City of Cerritos

2025 Water & Sewer Rate Study

October 2025

Prepared by: Water Resources Economics, LLC

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October 22, 2025

Alvin Papa
Director of Public Works
City of Cerritos
18125 Bloomfield Avenue
Cerritos, CA 90703

Subject: 2025 Water & Sewer Rate Study

Dear Mr. Papa,

Water Resources Economics, LLC is pleased to submit this 2025 Water & Sewer Rate Study Report to the City of Cerritos. This report documents the results and recommendations of the 2025 Water & Sewer Rate Study. The primary goal of the study was to develop an updated five-year schedule of water and sewer rates that will sufficiently fund the City's water and sewer enterprise funds.

This study utilized industry-standard rate-setting methodology in accordance with guidelines developed by the American Water Works Association and Water Environment Federation. Our project team has a proven track record of developing fair and equitable rates for numerous water and sewer agencies in California over the past 25 years. We are confident in our ability to develop sound rates that meet industry standards and align with Proposition 218 requirements.

It has been a pleasure assisting the City and we appreciate the support provided by you and your colleagues over the course of the study.

Sincerely,

Sanjay Gaur
Founder / President

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LIST OF ABBREVIATIONS

AF: Acre-feet
AFY: Acre-feet per year
AWWA: American Water Works Association
CCF: One hundred cubic feet
CBMWD: Central Basin Municipal Water District
CIP: Capital Improvement Program
City: City of Cerritos
EMU: Equivalent meter unit
FY: Fiscal year (July 1st – June 30th)
GPM: Gallons per minute
M1 Manual: *Manual of Water Supply Practices M1: Principles of Water Rates, Fees and Charges, Seventh Edition*
WEF: Water Environment Federation
WRD: Water Replenishment District of Southern California
WRE: Water Resources Economics, LLC

1. EXECUTIVE SUMMARY

RATE STUDY OVERVIEW

Public retail water and sewer utilities in California typically conduct a rate study approximately every five years to ensure that customers are appropriately charged for service in compliance with California Proposition 218. The City's current water and sewer rates have been in effect since Fiscal Year[1] (FY) 2020-21 and were initially adopted in November 2014 as part of a seven-year rate schedule spanning from FY 2014-15 through FY 2020-21. This adopted rate schedule included 10% rate increases each year over the seven-year period. The City's water and sewer rates have historically been substantially lower than in neighboring Los Angeles County communities and remain among the lowest in the region. This has been achieved through significant support from the City's General Fund to the Water Fund and Sewer Fund.

City Council adopted Resolution 2023-35 in October 2023 which provided clear policy directions to reduce General Fund support to the Water and Sewer Funds and to develop water and sewer rates that sufficiently fund the City's water and sewer systems. The City engaged Water Resources Economics, LLC (WRE) in early 2025 to conduct a water and sewer rate study. The primary purpose of this updated rate study was to develop a proposed five-year schedule of water and sewer rates that will sufficiently fund the City's water and sewer systems and reduce reliance on General Fund support. The scope of this rate study also included the development of proposed reclaimed water rates. However, the reclaimed water rate portion of the study is temporarily on hold while funding details are determined for an emergency repair project for the reclaimed water system.

LEGAL REQUIREMENTS

Legal considerations relating to retail water and sewer rates in California focus heavily on Proposition 218, which was enacted in 1996 and is now reflected in Article XIII C and Article XIII D of the California Constitution. Proposition 218 states that "property related fees and charges" (which include retail water and sewer rates) may not exceed the proportional cost of providing the service to the customer and may not be used for any purpose other than providing said service. The practical implication is that public retail water and sewer agencies in California must demonstrate a sufficient nexus between the costs incurred by the agency to provide service and the rates charged to customers.

RATE-SETTING METHODOLOGY

This rate study was conducted using industry-standard methodology outlined by the American Water Works Association (AWWA) in its *Manual of Water Supply Practices M1: Principles of Water Rates, Fees and Charges, Seventh Edition* (M1 Manual) and the Water Environment Federation (WEF) in its *Manual of Practice No. 27: Financing And Charges for Wastewater Systems, Fourth Edition.* The overall rate study process is summarized in the steps outlined below. Note that the steps are conducted separately for the Water Fund and the Sewer Fund:

[1] The City's fiscal year is from July 1st through June 30th.

1. **Financial Plan**: Annual revenues from current rates and expenses were projected over a multi-year period to establish baseline financial projections from which the need for rate increases was then evaluated. The overall goal of the financial plan was to establish the total annual rate revenue requirement over the rate-setting period.
2. **Cost-of-Service Analysis**: System costs were evaluated and allocated to customers in proportion to their use of the water and sewer systems. The overall goal of a cost-of-service analysis is to establish a robust proportionality between the costs incurred by the utility and the rates charged to customers to satisfy Proposition 218 requirements.
3. **Rate Design**: The existing rate structure was evaluated and potential changes were identified. A five-year proposed rate schedule was then calculated directly from the results of the financial plan and cost-of-service analysis for the proposed rate structure. Sample customer bills were evaluated to better understand the impacts of the proposed rate changes to customers.
4. **Rate Study Documentation**: A rate study report was developed to document the proposed rate development process, demonstrate the required proportionality between costs and rates, and provide transparency to the public and elected officials. This document serves as the report for this rate study.

WATER AND SEWER FINANCIAL PLANS

Financial Plan Assumptions

Annual Water Fund and Sewer Fund revenues and expenses were projected to evaluate cash flow and cash reserve levels over a five-year planning horizon. WRE worked closely with City staff to develop key assumptions underlying the financial plan projections, including:

- **Water demand:** Total potable water demand was projected at 7,000 acre-feet per year (AFY) over the next five years, which aligns closely with FY 2023-24 actual demand but is about 10% lower than five-year historical average demand. This reflects City staff's expectation that water demand will not fully rebound to prior levels due to ongoing conservation and efficiency improvements during periods of recent drought in the region. Despite some cost savings, the predominant impact from reduced water demand is the decline in revenue from volumetric water and sewer rates charged per unit of metered water use.
- **Operating expense increases:** Water Fund operating expenses were projected to increase by 9.1% per year on average, while Sewer Fund operating expenses were projected to increase by 5.2% per year on average. Projected cost increases are primarily due to inflation. However, Water Fund operating expense increases are significantly higher due to the need to purchase more expensive imported water supplies during construction of a new treatment facility at one of the City's groundwater wells.
- **Capital Improvement Program (CIP) funding**: The City's preliminary five-year CIP included $42.2 million in water system projects and $6.3 million in sewer system projects. Because full funding of the five-year water and sewer CIP would result in unacceptably high bill impacts to customers, City staff developed a reduced CIP scenario which included $23.0 million in water

system projects and $3.9 million in sewer system projects. This reduced scenario only included projects deemed critical to maintaining the potable water and sewer systems' existing level of service, including major well upgrades and sewer collection system repairs. All CIP projects over the rate-setting period are assumed to be cash funded (i.e., no new debt financing or grant funding).

- **Enterprise fund reserve policy**: The City's existing enterprise fund reserve policy (per Resolution No. 2025-04) applies to the Water Fund and Sewer Fund. This policy specifies a minimum reserve level equal to 25% of annual operating expenses plus annual average five-year CIP and a target reserve level equal to 35% of annual operating expenses plus annual average five-year CIP. It also states that "any depletion below the minimum level will trigger a review of rates and financial plans to restore reserves within three to five years." Compliance with the City's enterprise fund reserve policy was a critical consideration in the financial plan analysis.

Status Quo Financial Plan Scenarios

"Status quo" financial plan scenarios were first developed separately for the Water Fund and Sewer Fund to evaluate what would occur if no rate increases were implemented over the rate-setting period (i.e., current rates remain unchanged). This scenario provided a baseline from which to evaluate the magnitude and timing of proposed rate increases. Key status quo financial plan assumptions are shown in Table 1-1. Revenue adjustments represent revenue increases resulting from proposed rate increases and therefore equal 0% for the status quo financial plan. Assumed General Fund transfers total $68.9 million to the Water Fund and $12.1 million to the Sewer Fund over the five-year rate-setting period. These values represent the level of General Fund support that would be required to meet all water and sewer system funding requirements while achieving minimum reserve levels each year.

Table 1-1: Status Quo Revenue Adjustments and General Fund Support

Fiscal Year	Effective Month	Water Revenue Adjustment	General Fund Transfer to Water Fund	Sewer Revenue Adjustment	General Fund Transfer to Sewer Fund
FY 2025-26	Feb. 2026	0%	$13,850,000	0%	$2,110,000
FY 2026-27	Jan. 2027	0%	$9,810,000	0%	$1,780,000
FY 2027-28	Jan. 2028	0%	$13,940,000	0%	$2,570,000
FY 2028-29	Jan. 2029	0%	$14,470,000	0%	$2,660,000
FY 2029-30	Jan. 2030	0%	$16,850,000	0%	$3,020,000
Total		**0%**	**$68,920,000**	**0%**	**$12,140,000**

A graphical summary of the status quo financial plans is shown in Figure 1-1 for the Water Fund and Figure 1-2 for the Sewer Fund. Under the status quo financial plans, water and sewer system revenues are insufficient to cover operating expenses in every year of the rate-setting period, indicating significant operating deficits. Substantial General Fund support totaling $68.9 million to the

Water Fund and $12.1 million to the Sewer Fund would be necessary to cover all funding requirements while meeting the minimum reserve level each year. The status quo financial plan is inconsistent with direction provided by City Council per Resolution 2023-35, thus demonstrating the need for proposed revenue adjustments to help the Water and Sewer Funds achieve financial self-sufficiency and reduce General Fund support in the near-term.

Figure 1-1: Water Fund Status Quo Financial Plan – Projected Cash Reserves

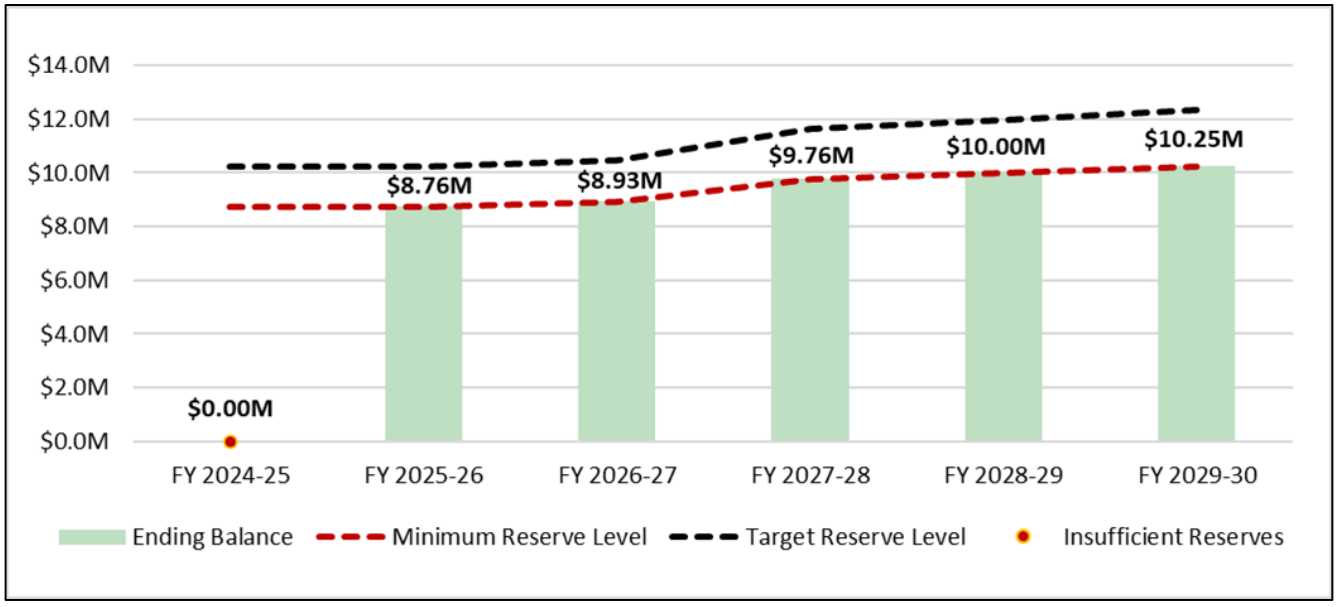
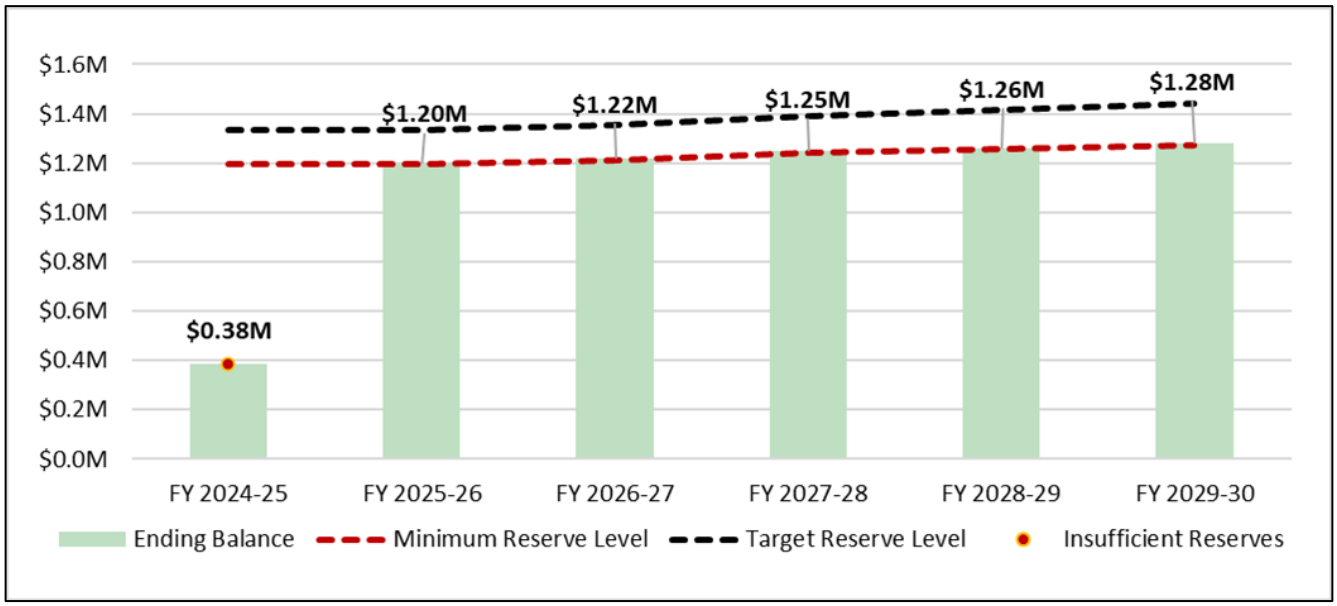


Figure 1-2: Sewer Fund Status Quo Financial Plan – Projected Cash Reserves



Proposed Financial Plan Scenarios

Various financial plan scenarios with differing levels of revenue adjustments and General Support were considered and refined based on input from City staff. City Council instructed City staff and WRE to proceed with the proposed revenue adjustments and General Fund support shown in Table 1-2 during City Council meetings on July 28, 2025, and August 28, 2025. Under the proposed financial plans, General Fund support is gradually phased out over the first four years to help the Water and Sewer Funds achieve self-sufficiency in line with Resolution 2023-35, while mitigating the need for even higher revenue adjustments.

Proposed revenue adjustment percentages shown represent the increase in rate revenues resulting from proposed rate increases. The proposed FY 2025-26 revenue adjustment is assumed to be effective February 1, 2026, with the following four proposed revenue adjustments assumed to be effective January 1 of each respective fiscal year. Proposed sewer revenue adjustments are significantly higher because the Sewer Fund is currently far more reliant on General Fund support to cover operating expenses. At present, water system revenues cover approximately 75% of Water Fund operating expenses, but sewer system revenues cover less than 10% of Sewer Fund operating expenses.

Table 1-2: Proposed Revenue Adjustments and General Fund Support

Fiscal Year	Effective Month	Water Revenue Adjustment	General Fund Transfer to Water Fund	Sewer Revenue Adjustment	General Fund Transfer to Sewer Fund
FY 2025-26	Feb. 2026	50%	$3,500,000	1425%	$1,332,680
FY 2026-27	Jan. 2027	30%	$3,000,000	25%	$1,000,000
FY 2027-28	Jan. 2028	25%	$2,000,000	25%	$750,000
FY 2028-29	Jan. 2029	20%	$1,000,000	25%	$500,000
FY 2029-30	Jan. 2030	5%	$0	25%	$0
Total		**207%**	**$9,500,000**	**3623%**	**$3,582,680**

A graphical summary of the proposed financial plans is shown in Figure 1-3 for the Water Fund and Figure 1-4 for the Sewer Fund. Under the proposed financial plans, cash reserves are projected to meet the minimum reserve level by the end of the five-year rate-setting period. This is consistent with the City's current enterprise fund reserve policy, which dictates that any depletion below the minimum level will require a new rate plan to restore reserves within three to five years. Under the proposed financial plans, General Fund support is necessary to cover a portion of Water and Sewer Fund expenses, particularly in the earlier years as rate revenue generation increases. Although the proposed financial plans require large revenue adjustments which will significantly impact customer bills, they provide a pathway towards phasing out Water and Sewer Fund reliance on General Fund support over time consistent with Resolution 2023-35.

