



LT MUNICIPAL
CONSULTANTS



Water and Sewer Rate Study

Heber Public Utility District

Draft Report

July 9, 2026

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SECTION 1: INTRODUCTION AND EXECUTIVE SUMMARY

1.1 Background

The Heber Public Utility District (District) is located 5 miles northwest of Calexico in the south end of the Imperial Valley. The District owns and operates water and wastewater (sewer) treatment plants, providing service to a population of approximately 6,600 residents through about 1,700 active service connections. The provision of water and sewer service is funded through monthly rates paid by customers. The current rates for each system were last adjusted in 2021 based on a water and wastewater rate study that was conducted in 2017.

The goal of this rate study is to determine an updated water and sewer rate plan that covers the District's cost of service for the next five years, spanning fiscal year (FY) 2026/27 through FY2030/31. In August 2025, the District adopted a five-year Capital Improvement Plan (CIP) which determined a schedule of critical capital projects for each system. The District has been successful in securing grants for major infrastructure improvements in the past and will continue to pursue grants to fund costly projects in the CIP such as upgrading the wastewater treatment plant, repairing and relocating water lines, and replacing ACP pipeline. However, rate increases are needed to cover funding gaps where grants are not available, to keep up with operating cost increases, to fund debt service payments, and to maintain reserve balances.

A second goal of this rate study is to simplify and modernize the water and sewer rate structures to better align with industry standard practices and to recover costs in a manner that is more proportional to how customers use the utilities. The most significant water rate structure change is the elimination of the base allotment of water consumption that is currently provided with the fixed meter charge. It is proposed that the new volume/consumption rates apply to all water usage. It is also proposed that sewer rates be billed by customer type instead of connection size.

1.2 Requirements of Proposition 218

The implementation of public agency utility rates in California is governed by the substantive and procedural requirements of Proposition 218 the "Right to Vote on Taxes Act" which is codified as Articles XIII C and XIII D of the California Constitution. The District must follow the procedural requirements of Proposition 218 for all utility rate increases. These requirements include:

1. **Noticing Requirement** – The District must mail a notice of the proposed rate increases to all affected property owners or ratepayers. The notice must specify the amount of the fees, the basis upon which they were calculated, the reason for the fees, and the date/time/location of a public rate hearing at which the proposed rates will be considered/adopted.
2. **Public Hearing** – The District must hold a public hearing prior to adopting the proposed rate increases. The public hearing must be held not less than 45 days after the required notices are mailed.

3. **Rate Increases Subject to Majority Protest** – At the public hearing, the proposed rate increases are subject to majority protest. If more than 50% of affected property owners or ratepayers submit written protests against the proposed rate increases, the increases cannot be adopted.

Proposition 218 also established substantive requirements that apply to water and sewer rates and charges, including:

1. **Cost of Service** – Revenues derived from the fee or charge cannot exceed the funds required to provide the service. In essence, fees cannot exceed the “cost of service”.
2. **Intended Purpose** – Revenues derived from the fee or charge can only be used for the purpose for which the fee was imposed.
3. **Proportional Cost Recovery** – The amount of the fee or charge imposed upon any parcel or person as an incident of property ownership shall not exceed the proportional cost of service attributable to that parcel.
4. **Availability of Service** – No fee or charge may be imposed for a service unless that service is used by, or immediately available to, the owner of the property.
5. **General Government Services** – No fee or charge may be imposed for general governmental services where the service is available to the public at large.

Charges for water and sewer service are exempt from additional voting requirements of Proposition 218, provided the charges do not exceed the cost of providing service and are adopted pursuant to the procedural requirements of Proposition 218.

1.3 Rate Study Process

The following is a brief description of the rate study process:

- **Revenue Requirement** – Revenue requirements are analyzed via a cash flow projection based on the best information currently available such as historical operating results, budgets, audits, and input from District staff. The cash flow serves as a roadmap for funding future operating costs and capital expenditures while maintaining long-term fiscal stability, all of which is calculated in this study to produce rates that will be necessary to recover only the actual cost of the water and sewer service per parcel under these proposed rates.
- **Cost of Service Allocation** - The cost of service process builds on the revenue requirement analysis and assigns water costs based on meter capacity, customer service, base demand, and extra (peak) demand. Sewer costs are allocated based on wastewater flow, biochemical oxygen demand (BOD), and total suspended solids (TSS) which relate to the District’s core functions of wastewater collection and conveyance and treatment and disposal.

- **Rate Design** - Rate design involves developing a rate structure that fairly recovers costs from customers but does not exceed the proportional cost of the service attributable to each parcel. Final rate recommendations are designed to fund the District's short- and long-term costs of providing service and fairly allocate costs to all customers.

The rates developed in this report are based on the best available information gathered from District budgets, audits, and input from staff. The proposed rates are based on the reasonable cost of providing service and do not exceed the proportional cost of the service attributable to each parcel.

1.4 Current and Proposed Rates

1.4.1 Water Rate Structure Changes

Currently, water fixed charges are billed based on meter size and customer class. The four customer classes are single family residential, multifamily residential, commercial/industrial/public, and customers outside the District. The fixed charges include an allotment of water usage each month. The amount of usage included in the allotment varies by meter size. In addition to fixed meter charges, customers are billed a volumetric charge for usage over the base allotment for their given meter size. All usage over the given allotment is billed at the same rate, however, customers outside the service area currently pay a higher volumetric rate compared to all other customer classes.

It is recommended that the District implement the following water rate structure changes:

- 1) The water allotment is eliminated. No water is included in the meter fee. All usage is billed the volume rate (\$/1,000 gallons).
- 2) The single family fixed charge and the 1" meter fee are proposed to be combined.
- 3) Outside-District rates are proposed to be eliminated. Outside-District customers will be billed the same rates as inside-District customers.
- 4) Seniors will be offered a \$5 per month water bill discount that will be funded from cell phone tower lease revenues.

Due to the changes listed above, both the meter fees and volume rate are proposed to decrease. The District is proposed to collect a higher % of rate revenues from water consumption.

1.4.2 Sewer Rate Structure Changes

Currently, single family residential, commercial, industrial, and public are billed a monthly fixed charge based on connection size (lateral size) for sewer service. Multifamily customers are billed a fixed monthly charge per dwelling unit. Single family and multifamily customers only pay a fixed charge for sewer service while nonresidential customers also pay a volume (flow) rate based on metered water usage. It is recommended that the District implement the following sewer rate structure changes:

- 1) Customers will no longer be billed by connection size and instead be billed by customer type.
- 2) Single family residential and multifamily residential customers will be charged per dwelling unit. The multifamily rate will be less than the single family rate to reflect lower average sewer flows of the multifamily customer class.
- 3) Schools will be billed a fixed charge per student based on average daily attendance.
- 4) All other nonresidential customers will be categorized based on the wastewater pollutant strength into low strength, domestic/medium strength, or high strength categories.
- 5) Nonresidential customers will pay a fixed charge that includes the first 8,000 gallons of monthly sewer flow. Flow above the first 8,000 gallons will be billed an additional flow rate based on metered water use.
- 6) Outside-District rates are proposed to be eliminated. Outside-District customers will be billed the same rates as inside-District customers.
- 7) Seniors will be offered a \$5 per month sewer bill discount that will be funded from cell phone tower lease revenues.

1.4.3 Rate Tables and Bill Impacts

Two water rate options were developed for this study. A summary of the two options is provided in Table 1. Option A provides more revenue to the District, which would be spent on capital improvement projects and thereby maintain reserves. This option assumes all operating costs increase 5% per year. Option B assumes salaries and benefits do not increase over the next five years, except for contractual obligations. Under Option B, the District spends down about \$1.4 million of reserves to fund capital projects.

Table 1: Description of Water Rate Options

Financial Variable	Water Rate Option A (higher rate option)	Water Rate Option B (lower rate option)
Wage increases	5% annual increases	Increases only for contractual obligations
All non-wage expenses	5% annual increases	5% annual increases
Capital improvement projects	\$1.58M of cash-funded projects	\$1.58M of cash-funded projects
Project funding	About \$450,000 funded from reserves AND about \$1,130,000 funded from rate revenues	About \$1,400,000 funded from reserves AND about \$180,000 funded from rate revenues
Estimated fund balance June 30, 2031 (end of 5 th year)	\$2,230,000 (approximately equal to current reserves)	\$1,280,000 (approximately equal to Board approved target)

Current and proposed water rates under each option are provided in Table 2 and Table 3. If adopted by the District's Board of Directors, the first rate adjustment is proposed to take effect October 1, 2026 with subsequent increases each July 1 from 2027 to 2030. The typical customer of Heber Public Utility District is a single family dwelling that uses 11,000 gallons of water per month. Under the proposed October 1, 2026 water rates, the typical single family water bill will increase from \$62.08 to \$80.74 under Option A or \$62.08 to \$77.73 under Option B. Under the proposed October 1, 2026 sewer rates, the single family sewer bill will increase from \$61.28 to \$66.24. Figure 1 provides a survey comparing the District's current and proposed single family residential water bill with other local agencies.

Table 4 provides bill impacts for single family residential customers under Options A and B at different levels of water use. Under Option A rates, customers using 4,000 gallons or less would receive a water bill decrease. About 12% of single family customer bills include water use of 4,000 gallons or less. Under Option B, customers using 5,000 gallons or less would receive a bill decrease.

Table 2: Current and Proposed Monthly Water Rates (Option A)

Meter Size	Current Rates		Proposed					
	Base Usage Included (gallons)	Current Rate	Base Usage Included (gallons)	Oct 1, 2026	Jul 1, 2027	Jul 1, 2028	Jul 1, 2029	Jul 1, 2030
In-District				varies	+12%	+10%	+10%	+7%
Single Family [1]	15,000	\$62.08	0	\$46.75	\$52.36	\$57.60	\$63.36	\$67.80
1" Meter or less	15,000	\$70.94	0	\$46.75	\$52.36	\$57.60	\$63.36	\$67.80
2" Meter/Hydrants	40,000	\$221.31	0	\$136.44	\$152.81	\$168.09	\$184.90	\$197.84
3" Meter	60,000	\$465.81	0	\$266.91	\$298.94	\$328.83	\$361.71	\$387.03
4" Meter	75,000	\$816.49	0	\$413.68	\$463.32	\$509.65	\$560.62	\$599.86
Outside-District								
1" Meter or less	15,000	\$80.09	0	\$46.75	\$52.36	\$57.60	\$63.36	\$67.80
2" Meter	30,000	\$186.80	0	\$136.44	\$152.81	\$168.09	\$184.90	\$197.84
6" Meter	85,000	\$1,037.80	0	\$821.38	\$919.95	\$1,011.95	\$1,113.15	\$1,191.07
Volumetric Rate (\$/1,000 gallons)	Above Base Usage		All usage (no usage provided in base rate)					
In-District		\$4.03		\$3.09	\$3.46	\$3.81	\$4.19	\$4.48
Out-of-District		\$4.78		\$3.09	\$3.46	\$3.81	\$4.19	\$4.48

1 - Seniors will receive a discount of \$5/month (not reflected in rates shown above)

Table 3: Current and Proposed Monthly Water Rates (Option B)

Meter Size	Current Rates		Proposed					
	Base Usage Included (gallons)	Current Rate	Base Usage Included (gallons)	Oct 1, 2026	Jul 1, 2027	Jul 1, 2028	Jul 1, 2029	Jul 1, 2030
In-District				varies	+6%	+6%	+6%	+6%
Single Family [1]	15,000	\$62.08	0	\$44.07	\$46.71	\$49.51	\$52.48	\$55.63
1" Meter or less	15,000	\$70.94	0	\$44.07	\$46.71	\$49.51	\$52.48	\$55.63
2" Meter/Hydrants	40,000	\$221.31	0	\$128.11	\$135.80	\$143.95	\$152.59	\$161.75
3" Meter	60,000	\$465.81	0	\$250.35	\$265.37	\$281.29	\$298.17	\$316.06
4" Meter	75,000	\$816.49	0	\$387.87	\$411.14	\$435.81	\$461.96	\$489.68
Outside-District								
1" Meter or less	15,000	\$80.09	0	\$44.07	\$46.71	\$49.51	\$52.48	\$55.63
2" Meter	30,000	\$186.80	0	\$128.11	\$135.80	\$143.95	\$152.59	\$161.75
6" Meter	85,000	\$1,037.80	0	\$769.87	\$816.06	\$865.02	\$916.92	\$971.94
Volumetric Rate (\$/1,000 gallons)	Above Base Usage		All usage (no usage provided in base fee)					
In-District		\$4.03		\$3.06	\$3.24	\$3.43	\$3.64	\$3.86
Out-of-District		\$4.78		\$3.06	\$3.24	\$3.43	\$3.64	\$3.86

1 - Seniors will receive a discount of \$5/month (not reflected in rates shown above)

