales projection, there were cost savings in the wholesale revenue requirement due to the SFPUC’s debt refinancing, and BAWSCA’s annual review of the wholesale revenue requirement resulted in credits applied to the balancing account. However, during the drought years of FY 2022 and FY 2023 and during the current year, SFPUC has been returning the over-collection in the balancing account. SFPUC’s estimated balance in the balancing account at the end of FY 2024 is \$19.4 million owed to retail customers and the projection includes a deferral of up to \$10 million of this to be paid back in future years.

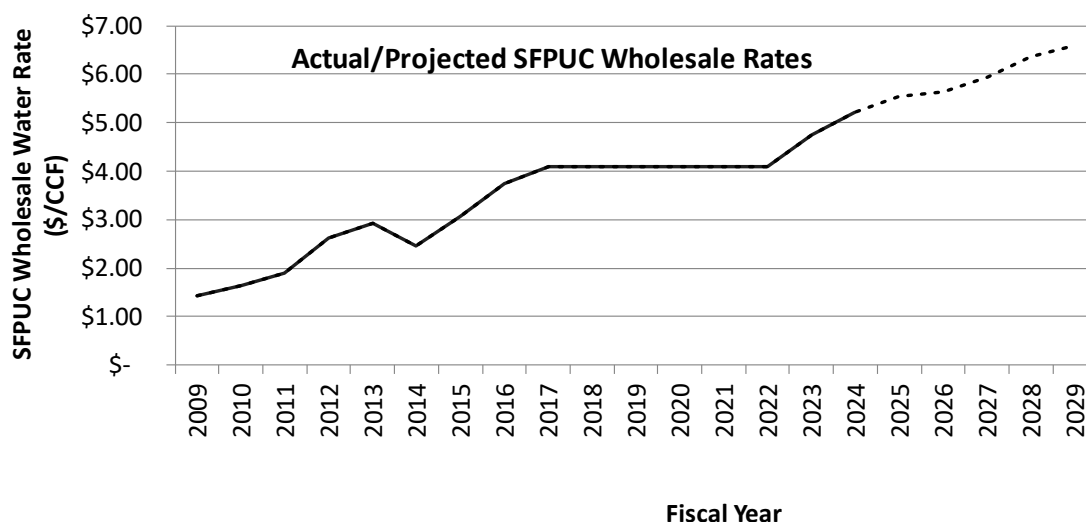
The Hetch Hetchy Regional Water System begins with a system of reservoirs and tunnels in the high Sierra in Tuolumne County and water is transported by a gravity-fed pipeline to the Bay Area. Currently, the SFPUC is in the midst of a \$4.8 billion bond-financed capital improvement program (the Water System Improvement Program, or WSIP) to seismically retrofit the facilities that transport water to the Bay Area. As of June 30, 2023, 99.2% of the WSIP regional construction contracts are complete.<sup>10</sup> This has resulted and will continue to result in large increases in the annual debt service costs assigned to wholesale customers like Palo Alto. After each WSIP project is completed, wholesale customers must start paying the debt service costs within 3 to 4 years. The currently estimated WSIP completion date is February 7, 2027, as adopted by the SFPUC in April of 2022. In large part because of these WSIP-related debt service costs, the SFPUC’s wholesale water rate increased from \$1.43 per CCF in FY 2009 to \$5.21 per CCF currently. Figure 8 shows the SFPUC’s actual wholesale water rate since FY 2009 and SFPUC’s projected rates for FY 2025 through FY 2029. Note that the wholesale water rate decreased in FY 2014, but the apparent rate decrease is due to a debt the BAWSCA agencies owed to SFPUC being

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<sup>10</sup> Fourth Quarter FY 2022 - 2023 WSIP Regional Quarterly Report, [https://sfpuc.org/sites/default/files/documents/WSIP\\_Quarterly%20Report\\_FY2022-23\\_Q4.pdf](https://sfpuc.org/sites/default/files/documents/WSIP_Quarterly%20Report_FY2022-23_Q4.pdf)

directly paid by the BAWSCA agencies via bond financing, which lowered the cost of repaying the debt (described in more detail in Section 2A: Overview of Financial Position).

**Figure 8: Historical and Projected SFPUC Wholesale Water Rate**



Parts of SFPUC’s system not included in the WSIP will also need rehabilitation after the WSIP is completed, and some of these projects are already included in the SFPUC’s rate projections, such as additional Transmission, Supply, Storage and Treatment system upgrade projects, and dam safety work slated to occur during the next 10 years. The SFPUC is also conducting condition assessments of other “up-country” facilities, located in the Sierras, in the coming years. Estimates from 2021 are that \$1.8 billion will be needed between FY 2019 and FY 2028 primarily for these non-WSIP projects, but if these assessments identify other facilities that need replacement, it may result in additional rate increases as new debt is issued to finance the projects.

SFPUC coordinates the development of wholesale rate adjustments with its annual budget process and will decided on the final rate increase around May 2024 and be effective around July 1, 2024. SFPUC provides written notice to Palo Alto 30 days before the Commission meeting to increase wholesale rates, and the rate adjustment will be effective no sooner than 30 days after the Commission adopts the wholesale rate (the 2018 Amended and Restated Water Supply Agreement Section 6.03.A. describes the details of budget coordinated rate adjustments). Staff will request Council approval to extend the pass-through provision for the wholesale rate (commodity charge) for another five years from July 1, 2024 through June 30, 2029.

## SECTION 6B: OPERATIONS

CPAU’s Water Utility operations include the following activities:

- Administration, a category that includes charges allocated to the Water Utility for administrative services provided by the General Fund and for Utilities Department administration, as well as debt service and other potential transfers. Additional detail on Water Utility debt service is provided in *Section 6D: Debt Service*
- Customer Service

- Engineering work for maintenance activities (as opposed to capital activities)
- Operations and Maintenance of the distribution system; and
- Resource Management

*Appendix D: Description of Water Utility Operational Activities* includes detailed descriptions of the work associated with each of these activities.