Figure 1-3: Water Fund Proposed Financial Plan – Projected Cash Reserves

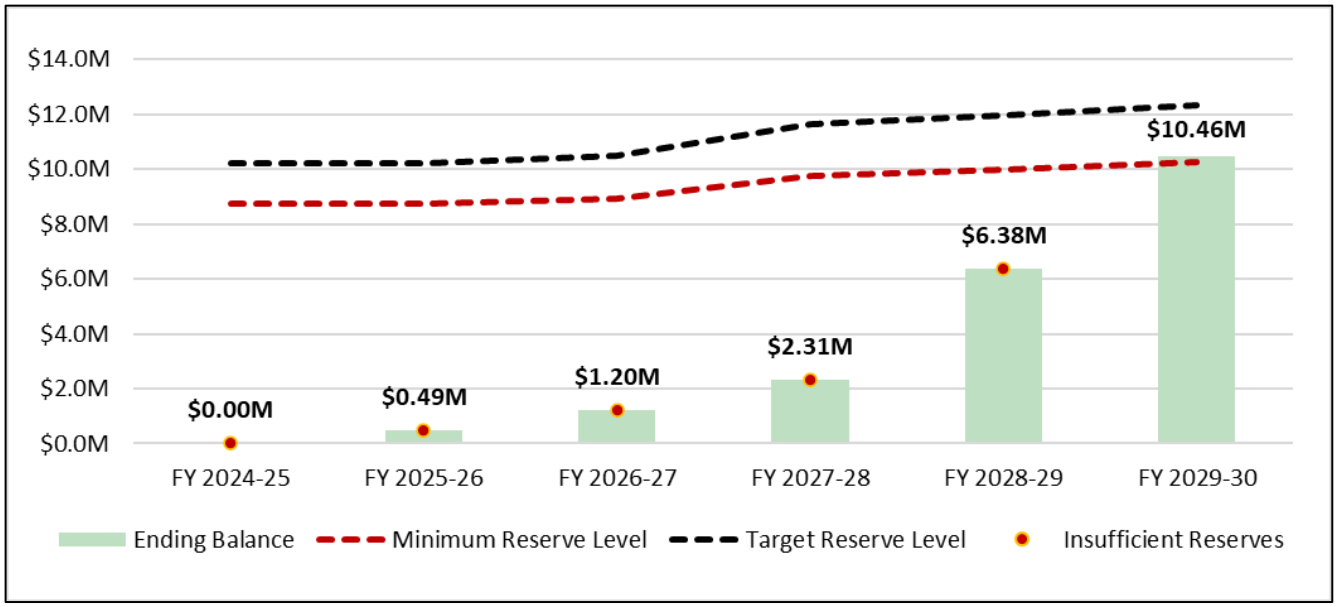
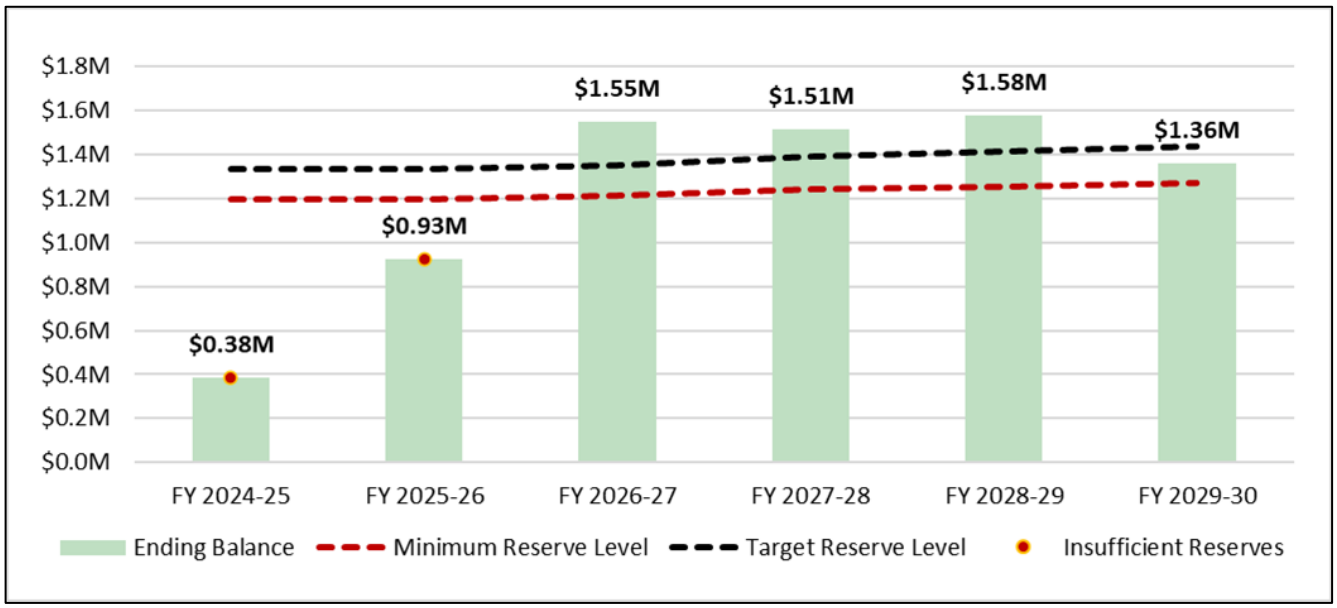


Figure 1-4: Sewer Fund Proposed Financial Plan – Projected Cash Reserves



WATER AND SEWER COST-OF-SERVICE ANALYSES

Public water and sewer agencies typically conduct a cost-of-service analysis approximately every five years to help satisfy Proposition 218 requirements. A cost-of-service analysis was conducted separately for the water and sewer systems to allocate the rate revenue requirements to customers in proportion to their use of and burden on the City's water and sewer systems. The overall goal of the cost-of-service analyses was to develop "unit costs," which were used to calculate proposed rates. Unit costs provide the underlying basis to attribute customers' utilization of the water and sewer systems to the Water and Sewer Funds' incursion of costs. This is necessary to maintain a sufficient proportionality between the costs incurred by the City to provide water and sewer service and the rates charged to customers.

WATER AND SEWER RATE DESIGN

Current Water Rates

The City's current potable retail[2] water customers are billed bimonthly. The current potable water rate structure consists of the following rates and charges:

1. **Fixed Meter Charges** (see Table 1-3)**:** Each metered connection is subject to a bimonthly fixed meter charge, which varies based on the size of the diameter of the water meter.
2. **Volumetric Rates** (see Table 1-3): Each one hundred cubic feet (CCF)[3] of metered water usage that exceeds the bimonthly base minimum allotment is subject to a volumetric rate. The volumetric rate is same for all customers in terms of price per CCF, but the bimonthly base minimum allotment increases with meter size. For example, a customer with a 5/8 x 3/4 -inch meter using 20 CCF bimonthly is charged based on 10 CCF (i.e., 20 CCF of actual water use minus the 10 CCF base minimum allotment).
3. **Fixed Private Fire Line Charges** (see Table 1-4): Dedicated private fire lines (e.g., for fire-suppression sprinkler systems) are subject to different bimonthly fixed charges based on the size of the diameter of the piped connection. Most customers are not subject to private fire line charges, as they pertain to only about 300 connections.

[2] The City sells wholesale water to Golden State Water Company and the City of Norwalk. Rates paid by these two wholesale customers are not subject to Proposition 218 and are governed by contracts with each wholesale customer. Please note that wholesale rates are outside of the scope of this rate study, which pertains to retail water service only.
[3] One hundred cubic feet is approximately 748 gallons.

Table 1-3: Current Water Rates - Fixed Meter Charges and Volumetric Rates

Meter Size	Bimonthly Base Minimum Allotment (CCF)	Bimonthly Fixed Meter Charges	Volumetric Rate (per CCF)
5/8 x 3/4-inch	10	$37.61	$2.75
1-inch	25	$127.52	$2.75
1 1/2-inch	50	$255.07	$2.75
2-inch	100	$510.14	$2.75
3-inch	150	$765.18	$2.75
4-inch	175	$892.73	$2.75
6-inch	200	$1,020.25	$2.75
8-inch	225	$1,069.38	$2.75
10-inch	250	$1,188.80	$2.75

Table 1-4: Current Water Rates - Fixed Private Fire Line Charges

Connection Size	Bimonthly Fixed Charge
4-inch	$163.24
6-inch	$244.86
8-inch	$327.27
10-inch	$408.10
12-inch	$489.73

Current Sewer Rates

Sewer customers are billed bimonthly by the City for wastewater collection service only. Wastewater treatment and disposal services are provided by Los Angeles County Sanitation Districts (LACSD), which charges customers separately via the Los Angeles County property tax roll. The City's current sewer rate structure consists of a uniform volumetric rate per CCF of metered water use (see Table 1-5). All sewer customers are subject to the same uniform volumetric rate. There is currently no fixed charge component to the City's sewer rate structure.

Table 1-5: Current Sewer Rates

Current Sewer Rates	Per CCF
All Customers	$0.0322

Rate Structure Evaluation

The City's existing water and sewer rate structures were evaluated and potential changes were identified and considered. Proposed rate structure changes typically intend to address specific policy objectives or maintain alignment with changing industry standards. Only one proposed change to the water rate structure was identified and recommended as a result of this evaluation and is outlined in detail in the following subjection. No changes to the sewer rate structure were recommended as part

of this study in order to avoid adding to the already significant bill impacts to customers. However, it is recommended that the City reevaluate the existing sewer rate structure during the next sewer rate study. A potential change to consider in the future is the introduction of a fixed charge component to the rate structure, which could improve revenue stability.

Proposed Change to Water Rate Structure

Under the current water rate structure, volumetric rates only apply to customer water use that exceeds the existing bimonthly base minimum allotment. WRE recommends that the existing base minimum allotments be eliminated. Under this proposed change, all metered water use would be subject to proposed volumetric rates (see Table 1-6). This proposed change is recommended to improve the proportionality of volumetric rates to the City's variable water supply costs. Each unit of water supplied from local groundwater or imported water incurs a variable cost in proportion to the quantity of water. Therefore, charging customers for each unit of water consumed strengthens the nexus between costs incurred by the Water Fund and proposed rates paid by customers. This proposed change will better align the City's water rate structure with industry best practices and evolving interpretations of legal requirements under Proposition 218.

Table 1-6: Current vs. Proposed Water Use Subject to Volumetric Rates

FY 2025-26 Potable Retail Water Use (CCF)	Current	Proposed
Water Use Exempt from Volumetric Rates (*i.e., Within Base Minimum Allotment*)	1,081,998	0
Water Use Subject to Volumetric Rates (*i.e., Above Base Minimum Allotment*)	1,560,127	2,642,125
Total	**2,642,125**	**2,642,125**

Proposed Five-Year Water and Sewer Rate Schedule

A proposed five-year water and sewer rate schedule was developed directly from the results of the proposed financial plans and cost-of-service analyses (see Table 1-7). The proposed water rates incorporate the proposed rate structure change outlined above, which calls for the elimination of existing base minimum allotments. Proposed FY 2025-26 rates are assumed to be implemented on February 1, 2026, with the four subsequent rate adjustments assumed to be effective January 1 of each respective fiscal year. Note that differential impacts to proposed fixed charges of various meter/connection sizes are primarily due to the use of updated assumptions and methodologies consistent with AWWA rate-setting guidance. This is necessary to align with industry best practices and evolving interpretations of Proposition 218 legal requirements.

Table 1-7: Proposed Five-Year Water and Sewer Rate Schedule

Description	Current	Proposed FY 2025-26 (Feb. 2026)	Proposed FY 2026-27 (Jan. 2027)	Proposed FY 2027-28 (Jan. 2028)	Proposed FY 2028-29 (Jan. 2029)	Proposed FY 2029-30 (Jan. 2030)
WATER RATES						
Bimonthly Fixed Meter Charge						
5/8 x 3/4-inch meter	$37.61	$39.84	$51.80	$64.75	$77.70	$81.59
1-inch meter	$127.52	$91.09	$118.42	$148.03	$177.64	$186.53
1 1/2-inch meter	$255.07	$176.52	$229.48	$286.85	$344.22	$361.44
2-inch meter	$510.14	$279.04	$362.76	$453.45	$544.14	$571.35
3-inch meter	$765.18	$552.41	$718.14	$897.68	$1,077.22	$1,131.09
4-inch meter	$892.73	$859.96	$1,117.95	$1,397.44	$1,676.93	$1,760.78
6-inch meter	$1,020.25	$1,714.25	$2,228.53	$2,785.67	$3,342.81	$3,509.96
8-inch meter	$1,069.38	$2,739.41	$3,561.24	$4,451.55	$5,341.86	$5,608.96
10-inch meter	$1,188.80	$4,106.28	$5,338.17	$6,672.72	$8,007.27	$8,407.64
Volumetric Rate per CCF						
All Customers[4]	$2.75	$3.74	$4.87	$6.09	$7.31	$7.68
Bimonthly Fixed Private Fire Line Charges						
4-inch connection	$163.24	$80.61	$104.80	$131.00	$157.20	$165.06
6-inch connection	$244.86	$217.15	$282.30	$352.88	$423.46	$444.64
8-inch connection	$327.27	$452.66	$588.46	$735.58	$882.70	$926.84
10-inch connection	$408.10	$806.91	$1,048.99	$1,311.24	$1,573.49	$1,652.17
12-inch connection	$489.73	$1,297.88	$1,687.25	$2,109.07	$2,530.89	$2,657.44
SEWER RATES						
Sewer Rates (per CCF)						
All Customers	$0.0322	$0.4911	$0.6139	$0.7674	$0.9593	$1.1992

[4] If adopted, proposed volumetric rates will apply to all metered customer water use, as base minimum allotments are proposed to be eliminated.

CUSTOMER BILL IMPACT ANALYSIS

Average Bimonthly Water Bill Impacts

Sample bimonthly water bills based on current and proposed rates were calculated to evaluate bill impacts to typical single-family residential and commercial customers. Average single-family residential and commercial bimonthly water bills under current and proposed rates are shown in Table 1-8 over the five-year rate-setting period. Single-family residential bills are reflective of a customer with a 5/8 x 3/4-inch meter[5] using 20 CCF per bimonthly billing period (i.e., average single-family residential water use). Commercial bills are reflective of a customer with a 1.5-inch meter[6] using 125 CCF per bimonthly billing period (i.e., average commercial water use).

Table 1-8: Average Water Bill Impacts

Description	Current	Proposed Feb. 2026	Proposed Jan. 2027	Proposed Jan. 2028	Proposed Jan. 2029	Proposed Jan. 2030
Average Residential						
Bimonthly Bill	$65.11	$114.64	$149.20	$186.55	$223.90	$235.19
Change ($)		$49.53	$34.56	$37.35	$37.35	$11.29
Average Commercial						
Bimonthly Bill	$461.32	$644.02	$838.23	$1,048.10	$1,257.97	$1,321.44
Change ($)		$182.70	$194.21	$209.87	$209.87	$63.47

Average Bimonthly Water Bill Comparison to Neighboring Utilities

Current and proposed FY 2025-26 bimonthly bills for an average single-family residential customer and an average commercial customer were compared to customer bills at 15 neighboring water utilities (see Table 1-9 and Table 1-10). Under both current and proposed FY 2025-26 rates, average water bills in the City of Cerritos are among the lowest in the region.

All single-family residential bills were estimated based on the smallest available meter size and 20 CCF of bimonthly water use. All commercial bills were estimated based on a 1.5-inch meter size and 125 CCF of bimonthly water use. All bills for neighboring agencies were estimated based on adopted rates effective as of May 2025. Therefore, any adopted or proposed rate adjustments in FY 2025-26 for the 15 neighboring water utilities are not reflected in the bill comparisons shown.

[5] Over 95% of all single-family residential connections have a 5/8 x 3/4-inch meter.
[6] The median commercial meter size is 1.5-inches.

Table 1-9: Average Residential Water Bill Comparison to Neighboring Agencies

Water Agency	Bimonthly Residential Water Bill
Golden State Water Company	$201.54
Liberty Utilities	$196.57
Compton	$156.82
Norwalk	$153.48
Lynwood	$144.09
Signal Hill	$139.12
Long Beach	$138.70
Santa Fe Springs	$122.20
Bellflower (Cal American Water Co)	$120.10
South Gate	$119.60
Bellflower (Somerset Mutual Water Co)	$116.82
Whittier/ La Mirada (Suburban Water Systems)	$115.76
Cerritos (Proposed Feb. 2026)	***$114.64***
Lakewood	$88.12
Paramount	$72.28
Cerritos (Current)	***$65.11***
Downey	$52.64

Table 1-10: Average Commercial Water Bill Comparison to Neighboring Agencies

Water Agency	Bimonthly Commercial Water Bill
Golden State Water Company	$1,164.44
Liberty Utilities	$1,152.08
Signal Hill	$1,087.75
South Gate	$788.75
Bellflower (Cal American Water Co)	$784.75
Lynwood	$753.18
Santa Fe Springs	$729.51
Long Beach	$721.84
Norwalk	$697.95
Bellflower (Somerset Mutual Water Co)	$659.50
Cerritos (Proposed Feb. 2026)	***$644.02***
Whittier/ La Mirada (Suburban Water Systems)	$618.71
Compton	$555.81
Paramount	$547.35
Lakewood	$500.93
Cerritos (Current)	***$461.32***
Downey	$331.32

Average Bimonthly Sewer Bill Impacts

Sample bimonthly sewer bills based on current and proposed rates were calculated to evaluate bill impacts to typical single-family residential and commercial sewer customers. Average single-family residential and commercial bimonthly sewer bills under current and proposed rates are shown in Table 1-11 over the five-year rate-setting period. Single-family residential bills are reflective of a customer with metered water use of 20 CCF per bimonthly billing period (i.e., average single-family residential water use). Commercial bills are reflective of a customer with metered water use of 125 CCF per bimonthly billing period (i.e., average commercial water use). Average bimonthly bill increases are significantly higher in the first year of the proposed rate schedule due to the substantial first year revenue adjustment of 1,425%.