Figure 1: Monthly Water Bill Survey

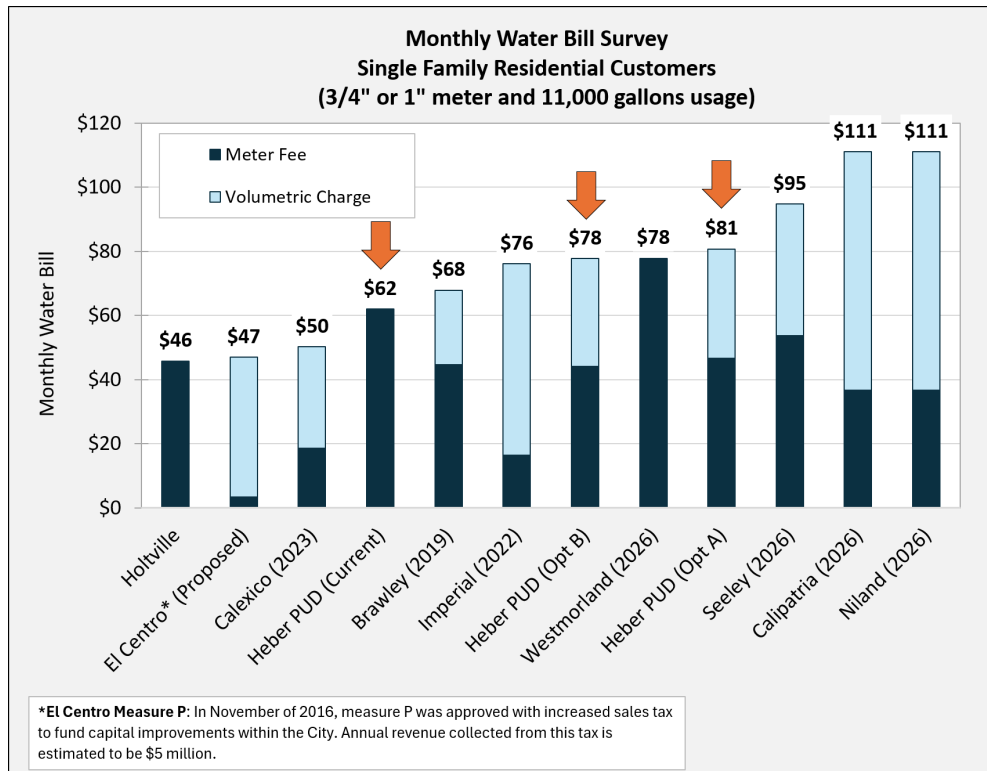


Table 4: Monthly Water Bill Impacts Under Option A and B Proposed Rates

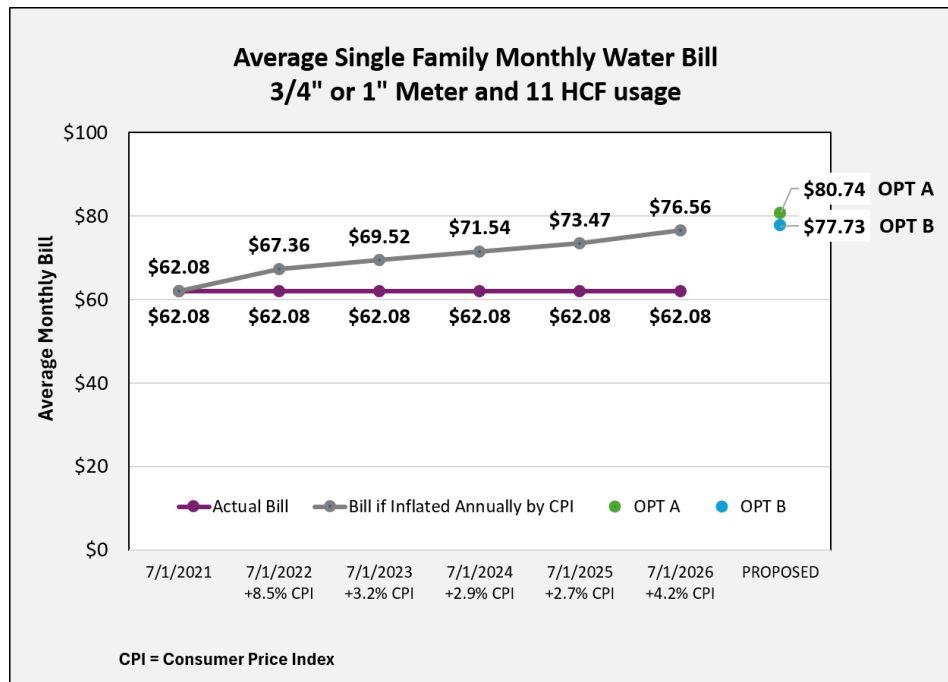
Monthly Gallons Used	Current Monthly Bill	Proposed Total Monthly Bill		Proposed Total Monthly Bill		% of Cumulative Residential Bills
		OPTION A Oct 1, 2026	OPTION A \$Change	OPTION B Oct 1, 2026	OPTION B \$Change	
1,000	\$62.08	\$49.84	-\$12.24	\$47.13	-\$14.95	1%
2,000	\$62.08	\$52.93	-\$9.15	\$50.19	-\$11.89	4%
Very efficient - 3,000	\$62.08	\$56.02	-\$6.06	\$53.25	-\$8.83	7%
4,000	\$62.08	\$59.11	-\$2.97	\$56.31	-\$5.77	12%
5,000	\$62.08	\$62.20	\$0.12	\$59.37	-\$2.71	18%
6,000	\$62.08	\$65.29	\$3.21	\$62.43	\$0.35	24%
7,000	\$62.08	\$68.38	\$6.30	\$65.49	\$3.41	31%
Avg winter use - 8,000	\$62.08	\$71.47	\$9.39	\$68.55	\$6.47	38%
9,000	\$62.08	\$74.56	\$12.48	\$71.61	\$9.53	46%
10,000	\$62.08	\$77.65	\$15.57	\$74.67	\$12.59	52%
Avg user - 11,000	\$62.08	\$80.74	\$18.66	\$77.73	\$15.65	58%
12,000	\$62.08	\$83.83	\$21.75	\$80.79	\$18.71	64%
13,000	\$62.08	\$86.92	\$24.84	\$83.85	\$21.77	69%
14,000	\$62.08	\$90.01	\$27.93	\$86.91	\$24.83	74%
Avg summer use - 15,000	\$62.08	\$93.10	\$31.02	\$89.97	\$27.89	78%

Single family residential bills only. Does not reflect the senior discount of \$5/month.

Bill decreases are shaded.

The District has not raised water rates since July 1, 2021. Had the District raised rates over the past five years by inflation, the average residential monthly water bill would have increased from \$62.08 to \$76.56, see Figure 2. In comparison, the Option B proposed water bill is \$77.73 which is about 1.5% more than the hypothetical inflationary bill. The Option A bill of \$80.74 is 5.5% more than the hypothetical inflationary bill.

Figure 2: Water Bill Compared to Inflation



Current and proposed sewer rates are provided in Table 5. Figure 3 provides a sewer bill survey and Figure 4 provides a survey comparing combined water and sewer bill with other agencies. It should be noted that the agencies listed vary in size, complexity, and treatment standards. It is also likely that many of these agencies will implement water and sewer rate increases over the next five years.

Table 5: Current and Proposed Monthly Residential Sewer Rates

CURRENT RATES		PROPOSED					
Current Charge Descriptions		Proposed Charge Descriptions	Oct 1, 2026	Jul 1, 2027	Jul 1, 2028	Jul 1, 2029	Jul 1, 2030
			Varies	5%	5%	5%	5%
Residential		Residential Fixed Charge per Dwelling					
Single Family 4” Connection	\$61.28	All Single Family [1]	\$66.24	\$69.55	\$73.03	\$76.68	\$80.51
Single Family 6” Connection	\$133.44	Multifamily	\$55.62	\$58.40	\$61.32	\$64.39	\$67.61
Multifamily Dwelling Unit	\$62.76						
Commercial, Industrial, Public		Nonresidential (Fixed Charge; includes the first 8,000 gallons of flow [2])					
4” Connection	\$56.22	Low Strength	\$59.72	\$62.71	\$65.85	\$69.14	\$72.60
6” Connection	\$123.69	Domestic/Medium Strength	\$66.24	\$69.55	\$73.03	\$76.68	\$80.51
8” Connection	\$224.88	High Strength	\$79.28	\$83.24	\$87.40	\$91.77	\$96.36
		Schools (per student) [3]	\$1.03	\$1.08	\$1.13	\$1.19	\$1.25
Volumetric Charge (\$/1,000 gallons)		Nonresidential Additional Flow Rate (\$/1,000 gallons charged to flow above the first 8,000 gallons [2])					
Commercial, Industrial, Public	\$0.65	Low Strength	\$7.34	\$7.71	\$8.10	\$8.51	\$8.94
		Domestic/Medium Strength	\$8.12	\$8.53	\$8.96	\$9.41	\$9.88
		High Strength	\$9.68	\$10.16	\$10.67	\$11.20	\$11.76

1 – Seniors will receive a discount of \$5/month (not reflected in rates shown above)

2 – For nonresidential customers, monthly sewer flow is set once annually based on the average water use from December through February

3 – Schools are charged monthly including summer and holiday breaks per student based on average daily attendance (ADA). ADA will be updated once, annually. Schools are only billed fixed sewer charges and do not pay additional flow rates.

Low strength: retail, offices, post office, churches

Domestic/medium strength: community center, healthcare, auto shops, beauty salons, mixed use, and unknown

High strength: event center, construction company, cement company, restaurants, bakeries

The categories above represent general land use designations. By its determination, the District may establish specialized rates for customers that are not categorized into the designations listed above or for customers that fall into multiple categories. Any specialized rates will be proportional to the cost of wastewater flow and pollutant disposal included in the sewer rates above such that the single family residential rate is based on the cost of service for 8,000 gallons of monthly domestic strength flow.

Figure 3: Monthly Sewer Bill Survey

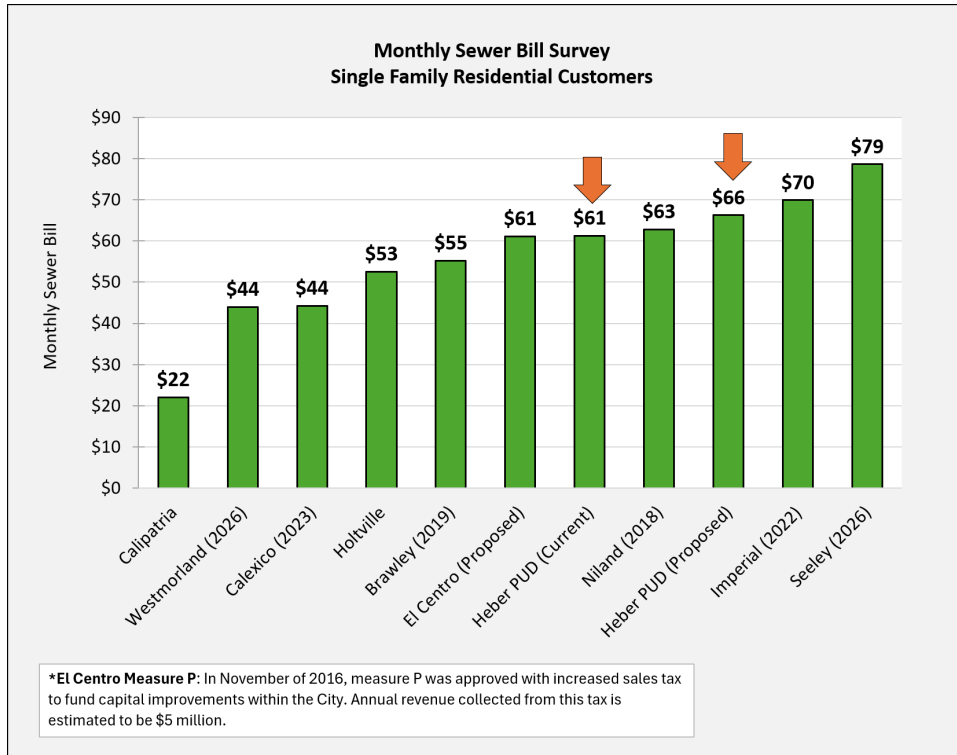


Figure 4: Combined Monthly Water & Sewer Bill Survey

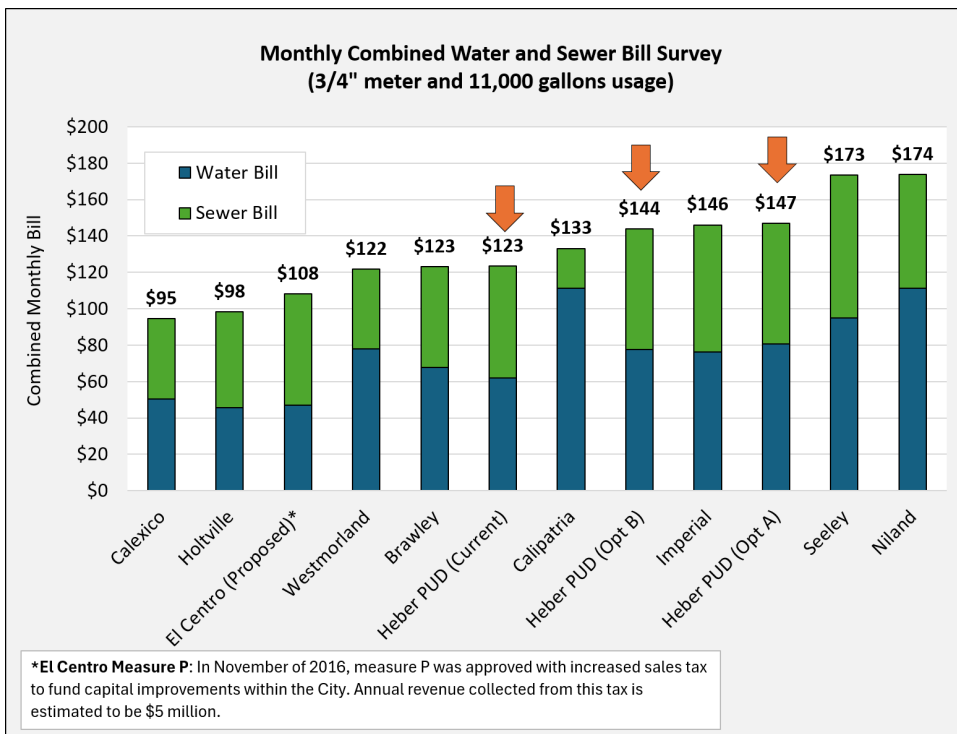
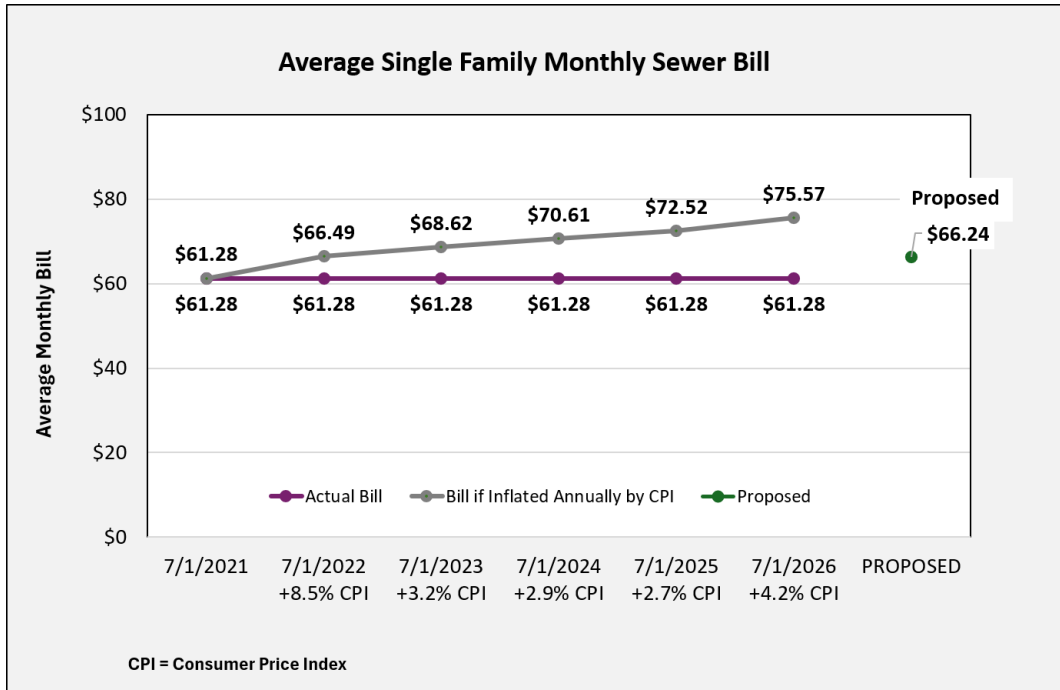


Figure 5 compares the District’s proposed sewer bill of \$66.24 to the hypothetical bill if the District had raised rates over the past five years. The proposed bill increase is less than inflation.

Figure 5: Sewer Bill Compared to Inflation



SECTION 2: CUSTOMER BASE AND CURRENT RATE REVENUES

The Heber Public Utility District provides utility service to about 1,700 active service connections. This section provides an overview of the District's current water and sewer rates, customer base, and current rate revenues. The District last increased water and sewer rates in 2021 which were adopted in 2017 as part of a five-year series of annual rate increases pursuant to Proposition 218 requirements.

2.1 Water Utility

2.1.1 Current Rates

The water rate structure currently consists of a fixed meter charge which varies by meter size and customer type. Fixed meter charges include a base allotment of water usage which varies by meter size. Fixed meter charges for larger meters include a higher monthly base allotment. In addition, uniform volumetric charges apply to water usage over the amount included in the monthly base allotment. Water usage is billed per 1,000 gallons. Outside-District customers pay higher a volume rate and meter fees than inside-District customers. Table 6 shows the current water rate schedule.

