



Finance Committee Staff Report

From: Kiely Nose, Assistant City Manager

Report Type: Action Item

Lead Department: Utilities

Meeting Date: March 7, 2023

Report #: 2302-0944

TITLE

The Utilities Advisory Commission and Staff Request That the Finance Committee Recommend the City Council Adopt a Resolution Approving the FY 2024 Wastewater Collection Utility Financial Plan Including Proposed Reserve Transfers and Increasing Wastewater Rates by Amending Rate Schedules 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)

RECOMMENDATION

The Utilities Advisory Commission (UAC) and staff request that the Finance Committee recommend that the City Council:

1. Adopt a resolution ([Attachment A](#)):
 - a. Approving the Fiscal Year (FY) 2024 Wastewater Collection Financial Plan ([Linked Document](#)); and
 - b. Approving a transfer of up to \$3.178 million from the Capital Improvement Program Reserve to the Operations Reserve in FY 2023; and
 - c. Approving a transfer of up to \$342,000 from the Rate Stabilization Reserve to the Operations Reserve in FY 2023; and
 - d. Increasing Wastewater Collection Utility Rates Via the Amendment of Rate Schedules 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) ([Attachment B](#)).

EXECUTIVE SUMMARY

The FY 2024 Wastewater Collection Utility Financial Plan includes projections of the utility's costs and revenues through FY 2028. The Financial Plan projects costs to rise over the forecast horizon due to increasing treatment costs related to capital improvements and operational costs at the

Regional Water Quality Control Plant (RWQCP), as well as increasing collection system operational and Capital Improvement Program (CIP) costs.

Staff recommends 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. The Financial Plan also includes three alternative scenarios based upon feedback from the UAC¹ and the Finance Committee.² 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 revenue 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.

BACKGROUND

Every year staff presents the UAC with Financial Plans for the Electric, Gas, Water, and Wastewater Collection Utilities. The Financial Plans recommend rate adjustments if necessary to maintain the financial health of these enterprises. These Financial Plans include a comprehensive overview of the operations of each enterprise, both retrospective and prospective, and are intended to be a reference for UAC, Finance Committee, and Council members as they review the budget and staff's rate recommendations. Each Financial Plan also contains a set of Reserves Management Practices describing the reserves for each utility and the management practices for those reserves.

The City's sewer system collects wastewater from Palo Alto residents and delivers it to the 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: the costs of operating the collection system and Palo Alto's share of the cost of running the RWQCP.³ Both cost components have been increasing and are expected to continue to increase. The RWQCP has been in operation since 1934. Aging equipment, new regulatory requirements, and the movement to full sustainability will require rehabilitation, replacement and new processes. Palo Alto has seen increases in operational costs in recent years, and debt service for the plant is expected to increase substantially in coming years as a major rehabilitation and replacement plan adopted in

¹ UAC [Staff Report #14610](#), October 12, 2022 and UAC [Staff Report #13879](#), April 6, 2022.

² Finance Committee [Staff Report #14611](#), November 29, 2022

³ The costs associated with the RWQCP are shared among Palo Alto and the partner agencies based primarily on wastewater flows and the composition of the wastewater each agency sends to the treatment plant. Palo Alto's share varies from year to year but is roughly one third of the total cost.

2012 ([Long Range Facilities Plan](#)) is implemented. Rehabilitation and replacement of plant equipment that has been in use for over 40 years is necessary to ensure the city can provide wastewater treatment safely and in compliance with regulatory requirements for the discharge of treated wastewater 24 hours a day. Collection system costs are also increasing. This is primarily driven by increases in collection system capital costs. 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. Staff assumes future CIP spending to increase by about 5.4% annually, which will significantly increase CIP costs over the forecast period. Staff also recommends an accelerated CIP program to increase the sewer main replacement rate from 1 mile to 2.5 miles per year (or from 2 miles to 5 miles per project constructed every other year) to fulfil the goal of replacing pipes near their life expectancy. There are 138 miles of original sewer mains to be replaced or rehabilitated and most of these are vitrified clay pipe originally installed between 1950 and 1970. Staff's experience suggests that pipe can last around 100 years in Palo Alto's underground condition. This financial plan proposes to begin the accelerated CIP replacement rate in FY 2026, with alternative scenarios starting FY 2028, FY 2030, or FY 2034. Other operational costs have also greatly increased (e.g., salaries and benefits and administrative overhead).

