

Proposed Wastewater Collection Financial Plan and Rates for FY2020

Utilities Advisory Commission

March 6, 2019

FY 2020 Rate Projections

		FY 2020	FY 2021	FY 2022	FY 2023	FY 2024
Electric Utility		8%	3%-5%	3%-5%	3%-5%	3%-5%
Gas Utility		9%	9%	7%	2%-3%	2%-3%
Wastewater		7%	8%	8%	8%	8%
Water Utility		4%	3%	4%	5%	5%
Refuse		-	3%	3%	3%	3%
Storm Drain		4.5%	2%-3%	2%-3%	2%-3%	2%-3%
Bill Change	(%)	4%	5%	5%	4%	4%
	(\$/mo)	\$13	\$14	\$15	\$14	\$13

- *Rate increases to bring Operations Reserves to Target level by FY 2024 (five years)*
- *Slight increases due to reduced sales volumes, most notably in electric*

Ongoing Cost Containment

- Consistent with newly approved Utilities Strategic Plan, cost containment is being instituted as an ongoing priority and annual cycle
 - Fall completion of preliminary out-year rate forecasts
 - Review by all Divisions for alignment of multiyear strategies
- Ongoing management review of personnel actions
 - Review/revision of position classifications to match evolving needs
 - Add/Deletion of positions to reflect organizational priorities
 - Review/approval to fill individual position vacancies in conjunction with ASD Budget Office and Human Resources
- Regular review of performance metrics and expenditures

Cost Containment Examples

- Recently implemented cost control measures:
 - Gas prepay arrangement for discounted gas (~1M/yr)
 - Cost savings for gas transmission due to regulatory advocacy (~\$250K/yr)
 - Electric transmission savings due to regulatory advocacy (~\$1M/year)
 - Successfully negotiated with vendor to reduce change request costs for new customer portal (estimated savings of \$40k-\$100k)
 - Reduced SAP consultant spending due to process reengineering or developing alternative solutions (estimated savings of \$50k)
- Potential future cost control measures:
 - Explore outsourcing hedging and risk management
 - Enter into prepay deals for existing renewables to reduce costs
 - Rebalance electric portfolio to reduce cost while maintaining compliance with State mandates and local sustainability goals
 - Explore ways to reduce merchant fee costs for credit card transactions
 - Explore potential savings in utility bill printing through paperless billing and reducing printing charges
 - Switch to new customer information system with reduced support costs

Wastewater Utility

Wastewater Projections

- FY 2020 proposal:
 - 7% overall rate increase
- Future projections
 - 6 to 8% per year increases following four years

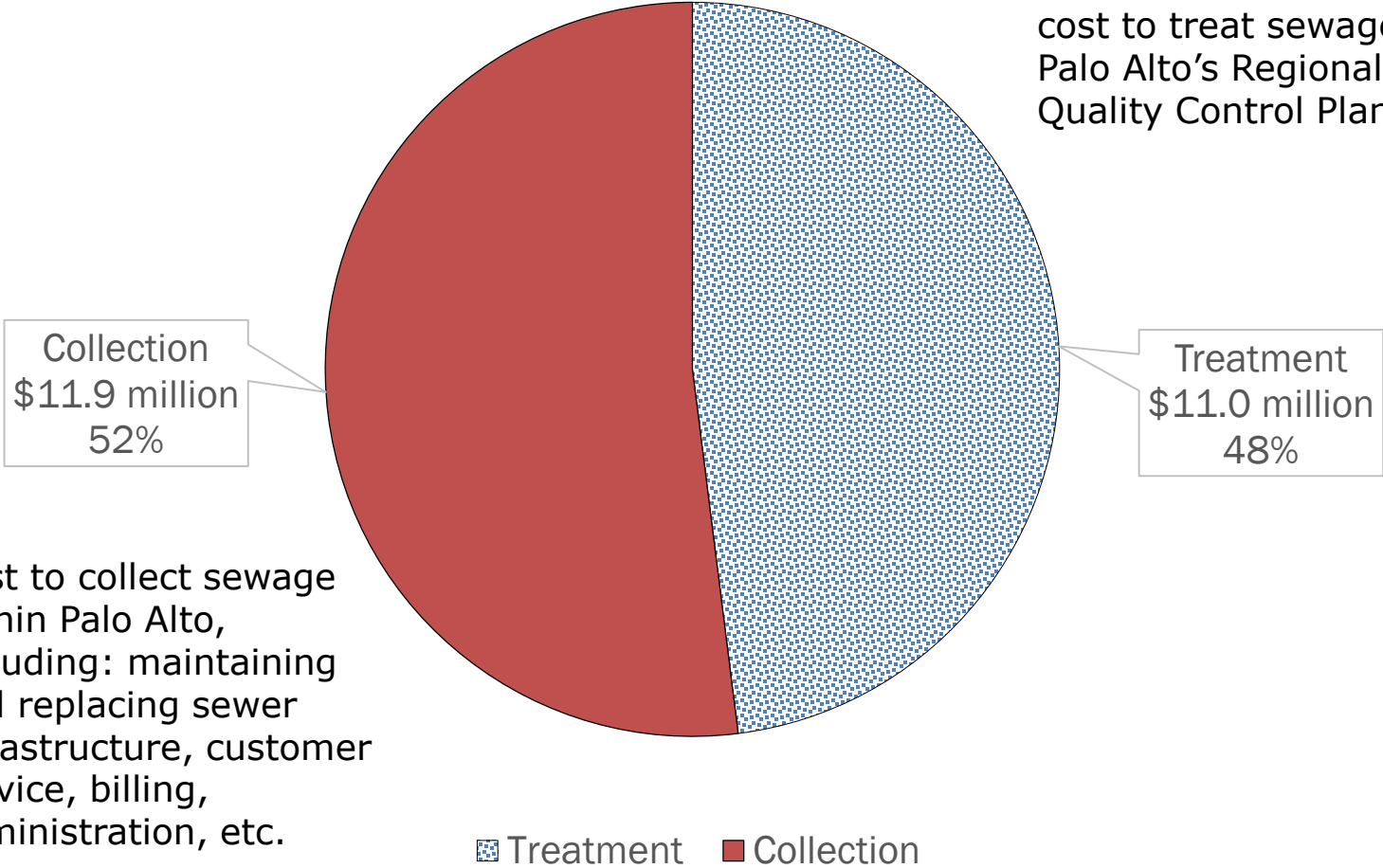
Wastewater Utility Basics



- Five partners: Stanford, East Palo Alto, Los Altos Hills, Los Altos, and Mountain View
- Wastewater drains from partner systems through the City of Palo Alto Collection System, and into the City of Palo Alto Regional Water Quality Control Plant (RWQCP) for treatment
- City of Palo Alto Utilities Department manages collection system, Public Works manages the RWQCP.