Table 6: Current Monthly Water Rates

Charge Description	Allotment (Gal)	Current Rate
Fixed Meter Charge (\$/month)		
<u>Single Family Residential</u>		
1" Meter or less	15,000	\$62.08
<u>Multi-Residential</u>		
1" Meter or less	15,000	\$70.94
2" Meter	40,000	\$221.31
3" Meter	60,000	\$465.81
<u>Commercial/Industrial/Public</u>		
1" Meter or less	15,000	\$70.94
2" Meter	40,000	\$221.31
3" Meter	60,000	\$465.81
4" Meter	75,000	\$816.49
<u>Service Outside District</u>		
1" Meter or less	15,000	\$80.09
2" Meter	30,000	\$186.80
6" Meter	85,000	\$1,037.80
Volumetric Charge (\$/1,000 gallons)		
Inside-District		\$4.03
Outside-District		\$4.78

Under the current water rate structure, there is little incentive for customers to conserve water due to the large amount of consumption included in the base allotments. The District's typical single family residential winter monthly usage is 8,000 gallons, average usage across all months of the year is 11,000 gallons, and summer usage is 15,000 gallons. The water bill is the same (\$62.08) at each of these levels of consumption. The typical bill calculation is shown below.

Table 7: Current Typical Single Family Residential Water Bill (11,000 gallons)

	# of Units		Rate	Total Charges
Meter Fee – 1"	1	X	\$62.08	\$62.08
Volume Rates				
0 to 15,000 gallons	11	X	included	\$0.00
Above 15,000 gallons	0	X	\$4.03	<u>\$0.00</u>
				\$62.08

2.1.2 Current Water Use and Rate Revenues

Table 8 provides water use by customer class over the past three years. Future water usage is estimated as 90% of 2025 consumption. It is likely that customers will reduce consumption in response to price increases.

The current number of accounts and estimated annual revenues for the water system are provided in Table 9. The District currently collects about \$1,675,600 in water rate revenues per year. Most of this revenue comes from fixed charges, which account for 84% of annual revenues. Revenues from volumetric charges make up the remaining 16% of annual revenues. Comparing total water use in Table 8 with water use that is billed the excessive use rate from Table 9, the District charges volume rates to about one quarter of total water consumption.

Table 8: Water Use Over the Past 3 Years

Customer Type	2023	2024	2025
Residential	202,517,604	213,432,925	206,439,750
Multifamily	20,311,629	21,432,934	20,064,305
Commercial & Industrial	15,189,091	13,587,741	12,366,729
Public	18,969,440	22,188,800	18,836,429
OSA	9,602,715	12,481,894	10,736,018
Hydrants	<u>1,466,700</u>	<u>5,313,100</u>	<u>3,201,924</u>
Total	268,057,179	288,437,394	271,645,155
Projected Use Under New Rates (90% of 2025 Use)			244,481,000

Table 9: Current Water Rate Revenues

Calendar Year 2025						
Single Family Residential	<u>Customers</u>		<u>Base Rate</u>	<u>Base Revenue</u>	<u>Excess Use</u>	<u>Usage Revenue</u>
1" Meter or less	1562	x	\$62.08	<u>\$1,163,628</u>	<u>26,054,706</u>	<u>\$105,000</u>
				\$1,163,628	26,054,706	\$105,000
						\$1,268,628
Multi-Residential	<u>Customers</u>		<u>Base Rate</u>	<u>Base Revenue</u>	<u>Excess Use</u>	<u>Usage Revenue</u>
1" Meter or less	49	x	\$62.08	\$36,503	88489	\$357
1" Meter or less	6	x	\$70.94	\$5,108	368,153	\$1,484
2" Meter	10	x	\$221.31	\$26,557	5,805,143	\$23,395
3" Meter	5	x	\$465.81	<u>\$27,949</u>	<u>4,684,191</u>	<u>\$18,877</u>
				\$59,613	10,945,976	\$44,112
						\$103,726
Commercial & Industrial	<u>Customers</u>		<u>Base Rate</u>	<u>Base Revenue</u>	<u>Excess Use</u>	<u>Usage Revenue</u>
1" Meter or less	14	x	\$70.94	\$11,918	1,245,835	\$5,021
2" Meter	12	x	\$221.31	\$31,869	829,038	\$3,341
3" Meter	0	x	\$465.81	\$0	0	\$0
4" Meter	1	x	\$816.49	<u>\$9,798</u>	<u>5,200,046</u>	<u>\$20,956</u>
				\$53,584	7,274,919	\$29,318
						\$82,902
Public	<u>Customers</u>		<u>Base Rate</u>	<u>Base Revenue</u>	<u>Excess Use</u>	<u>Usage Revenue</u>
1" Meter or less	2	x	\$70.94	\$1,703	658,783	\$2,655
2" Meter	12	x	\$221.31	\$31,869	13,082,437	\$52,722
3" Meter	1	x	\$465.81	\$5,590	0	\$0
4" Meter	1	x	\$816.49	<u>\$9,798</u>	<u>62,300</u>	<u>\$251</u>
				\$48,959	13,803,520	\$55,628
						\$104,587
Outside Service Area	<u>Customers</u>		<u>Base Rate</u>	<u>Base Revenue</u>	<u>Excess Use</u>	<u>Usage Revenue</u>
1" Meter or less	34	x	\$80.09	\$32,677	4,686,322	\$22,401
2" Meter	6	x	\$186.80	\$13,450	1,087,714	\$5,199
6" Meter	1	x	\$1,037.80	<u>\$1,038</u>	<u>0</u>	<u>\$0</u>
				\$47,164	5,774,036	\$27,600
						\$74,764
Hydrants	<u>Customers</u>		<u>Base Rate</u>	<u>Base Revenue</u>	<u>Excess Use</u>	<u>Usage Revenue</u>
1" Meter or less	0	x	\$11.41	\$0	0	\$0
2" Meter	0	x	\$36.52	\$0	0	\$0
3" Meter	1	x	\$79.90	\$959	0	\$0
4" Meter	0	x	\$143.82	\$0	0	\$0
6" Meter	5	x	\$228.28	\$13,697	0	\$0
Temporary Hydrant [1]	92	x	\$147.11	<u>\$13,534</u>	<u>3,201,924</u>	<u>\$12,776</u>
				\$28,190	3,201,924	\$12,776
						\$40,966
Total					67,055,081	\$1,675,573

1 – Count is based on total number of charges in 2025 since the number of customers varies throughout the year

2.2 Sewer Utility

2.2.1 Current Sewer Rates

Residential customers are charged fixed monthly rates for sewer service. Rates for single family residential customers vary by connection size while multifamily customers are billed per dwelling unit. Nonresidential customers including commercial, industrial, and public are billed fixed monthly rates by connection size and an additional volumetric charge based on indoor water usage. Outdoor/irrigation water usage is not billed for sewer service. The volumetric charge is billed per 1,000 gallons. Table 10 includes the current sewer rate schedule.

Table 10: Current Monthly Sewer Rates

Charge Description	Current Rate
Fixed Service Charge (\$/month)	
<u>Residential</u>	
4" Connection	\$61.28
6" Connection	\$133.44
<u>Multifamily</u>	
Per Dwelling Unit	\$62.76
<u>Commercial, Industrial, and Public</u>	
4" Connection	\$56.22
6" Connection	\$123.69
8" Connection	\$224.88
Volumetric Charge (\$/1,000 gallons)[1]	
Commercial, Industrial, Public	\$0.65

1 - Volumetric Charge is based on monthly water use of the commercial, industrial, or public agency customers

2.2.2 Sewer Rate Revenues

The estimated annual revenues for the sewer system are provided in Table 11. The District currently collects about \$1,391,800 in sewer rate revenues annually. Rates collected from single family residential customers make up about 82% of the annual sewer rate revenue. Rates collected from multifamily customers make up 13% of annual revenues, and the remaining 5% of revenues is collected from nonresidential customers.

Table 11: Current Sewer Rate Revenues

Calendar Year 2025				
Residential	<u># of Customers</u>		<u>Fixed Rate</u>	<u>Revenue</u>
4" Connections	1559	x	\$61.28	= \$1,146,426
Multifamily	<u># of Dwelling Units</u>		<u>Fixed Rate</u>	<u>Revenue</u>
Multiple units	192	x	\$62.76	= \$144,599
Single unit	42	x	\$61.28	= \$30,885
Commercial, Industrial, Public	<u>No. of Accounts</u>		<u>Base Rate</u>	<u>Revenue</u>
4" Connection	17	x	\$56.22	= \$11,469
6" Connection	12	x	\$123.69	= \$17,811
8" Connection	9	x	\$224.88	= <u>\$24,287</u>
				\$53,567
	<u>Total Gallons Used</u>		<u>Usage Rate</u>	
All Commercial, Industrial, Public	25,075,525	x	\$0.65	= \$16,299
Total Revenue Collected				\$1,391,777

SECTION 3: WATER COST OF SERVICE

Proposition 218 requires that utility rates be based on the reasonable cost of providing service to customers. This section provides an analysis of water system revenues and expenses to determine the total cost of service to be recovered via water rates. The cost of service is expressed in a cash flow table that illustrates revenue increases needed to keep up with expenses and maintain financial health. Over the five-year rate study period, rate increases are proposed so that the District can pay for operating costs, fund capital improvements, and maintain reasonable reserves, all of which are calculated in this study to produce rates that will be necessary to recover only the actual cost of the water service per parcel under these proposed water rates. The water utility's cost of service was developed based the FY2025/26 budget, the District's capital improvement plan, and input from staff.

3.1 Water System Overview

The District's water supply is from the Colorado River and delivered to the treatment plant through a pipeline connecting to the Central Main and Dogwood Canal. These canals are both under the jurisdiction of the Imperial Irrigation District (IID). Raw water settles in three basins with a combined capacity of 5.8 million gallons. Water is pumped from the third settling basin and polyferric sulfate, a coagulant and Polymer, a coagulant aid is added and is mixed via static mixer. Water then flows through one of two Micro Floc Water Treatment System units. The District's 2 million gallon per day (MGD) water treatment system operates 24 hours a day based on system demand. Water quality is closely monitored by several State of California regulatory agencies to guarantee compliance with Federal and State mandates.

3.2 Revenues

The District's revenues consist of water service charges, user fees/miscellaneous fees, interest earnings, and rent from a Verizon tower. Total projected water system revenues are about \$1.8 million for FY2025/26. Water service charge revenues total about \$1.7 million as shown in Table 9. It is proposed that projected future Verizon tower rent of \$11,200/year be allocated as the funding source for a new senior discount program. For this reason, the rental revenue is removed from the water system cash flow.

A series of five annual rate increases are proposed to go into effect to fund the costs described below. The first increase is proposed to take effect October 1, 2026 with subsequent rate increases each July 1 from 2027 to 2030.

3.3 Expenses

3.3.1 Operating Costs

Operating costs include salaries & benefits, operations, materials & supplies, maintenance & repairs, professional services, licenses/permits/memberships, insurance, utilities, and other miscellaneous expenses. In FY2025/26, the District expects to incur about \$1.5 million in expenses to operate and maintain the water system. Operating cost projections for the next five years are based on the FY2025/26 Budget and projected escalation factors for each year thereafter. Table 12 provides an analysis of historical operating costs for each utility. Water system operating costs have increased about 5.5% annually since FY2020/21 and sewer system costs have increased about 4.9% annually. Based on this analysis, operating costs are projected to increase 5% for most budgeted line items.

Table 12: Historical Operating Cost Increases

	FY2020/21	FY2021/22	FY2022/23	FY2023/24	FY2024/25	FY2025/26[1]	Average Increase
Water							
Operating Expenses	\$1,173,434	\$1,107,983	\$1,361,226	\$1,402,542	\$1,342,994	\$1,498,000	
% Increase		-6%	23%	3%	-4%	12%	5.52%
Sewer							
Operating Expenses	\$1,002,433	\$936,158	\$1,144,777	\$1,179,606	\$1,246,537	\$1,250,300	
% Increase		-7%	22%	3%	6%	0%	4.94%

1 - Budget

Operating costs over the course of the rate study period are projected in Table 13 for Option A and Table 14 for Option B. Under Option A, all costs are escalated by 5% per year. Under Option B, nearly all costs are also escalated by 5% per year with exceptions for staff salaries and contractual obligations. Contractual obligations consist of contracted employee salaries with specified wage increases and all staff medical benefit costs; these are expenses that the District must fund. All other staffing and benefit costs are held at current levels under Option B. The blended % escalation factor for salaries and benefits under Option B is estimated at 2% per year.

Table 13: Water Operating Expense Projection (Option A)

Expenditures <u>Operating Expenses</u>	Budget FY2025/26	Escalation Factor	Projected				
			FY2026/27	FY2027/28	FY2028/29	FY2029/30	FY2030/31
Salaries & Benefits	\$788,600	5%	\$828,000	\$869,400	\$912,900	\$958,500	\$1,006,400
Operations	\$178,300	5%	\$187,200	\$196,600	\$206,400	\$216,700	\$227,500
Materials & Supplies	\$91,300	5%	\$95,900	\$100,700	\$105,700	\$111,000	\$116,600
Maintenance & Repairs	\$98,700	5%	\$103,600	\$108,800	\$114,200	\$119,900	\$125,900
Professional Services	\$67,200	5%	\$70,600	\$74,100	\$77,800	\$81,700	\$85,800
Licenses, Permits, etc.	\$31,500	5%	\$33,100	\$34,800	\$36,500	\$38,300	\$40,200
Insurance	\$83,200	5%	\$87,400	\$91,800	\$96,400	\$101,200	\$106,300
Utilities	\$153,800	5%	\$161,500	\$169,600	\$178,100	\$187,000	\$196,400
<u>Miscellaneous</u>	<u>\$5,400</u>	5%	<u>\$5,700</u>	<u>\$6,000</u>	<u>\$6,300</u>	<u>\$6,600</u>	<u>\$6,900</u>
Subtotal	\$1,498,000		\$1,573,000	\$1,651,800	\$1,734,300	\$1,820,900	\$1,912,000

Table 14: Water Operating Expense Projection (Option B)

Expenditures <u>Operating Expenses</u>	Budget FY2025/26	Escalation Factor	Projected				
			FY2026/27	FY2027/28	FY2028/29	FY2029/30	FY2030/31
Salaries & Benefits	\$788,600	2% [1]	\$804,400	\$820,500	\$836,900	\$853,600	\$870,700
Operations	\$178,300	5%	\$187,200	\$196,600	\$206,400	\$216,700	\$227,500
Materials & Supplies	\$91,300	5%	\$95,900	\$100,700	\$105,700	\$111,000	\$116,600
Maintenance & Repairs	\$98,700	5%	\$103,600	\$108,800	\$114,200	\$119,900	\$125,900
Professional Services	\$67,200	5%	\$70,600	\$74,100	\$77,800	\$81,700	\$85,800
Licenses, Permits, etc.	\$31,500	5%	\$33,100	\$34,800	\$36,500	\$38,300	\$40,200
Insurance	\$83,200	5%	\$87,400	\$91,800	\$96,400	\$101,200	\$106,300
Utilities	\$153,800	5%	\$161,500	\$169,600	\$178,100	\$187,000	\$196,400
<u>Miscellaneous</u>	<u>\$5,400</u>	5%	<u>\$5,700</u>	<u>\$6,000</u>	<u>\$6,300</u>	<u>\$6,600</u>	<u>\$6,900</u>
Subtotal	\$1,498,000		\$1,549,400	\$1,602,900	\$1,658,300	\$1,716,000	\$1,776,300

1 – Contracted employee salaries and all employee benefit costs are proposed to increase annually. Non-contracted employee salaries are proposed to remain at the FY2025/26 levels.

3.3.2 Capital Improvement Plan

The District adopted a capital improvement plan in August 2025 which identified critical improvements that are needed for the water system, see Table 15. Larger projects are expected to be grant funded, which will significantly reduce the amount of capital improvement funding needed from rate revenues and thus mitigate impacts to ratepayers. As shown in Table 15, grant funded projects are expected to total \$4.5 million over the next 5 years.