This Financial Plan projects revenue reductions due to COVID-19 primarily from the Restaurant and Commercial customer classes. Non-residential revenue declined in FY 2022 by 11% relative to FY 2020 levels (prior to the pandemic), despite the 3% rate increase that was effective September 1, 2021. This is equivalent to a 4% reduction in FY 2022 sales revenue relative to FY 2020 sales revenue. Staff projects a linear recovery through FY 2025.

DISCUSSION

Staff completes an annual assessment of the financial position of the City's wastewater collection utility to ensure adequate revenue to fund operations, in compliance with the cost of service requirements set forth in the California Constitution (Proposition 218). This includes making long-term projections of market conditions, the physical condition of the system, and other factors that could affect utility costs, and setting rates adequate to recover these costs. The rates proposed in this Financial Plan were developed based on the 2021 Cost of Service and Rate Study completed by Raftelis Financial Consultants, Inc., the "[City of Palo Alto 2021 Wastewater COS Report](#)."⁴

⁴ A cost of service study is a study using industry-standard techniques to determine how the costs of running the utility should be recovered from its customers. Charges to each customer are set in proportion to the cost of serving that customer.

Proposed Actions

1. Approve the Fiscal Year 2024 Wastewater Collection Financial Plan; and
2. Approve a transfer of up to \$3.178 million from the Capital Improvement Program Reserve to the Operations Reserve in FY 2023; and
3. Approve a transfer of up to \$342,000 transfer from the Rate Stabilization Reserve to the Operations Reserve in FY 2023; and
4. Increase Water Collection Utility Rates Via the Amendment of Rate Schedules S-1 (Residential Wastewater Collection and Disposal), S-2 (Commercial Wastewater Collection and Disposal), S-6 (Restaurant Wastewater Collection and Disposal) and S-7 (Commercial Wastewater Collection and Disposal – Industrial Discharger); and

The FY 2024 Wastewater Collection Financial Plan describes these proposed actions in detail. Staff proposes to adjust wastewater rates as shown in Table 1 below, effective July 1, 2023. The proposed adjustments will increase the system average rate by 9%. These proposed rate changes are included in the amended rate schedules (Attachment B). Residential customers pay a monthly fixed service charge while commercial customers (other than restaurants) are billed monthly based on average winter water usage for the months of January, February and March, applied in the following July. This closely approximates non-irrigation water consumption, which represents sewer use. Restaurant customers are charged based on monthly water usage as they generally lack irrigation but are charged higher rates due to higher grease and oil discharges necessitating additional treatment costs. Currently there are no customers on the S-7 (Industrial) rate schedule; however, CPAU continues to maintain the S-7 rate schedule in case of future need.

Table 1: Current and Proposed Wastewater Collection Charges

		Current	Proposed	Change	
		(as of 7/1/2022)	(effective 7/1/2023)	\$	%
Monthly Service Charges (\$/Month)					
S-1 (Residential)	Service Charge	\$ 44.62	\$ 48.64	\$ 4.02	9.0%
Water Quantity Rates (\$/CCF)					
S-2 (Commercial)	Quantity Rates	8.33	9.08	0.75	9.0%
S-6 (Restaurant)	Quantity Rates	12.43	13.55	1.12	9.0%

FY 2024 Financial Plan's Projected Rate Adjustments for the Next Five Fiscal Years

Table 2 shows the projected rate adjustments included in the Wastewater Collection Utility Financial Plans and their impact on a residential wastewater bill.

