



Wastewater Rate Study

DRAFT REPORT / March 19, 2026



March 19, 2026

Jason Dafforn
General Manager
Valley Sanitary District
45500 Van Buren Street
Indio, CA 92201

Subject: Wastewater Rate Study Report

Dear Jason Dafforn,

Raftelis Financial Consultants, Inc. (Raftelis) is pleased to provide this report for Valley Sanitary District (District) Wastewater Rate Study.

The major objectives of the Rate Study include:

- » Developing a long-term financial plan that sufficiently funds operating expenses, capital replacement and improvement costs, and prudent reserve balances
- » Calculating rates that fully recover costs to serve customers, while minimizing rate impacts, and promoting affordability for essential needs
- » Preparing a Study Report, also referred to as an administrative record, that clearly and comprehensively explains each step of the rate study process

This report details the long-term financial plan and proposed rates for the District's wastewater utility. The financial plan identifies the projected revenue needs and revenue adjustments over the next five years of proposed rates.

Sincerely,



Justin Rasor
Sr. Manager



Lindsay Roth
Sr. Consultant



Journ Galvan
Consultant

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1. Executive Summary

1.1. Study Background

In 2025, the Valley Sanitary District (District) contracted with Raftelis to conduct a Wastewater Rate Study, which includes the development of a long-term financial plan and rate calculations. The study culminates in five years of rate recommendations based on the results of the financial planning analysis. This Executive Summary outlines the rate proposal and contains a description of the rate study process, methodology, and recommendations for the District's wastewater rates.

Valley Sanitary District has served the communities of Indio, Coachella, and surrounding areas of the Eastern Coachella Valley for over 100 years, providing essential wastewater collection and treatment services to more than 90,000 residents. The District operates approximately 261 miles of underground collection system pipes and a Water Reclamation Facility with a treatment capacity of 12.5 million gallons per day. The District recycles approximately 6 million gallons of wastewater daily, converting what would otherwise be waste into a valuable resource for the community.

The District's infrastructure dates to 1930s, with some original components still in service today. After more than a century of continuous operation, portions of this system have reached or exceeded their useful life and require replacement or rehabilitation to maintain reliable service, meet modern regulatory standards, and avoid costly emergency failures. The collection system includes pipes, manholes, and lift stations of varying ages and conditions; the oldest segments present the greatest risk of failure and are prioritized for replacement.

Proactive, planned investment in infrastructure renewal is significantly more cost-effective than reactive emergency repairs. Emergency repairs typically cost three to five times more than planned replacements, and system failures can result in permit violations, fines, and damage to public health and the environment.

1.2. Rate Objectives

Raftelis worked with District staff to prioritize objectives for the proposed wastewater rates. These prioritized objectives include recovering the cost to service each customer while minimizing bill impacts. The proposed rates for all utilities are a result of the financial plan results, which apply revenue adjustments based on existing rates.

Key rate-setting objectives include:

- Ensure financial sufficiency to fund ongoing operations, maintenance, and capital needs
- Maintain prudent reserve levels to address emergencies and cash flow needs
- Meet debt coverage requirements to maintain access to low-cost financing
- Allocate costs equitably among customer classes based on cost-of-service principles
- Minimize rate impacts while ensuring long-term system sustainability

1.3. Current Rates

The District's current wastewater rates were implemented on July 1, 2025. An Equivalent Dwelling Unit (EDU) represents one single-family residential (SFR) connection and serves as the basis for billing. The rates

include an annual service charge per EDU for residential and commercial customers, a volumetric rate for residential customers charged for every hundred cubic feet (hcf) of winter average water consumption used, and a volumetric rate for commercial customers charged for every hcf of annualized water consumption. **Table 1-1** shows the current annual residential service charges by customer class. **Table 1-2** shows the current volumetric rates for commercial customers.

Table 1-1: Current Annual Wastewater Charges

Rates	Current FY 2026
Fixed Service Charge	
Single Family	\$497.74
Multi-Family	\$217.84
Mobile Home	\$263.27
RV Park	\$205.14
Commercial-Low/Med Strength	\$289.06
Commercial-High Strength	\$881.56

Table 1-2: Current Wastewater Volumetric Charges

Rates	Current FY 2026
Volumetric Rate	
Single Family	\$1.43
Multi-Family	\$1.43
Mobile Home	\$1.43
RV Park	\$1.58
Commercial-Low/Med Strength	\$1.28
Commercial-High Strength	\$2.91

1.4. Process and Approach

Raftelis held several meetings with District staff to discuss and understand objectives, characteristics, and challenges of the District's wastewater utilities to provide the recommendations and results in this report. Raftelis confirmed various assumptions and inputs and used an iterative process to view several scenarios to determine the recommended financial plan and rates for service. District staff discussed capital project requirements over a 10-year horizon, which are two primary drivers of the future revenue needs of the utilities. Raftelis then designed and presented financial plans to analyze various rate scenarios to fully fund the wastewater utility's revenue requirements.

The proposed financial plans detailed in this report follow industry standards for long-term financial planning. The financial plans rely on reasonable assumptions based on industry indices, such as general inflation based on the Consumer Price Index (CPI), and input from District staff.

The District's current rate structure was established through a cost-of-service analysis performed by NBS in May 2021. That study classified the District's revenue requirements into flow-related, strength-related, and customer-related cost components and allocated those costs proportionally to each customer class based on each class's estimated flow and strength characteristics. The cost-of-service allocations to each customer class

are recovered through a combination of fixed service charges and volumetric rates, with approximately 70 percent of rate revenue collected through fixed charges and 30 percent through a volumetric rate. The Board elected to include a volumetric component to better reflect each customer's proportional use of the system. The proposed rates in this study maintain those allocations by applying uniform revenue adjustments to the existing rate schedule, preserving the proportional allocation of costs to each customer class and the relative balance between fixed and volumetric revenue.

The financial plans include the current fiscal year (FY) 2026 and the five-year period between FY 2027 to FY 2031. Each fiscal year begins on July 1 and ends on June 30. For example, FY 2026 is defined as the year beginning on July 1, 2025, and ending June 30, 2026. The proposed rates were developed for implementation.

1.5. Legal Framework¹

Proposition 218 was enacted by voters in 1996 to ensure, in part, that fees and charges imposed for ongoing delivery of a service to a property (property-related fees and charges) are proportional to, and do not exceed, the cost of providing service. Wastewater service fees and charges are property-related fees and charges subject to the provisions of California Constitution Article XIII D, Section 6 (Proposition 218). The principal requirements, as they relate to public utility service fees and charges are as follows:

1. Revenues derived from the fee or charge shall not exceed the costs required to provide the property-related service.
2. Revenues derived by the fee or charge shall not be used for any purpose other than that for which the fee or charge was imposed.
3. The amount of the fee or charge imposed upon any parcel shall not exceed the proportional cost of service attributable to the parcel.
4. No fee or charge may be imposed for a service unless that service is actually used or immediately available to the owner of property.
5. A written notice of the proposed fee or charge shall be mailed to the record owner of each parcel not less than 45 days prior to a public hearing, when the agency considers all written protests against the charge.

Wastewater rates and charges should be recovered from classes of customers in proportion to the cost of serving those customers. Proposition 218 requires a clear nexus between the costs and the rates charged meaning that the rate-setting methodology must be sound and based on cost of service principles. Raftelis follows industry-standard rate-setting methodologies consistent with the Water Environment Federation Manual of Practice No. 27 (WEF MOP 27), Financing and Charges for Wastewater Systems, which informed the District's existing rate structure as established in the 2021 cost-of-service study by NBS. This ensures that the results of this study align with the requirements of Proposition 218 and that proposed rates do not exceed the proportionate cost of providing wastewater service.

¹ Raftelis does not practice law, nor does it provide legal advice. The above discussion provides a general overview of Raftelis' understanding as rate practitioners and is labeled "legal framework" for literary convenience only. The District should consult with its legal counsel for clarification and/or specific guidance.

1.6. Financial Plan Results and Recommendations

1.6.1. Factors Affecting Revenue Requirements

The following items affect the wastewater utility’s revenue requirement (i.e., costs) and thus its wastewater rates. The utility’s expenses include O&M expenses, capital project costs, debt service, and reserve funding.

- **Capital Funding:** The wastewater utility has approximately \$115.4 million in planned capital expenditures from FY 2027 through FY 2031 and \$178.7 million over the study’s financial planning horizon (from FY 2027 through FY 2035). Planned capital project costs are anticipated to be funded by future debt issuance and cash reserves from rate revenues.
- **Reserve Funding:** Reserve targets are adopted to ensure enough cash on hand to meet routine cash flow needs, provide adequate funding for planned repairs and replacements (R&R) CIP, navigate emergencies in the event of asset failure or natural disaster, and to protect customers from rate spikes. The recommended reserve policy is discussed in the following section.