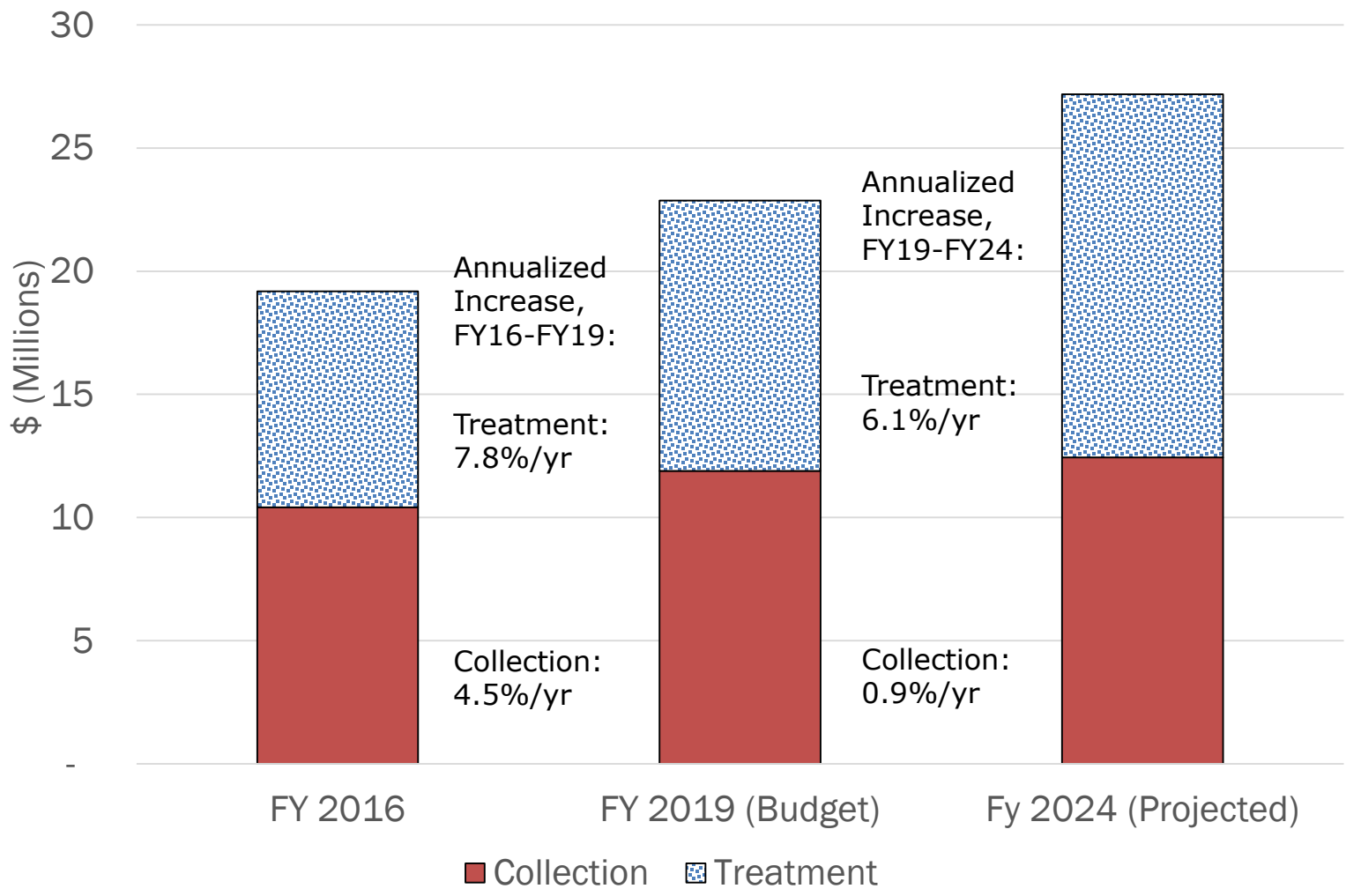
Wastewater Utility Cost Structure

Palo Alto's share of the cost to treat sewage at Palo Alto's Regional Water Quality Control Plant