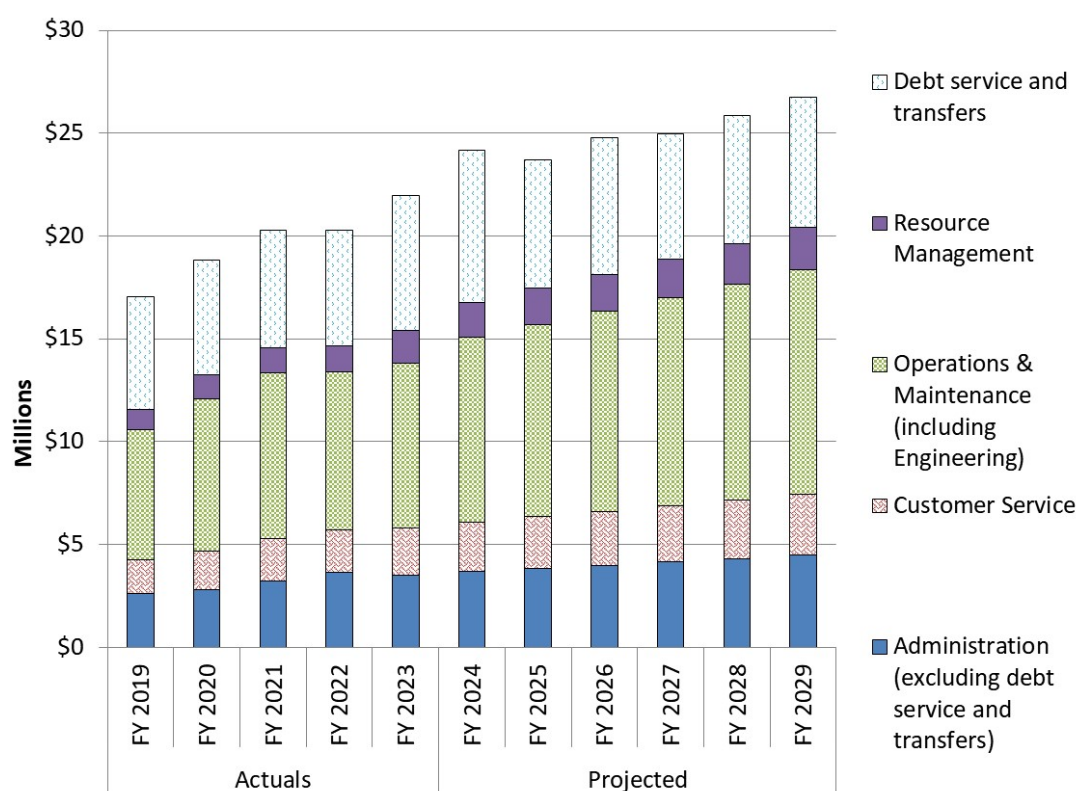
From FY 2019 to FY 2023, overall operations costs increased 6.5% per year on average. Resource Management costs increased at 13.5% per year on average while customer service increased by 8.8% and administration increased 7.8%. Operations and Maintenance increased 6.1% annually on average. Transfers have varied from year to year, but staff expect transfers to remain relatively stable through the forecast period.

Staff anticipates inflationary increases for all operations costs with underlying assumptions for salary and benefit costs, consumer price index, and other cost projections that align as much as possible with the City's Long Range Financial Forecast.<sup>11</sup> This plan anticipates operations costs to increase by 4% per year, on average, over the forecast period. For salary and benefit assumptions, this Financial Plan uses estimated annual percentage increases applied to the actual FY 2023 salaries and benefits of 6% in FY 2024 and 4% per year in FY 2025 through FY 2029. These percentage estimates may change as the budget is refined and finalized this fiscal year.

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<sup>11</sup> Finance Committee Staff Report #[2307-1773](https://cityofpaloalto.primegov.com/api/compilemeetingattachmenthistory/historyattachment/?historyId=5b63b0b2-ba53-4346-94a2-c2a2858f2915) December 5, 2023,  
<https://cityofpaloalto.primegov.com/api/compilemeetingattachmenthistory/historyattachment/?historyId=5b63b0b2-ba53-4346-94a2-c2a2858f2915>

**Figure 9: Historical and Projected Operational Costs**



## SECTION 6C: CAPITAL IMPROVEMENT PROGRAM (CIP)

The Water Utility's CIP consists of the following types of projects:

- One-time projects, or large, non-recurring replacement of system assets (such as reservoir rehabilitation).
- Water main replacement, which represents the ongoing replacement of aging water mains and the services associated with those mains, as well as seismically vulnerable mains located in areas where soil is prone to liquefaction.
- Ongoing projects, which represent the cost of replacing aging and under-recording meters and degraded boxes and covers, minor replacements of various types of distribution system equipment, and the cost of capitalized tools and equipment.
- Customer connections, which represents the cost when the Water Utility installs new services or upgrades existing services at a customer's request in response to development or redevelopment. CPAU charges a fee to these customers to cover the cost of these projects.

Table 16 shows the FY 2024 projected budget and the five-year CIP spending plan, although these figures are preliminary pending ongoing budget discussions.

**Table 16: Budgeted Water Utility CIP Spending (\$000)**

Project Category	Current Budget*	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029
One Time Projects	2,866	300	300	7,000	7,900	1,000
Water Main Replacement	11,488	425	9,407	472	10,450	525
Ongoing Projects	6,680	2,656	2,019	2,087	2,220	2,273
Customer Connections	1,072	961	989	1,019	1,100	1,100
<b>TOTAL</b>	<b>22,106</b>	<b>4,342</b>	<b>12,715</b>	<b>10,578</b>	<b>21,670</b>	<b>4,898</b>

\*Includes unspent funds from previous years carried forward or reappropriated into the current fiscal year

This budget does not include allocated overhead, estimated to be \$0.7 million in FY 2024 and escalating at 4% annually thereafter as shown in the table below. This budget also does not include unallocated salaries and benefits, which are CIP-related salaries and benefits not included in the project budgets, estimated to be \$0.8 million annually. Allocated overhead and unallocated salaries and benefits are added to the capital budget.

**Table 17: Allocated Overhead and Unallocated CIP Salaries and Benefits**

	FY 2024	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029
Allocated Overhead	\$651,736	\$677,806	\$704,918	\$733,115	\$762,439	\$792,937
Unallocated CIP Salaries and Benefits	\$770,000	\$770,000	\$770,000	\$770,000	\$770,000	\$770,000

The Water Main Replacement (WMR) program funds the replacement of deteriorating water mains or water mains in liquefaction zones. The water system consists of over 236 miles of mains, approximately 2,000 fire hydrants, and over 20,000 metered service connections spanning 9 pressure zones over a 26 square mile service area. In recent years, CPAU has replaced many miles of the most leak-prone and deteriorated pipes. Since the CIP program started in the early 1990s, 61 miles or 26% of water mains have been replaced. CPAU continues to pursue a pipe replacement program of mains that are subject to recurring breaks based on maintenance history, and 11.6 miles of mains that were identified in the 2015 water system study. CPAU also coordinates with the Public Works street maintenance program to avoid cutting into newly repaved streets. The main replacement schedule in this Financial Plan will allow CPAU to replace these mains on schedule.

Costs for the water main replacement program are increasing for a variety of reasons:

- Fire flow requirements for larger diameter pipe.
- CPAU has switched to high-density polyethylene (HDPE) for its mains. Installation costs for this material are slightly higher, though lifecycle costs are lower, and the material performs better. Joints in distribution mains are the most likely place for failure, and sections of HDPE pipe are fused together rather than connected with fittings. In the long run, this will reduce water losses and maintenance costs.
- To take full advantage of HDPE's fusibility, CPAU is now replacing the services along with the water mains with new HDPE services. In the past, the existing services were



reconnected, regardless of the material. This new practice costs more in the short run, but will provide long term benefits.

- Lastly, material, fuel, and labor costs have escalated due to inflation, leading to higher bids.

These factors have created some uncertainty in future water main replacement costs. As bids for recent projects have consistently come in higher over the last few years, future main replacement project budgets have been increased to reflect expected bid estimates. If the cost of water main replacement continues to rise at its current levels, budgets may need to be revised further. In 1993, the long-term water main replacement program focused on replacing the oldest and most degraded parts of the system. Then in 2015, CPAU initiated a master planning process that was completed in FY 2016 to evaluate the current state of the distribution system and determine the necessary rate of main replacement in the next 20 years. This study factored in seismically vulnerable mains as well as deteriorating mains. Mains with recurring maintenance issues are added to projects as they are identified. Preparing for the future, CPAU is in the process of evaluating the utility's asbestos cement pipe (ACP) water mains. Over half the mains in the system are ACP. The ACP pipe has performed very well, but CPAU wants to verify its life expectancy and plan for its future replacement in over the next 30 years.