1.6.1.1. Reserve Policy

The District’s current reserve policy Fund balances remain at or near target levels throughout the study period, ensuring the District can respond to emergencies and fund ongoing capital needs. Raftelis did not recommend any changes to the District’s current policy which includes the following components:

- **Operating:** The District maintains an operating reserve equal to 50% of the annual Operations and Maintenance (O&M) budget, excluding California Public Employees Retirement System (CalPERS) expenses and debt service payments.
- **Capital Reserve:** Capital expenditure constitutes a significant portion of the wastewater utility’s annual costs over the planning horizon. The District targets a Capital Replacement Reserve balance equal to 40% of the annual O&M budget, excluding CalPERS obligations and debt service.
- **Emergency Reserve:** The Emergency Reserve Fund addresses contingencies such as cash flow shortages, natural disasters, and other unforeseen expenses. The District targets a reserve balance equal to 5% of the annual O&M budget, excluding CalPERS obligations and debt service.

1.6.1.2. Financial Plan Results

Table 1-3 shows the proposed revenue adjustments that allows the District to maintain financial sufficiency, fund operating and capital expenses, and achieve recommended cash reserves for the wastewater utility. The proposed adjustments apply to wastewater rate revenues, which are projected for future years using assumptions reviewed by the District in customer account growth or increased wastewater generation during the study period. This approach conservatively projects future rate revenues. The proposed revenue adjustments are applied across all existing rates and charges for each year of the rate study.

Table 1-3: Proposed Wastewater Revenue Adjustments

Revenue Adjustments	FY 2027	FY 2028	FY 2029	FY 2030	FY 2031
% Adjustment	12.0%	12.0%	4.0%	4.0%	4.0%
Effective Month	July	July	July	July	July

Figure 1-1 shows the five-year financial plan for FY 2027 through FY 2031. The stacked bars represent the costs of the wastewater utility: O&M expenses (gray bars), debt service (red bars), and rate-funded CIP costs (yellow bars). Net cash flow falls below zero in all years of the rate study except for FY28, meaning that the District will draw from wastewater reserves to fund a portion of expenses in those years. Current revenues (solid line) equal the projected revenues at the District’s existing wastewater rates and proposed revenues (dotted line) equal the projected revenues with the proposed revenue adjustments in **Table 1-3** applied.

Figure 1-1: Wastewater Financial Plan

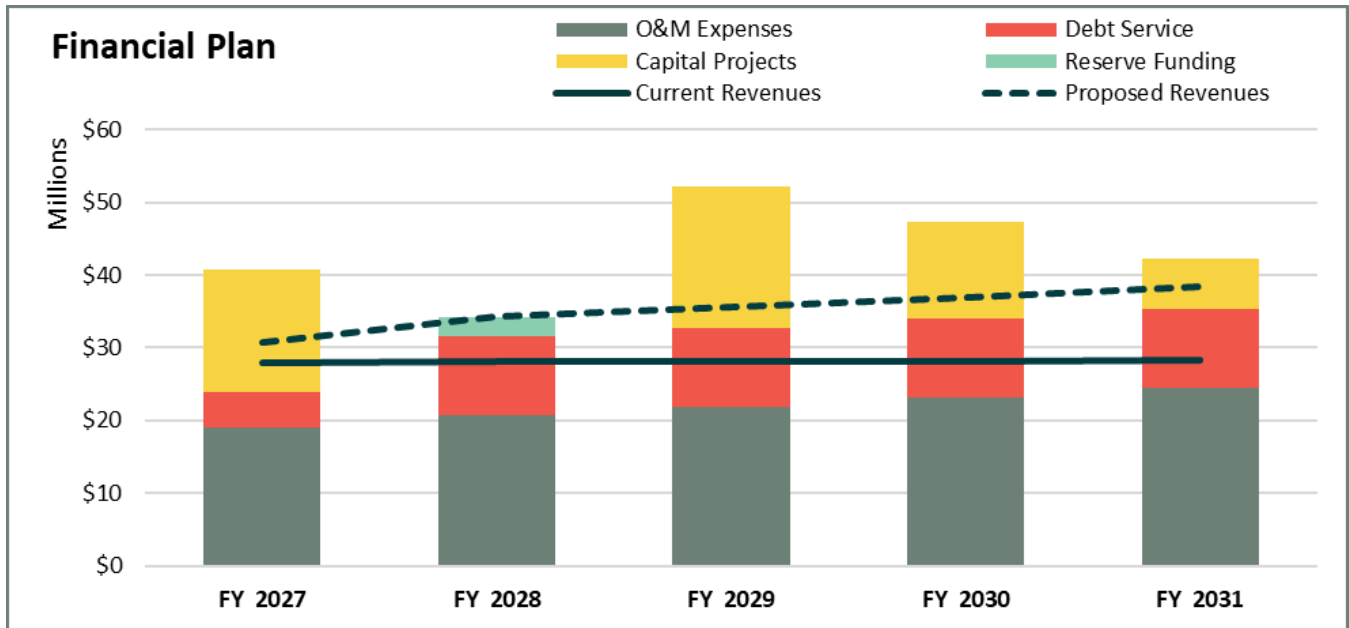


Figure 1-2 shows the combined ending fund balances (green bars) for the District’s Wastewater Operating Fund and Wastewater Capital Replacement Fund from FY 2027 through FY 2031. The reserve target (solid line) is determined based on the District’s reserve policy targets. The ending fund balances remain above the reserve target in each year from FY 2027 through FY 2031. The District will draw down its wastewater reserves and issue bond proceeds over the 5-year planning period to mitigate impacts to rate payers.

Figure 1-2: Wastewater Fund Balances

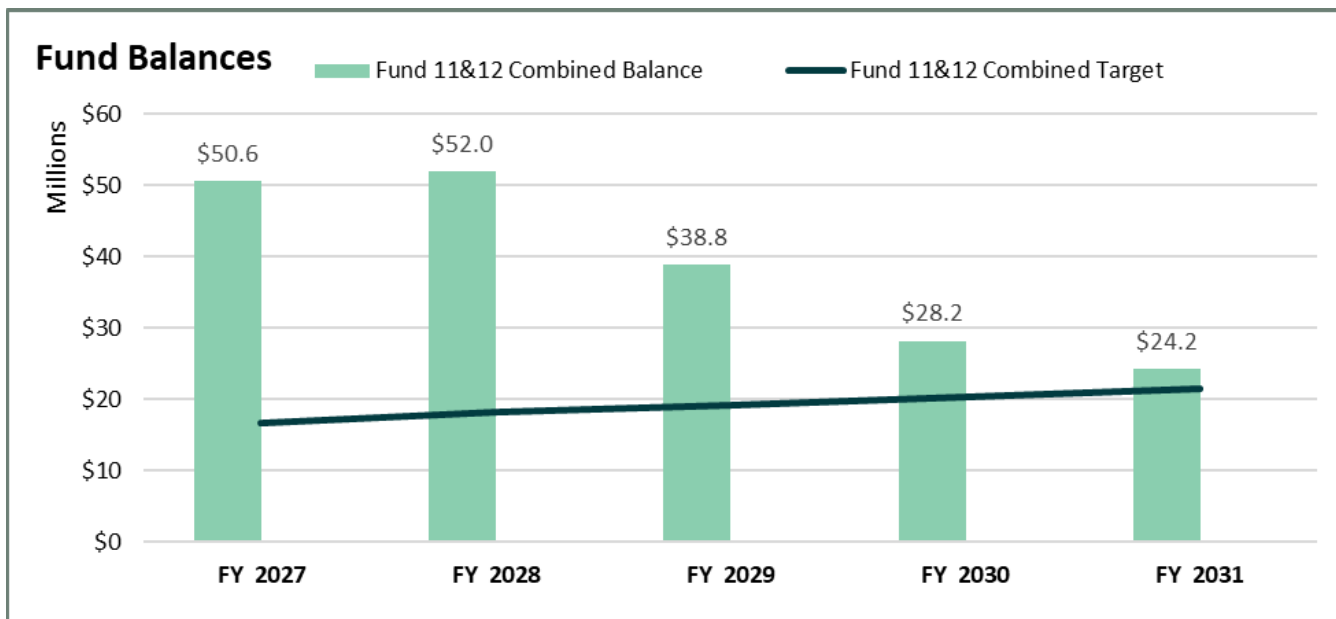
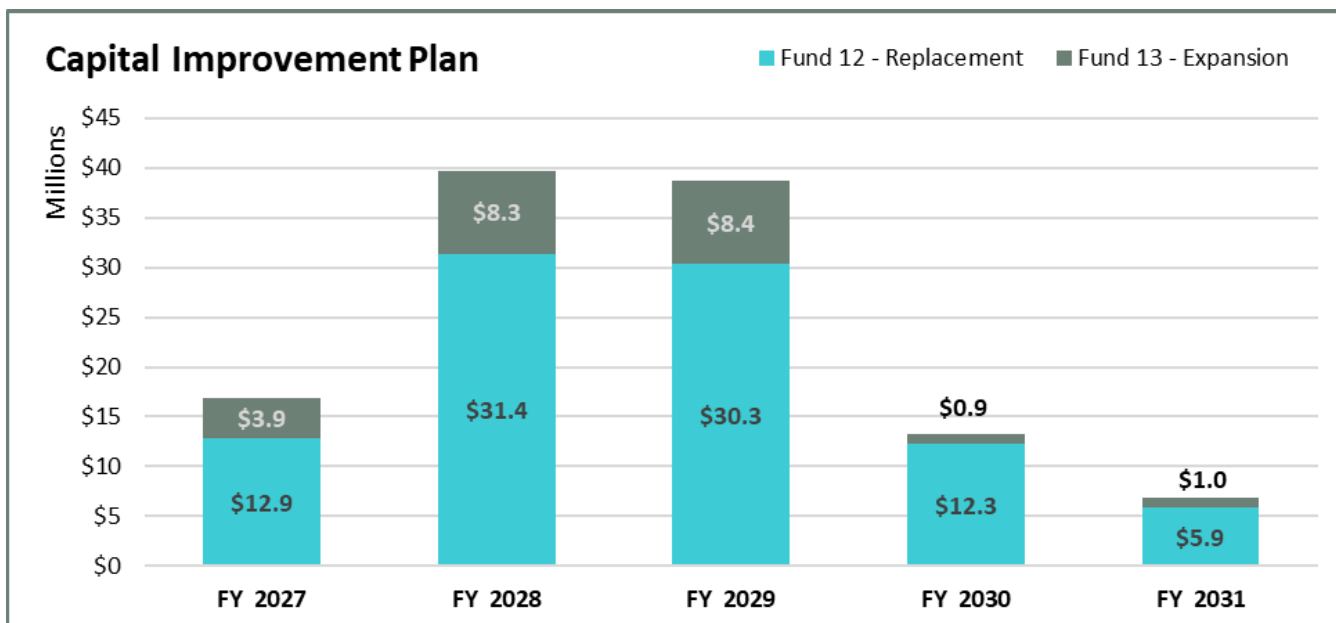