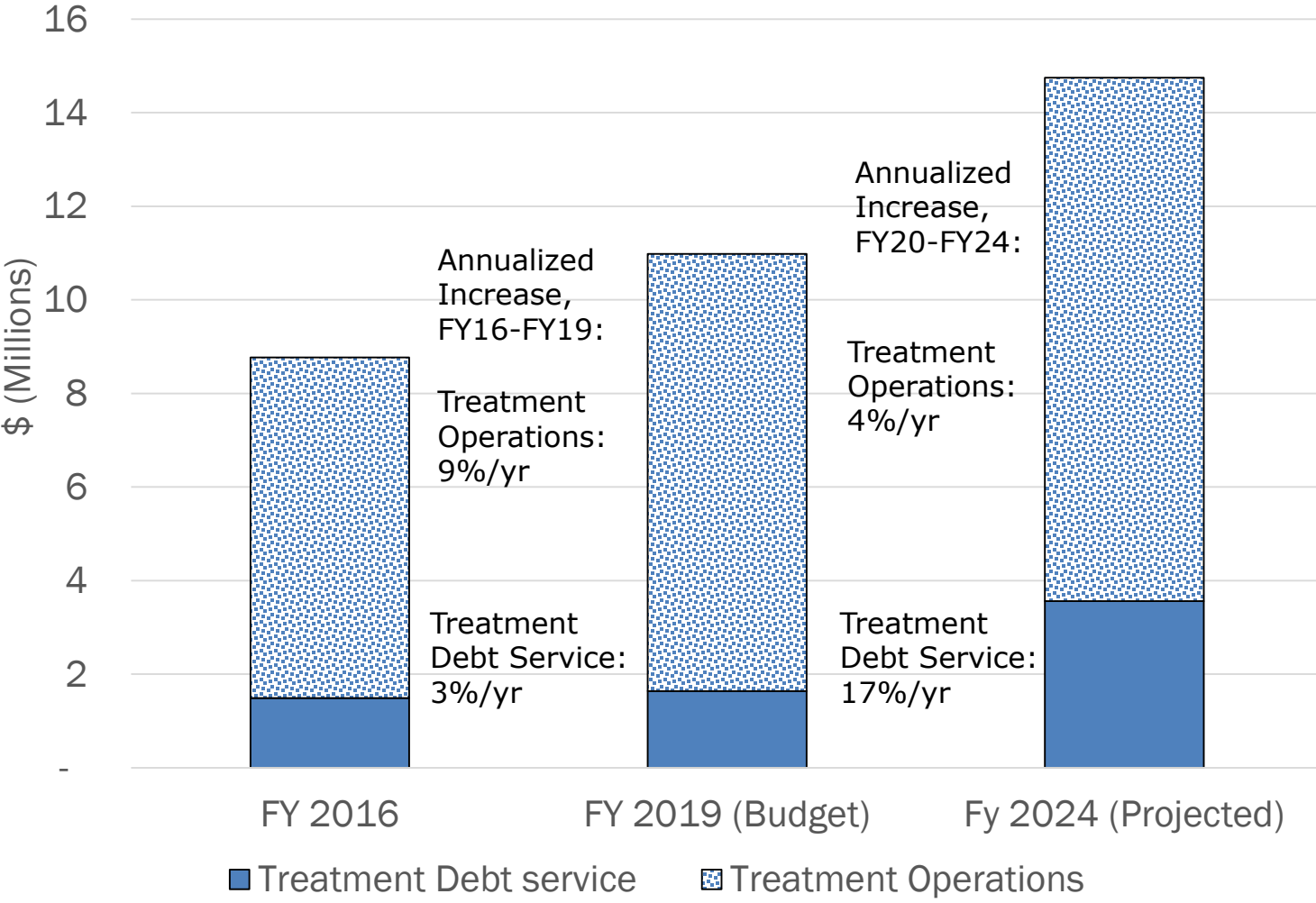


Cost to collect sewage within Palo Alto, including: maintaining and replacing sewer infrastructure, customer service, billing, administration, etc.