Table 2: Projected Rate Adjustments and Residential Bill Impact, FY 2024 to FY 2028

	FY 2024	FY 2025	FY 2026	FY 2027	FY 2028
Wastewater Collection Utility	9%	9%	9%	8%	5%
Estimated Bill Impact for Residential Customers (\$/mo) (1)	\$4.02	\$4.38	\$4.78	\$4.63	\$3.13
Estimated Monthly Bill	\$48.64	\$53.02	\$57.79	\$62.41	\$65.53

(1) estimated impact on residential wastewater monthly bill, which is currently \$44.62

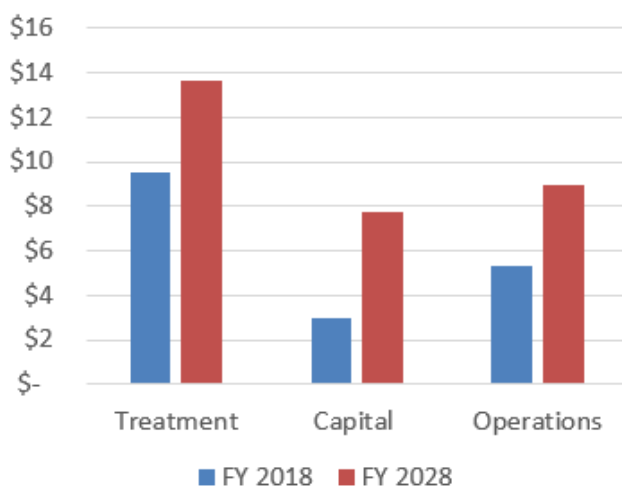
As noted above, one of the main drivers for the increase in the Wastewater Collection Utility's costs (and therefore rates) over the next several years is the cost for wastewater treatment, which is projected to increase by an average of 6.2% annually from FY 2022 to FY 2028 as the City makes several 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 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. A project is scheduled to begin in the current year (instead of FY 2024) because of coordination with Caltrans to limit or avoid digging into newly paved street on El Camino Real. The next project is scheduled for FY 2026. 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. Staff has not observed any dip in

construction costs although more information will be known once the Utilities Department issues more construction bids.⁵

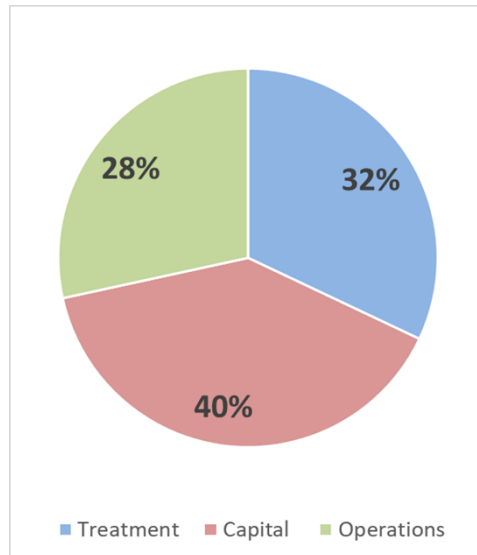
Figure 1 and 2 below illustrate the increase in the Wastewater Collection Utility's costs. RWQCP costs for the Wastewater Collection Utility are included in "Treatment," while "Capital" and "Operations" include only collection system costs. 33% of the increase from FY 2018 to FY 2028 is due to treatment cost increases, 29% is due to increases in operations costs, and collection capital costs are responsible for 39% of the increase from FY 2018 to FY 2028. Note that treatment costs increase an additional 28% from FY 2028 to FY 2029 due to debt service coming online for the Secondary Treatment Upgrades and Headworks.

