



## CITY COUNCIL STAFF REPORT

**From: City Manager**

**Report Type: Action**

**Lead Department: Utilities**

**Meeting Date: June 19, 2023**

Staff Report: 2302-0939

### TITLE

PUBLIC HEARING: Finance Committee Recommends Adoption of Four Resolutions: 1) Approving the Fiscal Year 2024 Wastewater Collection Utility Financial Plan, Proposed Reserve Transfers, and Increasing Wastewater Rates by Amending Wastewater Collection Rate Schedules S-1, S-2, S-6 and S-7; 2) Approving the Fiscal Year 2024 Water Utility Financial Plan, Proposed Reserve Transfers, and Increasing Water Rates by Amending Water Rate Schedules W-1, W-2, W-3, W-4, and W-7; 3) Amending Utility Rate Schedules EDF-1 and EDF-2, to Increase Dark Fiber Rates by 4.9 Percent and amending Rate Schedule EDF-3 to make technical revisions with no rate change; and 4) Amending Utility Rate Schedule D-1 Increasing the Storm Water Management Fee by 4.9 Percent per Month per Equivalent Residential Unit for FY 2024; and CEQA Status: Not a project under CEQA Guidelines Section 15378(b)(4) and (5) and exempt under Public Resources Code Sec. 21080(b)(8) and CEQA Guidelines Section 15273(a)

### RECOMMENDATION

Finance Committee, the Utilities Advisory Commission (UAC) and staff recommend that the City Council adopt the following:

1. For the Wastewater Collection Utility, a [Resolution](#)<sup>1</sup>:
  - a. Approving the [Fiscal Year 2024 Wastewater Collection Financial Plan](#)<sup>2</sup>, including a 9% wastewater rate increase; and
  - b. Approving a transfer of up to \$3.178 million from the Capital Improvement Projects Reserve to the Operations Reserve in FY 2023; and
  - c. Approving a transfer of up to \$342 thousand from the Rate Stabilization Reserve to the Operations Reserve in FY 2023; and
  - d. Increasing the Wastewater Collection Utility Rates via the Amendment of Rate Schedules<sup>3</sup>

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<sup>1</sup> Wastewater Resolution <https://www.cityofpaloalto.org/files/assets/public/agendas-minutes-reports/reports/city-manager-reports-cmrs/attachments/03-01-2023-id-2301-0798-ww-resolution.pdf>

<sup>2</sup> Fiscal Year 2024 Wastewater Financial Plan <https://www.cityofpaloalto.org/files/assets/public/agendas-minutes-reports/reports/city-manager-reports-cmrs/attachments/03-07-2023-id-2302-0944-ww-financial-plan-lisa.pdf>

<sup>3</sup> Wastewater Rate Schedules <https://www.cityofpaloalto.org/files/assets/public/agendas-minutes-reports/reports/city-manager-reports-cmrs/attachments/06-19-2023-id-2302-0939-wastewater-rate-schedules-fy24-combined.pdf>

- S-1 (Residential Wastewater Collection and Disposal), S-2 (Commercial Wastewater Collection and Disposal), S-6 (Restaurant Wastewater Collection and Disposal) and S-7 (Commercial Wastewater Collection and Disposal – Industrial Discharger)
2. For the Water Utility, a Resolution<sup>4</sup>:
    - a. Approving the FY 2024 Water Utility Financial Plan<sup>5</sup>, including a 2% water distribution rate increase; and
    - b. Approving a transfer of up to \$3.746 million from the Capital Improvement Program (CIP) Reserve to the Operations Reserve in FY 2023; and
    - c. Approving a transfer of up to \$3.0 million from the Rate Stabilization Reserve to the Operations Reserve in FY 2023; and
    - d. Increasing Water Utility Rates via the Amendment of Rate Schedules<sup>6</sup> W-1 (General Residential Water service), W-2 (Water Service from Fire Hydrants), W3 (Fire Service Connections), W-4 (Residential Master-Metered and General Non-Residential Water Service), and W-7 (Non-Residential Irrigation Water Service)
  3. A Resolution Amending Utility Rate Schedules EDF-1 and EDF-2<sup>7</sup> to increase Dark Fiber Rates 4.9 percent, and amending Schedule EDF-3 to reflect minor edits with no rate change;
  4. A Resolution Amending Utility Rate Schedule D-1<sup>8</sup> increasing the Storm Water Management Fee by 4.9 percent consistent with the applicable Consumer Price Index.