Long-term Cost Trends



Treatment Cost Forecast

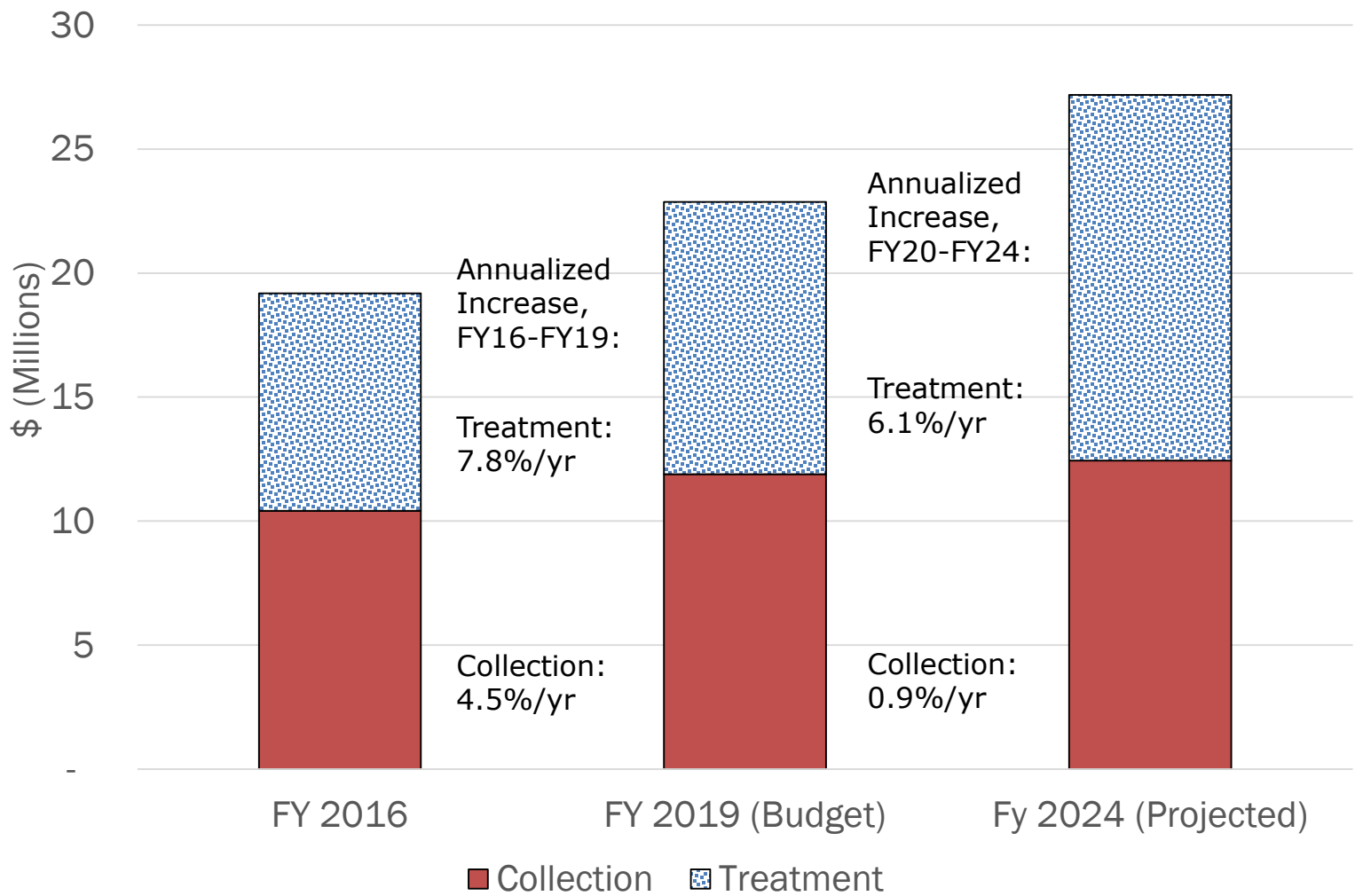


Treatment Cost Drivers

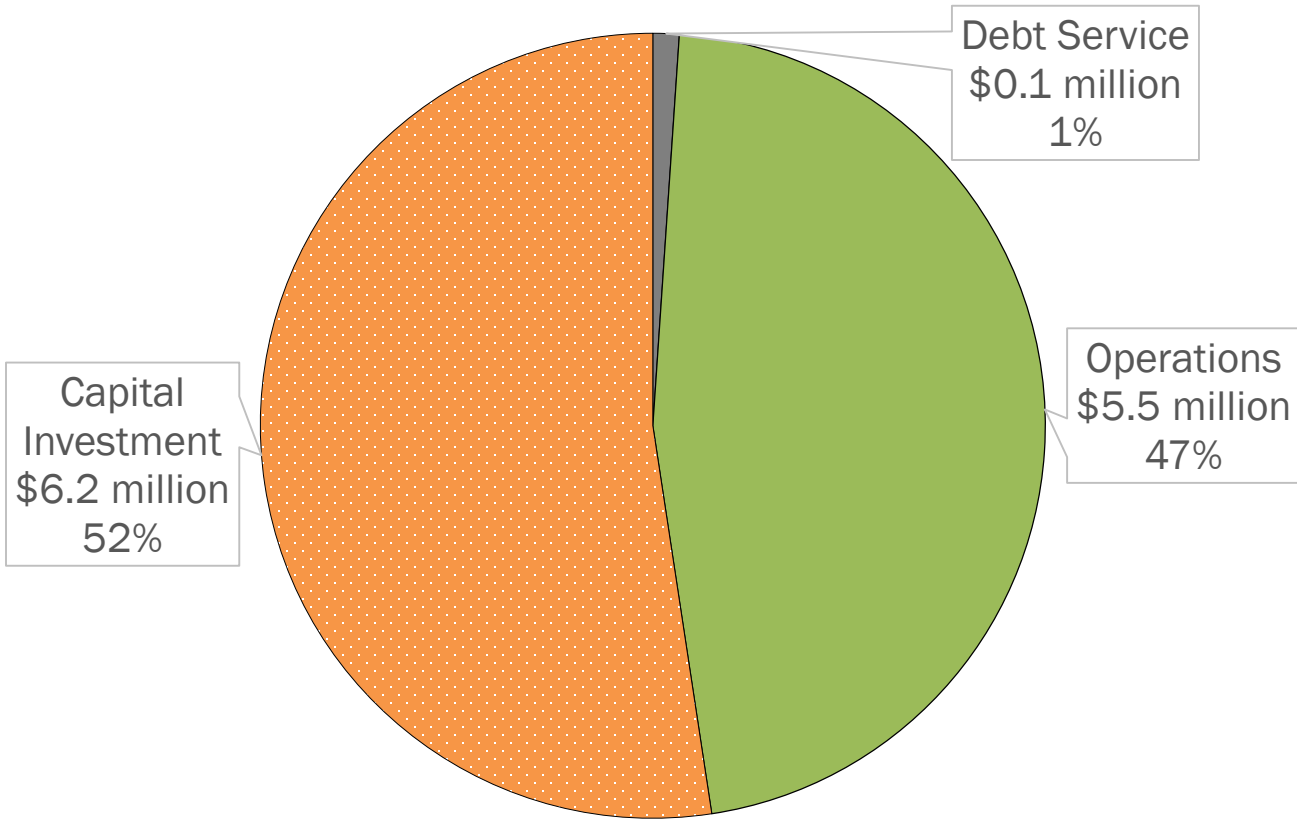
- Regional Water Quality Control Plant needs rehabilitation
- Long Range Facilities Plan completed in 2012
- Rehab / replacement of:
 - Fixed film reactors (\$10.7M)
 - Headworks facility (\$39.1M)
 - Outfall pipe (\$7.5M)
 - Plant equipment (\$5.1M)
 - Sedimentation tank (\$7.5M)
 - Secondary treatment (\$30.6M)
- Approximately \$100M total



