Recommendation
This item is for discussion and no action is requested. Staff will use input from the Finance Committee on its preliminary rate projections for the Water and Wastewater Collection utilities to finalize its recommended FY 2021 Financial Plans and proposed rate changes for each utility. Preliminary projections for the Electric and Gas Utilities will be presented later in the budget cycle.

Executive Summary
The attached presentation describes staff’s preliminary rate projections for the Water and Wastewater Collection utilities. A similar presentation was provided to the Utilities Advisory Commission (UAC) at its December 4, 2019 meeting.

The preliminary retail rate forecast over the next five fiscal years is shown in the table below, along with the overall impact to the median residential bill. The rate changes shown are preliminary estimates. Actual rate changes will be based on updated financial data and the cost of service methodologies and studies for each utility, and may differ by customer class and for individual customers depending on consumption patterns. An updated cost of service study for Wastewater Collection is underway and will be factored into staff proposals for FY 2021. A cost of Service studies for Water was completed in 2019.
Based on current data, reserve levels are projected to remain within guideline levels. Staff will continue to monitor customer consumption patterns and refine operating and capital cost projections over the coming months to determine whether any adjustment from this preliminary forecast is needed. Staff seeks input from the Finance Committee prior to finalizing the Utilities Financial Plans and developing recommendations for rate changes that would be effective July 1, 2020. The proposed rate adjustment recommendations, along with each utility’s Financial Plans, are currently scheduled to be presented to the Finance Committee in April for the Water and Wastewater Collection Utilities. The Electric and Gas Utilities financial plans and rates will be presented in May.

**Background**

Every year staff presents the UAC and Finance Committee with financial forecasts for the Electric, Gas, Water, and Wastewater Collection utilities and recommends any rate adjustments required to maintain their financial health. These forecasts are memorialized in Financial Plans that comprehensively discuss the outlook for each utility. Before providing recommended Financial Plans and rate changes, staff typically presents a preliminary forecast to get early feedback.

**Water**

In FY 2019, expenses were lower than forecasted due to delays in capital projects. The delayed capital projects are expected to be completed in FY 2020 and FY 2021, and changes to budget have resulted in a larger than expected ending reserve in FY 2019.

Staff is projecting that no rate increase is needed in FY 2021. This is because SFPUC’s latest available estimate is that no increase is needed in wholesale water rates and because the water utility’s reserves are sufficient to provide funding for some major one-time planned infrastructure projects in the next two years.

The current year (FY 2020) financial plan for the Water utility (approved June 17, 2019) is available at: https://www.cityofpaloalto.org/civicax/filebank/blobdload.aspx?t=61704.19&BlobID=71368
Wastewater Collection

Costs are projected to rise over the next several years due primarily to increasing treatment costs related to capital improvements costs and attendant debt service at the Regional Water Quality Control Plant (RWQCP). Collection system CIP work is also increasing, but at a lower rate. Operations and maintenance costs for both Treatment and Collections are expected to increase with inflation. Current projected rate increases are slightly lower but generally similar to last year’s projections.

Staff is working on a cost of service study for the Wastewater Collection utility. Factoring in the results from the study may change rate impacts to individual customer groups in the FY 2021 proposal.

The current year (FY 2020) financial plan for the Wastewater Collection utility (approved June 17, 2019) is available at: https://www.cityofpaloalto.org/civicax/filebank/blobdload.aspx?t=61290.09&BlobID=71366

Commission Review
The UAC reviewed the preliminary financial forecasts at its December 4, 2019 meeting. No recommendation was requested at that meeting, but staff sought input from Commissioners regarding the preliminary rate adjustment recommendations. Commissioners asked questions, but did not request staff re-examine any of the rate changes listed in Table 1. An excerpt of the draft minutes from the UAC’s December 4, 2019 meeting is located (here).

Next Steps
The UAC is scheduled to review the long-term Financial Plans and proposed rate adjustments for the Water and Wastewater Collection utilities in March and the Electric and Gas utilities in April.

The Finance Committee is tentatively scheduled to review the long-term Financial Plans and proposed rate adjustments in April (for the Water and Wastewater Collection utilities) and in May (for the Electric and Gas utilities). Once the Finance Committee has provided its recommendation, notification of any recommended Water and/or Wastewater Collection rate adjustments will be sent to customers giving them the opportunity to protest the proposed changes as required by Article XIIIID of the State Constitution (added by Proposition 218). The Financial Plans and proposed new rate schedules will be considered by the City Council with the FY 2021 budget, at which time the public hearing required by Article XIIIID of the State Constitution will be held.

Environmental Review
The Finance Committee’s review of the preliminary financial projections does not meet the definition of a project, pursuant to Section 21065 of the California Environmental Quality Act, thus no environmental review is required.
**Stakeholders Engagement**
Staff met with the Utilities Advisory Commission on December 4, 2019.

**Resource Impact**
The FY 2021 Budget is being developed concurrent with these rates. Depending on final rates, adjustments may be necessary in the FY 2021 Budget at a later time. Based on the preliminary rate increases as shown, the estimated revenue impacts would be an increase of $1.2 million in wastewater collection.