Figure 1-3 shows the five-year repair and replacement (R&R) and Expansion CIP expenditures from FY 2027 through FY 2031. CIP expenditures will be funded by a combination of debt proceeds, future cash from rate revenues, and existing capital reserves. Even though the Capital Expansion fund is restricted, any debt service proceeds used for expansion capital projects will be covered by the Operating Fund.

Figure 1-3: Wastewater Capital Financing Plan



1.6.1.3. Proposed Wastewater Rates

Table 1-4 and Table 1-5, and show the proposed annual fixed charges and volumetric charges respectively, for FY 2027 and FY 2031 based on the above recommendations. Rates for all years are determined by increasing current rates by the corresponding revenue adjustments in Table 1-3. Since the current wastewater

rates are being increased by the revenue adjustments, all bill impacts will mirror the proposed revenue adjustments.

Table 1-4: Proposed Annual Fixed Service Charges

Rates	Current FY 2026	Proposed FY 2027	Proposed FY 2028	Proposed FY 2029	Proposed FY 2030	Proposed FY 2031
Fixed Service Charge						
Single Family	\$497.74	\$557.47	\$624.37	\$649.34	\$675.31	\$702.32
Multi-Family	\$217.84	\$243.98	\$273.26	\$284.19	\$295.56	\$307.38
Mobile Home	\$263.27	\$294.86	\$330.24	\$343.45	\$357.19	\$371.48
RV Park	\$205.14	\$229.76	\$257.33	\$267.62	\$278.32	\$289.45
Commercial-Low/Med Strength	\$289.06	\$323.75	\$362.60	\$377.10	\$392.18	\$407.87
Commercial-High Strength	\$881.56	\$987.35	\$1,105.83	\$1,150.06	\$1,196.06	\$1,243.90

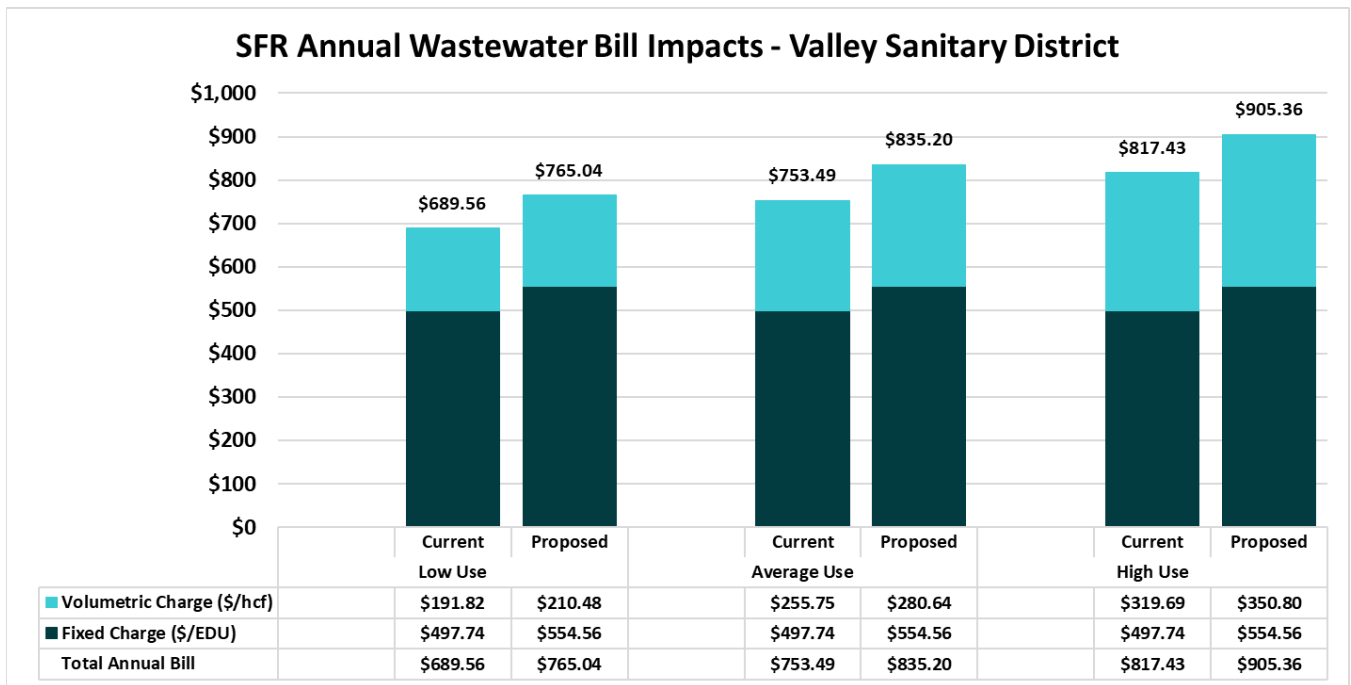
Table 1-5: Proposed Wastewater Volumetric Charges

Rates	Current FY 2026	Proposed FY 2027	Proposed FY 2028	Proposed FY 2029	Proposed FY 2030	Proposed FY 2031
Volumetric Rate						
Single Family	\$1.43	\$1.60	\$1.79	\$1.86	\$1.93	\$2.01
Multi-Family	\$1.43	\$1.60	\$1.79	\$1.86	\$1.93	\$2.01
Mobile Home	\$1.43	\$1.60	\$1.79	\$1.86	\$1.93	\$2.01
RV Park	\$1.58	\$1.77	\$1.98	\$2.06	\$2.14	\$2.23
Commercial-Low/Med Strength	\$1.28	\$1.43	\$1.60	\$1.66	\$1.73	\$1.80
Commercial-High Strength	\$2.91	\$3.26	\$3.65	\$3.80	\$3.95	\$4.11

1.6.1.4. Bill Impacts

The District prepared customer bill impacts for a Single Family Residential customer with low use at 134 hcf, medium use at 179 hcf, and high use at 224 hcf, shown respectively in **Figure 1-4**.

Figure 1-4: Single Family Residential Wastewater Bill Comparison



2. Wastewater Financial Plan & Rates

This section of the report describes the wastewater fund and proposed financial plan and rates. To develop the financial plan, Raftelis projects annual revenues and expenses, models reserve balances, projects capital expenditures, and calculates debt service coverage to estimate the amount of additional rate revenue needed each year. Numbers shown in the tables of this section are rounded. Therefore, hand calculations based on the displayed numbers, such as summing or multiplying, may not equal the exact results shown.

INFLATIONARY ASSUMPTIONS

Inflationary factors are used to escalate the revenue and cost categories across the study period, which for this study is from FY 2027 to FY 2031. The District's most recent adopted revenue and expense budgets are for FY 2026. Raftelis worked with District staff to escalate individual budget line items according to the most appropriate escalation factor. The escalation factors used to project revenues and expenses for the study period are shown in **Table 2-1**. These factors are based on industry indices, such as CPI, and input from District staff. Notably, employee salaries and benefits are expected to increase at higher rates in the near term. The District is anticipating a 10 percent salary increase in both FY 2027 and FY 2028 before returning to standard escalation, and health insurance premiums, which saw over a 10 percent increase in FY 2026, are expected to remain elevated in FY 2027 before leveling out in subsequent years.