Table 1-11: Average Sewer Bill Impacts

Description	Current	Proposed Feb. 2026	Proposed Jan. 2027	Proposed Jan. 2028	Proposed Jan. 2029	Proposed Jan. 2030
Average Residential						
Bimonthly Bill	$0.64	$9.82	$12.28	$15.35	$19.19	$23.98
Change ($)		$9.18	$2.46	$3.07	$3.84	$4.80
Average Commercial						
Bimonthly Bill	$4.03	$61.39	$76.74	$95.93	$119.91	$149.90
Change ($)		$57.36	$15.35	$19.19	$23.98	$29.99

Average Bimonthly Sewer Bill Comparison to Neighboring Utilities

Current and proposed FY 2025-26 bimonthly sewer collection bills for an average single-family residential customer were compared to customer bills at nine neighboring sewer utilities (see Table 1-12). Current average bills in the City of Cerritos are far below all neighboring utilities, further demonstrating the insufficiency of current rates. Even after the significant proposed revenue adjustment in FY 2025-26, average bills in the City of Cerritos will remain lower than at six of the nine neighboring utilities. All bills are intended to reflect sewer collection service only and exclude LACSD charges for wastewater treatment and disposal. All volumetric bill components were estimated based on 20 CCF of bimonthly water use. All bills for neighboring agencies were estimated based on adopted rates effective as of July 2025. Therefore, any adopted or proposed future rate adjustments for the nine neighboring sewer utilities are not reflected in the bill comparisons shown. Sewer bills for average commercial customers were not compared to neighboring utilities, as commercial sewer rates at other agencies often vary significantly based on business type (e.g., retail, restaurants, etc.).

Table 1-12: Average Residential Sewer Bill Comparison to Neighboring Agencies

Sewer Agency	Bimonthly Residential Sewer Bill
Lynwood	$39.35
Long Beach	$27.75
Whittier	$27.13
La Habra Heights	$22.36
Norwalk	$15.16
Compton	$12.76
Cerritos (Proposed Feb. 2026)	***$9.82***
Downey	$7.48
South Gate	$7.00
Santa Fe Springs	$5.33
Cerritos (Current)	***$0.64***

LOW-INCOME AFFORDABILITY PROGRAM

Overview of Low-Income Affordability Program Evaluation

If adopted, the proposed water and sewer rate increases will substantially impact customer affordability. City staff therefore directed WRE to evaluate the potential for the City to implement a customer affordability program to provide discounts to low-income residences most adversely impacted by the proposed rate increases. Preliminary recommendations provided below are for informational purposes only. Please note that any potential bill discounts must be considered distinct from the proposed rates presented in this report (i.e., must effectively function as independent rebates) due to Proposition 218 legal requirements.

Low-Income Affordability Program Preliminary Recommendations

- **Discount structure:** Existing low-income affordability programs at other water/sewer utilities in Southern California typically offer bill discounts equal to either 1) a fixed dollar amount, or 2) a percentage of the total water/sewer bill. WRE recommends discounts based on a fixed dollar amount. Firstly, percentage-based discounts adversely affect low water users. Secondly, the funding requirements for fixed discounts are more predictable.
- **Eligibility**: It is recommended that any low-income affordability program be limited to residential customers only. The California Alternate Rates for Energy (CARE) program provides energy bill financial assistance to qualifying residences based on household income. To simplify eligibility determination, the best option may be for the City's water and sewer customers to provide City staff with proof of CARE program eligibility in order to qualify for a low-income affordability program administered by the City.
- **Funding source**: Any discounts would need to be funded by sources external to the Water Fund and Sewer Fund, as the proposed water and sewer financial plans do not include any funding for a low-income affordability program. Potential funding sources would need to be determined by City staff.

Preliminary Analysis of Potential Low-Income Affordability Program

A preliminary analysis of potential low-income affordability program options is shown in Table 1-13. Please note that all calculations shown are for informational purposes only. Varying levels of water and sewer fixed bill discounts are shown, ranging from $0 (i.e., no discount) to $40 per bimonthly bill. Annual funding requirements were estimated assuming 2,300 single-family residential customers participate in the program.[7]

Table 1-13: Preliminary Analysis of Potential Low-Income Affordability Program

Fixed Bimonthly Discount	Average Residential Bimonthly Water & Sewer Bill After Discount (FY 2025-26) [8]	Discount (% of Average Water & Sewer Bill)	Estimated Annual Funding Requirement
$0	$124.46	0.0%	$0
$5	$119.46	4.0%	$69,000
$10	$114.46	8.0%	$138,000
$15	$109.46	12.1%	$207,000
$20	$104.46	16.1%	$276,000
$25	$99.46	20.1%	$345,000
$30	$94.46	24.1%	$414,000
$35	$89.46	28.1%	$483,000
$40	$84.46	32.1%	$552,000

[7] As of October 2025, Southern California Edison reports that 2,252 customers in the City of Cerritos are enrolled in the CARE program. In the absence of detailed data on household size and income distribution, City staff conservatively estimated approximately 2,300 potentially eligible households.

[8] The sample bills shown are based on an average single-family residential customer with a 5/8 x 3/4-inch meter using 20 CCF per bimonthly period.

2. INTRODUCTION

2.1 WATER AND SEWER SYSTEM OVERVIEW

WATER SYSTEM OVERVIEW

The City of Cerritos (City) owns and operates a water system that delivers potable water to over 15,000 metered connections within city limits. The City's water system serves a population of over 50,000 within a nine square mile service area. Please note that some residents and businesses within city limits receive water service from Golden State Water Company rather than the City's water system. About 85% of metered connections within the City's water service area serve single-family residential customers, with remaining connections serving multi-family residential, commercial, industrial, institutional, and landscape irrigation customers.

The City's water supply currently consists of two sources: 1) local groundwater produced from City-owned wells, and 2) imported water purchased from Central Basin Municipal Water District (CBMWD). The City's potable water system infrastructure includes three wells, three storage reservoirs totaling 24 million gallons, over 180 miles of transmission and distribution pipelines, and approximately 1,700 fire hydrants. The City also owns and maintains a separate reclaimed water system, which provides non-potable water for outdoor irrigation to about 270 metered customer connections.

SEWER SYSTEM OVERVIEW

The City owns and operates a sewer system that collects wastewater from over 15,000 customer connections. The City's sewer service area closely aligns with the potable water service area. The City's sewer system only provides wastewater collection, as wastewater treatment and disposal are provided separately by the Los Angeles County Sanitation Districts (LACSD). The City's sewer customers are billed separately by LACSD for wastewater treatment and disposal via the Los Angeles County property tax roll. The City's sewer system infrastructure includes five lift stations and over 100 miles of pipelines, which convey wastewater flows to LACSD's wastewater collection, treatment, and disposal system.

2.2 RATE STUDY OVERVIEW

Public retail water and sewer utilities in California typically conduct a rate study approximately every five years to ensure that customers are appropriately charged for service in compliance with California Proposition 218 and other applicable laws. The City's current water and sewer rates have been in effect since Fiscal Year[9] (FY) 2020-21 and were initially adopted in November 2014 as part of a seven-year rate schedule spanning from FY 2014-15 through FY 2020-21. This adopted rate schedule included 10% rate increases in each year over the seven-year period. No rate adjustments have occurred since the final year of the seven-year rate schedule was implemented in FY 2020-21.

The City's water and sewer rates have historically been substantially lower than in neighboring Los Angeles County communities and remain among the lowest in the region. This has been achieved

[9] The City's fiscal year is from July 1st through June 30th.

through significant support from the City's General Fund to the Water Fund and Sewer Fund. However, City Council adopted Resolution 2023-35 in October 2023 which provided clear policy direction to reduce General Fund support to the Water and Sewer Funds and to develop water and sewer rates that sufficiently fund the operation and maintenance of the City's water and sewer systems. This aligns with industry best practices, which dictate that public water and sewer utilities should function as self-sustaining enterprises.

The City engaged Water Resources Economics, LLC (WRE) in early 2025 to conduct a water and sewer rate study to establish a five-year proposed water and sewer rate schedule spanning from FY 2025-26 through FY 2029-30. The primary purpose of this updated rate study was to develop proposed rates that will comply with all applicable laws and ensure sufficient funding for the City's Water Fund and Sewer Fund while reducing reliance on General Fund support. The scope of this rate study also includes the development of proposed reclaimed water rates in addition to potable water rates and sewer rates. However, an updated schedule of proposed reclaimed water rates will not be developed until funding details for an emergency repair project for a reclaimed water pump station are resolved. Note that the reclaimed water system functions as a separate enterprise from the potable water system, with all relevant expenses and revenues contained within the City's Reclaimed Water Fund.

2.3 LEGAL REQUIREMENTS

Legal considerations relating to retail water and sewer rates in California focus heavily on Proposition 218, which was enacted in 1996 and is now reflected in Article XIII C and Article XIII D of the California Constitution. Proposition 218 states that "property related fees and charges" (which include retail water and sewer rates) may not exceed the proportional cost of providing the service to the customer and may not be used for any purpose other than providing said service. The practical implication is that public retail water and sewer agencies in California must demonstrate a sufficient nexus between the costs incurred by the agency to provide service and the rates charged to customers. The primary means by which retail water and sewer agencies address this requirement is by conducting a "cost-of-service analysis" (which is described in more detail below).

Proposition 218 also affects the rate adoption process by requiring agencies to hold a public hearing to adopt rates. The agency must mail public hearing notices to all customers no fewer than 45 days prior to the public hearing. The public hearing notices must clearly show all proposed rate changes, provide information on the public hearing date/time/location, and provide instructions on how customers may protest the proposed rate changes. If a majority of customers submit a protest, the proposed rate changes cannot be adopted.

2.4 RATE-SETTING METHODOLOGY

This rate study was conducted using industry-standard methodology outlined by the American Water Works Association (AWWA) in its *Manual of Water Supply Practices M1: Principles of Water Rates, Fees and Charges, Seventh Edition* (M1 Manual) and the Water Environment Federation (WEF) in its *Manual of Practice No. 27: Financing And Charges for Wastewater Systems, Fourth Edition.* The overall rate study process is summarized in the steps outlined below. Note that the steps are conducted separately for each enterprise (i.e., the Water Fund and Sewer Fund):

1. **Financial Plan**: Annual revenues from current rates and expenses were projected over a multi-year period to establish baseline financial projections from which the need for rate increases was then evaluated. The overall goal of the financial plan was to establish the total annual rate revenue requirement over the rate-setting period.
2. **Cost-of-Service Analysis**: System costs were evaluated and allocated to customers in proportion to their use of the water and sewer systems. The overall goal of a cost-of-service analysis is to establish a robust proportionality between the costs incurred by the utility and the rates charged to customers. Public water and sewer agencies typically conduct a cost-of-service analysis approximately every five years to satisfy Proposition 218 requirements.
3. **Rate Design**: The existing rate structure was evaluated and potential changes were identified. A multi-year proposed rate schedule was then calculated directly from the results of the financial plan and cost-of-service analysis for the proposed rate structure. Sample customer bills were evaluated to better understand the impacts of the proposed rate changes to customers.
4. **Rate Study Documentation**: A rate study report was developed to document the proposed rate development process, demonstrate the required proportionality between costs and rates, and provide transparency to ratepayers and elected officials. This document serves as the report for this rate study.

2.5 DISCLAIMERS

- All study projections were based on the best available data provided by City staff between March 2025 through June 2025. For financial data, FY 2024-25 actuals and the FY 2025-26 adopted budget were not yet available at the time the rate study analysis was conducted.
- All table values are rounded to the nearest digit shown unless stated otherwise. However, all calculations are based on precise values. Attempting to manually recreate the calculations described in this report from the values displayed in tables may therefore produce slightly different results.
- All current and proposed rates, charges, and base minimum allotments in this report are shown on a bimonthly basis.
- Rates pertaining to wholesale water sales,[10] LACSD sewer treatment and disposal services, and reclaimed water service are not covered in this report.
- The proposed results rely upon current and future year projections based on historical trends, City staff input, and WRE's professional judgement.
- If formally adopted, the proposed rates will represent the maximum amount that customers may be charged in each year over the five-year rate-setting period. However, the City may

[10] Wholesale water sales include water sold by the City to Golden State Water Company and the City of Norwalk. Rates paid by these two wholesale customers are not subject to Proposition 218 and are governed by contracts with each wholesale customer.

implement lower rates over the rate-setting period without needing to undergo a new formal rate adoption process.

3. WATER FINANCIAL PLAN

3.1 FINANCIAL PLAN METHODOLOGY

A five-year financial plan was developed to project revenues, expenses, and cash reserves for the City's Water Fund over the next five years through FY 2029-30. The primary goal of the financial plan analysis was to quantify the total amount of revenue required from potable retail water rates on an annual basis to support the Water Fund's financial needs. The key steps in developing the financial plan were:

- **Revenue projections**: Annual Water Fund revenues from rates and other miscellaneous sources were projected over the study period. Rate revenues were projected based on current rates to establish baseline revenues from which the need for rate increases were evaluated.
- **Expense projections**: Annual Water Fund expenses were projected over the study period. Expenses include operating expenses, debt service (if applicable), and Capital Improvement Program (CIP) project costs.
- **Status quo financial plan projections**: Water Fund cash flow and reserve balances were projected over the study period in the absence of any proposed rate increases (i.e., the status quo). The status quo financial plan established a baseline scenario from which the need for rate increases could then be evaluated.
- **Proposed financial plan projections:** The magnitude and timing of annual proposed rate increases over the rate-setting period were evaluated and determined. Proposed rate increases (referred to as "revenue adjustments") must generate sufficient revenue to recover the utility's expenses and maintain adequate reserves. The proposed financial plan established the total annual rate revenue requirement over the rate-setting period.

3.2 REVENUES

CURRENT WATER RATES

The City's current potable retail water rates have been in effect since FY 2020-21. Potable retail water customers are billed bimonthly by the City. The current rate structure consists of the following rates and charges:

1. **Fixed Meter Charges** (see Table 3-1)**:** Each metered connection is subject to a bimonthly fixed meter charge, which varies based on the size of the diameter of the water meter.
2. **Volumetric Rates** (see Table 3-1): Each one hundred cubic feet (CCF)[11] of metered water usage that exceeds the bimonthly base minimum allotment is subject to a volumetric rate. The volumetric rate is same for all customers in terms of price per CCF, but the bimonthly base minimum allotment increases with meter size. For example, a customer with a 5/8 x 3/4 - inch meter using 20 CCF bimonthly is charged based on 10 CCF (i.e., 20 CCF of actual water use minus the 10 CCF base minimum allotment).

[11] One hundred cubic feet is approximately 748 gallons.

3. **Fixed Private Fire Line Charges** (see Table 3-2): Dedicated private fire lines (e.g., for fire-suppression sprinkler systems) are subject to different bimonthly fixed charges based on the size of the diameter of the piped connection. Most customers are not subject to private fire line charges, as they pertain to only about 300 connections primarily serving large commercial properties.

Table 3-1: Current Fixed Meter Charges and Volumetric Rates

Meter Size	Bimonthly Base Minimum Allotment (CCF)	Bimonthly Fixed Meter Charges	Volumetric Rate (per CCF)
5/8 x 3/4-inch	10	$37.61	$2.75
1-inch	25	$127.52	$2.75
1 1/2-inch	50	$255.07	$2.75
2-inch	100	$510.14	$2.75
3-inch	150	$765.18	$2.75
4-inch	175	$892.73	$2.75
6-inch	200	$1,020.25	$2.75
8-inch	225	$1,069.38	$2.75
10-inch	250	$1,188.80	$2.75

Table 3-2: Current Fixed Private Fire Line Charges

Connection Size	Bimonthly Fixed Charge
4-inch	$163.24
6-inch	$244.86
8-inch	$327.27
10-inch	$408.10
12-inch	$489.73

UNITS OF SERVICE

Number of Potable Retail Water Connections

Units of service represent the quantity of billing units subject to rates and charges. The number of metered water connections are the units of service for the current fixed meter charges. The number of private fire line connections are the units of service for the current fixed private fire line charges. Potable retail water metered connections and private fire line connections were projected over the study period based on FY 2024-25 actuals (see Table 3-3). No increase in the number of customer connections was assumed over the study period in order to ensure sufficiently conservative revenue projections, as the City's water service area is essentially built out. While some future developments and housing projects may add new customer connections, these potential increases were not included to maintain a conservative analysis.

Table 3-3: Number of Potable Retail Water Connections

Description	Number of Connections (FY 2024-25)
Potable Water Meters	
5/8 x 3/4-inch	13,981
1-inch	302
1 1/2-inch	416
2-inch	380
3-inch	31
4-inch	19
6-inch	17
8-inch	1
10-inch	1
Subtotal	**15,148**
Private Fire Lines	
4-inch connection	27
6-inch connection	96
8-inch connection	146
10-inch connection	26
12-inch connection	1
Subtotal	**296**
Total	**15,444**

Potable Retail Water Use

Annual water use in excess of the base minimum allotment (in CCF) represents the units of service for current volumetric rates. Total annual potable water demand in acre-feet per year (AFY) was first projected over the study period based on an evaluation of actual water demand over the past five years and input from City staff (see Figure 3-1). In addition to potable retail water use, total potable demand also includes wholesale water sales, water use for temporary construction, and system water losses (due to transmission and distribution leaks, etc.).

City staff directed WRE to assume annual demand of 7,000 AFY over the next five years, which represents a 0.73% increase relative to FY 2023-24 actual demand. Note that FY 2024-25 actual demand was not yet available at time the water financial plan analysis was conducted. Projected water demand of 7,000 AFY is about 10% lower than the five-year actual annual average of 7,772 AFY. This reflects City staff's expectation that water demand will not fully rebound to prior levels due to ongoing conservation and efficiency improvements during periods of recent drought in the region. Projected water demand in CCF is shown in Table 3-4. The proportion of potable retail water demand within and over the base minimum allotment is consistent with FY 2023-24 actuals.