Long-term Cost Trends

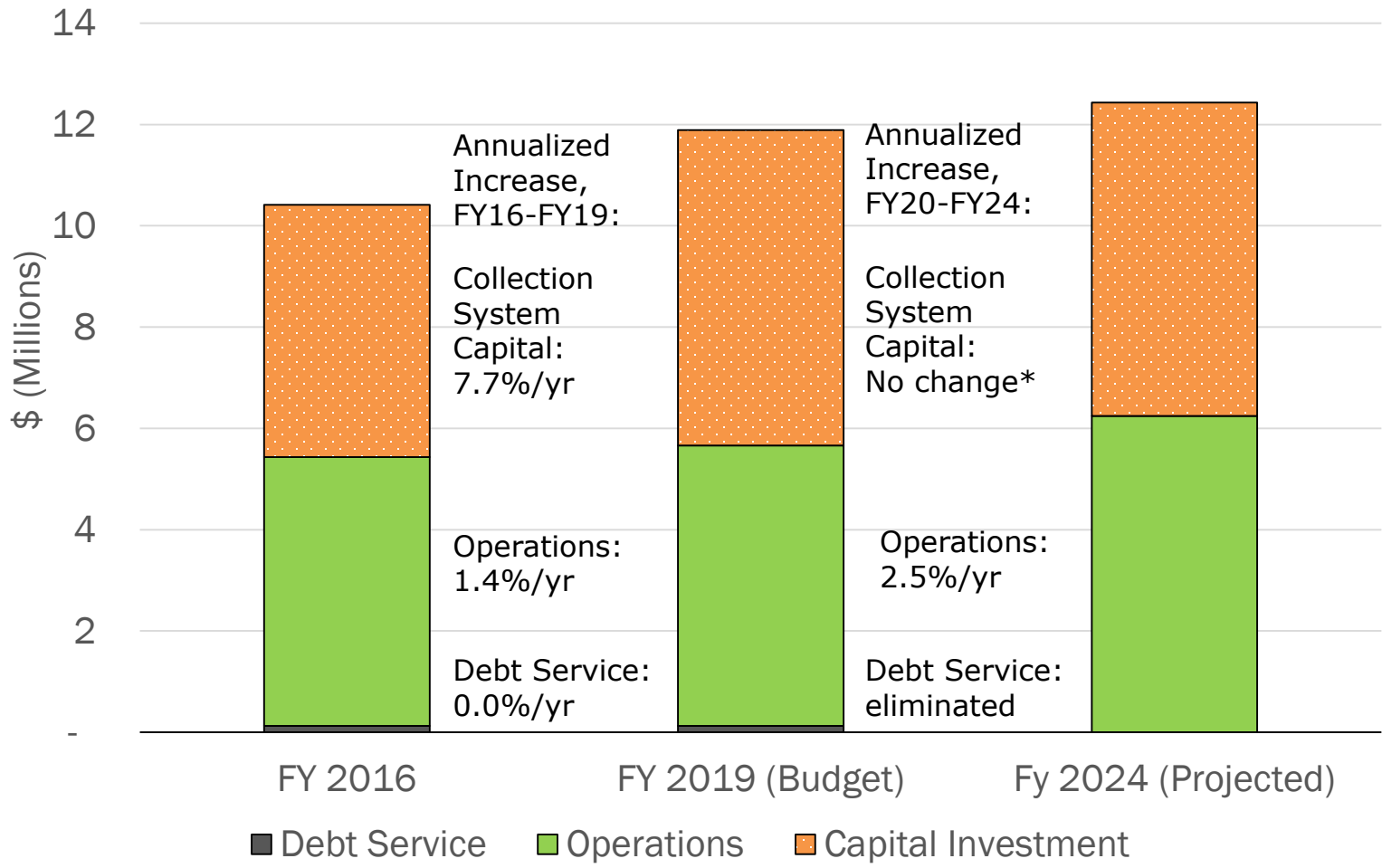


Collection costs



■ Debt Service ■ Operations ■ Capital Investment

Collection Cost Trends



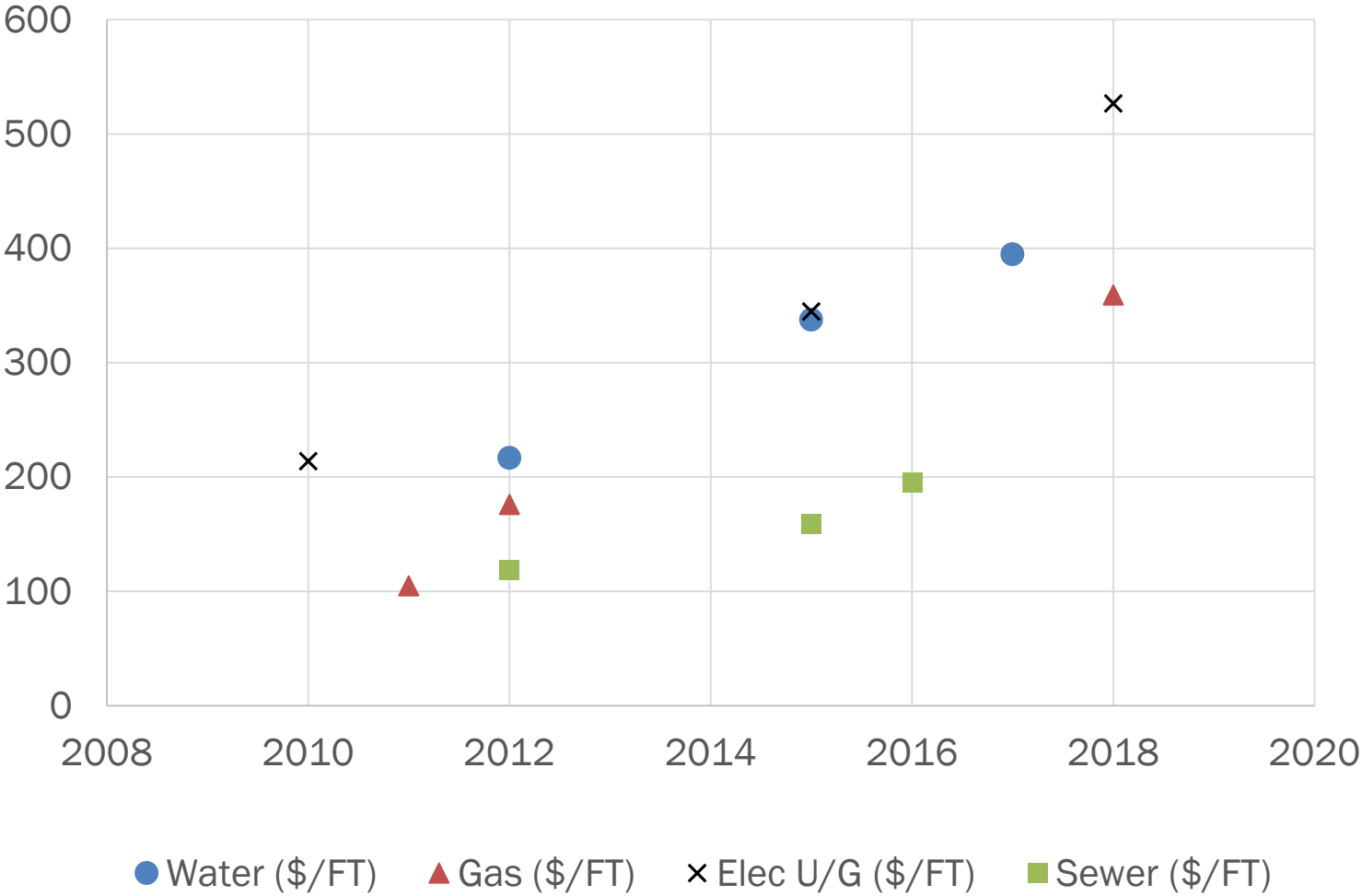
**Note: FY 2019 collection capital spending is unusually high due to the Upgrade Downtown project. Costs decrease in FY 2021, then increase from FY 2021 to FY 2024 about 3%/yr, resulting in FY 2024 capital spending matching FY 2019*

Operations and Capital Cost Drivers

- Health, retirement, and associated overhead costs continue to increase
- Underground construction costs have increased substantially as well