Table 2-1: Wastewater Escalation Factors

Key Assumptions	FY 2027	FY 2028	FY 2029	FY 2030	FY 2031
Expense Inflation					
General	5%	5%	5%	5%	5%
Salary	10%	10%	5%	5%	5%
Benefits	12%	8%	8%	8%	8%
Utilities	8%	8%	8%	8%	8%
Capital	5%	5%	5%	5%	5%

2.1. Current Wastewater Rates

The District’s current wastewater rates were implemented on July 1, 2025 and include an annual service charge for residential and commercial customers, a volumetric rate for residential customers charged for every hcf of average winter water consumption (AWC) which is the lower consecutive winter months of January, February, and December and a volumetric rate for commercial customers charged for every hcf of annualized water used. **Table 2-2** shows the current annual residential and commercial service charges by customer class. **Table 2-3** shows the current volumetric rates for residential and commercial customers by customer class.

Table 2-2: Current Annual Fixed Wastewater Charges

Current Rates	FY 2026
Fixed Service Charge	
Single Family	\$497.74
Multi-Family	\$217.84
Mobile Home	\$263.27
RV Park	\$205.14
Commercial-Low/Med Strength	\$289.06
Commercial-High Strength	\$881.56

Table 2-3: Current Wastewater Volumetric Charges

Current Rates	FY 2026
Volumetric Rate	
Single Family	\$1.43
Multi-Family	\$1.43
Mobile Home	\$1.43
RV Park	\$1.58
Commercial-Low/Med Strength	\$1.28
Commercial-High Strength	\$2.91

2.2. Customer Accounts and Usage

District staff provided detailed customer billing data for FY 2025 and portions of FY 2026 to date, which included information such as customer/user class, billed consumption in hcf, and strength loadings for each month.

Table 2-4 shows the customer accounts by customer class for FY 2026, which was provided by District staff. FY 2026 account data was used to represent the data most accurately for the starting fiscal year. **Table 2-5** shows the annual customer EDUs for FY 2026. **Table 2-6** shows the water usage in hcf by customer class.

Table 2-7 shows assumed customer growth over the study period.

Table 2-4: Wastewater Customer Accounts by Class (FY 2026)

Number of Accounts	FY 2026
Number of Accounts	25,762
Single Family	21,150
Multi-Family	4,181
Mobile Home	431
RV Park	2,818
Commercial-Low/Med Strength	717
Commercial-High Strength	83
Manual Billed	
Multi-Family	2
Commercial-Low/Med Strength	98

Table 2-5: Wastewater EDUs by Class (FY 2026)

Customer EDUs	FY 2026
Number of EDUs	
Single Family	21,165
Multi-Family	5,963
Mobile Home	1,518
RV Park	1,597
Commercial-Low/Med Strength	4,379
Commercial-High Strength	589
Manual Billed	
Multi-Family	57
Commercial-Low/Med Strength	3,212

Table 2-6: Wastewater Usage by Customer Class (FY 2026)

Customer Usage	FY 2026
Customer Usage (HCF)	5,016,111
Single Family	3,785,243
Multi-Family	443,579
Mobile Home	91,949
RV Park	151,601
Commercial-Low/Med Strength	456,393
Commercial-High Strength	87,346
Total Flow	5,016,111
Manual Billed	
Multi-Family	8,660
Commercial-Low/Med Strength	356,680

Table 2-7: Wastewater Customer Growth Assumptions

Key Assumptions	FY 2027	FY 2028	FY 2029	FY 2030	FY 2031
Account Growth					
Standard Residential	1.3%	1.3%	1.3%	1.3%	1.3%
Multi-Family (charge per unit)	1.3%	1.3%	1.3%	1.3%	1.3%
Mobile Home (charge per unit)	1.3%	1.3%	1.3%	1.3%	1.3%
Commercial/Industrial	1.0%	1.0%	1.0%	1.0%	1.0%
Coded Users	1.0%	1.0%	1.0%	1.0%	1.0%
Critical Users	1.0%	1.0%	1.0%	1.0%	1.0%

2.3. Projected Wastewater Revenues at Current Rates

Table 2-8 shows the calculated rate revenues for FY 2027 through FY 2031 based on the District's current wastewater rates. The projected annual rate revenues for the annual service charges are determined using the current annual service charges from **Table 2-2** multiplied by the number of EDUs for each customer class in **Table 2-5**. Similarly, the projected annual rate revenues for the volumetric rates are determined using the current volumetric rates in **Table 2-3** are multiplied by the water use in hcf represented in **Table 2-6**. The District has customers which are not billed through the county tax roll and therefore manually billed (MB). MB customer rates are the same as customers who are billed on the county tax roll depending on their customer class.

Table 2-8: Projected Wastewater Rate Revenues

Calculated Rate Revenues	FY 2027	FY 2028	FY 2029	FY 2030	FY 2031
Fixed Service Charge	\$14,525,724	\$14,708,157	\$14,892,898	\$15,079,976	\$15,269,420
Single Family	\$10,671,366	\$10,810,093	\$10,950,625	\$11,092,983	\$11,237,192
Multi-Family	\$1,315,879	\$1,332,985	\$1,350,314	\$1,367,868	\$1,385,651
Mobile Home	\$404,706	\$409,967	\$415,297	\$420,695	\$426,165
RV Park	\$330,891	\$334,200	\$337,542	\$340,917	\$344,326
Commercial-Low/Med Strength	\$1,278,452	\$1,291,236	\$1,304,149	\$1,317,190	\$1,330,362
Commercial-High Strength	\$524,431	\$529,676	\$534,972	\$540,322	\$545,725
Volumetric Rate	\$7,350,928	\$7,446,490	\$7,543,295	\$7,641,357	\$7,740,695
Single Family	\$5,483,265	\$5,554,547	\$5,626,756	\$5,699,904	\$5,774,003
Multi-Family	\$642,564	\$650,918	\$659,380	\$667,952	\$676,635
Mobile Home	\$133,196	\$134,928	\$136,682	\$138,459	\$140,259
RV Park	\$242,643	\$245,798	\$248,993	\$252,230	\$255,509
Commercial-Low/Med Strength	\$591,778	\$599,471	\$607,264	\$615,158	\$623,156
Commercial-High Strength	\$257,481	\$260,828	\$264,219	\$267,654	\$271,134
Total Rate Revenue	\$21,876,652	\$22,154,648	\$22,436,193	\$22,721,333	\$23,010,115
MB Revenue					
Fixed Service Charge					
Multi-Family	\$12,417	\$12,417	\$12,417	\$12,417	\$12,417
Commercial-Low/Med Strength	\$1,409,454	\$1,409,454	\$1,409,454	\$1,409,454	\$1,409,454
Volumetric Rate					
Multi-Family	\$12,384	\$12,384	\$12,384	\$12,384	\$12,384
Commercial-Low/Med Strength	\$458,028	\$458,028	\$458,028	\$458,028	\$458,028
Total MB Revenue	\$1,892,283	\$1,892,283	\$1,892,283	\$1,892,283	\$1,892,283
Total Rate & MB Revenue	\$23,768,935	\$24,046,931	\$24,328,476	\$24,613,616	\$24,902,398

2.4. Projected Wastewater Revenues at Current Rates

Table 2-9 shows the wastewater enterprise's projected revenues for the study period. Wastewater rate revenues are equal to the calculated rate revenues at current rates (Table 2-8) for FY 2027 through FY 2031.

Interest income is calculated based on the reserve interest rate of 2.5% and projected fund balances. Other operating revenue includes penalties, permitting and inspection fees, disconnect fees, and other services. Non operating revenue includes connection fees and property tax revenue respectively.

Table 2-9: Projected Wastewater Revenues

Revenue Summary	FY 2027	FY 2028	FY 2029	FY 2030	FY 2031
Operating Revenues	\$23,845,440	\$24,123,436	\$24,404,981	\$24,690,121	\$24,978,903
Wastewater Service Charges	\$23,768,935	\$24,046,931	\$24,328,476	\$24,613,616	\$24,902,398
Reimbursements	\$0	\$0	\$0	\$0	\$0
Other Operating Revenue	\$76,505	\$76,505	\$76,505	\$76,505	\$76,505
Non-Operating Revenue	\$4,068,543	\$3,977,469	\$3,805,379	\$3,473,104	\$3,299,907
Non-Operating Revenue	\$2,531,582	\$2,531,582	\$2,531,582	\$2,531,582	\$2,531,582
Interest Income	\$1,536,961	\$1,445,887	\$1,273,797	\$941,522	\$768,325
Total Revenue	\$27,913,983	\$28,100,905	\$28,210,360	\$28,163,225	\$28,278,811

2.5. Projected Wastewater O&M Expenses

Table 2-10 summarizes the projected O&M expenses by department for the study period. District staff provided the adopted budget for FY 2026, which is inflated in future years using the expense escalation factors (Table 2-1). The District is expecting considerable increases to salaries, benefits, and utility costs. This also includes additional full time equivalent positions (FTEs) due to expansion of the District.