Figure 1: FY 2018 and FY 2028 Costs (\$ Millions)



⁵ As an additional reference, the California Construction Cost index increased from 2.8% in December 2020 to 13.4% in December 2021 and then decreased to 9.3% in December 2022. See: <https://www.dgs.ca.gov/RES/RESOURCES/Real-Estate-Services-Division-Resources-List-Folder/DGS-California-Construction-Cost-Index-CCCI>

Figure 2: Percentage of Cost Increase from FY 2018 to FY 2028 Attributed to Treatment, and Operations Costs



To promote rate stability and provide continuity in collection system CIP expenditure levels, this plan continues the steady annual capital program contribution to the CIP Reserve. The CIP Reserve will then absorb annual spending fluctuations, reducing the impact on the Operations Reserve. Figure 3 below shows the projected CIP Reserve balances and Figure 4 below shows year-end reserve balance levels for each reserve from FY 2023 projected through FY 2028.

Because the Sanitary Sewer Replacement project budgeted for construction in FY 2024 is now scheduled to move up to FY 2023 to minimize street repavement on El Camino Real, this will draw down the CIP Reserve in FY 2023 to zero and slowly replenish the reserve throughout the forecast period so that by FY 2027 the reserve remains within the guideline range as shown in Figure 3.

Figure 3: Projected Capital Reserve Balances, FY 2023 to FY 2028

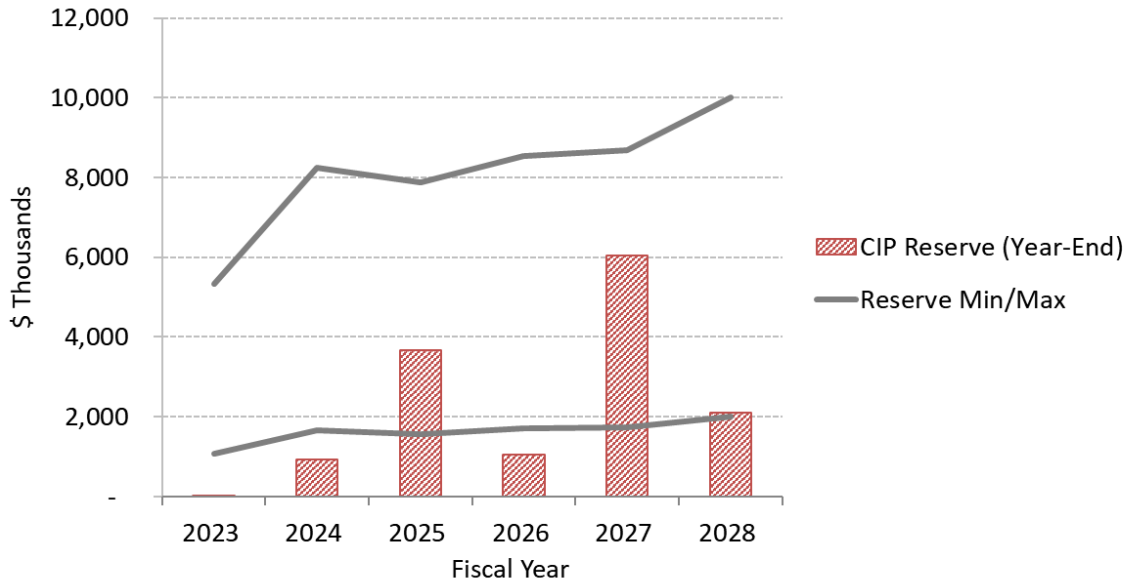


Figure 4: Wastewater Collection Utility Year-End Reserve Levels, FY 2022 to FY 2028