Underground Construction Costs



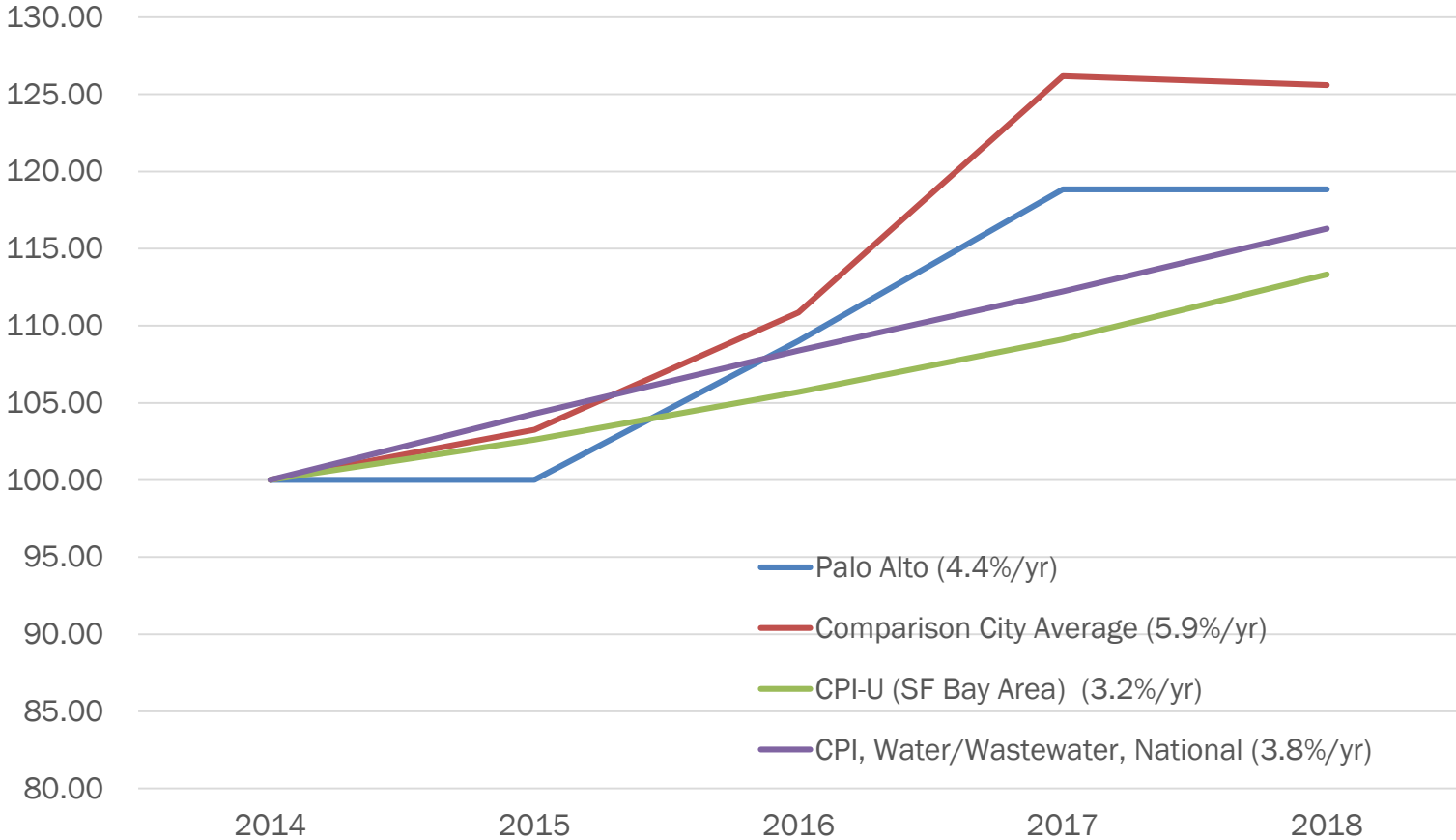
Median Monthly Residential Bill

Palo Alto is 29% below comparison city average

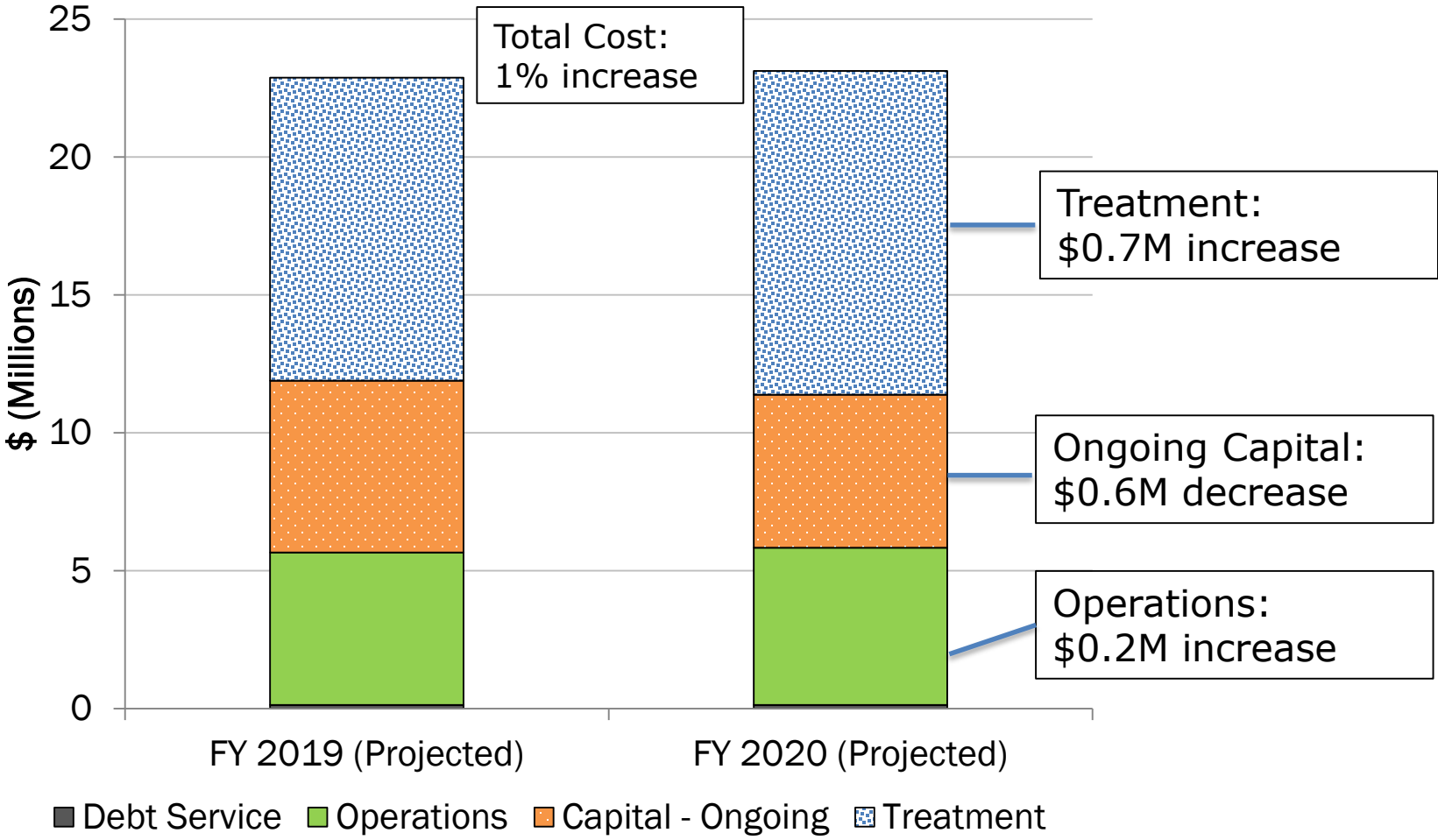
Palo Alto	Neighboring Communities						Neighboring Community Average
	Menlo Park	Redwood City	Santa Clara	Mountain View	Los Altos	Hayward	
38.66	93.83	78.24	42.91	40.80	37.36	32.85	54.33