Table 2-10: Projected Wastewater O&M Expenses

	FY 2027	FY 2028	FY 2029	FY 2030	FY 2031
Operating Expenses by Department					
Dept 10 Administration	\$5,709,801	\$6,038,003	\$6,386,033	\$6,755,155	\$7,146,718
Dept 20 Board	\$374,395	\$393,780	\$414,188	\$435,673	\$458,295
Dept 30 Collections	\$1,251,925	\$1,322,896	\$1,398,085	\$1,477,756	\$1,562,193
Dept 40 Engineering	\$1,423,524	\$1,503,403	\$1,587,972	\$1,677,522	\$1,772,362
Dept 50 Laboratory	\$1,094,575	\$1,155,071	\$1,219,055	\$1,286,735	\$1,358,338
Dept 60 Maintenance	\$2,368,503	\$2,500,200	\$2,639,544	\$2,787,002	\$2,943,071
Dept 70 Operations	\$6,853,934	\$7,875,731	\$8,214,251	\$8,730,652	\$9,281,328
Total Operating Expenses	\$19,076,656	\$20,789,085	\$21,859,127	\$23,150,496	\$24,522,305

2.6. Existing Wastewater Debt Service

Table 2-11 shows the District’s existing wastewater debt service. The wastewater enterprise currently has two outstanding loans: a State Water Resources Control Board (SWRCB) Loan and Bank of America (B of A) Loan. The SWRCB Loan is repaid after FY 2048 and the B of A Loan will be repaid after FY 2042. The District expects to borrow in FY 2028 and FY 2034 to fund Capital Improvement Projects. Proposed debt is discussed in the following section.

Table 2-11: Existing Wastewater Debt Service

Existing Debt	FY 2027	FY 2028	FY 2029	FY 2030	FY 2031
SWRCB	\$553,361	\$553,361	\$553,361	\$553,361	\$553,361
Principal	\$381,898	\$388,390	\$394,993	\$401,708	\$408,537
Interest	\$171,463	\$164,970	\$158,368	\$151,653	\$144,824
B of A	\$4,351,465	\$5,390,871	\$5,545,760	\$5,484,813	\$5,423,469
Principal	\$2,576,648	\$3,686,912	\$3,943,191	\$3,990,682	\$4,039,081
Interest	\$1,774,817	\$1,703,959	\$1,602,569	\$1,494,131	\$1,384,387
Total Existing Debt Service	\$4,904,826	\$5,944,231	\$6,099,120	\$6,038,173	\$5,976,829

2.7. Wastewater Capital Project Funding

Table 2-12 details the District's capital improvement plan (CIP). District staff provided the 10-year adopted CIP in current-year dollars. From FY 2027 onward, project costs are inflated using the capital expense escalation factor in **Table 2-1**. **Table 2-13** summarizes CIP expenditures by fund. The District plans to fund its wastewater capital program through a combination of rate revenues, existing reserves, and proposed debt proceeds. **Table 2-14** presents the proposed bond issuance and borrowing terms.

The District's capital program addresses three primary categories of need:

Collection System Rehabilitation and Replacement. The collection system is the backbone of the District's wastewater operations, conveying flows from more than 90,000 residents across 261 miles of underground pipe to the treatment facility. After a century of service, the oldest segments of this network require systematic replacement to maintain reliability and prevent failures. The District prioritizes replacement based on condition assessments and consequence of failure, targeting pipes in critical locations or with documented defects first. This proactive approach is more cost-effective than reactive emergency repairs, which typically cost three to five times more than planned work and can result in sanitary sewer overflows, regulatory penalties, and environmental cleanup costs. The CIP includes funding for sewer main rehabilitation and replacement, ongoing sewer repairs, and a lift station relocation that serves existing customers.

Treatment Facility Improvements. The District's Water Reclamation Facility requires ongoing investment to maintain treatment capacity, meet evolving regulatory standards, and support system reliability. Planned projects include bar screen replacements, condition assessment improvements identified in the WRF Master Plan, and vehicle and equipment replacements essential to daily operations. The CIP also includes the Biosolids Conversion Project, which will transform how the District manages the solid byproducts of

wastewater treatment—converting a waste disposal challenge into a beneficial resource. To minimize upfront rate impacts, the District has structured the Biosolids Conversion Project through an 8-year lease agreement, spreading costs over time rather than requiring a large immediate increase.

Facilities and Operational Infrastructure. The District's workforce and operational demands have grown to serve a community of more than 90,000 residents, but several core facilities—some dating to the 1920s—have not kept pace. The CIP includes a consolidated facilities project that brings the District's operational, laboratory, and administrative functions into a modern, code-compliant campus. The laboratory is essential for monitoring treatment processes and maintaining compliance with increasingly stringent environmental regulations; the existing facility no longer meets current safety standards or provides adequate space for required testing protocols. Consolidating these functions into a single facility reduces long-term operating costs, improves operational efficiency, and provides the best long-term value for customers.

The Board of Directors carefully evaluated the costs and benefits of this approach, recognizing that while the upfront investment is significant, the consolidated facility provides the best long-term value for customers by ensuring the District can continue to attract qualified staff and operate efficiently for decades to come.

Table 2-12: Wastewater CIP

CIP (Inflated)			FY 2027	FY 2028	FY 2029	FY 2030	FY 2031
Project Description	Fund 12 - Replacement	Fund 13 - Expansion					
Campus Upgrade			\$10,500,000	\$25,000,000	\$25,000,000	\$0	\$0
Design	70%	30%	\$10,500,000	\$0	\$0	\$0	\$0
Construction	70%	30%	\$0	\$25,000,000	\$25,000,000	\$0	\$0
Plant Facility			\$5,200,571	\$7,735,057	\$5,733,630	\$8,177,258	\$5,045,045
Biosolids Conversion Project -							
Construction	78%	22%	\$2,208,071	\$2,318,475	\$2,434,399	\$2,556,118	\$2,683,924
Bar Screen Replacements	100%	0%	\$0	\$2,274,458	\$0	\$2,507,589	\$0
WRF Master Plan Condition Assessment Improvements	100%	0%	\$1,050,000	\$1,102,500	\$1,157,625	\$864,863	\$0
Vehicle & Major Equipment Replacement Fund	100%	0%	\$892,500	\$937,125	\$983,981	\$1,033,180	\$1,084,839
Future Operation Projects	75%	25%	\$1,050,000	\$1,102,500	\$1,157,625	\$1,215,506	\$1,276,282
Sewage Collections			\$1,115,394	\$6,973,894	\$7,981,960	\$5,068,281	\$1,847,456
Sewer Main Rehabilitation or Replacement Design	100%	0%	\$821,394	\$592,186	\$621,795	\$354,916	\$0
Sewer Main Rehabilitation or Replacement Construction		100%	\$0	\$4,415,601	\$3,496,803	\$2,475,087	\$1,342,457
Sewer Repairs and/or Rehabilitation	100%	0%	\$136,500	\$146,982	\$158,962	\$171,918	\$185,929
Future Collection Projects	75%	25%	\$157,500	\$165,375	\$231,525	\$243,101	\$319,070
New Collection System Lift Station	100%	0%	\$0	\$1,653,750	\$3,472,875	\$1,823,259	\$0
Total CIP			\$16,815,965	\$39,708,951	\$38,715,590	\$13,245,538	\$6,892,501

Table 2-13: Wastewater CIP Summary

CIP Summary	FY 2027	FY 2028	FY 2029	FY 2030	FY 2031
CIP Costs	\$16,815,965	\$39,708,951	\$38,715,590	\$13,245,538	\$6,892,501
Fund 12 - Replacement	\$12,878,315	\$31,381,918	\$30,332,734	\$12,318,540	\$5,903,200
Fund 13 - Expansion	\$3,937,651	\$8,327,033	\$8,382,855	\$926,998	\$989,301

Table 2-14, shows the District plans to issue approximately \$59 million in new debt in FY 2028 to fund major capital projects and associated debt service. The proposed rates ensure the District maintains debt coverage ratios at or above the 1.25x minimum required by bond covenants. Maintaining strong debt coverage is essential for securing favorable interest rates on future borrowings, which ultimately benefits customers through lower financing costs.