This Financial Plan addresses these challenges in a way that will allow CPAU to meet its main replacement needs. This Financial Plan includes approximately \$8.5 million every other year for main replacement construction, assuming inflation of 5.4% annually on the main replacement budget. Staff anticipates that larger main replacement construction projects every other year will attract more contractors to bid on the larger projects and alleviate the burden of insufficient inspection coverage.

Included in the one-time project budget are seismic water system upgrades and/or replacement for the Park and Dahl Tanks, two water distribution storage reservoirs, located in the Palo Alto Foothills. This work will improve protection from water loss and damage to these storage tanks during seismic events. Significant earthquake damage could lead to a loss of water for firefighting, sanitation, and domestic and commercial drinking water uses. A rupture and failure of the storage tanks during an earthquake could cause property damage, mudslides, and environmental damage. Staff contracted with an engineering specialist and investigated and analyzed the structural integrity and condition of the Park Tank Reservoir. The engineering specialist recommended a full roof replacement of the Park Tank Reservoir in addition to a seismic retrofit of the tank. Staff solicited proposals for an engineering firm to prepare plans and cost estimates for the seismic retrofit and roof replacement of Park Tank and to perform a condition assessment of Dahl Tank. If full tank replacement is needed for either Dahl or Park Tank, the estimated cost for design and construction of Dahl and Park reservoirs is approximately \$7 million each in FY 2027 and FY 2028. The cost to replace tank roofs and seismically retrofit the tanks is approximately \$4 million per tank.

Staff prepared and solicited bids for a capital improvement project for a seismic improvement of the California and Page Mill Turnouts, two water receiving stations from the San Francisco Public Utilities Commission's water distribution system, and the City awarded the contract in FY 2023. The Page Mill Turnout work was completed in September 2023. The California Turnout work



started in January 2024 and is anticipated to be completed in May 2024. The California Turnout work involves replacement of all the water piping and valving in the City of Palo Alto's water utility vault on California Avenue and a replacement of the vault roof.

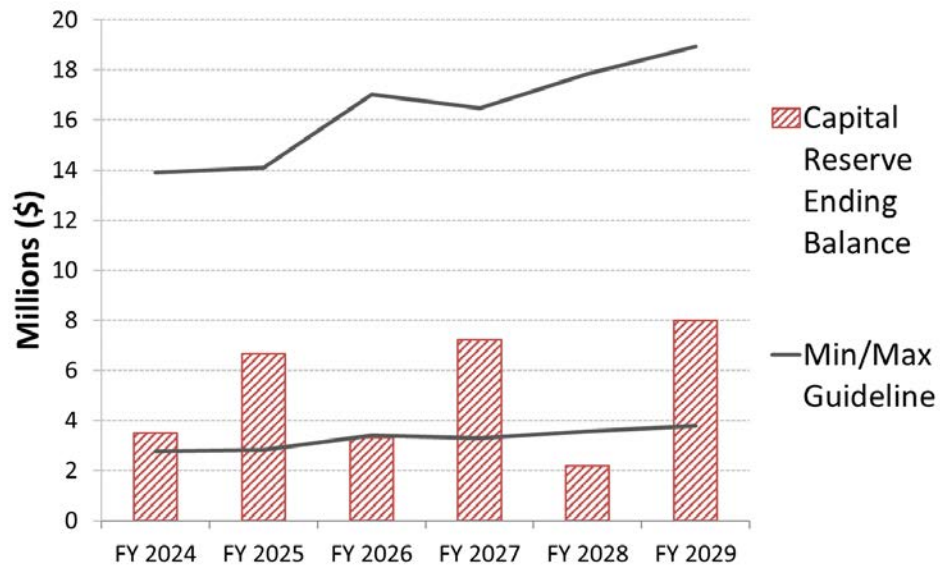
Ongoing projects are expected to cost approximately \$4.7 million on average annually for FY 2024 and FY 2025 for the purchase of generators and security cameras at the water pumping facilities. However, this CIP category will then reduce to between \$2.0 and \$2.3 million annually through the end of the forecast period. Actual expenses fluctuate annually depending on how many defective meters are discovered and replaced during routine maintenance.

For customer connections, expenses also fluctuate annually depending on how much development and redevelopment is going on that prompts the replacement or upgrade of water services. Property owners pay a fee for water service replacement or expansion during redevelopment, so when the number of projects go up (meaning higher costs for this activity), so does fee revenue.

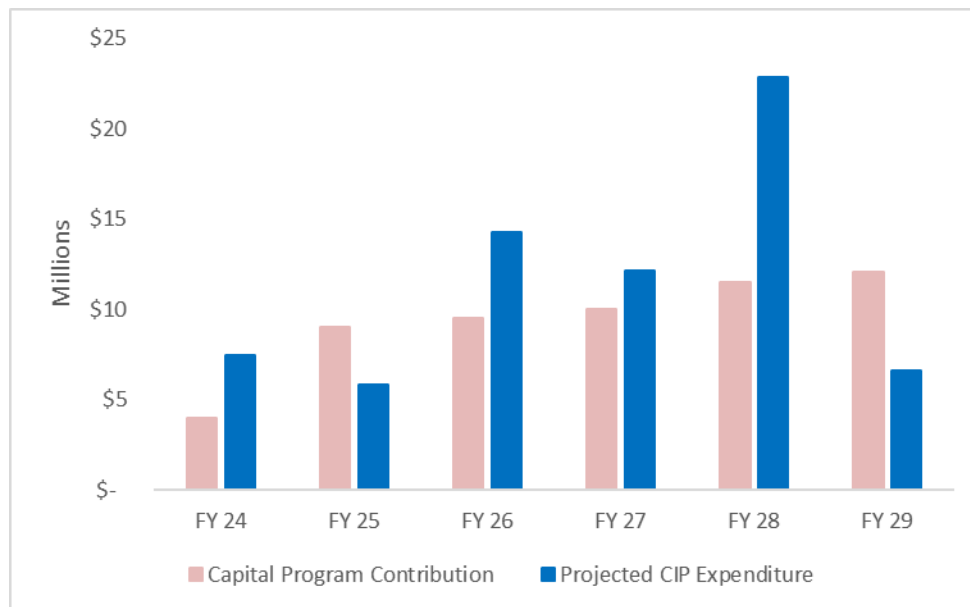
Aside from customer connections, the CIP plan for FY 2024 to FY 2029 is funded by revenue from utility rates and capacity fees. *Appendix B: Water Utility Capital Improvement Program (CIP) Detail* shows the details of the plan.

Figure 10 below shows the projected CIP Reserve balances from FY 2024 through FY 2029. Figure 11 below shows the projected CIP expenditure fluctuating from year to year with the staggered main replacement schedule and one-time reservoir replacements/rehabilitations, relative to the steadier capital program contributions to the CIP Reserve. This Financial Plan projects a \$4 million capital program contribution to the CIP Reserve in FY 2024 and approximately a \$9 million capital program contribution to the CIP Reserve annually from FY 2025 through FY 2027 and approximately \$12 million in FY 2028 and FY 2029. Additionally, this Financial Plan includes a request for Council approval to transfer up to \$3.461 million out of the CIP Reserve to the Operations Reserve to pay for estimated CIP in FY 2024. *Appendix A: Water Utility Financial Forecast Detail* shows the amount of the capital program contributions under "Expenses" for FY 2024 through FY 2029.

