



City Council Staff Report

From: City Manager

Report Type: CONSENT CALENDAR

Lead Department: Utilities

Meeting Date: April 17, 2023

Staff Report: 2303-1218

TITLE

Staff Recommends that Council Approve Bringing the Water and Wastewater Rate Proposals to Council on June 19, 2023, Pending Proposition 218 Notifications, for a Public Hearing to Consider Two Resolutions: 1) Approving the Fiscal Year 2024 Wastewater Collection Utility Financial Plan, Proposed Reserve Transfers, and Increasing Wastewater Collection Utility 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; CEQA Status: Not a project under Public Resources Code 15378(b)(5)

RECOMMENDATION

Staff recommends that Council direct staff to proceed with Proposition 218 notification of Water and Wastewater Rate changes recommended by Finance Committee on [March 21, 2023¹](#), and agendize a public hearing for these rates on June 19, 2023. For the Water Financial Plan, staff presented a plan with a 3% distribution rate increase to the Finance Committee ([Staff Report 2301-1011²](#)) on March 7, 2023, but on March 21, 2023 revised this recommendation to a 2% water distribution rate increase and the Finance Committee agreed with the staff recommendation. Staff will incorporate those changes and attach the updated Financial Plan and rate sheets to the June 19, 2023 Council report. The Finance Committee recommended approval of the Wastewater Financial Plan as written in Staff Report [2302-0944³](#) and staff will include the Financial Plan and supporting documents in the June 19, 2023 Council report for Council consideration of the Wastewater Collection rate increase.

Finance Committee recommended the Council adopt the following resolutions, after notice of the proposed rate changes is sent as required by Proposition 218:

1. For the Water Utility, a Resolution:
 - a. Approving the FY 2024 Water Utility Financial Plan, including a 2% water distribution rate increase; and

¹ Finance Committee Staff Report

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

² Finance Committee Staff Report 2301-1011

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

³ 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>

- 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 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)
2. For the Wastewater Collection Utility, a [Resolution](#)⁴:
- a. Approving the [Fiscal Year 2024 Wastewater Collection Financial Plan](#)⁵, 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](#)⁶ 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)

EXECUTIVE SUMMARY

In March 2023, the Utilities Advisory Commission (UAC) and Finance Committee reviewed the proposed rate changes recommended by Staff for Fiscal Year (FY) 2024. The overall system average proposed rate changes are a 9% increase for wastewater, and 6% increase for water. This report summarizes the Water and Wastewater utilities rate proposals. Drivers of the 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 of utilities and protect reliability.

This report requests Council approve moving forward with Proposition 218 customer notifications of the rate proposals recommended by the Finance Committee on March 21, 2023, with a Council public hearing on June 19, 2023 for Water and Wastewater utility rate changes. If approved, staff would proceed with Proposition 218 customer notifications and update the Financial Plans and proposed rate sheets for the water and wastewater utilities to reflect the motion above.

⁴ Draft 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>

⁵ 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>

⁶ Wastewater Rate Schedules <https://www.cityofpaloalto.org/files/assets/public/agendas-minutes-reports/reports/city-manager-reports-cmrs/attachments/03-07-2023-id-2302-0944-attachment-b-ww-rate-schedules.pdf>

BACKGROUND

Water

Utilities staff presented to the UAC on [March 1, 2023⁷](#), the Finance Committee on [March 7, 2023⁸](#) and [March 21, 2023⁹](#) a recommendation that Council approve the FY 2024 Water Utility Financial Plan 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
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.

Wastewater Collection

Utilities staff presented to the UAC on [March 1, 2023¹⁰](#), the Finance Committee on [March 7, 2023¹¹](#) and [March 21, 2023¹²](#) 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

⁷ 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>

⁸ Finance Committee March 7, 2023 Staff Report 2302-1011

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

⁹ Finance Committee March 21, 2023 Staff Report 2302-1125

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

¹⁰ 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>

¹¹ Finance Committee Staff Report 2302-0944

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

¹² Finance Committee Staff Report 2302-1107

<https://cityofpaloalto.primegov.com/meeting/document/1852.pdf?name=Item%202%20Staff%20Report>

Wastewater Collection and Disposal) and S-7 (Commercial Wastewater Collection and Disposal – Industrial Discharger) of 9% effective July 1, 2023

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 this proposal after reviewing the additional information.

ANALYSIS

Refer to the study session report 2304-1247 on the Council’s agenda tonight (April 17, 2023).

TIMELINE

By approving this item the Council would approve moving forward with rate proposals to the Council for a public hearing on June, 19, 2023; staff will provide notice to customers in accordance with Proposition 218 requirements during April and May. Additionally, for the water commodity pass-through rate, staff expects SFPUC to vote on a wholesale water rate increase in May that will become effective July 1, 2023. Upon final approval of the wholesale rate increase by the SFPUC, staff will provide Palo Alto customers with notice of any adjustments to the wholesale rate increase and pass through the increase.

Should the City Council take action to approve any of these rates, they will become effective July 1, 2023.

FISCAL/RESOURCE IMPACT

Refer to the study session report 2304-1247 on the Council’s agenda tonight.

STAKEHOLDER ENGAGEMENT

On [March 1, 2023¹³](#) the Utilities Advisory Commission (UAC) reviewed and approved the FY 2024 Water and Wastewater Collection Utility Financial Plans and Rate Proposals.

On [March 7, 2023¹⁴](#), the Finance Committee reviewed the FY 2024 Water and Wastewater Collection Utility Financial Plans and Rate Proposals. The Finance Committee approved the Water Utility proposals and asked staff to return with additional information for further evaluation for the Wastewater Utility.

¹³ 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>

¹⁴ Finance Committee Meeting March 7, 2023

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

On [March 21, 2023¹⁵](#), the Finance Committee reviewed the FY 2024 Water, and Wastewater Collection Financial Plans and Rate Proposals and unanimously approved the Water and Wastewater Collection Proposals.

ENVIRONMENTAL REVIEW

The Council's approval to move the water and wastewater rate proposals forward to the June 19, 2023 Council public hearing does not meet the California Environmental Quality Act's definition of a project, under Public Resources Code Section 21065 and CEQA Guidelines section 15378(b)(5), because it is an administrative governmental activity which will not cause a direct or indirect physical change in the environment, and therefore, no environmental assessment is required.

APPROVED BY:

Dean Batchelor, Director Utilities

Staff: Lisa Bilir, Sr. Resource Planner

¹⁵ Finance Committee Meeting March 21, 2023

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