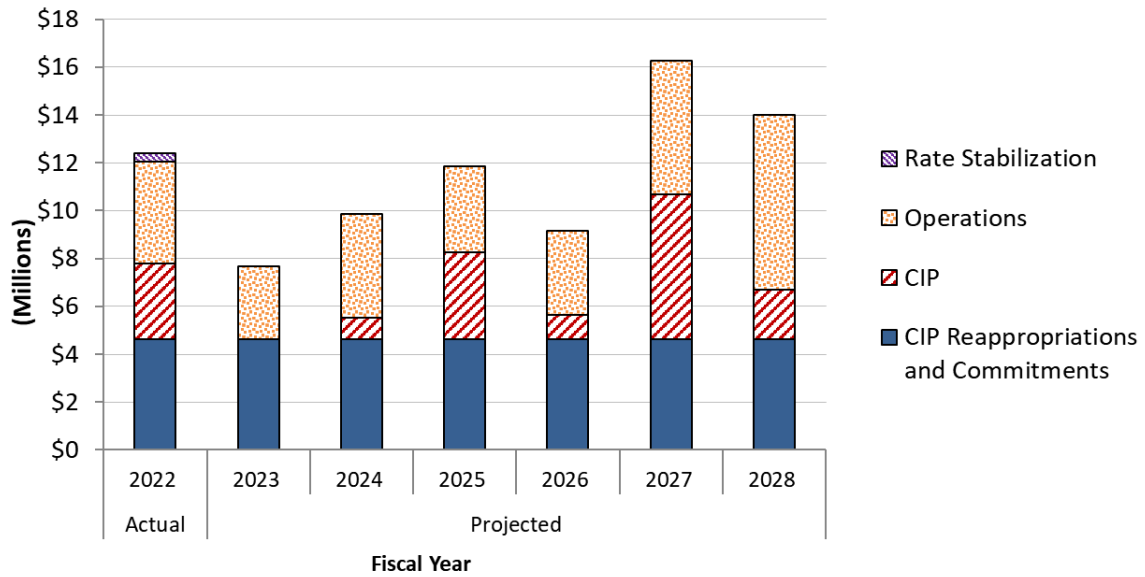


Table 3: Operations, Rate Stabilization and CIP Reserves Starting and Ending Balances, Revenues, Transfers To/(From) Reserves, Expenses, Capital Program Contribution To/(From) Reserves, and Operations Reserve Guideline Levels for FY 2023 to FY 2028 (\$000)

		Fiscal Year					
		2023	2024	2025	2026	2027	2028
	Starting Balance						
(1)	Operations	4,252	3,049	4,315	3,586	3,693	5,805
(2)	Rate Stabilization	342	-	-	-	-	-
(3)	CIP	3,178	0	916	3,665	849	5,853
	Revenues						
(4)	Total Revenue	21,859	23,896	26,164	28,435	30,648	32,177
	Transfers						
(5)	Operations	(1,075)	-	-	(700)	-	-
(6)	Rate Stabilization	(342)	-	-	-	-	-
(7)	CIP	1,417	-	-	700	-	-
	Capital Program Contribution						
(8)	Operations	(3,750)	(2,333)	(7,100)	(7,313)	(7,725)	(7,957)
(9)	CIP	3,750	2,333	7,100	7,313	7,725	7,957
	Expenses						
(10)	Total Expenses (w/o CIP and Debt)	(18,108)	(20,168)	(19,794)	(20,315)	(20,812)	(22,541)
(11)	Debt Service	(129)	(129)	-	-	-	-
(12)	Planned CIP	(8,345)	(1,418)	(4,351)	(10,828)	(2,722)	(11,917)
	Ending Balance						
(1)+(4)+(5)+(8)+(10)+(11)	Operations	3,049	4,315	3,586	3,693	5,805	7,484
(2)+(6)	Rate Stabilization	-	-	-	-	-	-
(3)+(7)+(9)+(12)	CIP	0	916	3,665	849	5,853	1,893
	Operations Reserve Guideline Levels						
(13)	Minimum Guideline Level	2,998	3,336	3,254	3,339	3,421	3,705
(14)	Maximum Guideline Level	7,495	8,341	8,134	8,349	8,553	9,264

* Planned CIP (item 12) is reflected as an expense in the CIP Reserve and does not include CIP funded through Reappropriations or Commitments reserves. This Financial Plan utilizes \$8.345 million for Planned CIP from the CIP Reserve in FY 2023; this total includes \$3.75 million (item 9) and \$1.417 million (item 7) as well as \$3.178 million from the CIP Reserve. Staff requests Council approval to transfer \$3.178 million from the CIP Reserve to the Operations Reserve in FY 2023.

