



FINANCIAL COMMISSION AGENDA REPORT

Meeting Date: November 21, 2022

Subject: Draft Sewer Rate Study Results

Prepared by: NBS (Jordan Taylor and Allan Highstreet)

Initiated by: Staff

Attachments:

1. Sewer Rate Study Report + Appendices
2. Sewer Rate Study Presentation

Staff Recommendation

This is for information only.

Environmental Review:

Not applicable

Summary/Project Description:

This commission meeting is an informational presentation followed by questions from the committee members. A public hearing and protest balloting process are the next steps required to adopt new sewer rates. As a part of this process, NBS recommends the City take the following actions:

- **Approve and Accept the Draft Sewer Study Report:** NBS recommends the City Council formally approve and adopt this report and its recommendations. This will provide the documentation and administrative record necessary to adopt and implement the proposed sewer rates.
- **Implement Proposed Rates (at a later Council meeting):** Based on successfully meeting Proposition 218 balloting requirements, the City Council should proceed with implementing the rates proposed in this report for the next five years. These rates are intended to ensure the continued financial health of the City's sewer utility.

Fiscal Impact:

Impact to rate payers and sewer reserve funds.

Background

Capital expenses exceed \$23 million through 2028 between City of Palo Alto projects (Los Altos' share) & Los Altos' budgeted projects. A new project requiring debt payments to Palo Alto will start in 2028, adding \$685,000 to debt annually. Rate increases are needed to cash fund the projects as well as keep up with the added debt service and the target reserve levels.

Discussion/Analysis

The City's sewer rates consist of a fixed annual base charge per equivalent dwelling unit (EDU), and a volumetric rate for water consumed. Water consumption charges are based on average winter water use

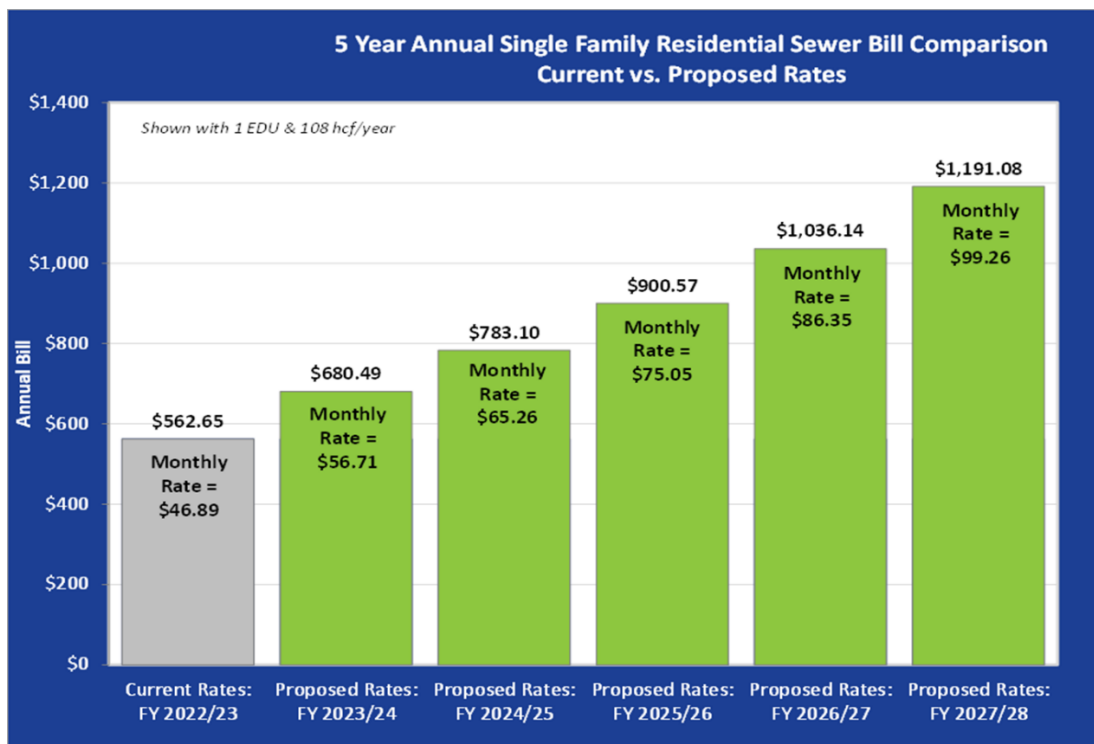


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from the prior year (using the three consecutive lowest months). Calculations and bill comparisons are shown below.

Fixed Charges (per EDU)	Total Revenue Requirements	% of Total Rev. Req't. from Fixed Charges	Fixed Charges	Number of Equivalent Dwelling Units	Rate per EDU
	A	B	C = A * B	D	E = C / D
All Customers	\$9,096,500	52%	\$4,730,180	14,595	\$324.09

Volumetric Charges (per HCF)	Total Revenue Requirements	% of Total Rev. Req't. from Volumetric Charges	Volumetric Charges	Annual Billable Volume (hcf)	Rate per HCF
	F	G = 1 - B	H = F * G	I	J = H / I
All Customers	\$9,096,500	48%	\$4,366,320	1,322,896	\$3.30



Sewer Rate Schedule	Current Rates	Proposed Yearly Sewer Rates				
		Year 1	Year 2	Year 3	Year 4	Year 5
		FY 2023/24	FY 2024/25	FY 2025/26	FY 2026/27	FY 2027/28
Annual Fixed Service Charge per EDU	\$301.29	\$324.09	\$372.70	\$428.61	\$492.90	\$566.84
Volumetric Rate (\$/hcf) ^{1,2}	\$2.42	\$3.30	\$3.80	\$4.37	\$5.03	\$5.78

- One Unit is equal to one HCF (Hundred Cubic Feet) or 748 gallons.
- Rates are charged based on average winter water consumption (three lowest consecutive months from previous year).