**Figure 10: Projected CIP Reserve Balances FY 2024 to FY 2029**



**Figure 11: Projected CIP Expenditure, and Projected Capital Program Contribution, FY 2024 to FY 2029**



## SECTION 6D: DEBT SERVICE

The Water Utility's annual debt service is roughly \$3.2 million per year, which is offset by a federal subsidy of approximately \$300K to \$430K annually. The debt service is associated with two bond issuances, one requiring payments through 2026, the other through 2035. CPAU is in compliance with all covenants on both bonds.

The first bond is the 2009 Water Revenue Bond, Series A, issued for \$35 million to finance construction of the Emergency Water Supply and Storage project (the El Camino Reservoir, new wells, and rehabilitation of existing wells and tanks) which will be retired by 2035. As part of the 'Build America' bond program, there is an interest payment subsidy from the Federal Government of 33 to 35%.

The second bond issuance is the 2011 Utility Revenue Refunding Bond, Series A, which is to be retired in 2026. This \$17.2 million issuance refinanced an earlier Water and Gas Utility bond issuance, the 2002 Utility Revenue Bonds, Series A, which was issued to finance various capital improvements for both systems. The Water Utility's share of the issuance was roughly \$7.8 million.

Table 18 shows the cost of debt service for the Water Utility's share of these bond issuances for the financial forecast period:

**Table 18: Water Utility Debt Service (\$000)**

	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027	FY 2028
2009 Water Revenue Bond, Series A (net of subsidy)	2,158	2,181	2,201	2,225	2,251	2,280
2011 Utility Revenue Refunding Bond, Series A	656	654	656	0	0	0
Total	2,814	2,835	2,857	2,225	2,251	2,280

Both the 2009 and 2011 Bonds include the following covenants: 1) net revenues plus Available Reserves shall at least equal 125% of the maximum annual debt service, and 2) Available Reserves shall be at least 5 times the maximum annual debt service. Note that "Available Reserves," as defined for both bonds, include the reserves for the Gas and Electric systems, not just the Water system. This Financial Plan maintains compliance with these covenants throughout the forecast period, as shown in *Appendix A: Water Utility Financial Forecast Detail*.

## SECTION 6E: OTHER REVENUES

The Water Utility receives most of its revenues from sales of water. The next largest source in FY 2023 was service connection fee revenue, which represented 38% of revenue from sources other than water sales; interest income represented 35% of revenue from sources other than water sales, and grants represented 16% of revenue from sources other than water sales. The remainder consisted of a variety of miscellaneous charges and transfers.

Connection fees are charged to new developments that need new or replacement service connections, while capacity fees are charged to development that put additional demands on the

water distribution system. Revenue from these sources fluctuate from year to year. In FY 2023, capacity fee revenue was almost as low as it was in FY 2022, which was the lowest level in any of the prior ten years. Service Connection fee revenue also continued at a low level similar to the level seen in FY 2022. Staff estimates this decrease is due to more tenant improvements permits rather than new service connection permits where the improvements are inside the buildings and the utility infrastructure remains the same. This financial plan forecasts connection fee and capacity fee revenue using the most recent year recorded amounts increasing at an average of 3% per year in subsequent years. Connection and capacity fee revenue is reflected in the Operations Reserve.

Other revenue sources are projected to stay stable through the forecast period, though interest income fluctuates depending on changes in interest rates. Some uncertainty also exists related to the Federal government's commitment to continuing to pay the interest subsidy on the Build America Bonds.

## SECTION 6F: SALES REVENUES

Staff based the sales revenue projections on the load forecast in *Section 5A: Load Forecast* and the projected rate changes shown in Figure 5. Precipitation can vary substantially, and this can affect revenues substantially. In dry, non-drought years customers use more water, increasing revenues, and in wet years they use less. It is difficult to predict customer usage recovery from drought together with impacts from weather from year to year. Staff will continue to monitor these patterns and adjust projections accordingly in subsequent financial plans.

## SECTION 7: COMMUNICATIONS PLAN

The FFY 2025 Water Utility communications strategy covers these primary areas: cost drivers and cost containment measures, efficiency programs and services, capital improvement and maintenance for infrastructure safety and reliability. The City of Palo Alto Utilities (CPAU) communication methods include use of the utilities website, utility bill inserts, messaging on utility bills and MyCPAU online account management platform, email newsletters, print and digital ads in local publications, social media, community messaging platforms, and through direct mailings of the Home Water Reports and online WaterSmart portal.

A Water Utility rate increase is necessary because the year-end operations reserve is near the minimum guideline due to the drought. Water sales were much lower than forecasted as a result of CPAU encouraging conservation during the drought. These water use reductions impact water rates because the primarily fixed costs of the system are spread among fewer units of water sales. Expenses are also higher than forecasted. Market economics have continued to drive up labor and material costs for construction projects. As a not for profit public utility, CPAU must recover its costs primarily through revenue generated by rates. Any increased supply costs are passed through rates to CPAU customers, including for capital improvement. The cost to deliver water supply to Palo Alto and for CPAU to distribute water to customers is high, as it includes maintaining and replacing water infrastructure, customer service, billing, and administration.

CPAU's communication about Water Utility rates will focus on the costs passed down from Palo Alto's water supplier, the San Francisco Public Utilities Commission (SFPUC), capital improvement and infrastructure upgrades, and what CPAU is doing to keep costs down. Maintaining water pipes, mains, and service connections is necessary to prevent leaks, which cost the utility and rate payers money, and prevents damage to infrastructure which could exacerbate safety and reliability concerns in the long term.

CPAU promotes water use efficiency programs and easy water-saving behaviors to aid in our water saving efforts and help customers keep utility costs low. Messaging reinforces that although rates may increase, efficient usage can help customers avoid seeing a significant water cost increase on the utility bill. The City is also exploring opportunities to expand use of alternative water supplies through the development of a One Water Plan for that purpose to further reduce demands on potable water supplies.

Staff maintain a dedicated webpage<sup>12</sup>, to provide an overview on all utility rates costs to the utility, updates to financial forecasts and proposed rate changes. While print materials such as bill inserts and ads feature prominently, CPAU is exploring additional ways to communicate directly to customers utilizing unique programs like the relatively new WaterSmart portal and Home Water Reports. Staff continue to maintain an active presence in social media and are expanding outreach through citywide email newsletters. Staff attend community outreach events and host educational workshops on these related topics.