Table 2-14: Proposed Bond Issuance

Proposed Debt	FY 2027	FY 2028	FY 2029	FY 2030	FY 2031
Proposed Bond Proceeds - Fund 12	\$0	\$47,000,000	\$0	\$0	\$0
Proposed Debt Issuance	\$0	\$47,959,184	\$0	\$0	\$0
Annual Debt Service	\$0	\$3,848,369	\$3,848,369	\$3,848,369	\$3,848,369
Proposed Bond Proceeds - Fund 13	\$0	\$12,000,000	\$0	\$0	\$0
Proposed Debt Issuance	\$0	\$12,244,898	\$0	\$0	\$0
Annual Debt Service	\$0	\$982,562	\$982,562	\$982,562	\$982,562
Total Proposed Debt Service	\$0	\$4,830,931	\$4,830,931	\$4,830,931	\$4,830,931

2.8. Wastewater Reserve Policy

The District's current reserve policy Fund balances remain at or near target levels throughout the study period, ensuring the District can respond to emergencies and fund ongoing capital needs. Raftelis did not recommend any changes to the District's current policy which includes the following components:

- **Operating Reserve:** The District maintains an operating reserve equal to 50% of the annual Operations and Maintenance (O&M) budget, excluding California Public Employees Retirement System (CalPERS) expenses and debt service payments.
- **Capital Reserve:** Capital expenditures constitute a significant portion of the wastewater utility's annual costs over the planning horizon. The District targets a Capital Replacement Reserve balance equal to 40% of the annual O&M budget, excluding CalPERS obligations and debt service.
- **Emergency Reserve:** The Emergency Reserve Fund addresses contingencies such as cash flow shortages, natural disasters, and other unforeseen expenses. The District targets a reserve balance equal to 5% of the annual O&M budget, excluding CalPERS obligations and debt service.

In total, the current reserve policy calls for a target balance of approximately \$16.6 million in FY 2027.

2.9. Wastewater Status Quo Financial Plan

Table 2-15 shows the projected wastewater financial plan based on revenues at existing rates with no adjustments, or the "status quo" scenario. Revenues are derived from Table 2-9. Note that revenues from interest income in the status quo scenario is lower, due to a decrease in fund balances. O&M expenses are derived from Table 2-10. Existing debt service and CIP are derived from Table 2-11 and Table 2-12.

Net revenue is equal to total revenues less O&M expenses. Net cash flow is equal to net revenue less debt service and cash funded CIP. Debt coverage is calculated by dividing net revenue by debt service. Without revenue adjustments, the wastewater utility debt coverage declines near the minimum required by FY 2028. District staff provided beginning fund balances for FY 2026. Ending balances are calculated by adding beginning balances to net cash flow. The total reserve target is 95% of operating O&M (operating, capital, and emergency reserves). Under the status quo scenario, the wastewater fund will not meet reserve targets from FY 2028 onward.

Table 2-15: Projected Wastewater Financial Plan (Status Quo)

Financial Plan	FY 2027	FY 2028	FY 2029	FY 2030	FY 2031
Revenues					
Wastewater Service Charges	\$23,768,935	\$24,046,931	\$24,328,476	\$24,613,616	\$24,902,398
Revenue Adjustments	\$0	\$0	\$0	\$0	\$0
Total Rate Revenue	\$23,768,935	\$24,046,931	\$24,328,476	\$24,613,616	\$24,902,398
Fund 11: Operating Fund					
Other Operating Revenue	\$76,505	\$76,505	\$76,505	\$76,505	\$76,505
Non-Operating Revenue	\$1,411,019	\$1,411,019	\$1,411,019	\$1,411,019	\$1,411,019
Interest	\$227,472	\$250,035	\$214,522	\$154,513	\$68,416
Fund 12: Restricted CIP Fund					
Other Operating Revenue	\$0	\$0	\$0	\$0	\$0
Non-Operating Revenue	\$0	\$0	\$0	\$0	\$0
Interest	\$1,077,798	\$535,566	\$0	\$0	\$0
Fund 13: Capital Improvement Fund					
Other Operating Revenue	\$0	\$0	\$0	\$0	\$0
Non-Operating Revenue	\$1,120,563	\$1,120,563	\$1,120,563	\$1,120,563	\$1,120,563
Interest	\$196,038	\$75,644	\$0	\$0	\$0
Total - Revenues	\$27,878,330	\$27,516,262	\$27,151,084	\$27,376,216	\$27,578,901
O&M Expenses					
Fund 11: Operating Fund	\$19,076,656	\$20,789,085	\$21,859,127	\$23,150,496	\$24,522,305
Fund 12: Restricted CIP Fund	\$0	\$0	\$0	\$0	\$0
Fund 13: Capital Improvement Fund	\$0	\$0	\$0	\$0	\$0
Total - O&M Expenses	\$19,076,656	\$20,789,085	\$21,859,127	\$23,150,496	\$24,522,305
Net Revenue (excluding Debt)	\$8,801,674	\$6,727,178	\$5,291,957	\$4,225,720	\$3,056,596
Net Revenue (excluding Debt Fund 11 & 12)	\$7,485,073	\$5,530,970	\$4,171,394	\$3,105,157	\$1,936,033
Debt Service					
Existing Debt Service	\$4,904,826	\$5,944,231	\$6,099,120	\$6,038,173	\$5,976,829
Proposed Debt Service	\$0	\$0	\$0	\$0	\$0
Total - Debt Service	\$4,904,826	\$5,944,231	\$6,099,120	\$6,038,173	\$5,976,829
Net Revenue (including Debt)	\$3,896,848	\$782,946	(\$807,164)	(\$1,812,453)	(\$2,920,233)
Net Revenue (including Debt Fund 11 & 12)	\$2,580,247	(\$413,261)	(\$1,927,727)	(\$2,933,016)	(\$4,040,796)
Capital Improvement Projects					
Fund 12 - Replacement	\$12,878,315	\$31,381,918	\$30,332,734	\$12,318,540	\$5,903,200
Fund 13 - Expansion	\$3,937,651	\$8,327,033	\$8,382,855	\$926,998	\$989,301
Total - Capital Improvement Projects	\$16,815,965	\$39,708,951	\$38,715,590	\$13,245,538	\$6,892,501
Net Cash Flow	(\$12,919,117)	(\$38,926,005)	(\$39,522,753)	(\$15,057,991)	(\$9,812,734)
Net Cash Flow (Fund 11 & 12)	(\$10,298,067)	(\$31,795,179)	(\$32,260,461)	(\$15,251,556)	(\$9,943,996)
Debt Coverage					
Calculated	179%	113%	87%	70%	51%
Required	125%	125%	125%	125%	125%

Figure 2-1 shows the projected status quo financial plan in graphical format. The bars represent the wastewater utility's cash needs: O&M expenses (gray), debt service (red), capital projects (yellow), and reserve funding (green). The solid line represents the current revenues, which is below the stacked bars for all years of the period, signifying that the District's wastewater revenues are not sufficient to fund its costs.

Figure 2-1: Projected Wastewater Financial Plan (Status Quo)