Figure 3-1: Historical and Projected Water Demand (AFY)

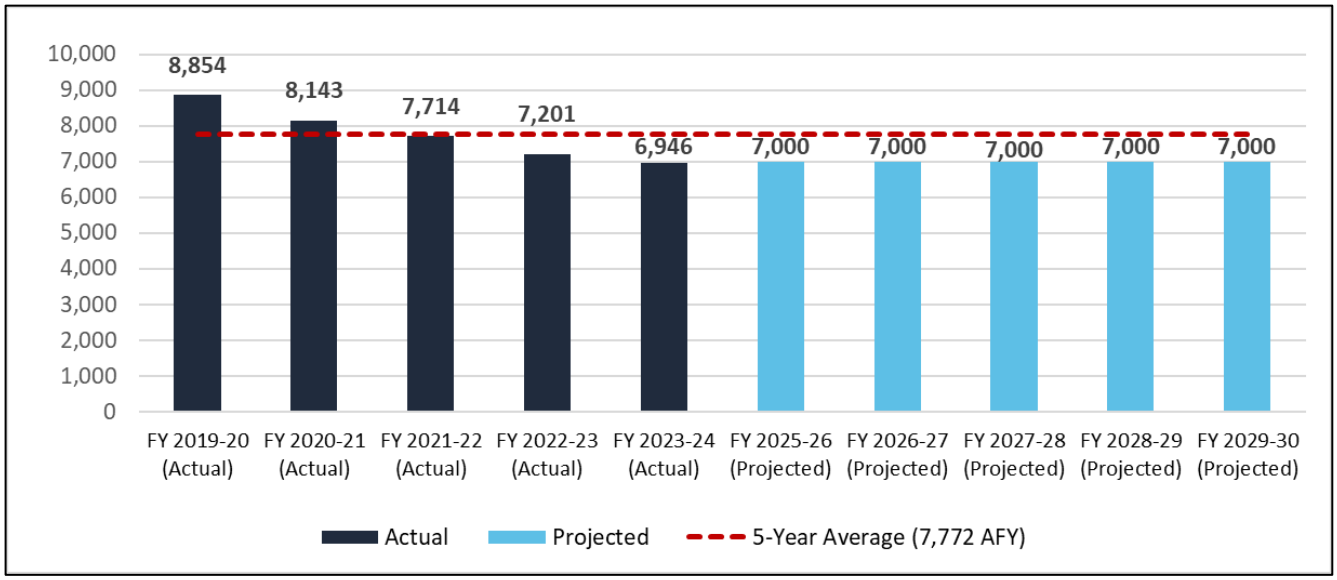


Table 3-4: Projected Potable Water Demand (CCF)

Water Demand (CCF)	FY 2025-26 (Projected)	FY 2026-27 (Projected)	FY 2027-28 (Projected)	FY 2028-29 (Projected)	FY 2029-30 (Projected)
Potable Retail					
Within Base Minimum Allotment	1,081,998	1,081,998	1,081,998	1,081,998	1,081,998
Over Base Minimum Allotment	1,560,127	1,560,127	1,560,127	1,560,127	1,560,127
Subtotal	**2,642,125**	**2,642,125**	**2,642,125**	**2,642,125**	**2,642,125**
Other Potable					
Wholesale	129,795	129,795	129,795	129,795	129,795
Temporary Construction	1,115	1,115	1,115	1,115	1,115
Subtotal	**130,910**	**130,910**	**130,910**	**130,910**	**130,910**
Potable Water Loss					
System Water Loss (9.1%)[12]	276,156	276,156	276,156	276,156	276,156
Total (CCF)	**3,049,191**	**3,049,191**	**3,049,191**	**3,049,191**	**3,049,191**
Total (AF)	**7,000**	**7,000**	**7,000**	**7,000**	**7,000**
% Change	*0.73%*	*0.00%*	*0.00%*	*0.00%*	*0.00%*

[12] Based on estimated potable water system losses in FY 2023-24.

REVENUE FROM CURRENT RATES

Annual revenues from current rates were projected over the study period (see Table 3-5). Fixed meter charge revenues were calculated by multiplying the current bimonthly charges (from Table 3-1) by the respective number of metered connections each year (from Table 3-3) and then multiplying by six billing periods per year to annualize. Volumetric rate revenues were calculated by multiplying the current volumetric rate per CCF (from Table 3-1) by the projected annual potable retail water use above the base minimum allotment (from Table 3-4). Fixed private fire line charge revenues were calculated by multiplying the current bimonthly charges (from Table 3-2) by the respective number of private fire line connections each year (from Table 3-3) and then multiplying by six billing periods per year to annualize.

Table 3-5: Revenue from Current Potable Retail Water Rates

Description	FY 2025-26 (Projected)	FY 2026-27 (Projected)	FY 2027-28 (Projected)	FY 2028-29 (Projected)	FY 2029-30 (Projected)
Fixed Meter Charges					
5/8 x 3/4-inch	$3,154,990	$3,154,990	$3,154,990	$3,154,990	$3,154,990
1-inch	$230,684	$230,684	$230,684	$230,684	$230,684
1 1/2-inch	$636,655	$636,655	$636,655	$636,655	$636,655
2-inch	$1,162,099	$1,162,099	$1,162,099	$1,162,099	$1,162,099
3-inch	$141,558	$141,558	$141,558	$141,558	$141,558
4-inch	$103,557	$103,557	$103,557	$103,557	$103,557
6-inch	$106,106	$106,106	$106,106	$106,106	$106,106
8-inch	$5,347	$5,347	$5,347	$5,347	$5,347
10-inch	$8,322	$8,322	$8,322	$8,322	$8,322
Subtotal	**$5,549,317**	**$5,549,317**	**$5,549,317**	**$5,549,317**	**$5,549,317**
Volumetric Rates					
Within Base Allotment	N/A	N/A	N/A	N/A	N/A
Over Base Allotment	$4,290,349	$4,290,349	$4,290,349	$4,290,349	$4,290,349
Subtotal	**$4,290,349**	**$4,290,349**	**$4,290,349**	**$4,290,349**	**$4,290,349**
Fixed Private Fire Line Charges					
4" connection	$26,445	$26,445	$26,445	$26,445	$26,445
6" connection	$141,039	$141,039	$141,039	$141,039	$141,039
8" connection	$286,689	$286,689	$286,689	$286,689	$286,689
10" connection	$63,664	$63,664	$63,664	$63,664	$63,664
12" connection	$2,938	$2,938	$2,938	$2,938	$2,938
Subtotal	**$520,775**	**$520,775**	**$520,775**	**$520,775**	**$520,775**
Total	**$10,360,440**	**$10,360,440**	**$10,360,440**	**$10,360,440**	**$10,360,440**

MISCELLANEOUS REVENUES

The Water Fund also collects revenue from miscellaneous sources, which were projected over the study period (see Table 3-6). These projected revenues were held constant at FY 2025-26 preliminary budget[13] amounts over the five-year projection period to ensure sufficiently conservative revenue projections, with the following exceptions:

- Wholesale water sales were escalated in FY 2026-27 through FY 2029-30 based on projected increases in imported water supply costs (presented subsequently in Table 3-8), as the City's wholesale rates are adjusted in proportion to CBMWD imported water supply cost increases.
- Interest income was projected beginning in FY 2025-26 based on projected annual cash reserve levels and an assumed 2% annual interest rate.

Table 3-6: Miscellaneous Water Fund Revenues

Description	FY 2025-26 (Budgeted/ Projected)[14]	FY 2026-27 (Projected)	FY 2027-28 (Projected)	FY 2028-29 (Projected)	FY 2029-30 (Projected)
Other Water Sales					
Wholesale Water Sales	$600,000	$651,000	$706,335	$759,310	$816,258
Construction Water Sales	$6,000	$6,000	$6,000	$6,000	$6,000
Subtotal	**$606,000**	**$657,000**	**$712,335**	**$765,310**	**$822,258**
Interest Income					
Interest Income	$4,834	$16,690	$34,702	$86,040	$166,712
Subtotal	**$4,834**	**$16,690**	**$34,702**	**$86,040**	**$166,712**
Other Miscellaneous Revenue					
Late Charge	$4,000	$4,000	$4,000	$4,000	$4,000
Returned Check Charge	$2,000	$2,000	$2,000	$2,000	$2,000
Water - Uncollectible Accounts	($10,000)	($10,000)	($10,000)	($10,000)	($10,000)
Water Service Fees	$8,500	$8,500	$8,500	$8,500	$8,500
Sale of Emergency Kits	$100	$100	$100	$100	$100
Subtotal	**$4,600**	**$4,600**	**$4,600**	**$4,600**	**$4,600**
Total	**$615,434**	**$678,290**	**$751,637**	**$855,950**	**$993,570**

REVENUE SUMMARY

A summary of total projected revenues over the study period is shown below (see Table 3-7), and includes both revenue from current rates (from Table 3-5) and miscellaneous revenues (from Table 3-6). For FY 2025-26, revenue from current rates and interest income were projected by WRE and therefore differ from budgeted amounts. All other revenues in FY 2025-26 are preliminary budget

[13] May differ from adopted budget amounts.

[14] Interest income in FY 2025-26 was projected by WRE and differs from the preliminary budgeted amounts.

amounts. Wholesale water sales and interest income are projected to increase annually over the study period, while all other revenue sources are projected to remain level at FY 2025-26 projected amounts.

Table 3-7: Water Fund Revenue Summary

Description	FY 2025-26 (Budgeted/ Projected)	FY 2026-27 (Projected)	FY 2027-28 (Projected)	FY 2028-29 (Projected)	FY 2029-30 (Projected)
Current Retail Water Rates	$10,360,440	$10,360,440	$10,360,440	$10,360,440	$10,360,440
Other Water Sales	$606,000	$657,000	$712,335	$765,310	$822,258
Interest Income	$4,834	$16,690	$34,702	$86,040	$166,712
Other Miscellaneous Revenue	$4,600	$4,600	$4,600	$4,600	$4,600
Total	**$10,975,875**	**$11,038,730**	**$11,112,077**	**$11,216,390**	**$11,354,010**

3.3 OPERATING EXPENSES

OPERATING EXPENSE INFLATIONARY ASSUMPTIONS

Annual inflationary assumptions were developed to project operating expenses over the study period (see Table 3-8). The inflationary assumptions shown are based on an evaluation of the Water Fund's historical cost increases, anticipated increases per direction from City staff, as well as inflationary trends across the water/sewer utility industry and broader economy. The inflationary assumptions shown represent projected annual increases in various operating expense inflationary categories relative to a base year of FY 2025-26.

Table 3-8: Water Fund Operating Expense Annual Inflationary Assumptions

Inflationary Category	FY 2026-27	FY 2027-28	FY 2028-29	FY 2029-30
General	4.0%	4.0%	4.0%	4.0%
Electricity	5.0%	5.0%	5.0%	5.0%
Natural Gas	8.0%	8.0%	8.0%	8.0%
Salaries/Benefits	4.0%	4.0%	4.0%	4.0%
Groundwater Supply	5.0%	5.0%	5.0%	5.0%
Imported Water Supply/Leased Water	8.5%	8.5%	7.5%	7.5%
Reclaimed Water Supply	5.0%	5.0%	5.0%	5.0%
Equipment/Parts	4.0%	4.0%	4.0%	4.0%

DIRECT WATER SUPPLY COST PROJECTIONS

The Water Fund's operating expenses include significant direct water supply costs, which include groundwater assessments paid to the Water Replenishment District of Southern California (WRD) and wholesale water costs paid to CBMWD for imported water (see Table 3-9). Some of these costs are assessed on a per acre-foot (AF) basis and therefore are dependent on the quantity of water supplied from local groundwater versus imported water from CBMWD. In normal years, the City obtains nearly all its potable water supply from local groundwater, with imported water only needed to provide continuity during short-term well production disruptions. City staff directed WRE to assume that 99%

of water supply requirements would be met by local groundwater in normal years. However, the City's C-4 Well is expected to be offline in FY 2027-28 through FY 2029-30 during construction of a new treatment facility at the wellsite. This will reduce total well production capacity by approximately 2,400 gallons per minute (GPM), and thus total groundwater production is projected to only cover approximately 69% of total supply requirements (see Lines 1-4).

Groundwater supply costs consist solely of WRD assessments per acre-foot of groundwater production (Lines 10-12). Groundwater assessments on a per AF basis (Line 7) are projected to increase based on the "groundwater supply" inflationary assumptions from Table 3-8. Overall, groundwater supply costs are projected to decline in FY 2027-28 when C-4 Well goes offline (see Line 12). Imported water supply costs consist of both volumetric and fixed charge components (see Table 3-9, Lines 14-19). The volumetric component includes CBMWD's Non-Interruptible Treated Tier 1 Rate per AF of imported water purchased. Fixed components include CBMWD's Capacity Charge, Readiness-to-Serve (RTS) Charge, and Monthly Water Service Charge. Imported water supply unit costs (see Lines 8 and Lines 16-18) are projected to increase based on the "imported water supply" inflationary assumptions from Table 3-8. Imported water supply costs are projected to increase significantly in FY 2027-28 when additional imported water is needed to meet supply requirements while C-4 Well is offline (see Line 19). Note that 97% of direct water supply costs were allocated to the Water Fund (Line 23), as the City currently allocates the remaining 3% of costs within its "Water Production and Distribution" cost center to the Sewer Fund and Reclaimed Water Fund.

Table 3-9: Direct Potable Water Supply Costs

Line	Description	FY 2025-26 (Projected)	FY 2026-27 (Projected)	FY 2027-28 (Projected)	FY 2028-29 (Projected)	FY 2029-30 (Projected)
1	**Water Supply by Source (AF)**					
2	Groundwater	6,930	6,930	4,841	4,841	4,841
3	Imported Water	70	70	2,159	2,159	2,159
4	**Total**	**7,000**	**7,000**	**7,000**	**7,000**	**7,000**
5						
6	**Variable Costs (per AF)**					
7	WRD Groundwater Assessment	$437	$459	$482	$506	$531
8	CBMWD Non-Interruptible Treated Tier 1 Rate[15]	$1,496	$1,623	$1,761	$1,893	$2,035
9						
10	**Groundwater Supply Costs**					
11	WRD Groundwater Assessments[16]	$3,028,401	$3,179,821	$2,332,235	$2,448,847	$2,571,289
12	**Subtotal**	**$3,028,401**	**$3,179,821**	**$2,332,235**	**$2,448,847**	**$2,571,289**
13						
14	**Imported Water Supply Costs**					
15	CBMWD Non-Interruptible Treated Tier 1 Rates[17]	$104,685	$113,583	$3,801,417	$4,086,523	$4,393,012
16	CBMWD Capacity Charge	$27,202	$29,514	$32,023	$34,425	$37,006
17	CBMWD RTS Charge	$1,192	$1,293	$1,403	$1,508	$1,622
18	CBMWD Monthly Water Service Charge	$43,200	$46,872	$50,856	$54,670	$58,771
19	**Subtotal**	**$176,279**	**$191,262**	**$3,885,699**	**$4,177,126**	**$4,490,411**
20						
21	**Total Direct Supply Costs**	**$3,204,680**	**$3,371,083**	**$6,217,934**	**$6,625,973**	**$7,061,700**
22						
23	*Water Fund Allocation (97%)*	*$3,108,539*	*$3,269,951*	*$6,031,396*	*$6,427,194*	*$6,849,849*
24	*Sewer Fund Allocation (2%)*	*$64,094*	*$67,422*	*$124,359*	*$132,519*	*$141,234*
25	*Reclaimed Fund Allocation (1%)*	*$32,047*	*$33,711*	*$62,179*	*$66,260*	*$70,617*

OPERATING EXPENSE PROJECTIONS

Water Fund operating expenses were projected annually over the rate-setting period (see Table 3-10 for a summary and Appendix A for detailed projections of each line item expense). Direct water supply costs allocable to the Water Fund were previously established in Table 3-9. All other operating expenses were projected over the five-year period by increasing FY 2025-26 preliminary budget amounts[18] by the most closely related annual inflationary adjustment from Table 3-8. Total operating

[15] CBMWD rates are adjusted on a calendar year basis; rates shown reflect a weighted fiscal year average.
[16] = [Line 2] x [Line 7]
[17] = [Line 3] x [Line 8]
[18] May differ from adopted budget amounts.

expenses over the next five years are projected to increase by about 9.1% per year on average. This significant increase is primarily due to the need to purchase more expensive imported water while C-4 Well is offline during the last three years of the rate-setting period.

Table 3-10: Summary of Water Fund Operating Expenses

Operating Expenses	FY 2025-26 (Budgeted/ Projected)[19]	FY 2026-27 (Projected)	FY 2027-28 (Projected)	FY 2028-29 (Projected)	FY 2029-30 (Projected)
Direct Operating Expenses					
Water Management	$1,030,553	$1,071,775	$1,114,646	$1,159,231	$1,205,601
Water Production/Distribution (Direct Water Supply Costs)	$3,108,539	$3,269,951	$6,031,396	$6,427,194	$6,849,849
Water Production/Distribution (All Other)	$3,067,849	$3,248,168	$3,440,262	$3,635,971	$3,843,759
Water Operations	$1,649,280	$1,715,251	$1,783,861	$1,855,215	$1,929,424
Water Inspection	$538,332	$559,865	$582,260	$605,550	$629,772
Reclaimed Water Operations	$328,374	$343,852	$360,066	$377,051	$394,845
Water Billing	$344,366	$358,141	$372,467	$387,365	$402,860
Subtotal	**$10,067,293**	**$10,567,002**	**$13,684,957**	**$14,447,579**	**$15,256,110**
Indirect Overhead Expenses					
Legislative and Administrative	$747,361	$777,255	$808,346	$840,679	$874,307
Public Works	$1,410,031	$1,466,432	$1,525,090	$1,586,093	$1,649,537
Administrative Services	$2,571,343	$2,674,197	$2,781,165	$2,892,411	$3,008,108
Subtotal	**$4,728,735**	**$4,917,884**	**$5,114,600**	**$5,319,184**	**$5,531,951**
Total	**$14,796,028**	**$15,484,887**	**$18,799,557**	**$19,766,763**	**$20,788,061**
% Change		*4.7%*	*21.4%*	*5.1%*	*5.2%*

3.4 DEBT SERVICE

The City's Water Fund has no outstanding debt. Furthermore, the City does not currently plan to issue any new debt over the next five years to finance any Water Fund CIP projects. Therefore, no debt service was incorporated into the financial plan projections.