## EXECUTIVE SUMMARY

In March and April 2023, the UAC, Finance Committee, and City Council reviewed the proposed rate changes recommended by Staff for Fiscal Year (FY) 2024. This report summarizes the meetings that occurred, including all staff recommendations. This utility rates report includes sections for wastewater collection, water, dark fiber, and storm water management. Estimates for retail revenue impacts are included in the FY 2024 budget assumptions. This report outlines the actions requested, transmits the resolutions from these reviews, and requests City Council approval and adoption. Approval of this item would result in implementation of the finalized rates for FY 2024, beginning July 1, 2023.

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<sup>4</sup> Water Resolution

<https://cityofpaloalto.primegov.com/meeting/attachment/791.pdf?name=Attachment%20A,%20Water%20Resolution%20FY%202024>

<sup>5</sup> Fiscal Year 2024 Water Financial Plan <https://www.cityofpaloalto.org/files/assets/public/agendas-minutes-reports/reports/city-manager-reports-cmrs/attachments/06-19-2023-id-2302-0939-water-financial-plan-fy24-cc.pdf>

<sup>6</sup> Water Rate Schedules <https://www.cityofpaloalto.org/files/assets/public/agendas-minutes-reports/reports/city-manager-reports-cmrs/attachments/06-19-2023-id-2302-0939-water-rate-schedules-fy24-combined.pdf>

<sup>7</sup> Dark Fiber Resolution <https://www.cityofpaloalto.org/files/assets/public/agendas-minutes-reports/reports/city-manager-reports-cmrs/attachments/06-19-2023-id-2302-0939-dark-fiber-optic-resolution.pdf> and Rate Schedules <https://www.cityofpaloalto.org/files/assets/public/agendas-minutes-reports/reports/city-manager-reports-cmrs/attachments/06-19-2023-id-2302-0939-dark-fiber-rate-schedules-fy-24-combined.pdf>

<sup>8</sup> Storm Water Management Fee Resolution

[https://cityofpaloalto.primegov.com/meeting/attachment/668.pdf?name=Attachment%20B%20-%20Resolution%20Amending%20Utility%20Rate%20Schedule%20D-1%20\(DRAFT%20Storm%20&%20Surface%20Water%20Drainage\)](https://cityofpaloalto.primegov.com/meeting/attachment/668.pdf?name=Attachment%20B%20-%20Resolution%20Amending%20Utility%20Rate%20Schedule%20D-1%20(DRAFT%20Storm%20&%20Surface%20Water%20Drainage))

and Rate Schedule

[https://cityofpaloalto.primegov.com/meeting/attachment/667.pdf?name=Attachment%20A%20-%20Rate%20Schedule%20D-1%20\(DRAFT\)](https://cityofpaloalto.primegov.com/meeting/attachment/667.pdf?name=Attachment%20A%20-%20Rate%20Schedule%20D-1%20(DRAFT))

The overall system average proposed rate changes are below, with the expected average utility bill for residential service to increase 3% in FY 2024.

- 9% increase for wastewater,
- 5% increase for water,
- 4.9% increase for Dark Fiber rate schedules EDF-1 and EDF-2 and
- 4.9% increase for the Storm Water Management Fee.
- 5% decrease for electric [approved by Council April 17<sup>th</sup>], and
- 8% increase for gas [approved by Council April 17<sup>th</sup>].

Drivers of the water and wastewater rate changes include rising costs of construction inflation, commodity prices and the rising cost to transport water. Additionally, infrastructure is aging, and investment is needed to maintain the health and reliability of the water and wastewater utilities.