Capital Projects and Reserves

The CIP Reserve aims to stabilize uneven annual funding associated with ongoing CIP projects including sanitary sewer main replacements that are scheduled to occur every other year and is a source for one-time or immediately needed projects. In June 2021 Council approved consistent annual funding from the Operations to the CIP Reserve. The attached Financial Plan projects that rate funding is needed to cover \$8.345 million of planned CIP in FY 2023. This figure is the portion of planned CIP in FY 2023 that will not be paid for through funds collected in prior years (the FY 2023 capital budget, less funds available in the Reappropriations and Commitments Reserves) shown in line 12 of Table 3. The \$8.345 million will be funded by the capital program contribution of \$3.75 million plus \$1.417 million in one-time funds from the Operations Reserve (lines 9 and

7 from Table 3), together with \$3.178 million from the CIP Reserve. Withdrawals from the CIP Reserve for use on capital projects require Council action.⁶ The attached Financial Plan therefore requests Council approval to transfer up to \$3.178 million from the CIP Reserve to the Operations Reserve.

Wastewater Bill Comparison with Surrounding Cities

The monthly equivalent sewer bill for a Palo Alto resident is \$44.62 under current rates, 28% lower than the average neighboring community. Table 4 shows the monthly sewer bills at current rates for residential customers compared to what they would be in surrounding communities. These communities are the same six cities that Palo Alto compares itself to in the annual budget across Water, Wastewater, Gas, and Electric utilities.

Table 4: Residential Monthly Equivalent Sewer Bill Comparison (\$) at Current Rates

Palo Alto	Neighboring Communities					
	Menlo Park	Redwood City	Santa Clara	Mountain View	Los Altos	Hayward
44.62	106.67	89.28	46.82	50.10	42.05	38.58

If Council adopts the proposed wastewater rate change, and assuming other agencies do not change their sewer rates, Palo Alto's residential rates would remain 26% lower than the current average neighboring community. Furthermore, under the attached Financial Plan, Palo Alto's residential monthly bills would rise to \$65.56 per month in FY 2028 which is only 5% above the current neighboring community average of \$62.25 per month. Staff has no information at this time as to whether or when the surrounding communities are planning wastewater rate changes. However, as most agencies are also requiring renovations to their respective treatment plants, increases at other agencies are likely. Note that as partners in the RWQCP, Mountain View and Los Altos will be affected by similar treatment cost increases as Palo Alto.

Table 5 shows the monthly sewer bills for Commercial and Restaurant customers. Palo Alto is less competitive with surrounding cities with regards to commercial sewer rates but is not the most expensive jurisdiction. Palo Alto's commercial bills are 7% higher than the neighboring community average while Palo Alto's restaurant bills are 12% below the neighboring community average. Table 5 assumes 14 units of water for general commercial and 56 units of water for restaurants.

⁶ See Appendix C, Wastewater Collection Utility Reserves Management Practices Section 5(b).

Table 5: Non-Residential Monthly Equivalent Sewer Bill Comparison (\$)

	Palo Alto	Neighboring Communities					
		Menlo Park	Redwood City	Santa Clara	Mountain View	Los Altos	Hayward
General Commercial	116.62	144.34	117.74	75.74	156.66	72.23	87.92
Restaurant	696.08	1,216.88	1,128.40	718.48	718.48	288.90	660.80

Changes from Prior Financial Forecasts

Table 6 compares the projected overall rate changes in the current Financial Plan with the projected rate changes in the FY 2022 and FY 2023 Financial Plans. The current plan recommends accelerating the rate of main replacement which increases rates necessary to cover rising costs and maintain adequate reserves for both the Operations and CIP reserves.