3.5 CAPITAL IMPROVEMENT PROGRAM

The Water Fund's preliminary five-year CIP as of May 2025 included $42.2 million in project costs between FY 2025-26 through FY 2029-30 associated with major well upgrades, water main replacements, and other infrastructure replacements. City staff identified $23.0 million in critical CIP projects from the full five-year CIP, which were deemed absolutely necessary to maintain the potable water system's existing level of service. During a City Council meeting on July 28, 2025, City staff and WRE were directed to proceed with developing proposed water rates based on the reduced $23.0

[19] Direct water supply costs were projected by WRE and differ from the preliminary budgeted amounts.

million CIP scenario in order to avoid unacceptably high bill impacts to customers. These critical five-year CIP projects are shown in Table 3-11. After accounting for 4% assumed annual inflation, total CIP increases from $23.0 million to $25.3 million. All CIP projects over the rate-setting period are assumed to be cash funded (i.e., no new debt financing or grant funding). CIP expenditures include significant planned spending on valve replacements and well upgrades critical for the City to continue to provide safe, clean, and reliable water to its customers.

Table 3-11: Water Fund CIP Project Costs

CIP Project Description	FY 2025-26	FY 2026-27	FY 2027-28	FY 2028-29	FY 2029-30	5-Year Total
Annual Valve Replacement Program (Project #17100)	$150,000	$150,000	$150,000	$150,000	$150,000	$750,000
C-1 Well Water Treatment Design and Construction (Project #23501)	$0	$0	$0	$0	$1,000,000	$1,000,000
C-4 Well Water Treatment Design and Construction (Project #23502)	$1,000,000	$5,000,000	$5,000,000	$5,000,000	$0	$16,000,000
C-5 Water Well (Project #17197)	$0	$0	$0	$0	$5,000,000	$5,000,000
Well Desander Replacement (Project #24502)	$200,000	$0	$0	$0	$0	$200,000
Total (excluding Inflation)	**$1,350,000**	**$5,150,000**	**$5,150,000**	**$5,150,000**	**$6,150,000**	**$22,950,000**
TOTAL (including 4% Annual Inflation)	**$1,350,000**	**$5,356,000**	**$5,570,240**	**$5,793,050**	**$7,194,630**	**$25,263,920**

3.6 RESERVE POLICY

WATER FUND RESERVE POLICY

Public retail water utilities need to maintain sufficient cash reserves to cover expenses and mitigate financial risks. It is common practice for water utilities to establish reserve minimum and/or target levels to ensure that cash reserves are maintained at responsible and reasonable levels. WRE reviewed the City's existing enterprise fund reserve policy (which applies to the Water Fund), as outlined in Resolution No. 2025-04 and summarized below:

Current enterprise fund reserve policy:

- **Minimum Level**: 25% of annual operating expenses plus annual average five-year CIP
- **Target Level**: 35% of annual operating expenses plus annual average five-year CIP

The policy also states that "any depletion below the minimum level will trigger a review of rates and financial plans to restore reserves within three to five years." No changes to the existing reserve policy were recommended as part of this study. However, we recommend that the City reevaluate its enterprise fund reserve policy periodically to ensure that reserves are maintained at appropriate levels and are aligned with industry standards.

PROJECTED MINIMUM AND TARGET RESERVE LEVELS

Minimum and target reserve levels were projected annually over the study period (see Table 3-12) based on the current enterprise fund reserve policy, projected operating expenses (from Table 3-10), and projected CIP (from Table 3-11). Water Fund reserves are primarily intended to maintain sufficient cash on hand to meet short-term cash flow imbalances, award construction contracts and execute CIP projects, and to mitigate other financial risks.

Table 3-12: Projected Minimum and Target Reserve Levels

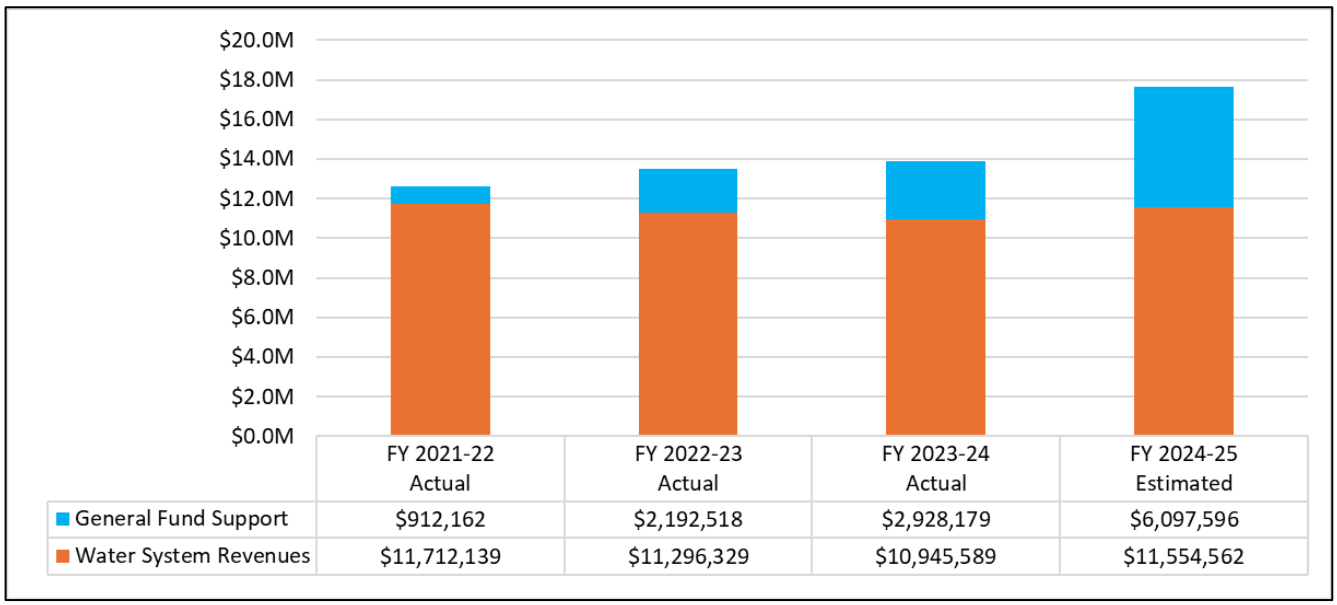
Description	FY 2025-26 (Projected)	FY 2026-27 (Projected)	FY 2027-28 (Projected)	FY 2028-29 (Projected)	FY 2029-30 (Projected)
Minimum Reserve Level					
25% of Operating Expenses	$3,699,007	$3,871,222	$4,699,889	$4,941,691	$5,197,015
Annual Average of 5-Year CIP	$5,052,784	$5,052,784	$5,052,784	$5,052,784	$5,052,784
Total	**$8,751,791**	**$8,924,006**	**$9,752,673**	**$9,994,475**	**$10,249,799**
Target Reserve Level					
35% of Operating Expenses	$5,178,610	$5,419,710	$6,579,845	$6,918,367	$7,275,821
Annual Average of 5-Year CIP	$5,052,784	$5,052,784	$5,052,784	$5,052,784	$5,052,784
Total	**$10,231,394**	**$10,472,494**	**$11,632,629**	**$11,971,151**	**$12,328,605**

3.7 GENERAL FUND SUPPORT

The Water Fund has historically relied on support from the City's General Fund to recover expenses while maintaining low customer rates. In the past four fiscal years, water system revenues have

covered about 80% of total Water Fund expenses, with General Fund support recovering the remaining 20% (see Figure 3-2).[20] In October 2023, City Council adopted Resolution 2023-35 directing that outstanding enterprise loan balances owed by the Water Fund to the General Fund be written off and that any future funding provided by the General Fund to the Water Fund be classified as a non-reimbursable transfer. This resulted in the write-off of $10.7 million in outstanding General Fund loans to the Water Fund. City Council also directed City staff to develop water rate options to address the deficit in the City's Water Fund. Proposed General Fund support presented in subsequent sections is informed by direction outlined in Resolution 2023-35 to reduce the Water Fund's reliance on the General Fund.

Figure 3-2: Water Fund Cost Recovery



	FY 2021-22 Actual	FY 2022-23 Actual	FY 2023-24 Actual	FY 2024-25 Estimated
General Fund Support	$912,162	$2,192,518	$2,928,179	$6,097,596
Water System Revenues	$11,712,139	$11,296,329	$10,945,589	$11,554,562

3.8 STATUS QUO FINANCIAL PLAN

STATUS QUO REVENUE ADJUSTMENTS AND GENERAL FUND SUPPORT

A "status quo" financial plan was first established to evaluate a scenario in which no rate increases are implemented over the rate-setting period (i.e., current rates remain unchanged). This scenario provided a baseline from which to evaluate the magnitude and timing of proposed rate increases. Key status quo financial plan assumptions are shown in Table 3-13. Revenue adjustments represent rate revenue increases resulting from proposed rate increases and were therefore set to 0% under the status quo financial plan scenario. Assumed General Fund transfers to the Water Fund total $68.9 million over the five-year rate-setting period, which represents the level of General Fund support that would be required to meet all Water Fund funding requirements while achieving minimum reserve levels each year.

[20] Per the City's FY 2025-26 adopted budget.

Table 3-13: Status Quo Water Revenue Adjustments and General Fund Support

Fiscal Year	Revenue Adjustment	General Fund Transfer to Water Fund
FY 2025-26 Projected	0%	$13,850,000
FY 2026-27 Projected	0%	$9,810,000
FY 2027-28 Projected	0%	$13,940,000
FY 2028-29 Projected	0%	$14,470,000
FY 2029-30 Projected	0%	$16,850,000
Five-Year Total	**0%**	**$68,920,000**

STATUS QUO FINANCIAL PLAN

The status quo financial plan combines revenues and expenses from preceding subsections to project Water Fund cash flow and reserve balances on an annual basis (see Table 3-14). Sources of funds include current rate revenues and miscellaneous revenues (from Table 3-7) and General Fund support (from Table 3-15). Revenue adjustments (Line 3) represent rate increases and are therefore excluded from the status quo financial plan.

Uses of funds include operating expenses (from Table 3-10) and CIP expenses (from Table 3-11). Projected reserve ending balances are compared to the minimum and target reserve levels based on the City's current enterprise fund reserve policy (from Table 3-12). A graphical summary of the status quo financial plan is provided in Figure 3-3.

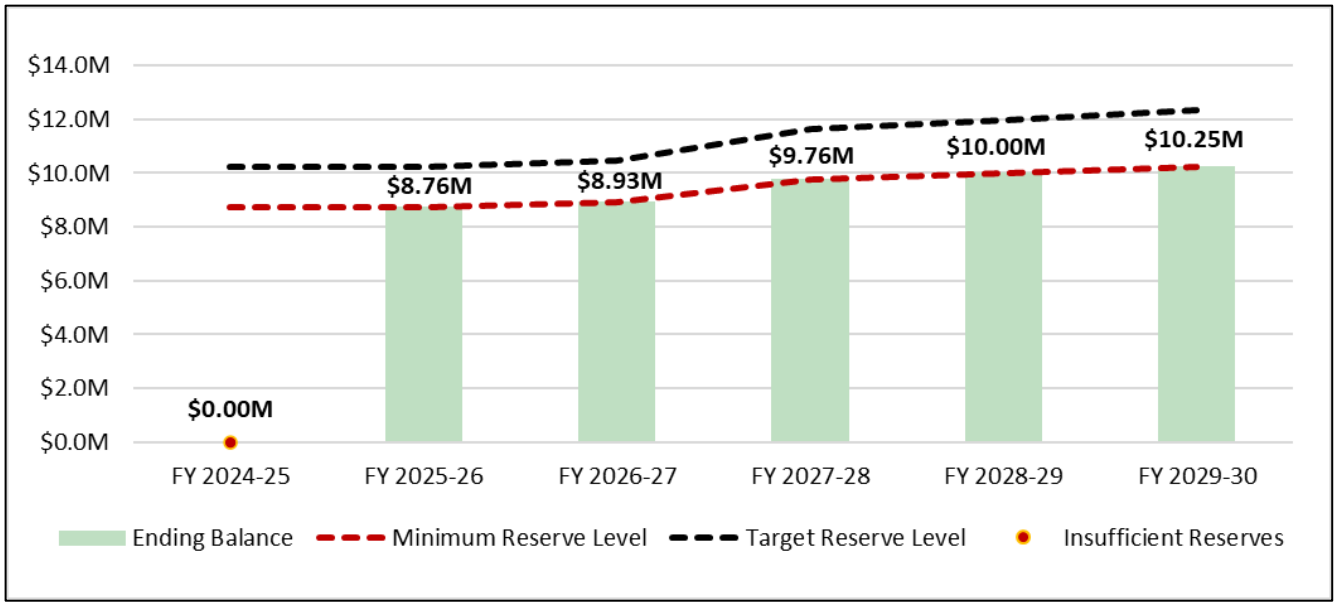
Under the status quo financial plan, operating expenses exceed water system revenues in each year of the rate-setting period, indicating a significant operating deficit. Significant General Fund support totaling $68.9 million over the next five years would be necessary to cover all funding requirements while meeting the minimum reserve level each year. The status quo financial plan is inconsistent with direction provided by City Council per Resolution 2023-35, thus demonstrating the need for proposed revenue adjustments to help the Water Fund achieve financial self-sufficiency in the near-term.

Table 3-14: Water Fund Status Quo Financial Plan

Line	Description	FY 2025-26 (Projected)	FY 2026-27 (Projected)	FY 2027-28 (Projected)	FY 2028-29 (Projected)	FY 2029-30 (Projected)
1	**Source of Funds**					
2	Current Rate Revenue	$10,360,440	$10,360,440	$10,360,440	$10,360,440	$10,360,440
3	Revenue Adjustments	$0	$0	$0	$0	$0
4	Other Revenue[21]	$697,350	$836,747	$901,972	$965,529	$1,027,341
5	General Fund Support	$13,850,000	$9,810,000	$13,940,000	$14,470,000	$16,850,000
6	**Total Source of Funds**	**$24,907,790**	**$21,007,187**	**$25,202,412**	**$25,795,969**	**$28,237,781**
7						
8	**Use of Funds**					
9	Operating Expenses	$14,796,028	$15,484,887	$18,799,557	$19,766,763	$20,788,061
10	Debt Service	$0	$0	$0	$0	$0
11	CIP	$1,350,000	$5,356,000	$5,570,240	$5,793,050	$7,194,630
12	**Total Use of Funds**	**$16,146,028**	**$20,840,887**	**$24,369,797**	**$25,559,812**	**$27,982,692**
13						
14	**Reserves**					
15	Beginning Reserve Balance	$0	$8,761,762	$8,928,062	$9,760,678	$9,996,835
16	Net Cash Flow[22]	$8,761,762	$166,300	$832,616	$236,157	$255,090
17	**Ending Reserve Balance**	**$8,761,762**	**$8,928,062**	**$9,760,678**	**$9,996,835**	**$10,251,925**
18						
19	**Key Financial Metrics**					
20	*Minimum Reserve Level*	*$8,751,791*	*$8,924,006*	*$9,752,673*	*$9,994,475*	*$10,249,799*
21	*Target Reserve Level*	*$10,231,394*	*$10,472,494*	*$11,632,629*	*$11,971,151*	*$12,328,605*
22	*Minimum Reserve Level Met?*	*Yes*	*Yes*	*Yes*	*Yes*	*Yes*
23	*Target Reserve Level Met?*	*No*	*No*	*No*	*No*	*No*

[21] Other revenues are different from the values shown in Table 3-7 due to differing interest earnings under the status quo financial plan. This is because interest earnings are a function of reserve balances, which differ in the status quo financial plan compared to the proposed financial plan.
[22] =[Line 6] – [Line 12]

Figure 3-3: Water Fund Status Quo Financial Plan – Projected Cash Reserves



3.9 PROPOSED FINANCIAL PLAN

PROPOSED REVENUE ADJUSTMENTS AND GENERAL FUND SUPPORT

Various financial plan scenarios with differing levels of revenue adjustments and General Support were considered and refined based on input from City staff. At the July 28, 2025 City Council meeting, the City Council instructed City staff and WRE to proceed with the proposed revenue adjustments and General Fund support shown in Table 3-15. The proposed revenue adjustments include a 50% increase in FY 2025-26 followed by lesser increases in the following four years. General Fund support is assumed to provide $3.5 million to the Water Fund in FY 2025-26, followed by a gradual phaseout over the following three years.

The purpose of the General Fund support phaseout is to eliminate General Fund support altogether by the end of the rate-setting period in order to help the Water Fund achieve self-sufficiency in line with Resolution 2023-35. Total five-year General Fund support under the proposed financial plan is $9.5 million, compared to $68.9 million under the status quo financial plan. The primary reason for such significant revenue adjustments is the phaseout of General Fund support to the Water Fund. Additional factors contributing include ongoing cost inflation, lower volumetric rate revenue due to declining water demand, and substantial planned CIP spending to maintain system reliability.