Based on rates as of February 2019

Five-Year Rate Trends



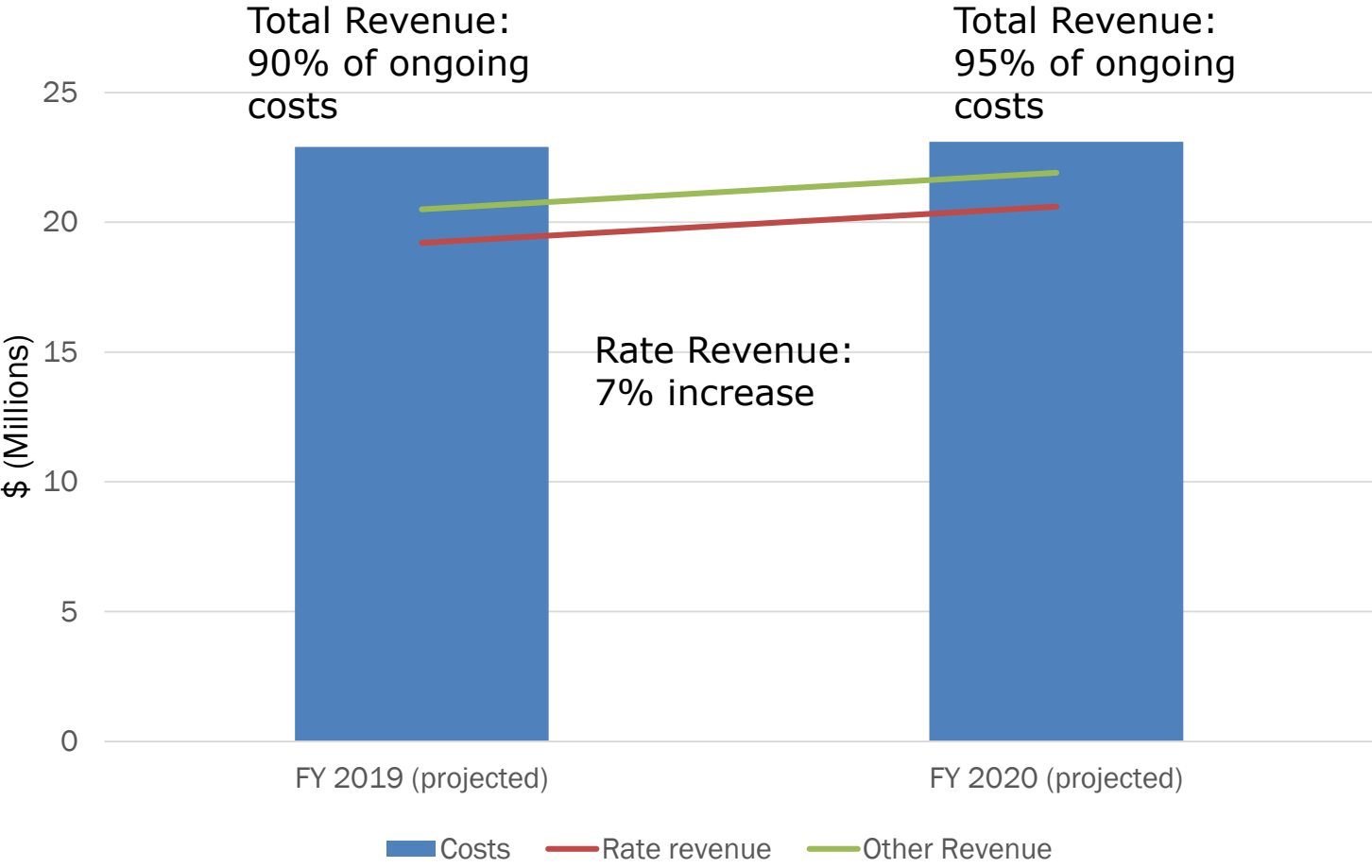
FY 2020 Projected Cost Changes



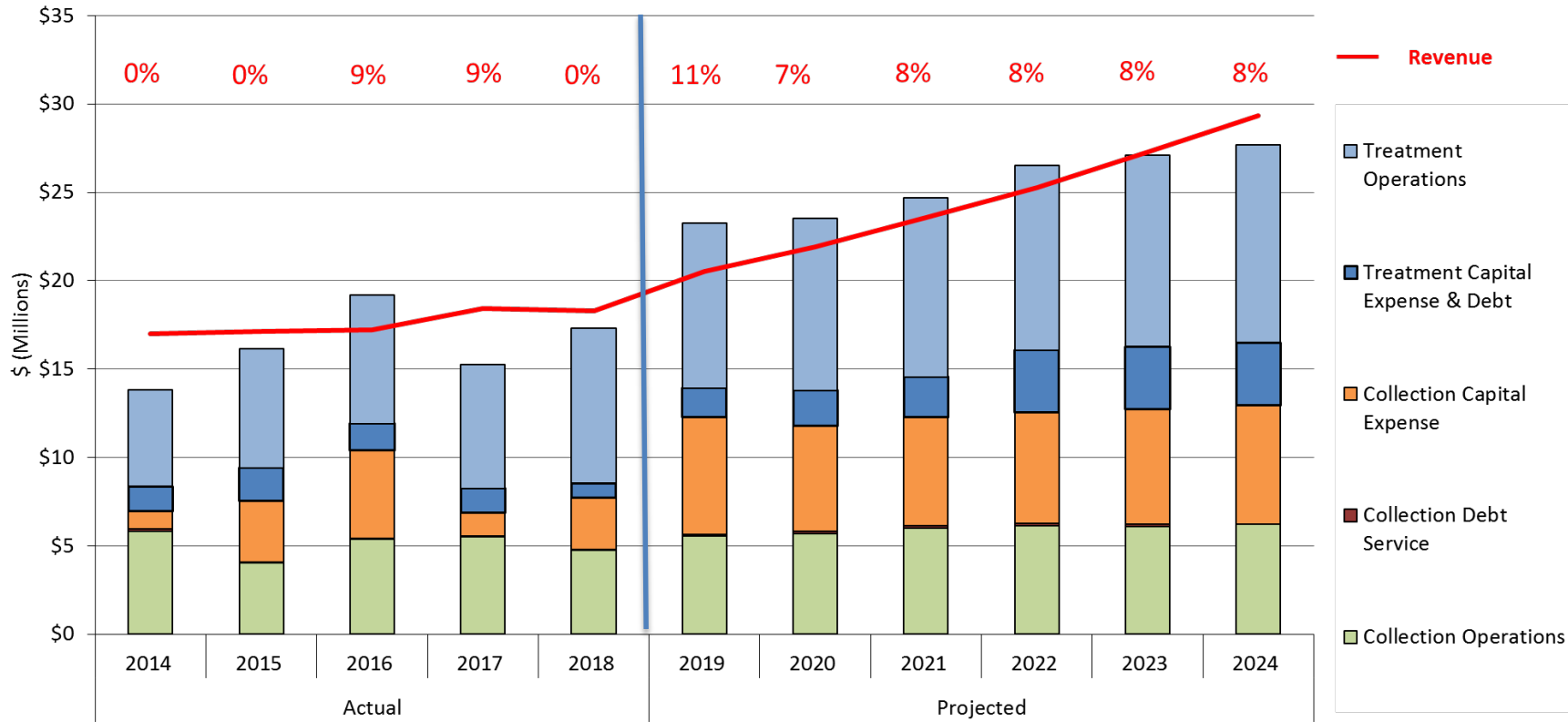
Drivers of FY 2020 Cost Changes

- Treatment spending increase
 - Discussed in earlier slides, but mainly driven by ongoing renovation projects
- CIP spending decrease:
 - Preliminary budget proposals for FY 2020 include reduced spending on
 - Wastewater main replacements – WC-16001 – Project 29 -\$740k reduction –
 - Smaller project size than FY 19 project 28 (14k linear feet vs 22k linear feet)
- Operations cost increase:
 - Increases in salary and benefit costs for existing staff. No staff additions.
 - Inflationary increases in non-salary costs