The remaining improvements which are not anticipated to be funded through grants total to \$1.58 million over the next five years. These projects include replacing 100 feet of inlet & outlet distribution pumps and replacing the deteriorated liner of raw water pond number 2. The inlet & outlet distribution project is needed to replace a pipe sleeve that is expanding and could burst which would result in service interruptions. The pond liner project is needed to replace the existing deteriorated liner with concrete. The District is currently losing water via percolation in the deteriorated pond that could be sold to customers.

Under both options, reserves would be spent down to help fund these improvements. Under Option A, the District will fund about \$530,000 of capital projects from reserves and \$1,050,000 from rate revenues over the five year projection. Under Option B, the District will fund about \$1,400,000 of capital projects from reserves and about \$180,000 funded from rate revenues over the next five years.

Table 15: Water Capital Improvement Plan

Project	Projected					5-year Total
	FY2026/27	FY2027/28	FY2028/29	FY2029/30	FY2030/31	
Grant Funded Projects						
Replace 2,400 lineal ft of ACP pipeline	\$0	\$1,080,000	\$0	\$0	\$0	\$1,080,000
<u>Repair & Relocate Water Lines</u>	<u>\$906,100</u>	<u>\$906,100</u>	<u>\$1,614,200</u>	<u>\$0</u>	<u>\$0</u>	<u>\$3,426,400</u>
Grant Funded Total	\$906,100	\$1,986,100	\$1,614,200	\$0	\$0	\$4,506,400
Cash Funded Projects						
Inlet & Outlet distribution	\$380,000	\$0	\$0	\$0	\$0	\$380,000
<u>Replace liner of raw water pond no. 2</u>	<u>\$0</u>	<u>\$0</u>	<u>\$598,500</u>	<u>\$598,500</u>	<u>\$0</u>	<u>\$1,197,000</u>
Rate Funded Total	\$380,000	\$236,500	\$0	\$0	\$0	\$1,577,000
Total CIP	\$1,286,100	\$1,986,100	\$2,212,700	\$598,500	\$0	\$6,083,400

3.3.3 Debt Service

The Water Fund has two outstanding debt obligations which require annual payments totaling about \$310,600 each year. U.S.D.A. Certificates of Participation were issued in 2009 with a maturity date in 2049. These Certificates were issued to secure a loan from the U.S.D.A RDA and provide financing for certain water system improvements. The State Revolving Fund Water Treatment Improvement loan obtained in 2015 matures in 2048. Loan proceeds were used to fund improvements to the water treatment plant. Heber PUD does not have a debt coverage requirement for these obligations per the District's auditor.

3.4 Reserves

As of July 1, 2025, the Water Fund's cash reserve balance was about \$2.7 million. Per Resolution No. 2025-13, the Water Fund aims to maintain a balance equal to at least 180 days of operations and maintenance. Additionally, the District has debt reserve requirements for both outstanding debt obligations equal to the debt payment amount for the given year. Based on this calculation, the recommended fund target for FY2025/26 is about \$1,052,500. The District's current reserves therefore exceed the target, and it is projected that the District will exceed the target reserve balance during all five years of the rate study period (see cash flow notes). Adequate fund reserves protect the District when faced with unforeseen financial challenges such as emergency expenses and revenue deficits. Fund reserves are a critical tool that will allow the District to maintain its financial health and positive credit ratings, especially during emergencies.

3.5 Cash Flow Projection

Table 16 provides a summary of the two water rate options. Both options fully fund operating costs, debt service, the non-grant capital improvements, and maintain reserves at the targeted level. Table 17 and Figure 6 provide the five-year cash flow under Option A, spanning from FY2025/26 to FY2030/31. Table 18 and Figure 7 provide the five-year cash flow under Option B. Under both options, the first rate increase is proposed to take effect October 1, 2026. Thus, rate revenues in FY2026/27 reflect three months at current rates and nine months at the proposed rates. Subsequent increases are proposed to go into effect each July 1 from 2027 through 2030. Each cash flow lists the proposed % increase in rate revenues each year. It should be noted that not every customer will receive a bill increase exactly equal to the % shown due to proposed rate structure changes and individual water usage.

Table 16: Description of Water Rate Options

Financial Variable	Water Rate Option A (higher rate option)	Water Rate Option B (lower rate option)
Wage increases	5% annual increases	Increases only for contractual obligations
All non-wage expenses	5% annual increases	5% annual increases
Capital improvement projects	\$1.58M of cash-funded projects	\$1.58M of cash-funded projects
Project funding	About \$450,000 funded from reserves AND about \$1,130,000 funded from rate revenues	About \$1,400,000 funded from reserves AND about \$180,000 funded from rate revenues
Estimated fund balance June 30, 2031 (end of 5 th year)	\$2,230,000 (approximately equal to current reserves)	\$1,280,000 (approximately equal to Board approved target)

Table 17: Water Cash Flow Projection (Option A)

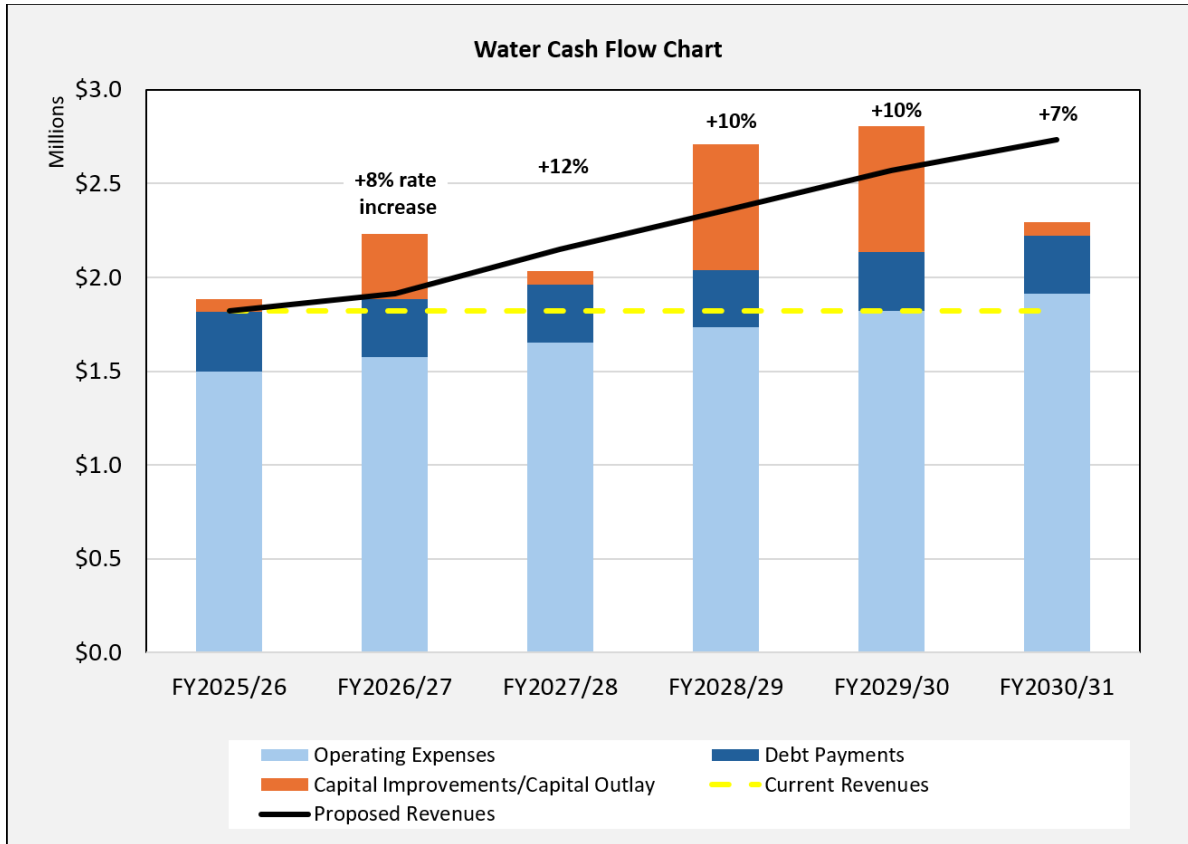
	Budget	Projected				
	FY2025/26	FY2026/27	FY2027/28	FY2028/29	FY2029/30	FY2030/31
Rate Increase %		8%	12%	10%	10%	7%
Rate Increase Effective Date		Oct 1, 2026	Jul 1, 2027	Jul 1, 2028	Jul 1, 2029	Jul 1, 2030
Rate Revenues Over 12 Months		1,809,600	2,026,800	2,229,500	2,452,500	2,624,200
BEGINNING CASH BALANCE	\$2,748,300	\$2,682,800	\$2,260,000	\$2,378,800	\$2,025,200	\$1,789,800
REVENUES						
Service Charges	1,675,600	1,776,100	2,026,800	2,229,500	2,452,500	2,624,200
User Fees & Misc. Fees	56,500	56,500	56,500	56,500	56,500	56,500
Interest [1]	77,700	80,500	67,800	71,400	60,800	53,700
Rent Verizon Tower [2]	<u>10,900</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Subtotal Revenues	1,820,700	1,913,100	2,151,100	2,357,400	2,569,800	2,734,400
EXPENSES						
Salaries & Benefits	788,600	828,000	869,400	912,900	958,500	1,006,400
Operations	178,300	187,200	196,600	206,400	216,700	227,500
Materials & Supplies	91,300	95,900	100,700	105,700	111,000	116,600
Maintenance & Repairs	98,700	103,600	108,800	114,200	119,900	125,900
Professional Services	67,200	70,600	74,100	77,800	81,700	85,800
Licenses, Permits, Memberships	31,500	33,100	34,800	36,500	38,300	40,200
Insurance	83,200	87,400	91,800	96,400	101,200	106,300
Utilities	153,800	161,500	169,600	178,100	187,000	196,400
Miscellaneous	<u>5,400</u>	<u>5,700</u>	<u>6,000</u>	<u>6,300</u>	<u>6,600</u>	<u>6,900</u>
Subtotal Operating Expenses	1,498,000	1,573,000	1,651,800	1,734,300	1,820,900	1,912,000
Net Operating Revenues	322,700	340,100	499,300	623,100	748,900	822,400
<u>Non-Operating Expenses</u>						
Capital Outlay	71,500	71,500	71,500	71,500	71,500	71,500
Capital Improvements (Rate Funded)	0	380,000	0	598,500	598,500	0
Debt Financing	<u>316,700</u>	<u>311,400</u>	<u>309,000</u>	<u>306,700</u>	<u>314,300</u>	<u>311,800</u>
Subtotal Non-Operating	388,200	762,900	380,500	976,700	984,300	383,300
Total Expenses	1,886,200	2,335,900	2,032,300	2,711,000	2,805,200	2,295,300
Total Net Revenues	(65,500)	(422,800)	118,800	(353,600)	(235,400)	439,100
Ending Cash Balance	\$2,682,800	\$2,260,000	\$2,378,800	\$2,025,200	\$1,789,800	\$2,228,900
Target Reserve Balance [3]	1,052,500	1,087,100	1,123,600	1,161,900	1,212,300	1,254,700
Target Met?	yes	yes	yes	yes	yes	yes

1 - 3% of beginning fund balance

2 - Cell phone tower rent is projected to be \$11,200 in future years. This revenue is reallocated to fund a new senior discount program.

3 - Reserve balance target is 180 days of operations & maintenance (per Resolution No. 2025-13) + one year of 2015 debt service payment + maximum reserve fund amount for 2009 USDA loan.

Figure 6: Water Cash Flow Chart (Option A)



Not every customer will receive exactly the % increases in rates shown above due to rate structure changes and individual water usage patterns.

Table 18: Water Cash Flow Projection (Option B)

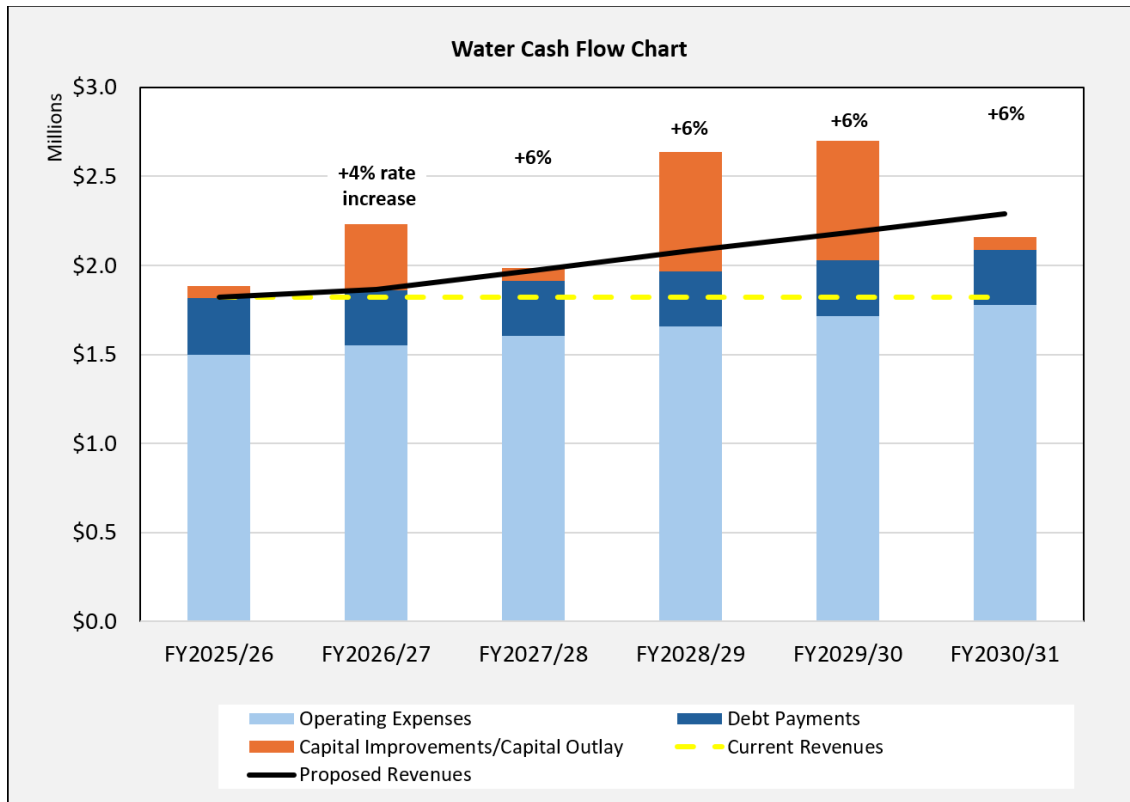
	Budget	Projected				
	FY2025/26	FY2026/27	FY2027/28	FY2028/29	FY2029/30	FY2030/31
Rate Increase %		4%	6%	6%	6%	6%
Rate Increase Effective Date		Oct 1, 2026	Jul 1, 2027	Jul 1, 2028	Jul 1, 2029	Jul 1, 2030
Rate Revenues Over 12 Months		1,742,600	1,847,200	1,958,000	2,075,500	2,200,000
BEGINNING CASH BALANCE	\$2,748,300	\$2,682,800	\$2,233,400	\$2,220,700	\$1,666,800	\$1,148,500
REVENUES						
Service Charges	1,675,600	1,725,900	1,847,200	1,958,000	2,075,500	2,200,000
User Fees & Misc. Fees	56,500	56,500	56,500	56,500	56,500	56,500
Interest [1]	77,700	80,500	67,000	66,600	50,000	34,500
Rent Verizon Tower [2]	<u>10,900</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Subtotal Revenues	1,820,700	1,862,900	1,970,700	2,081,100	2,182,000	2,291,000
EXPENSES						
Salaries & Benefits	788,600	804,400	820,500	836,900	853,600	870,700
Operations	178,300	187,200	196,600	206,400	216,700	227,500
Materials & Supplies	91,300	95,900	100,700	105,700	111,000	116,600
Maintenance & Repairs	98,700	103,600	108,800	114,200	119,900	125,900
Professional Services	67,200	70,600	74,100	77,800	81,700	85,800
Licenses, Permits, & Memberships	31,500	33,100	34,800	36,500	38,300	40,200
Insurance	83,200	87,400	91,800	96,400	101,200	106,300
Utilities	153,800	161,500	169,600	178,100	187,000	196,400
Miscellaneous	<u>5,400</u>	<u>5,700</u>	<u>6,000</u>	<u>6,300</u>	<u>6,600</u>	<u>6,900</u>
Subtotal Operating Expenses	1,498,000	1,549,400	1,602,900	1,658,300	1,716,000	1,776,300
Net Operating Revenues	322,700	313,500	367,800	422,800	466,000	514,700
<u>Non-Operating Expenses</u>						
Capital Outlay	71,500	71,500	71,500	71,500	71,500	71,500
Capital Improvements (Rate Funded)	0	380,000	0	598,500	598,500	0
Debt Financing	<u>316,700</u>	<u>311,400</u>	<u>309,000</u>	<u>306,700</u>	<u>314,300</u>	<u>311,800</u>
Subtotal Non-Operating	388,200	762,900	380,500	976,700	984,300	383,300
Total Expenses	1,886,200	2,312,300	1,983,400	2,635,000	2,700,300	2,159,600
Total Net Revenues	(65,500)	(449,400)	(12,700)	(553,900)	(518,300)	131,400
Ending Cash Balance	\$2,682,800	\$2,233,400	\$2,220,700	\$1,666,800	\$1,148,500	\$1,279,900
Target Reserve Balance [3]	1,052,500	1,075,500	1,099,500	1,124,500	1,160,500	1,187,800
Target Met?	yes	yes	yes	yes	no	yes

1 - 3% of beginning fund balance

2 - Cell phone tower rent is projected to be \$11,200 in future years. This revenue is reallocated to fund a new senior discount program.