Table 6: Proposed/Projected Wastewater Rate Changes for FY 2024 to FY 2028

Projection	FY 2024	FY 2025	FY 2026	FY 2027	FY 2028
Current Plan (FY 2024)	9%	9%	9%	8%	5%
FY 2023 Financial Plan	5%	5%	5%	5%	N/A
FY 2022 Financial Plan	5%	5%	5%	N/A	N/A

Alternative Scenarios

The attached Financial Plan includes staff's recommendation along with three alternative rate trajectories (A, B and C) summarized in Table 7 and 8 below. These alternatives show the impact of a longer transition from 1 mile to 2.5 miles per year of main replacement (or 5-miles per Sanitary Sewer Replacement or SSR) over longer time periods in order to lessen the impact on sewer rates. The more that wastewater assets are operated past their useful life the greater the likelihood of substantial pipe failures resulting in additional repair and maintenance costs, sanitary sewer overflows, sinkholes, or other catastrophic impacts. The anticipated useful life of wastewater mains is estimated at approximately 100 years and the proposed rate increase would set the City on track to replace the last main approximately 8 years after the end of its expected

useful life (or 108 years). To replace mains within the 100-year lifespan, rate increases were projected to be more than desired by the UAC (e.g., more than 15% in FY 2024).

Alternatives A, B and C in the table below provide lower rate increases but would further increase the duration these assets are operated past their estimated useful life. Staff's recommendation attempts to minimize rate impacts while also prudently managing the City's infrastructure and maintaining an acceptable level of risk.

Table 7: Recommendation and Alternate Scenarios for Wastewater Rate Changes

Rate Scenarios	Fiscal Year of First 5-mile SSR Construction	FY 2024	FY 2025	FY 2026	FY 2027	FY 2028	Age of Last Remaining Sewer Main Replaced
Recommendation	FY 2026	9%	9%	9%	8%	5%	108 years
Alternative A	FY 2028	9%	8%	6%	6%	6%	110 years
Alternative B	FY 2034	7%	7%	5%	5%	5%	114 years
Alternative C	Later than FY 2034	5%	5%	5%	5%	5%	> 114 years

Table 8: Projected Residential Bill Impact and Estimated Monthly Bill, FY 2024 to FY 2028

		FY 2024	FY 2025	FY 2026	FY 2027	FY 2028
Estimated Bill Impact for Residential Customers (\$/mo) (1)	Recommendation	\$4.02	\$4.38	\$4.77	\$4.62	\$3.12
	Alternative A	4.02	3.89	3.15	3.34	3.54
	Alternative B	3.12	3.34	2.55	2.68	2.82
	Alternative C	2.23	2.34	2.46	2.58	2.71
Estimated Monthly Bill (\$)	Recommendation	48.64	53.02	57.79	62.41	65.53
	Alternative A	48.64	52.53	55.68	59.02	62.56
	Alternative B	47.74	51.08	53.63	56.31	59.13
	Alternative C	46.85	49.19	51.65	54.23	56.94

(1) estimated impact on residential wastewater monthly bill, which is currently \$44.62

NEXT STEPS

The City Council will consider the proposed Financial Plans and amended rate schedules with the FY 2024 budget, expected in June, at which time the public hearing required by Article XIID of the State Constitution will be held. If Council approves the proposed rate increases, they will become effective July 1, 2023. Assuming the UAC and the Finance Committee support the proposed rate adjustments, staff will send notification of the potential rate increases to customers as required by Article XIID of the State Constitution (added by Proposition 218) expected in April 2023. If the UAC recommends one of the alternative scenarios for wastewater rate changes, staff will describe the UAC's recommendation to the Finance Committee in March. If the Finance Committee recommends one of the alternative scenarios for wastewater rate changes, or any other recommendation in March, staff will bring the Finance Committee recommendation to the City Council in June or return to the Finance Committee in April with revised rate scenarios, as directed by the Finance Committee. Staff plans to include the Finance Committee's recommended rate scenario for wastewater rate changes in the notification of potential rate increases to customers as required by Article XIID of the State Constitution expected in April 2023.