On April 17, 2023, the Council held a [study session](#)<sup>9</sup> and a [Gas](#)<sup>10</sup> and [Electric](#)<sup>11</sup> public hearing regarding rates for those utilities and approved the Gas and Electric rate changes. For this reason, this report does not address Gas and Electric utility rates. On the same day, the Council directed staff to proceed with Proposition 218 notification of Water and Wastewater rate changes recommended by Finance Committee on March 21, 2023, and agendize a public hearing for these rates on June 19, 2023. Staff completed the Proposition 218 customer notifications and revised the Water utility financial plan, and rate sheets consistent with the Council and Finance Committee's direction (for a 2% water distribution rate increase).

## BACKGROUND

### Wastewater Collection & Water

For both Wastewater Collection and Water utilities, on April 17, to proceed with Proposition 218 notification of Water and Wastewater rate changes recommended by Finance Committee on March 21, 2023, and agendize a public hearing for these rates on June 19, 2023.<sup>12</sup> Staff sent the Prop 218 notifications<sup>13</sup> on April 27, 2023. The following are the reviews that culminated in the April 17<sup>th</sup> City Council review.

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<sup>9</sup> City Council Meeting April 17, 2023, Agenda Item 3 STUDY SESSION

<https://cityofpaloalto.primegov.com/meeting/document/1996.pdf?name=Item%203%20Staff%20Report>

<sup>10</sup> City Council Meeting April 17, 2023, Action Item 14 PUBLIC HEARING

<https://cityofpaloalto.primegov.com/meeting/document/1964.pdf?name=Item%2014%20Staff%20Report>

<sup>11</sup> City Council Meeting April 17, 2023, Action Item 15 PUBLIC HEARING

<https://cityofpaloalto.primegov.com/meeting/document/1982.pdf?name=Item%2015%20Staff%20Report>

<sup>12</sup> April 17, 2023 City Council Item 10

<https://cityofpaloalto.primegov.com/meeting/document/1963.pdf?name=Item%2010%20Staff%20Report>

<sup>13</sup> [https://www.cityofpaloalto.org/files/assets/public/utilities/rates-schedules-for-utilites/final\\_prop-218\\_w\\_graphic-design-2023.pdf](https://www.cityofpaloalto.org/files/assets/public/utilities/rates-schedules-for-utilites/final_prop-218_w_graphic-design-2023.pdf)

### *Wastewater Collection*

Utilities staff presented to the UAC on [March 1, 2023](#),<sup>14</sup> the Finance Committee on [March 7, 2023](#)<sup>15</sup> and [March 21, 2023](#)<sup>16</sup> a recommendation that Council approve the FY 2024 Wastewater Utility Financial Plan as follows:

Staff recommended the following transfers at the end of FY 2023:

1. up to \$3.178 million from the Capital Improvement Projects Reserve to the Operations Reserve; and
2. up to \$342 thousand from the Rate Stabilization Reserve to the Operations Reserve; and

Staff also recommended the following rate actions for FY 2024:

3. An increase to retail Wastewater Collection Utility Rates S-1 (Residential Wastewater Collection and Disposal), S-2 (Commercial Wastewater Collection and Disposal), S-6 (Restaurant Wastewater Collection and Disposal) and S-7 (Commercial Wastewater Collection and Disposal – Industrial Discharger) of 9% effective July 1, 2023

The UAC unanimously approved the staff recommendation. When staff first made this recommendation to the Finance Committee at the March 7, 2023 meeting the Finance Committee did not approve it, but instead asked staff to return with additional information for further evaluation for the Wastewater Utility. When staff returned to the Finance Committee on March 21, 2023 the Committee unanimously recommended approval of the staff recommendation as written in Staff Report [2302-0944](#)<sup>17</sup> after reviewing the additional information.

