



DATE: February 15, 2018

AGENDA ITEM # 2

**TO:** Financial Commission

**FROM:** Christopher Lamm, Engineering Services Manager

**SUBJECT:** Sewer Rate Structure Analysis

**RECOMMENDATION:**

Approve the Sewer Rate Study Report prepared by NBS

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**BACKGROUND**

On April 23, 2013, Council approved a Sewer Rate Study Report prepared by Harris and Associates, using a hybrid sewer service charge model. The 5-year rate study report recommended rate increases from FY 2014/15 – FY 2017/18 ranging 5.0% - 7% per year. These rates were adopted and adjusted through the Proposition 218 process. The hybrid methodology approved in 2013 includes a fixed or based charge plus a water consumption charge that is calculated using the three wettest months of the previous calendar year. The sewer charges calculated with the hybrid model ensure that operation and maintenance (O & M) costs as well as Capital Improvement costs for the City's sanitary sewer system are being covered. Additionally, the sewer charges cover the old and new debt service obligations from revenue bonds issued by Palo Alto for the Regional Water Quality Control Plant (RWQCP). Fiscal year (2017/18) is the last year of the approved sewer charges that were adopted by Council in 2013. The City must conduct a new sewer rate report for the next five fiscal years (FY 2018/19 through FY 2022/23).

**DISCUSSION**

The City of Los Altos retained NBS in 2017 to perform a comprehensive Sewer Rate Structure Analysis and for the administration of Proposition 218 Process. The City will need to adopt rate increases for the next five years to ensure that all the O & M and Capital Improvement costs are covered. It is recommended that the existing methodology (annual fixed or based charge per equivalent dwelling unit plus a single volumetric rate based on average winter water consumption) be used to calculate the sewer rate charges for FY 2018/19 through FY 2022/23. Rate increases per year will be 2.5% the first year and 3% the four following years.

Attachment:

- A. Sewer Rate Study
- B. Sewer Rate Study Presentation