RESOURCE IMPACT

Staff projects normal year revenues for the Wastewater Collection Utility to increase by approximately 9% (\$1.8 million) in FY 2024 as a result of the proposed rate changes. See the FY 2024 Wastewater Collection Utility Financial Plan for a more comprehensive overview of projected cost and revenue changes for the next five years. The FY 2024 Budget is being developed concurrent with these rates and depending on final rates, adjustments to the budget may be necessary at a later time.

POLICY IMPLICATIONS

The proposed wastewater rate adjustments are consistent with Council-adopted Reserve Management Practices that are part of the Financial Plans. Staff developed the wastewater rate adjustments using a cost of service study and methodology that was completed in compliance with the cost of service requirements of Proposition 218 in 2021 (Raftelis Financial Consultants, Inc. completed a cost of service (COS) study for the Wastewater Collection Utility in 2021 [City of Palo Alto 2021 Wastewater COS Report](#)).

STAKEHOLDER ENGAGEMENT

At the Utilities Advisory Commission (UAC) April 2022 meeting, staff presented the need to increase the rate of sewer main replacement from 1 mile per year to 2.5 miles per year in order to replace the remaining 138 miles of sewer mains scheduled for replacement before they exceed their expected life ([Staff Report #13879](#)). UAC Commissioners expressed support for increasing the rate of sewer main replacement to 2.5 miles per year (See UAC Meeting [Minutes](#) of April 6, 2022 Special Meeting).

At the UAC's October 12, 2022 meeting, staff presented three alternative approaches to accelerate the sanitary sewer main replacement ([Staff Report #14610](#) and UAC [meeting minutes](#)). One Commissioner stated that immediately moving to 2.5 miles/year in FY 2024 funded through pay-as-you-go financing or SRF loan is reasonable while two Commissioners opposed the immediate move to 2.5 miles per year in FY 2024 alternatives. Three Commissioners supported transitioning to 2.5 miles per year over four years (beginning in FY 2026). One Commissioner questioned whether transitioning to 2.5 miles per year slowly by 2034 to keep rates low may also be acceptable.

Additionally, staff brought this item to the Finance Committee for discussion on November 29, 2022 ([Staff Report #14611](#) and Finance Committee [summary meeting minutes](#)). Staff presented a series of alternative rate trajectories that included the proposal from this Financial Plan, a more accelerated time frame for reaching the 2.5 miles per year of main replacement by FY 2024 through higher rate increases or debt financing and a 5% annual rate increase. Finance Committee members expressed a preference to see the rate trajectory in the main proposal in the attached Financial Plan with additional scenarios that showed the transition to 2.5 miles per year of main replacement over 6 years (by 2028) instead of 4 years (by 2026) and with fewer years of 9% increases. The attached Financial Plan includes three alternative scenarios in response to the Finance Committee's feedback.

At the Utilities Advisory Commission (UAC) March 1, 2023 meeting, staff will present the attached Financial Plan. Staff will share the UAC vote on the motion to the Finance Committee. Staff, the UAC, and the Finance Committee's recommendation on the FY 2024 wastewater rate increases will be presented to City Council in June during the budget adoption process.

ENVIRONMENTAL REVIEW

The Finance Committee's review and recommendation to Council on the proposed FY 2024 Wastewater Collection Financial Plan and rate adjustments do not meet the definition of a project, pursuant to Section 21065 of the California Environmental Quality Act, thus no environmental review is required.

ATTACHMENTS

Attachment A - Wastewater FY24 Resolution

Attachment B - Wastewater FY24 Rate Schedules

APPROVED BY:

Dean Batchelor, Director Utilities

Report #: 2302-0944