## APPENDICES

Appendix A: Water Utility Financial Forecast Detail

Appendix B: Water Utility Capital Improvement Program (CIP) Detail

Appendix C: Water Utility Reserves Management Practices

Appendix D: Description of Water Utility Operational Activities

Appendix E: Sample of Water Utility Outreach Communications

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<sup>12</sup> <https://www.cityofpaloalto.org/Departments/Utilities/Customer-Service/Utilities-Rates>

## APPENDIX A: WATER UTILITY FINANCIAL FORECAST DETAIL

1	FISCAL YEAR	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029
2										
3	WATER SUPPLY									
4	Purchases (CCF)	4,785,384	4,709,184	4,210,399	4,322,676	4,437,947	4,556,293	4,506,173	4,456,605	4,407,583
5	Sales (CCF)	4,770,922	4,458,594	3,866,832	4,075,166	4,183,837	4,295,406	4,248,156	4,201,427	4,155,211
6										
7	BILL AND RATE CHANGES									
8	Variable Charge (Supply)	0%	0%	16%	10%	7%	1%	5%	7%	4%
9	Residential Variable Charge (Distribution)	0%	4%	2%	13%	14%	15%	13%	6%	6%
10	System Average Rate	-1%	-1%	11%	0%	10%	8%	11%	11%	5%
11	Average Customer Bill (projected)					10%	8%	11%	11%	5%
12										
13	STARTING RESERVES									
14	Reappropriations (Non-CIP)	70,000	41,000	-	-	-	-	-	-	-
15	Commitments (Non-CIP)	796,000	444,000	1,766,000	2,737,000	-	-	-	-	-
16	Restricted for Debt Service	3,260,000	2,906,000	2,906,000	2,813,000	2,813,000	2,813,000	2,813,000	2,813,000	2,813,000
17	Emergency Plant Replacement	-	-	-	-	-	-	-	-	-
18	Reappropriations & Commitments	11,036,000	10,147,000	12,168,000	16,066,000	16,066,000	16,066,000	16,066,000	16,066,000	16,066,000
19	Capital Reserve	5,726,096	10,707,096	10,707,096	6,961,000	3,499,617	6,679,051	3,312,351	7,233,495	2,189,878
20	Rate Stabilization Reserve	9,069,437	9,069,437	9,069,437	6,069,000	4,000,000	2,000,000	-	-	-
21	Operations Reserve	13,351,122	13,876,597	13,653,963	7,957,000	9,180,500	8,798,968	10,266,940	9,332,824	10,089,086
22	Unassigned	5,484,833	6,469,360	338,378	-	-	-	-	-	-
23	TOTAL STARTING RESERVES	48,793,488	53,660,490	50,608,874	42,603,000	35,559,116	36,357,018	32,458,291	35,445,319	31,157,963
24										
25	REVENUES									
26	Net Sales	47,434,047	44,058,867	42,570,047	47,232,255	53,168,761	58,977,120	64,898,741	71,194,833	73,924,132
27	Other Revenues and Transfers In	3,294,442	2,950,590	2,620,375	3,013,531	3,070,643	3,128,368	3,187,701	3,252,758	3,309,659
28	TOTAL REVENUES	50,728,489	47,009,457	45,190,422	50,245,786	56,239,404	62,105,488	68,086,441	74,447,591	77,233,790
29										
30	EXPENSES									
31	Water Purchases	21,935,250	21,248,651	21,744,025	24,383,194	26,434,809	27,504,830	28,516,089	30,145,396	30,891,662
32	Operating Expenses									
33	Administration									
34	Allocated Charges	3,224,030	3,646,012	3,524,964	3,695,899	3,843,735	3,997,484	4,157,384	4,323,679	4,496,626
35	Rent	2,225,372	2,270,000	2,365,000	2,459,600	2,557,984	2,660,303	2,766,715	2,877,384	2,992,479
36	Debt Service	3,222,843	3,219,993	3,222,938	3,220,173	3,219,316	3,219,331	2,563,683	2,565,598	2,563,503
37	Transfers and Other Adjustments	267,645	137,903	945,092	1,721,249	479,635	760,690	765,211	769,867	774,663
38	Subtotal, Administration	8,939,890	9,273,908	10,057,995	11,096,921	10,100,670	10,637,809	10,252,993	10,536,529	10,827,272
39	Resource Management	1,215,567	1,261,514	1,590,945	1,681,208	1,748,456	1,818,394	1,891,130	1,966,775	2,045,446
40	Operations and Mtc	7,400,625	7,195,632	7,531,468	7,956,888	8,275,163	8,606,170	8,950,417	9,308,433	9,680,771
41	Engineering (Operating)	662,832	492,438	508,307	534,606	555,991	578,230	601,359	625,414	650,430
42	Customer Service	2,053,820	2,058,662	2,272,586	2,409,469	2,505,848	2,606,082	2,710,325	2,818,738	2,931,488
43	Subtotal, Operating Expenses	20,272,734	20,282,154	21,961,300	23,679,092	23,186,127	24,246,685	24,406,224	25,255,889	26,135,407
44	Capital Program Contribution^	4,981,000	10,551,269	13,083,836	4,000,000	9,000,000	9,486,000	9,998,244	11,790,044	12,426,706
45	TOTAL EXPENSES	47,188,984	52,082,074	56,789,162	52,062,286	58,620,936	61,237,516	62,920,557	67,191,329	69,453,775
46										
47	ENDING RESERVES									
53	Capital Reserve	10,707,096	10,707,096	6,961,000	3,499,617	6,679,051	3,312,351	7,233,495	2,189,878	7,989,317
54	Rate Stabilization Reserve	9,069,437	9,069,437	6,069,000	4,000,000	2,000,000	-	-	-	4,000,000
55	Operations Reserve	13,876,597	13,653,963	7,957,000	9,180,500	8,798,968	10,266,940	9,332,824	10,089,086	13,869,101
56	Unassigned	6,469,360	338,378	-	-	-	-	-	-	-
57	TOTAL ENDING RESERVES	53,660,490	50,608,874	42,603,000	35,559,116	36,357,018	32,458,291	35,445,319	31,157,963	44,737,418
	^ Capital Program Contribution represents CIP funding transferred from the Operations Reserve to the CIP Reserve beginning in FY 2021									



