



Sewer Rates:

Reviewing Rate Model Assumptions and Developing Reserve Policies Would Improve the Rate-Setting Process

A Report from the City Auditor
Issued February 2026

<http://www.sanjoseca.gov/auditor>

Presenters: Joe Rois, City Auditor

Alison Pauly, Supervising Auditor

Ebelechukwu Obi, Senior Program Performance Auditor

Hiwad Haider, Program Performance Auditor II

Transportation and Environment Committee

Agenda Item (d) 4

Background

- The City sets sewer rates to recover the costs of providing sanitary sewer and wastewater treatment services to residents and businesses.
- ESD sets rates based on the volume of a customer's wastewater and the concentration of pollutants within the wastewater.
- All customers pay the same unit rate for each wastewater component.
- How a customer is billed depends on the type of residence or business and the assumed or actual volume and strength of their wastewater.



Finding I: ESD Should Review Assumptions Within Its Rate Model

- In 2014, the state determined that the City's rate model complied with Clean Water State Revolving Fund requirements.
- A 2015 consultant study found that the strength of wastewater reaching the RVF did not match what was assumed in the rate model.
- The study determined that the City should continue with the current strength parameters until field sampling occurs.

Recommendations: To ensure its rate model assumptions reflect current conditions, ESD should:

- Study assumptions in the rate model and update them as necessary.
- Update procedures around when assumptions should be reviewed.
- Consider implementing a software solution for rate calculations.

Finding 2: ESD Should Develop Formal Reserve Policies

- The amount of funds held in reserves and unrestricted fund balance for the Sewer Service and Use Charge Fund has fluctuated over time.
- ESD does not have a formal policy that defines the intended purpose or sets target levels for reserves for the fund.
- Formal reserve policies or practices are common among other wastewater utilities.

Recommendation: To enhance risk management and planning for future needs, ESD should:

→ Develop a formal policy for sewer fund reserves that defines their intended use and target levels.

Finding 3: ESD Can Improve Transparency Around the Rate-Setting Process

- Consolidating procedures on the frequency of wastewater sampling would improve transparency for how bills are calculated for industrial users.
- ESD's sewer rate web page could be enhanced with clearer explanations of how rates are set.

Recommendations: To improve transparency, ESD should:

- Document procedures for sampling decisions and notify users of changes as appropriate.
- Update the sewer rate web page and add clear rate setting explanations.



Conclusion

The report has six recommendations to improve the Environmental Services Department's sewer rate-setting process.

We would like to thank the Environmental Services Department for their time and insight during the audit process.

The audit report is available at www.sanjoseca.gov/auditor

Audit staff: Alison Pauly, Ebelechukwu Obi, Hiwad Haider