Annual projected rate revenue increases resulting from the proposed revenue adjustments are shown in Table 3-16. The proposed FY 2025-26 revenue adjustment is assumed to be effective February 1, 2026, with the following four proposed revenue adjustments assumed to be effective January 1 of each respective fiscal year. The rate revenue projections shown were prorated to account for mid-year revenue adjustments. The cumulative impact of the proposed revenue adjustments is projected to triple total annual rate revenue in FY 2029-30 relative to current rates.

Table 3-15: Proposed Water Revenue Adjustments and General Fund Support

Fiscal Year	Revenue Adjustment	General Fund Transfer to Water Fund
FY 2025-26 Projected	50%	$3,500,000
FY 2026-27 Projected	30%	$3,000,000
FY 2027-28 Projected	25%	$2,000,000
FY 2028-29 Projected	20%	$1,000,000
FY 2029-30 Projected	5%	$0
Five-Year Total[23]	**207%**	**$9,500,000**

[23] Note that the five-year total revenue adjustment is cumulative (i.e., accounts for compounding).

Table 3-16: Water Fund Proposed Revenue Adjustments

Line	Description	FY 2025-26	FY 2026-27	FY 2027-28	FY 2028-29	FY 2029-30
1	Proposed Revenue Adjustment (%)	50%	30%	25%	20%	5%
2	Effective Month	Feb. 2026	Jan. 2027	Jan. 2028	Jan. 2029	Jan. 2030
3	Proration Adjustment	42%	50%	50%	50%	50%
4	Current Rate Revenue	$10,360,440	$10,360,440	$10,360,440	$10,360,440	$10,360,440
5						
6	**Revenue Adjustment Calculations**					
7	FY 2025-26 Adjustment	$2,158,425	$5,180,220	$5,180,220	$5,180,220	$5,180,220
8	FY 2026-27 Adjustment		$2,331,099	$4,662,198	$4,662,198	$4,662,198
9	FY 2027-28 Adjustment			$2,525,357	$5,050,715	$5,050,715
10	FY 2028-29 Adjustment				$2,525,357	$5,050,715
11	FY 2029-30 Adjustment					$757,607
12	**Total Revenue Adjustment**	**$2,158,425**	**$7,511,319**	**$12,367,776**	**$17,418,490**	**$20,701,455**
13						
14	**Total Proposed Rate Revenue**	**$12,518,865**	**$17,871,759**	**$22,728,216**	**$27,778,930**	**$31,061,895**

PROPOSED FINANCIAL PLAN

Proposed financial plan projections were developed to evaluate the sufficiency of the proposed revenue adjustments over the rate-setting period (see Table 3-17). The proposed financial plan projections were calculated by applying the same methodology described previously for the status quo financial plan projections in Table 3-14. The primary difference is that revenue adjustments under the proposed financial plan (from Table 3-16) substantially increase total water system revenues relative to the status quo financial plan, thus reducing reliance on General Fund support. A graphical summary of the proposed financial plan is provided in Figure 3-4.

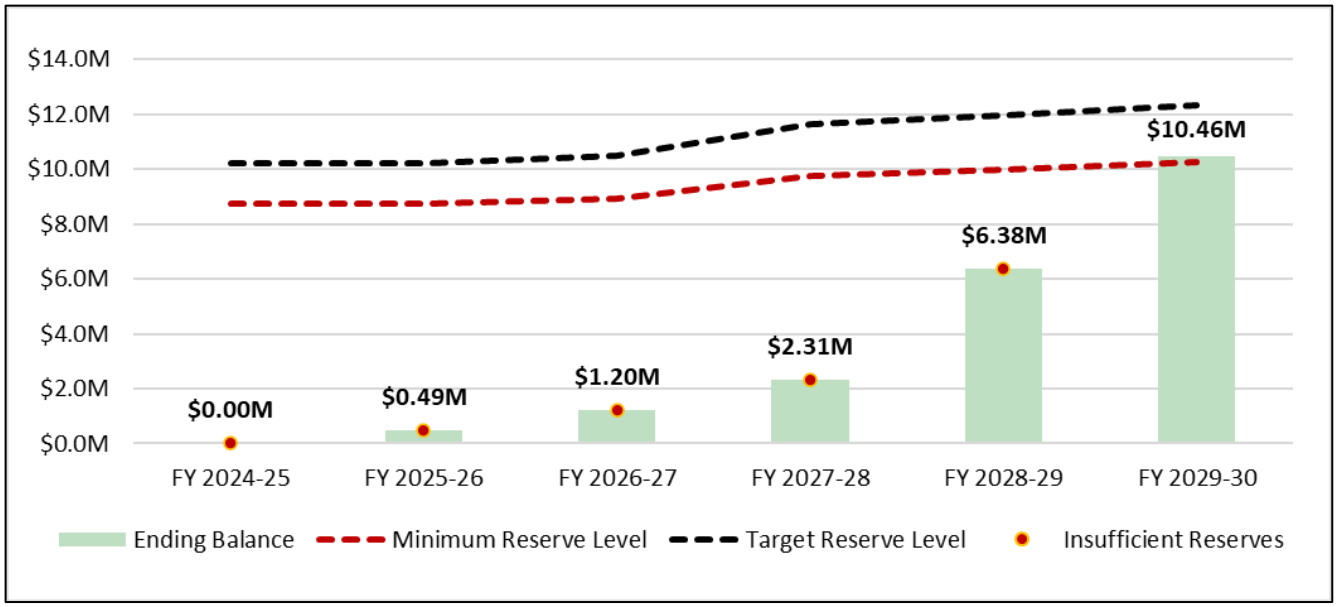
Under the proposed financial plan, cash reserves are projected to gradually build up to meet the minimum reserve level in FY 2029-30. This is consistent with the City's current enterprise fund reserve policy, which dictates that any depletion below the minimum level will require a new rate plan to restore reserves within three to five years. Under the proposed financial plan, General Fund support is necessary to cover a portion of Water Fund expenses in the first three years. By FY 2028-29, water system revenues are projected to cover all Water Fund expenses and begin contributing to the buildup in reserves. Although the proposed financial plan requires large revenue adjustments which will significantly impact customer bills, it provides a pathway towards phasing out Water Fund reliance on General Fund support over time consistent with Resolution 2023-35.

Table 3-17: Water Fund Proposed Financial Plan

Line	Description	FY 2025-26 (Projected)	FY 2026-27 (Projected)	FY 2027-28 (Projected)	FY 2028-29 (Projected)	FY 2029-30 (Projected)
1	**Source of Funds**					
2	Current Rate Revenue	$10,360,440	$10,360,440	$10,360,440	$10,360,440	$10,360,440
3	Revenue Adjustments	$2,158,425	$7,511,319	$12,367,776	$17,418,490	$20,701,455
4	Other Revenue	$615,434	$678,290	$751,637	$855,950	$993,570
5	General Fund Support	$3,500,000	$3,000,000	$2,000,000	$1,000,000	$0
6	**Total Source of Funds**	**$16,634,300**	**$21,550,050**	**$25,479,853**	**$29,634,881**	**$32,055,465**
7						
8	**Use of Funds**					
9	Operating Expenses	$14,796,028	$15,484,887	$18,799,557	$19,766,763	$20,788,061
10	Debt Service	$0	$0	$0	$0	$0
11	CIP	$1,350,000	$5,356,000	$5,570,240	$5,793,050	$7,194,630
12	**Total Use of Funds**	**$16,146,028**	**$20,840,887**	**$24,369,797**	**$25,559,812**	**$27,982,692**
13						
14	**Reserves**					
15	Beginning Reserve Balance	$0	$488,271	$1,197,434	$2,307,491	$6,382,559
16	Net Cash Flow[24]	$488,271	$709,163	$1,110,056	$4,075,069	$4,072,774
17	**Ending Reserve Balance**	**$488,271**	**$1,197,434**	**$2,307,491**	**$6,382,559**	**$10,455,333**
18						
19	**Key Financial Metrics**					
20	*Minimum Reserve Level*	*$8,751,791*	*$8,924,006*	*$9,752,673*	*$9,994,475*	*$10,249,799*
21	*Target Reserve Level*	*$10,231,394*	*$10,472,494*	*$11,632,629*	*$11,971,151*	*$12,328,605*
22	*Minimum Reserve Level Met?*	*No*	*No*	*No*	*No*	*Yes*
23	*Target Reserve Level Met?*	*No*	*No*	*No*	*No*	*No*

[24] =[Line 6] – [Line 12]

Figure 3-4: Water Fund Proposed Financial Plan – Projected Cash Reserves



4. WATER COST-OF-SERVICE ANALYSIS

4.1 COST-OF-SERVICE METHODOLOGY

A cost-of-service analysis was conducted to allocate the rate revenue requirement to customers in proportion to their use of and burden on the City's potable water system. The overall goal of the cost-of-service analysis was to develop "unit costs," which were used to calculate proposed rates. Although the rate-setting period in this study spans five years, the cost-of-service analysis is limited to a single representative year referred to as the "test year." The test year in this study is FY 2025-26. All values presented in Section 4 pertain to FY 2025-26 unless stated otherwise. The key steps in conducting the water cost-of-service analysis were:

- **Revenue requirement determination**: The total rate revenue requirement for the test year was determined based on the results of the proposed financial plan and divided into primary sub-components (operating, capital, and non-rate revenues).
- **Cost functionalization**: Operating and capital costs were evaluated and assigned to "functional categories" in the water system (e.g., billing and customer service, distribution, etc.). This established a proportional breakdown of system costs by function.
- **Revenue requirement allocation to cost causation components**: Functionalized costs were then allocated to "cost causation components" (e.g., water supply, base delivery, etc.), which were used to attribute customers' utilization of the system to the Water Fund's incursion of costs for the test year.
- **Unit cost development**: The rate revenue requirement allocation for each individual cost causation component was divided by the appropriate units of service to establish unit costs for the test year. Unit costs provided the basis from which proposed rates were calculated.

4.2 REVENUE REQUIREMENT DETERMINATION

The total rate revenue requirement for FY 2025-26 was based on the proposed financial plan projections from Table 3-17 and was allocated to three primary sub-components (see Table 4-1):

- The **Operating revenue requirement** consists solely of FY 2025-26 Water Fund operating expenses (Line 1).
- The **Capital revenue requirement** consists of FY 2025-26 Water Fund CIP project costs (Line 3). It also includes the projected contribution to reserves in FY 2025-26 (Line 6)[25] and an adjustment to annualize to the mid-year revenue adjustment (Line 7).
- **Non-rate revenues** include all miscellaneous revenues and other sources of funds that contribute towards meeting the Water Fund's total revenue requirement (Lines 4-5). Non-rate revenues effectively reduce the total revenue required from rates by offsetting a portion of the Water Fund's total revenue requirement.

[25] I.e., net cash flow in FY 2025-26.

Table 4-1: FY 2025-26 Water Rate Revenue Requirement Determination

Line	FY 2025-26 Rate Revenue Requirement	Operating Revenue Requirement	Capital Revenue Requirement	Non-Rate Revenues	Total
1	Operating Expenses	$14,796,028	$0	$0	**$14,796,028**
2	Debt Service	$0	$0	$0	**$0**
3	CIP	$0	$1,350,000	$0	**$1,350,000**
4	Less General Fund Transfer to Potable Water Fund	$0	$0	($3,500,000)	**($3,500,000)**
5	Less Miscellaneous Revenues	$0	$0	($615,434)	**($615,434)**
6	Adjustment for Cash Balance	$0	$488,271	$0	**$488,271**
7	Annualization of Mid-Year Revenue Adjustment	$0	$3,021,795	$0	**$3,021,795**
8	**Total**	**$14,796,028**	**$4,860,067**	**($4,115,434)**	**$15,540,660**

4.3 COST FUNCTIONALIZATION

FUNCTIONAL CATEGORY DEFINITIONS

Costs were evaluated and assigned to various functional categories in the potable water system. The functional categories include the following:

- **Billing & Customer Service:** Related to customer service and billing activities.
- **Meter Maintenance & Replacement:** Related to the maintenance and replacement of water meters.
- **Water Supply:** Direct water supply costs including WRD groundwater assessments, CBMWD imported water costs, groundwater rights leases, and water master assessments.
- **Wells/Treatment/Storage :** Related to the operation and maintenance of groundwater wells, the treatment of water to potable standards, or the storage of potable water in tanks and/or reservoirs.
- **Distribution:** Related to delivery of potable water to customers through water mains and other pipelines.
- **Conservation:** Related to water efficiency and conservation programs and/or efforts.
- **General & Admin:** Related to administrative/overhead activities and general costs that are not directly attributable to other specific functional categories.
- **Revenue Offsets:** Miscellaneous revenues applied to offset the proposed rates.

OPERATING EXPENSE FUNCTIONALIZATION

FY 2025-26 Water Fund operating expenses were evaluated and allocated to the most closely associated functional categories (see Table 4-2 below for a summary and Appendix B for detailed

allocations on a line item basis). WRE worked closely with City staff to ensure that costs were allocated in an accurate and appropriate manner.

Table 4-2: Operating Expense Functionalization

Line	Functional Category	FY 2025-26 Operating Expenses	Percent of Total
1	Billing & Customer Service	$344,366	2.3%
2	Meter Maintenance & Replacement	$285,658	1.9%
3	Water Supply	$3,776,203	25.5%
4	Wells/Treatment/Storage	$2,315,897	15.7%
5	Distribution	$1,889,352	12.8%
6	Conservation	$328,374	2.2%
7	General & Admin	$5,856,178	39.6%
8	Revenue Offsets	$0	0.0%
9	**Total**	**$14,796,028**	**100.0%**

CAPITAL ASSET FUNCTIONALIZATION

Current potable water system capital assets were evaluated and allocated to the most closely associated functional category (see Table 4-3 for a summary and Appendix C for detailed allocations for each individual asset listing). It is standard practice in water cost-of-service studies to functionalize existing capital assets rather than planned CIP project costs. This is because the breakdown of planned CIP projects by functional category can fluctuate significantly from year to year. The existing capital asset base provides a much more stable representation of long-term capital needs. Capital asset values shown are based on the original cost of each asset.

Table 4-3: Current Capital Asset Functionalization

Line	Functional Category	Capital Assets (Original Cost)	Percent of Total
1	Billing & Customer Service	$0	0.0%
2	Meter Maintenance & Replacement	$0	0.0%
3	Water Supply	$0	0.0%
4	Wells/Treatment/Storage	$12,218,630	28.4%
5	Distribution	$30,863,115	71.6%
6	Conservation	$0	0.0%
7	General & Admin	$0	0.0%
8	Revenue Offsets	$0	0.0%
9	**Total**	**$43,081,745**	**100.0%**

NON-RATE REVENUE FUNCTIONALIZATION

FY 2025-26 Water Fund non-rate revenues were allocated across the various functional categories (see Table 4-4 below for a summary and Appendix D for detailed allocations on a line item basis).

Non-rate revenues were fully allocated to the general & admin functional category because they typically are not associated with any specific system function. General Fund support was fully allocated to the revenue offsets functional category in order to separately account for General Fund transfers during subsequent steps of the cost-of-service analysis and rate design process.

Table 4-4: Non-Rate Revenue Functionalization

Line	Functional Category	FY 2025-26 Non-Rate Revenues	Percent of Total
1	Billing & Customer Service	$0	0.0%
2	Meter Maintenance & Replacement	$0	0.0%
3	Water Supply	$0	0.0%
4	Wells/Treatment/Storage	$0	0.0%
5	Distribution	$0	0.0%
6	Conservation	$0	0.0%
7	General & Admin	$615,434	15.0%
8	Revenue Offsets	$3,500,000	85.0%
9	**Total**	**$4,115,434**	**100.0%**

4.4 REVENUE REQUIREMENT ALLOCATION TO COST CAUSATION COMPONENTS

COST CAUSATION COMPONENTS DEFINITIONS

Cost causation components are used to categorize costs based on what proportional basis they are incurred. The total rate revenue requirement was allocated to various cost causation components, most of which directly correspond to a single functional category. The cost causation components include the following:

- **Billing & Customer Service:** Directly corresponds to the "billing & customer service" functional category.
- **Meter Maintenance & Replacement:** Directly corresponds to the "meter maintenance & replacement" functional category.
- **Meter Capacity:** Pertains to system costs that are generally incurred in proportion to the flow capacity of customers' water meters.
- **Private Fire Protection:** Pertains to costs incurred to provide system capacity to dedicated private fire line connections.
- **Water Supply:** Directly corresponds to the "water supply" functional category.
- **Base Delivery:** Pertains to wells, treatment, storage, and distribution costs associated with delivering water to customers during average water demand conditions.
- **Max Day Delivery:** Pertains to wells, treatment, storage, and distribution costs associated with delivering water to customers during maximum day demand conditions.

- **Max Hour Delivery:** Pertains to distribution costs associated with delivering water to customers during maximum hour demand conditions.
- **Conservation:** Directly corresponds to the "conservation" functional category.
- **General & Admin:** Directly corresponds to the "general & admin" functional category.
- **Revenue Offsets:** Directly corresponds to the "revenue offsets" functional category.

WATER SYSTEM PEAKING

Systemwide peaking factors for the potable water system were used to allocate costs associated with the wells, treatment, storage, and distribution functional categories to the base delivery, max day, and max hour cost causation components (see Table 4-5). Peaking factors represent the ratio of maximum to average water demand. This provides a basis from which to identify costs incurred to provide water service during average demand conditions (base delivery) and costs incurred to provide additional system capacity during peak demand conditions (max day/hour delivery).