3 - Reserve balance target is 180 days of operations & maintenance (per Resolution No. 2025-13) + one year of 2015 debt service payment + maximum reserve fund amount for 2009 USDA loan; with the Verizon cell tower rental revenue, the reserve target will be met in FY2029/30

Figure 7: Water Cash Flow Chart (Option B)



Not every customer will receive exactly the % increases in rates shown above due to rate structure changes and individual water usage patterns.

SECTION 4: WATER COST ALLOCATION

Proposition 218 requires that agencies providing “property-related services” (including water utility service) set rates and charges that are based on the cost of providing those services. The prior section determined the total cost of providing water service to customers. In this section, the cost of service is allocated to rates to fairly recover costs based on how customers use the system, and in any event not to exceed the proportional cost of the water service attributable to each parcel.

4.1 Methodology

The American Water Works Association (AWWA) recommends methods to classify costs among various customers. Using the Base-Extra Capacity Method as recommended by the AWWA, water operating expenses are allocated to the following categories: (a) Base, (b) Extra, (c) Meters & Services, and (d) Customer Service. The Base and Extra categories are intended to recover the costs to deliver water to customers, while the Customer Service and Meters & Services categories are intended to recover expenses related to maintaining infrastructure in the system to supply water at all times under the proposed water service rates derived in this study. A summary of the cost allocation categories is provided below:

- *Base*: Base costs include the expenses related to providing water under average (“base”) demand conditions.
- *Extra*: The extra category includes costs related to providing water above the system average demand (i.e., related to peak, “extra” usage).
- *Meters & Services*: These include costs related to maintaining infrastructure and operating capacity to provide service at any time under the proposed water service fee rates in this study.
- *Customer Service*: This category contains costs associated with serving customers, such as billing and answering customer inquiries.

4.2 Proposed Water Cost Allocation

The cost allocation determines the percentage of annual revenue to be collected from each proposed rate component (consisting of the meter fee and the volume rate) based on the actual costs attributable to each. Table 19 allocates the FY2026/27 projected operating expenses under Option A based on how the District incurs each cost to fairly recover costs based on how customers use the system. Table 20 provides the cost allocation using projected expenses under Option B. It is proposed that the AWWA recommended cost categories of *Base* and *Extra* be combined as the proposed volume rate is a single tier applied to all levels of use. The meter fee is proposed to be made up of the AWWA recommended

cost categories of *Meters & Services* and *Customer Service*. The final allocation percentages are slightly different between the two options due to differences in salaries & benefits costs.

Table 19: Water Cost Allocation (Option A)

	Projected FY2026/27	FIXED CHARGE		CONSUMPTION CHARGE	Total
		Meters & Services	Customer Service	Base + Extra	
<u>Operating Expenses</u>					
Salaries & Benefits	\$828,000	65%	10%	25%	100%
Operations	\$187,200	0%	0%	100%	100%
Materials & Supplies	\$95,900	0%	0%	100%	100%
Maintenance & Repairs	\$103,600	0%	0%	100%	100%
Professional Services	\$70,600	50%	50%	0%	100%
Licenses, Permits, Memberships	\$33,100	100%	0%	0%	100%
Insurance	\$87,400	100%	0%	0%	100%
Utilities	\$161,500	0%	0%	100%	100%
<u>Miscellaneous</u>	<u>\$5,700</u>	<u>0%</u>	<u>100%</u>	<u>0%</u>	<u>100%</u>
Subtotal Operating Expenses	\$1,573,000	\$694,000	\$123,800	\$755,200	\$1,573,000
<u>Non-Operating Expenses</u>					
Capital Outlay (5 year avg)	\$71,500	100%	0%	0%	100%
Capital Improvements (5 year avg)	\$315,400	100%	0%	0%	100%
<u>Debt Service (5 year avg)</u>	<u>\$310,640</u>	<u>100%</u>	<u>0%</u>	<u>0%</u>	<u>100%</u>
Subtotal Non-Operating	\$697,540	\$697,540	\$0	\$0	\$697,540
Total Water Expenses	\$2,270,540	\$1,391,540	\$123,800	\$755,200	\$2,270,540

Table 20: Water Cost Allocation (Option B)

	Projected FY2026/27	FIXED CHARGE		CONSUMPTION CHARGE	Total
		Meters & Services	Customer Service	Base + Extra	
<u>Operating Expenses</u>					
Salaries & Benefits	\$804,400	65%	10%	25%	100%
Operations	\$187,200	0%	0%	100%	100%
Materials & Supplies	\$95,900	0%	0%	100%	100%
Maintenance & Repairs	\$103,600	0%	0%	100%	100%
Professional Services	\$70,600	50%	50%	0%	100%
Licenses, Permits, Memberships	\$33,100	100%	0%	0%	100%
Insurance	\$87,400	100%	0%	0%	100%
Utilities	\$161,500	0%	0%	100%	100%
<u>Miscellaneous</u>	<u>\$5,700</u>	<u>0%</u>	<u>100%</u>	<u>0%</u>	<u>100%</u>
Subtotal Operating Expenses	\$1,549,400	\$678,660	\$121,440	\$749,300	\$1,549,400
<u>Non-Operating Expenses</u>					
Capital Outlay (5 year avg)	\$71,500	100%	0%	0%	100%
Capital Improvements (5 year avg)	\$315,400	100%	0%	0%	100%
<u>Debt Service (5 year avg)</u>	<u>\$310,640</u>	<u>100%</u>	<u>0%</u>	<u>0%</u>	<u>100%</u>
Subtotal Non-Operating	\$697,540	\$697,540	\$0	\$0	\$697,540
Total Water Expenses	\$2,246,940	\$1,376,200	\$121,440	\$749,300	\$2,246,940

SECTION 5: WATER RATE DESIGN

This section develops water rates and charges based on the cost of service described in Section 3 and the cost allocation described in Section 4.

5.1 Proposed Rate Structure Changes

Currently, water fixed charges are charged based on meter size and customer class. The fixed charges include an allotment of water usage each month. The amount of usage included in the allotment varies by meter size. In addition to fixed meter charges, customers are billed a volumetric charge for usage over the base allotment for their given meter size. All usage over the given allotment is billed at the same rate, however, customers outside the service area currently pay a higher volumetric rate compared to all other customer classes.

Proposition 218 requires that water and sewer utility rates be proportional to how customers take service. Under the current rate structure, there is no difference in the total monthly bill between most high and low water users because a large amount of water is included in the base charge. It is proposed that the water allotment be eliminated and all customers be billed for each gallon of water usage. This will result in monthly bills that are more directly proportional to water use.

Proposition 218 also requires utility rates be cost-based. Currently, outside-District customers pay higher rates than inside-District customers. The District does not have cost data to support this price difference. It is proposed that the outside-District surcharges be eliminated.

It should be noted that Proposition 218 governs how utility rates are determined and how utility rate revenues can be used (i.e. to provide service to customers). However, non-rate revenues can be used as a funding source to provide discounts to low-income or senior customers provided that other groups are not charged more than the cost of service. The District estimates that the Verizon cell phone tower rental agreement will generate \$11,200 annually for the water utility and \$11,200 annually for the sewer utility. It is proposed that this funding source be used to provide an estimated 173 senior households with a \$5 per month water bill discount and a \$5 per month sewer bill discount.

A summary of proposed water rate structure changes is provided below:

- 1) The water allotment is eliminated. No water is included in the meter fee. All usage is billed the volume rate (\$/1,000 gallons).
- 2) The single family fixed charge and the 1" meter fee are proposed to be combined. The 1" meter fee is the standard meter size for new residential construction in California.
- 3) Outside-District rates are proposed to be eliminated. Outside-District customers will be billed the same rates as inside-District customers.
- 4) Seniors will be offered a \$5 per month water bill discount that will be funded from cell phone tower lease revenues.

Due to the changes listed above, both the meter fees and volume rate are proposed to decrease. The District is proposed to collect a higher % of rate revenues from water consumption that is included in the meter fees under the current rate structure.

5.2 Billing Units

5.2.1 Meter Equivalents

The most common method to levy fixed charges is by meter size. AWWA guidelines recommend using meter equivalents to assign demand-related costs to larger meter sizes. The ratio at which the meter charge increases is typically a function of either meter investment (estimated cost) or the meter's safe operating capacity. Larger meters have the ability to place a greater demand on the water system and are therefore charged based on that potential demand. For example, based on the AWWA meter capacity ratios, a customer that has a 2" meter has 3.20 times the capacity equivalency of a customer with a 1" meter – a 2" meter has a safe operating capacity of 160 gallons per minute (gpm) compared to a 1" meter which has a safe operating capacity of 50 gpm.

Table 21 shows the current number of meters in the District's service area and calculates the number of meter equivalents based on AWWA standards. The alignment of the fixed rates with the proposed meter equivalents will ensure that each meter size is charged based on their proportional impact on the system. The 1" meter size is the District's base fee for most customers. The 1" meter size is the California building code standard for new residential construction due to fire flow needs.

Table 21: Water Meter Equivalents

Meter Size	No. of Meters	Operating Capacity (gpm)	Meter Ratio	No. of Meter Equivalents
Up to 1"	1667	50	1.00	1667
2"/Hydrants [1]	49	160	3.20	157
3"	6	320	6.40	38
4"	2	500	10.00	20
6"	<u>1</u>	1000	20.00	<u>20</u>
Total	1725			1902

1 – Meter counts include 9 fire hydrants (the number of active hydrants in December 2025)

5.3 Water Rate Derivation

Table 22 and Table 23 provide the revenue requirements for each fee category and the unit cost calculations. The revenue requirement is the rate revenue shown in the cash flow table for each option. The revenue requirement for customer service and volume rates is taken from the cost allocation tables. The meter fee revenue requirement is the total revenue requirement less customer service and volume rate revenues. The meter fees have the added cost burden of funding the water system's capital improvements.

The water rate unit costs are calculated by dividing the revenue requirement of each category by the billing units of each category. For example, under Option A, the customer service revenue requirement of about \$123,800 is divided by the total number of meters in the District and divided by 12 months to calculate the monthly charge. The meters & services revenue requirement of about \$930,600 is divided by the number of meter equivalents (Table 21) and divided by 12 to calculate the monthly rate. The volume rate revenue requirement of about \$755,200 is divided by the total water use to equal a rate of \$3.09 per 1,000 gallons. The same calculations are repeated for Option B.

Table 22: Unit Cost Calculation (Option A)

	Customer Service	Meter Fees	Volume Rates	FY2026/27 Full Year's Rate Revenue
Revenues	\$123,800	\$930,600	\$755,200	\$1,809,600
Count	1,725	1,902	244,481	
Billing Units	# of meters	Meter Equivalents	1,000 gallons	
Rate	\$5.98 \$/month	\$40.77 \$/month	\$3.09 \$/1,000 gallons	

Table 23: Unit Cost Calculation (Option B)

	Customer Service	Meter Fees	Volume Rates	FY2026/27 Full Year's Rate Revenue
Revenues	\$121,440	\$871,860	\$749,300	\$1,742,600
Count	1,725	1,902	266,055	
Billing Units	# of meters	Meter Equivalents	1,000 gallons	
Rate	\$5.87 \$/month	\$38.20 \$/month	\$3.06 \$/1,000 gallons	

5.3.1 Base Rate Derivation

The rate derivation for the proposed monthly base fees for October 1, 2026 is shown in Table 24 for Option A and Table 25 for Option B. The cost per meter equivalent from Table 22 and Table 23 is multiplied by the meter ratios derived in Table 21 to calculate the total *meters & services* cost for each meter size. The *customer service* charge is added to the *meters & services* charge to determine the total monthly fixed fee under each option.

Table 24: Water Base Fee Calculation (Option A)

Meter Size	Meter Ratio		\$/equivalent	Meter Capacity Fee	Customer Service Charge	Total Proposed Base Fee
Up to 1"	1.00	x	\$40.77	\$40.77	\$5.98	\$46.75
2"/Hydrants	3.20	x	\$40.77	\$130.46	\$5.98	\$136.44
3"	6.40	x	\$40.77	\$260.93	\$5.98	\$266.91
4"	10.00	x	\$40.77	\$407.70	\$5.98	\$413.68
6"	20.00	x	\$40.77	\$815.40	\$5.98	\$821.38

Table 25: Water Base Fee Calculation (Option B)

Meter Size	Meter Ratio		\$/equivalent	Meter Capacity Fee	Customer Service Charge	Total Proposed Base Fee
Up to 1"	1.00	x	\$38.20	\$38.20	\$5.87	\$44.07
2"/Hydrants	3.20	x	\$38.20	\$122.24	\$5.87	\$128.11
3"	6.40	x	\$38.20	\$244.48	\$5.87	\$250.35
4"	10.00	x	\$38.20	\$382.00	\$5.87	\$387.87
6"	20.00	x	\$38.20	\$764.00	\$5.87	\$769.87

5.4 Proposed 5-Year Schedule of Water Rates

The proposed five-year water rate plans for Option A and Option B are provided in Table 26 and Table 27. For any additional connections built out in the District, the rates for water service in Table 26 or Table 27 will also apply to them. As described in the previous sections of this report, the rates have been calculated in this study to produce rates that will be necessary to recover only the actual cost of the water service per parcel under the proposed water rates. The first rate change is proposed to take effect on October 1, 2026 with subsequent rate increases proposed to take effect each July 1 from 2027 to 2030.