### *Water*

Utilities staff presented a Water financial plan with a 3% water distribution rate increase to the UAC on [March 1, 2023](#)<sup>18</sup>, and to the Finance Committee on [March 7, 2023](#)<sup>19</sup>. On [March 21, 2023](#)<sup>20</sup> staff revised this recommendation to a 2% water distribution rate increase as follows:

Staff recommended the following transfers at the end of FY 2023:

1. up to \$3.746 million from the Capital Improvement Program (CIP) Reserve to the Operations Reserve in FY 2023; and

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<sup>14</sup> Utilities Advisory Commission March 1, 2023 Meeting

<https://www.cityofpaloalto.org/files/assets/public/agendas-minutes-reports/agendas-minutes/utilities-advisory-commission/archived-agenda-and-minutes/agendas-and-minutes-2023/03-mar-2023/03-01-2023-item-1.pdf>

<sup>15</sup> Finance Committee Staff Report 2302-0944

<https://cityofpaloalto.primegov.com/meeting/document/1691.pdf?name=Staff%20Report>

<sup>16</sup> Finance Committee Staff Report 2302-1107

<https://cityofpaloalto.primegov.com/meeting/document/1852.pdf?name=Item%20%20Staff%20Report>

<sup>17</sup> Utilities Advisory Commission Staff Report 2302-0944

<https://www.cityofpaloalto.org/files/assets/public/agendas-minutes-reports/agendas-minutes/utilities-advisory-commission/archived-agenda-and-minutes/agendas-and-minutes-2023/03-mar-2023/03-01-2023-item-1.pdf>

<sup>18</sup> Utilities Advisory Commission March 1, 2023 Meeting

<https://www.cityofpaloalto.org/files/assets/public/agendas-minutes-reports/agendas-minutes/utilities-advisory-commission/archived-agenda-and-minutes/agendas-and-minutes-2023/03-mar-2023/03-01-2023-agenda-and-packet.pdf>

<sup>19</sup> Finance Committee March 7, 2023 Staff Report 2302-1011

<https://cityofpaloalto.primegov.com/meeting/document/1759.pdf?name=Staff%20Report>

<sup>20</sup> Finance Committee March 21, 2023 Staff Report 2302-1125

<https://cityofpaloalto.primegov.com/meeting/document/1871.pdf?name=Item%20%20Staff%20Report>

2. up to \$3.0 million from the Rate Stabilization Reserve to the Operations Reserve in FY 2023; and

Staff also recommended the following rate actions for FY 2024:

3. An increase to retail Water Distribution Utility Rates W-1 (General Residential Water service), W-2 (Water Service from Fire Hydrants), W3 (Fire Service Connections), W-4 (Residential Master-Metered and General Non-Residential Water Service), and W-7 (Non-Residential Irrigation Water Service) of 2% effective July 1, 2023

The Finance Committee unanimously recommended approval of this proposal on March 21, 2023.

#### Storm Drain

On March 7, 2023, Public Works staff presented the Finance Committee with a recommendation that the City Council adopt a resolution amending Utility Rate Schedule D-1 (Storm and Surface Water Drainage) to implement a 4.9 percent rate increase consistent with the applicable Consumer Price Index, increasing the monthly charge per Equivalent Residential Unit (ERU) by \$0.78, from \$15.98 to \$16.76 for FY 2024. See [Staff Report 2302-0957](#)<sup>21</sup> for more information.

The Finance Committee unanimously recommended approval of this proposal on March 7, 2023.

#### **ANALYSIS**

Based upon feedback from the UAC, Finance Committee and City Council during March and April 2023, this report requests City Council adoption of the remaining proposed rate changes for Fiscal Year (FY) 2024. This report contains links to the documents referenced and links to the City's website for all the staff reports presented through the review process to the UAC, Finance Committee and City Council.

Staff and the Finance Committee recommend that the City Council approve the utility financial plans, reserve transfers and proposed rate changes listed below. The City Council has already approved the rate changes and financial plans for both the Gas and Electric utilities on April 17, 2023.

#### **Proposed Rate Changes and Financial Plans**

##### Wastewater Collection Proposal

The City's Wastewater Collection (sewer) system collects wastewater from Palo Alto residents and delivers it to the Regional Water Quality Control Plant (RWQCP) for treatment. The City of Palo Alto runs the RWQCP, which also treats wastewater for five other partner agencies (Stanford, East Palo Alto Sanitary District, Los Altos Hills, Los Altos, and Mountain View). Some of the wastewater for certain partner agencies is also transported across the City's wastewater collection system. The Wastewater Collection Utility has two main costs: Palo Alto's share of the cost of running the RWQCP (treatment costs) and the costs of operating and maintaining the collection system.