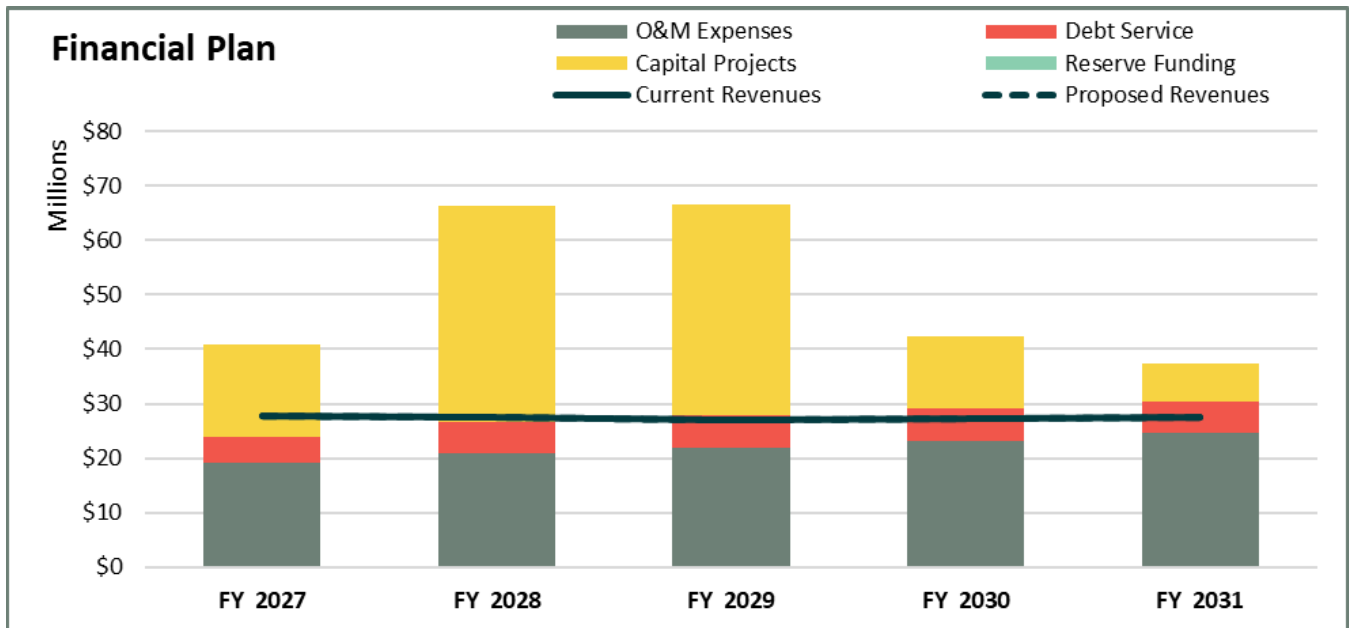
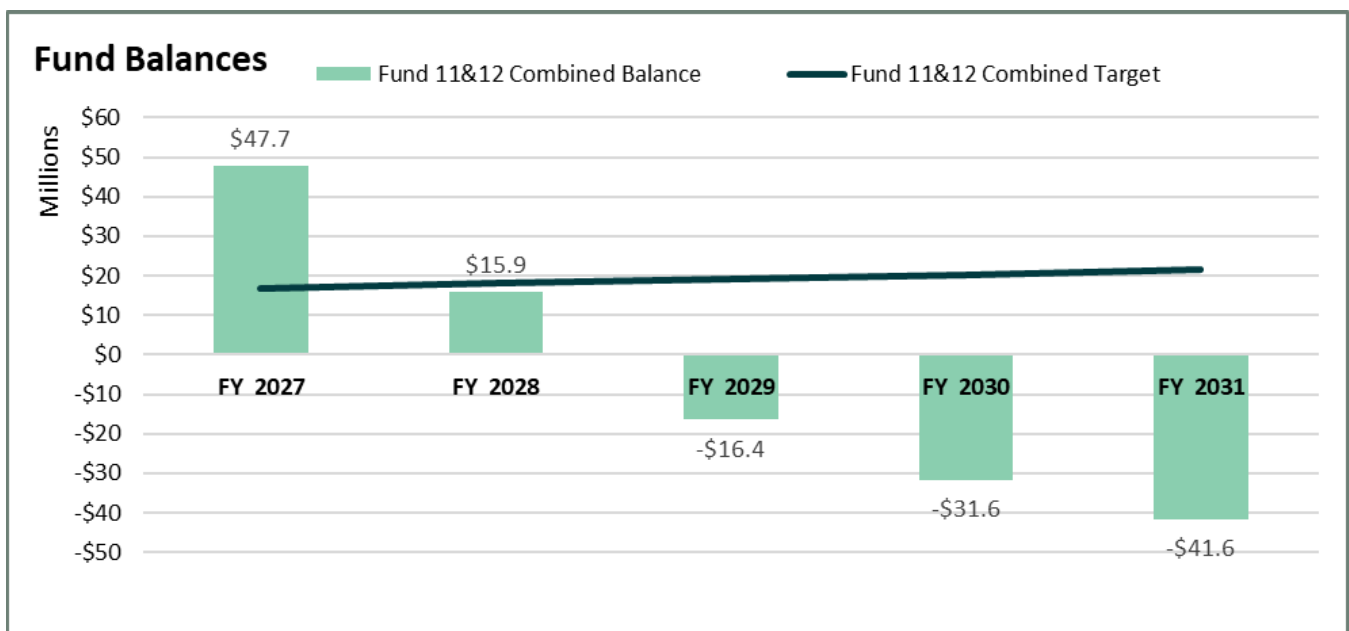


Figure 2-2 shows the projected fund balances under the status quo scenario for a 5-year period. The green bars represent the ending balances of the operating and replacement capital wastewater funds, and the solid line represents the reserve target amounts. The wastewater fund will be depleted following FY 2028 and become negative in FY 2029.

Figure 2-2: Projected Wastewater Fund Balances (Status Quo)



2.10. Proposed Wastewater Financial Plan

Table 2-16 shows the proposed revenue adjustments that allow the District to maintain financial sufficiency, fund operating and capital expenses, and build up cash reserves over a 5-year period to achieve the recommended target. The adjustments also ensure that the wastewater utility will have enough revenue to meet the coverage requirements for the proposed loans. The planning period for the study includes five years of projections, which is reflected in the tables of the report that show information for FY 2027 to FY 2031.

The proposed revenue adjustments represent the increase to total rate revenues required to recover the wastewater utility’s costs. Revenue adjustments in all years are applied across all charges and classes proportional to existing rates. The proposed revenue adjustments are effective on July 1 of every year.

Table 2-16: Proposed Wastewater Revenue Adjustments

Revenue Adjustments	FY 2027	FY 2028	FY 2029	FY 2030	FY 2031
% Adjustment	12.0%	12.0%	4.0%	4.0%	4.0%
Effective Month	July	July	July	July	July

Table 2-17 shows the projected wastewater financial plan with the proposed revenue adjustments in **Table 2-16** applied to the wastewater rate revenues. Revenues from interest income are greater than those shown in the status quo scenario (**Table 2-15**) due to additional cash from the proposed adjustments. O&M expenses are the same as the status quo scenario. However, debt service and cash-funded CIP are different in the proposed plan because of the debt issuance in FY 2028.

Net cash flow is negative for all years except FY 2028 which means that the District will be drawing down its wastewater fund to partially fund capital projects. The ending balances are only slightly below the reserve target in FY 2028 and FY 2029 for the Operating Fund and above reserve target for all other years. The Capital Replacement Fund ending balances are above the reserve target for all years of the study period.

Table 2-17: Projected Wastewater Financial Plan (Proposed Adjustments)

Financial Plan	FY 2027	FY 2028	FY 2029	FY 2030	FY 2031
Revenues					
Wastewater Service Charges	\$23,768,935	\$24,046,931	\$24,328,476	\$24,613,616	\$24,902,398
Revenue Adjustments	\$2,852,272	\$6,117,539	\$7,409,870	\$8,781,130	\$10,235,618
Total Rate Revenue	\$26,621,208	\$30,164,470	\$31,738,345	\$33,394,746	\$35,138,016
Fund 11: Operating Fund					
Other Operating Revenue	\$76,505	\$76,505	\$76,505	\$76,505	\$76,505
Non-Operating Revenue	\$1,411,019	\$1,411,019	\$1,411,019	\$1,411,019	\$1,411,019
Interest	\$263,126	\$266,117	\$267,911	\$286,779	\$308,717
Fund 12: Restricted CIP Fund					
Other Operating Revenue	\$0	\$0	\$0	\$0	\$0
Non-Operating Revenue	\$0	\$0	\$0	\$0	\$0
Interest	\$1,077,798	\$1,000,038	\$852,520	\$539,990	\$337,927
Fund 13: Capital Improvement Fund					
Other Operating Revenue	\$0	\$0	\$0	\$0	\$0
Non-Operating Revenue	\$1,120,563	\$1,120,563	\$1,120,563	\$1,120,563	\$1,120,563
Interest	\$196,038	\$179,732	\$153,366	\$114,753	\$121,682
Total - Revenues	\$30,766,256	\$34,218,444	\$35,620,229	\$36,944,355	\$38,514,429
O&M Expenses					
Fund 11: Operating Fund	\$19,076,656	\$20,789,085	\$21,859,127	\$23,150,496	\$24,522,305
Fund 12: Restricted CIP Fund	\$0	\$0	\$0	\$0	\$0
Fund 13: Capital Improvement Fund	\$0	\$0	\$0	\$0	\$0
Total - O&M Expenses	\$19,076,656	\$20,789,085	\$21,859,127	\$23,150,496	\$24,522,305
Net Revenue (excluding Debt)	\$11,689,599	\$13,429,359	\$13,761,102	\$13,793,860	\$13,992,124
Net Revenue (excluding Debt Fund 11 & 12)	\$10,372,999	\$12,129,064	\$12,487,173	\$12,558,544	\$12,749,878
Debt Service					
Existing Debt Service	\$4,904,826	\$5,944,231	\$6,099,120	\$6,038,173	\$5,976,829
Proposed Debt Service	\$0	\$4,830,931	\$4,830,931	\$4,830,931	\$4,830,931
Total - Debt Service	\$4,904,826	\$10,775,162	\$10,930,052	\$10,869,105	\$10,807,761
Net Revenue (including Debt)	\$6,784,774	\$2,654,197	\$2,831,050	\$2,924,755	\$3,184,363
Net Revenue (including Debt Fund 11 & 12)	\$5,468,173	\$1,353,902	\$1,557,121	\$1,689,439	\$1,942,118
Capital Improvement Projects					
Fund 12 - Replacement	\$12,878,315	\$0	\$14,714,652	\$12,318,540	\$5,903,200
Fund 13 - Expansion	\$3,937,651	\$0	\$4,709,888	\$926,998	\$989,301
Total - Capital Improvement Projects	\$16,815,965	\$0	\$19,424,540	\$13,245,538	\$6,892,501
Net Cash Flow	(\$10,031,192)	\$2,654,197	(\$16,593,490)	(\$10,320,783)	(\$3,708,138)
Net Cash Flow (Fund 11 & 12)	(\$7,410,142)	\$1,353,902	(\$13,157,531)	(\$10,629,101)	(\$3,961,082)
Debt Coverage					
Calculated	238%	125%	126%	127%	129%
Required	125%	125%	125%	125%	125%

Figure 2-3: Projected Wastewater Financial Plan (Proposed Adjustments)