## Appendix A (continued)

1	FISCAL YEAR	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029
2												
3	<b>REVENUES</b>											
4	Net Sales	89%	92%	94%	94%	94%	94%	95%	95%	95%	96%	96%
5	Other Revenues and Transfers In	11%	8%	6%	6%	6%	6%	5%	5%	5%	4%	4%
6	TOTAL REVENUES	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%
7												
8	<b>EXPENSES</b>											
9	Water Purchases	42%	49%	50%	41%	38%	47%	45%	45%	45%	45%	44%
10	Operating Expenses											
11	Administration											
12	Allocated Charges	5%	6%	7%	7%	6%	7%	7%	7%	7%	6%	6%
13	Rent	4%	4%	5%	4%	4%	5%	4%	4%	4%	4%	4%
14	Debt Service	6%	7%	7%	6%	6%	6%	5%	5%	4%	4%	4%
15	Transfers and Other Adjustments	1%	1%	1%	0%	2%	3%	1%	1%	1%	1%	1%
16	Subtotal, Administration	16%	19%	20%	18%	18%	21%	17%	17%	16%	16%	16%
17	Resource Management	2%	3%	3%	2%	3%	3%	3%	3%	3%	3%	3%
18	Operations and Mtc	12%	16%	17%	14%	13%	15%	14%	14%	14%	14%	14%
19	Engineering (Operating)	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%
20	Customer Service	3%	4%	5%	4%	4%	5%	4%	4%	4%	4%	4%
21	Allowance for Unspent Budget	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
22	Subtotal, Operating Expenses	34%	42%	46%	39%	39%	45%	40%	40%	39%	38%	38%
23	Capital Program Contribution	24%	9%	5%	20%	23%	8%	15%	15%	16%	18%	18%
24	TOTAL EXPENSES	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%
25												
26	<b>RISK ASSESSMENT DETAIL (PROJECTED)</b>											
27	Distribution Revenue Variance					2,304,806	2,505,351	2,883,512	3,348,609	3,819,936	4,273,078	4,471,496
28	Total Risk Assessment Value					2,304,806	2,505,351	2,883,512	3,348,609	3,819,936	4,273,078	4,471,496
29	Projected Operations Reserve					7,957,000	9,180,500	8,798,968	10,266,940	9,332,824	10,089,086	13,869,101
30	Operations Reserve, % of Risk Value					345%	366%	305%	307%	244%	236%	310%
31												
32	<b>OPERATIONS RESERVE</b>											
33	Min (60 days of non-capital expenses)	6,289,573	6,675,561	6,938,299	6,826,982	7,184,437	7,900,650	8,156,866	8,507,098	8,699,558	9,107,061	9,374,313
34	Target (90 days of non-capital expenses)	9,434,359	10,013,342	10,407,448	10,240,472	10,776,656	11,850,975	12,235,299	12,760,648	13,049,338	13,660,591	14,061,469
35	Max (120 days of non-capital expenses)	12,579,145	13,351,122	13,876,597	13,653,963	14,368,874	15,801,300	16,313,733	17,014,197	17,399,117	18,214,121	18,748,625
36	Risk Assessment Value					2,304,806	2,505,351	2,883,512	3,348,609	3,819,936	4,273,078	4,471,496
37												
38	<b>DEBT SERVICE COVERAGE RATIO</b>											
39	Net Revenues (125% of Debt Service)	1088%	1161%	1210%	1190%	1256%	1393%	1441%	1508%	1964%	2059%	2125%
40	Available Reserves (5x Debt Service)*	13.1	13.9	15.6	14.3	11.5	10.2	10.4	9.2	12.7	11.0	16.4
41	*For the purposes of debt covenants, the unrestricted reserves of other utilities may be counted toward the available reserves for meeting this measure. A ratio below 5x means that this utility is relying on the reserves of other utilities to meet its debt covenants.											

## APPENDIX B: WATER UTILITY CAPITAL IMPROVEMENT PROGRAM (CIP) DETAIL

Project #	Project Name	Reappropriated / Carried Forward from Previous Years / Accruals (A)	Current Year Estimate (B)	Current Year Funding (B-A)	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029
<b>ONE TIME PROJECTS</b>									
WS-07000	Regulation Station Imp.	1,257,060	1,275,380	18,320	-	-	-	-	-
WS-07001	Water Recycling Facilities		391,000	391,000	-	-	-	-	-
WS-08001	Water Reservoir Coating			-	-	-	-	-	-
WS-09000	Seismic Water System	7,184,534	1,200,000	(5,984,534)	300,000	300,000	7,000,000	7,900,000	1,000,000
<b>Subtotal, One-time Projects</b>		<b>8,441,594</b>	<b>2,866,380</b>	<b>(5,575,214)</b>	<b>300,000</b>	<b>300,000</b>	<b>7,000,000</b>	<b>7,900,000</b>	<b>1,000,000</b>
<b>WATER MAIN REPLACEMENT PROGRAM</b>									
WS-14001	WMR - Project 28	1,792,990	1,925,581	132,591	-	-	-	-	-
WS-15002	WMR - Project 29	605,861	9,137,100	8,531,239	-	-	-	-	-
WS-16001	WMR - Project 30		425,000	425,000	425,000	8,959,000	-	-	-
WS-19001	WMR - Project 31			-	-	447,950	472,139	9,952,696	-
WS- XXXXX	WMR - Project 32							497,635	524,507
WS- XXXXX	WMR - Project 33								
WS- XXXXX	WMR - Project 34								
WS- XXXXX	WMR - Project 35								
<b>Subtotal, Water Main Replacement Prog.</b>		<b>2,398,851</b>	<b>11,487,681</b>	<b>9,088,830</b>	<b>425,000</b>	<b>9,406,950</b>	<b>472,139</b>	<b>10,450,331</b>	<b>524,507</b>
Project #	Project Name	Reappropriated / Carried Forward from Previous Years	Current Year Estimate	Current Year Funding	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029
<b>ONGOING PROJECTS</b>									
WS-80014	Services/Hydrants	-	200,000	200,000	412,000	424,000	437,000	450,100	464,000
WS-80015	Water Meters	846,740	1,599,841	753,101	300,000	321,000	340,000	400,000	412,000
WS-02014	W-G-W Utility GIS Data	492,623	789,055	296,432	528,800	544,000	560,000	583,000	600,000
WS-13002	Equipment/Tools	-	50,000	50,000	50,000	50,000	50,000	50,000	50,000
WS-11003	Dist. Sys. Improvements	475,269	769,768	294,499	305,000	314,000	323,000	335,000	345,000
WS-11004	Supply Sys. Improvements	3,271,340	3,271,340	(0)	1,060,660	366,000	377,000	402,000	402,000
WS-19000	Mayfield Reservoir	-		-	-	-	-	-	-
<b>Subtotal, Ongoing Projects</b>		<b>5,085,972</b>	<b>6,680,004</b>	<b>1,594,032</b>	<b>2,656,460</b>	<b>2,019,000</b>	<b>2,087,000</b>	<b>2,220,100</b>	<b>2,273,000</b>
<b>CUSTOMER CONNECTIONS (FEE FUNDED)</b>									
WS-80013	Water System Extensions	140,158	1,072,157	931,999	960,500	989,000	1,018,700	1,100,000	1,100,000
<b>Subtotal, Customer Connections</b>		<b>140,158</b>	<b>1,072,157</b>	<b>931,999</b>	<b>960,500</b>	<b>989,000</b>	<b>1,018,700</b>	<b>1,100,000</b>	<b>1,100,000</b>
<b>GRAND TOTAL</b>		<b>16,066,575</b>	<b>22,106,222</b>	<b>6,039,647</b>	<b>4,341,960</b>	<b>12,714,950</b>	<b>10,577,839</b>	<b>21,670,431</b>	<b>4,897,507</b>
<b>Funding Sources</b>									
Connection/Capacity Fees				931,999	960,500	989,000	1,018,700	1,100,000	1,100,000
Other Utility Funds (Asset Mgmt, GIS Systems)				342,000	352,533	362,667	373,333	388,667	400,000
Utility Rates				4,765,648	3,028,927	11,363,283	9,185,806	20,181,765	3,397,507
<b>CIP-RELATED RESERVES DETAIL</b>									
		<b>6/30/2023 Actual</b>							
Reappropriations & Commitments		16,066,575							



## APPENDIX C: WATER UTILITY RESERVES MANAGEMENT PRACTICES

The following reserves management practices shall be used when developing the Water Utility Financial Plan:

### Section 1. Definitions

- a) “Financial Planning Period” – The Financial Planning Period is the range of future fiscal years covered by the Financial Plan. For example, for the Water Utility Financial Plan delivered in conjunction with the FY 2015 budget, FY 2015 to FY 2021 is the Financial Planning Period.
- b) “Fund Balance” – As used in these Reserves Management Practices, Fund Balance refers to the Utility’s Unrestricted Net Assets.
- c) “Net Assets” - The Government Accounting Standards Board defines a Utility’s Net Assets as the difference between its assets and liabilities.
- d) “Unrestricted Net Assets” - The portion of the Utility’s Net Assets not invested in capital assets (net of related debt) or restricted for debt service or other restricted purposes.