Table 26: Proposed Monthly Water Rates (Option A)

Meter Size	Current Rates		Proposed					
	Base Usage Included (gallons)	Current Rate	Base Usage Included (gallons)	Oct 1, 2026	Jul 1, 2027	Jul 1, 2028	Jul 1, 2029	Jul 1, 2030
In-District				varies	+12%	+10%	+10%	+7%
Single Family [1]	15,000	\$62.08	0	\$46.75	\$52.36	\$57.60	\$63.36	\$67.80
1" Meter or less	15,000	\$70.94	0	\$46.75	\$52.36	\$57.60	\$63.36	\$67.80
2" Meter/Hydrants	40,000	\$221.31	0	\$136.44	\$152.81	\$168.09	\$184.90	\$197.84
3" Meter	60,000	\$465.81	0	\$266.91	\$298.94	\$328.83	\$361.71	\$387.03
4" Meter	75,000	\$816.49	0	\$413.68	\$463.32	\$509.65	\$560.62	\$599.86
Outside-District								
1" Meter or less	15,000	\$80.09	0	\$46.75	\$52.36	\$57.60	\$63.36	\$67.80
2" Meter	30,000	\$186.80	0	\$136.44	\$152.81	\$168.09	\$184.90	\$197.84
6" Meter	85,000	\$1,037.80	0	\$821.38	\$919.95	\$1,011.95	\$1,113.15	\$1,191.07
Volumetric Rate (\$/1,000 gallons)	Above Base Usage		All usage (no usage provided in base rate)					
In-District		\$4.03		\$3.09	\$3.46	\$3.81	\$4.19	\$4.48
Out-of-District		\$4.78		\$3.09	\$3.46	\$3.81	\$4.19	\$4.48

1 - Seniors will receive a discount of \$5/month (not reflected in rates shown above)

Table 27: Proposed Monthly Water Rates (Option B)

Meter Size	Current Rates		Proposed					
	Base Usage Included (gallons)	Current Rate	Base Usage Included (gallons)	Oct 1, 2026	Jul 1, 2027	Jul 1, 2028	Jul 1, 2029	Jul 1, 2030
In-District				varies	+6%	+6%	+6%	+6%
Single Family [1]	15,000	\$62.08	0	\$44.07	\$46.71	\$49.51	\$52.48	\$55.63
1" Meter or less	15,000	\$70.94	0	\$44.07	\$46.71	\$49.51	\$52.48	\$55.63
2" Meter/Hydrants	40,000	\$221.31	0	\$128.11	\$135.80	\$143.95	\$152.59	\$161.75
3" Meter	60,000	\$465.81	0	\$250.35	\$265.37	\$281.29	\$298.17	\$316.06
4" Meter	75,000	\$816.49	0	\$387.87	\$411.14	\$435.81	\$461.96	\$489.68
Outside-District								
1" Meter or less	15,000	\$80.09	0	\$44.07	\$46.71	\$49.51	\$52.48	\$55.63
2" Meter	30,000	\$186.80	0	\$128.11	\$135.80	\$143.95	\$152.59	\$161.75
6" Meter	85,000	\$1,037.80	0	\$769.87	\$816.06	\$865.02	\$916.92	\$971.94
Volumetric Rate (\$/1,000 gallons)	Above Base Usage		All usage (no usage provided in base fee)					
In-District		\$4.03		\$3.06	\$3.24	\$3.43	\$3.64	\$3.86
Out-of-District		\$4.78		\$3.06	\$3.24	\$3.43	\$3.64	\$3.86

1 - Seniors will receive a discount of \$5/month (not reflected in rates shown above)

5.5 Water Bill Impacts

Table 28 provides water bill impacts for the average single family residential customer under Option A, and Table 29 provides bill impacts for this same customer under Option B. The average usage in the District is 11,000 gallons per month. Under the current rates, a single family residential customer using 11,000 gallons pays \$62.08. Under Option A proposed rates, the average customer's water bill would increase to \$80.74, an increase of \$18.66 or 30%. Under Option B proposed rates, the average customer's bill would increase to \$77.73, an increase of \$15.65 or 25%. This average single family customer only pays a fixed fee under current rates due to the large amount of water included in the base allotment. Under proposed rates, this average single family customer would pay a fixed monthly fee and a volumetric rate per 1,000 gallons used.

Table 28 and Table 29 also include sample bill impacts based on average single family water usage in the winter and summer periods. In the winter, average single family water usage in the District is about 8,000 gallons per month while in the summer the average usage for a single family residential customer is 15,000 gallons per month.

Table 28: Single Family Bill Impacts (Option A)

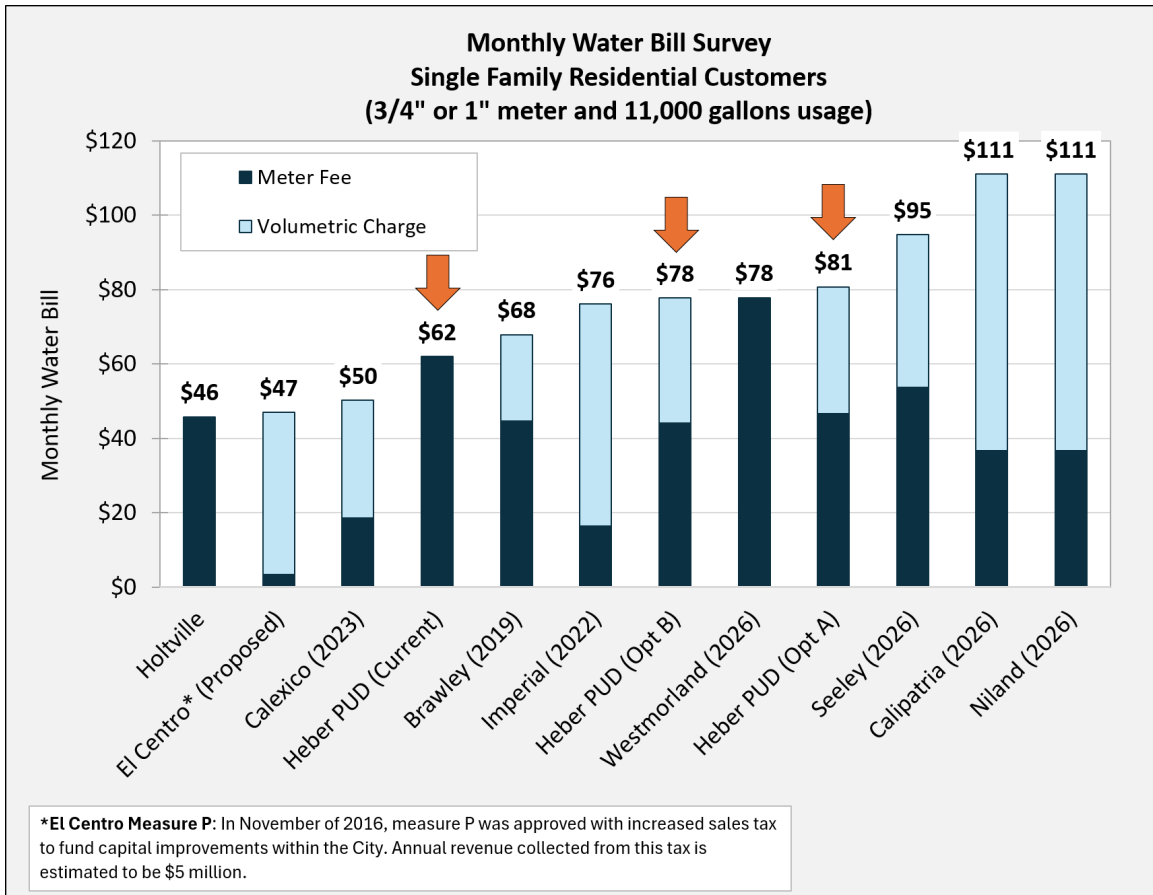
	Monthly Use (gal)	Current Bill	Proposed				
			Oct 1, 2026	Jul 1, 2027	Jul 1, 2028	Jul 1, 2029	Jul 1, 2030
Winter							
Base Rate - 1"		\$62.08	\$46.75	\$52.36	\$57.60	\$63.36	\$67.80
Consumption Charge	8,000	<u>\$0.00</u>	<u>\$24.72</u>	<u>\$27.68</u>	<u>\$30.48</u>	<u>\$33.52</u>	<u>\$35.84</u>
Total Water Bill		\$62.08	\$71.47	\$80.04	\$88.08	\$96.88	\$103.64
\$ Change			\$9.39	\$8.57	\$8.04	\$8.80	\$6.76
% Change			15%	12%	10%	10%	7%
HPUD AVERAGE USER							
Base Rate - 1"		\$62.08	\$46.75	\$52.36	\$57.60	\$63.36	\$67.80
Consumption Charge	11,000	<u>\$0.00</u>	<u>\$33.99</u>	<u>\$38.06</u>	<u>\$41.91</u>	<u>\$46.09</u>	<u>\$49.28</u>
Total Water Bill		\$62.08	\$80.74	\$90.42	\$99.51	\$109.45	\$117.08
\$ Change			\$18.66	\$9.68	\$9.09	\$9.94	\$7.63
% Change			30%	12%	10%	10%	7%
Summer Bill							
Base Rate - 1"		\$62.08	\$46.75	\$52.36	\$57.60	\$63.36	\$67.80
Consumption Charge	15,000	<u>\$0.00</u>	<u>\$46.35</u>	<u>\$51.90</u>	<u>\$57.15</u>	<u>\$62.85</u>	<u>\$67.20</u>
Total Water Bill		\$62.08	\$93.10	\$104.26	\$114.75	\$126.21	\$135.00
\$ Change			\$31.02	\$11.16	\$10.49	\$11.46	\$8.79
% Change			50%	12%	10%	10%	7%

Table 29: Single Family Bill Impacts (Option B)

	Monthly Use (gal)	Current Bill	Proposed				
			Oct 1, 2026	Jul 1, 2027	Jul 1, 2028	Jul 1, 2029	Jul 1, 2030
Winter							
Base Rate - 1"		\$62.08	\$44.07	\$46.71	\$49.51	\$52.48	\$55.63
Consumption Charge	8,000	<u>\$0.00</u>	<u>\$24.48</u>	<u>\$25.92</u>	<u>\$27.44</u>	<u>\$29.12</u>	<u>\$30.88</u>
Total Water Bill		\$62.08	\$68.55	\$72.63	\$76.95	\$81.60	\$86.51
\$ Change			\$6.47	\$4.08	\$4.32	\$4.65	\$4.91
% Change			10%	6%	6%	6%	6%
HPUD AVERAGE USER							
Base Rate - 1"		\$62.08	\$44.07	\$46.71	\$49.51	\$52.48	\$55.63
Consumption Charge	11,000	<u>\$0.00</u>	<u>\$33.66</u>	<u>\$35.64</u>	<u>\$37.73</u>	<u>\$40.04</u>	<u>\$42.46</u>
Total Water Bill		\$62.08	\$77.73	\$82.35	\$87.24	\$92.52	\$98.09
\$ Change			\$15.65	\$4.62	\$4.89	\$5.28	\$5.57
% Change			25%	6%	6%	6%	6%
Summer Bill							
Base Rate - 1"		\$62.08	\$44.07	\$46.71	\$49.51	\$52.48	\$55.63
Consumption Charge	15,000	<u>\$0.00</u>	<u>\$45.90</u>	<u>\$48.60</u>	<u>\$51.45</u>	<u>\$54.60</u>	<u>\$57.90</u>
Total Water Bill		\$62.08	\$89.97	\$95.31	\$100.96	\$107.08	\$113.53
\$ Change			\$27.89	\$5.34	\$5.65	\$6.12	\$6.45
% Change			45%	6%	6%	6%	6%

Figure 8 compares the District's current and proposed October 1, 2026 monthly single family residential water bill with those of surrounding agencies. The District's current water rate is in the low to mid-range of the surveyed agencies and will move to the middle of agencies surveyed following a proposed rate increase.

Figure 8: Monthly Water Bill Survey



SECTION 6: SEWER COST OF SERVICE

Following the same process as the analysis of the water system's cost of service, the sewer utility's cost of service is developed in this section based on the FY2025/26 budget, the District's capital improvement plan, and input from staff to produce rates that will be necessary to recover only the actual cost of the sewer service per parcel.

6.1 Sewer System Overview

The District owns and operates a sewer collection, treatment, and disposal system whose purpose is to collect, treat, and dispose of residential and commercial wastewater in an environmentally safe manner. This process is closely monitored by several State of California regulatory agencies to guarantee compliance with Federal and State mandates.

The District's collection system consists of four lift stations and one regional lift station located inside the wastewater treatment facility. All lift stations pump raw sewage into the wastewater treatment plant. The treatment plant is a modified active sludge plant that uses microorganisms to stabilize and treat the incoming wastewater. The wastewater treatment plant has a total design capacity of 1.2 million gallons per day (MGD), while current average day flow is about 0.5 MGD. The wastewater treatment plant consists of a headworks facility, having two in channel comminutors, three non-clog submersible pumps, two rotary drum screens with a grit classifier, two Return Activated Sludge Pumps (RAS), two Waste Activated Sludge pumps (WAS), and two secondary clarifiers. Wastewater effluent is disinfected by one or two UV disinfection units before being discharged to the Central Drain 3-D No. 1 an Imperial Valley Drain., water of the United States, and tributary to the Alamo River within the Salton Sea Watershed.

6.2 Revenues

The District's Sewer Fund revenues consist of sewer service charges, penalty fees, interest earnings, and revenues from a Verizon cell phone tower lease. Total projected sewer system revenues are about \$1.5 million for FY2025/26. Same as the Water Fund, the cell phone tower lease revenue of \$11,200/year is proposed to be allocated as the funding source for a \$5/month senior discount. Revenues collected from sewer service charges comprise the majority of revenues at about 90%. A series of five annual rate increases are proposed to go into effect to fund the costs described below. The first increase is proposed to take effect October 1, 2026 with subsequent rate increases each July 1 from 2027 to 2030.

6.3 Expenses

6.3.1 Operating Costs

Operating costs include salaries & benefits, operations, materials & supplies, maintenance & repairs, professional services, licenses/permits/membership fees, compliance costs, insurance, utilities, and other miscellaneous expenses. In FY2025/26, the District expects to incur about \$1.25 million in

expenses to operate and maintain the sewer system. Operating costs over the course of the rate study period are projected in Table 30 based on the FY2025/26 Budget.

Escalation factors used to estimate operating costs for FY2026/27 through FY2030/31 were determined based on projected inflation, historical cost increases (Table 12), and input from District staff. All costs are expected to increase 5% to account for inflation.

Table 30: Sewer Operating Cost Projection

Operating Expenses	Budget	Escalation	Projected				
	FY2025/26	Factor	FY2026/27	FY2027/28	FY2028/29	FY2029/30	FY2030/31
Salaries & Benefits	\$680,300	5%	\$714,300	\$750,000	\$787,500	\$826,900	\$868,200
Operations	\$44,900	5%	\$47,100	\$49,500	\$52,000	\$54,600	\$57,300
Materials & Supplies	\$86,400	5%	\$90,700	\$95,200	\$100,000	\$105,000	\$110,300
Maintenance & Repairs	\$131,300	5%	\$137,900	\$144,800	\$152,000	\$159,600	\$167,600
Professional Services	\$53,500	5%	\$56,200	\$59,000	\$62,000	\$65,100	\$68,400
Licenses, Permits, etc.	\$31,000	5%	\$32,600	\$34,200	\$35,900	\$37,700	\$39,600
Compliance Costs	\$5,000	5%	\$5,300	\$5,600	\$5,900	\$6,200	\$6,500
Insurance	\$83,200	5%	\$87,400	\$91,800	\$96,400	\$101,200	\$106,300
Utilities	\$129,300	5%	\$135,800	\$142,600	\$149,700	\$157,200	\$165,100
Miscellaneous	\$5,400	5%	\$5,700	\$6,000	\$6,300	\$6,600	\$6,900
Subtotal	\$1,250,300		\$1,313,000	\$1,378,700	\$1,447,700	\$1,520,100	\$1,596,200

6.3.2 Sewer Capital Improvement Plan

The District plans to complete three capital improvement projects for the sewer system over the next five years, see Table 31. The manhole rehabilitation improvement project is expected to be rate funded for a total of \$120,000. The project will repair five manholes that are severely degraded. This is a deferred maintenance project. The shop & storage building and upgrades to WWTP are expected to be grant funded. Projects expected to be grant funded total to \$9.4 million over the next five years.