Table 4-5: Water System Peaking

Line	Water System Peaking	Peaking Factor	Base Delivery	Max Day	Max Hour	Total
1	Average Day Demand	1.00	100.00%[26]	0.00%	0.00%	**100.00%**
2	Max Day Demand	1.80	55.56%[27]	44.44%[28]	0.00%	**100.00%**
3	Max Hour Demand	2.70	37.04%[29]	29.63%[30]	33.33%[31]	**100.00%**

ALLOCATION OF FUNCTIONAL CATEGORIES TO COST CAUSATION COMPONENTS

Each functional category was allocated across the various cost causation components (see Table 4-6).[32] Most functional categories were fully allocated to the directly corresponding cost causation component. The wells/treatment/storage functional category was allocated to the base delivery and max day cost causation components based on max day demand allocations (from Table 4-5, Line 2). The distribution functional category was allocated to the base delivery, max day, and max hour cost causation components based on max hour demand allocations (from Table 4-5, Line 3). This is because distribution infrastructure is typically sized based on maximum hour demand, while all other infrastructure is typically sized based on maximum day demand.

[26] = 1.00 ÷ 1.00
[27] = 1.00 ÷ 1.80
[28] = (1.80 -1.00) ÷ 1.80
[29] = 1.00 ÷ 2.70
[30] = (1.80 - 1.00) ÷ 2.70
[31] = (2.70 - 1.80) ÷ 2.70
[32] The meter capacity and private fire protection cost causation components are omitted from Table 4-6 because they are not associated with any functional category allocations. Note that these two cost causation components are not utilized until later steps of the cost-of-service analysis.

Table 4-6: Allocation of Functional Categories to Cost Causation Components

Line	Cost Functions	Billing & Customer Service	Meter Maintenance & Replacement	Water Supply	Base Delivery	Max Day Delivery	Max Hour Delivery	Conservation	General & Admin	Revenue Offsets	Total
1	Billing & Customer Service	100.0%									**100.0%**
2	Meter Maintenance & Replacement		100.0%								**100.0%**
3	Water Supply			100.0%							**100.0%**
4	Wells/Treatment/Storage				55.6%	44.4%					**100.0%**
5	Distribution				37.0%	29.6%	33.3%				**100.0%**
6	Conservation							100.0%			**100.0%**
7	General & Admin								100.0%		**100.0%**
8	Revenue Offsets									100.0%	**100.0%**

ALLOCATION OF OPERATING REVENUE REQUIREMENT TO COST CAUSATION COMPONENTS

Functionalized FY 2025-26 Water Fund operating expenses from Table 4-2 were allocated to the various cost causation components based on the allocation percentages from Table 4-6 (see Table 4-7 below). This results in a breakdown of the operating revenue requirement by cost causation component (see Line 9). The revenue offsets cost causation component is omitted from Table 4-7 because it only pertains to non-rate revenues.

Table 4-7: Allocation of Functionalized Operating Expenses to Cost Causation Components

Line	Cost Functions	Billing & Customer Service	Meter Maintenance & Replacement	Water Supply	Base Delivery	Max Day Delivery	Max Hour Delivery	Conservation	General & Admin	Total
1	Billing & Customer Service	$344,366	$0	$0	$0	$0	$0	$0	$0	**$344,366**
2	Meter Maintenance & Replacement	$0	$285,658	$0	$0	$0	$0	$0	$0	**$285,658**
3	Water Supply	$0	$0	$3,776,203	$0	$0	$0	$0	$0	**$3,776,203**
4	Wells/Treatment/ Storage	$0	$0	$0	$1,286,609	$1,029,287	$0	$0	$0	**$2,315,897**
5	Distribution	$0	$0	$0	$699,760	$559,808	$629,784	$0	$0	**$1,889,352**
6	Conservation	$0	$0	$0	$0	$0	$0	$328,374	$0	**$328,374**
7	General & Admin	$0	$0	$0	$0	$0	$0	$0	$5,856,178	**$5,856,178**
8	Revenue Offsets	$0	$0	$0	$0	$0	$0	$0	$0	**$0**
9	**Total ($)**	**$344,366**	**$285,658**	**$3,776,203**	**$1,986,369**	**$1,589,095**	**$629,784**	**$328,374**	**$5,856,178**	**$14,796,028**
10										
11	***Total (%)***	***2.33%***	***1.93%***	***25.52%***	***13.43%***	***10.74%***	***4.26%***	***2.22%***	***39.58%***	***100.00%***

ALLOCATION OF CAPITAL REVENUE REQUIREMENT TO COST CAUSATION COMPONENTS

Functionalized capital asset values from Table 4-3 were allocated to the various cost causation components based on the allocation percentages from Table 4-6 (see Table 4-8, Line 9 below). The capital revenue requirement from Table 4-1 (see Line 13 below) was then allocated based on the proportion of capital assets within each cost causation component (see Line 11 below). The revenue offsets cost causation component is omitted from Table 4-8 because it only pertains to non-rate revenues.

Table 4-8: Allocation of Functionalized Capital Assets to Cost Causation Components

Line	Cost Functions	Billing & Customer Service	Meter Maintenance & Replacement	Water Supply	Base Delivery	Max Day Delivery	Max Hour Delivery	Conservation	General & Admin	Total
1	Billing & Customer Service	$0	$0	$0	$0	$0	$0	$0	$0	**$0**
2	Meter Maintenance & Replacement	$0	$0	$0	$0	$0	$0	$0	$0	**$0**
3	Water Supply	$0	$0	$0	$0	$0	$0	$0	$0	**$0**
4	Wells/Treatment/ Storage	$0	$0	$0	$6,788,128	$5,430,502	$0	$0	$0	**$12,218,630**
5	Distribution	$0	$0	$0	$11,430,783	$9,144,627	$10,287,705	$0	$0	**$30,863,115**
6	Conservation	$0	$0	$0	$0	$0	$0	$0	$0	**$0**
7	General & Admin	$0	$0	$0	$0	$0	$0	$0	$0	**$0**
8	Revenue Offsets	$0	$0	$0	$0	$0	$0	$0	$0	**$0**
9	**Total Assets ($)**	**$0**	**$0**	**$0**	**$18,218,911**	**$14,575,129**	**$10,287,705**	**$0**	**$0**	**$43,081,745**
10										
11	***Total Assets (%)***	***0.00%***	***0.00%***	***0.00%***	***42.29%***	***33.83%***	***23.88%***	***0.00%***	***0.00%***	***100.00%***
12										
13	**Capital Revenue Requirement**	**$0**	**$0**	**$0**	**$2,055,282**	**$1,644,225**	**$1,160,560**	**$0**	**$0**	**$4,860,067**

ALLOCATION OF NON-RATE REVENUES TO COST CAUSATION COMPONENTS

Functionalized FY 2025-26 non-rate revenues from Table 4-4 were allocated to the various cost causation components based on the allocation percentages from Table 4-6 (see Table 4-9 below). This results in a breakdown of non-rate revenues by cost causation component (see Line 9).

Table 4-9: Allocation of Functionalized Non-Rate Revenues to Cost Causation Components

Line	Cost Functions	Billing & Customer Service	Meter Maintenance & Replacement	Water Supply	Base Delivery	Max Day Delivery	Max Hour Delivery	Conser-vation	General & Admin	Revenue Offsets	Total
1	Billing & Customer Service	$0	$0	$0	$0	$0	$0	$0	$0	$0	**$0**
2	Meter Maintenance & Replacement	$0	$0	$0	$0	$0	$0	$0	$0	$0	**$0**
3	Water Supply	$0	$0	$0	$0	$0	$0	$0	$0	$0	**$0**
4	Wells/Treatment/ Storage	$0	$0	$0	$0	$0	$0	$0	$0	$0	**$0**
5	Distribution	$0	$0	$0	$0	$0	$0	$0	$0	$0	**$0**
6	Conservation	$0	$0	$0	$0	$0	$0	$0	$0	$0	**$0**
7	General & Admin	$0	$0	$0	$0	$0	$0	$0	$615,434	$0	**$615,434**
8	Revenue Offsets	$0	$0	$0	$0	$0	$0	$0	$0	$3,500,000	**$3,500,000**
9	**Total ($)**	**$0**	**$0**	**$0**	**$0**	**$0**	**$0**	**$0**	**$615,434**	**$3,500,000**	**$4,115,434**
10											
11	***Total (%)***	***0.00%***	***0.00%***	***0.00%***	***0.00%***	***0.00%***	***0.00%***	***0.00%***	***14.95%***	***85.05%***	***100.00%***

PRELIMINARY COST-OF-SERVICE ALLOCATION

The three sub-components of the total FY 2025-26 rate revenue requirement (from Table 4-1) were allocated to the cost causation components to establish preliminary cost-of-service allocations (see Table 4-10 below). The operating revenue requirement, capital revenue requirement, and non-rate revenue allocations shown below were previously established in Table 4-7, Table 4-8, and Table 4-9, respectively.

Table 4-10: Preliminary Cost-of-Service Allocation

Line	Cost Causation Component	Operating Revenue Requirement	Capital Revenue Requirement	Non-Rate Revenues	Total
1	Billing & Customer Service	$344,366	$0	$0	**$344,366**
2	Meter Maintenance & Replacement	$285,658	$0	$0	**$285,658**
3	Water Supply	$3,776,203	$0	$0	**$3,776,203**
4	Base Delivery	$1,986,369	$2,055,282	$0	**$4,041,651**
5	Max Day Delivery	$1,589,095	$1,644,225	$0	**$3,233,321**
6	Max Hour Delivery	$629,784	$1,160,560	$0	**$1,790,343**
7	Conservation	$328,374	$0	$0	**$328,374**
8	General & Admin	$5,856,178	$0	($615,434)	**$5,240,743**
9	Revenue Offsets	$0	$0	($3,500,000)	**($3,500,000)**
10	**Total**	**$14,796,028**	**$4,860,067**	**($4,115,434)**	**$15,540,660**

GENERAL & ADMIN COST REALLOCATION

General & admin costs are not attributable to specific system functions and were therefore proportionally reallocated to all other cost causation components (see Table 4-11), except for water supply (which is limited to direct water supply costs including WRD groundwater assessments, CBMWD imported water costs, groundwater rights leases, and water master assessments) and revenue offsets (which pertain to sources of funds rather than costs).

Table 4-11: General & Admin Cost Reallocation

Line	Cost Causation Component	Preliminary Allocation ($)[33]	General & Admin Cost Reallocation (%)	General & Admin Cost Reallocation ($)	Total ($)
1	Billing & Customer Service	$344,366	3.44%	$180,047	**$524,413**
2	Meter Maintenance & Replacement	$285,658	2.85%	$149,352	**$435,011**
3	Water Supply	$3,776,203	N/A	N/A	**$3,776,203**
4	Base Delivery	$4,041,651	40.32%	$2,113,115	**$6,154,766**
5	Max Day Delivery	$3,233,321	32.26%	$1,690,492	**$4,923,813**
6	Max Hour Delivery	$1,790,343	17.86%	$936,053	**$2,726,397**
7	Conservation	$328,374	3.28%	$171,685	**$500,059**
8	General & Admin	$5,240,743	N/A	($5,240,743)	**$0**
9	Revenue Offsets	($3,500,000)	N/A	N/A	**($3,500,000)**
10	**Total**	**$15,540,660**	**100.00%**	**$0**	**$15,540,660**

MAX DAY AND MAX HOUR COST REALLOCATION

Extra Capacity Calculations

The max day and max hour cost causation components include costs incurred to provide additional system capacity during peak water demand conditions. Some of this "extra capacity" is associated with providing capacity to meet fire protection needs, and the rest is associated with providing capacity to meet peak water demand unrelated to fire protection. Extra capacity requirements were estimated for each.

Extra capacity associated with meeting peak customer water demand, unrelated to fire protection purposes, was first calculated based on estimated annual water use and peaking factors (see Table 4-12). Extra capacity requirements shown in Lines 12-13 quantify system capacity required to satisfy customer water demand during peak day and peak hour water demand conditions.

Extra capacity associated with meeting fire protection requirements was calculated separately based on assumptions including firefighting flow requirements in GPM and duration of fire (see Table 4-13). Extra capacity requirements shown (see Lines 6-7) quantify system capacity reserved for fire protection purposes.

[33] Per Table 4-10.

Table 4-12: Extra Capacity Required to Meet Potable Retail Water Demand

Line	Description	Value
1	**Peaking Factor**[34]	
2	Max Day Peaking Factor	1.80
3	Max Hour Peaking Factor	2.70
4		
5	**Water Demand**	
6	FY 2025-26 Potable Retail Water Demand (CCF)	2,642,125
7	Average Day Water Demand (CCF/Day) [35]	7,239
8	Max Day Water Demand (CCF/Day) [36]	13,030
9	Max Hour Water Demand (CCF/Day) [37]	19,544
10		
11	**Extra Capacity Requirements**	
12	Max Day Extra Capacity (CCF/Day) [38]	5,791
13	Max Hour Extra Capacity (CCF/Day) [39]	6,515

Table 4-13: Extra Capacity Required to Meet Fire Protection

Line	Description	Value
1	**Fire Protection Assumptions**[40]	
2	Duration of Fire (hours)	3
3	Water Use Rate (GPM)	6,500
4		
5	**Extra Capacity Requirements**	
6	Max Day Extra Capacity (CCF/Day) [41]	1,564
7	Max Day Extra Capacity (CCF/Day) [42]	10,948

Fire Protection Demand

Extra capacity related to fire protection is attributable to both public fire hydrants and private fire lines. Potential water demand for fire protection purposes is a function of the diameter of the connection. Therefore, "equivalent fire demand units" were calculated for public fire hydrants and private firelines to determine the potential water demand attributable to each (see Table 4-14).

[34] Per a draft version of the City's current Water Master Plan Update.
[35] =[Line 6] ÷ 365 days per year
[36] =[Line 2] × [Line 7]
[37] =[Line 3] × [Line 7]
[38] =[Line 8] - [Line 7]
[39] =[Line 9] - [Line 8]
[40] Per City staff.
[41] =[Line 2] × [Line 3] × 60 minutes per hour ÷ 748.05 gallons per CCF
[42] =([Line 3] × 24 hours per day × 60 minutes per hour ÷ 748.05 gallons per CCF) – [Line 6]

Table 4-14: Fire Protection Demand

Line	Fire Protection Connections	Fire Protection Demand Units[43]	Fire Protection Demand Ratio[44]	Number of Connections	Equivalent Fire Demand Units[45]	Equivalent Fire Demand (%)
1	**Public Fire Hydrants**					
2	6-inch connection	111.31	2.90	1,684	4,892	76.33%
3	**Subtotal**			**1,684**	**4,892**	**76.33%**
4						
5	**Private Firelines**					
6	4-inch	38.32	1.00	27	27	0.42%
7	6-inch	111.31	2.90	96	279	4.35%
8	8-inch	237.21	6.19	146	904	14.10%
9	10-inch	426.58	11.13	26	289	4.52%
10	12-inch connection	689.04	17.98	1	18	0.28%
11	**Subtotal**			**296**	**1,517**	**23.67%**
12						
13	**Total**			**1,980**	**6,409**	**100.00%**

Summary of Extra Capacity Requirements

Extra capacity requirements were attributed to peak customer water demand excluding fire protection, public fire hydrants, and private fire line connections (see Table 4-15). Extra capacity requirements associated with fire protection (see Lines 2-3 below) were allocated to public hydrants and private firelines in proportion to equivalent fire demand (from Table 4-14).

[43] Equal to the diameter of the connection in inches raised to the 2.63 power per the Hazen-Williams equation as outlined in the AWWA M1 Manual.

[44] Fire protection demand units normalized to a 4-inch connection (i.e., fire protection demand units ÷ 38.32).

[45] Equal to the fire protection demand ratio multiplied by the number of connections.

Table 4-15: Summary of Extra Capacity Requirements

Line	Summary of Extra Capacity Requirements	Max Day Extra Capacity (CCF/Day)	Max Hour Extra Capacity (CCF/Day)	Max Day Extra Capacity (%)	Max Hour Extra Capacity (%)
1	Extra Capacity excluding Fire Protection[46]	5,791	6,515	78.73%	37.31%
2	Extra Capacity for Public Fire Hydrants[47]	1,194	8,357	16.23%	47.85%
3	Extra Capacity for Private Firelines[48]	370	2,592	5.03%	14.84%
4	**Total**	**7,355**	**17,463**	**100.00%**	**100.00%**

Max Day and Max Hour Cost Reallocations

All max day delivery and max hour delivery costs associated with fire protection were reallocated to the meter capacity and private fire protection cost causation components (see Table 4-16), as outlined below:

- Max day and max hour costs attributable to public fire hydrants (per the percentages from Table 4-15, Line 2) were reallocated to the meter capacity cost causation component. This ensures that hydrant-related costs will be recovered from all customers in proportion to meter capacity.
- Max day and max hour costs attributable to private fire lines (per the percentages from Table 4-15, Line 3) were reallocated to the private fire protection cost causation component. This ensures that capacity-related costs attributable to private fire protection will be recovered from customers with dedicated private fire lines.

[46] Per Table 4-12.
[47] 76.33% (per Table 4-14) of extra capacity attributable to fire protection (per Table 4-13).
[48] 23.67% (per Table 4-14) of extra capacity attributable to fire protection (per Table 4-13).