One of the main drivers for the increase in the Wastewater Collection Utility's costs (and therefore rates) over the next several years is the cost for wastewater treatment, which is projected to increase by an average of 6.2% annually from FY 2022 to FY 2028 as the City makes several upgrades to the RWQCP. Increases to capital expenses begin in FY 2024 with the Joint Intercepting Sewer Rehabilitation construction, funded on a pay-as-you-go basis. Additional debt service payments begin as estimated:

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<sup>21</sup> Finance Committee March 7, 2023 Staff Report 2302-0957  
<https://cityofpaloalto.primegov.com/meeting/document/1704.pdf?name=Staff%20Report>

- In FY 2025 for the Primary Sedimentation Tank,
- In FY 2028, for the construction of an Outfall Line, Lab/Technical Services building, and Operations building remodel, and
- In 2029 for Secondary Treatment Upgrades and Headworks.

Staff projects Wastewater Collection operations and CIP costs (excluding costs associated with treatment) to increase by approximately 3.7% annually from FY 2022 to FY 2028; operations costs are projected to grow an average of 1.4% annually over the same time period. The Wastewater Collection Utility undertakes a larger main replacement project every other year. Undertaking a larger main replacement project every other year allows staff to continue replacing wastewater mains that are in poor condition, while easing scheduling difficulties for inspection coverage due to shared staffing across Water, Wastewater, Gas, and large development services projects. Over the last few years, main replacement costs have been increasing for utilities due to economic activity in the Bay Area causing construction cost inflation. It is likely that this trend will continue in the short term.

The Finance Committee, UAC and staff recommend accelerating the rate of main replacements, from 1 mile to 2.5 miles per year beginning in FY 2026. This acceleration will allow the Wastewater Collection Utility to replace the last main no more than approximately 8 years beyond its anticipated 100-year life expectancy. Staff's recommendation attempts to minimize rate impacts while also prudently managing the City's infrastructure and maintaining an acceptable level of risk.

Staff proposes a 9% overall rate increase in FY 2024, 9% annual rate increases in FY 2025 and FY 2026, 8% in FY 2027 and 5% in FY 2028, to cover current and projected costs.

#### Water Proposal

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 volumetric rate. Water rates are designed to recover the City's costs of buying and distributing water while maintaining adequate financial reserves. The volumetric rate and the monthly service charge together are considered 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 FY 2024 Water Utility Financial Plan includes projections of the utility's costs and revenues for FY 2023 through FY 2028. The Financial Plan projects costs to rise by about 2-3% per year over the next several years. California has experienced drought over the past 3 years and customer response to state, regional and local calls for water conservation reduced water sales revenue. In FY 2022, water sales revenue declined by 7% compared with FY 2021; the FY 2023 Financial Plan anticipated this level of reduction and there was adequate funding in the Operations Reserve as well as offsetting cost reductions due to lower water purchase costs.

On April 11, 2023, Palo Alto's water supplier, the San Francisco Public Utilities Commission (SFPUC), rescinded the Water Shortage Emergency Declaration but kept the voluntary San Francisco Regional Water system-wide water use reduction of 11% in place until the State's emergency regulation expires in June. Palo Alto's water use restrictions track both the State's regulation and SFPUC's water use regulation. Staff expects some rebound in water sales during FY 2024, while some water conservation is projected to be permanent. Other revenues also declined below prior forecast levels primarily due to reductions in

water service connection and capacity fee revenue. These drought impacts put upward pressure on water rates. 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.

The Water Fund's healthy reserve levels allowed the Water Utility to hold rates flat for two years (FY 2021 and FY 2022) and provide adequate funding for the first year of drought-related sales revenue reductions in FY 2022. Additionally, the Finance Committee and staff propose the Water Utility use remaining reserves to mitigate distribution rate increases (rates that cover the cost to deliver water within the City) to 2% in FY 2024 and to 7% annually from FY 2025 through FY 2028 while still funding essential capital investments.