Table 31: Sewer Capital Improvement Plan

Project	Projected					5-year Total
	FY2026/27	FY2027/28	FY2028/29	FY2029/30	FY2030/31	
Rate Funded Project						
5 Manhole Rehabilitation	\$60,000	\$60,000				\$120,000
Grant Funded Projects						
Shop & Storage Building		\$600,000	\$600,000			\$1,200,000
Upgrade to WWTP		\$4,100,000	\$4,100,000			\$8,200,000
Total CIP	\$60,000	\$4,760,000	\$4,700,000	\$0	\$0	\$9,520,000

6.3.3 Debt Service

The District's Sewer Fund currently has one outstanding loan from the California State Water Resources Control Board State Revolving Fund. This loan provided financing for the acquisition and installation of improvements for the wastewater treatment plant. The loan matures in 2043, has an interest rate of 1%, and requires annual payments of about \$211,000.

Most forms of public agency debt require that the issuer maintain a coverage ratio of 1.2 times or greater. This is calculated as net revenues (not including grant funding) divided by the total annual debt service cost. The cell phone tower lease revenue is included in the total revenue pledged to pay off the debt. Debt coverage is one factor that lenders take into consideration when determining the credit rating of issuers. In FY2025/26, it is projected that the Sewer Fund will have debt service coverage of 1.1, falling short of the target. It is projected the Sewer Fund will have sufficient debt service coverage following the FY2026/27 proposed rate increase and will continue meeting these targets in the following years of the rate study period. By maintaining a sufficient coverage ratio, the District will have a stronger credit rating and have greater access to grants and future loan financing if needed.

6.4 Reserves

The Sewer Fund's cash reserve balance at the start of FY2025/26 was about \$1.7 million. Similar to the Water Fund, the Sewer Fund aims to maintain a balance equal to 180 days of operations and maintenance costs, per Resolution No. 2025-13 adopted by the District. The recommended fund target for FY2025/26 is about \$616,600, meaning existing reserves well exceed the target. Over the next five years, it is projected that the Sewer Fund will maintain a strong reserve balance and conclude FY2030/31 with about \$1.57 million in cash reserves.

6.5 Cash Flow Projection

Table 32 and Figure 9 provide the five-year cash flow spanning from FY2025/26 to FY2030/31. Over the five-year rate study period, annual rate revenue increases are proposed to fund operating costs, capital improvements, debt service, and maintain reserves. The first rate increase is proposed to take effect October 1, 2026 with subsequent increases each July 1 from 2027 through 2030. The main driver for the first rate increase on October 1, 2026 is meeting the debt coverage requirement. The proposed rates and rate design are described in more detail in the following section.

Table 32: Sewer Cash Flow Projection

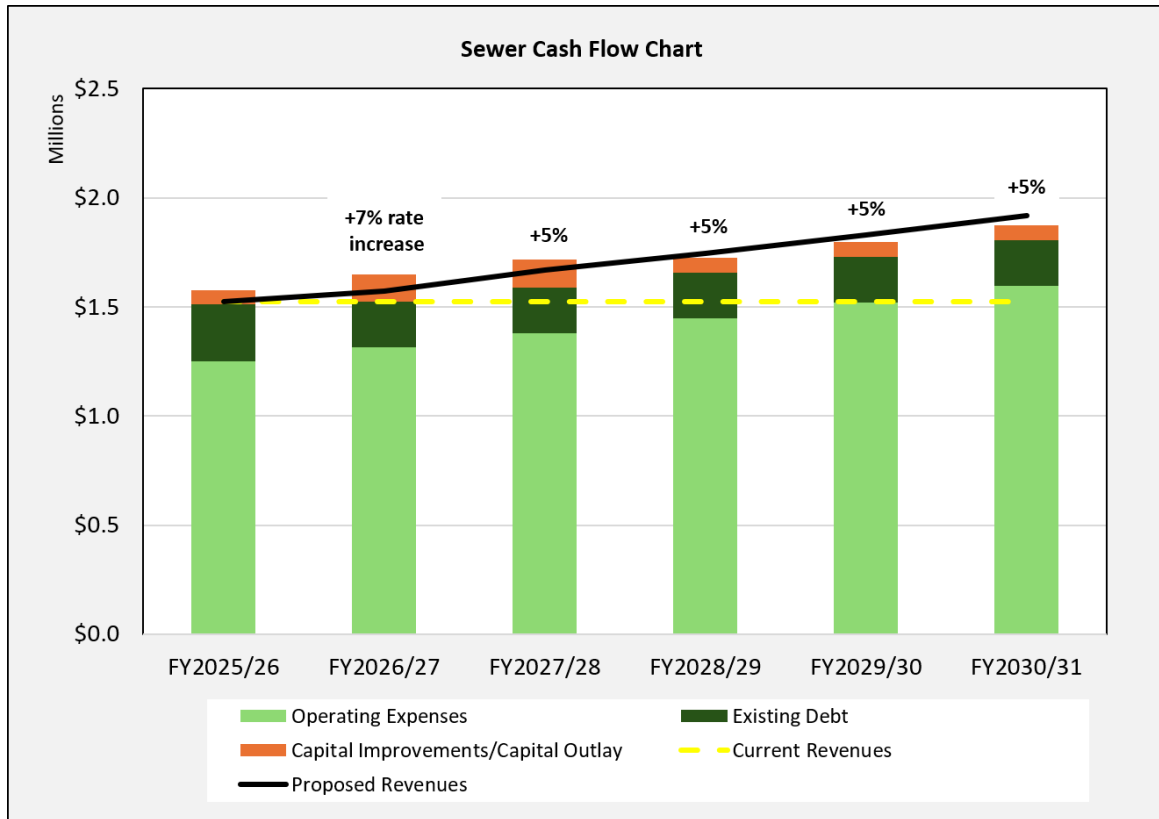
	Budget	Projected				
	FY2025/26	FY2026/27	FY2027/28	FY2028/29	FY2029/30	FY2030/31
Rate Increase %		7%	5%	5%	5%	5%
Rate Increase Effective Date		Oct 1, 2026	Jul 1, 2027	Jul 1, 2028	Jul 1, 2029	Jul 1, 2030
Rate Revenues Over 12 Months		1,489,200	1,563,700	1,641,900	1,724,000	1,810,200
BEGINNING CASH BALANCE	\$1,734,700	\$1,681,300	\$1,588,800	\$1,526,700	\$1,531,900	\$1,547,000
REVENUES						
Service Charges	1,391,800	1,464,900	1,563,700	1,641,900	1,724,000	1,810,200
Penalty Fees	42,000	42,000	42,000	42,000	42,000	42,000
Interest [1]	77,700	50,400	47,700	45,800	46,000	46,400
Verizon Lease	<u>11,200</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Subtotal Revenues	1,522,700	1,557,300	1,653,400	1,729,700	1,812,000	1,898,600
EXPENSES						
Salaries & Benefits	680,300	714,300	750,000	787,500	826,900	868,200
Operations	44,900	47,100	49,500	52,000	54,600	57,300
Materials & Supplies	86,400	90,700	95,200	100,000	105,000	110,300
Maintenance & Repairs	131,300	137,900	144,800	152,000	159,600	167,600
Professional Services	53,500	56,200	59,000	62,000	65,100	68,400
Licenses, Permits, & Membership Fees	31,000	32,600	34,200	35,900	37,700	39,600
Compliance Costs	5,000	5,300	5,600	5,900	6,200	6,500
Insurance	83,200	87,400	91,800	96,400	101,200	106,300
Utilities	129,300	135,800	142,600	149,700	157,200	165,100
Miscellaneous	<u>5,400</u>	<u>5,700</u>	<u>6,000</u>	<u>6,300</u>	<u>6,600</u>	<u>6,900</u>
Subtotal Operating Expenses	1,250,300	1,313,000	1,378,700	1,447,700	1,520,100	1,596,200
Net Operating Revenues	272,400	244,300	274,700	282,000	291,900	302,400
<u>Non-Operating Expenses</u>						
Capital Outlay	65,800	65,800	65,800	65,800	65,800	65,800
Capital Improvements (Rate Funded)	0	60,000	60,000	0	0	0
Debt Financing	<u>260,000</u>	<u>211,000</u>	<u>211,000</u>	<u>211,000</u>	<u>211,000</u>	<u>211,000</u>
Subtotal Non-Operating	325,800	336,800	336,800	276,800	276,800	276,800
Total Expenses	1,576,100	1,649,800	1,715,500	1,724,500	1,796,900	1,873,000
Total Net Revenues	(53,400)	(92,500)	(62,100)	5,200	15,100	25,600
Ending Cash Balance	\$1,681,300	\$1,588,800	\$1,526,700	\$1,531,900	\$1,547,000	\$1,572,600
Target Reserve Balance [2]	616,600	647,500	679,900	713,900	749,600	787,200
Target Met?	yes	yes	yes	yes	yes	yes
Debt Service Coverage (Target 1.2) [3]	1.1	1.21	1.35	1.39	1.44	1.49

1 - 4% of beginning fund balance

2 - Reserve balance target is 180 days of operations & maintenance (per Resolution No. 2025-13)

3 - The debt coverage calculation includes cell phone tower lease revenues

Figure 9: Sewer Cash Flow Chart



SECTION 7: SEWER COST ALLOCATION

The prior section determined the total cost of providing sewer service to customers. In this section, the cost of service is allocated to rates to fairly recover costs based on how customers use the system, and in any event not to exceed the proportional cost of the sewer service attributable to each parcel.

7.1 Methodology

The revenue requirements of the Sewer Fund and the determination of the sewer flows and loadings of the wastewater utility provide the basis for performing the cost of service analysis. The concept of proportionate allocation to each customer class indicates that allocation should take into consideration the quantity of effluent a customer contributes in addition to the pollutant strength of that sewer effluent.

The key factors used to assign sewer utility costs are estimated effluent (flow) going to the wastewater treatment plant and effluent strengths, measured in biochemical oxygen demand (BOD) and total suspended solids (TSS). Higher levels of BOD or TSS equate to increased treatment costs. The total revenue requirement shown in the wastewater cash flow projection (Table 32) is the net cost of providing service and is allocated to the following categories: (1) flow, (2) BOD, and (3) TSS. These allocations are then used as the basis to develop unit rates for each of the three parameters and to assign costs to each customer class in proportion to the sewer services rendered.

7.2 Proposed Sewer Cost Allocation

Table 33 provides the results of the cost allocation analysis. Projected sewer operating expenses are allocated to the flow, BOD, and TSS parameters with FY2026/27 serving as the test year. The assignments are based on industry standard estimates with most operating expenses allocated 60% to flow, 20% to BOD, and 20% to TSS. In total, 61.68% of costs are allocated to flow, 19.16% to BOD, and 19.16% to TSS.

Table 33: Sewer Cost Allocation

	Projected FY2026/27	Flow	BOD	TSS	Total
<u>Operating Expenses</u>					
Salaries & Benefits	\$714,300	60%	20%	20%	100%
Operations	\$47,100	60%	20%	20%	100%
Materials & Supplies	\$90,700	60%	20%	20%	100%
Maintenance & Repairs	\$137,900	60%	20%	20%	100%
Professional Services	\$56,200	60%	20%	20%	100%
Licenses, Permits, & Membership Fees	\$32,600	60%	20%	20%	100%
Compliance Costs	\$5,300	60%	20%	20%	100%
Insurance	\$87,400	60%	20%	20%	100%
Utilities	\$135,800	80%	10%	10%	100%
Miscellaneous	\$5,700	60%	20%	20%	100%
Subtotal Operating Expenses	\$1,313,000	\$814,960 62.07%	\$249,020 18.97%	\$249,020 18.97%	\$1,313,000 100.00%
<u>Non-Operating Expenses</u>					
Capital Outlay	\$65,800	60%	20%	20%	100%
Capital Improvements (5-year avg)	\$24,000	60%	20%	20%	100%
Debt Service (5-year avg)	\$211,000	60%	20%	20%	100%
Subtotal Non-Operating Expenses	\$300,800	\$180,480 60.00%	\$60,160 20.00%	\$60,160 20.00%	\$300,800 100.00%
Total Sewer Expenses	\$1,613,800	\$995,440	\$309,180	\$309,180	\$1,613,800
Total Allocation %		61.68%	19.16%	19.16%	100.00%

SECTION 8: SEWER RATE DESIGN

The cost of service allocation calculated the revenue requirements for the cost parameters of flow, BOD, and TSS. The next step is rate design which determines how those revenue requirements are collected from each class based on their estimated impact on the sewer system.

8.1 Sewer Rate Design Considerations

Sewer rates in California are typically charged as either a fixed charge per dwelling unit, a volume rate charged per unit of wastewater flow, or as a combination of both fixed and volume rates. The District's current rate structure includes a fixed charge for all residential customers. Single family residential customers are charged by connection size while multifamily residential customers are charged per dwelling unit. It is proposed that all residential customers are billed per dwelling unit with separate rate categories for single family and multifamily customers. Commercial customers are proposed to be charged a base fee that includes a base amount of flow in addition to a volume rate for flow above the amount included in the base fee.

For residential customers, fixed sewer charges provide revenue stability, are easy for customers to understand, and are straightforward to bill. Moreover, residential customers are a relatively homogenous group with no significant variations in sewage strength between different types of homes, and peak water usage by residential customers tends not to affect sewer discharge because it occurs in summer months for irrigation needs. By contrast, commercial sewer flow varies widely based on the type and size of business and strength characteristics vary significantly between different types of businesses (i.e., an office versus a restaurant). Thus, including a variable component per unit of water used is an appropriate rate structure for commercial customers.

8.2 Proposed Rate Structure Changes

8.2.1 Proposed Residential Rate Design

Currently, single family residential customers are billed a fixed monthly charge based on connection size while multifamily customers are billed a fixed monthly charge per dwelling unit. It is proposed that all residential customers be billed per dwelling unit while maintaining separate rate categories for single family versus multifamily customers. The proposed fixed charge for multifamily customers will be lower, reflecting lower monthly winter water usage for multifamily customers (7,000 gallons per month) in comparison to single family customers (8,000 gallons per month).

8.2.2 Proposed Commercial Rate Design

The District's current commercial sewer rate structure is proposed to be updated to more closely align with how customers use the system. It is proposed that commercial customers be divided into classes based on sewer pollutant strength. The proposed classes are low strength, medium/domestic strength, and high strength. Low strength landuses include offices, retail, post office, and churches. Medium/domestic strength landuses include community centers, healthcare, auto shops, beauty salons,

and mixed use. High strength landuses include event centers, cement companies, and construction companies, restaurants, and bakeries as seen in Table 34. The proposed commercial rate structure consists of two components – a base fee and a flow rate. The base fee will be a fixed amount each month dependent on pollutant strength. The base fee will include flow of up to 8,000 gallons per month, consistent with the average flow of one single family dwelling unit. This base fee is intended to recover the fixed costs of maintaining the sewer connection regardless of month to month flow. 8,000 gallons of monthly flow represents the system average capacity of each connection. The proposed flow rates will be billed per 1,000 gallons to all flows above the first 8,000 gallons included in the base fee. The volume of excess flow per customer will be set once per year and calculated as the average monthly water use from December through February. Schools are proposed to be charged per number of students based on average daily attendance (ADA). The District will update the ADA for each school once annually.