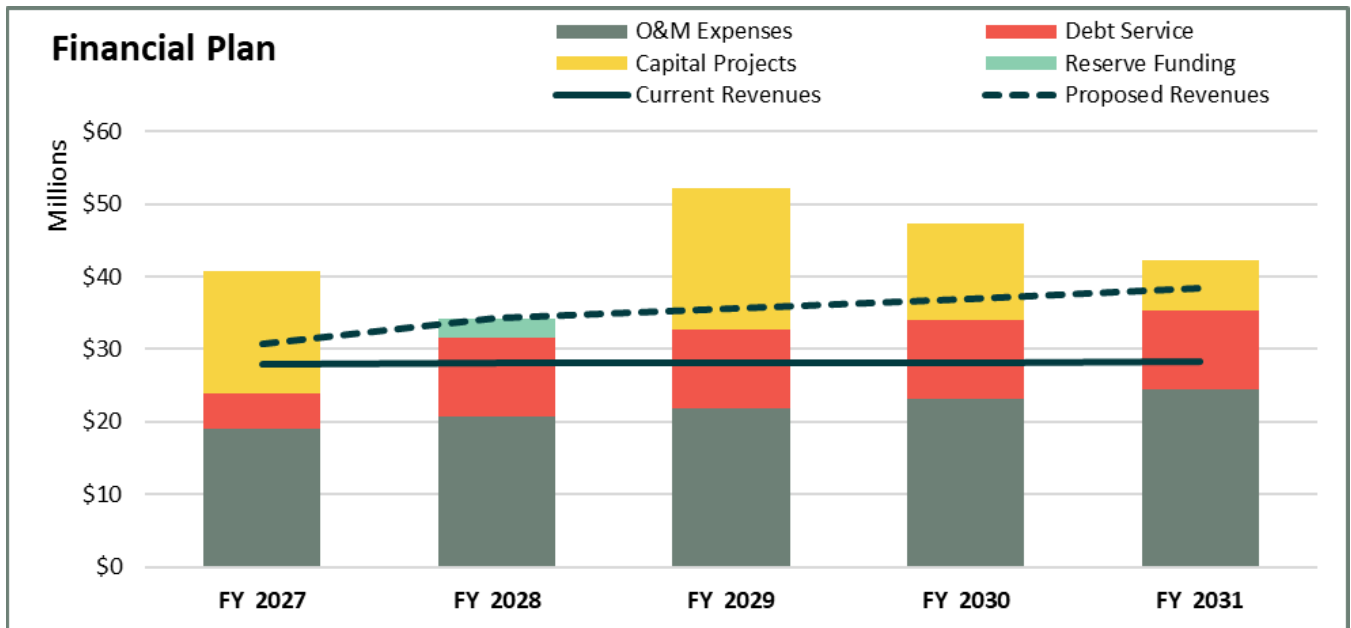
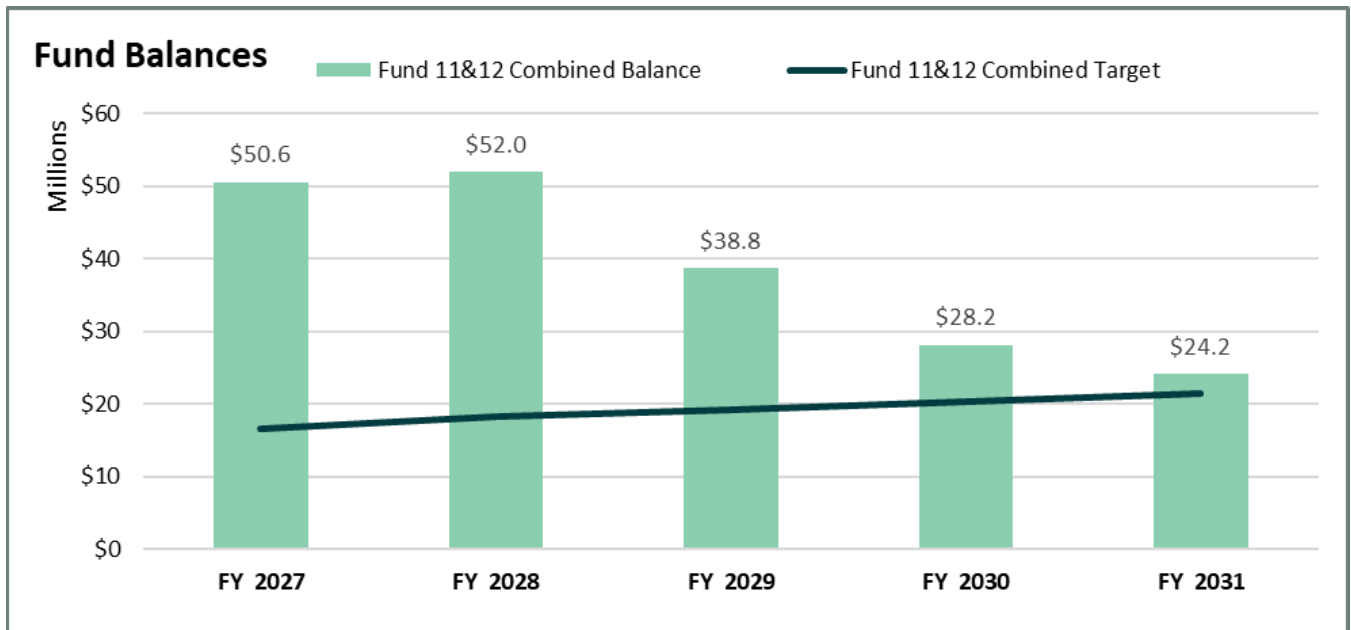


Figure 2-4: Projected Wastewater Fund Balances (Proposed Adjustments)



2.11. Proposed Wastewater Rate Schedule

The District's proposed wastewater rates include annual adjustments to both the fixed service charge and the volumetric rate for each customer class. The proposed rate adjustments, shown in **Table 2-16** are applied uniformly across all customer classes and rate components.

Table 2-18 and Table 2-19 show the proposed annual fixed charges and volumetric charges for FY 2027 and FY 2031 based on the recommendations. Rates for all years are determined by increasing current rates by the corresponding revenue adjustments in **Table 2-16**. Since the current wastewater rates are increased by the revenue adjustments, all bill impacts are equal to that year's revenue adjustment.

Table 2-18: Proposed Annual Wastewater Charges

Rates	Current FY 2026	Proposed FY 2027	Proposed FY 2028	Proposed FY 2029	Proposed FY 2030	Proposed FY 2031
Fixed Service Charge						
Single Family	\$497.74	\$557.47	\$624.37	\$649.34	\$675.31	\$702.32
Multi-Family	\$217.84	\$243.98	\$273.26	\$284.19	\$295.56	\$307.38
Mobile Home	\$263.27	\$294.86	\$330.24	\$343.45	\$357.19	\$371.48
RV Park	\$205.14	\$229.76	\$257.33	\$267.62	\$278.32	\$289.45
Commercial-Low/Med Strength	\$289.06	\$323.75	\$362.60	\$377.10	\$392.18	\$407.87
Commercial-High Strength	\$881.56	\$987.35	\$1,105.83	\$1,150.06	\$1,196.06	\$1,243.90

Table 2-19: Proposed Wastewater Volumetric Charges

Rates	Current FY 2026	Proposed FY 2027	Proposed FY 2028	Proposed FY 2029	Proposed FY 2030	Proposed FY 2031
Volumetric Rate (\$/hcf)						
Single Family	\$1.43	\$1.60	\$1.79	\$1.86	\$1.93	\$2.01
Multi-Family	\$1.43	\$1.60	\$1.79	\$1.86	\$1.93	\$2.01
Mobile Home	\$1.43	\$1.60	\$1.79	\$1.86	\$1.93	\$2.01
RV Park	\$1.58	\$1.77	\$1.98	\$2.06	\$2.14	\$2.23
Commercial-Low/Med Strength	\$1.28	\$1.43	\$1.60	\$1.66	\$1.73	\$1.80
Commercial-High Strength	\$2.91	\$3.26	\$3.65	\$3.80	\$3.95	\$4.11

2.12. Customer Bill Impacts

The cumulative five-year rate adjustment totals 41.1%. The higher adjustments in the first two years (12% each) reflect the immediate capital needs and debt issuance planned for FY 2028, while the lower adjustments in subsequent years (4% each) provide stability and predictability for customers.

2.12.1. Customer Bill Impacts

For a typical single-family residential customer using 179 HCF of water annually (approximately 134,000 gallons), the proposed Year 1 increase amounts to approximately \$7.51 per month, or roughly \$0.25 per day. The following table shows projected monthly bill impacts over the five-year period:

Figure 2-5: Single Family Bill Impacts

	Current	FY 2027	FY 2028	FY 2029	FY 2030
Monthly Bill	\$62.79	\$70.30	\$78.71	\$81.83	\$85.04
Monthly Increase	—	\$7.51	\$8.41	\$3.12	\$3.21
Daily Cost	\$0.23	\$0.25	\$0.27	\$0.27	\$0.27