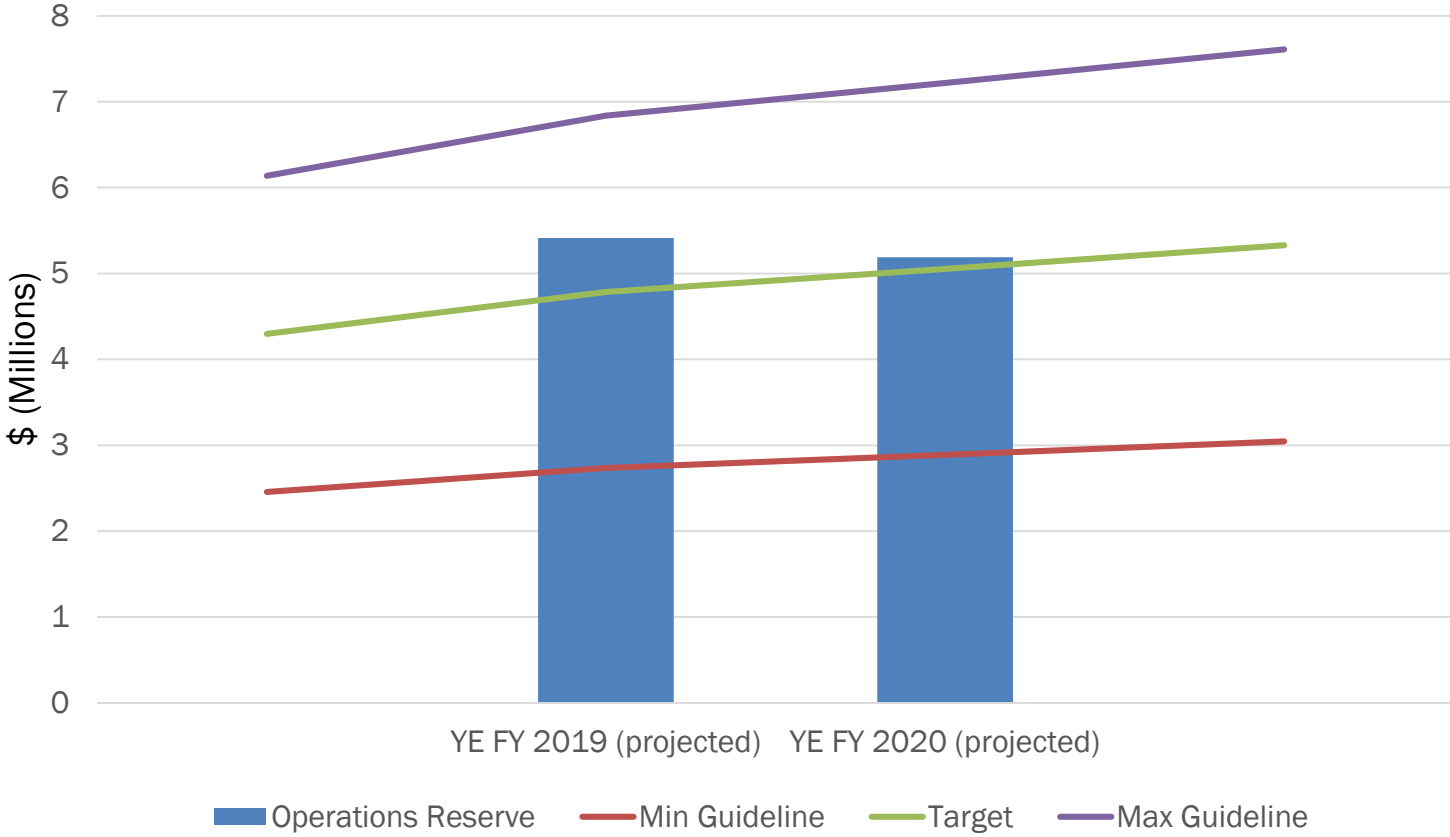
FY 2020 Revenue at Current Rates



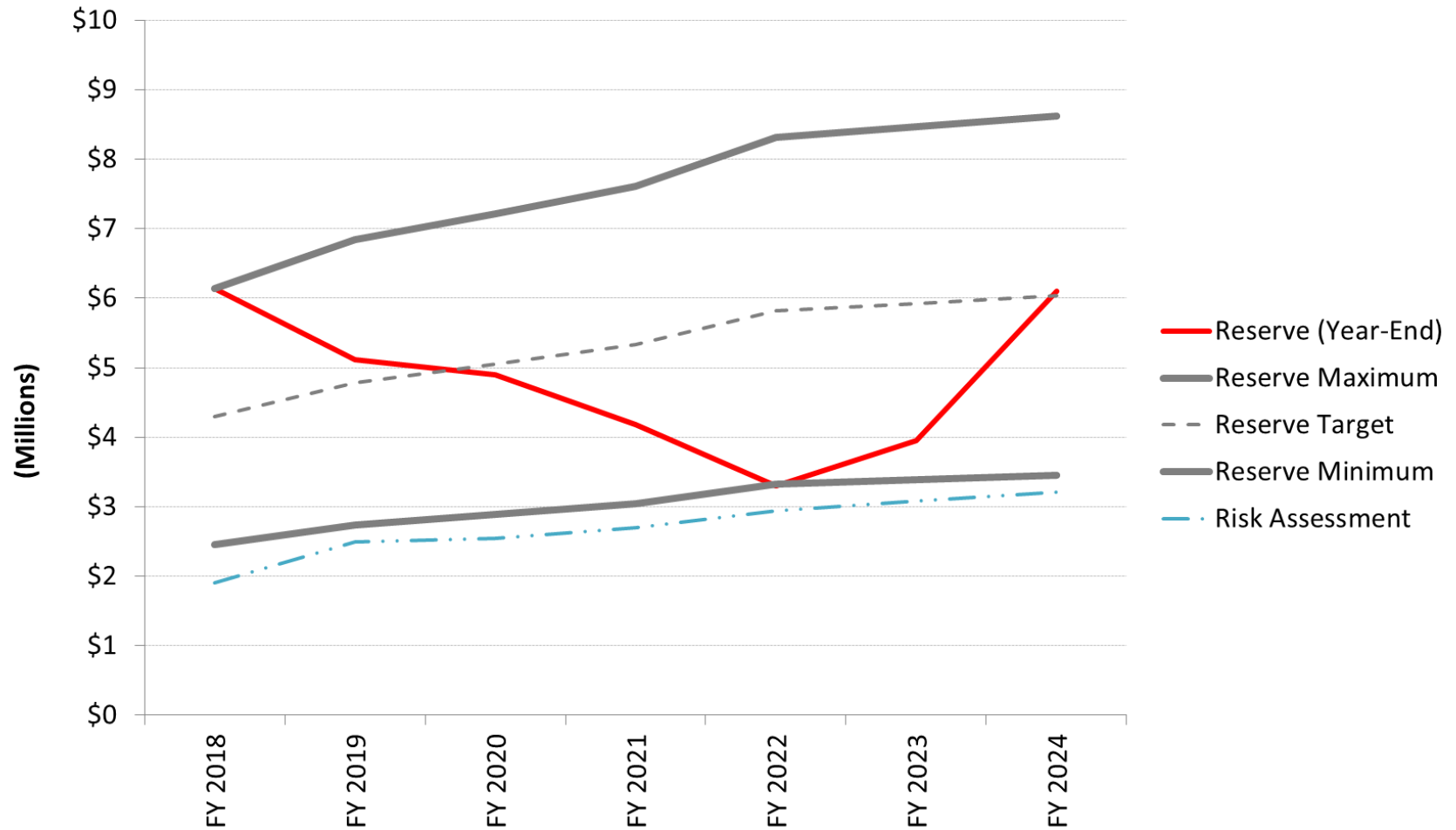
Wastewater Projections



Operations Reserve Impact of Proposed Rate Plan



Wastewater Projections



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