Customers pay a separate commodity rate for purchased water from the SFPUC relative to the rest of the distribution-related portion of the volumetric rates. This commodity charge passes through SFPUC rate increases to customers (Resolution 9844).<sup>22</sup> The pass-through commodity rate is currently \$4.75 per hundred cubic feet (CCF). On May 9, 2023, SFPUC held a public hearing and adopted the FY 2024 wholesale water rate of \$5.21 per CCF, effective July 1, 2023; this represents an increase of 9.7% from the current rate. Palo Alto will notify customers at least 30 days in advance of the pass-through rate increase via their billing statements or by any other mailing by CPAU to the customer's regular billing address.

#### Dark Fiber Proposal

Since 2007, the EDF-1 and EDF-2 rates for Dark Fiber customers have increased annually by the annual December change in the Consumer Price Index for All Urban Consumers (CPI-U) in the San Francisco area, as stated in their dark fiber license agreements and rate schedules. Based on prior UAC and City Council direction, these rate changes are routinely included as part of the Budget adoption process rather than in a separate staff report. This year's change in CPI-U was 4.9 percent, as reported by the Bureau of Labor Statistics. The City has five customers remaining on the EDF-1 rate schedule, which applies to customer accounts established before September 18, 2006. All other dark fiber customers are on the EDF-3 rate schedule, which has remained unchanged since its inception on September 18, 2006, and no rate change is recommended for this year. The attached rate schedules EDF-1, EDF-2 and EDF-3 include minor clarifications that are not substantive to synchronize the rate schedules with the defined terms in City of Palo Alto Utilities Rule and Regulation 2.

#### Storm Water and Surface Water Drainage Proposal

On April 11, 2017, a majority of Palo Alto property owners approved a ballot measure approving a monthly Storm Water Management Fee. This fee funds thirteen storm drainage capital improvement projects listed in the ballot measure, enhanced maintenance of the storm drainage system, and a variety of storm water quality protection programs. The approved ballot measure allows for an annual adjustment based on the Consumer Price Index (CPI) or six percent, whichever is less. The Storm Water and Surface Drainage Rate will increase 4.9 percent, increasing the monthly charge per Equivalent Residential Unit (ERU) by \$0.78, from \$15.98 to \$16.76 for Fiscal Year 2024 effective July 1, 2023, to reflect the annual CPI change. See Staff Report 2302-0957 for more information.<sup>23</sup>

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<sup>22</sup> Resolution 9844 <https://www.cityofpaloalto.org/files/assets/public/city-clerk/resolutions/reso-9844.pdf?t=69020.51>

<sup>23</sup> Finance Committee March 7, 2023 Meeting Stormwater Management Staff Report #2302-0957 <https://cityofpaloalto.primegov.com/meeting/document/1704.pdf?name=Staff%20Report>



## **TIMELINE**

### Water and Wastewater Collection Rates

After the June 19th Public Hearing is opened and testimony from members of the public accepted, City Council may choose to:

1. Close the hearing and take action; or
2. Close the hearing and defer action until the close of the Budget Adoption Hearing on June 19th;

Unless written protests are filed by a majority of affected Water and Wastewater customers, Council may vote on the proposed rate actions. If approved, the Water and Wastewater rates will become effective July 1, 2023.

### Dark Fiber and Storm Water rates, as well as Utility Financial Plans

The dark fiber and storm drainage rates will be considered at the June 19, 2023 public hearing. Should the City Council take action to approve any or all of these rates, they will become effective July 1, 2023. The City Council will also consider changes to Financial Plans and/or Reserve Management Policies for the Wastewater Collection and Water utilities, and should the Council take action to approve any or all of these plans and/or policies, they will also become effective July 1, 2023.

Additionally, for the water commodity pass-through rate, SFPUC voted to increase the wholesale water rate to \$5.21 per CCF effective July 1, 2023. Staff provided Palo Alto customers with notice of the wholesale rate increase and will pass-through the increase.