### Section 2. Reserves

The Water Utility’s Fund Balance is reserved for the following purposes:

- a) For existing contracts, as described in Section 3 (Reserve for Commitments)
- b) For operating and capital budgets re-appropriated from previous years, as described in Section 4 (Reserve for Re-appropriations)
- c) For cash flow management and contingencies related to the Water Utility’s Capital Improvement Program (CIP), as described in Section 5 (CIP Reserve)
- d) For rate stabilization, as described in Section 6 (Rate Stabilization Reserve)
- e) For operating contingencies, as described in Section 7 (Operations Reserve)
- f) Any funds not included in the other reserves will be considered Unassigned Reserves and shall be returned to ratepayers or assigned a specific purpose as described in Section 8 (Unassigned Reserves).

### Section 3. Reserve for Commitments

At the end of each fiscal year the Reserve for Commitments will be set to an amount equal to the total remaining spending authority for all contracts in force for the Water Utility at that time.

### Section 4. Reserve for Re-appropriations

At the end of each fiscal year the Reserve for Re-appropriations will be set to an amount equal to the amount of all remaining capital and non-capital budgets, if any, that will be re-appropriated to the following fiscal year in accordance with Palo Alto Municipal Code Section 2.28.090.

### Section 5. CIP Reserve

The CIP Reserve is used to manage cash flow for capital projects and acts as a reserve for capital contingencies. Staff will manage the CIP Reserve according to the following practices:

- a) The following guideline levels are set forth for the CIP Reserve. These guideline levels are calculated for each fiscal year of the Financial Planning Period and approved by Council resolution.

Minimum Level	20% of the maximum CIP Reserve guideline level
Maximum Level	Average annual (12 month) <sup>13</sup> CIP budget, for 48 months of budgeted CIP expenses <sup>14</sup>

- b) Changes in Reserves: Staff is authorized to transfer funds between the CIP Reserve and the Reserve for Commitments when funds are added or removed from that reserve as a result of a change in contractual commitments related to CIP projects. Any other additions to or withdrawals from the CIP reserve require Council action.
- c) Minimum Level: If, at the end of any fiscal year, the minimum guideline is not met, staff shall present a plan to the City Council to replenish the reserve. The plan shall be delivered by the end of the following fiscal year, and shall, at a minimum, result in the reserve reaching its minimum level by the end of the next fiscal year. For example, if the CIP Reserve is below its minimum level at the end of FY 2017, staff must present a plan by June 30, 2018 to return the reserve to its minimum level by June 30, 2019. In addition, staff may present, and the Council may adopt, an alternative plan that takes longer than one year to replenish the reserve, or that does so in a shorter period of time.
- d) Maximum Level: If there are funds in this reserve in excess of the maximum level staff must propose in the next Financial Plan to transfer these funds to another reserve, return the funds to ratepayers, or designate a specific use of the funds for CIP investments that will be made by the end of the next Financial Planning Period. Staff may also seek City Council to approve holding funds in this reserve in excess of the maximum level if they are held for a specific future purpose related to the CIP.

#### Section 6. Rate Stabilization Reserve

Funds may be added to the Rate Stabilization Reserve by action of the City Council and held to manage the trajectory of future year rate increases. Withdrawal of funds from the Rate Stabilization Reserve requires Council action. If there are funds in the Rate Stabilization Reserve at the end of any fiscal year, any subsequent Water Utility Financial Plan must result in the withdrawal of all funds from this Reserve by the end of the next Financial Planning Period. The Council may approve exceptions to this requirement, when proposed by staff to provide greater rate stabilization to customers.

#### Section 7. Operations Reserve

The Operations Reserve is used to manage normal variations in costs and as a reserve for contingencies. Any portion of the Water Utility's Fund Balance not included in the reserves described in Section 3-Section 6 above will be included in the Operations Reserve unless this reserve has reached its maximum level as set forth in Section 7(d) below. Staff will manage the Operations Reserve according to the following practices:

- a) The following guideline levels are set forth for the Operations Reserve. These guideline levels are calculated for each fiscal year of the Financial Planning Period based on the levels of Operations and Maintenance (O&M) and commodity expense forecasted for that year in the Financial Plan.

<sup>13</sup> Each month is calculated based upon 1/12 of the annual budget.

<sup>14</sup> For example, in the Financial Plan for FY 2021, the 48 month period to use to derive the annual average is FY 2021 through FY 2024. In the FY 2022 Financial Plan, the 48 month period to use to derive the annual average would be FY 2022 through FY 2025 etc.

Minimum Level	60 days of O&M and commodity expense
Target Level	90 days of O&M and commodity expense
Maximum Level	120 days of O&M and commodity expense

- b) Minimum Level: If, at the end of any fiscal year, the funds remaining in the Operations Reserve are lower than the minimum level set forth above, staff shall present a plan to the City Council to replenish the reserve. The plan shall be delivered within six months of the end of the fiscal year, and shall, at a minimum, result in the reserve reaching its minimum level by the end of the following fiscal year. For example, if the Operations Reserve is below its minimum level at the end of FY 2014, staff must present a plan by December 31, 2014 to return the reserve to its minimum level by June 30, 2015. In addition, staff may present, and the Council may adopt, an alternative plan that takes longer than one year to replenish the reserve.
- c) Target Level: If, at the end of any fiscal year, the Operations Reserve is higher or lower than the target level, any Financial Plan created for the Water Utility shall be designed to return the Operations Reserve to its target level within four years.
- d) Maximum Level: If, at any time, the Operations Reserve reaches its maximum level, no funds may be added to this reserve. Any further increase in the Water Utility's Fund Balance shall be automatically included in the Unassigned Reserve described in Section 8, below.

#### Section 8. Unassigned Reserve

If the Operations Reserve reaches its maximum level, any further additions to the Water Utility's Fund Balance will be held in the Unassigned Reserve. If there are any funds in the Unassigned Reserve at the end of any fiscal year, the next Financial Plan presented to the City Council must include a plan to assign them to a specific purpose or return them to the Water Utility ratepayers by the end of the first fiscal year of the next Financial Planning Period. For example, if there were funds in the Unassigned Reserves at the end of FY 2015, and the next Financial Planning Period is FY 2016 through FY 2021, the Financial Plan shall include a plan to return or assign any funds in the Unassigned Reserve by the end of FY 2016. Staff may present an alternative plan that retains these funds or returns them over a longer period of time.

## APPENDIX D: DESCRIPTION OF WATER UTILITY OPERATIONAL ACTIVITIES

This appendix describes the activities associated with the various operational activities referred to in *Section 6B: Operations* of this Financial Plan.

**Administration:** Accounting, purchasing, legal, and other administrative functions provided by the City's General Fund staff, as well as shared communications services, CPAU administrative overhead, and billing system maintenance costs. This category also includes Water Utility debt service and rent paid to the General Fund for the land associated with reservoirs and various other facilities.