Table 34: Commercial Account Classifications

Classification	Land use categories
Low Strength	Offices, retail, churches, and post office
Medium Strength	Community center, healthcare, auto shops, beauty salons, mixed use, and unknown
High Strength	Event center, cement companies, construction companies, restaurants, and bakeries

8.2.3 Summary of Proposed Rate Structure Changes

In addition to the rate structure changes described above, it is proposed that the District eliminate outside-District surcharges and implement a \$5/month senior discount. The discount will be funded from the cell phone tower lease revenues. A summary of proposed sewer rate structure changes is provided below:

- 1) Customers will no longer be billed by connection size and instead be billed by customer type.
- 2) Single family residential and multifamily residential customers will be charged per dwelling unit. The multifamily rate will be less than the single family rate to reflect lower average sewer flows of the multifamily customer class.
- 3) Schools will be billed a fixed charge per student based on average daily attendance.
- 4) All other nonresidential customers will be categorized based on the wastewater pollutant strength into low strength, domestic/medium strength, or high strength categories.
- 5) Nonresidential customers will pay a fixed charge that includes the first 8,000 gallons of monthly sewer flow. Flow above the first 8,000 gallons will be billed an additional flow rate based on metered water use.
- 6) Outside-District rates are proposed to be eliminated. Outside-District customers will be billed the same rates as inside-District customers.
- 7) Seniors will be offered a \$5 per month sewer bill discount that will be funded from cell phone tower lease revenues.

8.3 Sewer Rate Derivation

8.3.1 Sewer Flow & Loading Characteristics

The number of customer accounts/units and sewer flows are shown in Table 35. Single family residential flows are estimated as 280 gallons per day while multifamily residential flows are estimated as 220 gallons per day. Flows are estimated based on billed winter water flows to approximate indoor water usage. Pollutant loads consist of biochemical oxygen demand (BOD) and total suspended solids (TSS). The BOD and TSS strength factors, which are expressed as milligrams per liter (mg/L), are based on average day BOD and TSS at the District's wastewater treatment plant.

Table 35: Sewer Flow & Loading Characteristics

Description	Accounts/ Dwelling Units	gpd	Total Flow (gpd)	BOD (mg/L)	TSS (mg/L)	gal/yr	BOD (lbs)	TSS (lbs)
Residential								
Single Family	1,559	280	436,520	200	200	159,329,800	265,934	265,934
Multifamily	234	220	51,480	200	200	18,790,200	31,362	31,362
Nonresidential								
Low	18	170	3,060	150	150	1,116,900	1,398	1,398
Medium/Domestic	10	280	2,800	200	200	1,022,000	1,706	1,706
High	3	500	1,500	300	300	547,500	1,371	1,371
Students	1,204	5	6,020	200	200	2,197,300	3,667	3,667
Total	1,824		501,380			183,003,700	305,439	305,439

BOD - biochemical oxygen demand

Gpd – gallons per day

Mg/l – milligrams per liter

TSS - total suspended solids

8.3.2 Unit Cost Calculation

Sewer rates are determined based on the amount of wastewater flow and pollutants discharged into the sewer system. Table 36 provides the unit cost calculation for the flow, BOD, and TSS cost categories. The total amount of proposed rate revenue for one full year under the proposed FY2026/27 rates (taken from Table 32) is divided between the flow and strength allocation percentages developed in Table 33. The revenue requirement for each cost category is then divided by the appropriate billing units to calculate a unit charge. The number of billing units for each cost category is taken from Table 35.

Table 36: Unit Cost Calculation

Cost Allocation	Total	Flow	BOD	TSS
Cost Allocation %		61.68%	19.16%	19.16%
2026/27 Revenue Requirement	\$1,489,200	\$918,400	\$285,500	\$285,500
Billing Units		183,003,700 gal/yr	305,439 lbs/yr	305,439 lbs/yr
Rate		\$5.02 \$/1,000 gal	\$0.93 \$/lb	\$0.93 \$/lb

8.3.3 Flow Charge Derivation

The sewer flow charges for each class are derived in Table 37 based on the flow, BOD, and TSS unit costs shown in Table 36. The BOD and TSS unit costs from Table 36 are applied to the strength characteristics shown in Table 35 for each customer class to calculate a strength charge per 1,000 gallons. The total proposed flow charge is the sum of the flow, BOD, and TSS rates for each strength category.

Table 37: FY2026/27 Flow Charge Derivation

	Flow (\$/1,000 gal)	BOD (\$/lbs)	TSS (lbs)	Additional Flow Charge
Unit Cost	\$5.02	\$0.93	\$0.93	
Low Strength Sewer Rate	\$5.02	150 \$1.16	150 \$1.16	\$7.34
Medium/Domestic Strength Sewer Rate	\$5.02	200 \$1.55	200 \$1.55	\$8.12
High Strength Sewer Rate	\$5.02	300 \$2.33	300 \$2.33	\$9.68

8.3.4 Fixed Charge Derivation

Table 38 calculates the proposed fixed sewer charges for FY2026/27. The flow and loading costs associated with 8,000 gallons of monthly single family flow and 7,000 gallons of monthly multifamily flow are used to calculate the total monthly charge per dwelling unit. It is proposed that the base commercial rate include the first 8,000 gallons of monthly flow, consistent with the average monthly flow per single family dwelling unit. It is proposed that schools be charged based on the number of students with an estimated flow of 5 gallons per day per student.

Table 38: FY2026/27 Fixed Charge Derivation

	Flow (1,000 gal)	BOD (lbs)	TSS (lbs)	Total
Unit Cost	\$5.02	\$0.93	\$0.93	
Residential (per dwelling unit)				
Single Family				
Billing Units	8	200	200	
Sewer Rate	\$40.16	\$13.04	\$13.04	\$66.24
Multifamily				
Billing Units	7	200	200	
Sewer Rate	\$35.14	\$10.24	\$10.24	\$55.62
Nonresidential Base Fee				
Low Strength				
Billing Units	8	150	150	
Sewer Rate	\$40.16	\$9.78	\$9.78	\$59.72
Domestic/Medium Strength				
Billing Units	8	200	200	
Sewer Rate	\$40.16	\$13.04	\$13.04	\$66.24
High Strength				
Billing Units	8	300	300	
Sewer Rate	\$40.16	\$19.56	\$19.56	\$79.28
Schools				
Rate per Student				\$1.03

8.4 Proposed 5-Year Schedule of Sewer Rates

A summary of the proposed monthly rates for the next five years is provided in Table 39 for all customer classes. As described in the rate derivation provided herein, the proposed rates will be necessary to recover only the actual proportional cost of sewer service attributable to each parcel.

It is proposed that the new rate structure and first increase go into effect October 1, 2026, with subsequent increases each July 1 from 2027 through 2030. If additional connections are built out in the District, then the increased rates for sewer service charges calculated in this study will also apply to them. For the first rate change, the rate impacts to each customer do not exactly align with the proposed overall revenue percentage increase shown in the cash flow projection (Table 32) due to the updated rate structure design and reconfiguration of the unit cost components used to calculate the rates. Following the first increase in FY2026/27, the percentage change for each customer class for each year will align with the percentage increase shown in the cash flow projection.

Table 39: Proposed Monthly Sewer Rates

Current Charge Descriptions	CURRENT RATES	Proposed Charge Descriptions	PROPOSED				
			Oct 1, 2026	Jul 1, 2027	Jul 1, 2028	Jul 1, 2029	Jul 1, 2030
Residential			Varies	5%	5%	5%	5%
Single Family 4" Connection	\$61.28	Residential Fixed Charge per Dwelling					
Single Family 6" Connection	\$133.44	All Single Family [1]	\$66.24	\$69.55	\$73.03	\$76.68	\$80.51
Multifamily Dwelling Unit	\$62.76	Multifamily	\$55.62	\$58.40	\$61.32	\$64.39	\$67.61
Commercial, Industrial, Public		Nonresidential (Fixed Charge; includes the first 8,000 gallons of flow [2])					
4" Connection	\$56.22	Low Strength	\$59.72	\$62.71	\$65.85	\$69.14	\$72.60
6" Connection	\$123.69	Domestic/Medium Strength	\$66.24	\$69.55	\$73.03	\$76.68	\$80.51
8" Connection	\$224.88	High Strength	\$79.28	\$83.24	\$87.40	\$91.77	\$96.36
		Schools (per student) [3]	\$1.03	\$1.08	\$1.13	\$1.19	\$1.25
Volumetric Charge (\$/1,000 gallons)		Nonresidential Additional Flow Rate (\$/1,000 gallons charged to flow above the first 8,000 gallons [2])					
Commercial, Industrial, Public	\$0.65	Low Strength	\$7.34	\$7.71	\$8.10	\$8.51	\$8.94
		Domestic/Medium Strength	\$8.12	\$8.53	\$8.96	\$9.41	\$9.88
		High Strength	\$9.68	\$10.16	\$10.67	\$11.20	\$11.76

1 – Seniors will receive a discount of \$5/month (not reflected in rates shown above)

2 – For nonresidential customers, monthly sewer flow is set once annually based on the average water use from December through February

3 – Schools are charged monthly including summer and holiday breaks per student based on average daily attendance (ADA). ADA will be updated once annually. Schools are only billed fixed sewer charges and do not pay additional flow rates.

Low strength: retail, offices, post office, churches

Domestic/medium strength: community center, healthcare, auto shops, beauty salons, mixed use, and unknown

High strength: event center, construction company, cement company, restaurants, bakeries

The categories above represent general land use designations. By its determination, the District may establish specialized rates for customers that are not categorized into the designations listed above or for customers that fall into multiple categories. Any specialized rates will be proportional to the cost of wastewater flow and pollutant disposal included in the sewer rates above such that the single family residential rate is based on the cost of service for 8,000 gallons of monthly domestic strength flow.

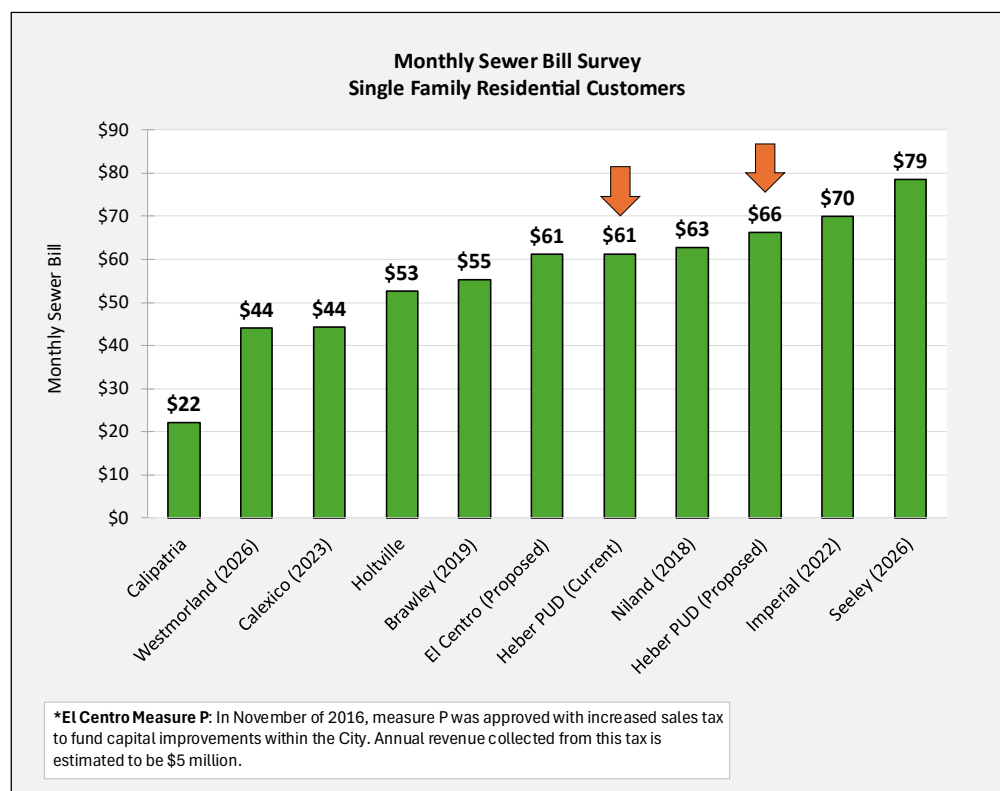
8.5 Sewer Bill Impacts

Table 40 provides bill impacts over the next five years for single family and multifamily residential customers under proposed rates. Figure 10 compares the District's current and proposed October 1, 2026 monthly single family residential sewer bill with those of surrounding agencies. The District's current sewer rate is in the middle of the surveyed agencies and will move towards the higher end following the proposed rate increase. For a single family residential customer, the District's bill is proposed to increase from \$61.28 per month to \$66.24, an increase of \$4.96 or about 8%.

Table 40: Residential Sewer Bill Impacts

	Current	Proposed				
		Oct 1, 2026	Jul 1, 2027	Jul 1, 2028	Jul 1, 2029	Jul 1, 2030
Single Family Residential	\$61.28	\$66.24	\$69.55	\$73.03	\$76.68	\$80.51
\$ Change		\$4.96	\$3.31	\$3.48	\$3.65	\$3.83
% Change		8%	5%	5%	5%	5%
Multifamily Residential	\$62.76	\$55.62	\$58.40	\$61.32	\$64.39	\$67.61
\$ Change		-\$7.14	\$2.78	\$2.92	\$3.07	\$3.22
% Change		-11%	5%	5%	5%	5%

Figure 10: Monthly Sewer Bill Survey



8.6 Combined Bill Impacts

The following tables provide combined monthly water and sewer bill impacts for the average single family residential customer. The average single family residential customer uses about 11,000 gallons of water per month.

Table 41: Proposed Combined Residential Bill Impacts (Water Option A)

	Current	Proposed				
		Oct 1, 2026	Jul 1, 2027	Jul 1, 2028	Jul 1, 2029	Jul 1, 2030
<u>Single Family Residential</u>						
Water (11,000 gallons)	\$62.08	\$80.74	\$90.42	\$99.51	\$109.45	\$117.08
<u>Sewer</u>	<u>\$61.28</u>	<u>\$66.24</u>	<u>\$69.55</u>	<u>\$73.03</u>	<u>\$76.68</u>	<u>\$80.51</u>
Total Bill	\$123.36	\$146.98	\$159.97	\$172.54	\$186.13	\$197.59
\$ Change		\$23.62	\$12.99	\$12.57	\$13.59	\$11.46
% Change		19%	9%	8%	8%	6%

Table 42: Proposed Combined Residential Bill Impacts (Water Option B)

	Current	Proposed				
		Oct 1, 2026	Jul 1, 2027	Jul 1, 2028	Jul 1, 2029	Jul 1, 2030
<u>Single Family Residential</u>						
Water (11,000 gallons)	\$62.08	\$77.73	\$82.35	\$87.24	\$92.52	\$98.09
<u>Sewer</u>	<u>\$61.28</u>	<u>\$66.24</u>	<u>\$69.55</u>	<u>\$73.03</u>	<u>\$76.68</u>	<u>\$80.51</u>
Total Bill	\$123.36	\$143.97	\$151.90	\$160.27	\$169.20	\$178.60
\$ Change		\$20.61	\$7.93	\$8.37	\$8.93	\$9.40
% Change		17%	6%	6%	6%	6%

Figure 11 on the following page provides a survey comparing the current and proposed combined monthly water and sewer bill for a single family residential customer with other local agencies. The District's combined utility bill for the typical single family customer is proposed to increase from \$123.36 to \$146.98 under Option A, and from \$123.36 to \$143.97 under Option B. The current combined bill is in the mid-range of those charged by other local agencies, and will increase in the ranking after the proposed rate increase under either option.

Figure 11: Monthly Combined Water and Sewer Bill Survey