## **FISCAL/RESOURCE IMPACT**

Utility fund resource impacts of the recommendations summarized in this report include the continued financial solvency of the various utilities through the revenue increases described below. Following are the estimated FY 2024 revenue impacts of the recommendations in this report:

- Staff projects estimated revenue for the Water Utility in FY 2024 to increase by \$2.5 million or 5% compared to FY 2023 levels. This estimate includes the SFPUC wholesale rate increase of 9.7%.
- For Wastewater Collection, staff projects revenues in FY 2024 to increase by approximately \$1.8 million or 9% compared to FY 2023 levels because of the proposed rate changes.
- The proposed 4.9% fee increase is expected to increase FY 2024 revenue to the Storm Water Management Fund by approximately \$0.4 million.
- The Dark Fiber rate increase is the CPI index of 4.9% for rate schedules EDF-1 and EDF-2. Staff expects this to increase FY 2024 revenue for Dark Fiber by approximately \$0.03 million. For those on the EDF-3 rate, there is no increase.

The recommendations summarized in this report are reflected in the FY 2024 Proposed Operating Budget except for the Water Utility, which will require revenue and expense adjustments to align with the final SFPUC wholesale rate increase, as that information was not available at the time the budget was produced. Staff will bring these water adjustments forward for Council consideration through the annual budget process.

## **POLICY IMPLICATIONS**

Policy Implications related to the proposed Wastewater Collection, Water, and Storm Water Management fee rate actions are detailed fully in the linked Finance Committee reports. There are no policy changes contained in the adoption of the proposed new Dark Fiber rates.



## STAKEHOLDER ENGAGEMENT

On [March 1, 2023](#)<sup>24</sup> the UAC reviewed and approved the FY 2024 Water and Wastewater Collection Utility Financial Plans and Rate Proposals.

- Wastewater Collection Staff Report [Action Item 1](#)<sup>25</sup>
- Water Staff Report [Action Item 2](#)<sup>26</sup>

The UAC voted unanimously to approve staff's proposals.

On [March 7, 2023](#)<sup>27</sup>, the Finance Committee reviewed the FY 2024 Water, Wastewater Collection Utility Financial Plans and Rate Proposals and the Stormwater Management fee increase.

- Wastewater Collection Staff Report # [2302-0944](#)<sup>28</sup>
- Water Staff Report # [2301-1011](#)<sup>29</sup>
- Storm Water Management Staff Report # [2302-0957](#)<sup>30</sup>

The Finance Committee approved the Water Utility proposals unanimously and continued the Wastewater item to March 21, 2023 and asked staff to return with additional information for further evaluation. The Finance Committee unanimously approved the Storm Water Management proposals.

On [March 21, 2023](#)<sup>31</sup>, the Finance Committee reviewed the FY 2024 Water, and Wastewater Collection Financial Plans and Rate Proposals

- Wastewater Collection Staff Report # [2302-1107](#)<sup>32</sup> and [Supplemental Memo](#)<sup>33</sup>

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<sup>24</sup> Utilities Advisory Commission Meeting of March 1, 2023

<https://www.cityofpaloalto.org/files/assets/public/agendas-minutes-reports/agendas-minutes/utilities-advisory-commission/archived-agenda-and-minutes/agendas-and-minutes-2023/03-mar-2023/03-01-2023-agenda-and-packet.pdf>

<sup>25</sup> Utilities Advisory Commission Meeting March 1, 2023, Action item 1

<https://www.cityofpaloalto.org/files/assets/public/agendas-minutes-reports/agendas-minutes/utilities-advisory-commission/archived-agenda-and-minutes/agendas-and-minutes-2023/03-mar-2023/03-01-2023-item-1.pdf>

<sup>26</sup> Utilities Advisory Commission Meeting March 1, 2023, Action item 2

<https://www.cityofpaloalto.org/files/assets/public/agendas-minutes-reports/agendas-minutes/utilities-advisory-commission/archived-agenda-and-minutes/agendas-and-minutes-2023/03-mar-2023/03-01-2023-item-2.pdf>