**Customer Service:** This category includes the Water Utility's share of the call center, meter reading, collections, and billing support functions. Billing support encompasses staff time associated with bill investigations and quality control on certain aspects of the billing process. It does not include maintenance of the billing system itself, which is included in Administration. This category also includes CPAU's key account representatives, who work with large commercial customers who have more complex requirements for their water services.

**Engineering (Operating):** The Water Utility's engineers focus primarily on the CIP, but a small portion of their time is spent assisting with distribution system maintenance.

**Operations and Maintenance:** This category includes the costs of a variety of distribution system maintenance activities, including:

- investigating reports of damaged mains or services and performing emergency repairs;
- testing and operating valves;
- monitoring water quality and reservoir levels;
- monitoring the status of the different pressure zones;
- flushing water at hydrants and other closed end points of the system;
- building and replacing water services for new or redeveloped buildings; and
- testing and replacing meters to ensure accurate sales metering.

This category also includes a variety of functions the utility shares with other City utilities, including:

- the Field Services team (which does field research of various customer service issues);
- the Cathodic Protection team (which monitors and maintains the systems that prevent corrosion in metal tanks and reservoirs); and
- the General Services team (which manages and maintains equipment, paves and restores streets after gas, water, or sewer main replacements, and provides welding services)

**Resource Management:** This category includes water procurement, contract management, water resource planning, interaction with BAWSCA, the SFPUC, and Valley Water, and tracking of legislation and regulation related to the water industry.





## Tools to Prepare for an Emergency

### BE PREPARED

- Make a Plan
- Identify an Evacuation Route
- Build an Emergency Kit
- Document and Insure Property
- Learn more at [www.cityofpaloalto.org/BePrepared](http://www.cityofpaloalto.org/BePrepared)

### HELP YOUR NEIGHBORS & VOLUNTEER IN AN EMERGENCY

Please be a good neighbor and offer assistance to your neighbors if you're able. If you're interested in volunteering to provide support during emergencies, consider becoming an Emergency Services Volunteer. Visit [www.cityofpaloalto.org/EmergencyVolunteers](http://www.cityofpaloalto.org/EmergencyVolunteers).

### STAY INFORMED

- Receive Emergency Alerts, Sign Up at [www.cityofpaloalto.org/Alerts](http://www.cityofpaloalto.org/Alerts)
- Sign Up for Police Department Alerts Texting Your Zip Code to **888777**
- Follow the City on Nextdoor, Twitter, & Other Social Media Channels: [www.cityofpaloalto.org/Connect](http://www.cityofpaloalto.org/Connect)
- Should evacuations due to storm emergency become necessary, the City of Palo Alto provides evacuation resources online: [www.cityofpaloalto.org/FloodAlert](http://www.cityofpaloalto.org/FloodAlert)

### BE STORM READY

- [www.cityofpaloalto.org/Storms](http://www.cityofpaloalto.org/Storms)
- [www.cityofpaloalto.org/StormFAQs](http://www.cityofpaloalto.org/StormFAQs)
- [www.cityofpaloalto.org/CreekMonitor](http://www.cityofpaloalto.org/CreekMonitor)
- [www.cityofpaloalto.org/OutageMap](http://www.cityofpaloalto.org/OutageMap)

### IMPORTANT PHONE NUMBERS & WEBSITE RESOURCES

- Do not call 9-1-1 unless it's an emergency
- Power Outage & Electrical Problems: Palo Alto Electric Operations (650) 496-6914
- Gas/Water Leaks and Sewer Spills: Palo Alto Utilities Dispatch (650) 329-2579
- Blocked Storm Drains and Mudslides: Palo Alto Public Works (650) 496-6974 (weekdays 7am to 4pm) & (650) 329-2413 (after hours)
- Report Road and Other Conditions to Palo Alto 311 at [www.cityofpaloalto.org/311](http://www.cityofpaloalto.org/311)
- Fallen Trees: Palo Alto Public Works (650) 496-6974 (weekdays 7am to 4pm) & (650) 329-2413 (after hours)

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



## CALL BEFORE YOU DIG!

# THERE'S MORE THAN JUST DIRT BELOW YOUR YARD.

Underground utilities are everywhere. Hitting them can be dangerous. Call 811 to get a map of underground utilities before you dig.

## SUMMER'S OVER. CLOUDS ARE ARRIVING. NOW IS THE TIME TO START DIALING BACK ON YOUR WATERING.

## GOODBYE WATER-THIRSTY LAWNS.

The State of California has banned watering decorative turf at commercial properties. Quickly adapt your lawn to meet the ban on irrigating non-functional turf with help from the City of Palo Alto Utilities and Valley Water's landscape rebates. Learn more on the reverse side, or visit [cityofpaloalto.org/waystosave](http://cityofpaloalto.org/waystosave)

# WATER TIPS

## Simple and Substantive Ways to Save Water and Lower Your Bill.

Our WaterSmart tool makes it easy to see where you're using the most water and get recommendations customized to your household. Get started at [cityofpaloalto.org/watersmart](http://cityofpaloalto.org/watersmart). Here are some steps you can take today to make your home more water-friendly inside and out.


-  **controllers.**
-  **Convert decorative turf to beautiful drought-tolerant plants and get a rebate of up to \$120,000.**

Other, lawns and plants need water during hot summer months.

Here are some easy water-saving tips:

- Use a timer to water
- Check your irrigation system through the Landscape Survey program.
- Use weather-based irrigation

## KEEP YOUR MONEY FROM GOING DOWN THE DRAIN WITH WATERSMART.



### LOG ON

Access your data

### GET NOTIFIED

Sign up for alerts

Discover how WaterSmart makes it simple to quickly review and water usage. Learn more on the reverse side or visit [cityofpaloalto.org](http://cityofpaloalto.org)

The City of Palo Alto Utilities (CPAU) is committed to providing safe drinking water. To ensure our water system is reducing lead exposure to customers, we are performing an inventory of water service lines on both the public and customer (private) side to determine if there is any lead in the water distribution system. Learn more at [cityofpaloalto.org/utilityprojects](http://cityofpaloalto.org/utilityprojects).

Palo Alto's Annual Consumer Confidence Report on water quality conditions for 2022 is now available. Read about your water supply and water quality at [cityofpaloalto.org/waterresources](http://cityofpaloalto.org/waterresources)

A City effort underway is developing the One Water Plan, a key action within the City's Sustainability and Climate Action plan (S/CAP). The development of a water plan will evaluate alternative water supplies, define existing and future uncertainties and supply risks, and identify community needs and priorities. The Plan will serve as a long-term guide to better prepare for future uncertainties like multi-year drought, climate change, and more. To learn more about the One Water Plan, please visit [cityofpaloalto.org/OneWater](http://cityofpaloalto.org/OneWater) and take our survey at [surveymonkey.com/r/SPTFWSW](http://surveymonkey.com/r/SPTFWSW).

## SAVE

This winter season has been one of the rainiest on record. Though we're having wet weather now, the last several years have been the driest three-year period since the State began keeping records in the 1800s. Even with recent heavy rains, current water use restrictions will remain in effect. Learn more about current conditions at [cityofpaloalto.org/water](http://cityofpaloalto.org/water)