<sup>27</sup> Finance Committee Meeting March 7, 2023

<https://cityofpaloalto.primegov.com/Portal/Meeting?meetingTemplateId=11235>

<sup>28</sup> Finance Committee Meeting March 7, 2023, Action Item 2

<https://cityofpaloalto.primegov.com/meeting/document/1691.pdf?name=Staff%20Report>

<sup>29</sup> Finance Committee Meeting March 7, 2023, Action Item 1

<https://cityofpaloalto.primegov.com/meeting/document/1759.pdf?name=Staff%20Report>

<sup>30</sup> Finance Committee Meeting March 7, 2023, Action Item 3

<https://cityofpaloalto.primegov.com/meeting/document/1704.pdf?name=Staff%20Report>

<sup>31</sup> Finance Committee Meeting March 21, 2023

<https://cityofpaloalto.primegov.com/Portal/Meeting?meetingTemplateId=11228>

<sup>32</sup> Finance Committee Meeting March 21, 2023, Action Item 2

<https://cityofpaloalto.primegov.com/meeting/document/1852.pdf?name=Item%20%20Staff%20Report>

<sup>33</sup> Finance Committee Meeting March 21, 2023, Action Item 2

<https://cityofpaloalto.primegov.com/meeting/attachment/1081.pdf?name=Item%20%20Supplemental%20Memo>

- Water Staff Report # [2303-1125](#)<sup>34</sup> and [Supplemental Memo](#)<sup>35</sup>

The Finance Committee unanimously approved the Water and Wastewater Collection Proposals.

On [April 17, 2023](#),<sup>36</sup> the City Council reviewed the FY 2024 Water, and Wastewater Collection Financial Plans and Rate Proposals and directed staff to proceed with Proposition 218 notification of Water and Wastewater rate changes recommended by Finance Committee on March 21, 2023, and agendize a public hearing for these rates on June 19, 2023. The City Council voted to approve this item 6-1 with Council Member Tanaka voting no.

## ENVIRONMENTAL REVIEW

Adoption of the referenced Financial Plans and budgeted transfers does not meet the California Environmental Quality Act's definition of a project, pursuant to CEQA Guidelines Section 15378(b)(4) and (5), because it is a governmental fiscal and administrative activity which will not cause a direct or indirect physical change in the environment. Adoption of the proposed Wastewater Collection, Water, Storm Water Management fee, and Dark Fiber rates to meet operating expenses, purchase supplies and materials, meet financial reserve needs and obtain funds for capital improvements necessary to maintain service is not subject to the California Environmental Quality Act (CEQA), pursuant to California Public Resources Code Sec. 21080(b)(8) and CEQA Guidelines Section 15273(a). After reviewing the staff report and all referenced financial plans, rate schedules, and resolutions presented to Council, the Council incorporates these documents herein and finds that sufficient evidence has been presented setting forth with specificity the basis for this claim of CEQA exemption.

## ATTACHMENTS

Attachment A: Dark Fiber Optic Resolution

Attachment B: Storm Drain and Surface Resolution and Amending Utility Rate Schedule D-1

Attachment C: Wastewater FY24 Resolution

Attachment D: Water FY24 Resolution

Attachment E: Dark Fiber Rate Schedules

Attachment F: Wastewater Rate Schedules

Attachment G: Water Rate Schedules

## APPROVED BY:

Dean Batchelor, Director of Utilities

Staff: Utility Rates Team

Lisa Bilir, Senior Resource Planner

Micah Babbitt, Senior Resource Planner

Eric Wong, Resource Planner

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<sup>34</sup> Finance Committee Meeting March 21, 2023, Action Item 1

<https://cityofpaloalto.primegov.com/meeting/document/1871.pdf?name=Item%201%20Staff%20Report>

<sup>35</sup> Finance Committee Meeting March 21, 2023, Action item 1

<https://cityofpaloalto.primegov.com/meeting/attachment/1078.pdf?name=Item%201%20Supplemental%20Memo>

<sup>36</sup> April 17, 2023 City Council Item 10

<https://cityofpaloalto.primegov.com/meeting/document/1963.pdf?name=Item%2010%20Staff%20Report>