Table 4-16: Max Day Delivery and Max Hour Delivery Cost Reallocation

Line	Cost Causation Component	Previously Adjusted Allocation[49]	Max Day Cost Reallocation	Max Hour Cost Reallocation	Total
1	Billing & Customer Service	$524,413			**$524,413**
2	Meter Maintenance & Replacement	$435,011			**$435,011**
3	Meter Capacity	$0	$799,206	$1,304,675	**$2,103,882**
4	Private Fire Protection	$0	$247,856	$404,616	**$652,472**
5	Water Supply	$3,776,203			**$3,776,203**
6	Base Delivery	$6,154,765			**$6,154,765**
7	Max Day Delivery	$4,923,812	($1,047,062)		**$3,876,750**
8	Max Hour Delivery	$2,726,397		($1,709,292)	**$1,017,105**
9	Conservation	$500,059			**$500,059**
10	Revenue Offsets	($3,500,000)			**($3,500,000)**
11	Total	**$15,540,660**	**$0**	**$0**	**$15,540,660**

FINAL COST-OF SERVICE ALLOCATION

Under current water rates, about 60% of total rate revenues are generated by fixed charges and 40% from volumetric rates. Based on the updated cost-of-service analysis without any further adjustments, the proportion of total rate revenues from fixed charges would decline to below 25%. This would result in significantly decreased revenue stability for the Water Fund, as volumetric rate revenues fluctuate in proportion to water demand and represent a less stable revenue source compared to fixed charges. To mitigate the adverse impacts to revenue stability, 40% of previously allocated max day and max hour delivery costs, which are recovered by volumetric rates, were reallocated to the meter capacity cost causation component, which is recovered by fixed meter charges (see Table 4-17). This adjustment intends to maintain fixed charge revenues at 35% or more of total rate revenues, which aligns with industry norms. No further adjustments were incorporated into the cost-of-service allocations. Thus, Table 4-17 establishes the final cost-of-service allocation of the total FY 2025-26 rate revenue requirement to each cost causation component.

[49] Per Table 4-11.

Table 4-17: Final Cost-of-Service Allocation

Line	Cost Causation Component	Previously Adjusted Allocation[50]	Additional Cost-of-Service Adjustments	Total
1	Billing & Customer Service	$524,413	$0	**$524,413**
2	Meter Maintenance & Replacement	$435,011	$0	**$435,011**
3	Meter Capacity[51]	$2,103,882	$1,957,542	**$4,061,424**
4	Private Fire Protection	$652,472	$0	**$652,472**
5	Water Supply	$3,776,203	$0	**$3,776,203**
6	Base Delivery	$6,154,765	$0	**$6,154,765**
7	Max Day Delivery	$3,876,750	($1,550,700)	**$2,326,050**
8	Max Hour Delivery	$1,017,105	($406,842)	**$610,263**
9	Conservation	$500,059	$0	**$500,059**
10	Revenue Offsets	($3,500,000)	$0	**($3,500,000)**
11	**Total**	**$15,540,660**	**$0**	**$15,540,660**

4.5 UNIT COST DEVELOPMENT

EQUIVALENT METER UNIT CALCULATION

Meter maintenance & replacement and meter capacity cost causation increases with meter size. Therefore, “equivalent meter units” (referred to as EMUs) were calculated to provide a basis from which to allocate costs to various meter sizes in proportion to meter capacity (see Table 4-18). EMUs were calculated based on meter capacity ratios, which represent the safe operating capacity of a water meter relative to a 5/8 x 3/4-inch water meter.

[50] Per Table 4-16.

[51] 40% of previously allocated max day/hour delivery costs were reallocated to the meter capacity component.

Table 4-18: Number of Equivalent Meter Units

Line	Meter Size	Safe Operating Capacity (gpm)	Meter Capacity Ratio[52]	Number of Water Meters	Number of Equivalent Meter Units[53]
1	5/8 x 3/4-inch	20	1.00	13,981	13,981
2	1-inch	50	2.50	302	754
3	1 1/2-inch	100	5.00	416	2,080
4	2-inch	160	8.00	380	3,037
5	3-inch	320	16.00	31	493
6	4-inch	500	25.00	19	483
7	6-inch	1,000	50.00	17	867
8	8-inch	1,600	80.00	1	67
9	10-inch	2,400	120.00	1	140
10	Private Fire Service Bypass Meter	20	1.00	296	296
11	**Total**			**15,444**	**22,198**

UNITS OF SERIVCE

The appropriate units of service were established for each cost causation component based on which units most closely vary in proportion to costs (see Table 4-19). Cost causation components to be recovered by fixed charges were assigned units of service based on the number of metered connections, EMUs, or equivalent fire demand units (from Table 4-14 and Table 4-18). Fixed charge units of service were annualized based on six bimonthly billing periods per year. Cost causation components to be recovered by volumetric rates were assigned units of service based on annual projected potable retail water use (from Table 3-4).

[52] Equal to the safe operating capacity in gpm divided by 20 gpm.

[53] Equal to the meter capacity ratio multiplied by the number of connections.

Table 4-19: Units of Service

Line	Cost Causation Component	Units of Service	Units of Service Definition
1	Billing & Customer Service	92,663	Number of water meters (incl. Private Fire) x 6 bills per year
2	Meter Maintenance & Replacement	133,190	Number of EMUs (incl. Private Fire) x 6 bills per year
3	Meter Capacity	131,414	Number of EMUs (excl. Private Fire) x 6 bills per year
4	Private Fire Protection	9,102	Number of Equivalent Fire Demand Units (Private Fire only) x 6 bills per year
5	Water Supply	2,642,125	Potable retail water demand (CCF)
6	Base Delivery	2,642,125	Potable retail water demand (CCF)
7	Max Day Delivery	2,642,125	Potable retail water demand (CCF)
8	Max Hour Delivery	2,642,125	Potable retail water demand (CCF)
9	Conservation	2,642,125	Potable retail water demand (CCF)
10	Revenue Offsets	2,642,125	Potable retail water demand (CCF)

UNIT COST CALCULATION

Unit costs for each cost causation component were calculated in Table 4-20 below by dividing the final cost-of-service allocations (from Table 4-17) by the annualized units of service (from Table 4-19). The unit costs shown below provide the direct basis from which proposed rates were subsequently calculated in Section 5.

Table 4-20: Unit Cost Calculation

Line	Cost Causation Component	Final Cost-of-Service Allocation	Units of Service	Unit Cost
1	Billing & Customer Service	$524,413	92,663	**$5.66**
2	Meter Maintenance & Replacement	$435,011	133,190	**$3.27**
3	Meter Capacity	$4,061,424	131,414	**$30.91**
4	Private Fire Protection	$652,472	9,102	**$71.68**
5	Water Supply	$3,776,203	2,642,125	**$1.43**
6	Base Delivery	$6,154,765	2,642,125	**$2.33**
7	Max Day Delivery	$2,326,050	2,642,125	**$0.88**
8	Max Hour Delivery	$610,263	2,642,125	**$0.23**
9	Conservation	$500,059	2,642,125	**$0.19**
10	Revenue Offsets	($3,500,000)	2,642,125	**($1.32)**
11	**Total**	**$15,540,660**		

5. WATER RATE DESIGN

5.1 RATE DESIGN METHODOLOGY

A five-year proposed water rate schedule was developed based on the results of the proposed financial plan and cost-of-service analysis. The key steps in developing the proposed potable retail water rates were:

- **Rate structure evaluation**: The existing water rate structure was evaluated and proposed changes were identified. Proposed rate structure changes typically intend to address specific policy objectives or maintain alignment with changing industry standards.
- **Test year rate development**: Rates were calculated for the proposed rate structure for the cost-of-service test year (FY 2025-26). Test year rate calculations directly incorporated the unit costs developed in the cost-of-service analysis.
- **Proposed five-year rate schedule development**: Proposed rates for the five-year rate-setting period were calculated by increasing the test year rates by the annual revenue adjustment percentages specified in the proposed water financial plan.
- **Customer bill impact analysis**: Sample bills were calculated to evaluate the impacts of the proposed rate schedule on representative customers.

5.2 RATE STRUCTURE EVALUATION

The City's existing potable retail water rate structure was evaluated and potential changes were considered. Only one proposed change was identified and recommended as a result of this evaluation. All proposed rate calculations presented in Section 5 incorporate the proposed change, which is outlined below.

PROPOSED ELIMINATION OF BASE MINIMUM ALLOTMENTS

Under the current water rate structure, volumetric rates only apply to customer water use that exceeds the existing bimonthly base minimum allotment. Current base minimum allotments vary based on meter size (see Table 5-1). For customers with a 5/8 x 3/4-inch meter (over 90% of all customers), the bimonthly base minimum allotment is 10 CCF. For example, a customer with a 5/8 x 3/4 -inch meter using 20 CCF bimonthly is currently charged based on 10 CCF (i.e., 20 CCF usage minus the 10 CCF base minimum allotment).

WRE recommends that the existing base minimum allotments be eliminated. Under this proposed change, all metered water use would be subject to proposed volumetric rates (see Table 5-2). For example, the same representative customer (with a 5/8 x 3/4-inch meter using 20 CCF bimonthly) would be charged based on all 20 CCF compared to only 10 CCF under the current volumetric rate structure.

This proposed change is recommended to improve the proportionality of volumetric rates to the City's variable water supply costs. Each unit of water supplied from local groundwater or imported water incurs a variable cost in proportion to the quantity of water. Therefore, charging customers for

each unit of water consumed strengthens the nexus between costs incurred by the Water Fund and proposed rates paid by customers. This proposed change will better align the City's water rate structure with industry best practices and evolving interpretations of legal requirements under Proposition 218.

Table 5-1: Current vs. Proposed Base Minimum Allotment

Meter Size	Current Bimonthly Base Minimum Allotment (CCF)	Proposed Bimonthly Base Minimum Allotment (CCF)
5/8 x 3/4-inch	10	0
1-inch	25	0
1 1/2-inch	50	0
2-inch	100	0
3-inch	150	0
4-inch	175	0
6-inch	200	0
8-inch	225	0
10-inch	250	0

Table 5-2: Current vs. Proposed Water Use Subject to Volumetric Rates

FY 2025-26 Potable Retail Water Use (CCF)	Current	Proposed
Water Use Exempt from Volumetric Rates (*i.e., Within Base Minimum Allotment*)	1,081,998	0
Water Use Subject to Volumetric Rates (*i.e., Above Base Minimum Allotment*)	1,560,127	2,642,125
Total	**2,642,125**	**2,642,125**

5.3 TEST YEAR RATE DEVELOPMENT

REVENUE REQUIREMENT RECOVERY

Each cost causation component was attributed to proposed fixed meter charges, fixed private fire line charges, or volumetric rates for recovery (see Table 5-3). This is necessary to ensure that the proposed rates recover the rate revenue requirement allocated to each cost causation component as determined in the cost-of-service analysis in Section 4.

Table 5-3: Revenue Requirement Recovery by Proposed Rates

Line	Cost Causation Component	Recovered by:
1	Billing & Customer Service	*Fixed Meter Charges; Fixed Private Fire Line Charges*
2	Meter Maintenance & Replacement	*Fixed Meter Charges; Fixed Private Fire Line Charges*
3	Meter Capacity	*Fixed Meter Charges*
4	Private Fire Protection	*Fixed Private Fire Line Charges*
5	Water Supply	*Volumetric Rates*
6	Base Delivery	*Volumetric Rates*
7	Max Day Delivery	*Volumetric Rates*
8	Max Hour Delivery	*Volumetric Rates*
9	Conservation	*Volumetric Rates*
10	Revenue Offsets	*Volumetric Rates*

FIXED METER CHARGE CALCULATION FOR TEST YEAR (FY 2025-26)

Proposed fixed meter charges were calculated for the test year based on the billing & customer service, meter maintenance & replacement, and meter capacity unit costs from Table 4-20 (see Table 5-4). Billing & customer service unit costs were applied uniformly to all meter sizes because billing and customer service related activities do not vary by meter size. Meter maintenance & replacement and meter capacity unit costs were applied in proportion to meter capacity ratios (from Table 4-18), as larger meters cost more to maintain and replace and provide greater capacity. Proposed bimonthly charges equal the sum of the three components and were rounded up to the nearest cent. A comparison of proposed and current bimonthly fixed meter charges is provided in Table 5-5. Differential impacts to various meter sizes are primarily due to the use of updated meter capacity ratios in the development the proposed charges, which is necessary to appropriately allocate costs in accordance with cost-of-service principles.

Table 5-4: Fixed Meter Charge Test Year Calculation

Meter Size	Meter Capacity Ratio	Billing & Customer Service	Meter Maintenance & Replacement	Meter Capacity	Proposed Bimonthly Charge
5/8 x 3/4-inch	1.00	$5.66	$3.27	$30.91	**$39.84**
1-inch	2.50	$5.66	$8.17	$77.26	**$91.09**
1 1/2-inch	5.00	$5.66	$16.33	$154.53	**$176.52**
2-inch	8.00	$5.66	$26.13	$247.25	**$279.04**
3-inch	16.00	$5.66	$52.26	$494.49	**$552.41**
4-inch	25.00	$5.66	$81.65	$772.64	**$859.96**
6-inch	50.00	$5.66	$163.31	$1,545.28	**$1,714.25**
8-inch	80.00	$5.66	$261.29	$2,472.45	**$2,739.41**
10-inch	120.00	$5.66	$391.93	$3,708.68	**$4,106.28**

Table 5-5: Comparison to Current Fixed Meter Charges

Description	Current Bimonthly Charge	Proposed Bimonthly Charge	$ Difference	% Difference
5/8 x 3/4-inch meter	$37.61	$39.84	$2.23	5.9%
1-inch meter	$127.52	$91.09	($36.43)	-28.6%
1 1/2-inch meter	$255.07	$176.52	($78.55)	-30.8%
2-inch meter	$510.14	$279.04	($231.10)	-45.3%
3-inch meter	$765.18	$552.41	($212.77)	-27.8%
4-inch meter	$892.73	$859.96	($32.77)	-3.7%
6-inch meter	$1,020.25	$1,714.25	$694.00	68.0%
8-inch meter	$1,069.38	$2,739.41	$1,670.03	156.2%
10-inch meter	$1,188.80	$4,106.28	$2,917.48	245.4%

VOLUMETRIC RATE CALCULATIONS FOR TEST YEAR (FY 2025-26)

The proposed volumetric rate was calculated for the test year based on the water supply, base delivery, max day delivery, max hour delivery, conservation, and revenue offset unit costs from Table 4-20 (see Table 5-6). The proposed rate per CCF equals the sum of the six components and was rounded up to the nearest cent. A comparison of proposed and current volumetric rates is provided in Table 5-7. Note that if the proposed rates are adopted, all customer water usage will be subject to the volumetric rate due to the proposed elimination of the base minimum allotment.

Table 5-6: Volumetric Rate Test Year Calculation

Cost Causation Component	Unit Cost
Water Supply	$1.43
Base Delivery	$2.33
Max Day Delivery	$0.88
Max Hour Delivery	$0.23
Conservation	$0.19
Revenue Offsets	($1.32)
Proposed Volumetric Rate per CCF	**$3.74**

Table 5-7: Comparison to Current Volumetric Rates

Description	Value
Proposed Volumetric Rate per CCF	$3.74
Current Volumetric Rate per CCF	$2.75
$ Difference	$0.99
% Difference	36.0%

FIXED PRIVATE FIRE LINE CHARGE CALCULATION FOR TEST YEAR (FY 2025-26)

Proposed fixed private fire line charges were calculated for the test year based on the billing & customer service, meter maintenance & replacement, and private fire protection unit costs from Table 4-20 (see Table 5-8). Billing & customer service unit costs are applied uniformly to all connection sizes, which is consistent with the application of billing & customer service costs to fixed meter charges. Meter maintenance & replacement unit costs are also applied uniformly, as all private fire lines have a 5/8 x 3/4-inch bypass meter. Private fire protection connection unit costs are applied in proportion to fire protection demand ratios (from Table 4-14), as larger connections require greater capacity. Proposed bimonthly charges equal the sum of the three components and were rounded up to the nearest cent. A comparison of proposed and current bimonthly fixed private fire line charges is provided in Table 5-9. Differential impacts to various connection sizes are primarily due to the use of updated methodological guidance per the AWWA M1 Manual in the development the proposed charges. This is necessary to align with industry best practices and evolving interpretations of Proposition 218 legal requirements.

Table 5-8: Fixed Private Fire Line Charge Test Year Calculation

Connection Size	Fire Protection Demand Ratio	Billing & Customer Service	Meter Maintenance & Replacement	Private Fire Protection	Proposed Bimonthly Charge
4-inch	1.00	$5.66	$3.27	$71.68	**$80.61**
6-inch	2.90	$5.66	$3.27	$208.22	**$217.15**
8-inch	6.19	$5.66	$3.27	$443.73	**$452.66**
10-inch	11.13	$5.66	$3.27	$797.98	**$806.91**
12-inch	17.98	$5.66	$3.27	$1,288.95	**$1,297.88**

Table 5-9: Comparison to Current Fixed Private Fire Line Charges

Description	Current Bimonthly Charge	Proposed Bimonthly Charge	$ Difference	% Difference
4-inch connection	$163.24	$80.61	($82.63)	-50.6%
6-inch connection	$244.86	$217.15	($27.71)	-11.3%
8-inch connection	$327.27	$452.66	$125.39	38.3%
10-inch connection	$408.10	$806.91	$398.81	97.7%
12-inch connection	$489.73	$1,297.88	$808.15	165.0%

5.4 PROPOSED FIVE-YEAR RATE SCHEDULE DEVELOPMENT

A proposed five-year potable water rate schedule was calculated directly from the results of the proposed water financial plan and the test year rate calculations in the preceding section (see Table 5-10). Proposed FY 2025-26 rates simply equal the test year rates previously calculated in Table 5-4, Table 5-6, and Table 5-8. Proposed rates in FY 2026-27 through FY 2029-30 were calculated by increasing proposed FY 2025-26 rates by the revenue adjustment percentages specified in the proposed water financial plan (from Table 3-15). This step is necessary to establish proposed rates that will sufficiently recover the annual rate revenue requirement identified in the proposed financial plan over the five-year rate-setting period. All proposed rates were rounded up to the nearest cent. Proposed FY 2025-26 rates are assumed to be implemented February 1, 2026, with the four subsequent rate adjustments assumed to be effective January 1 of each respective fiscal year.

Table 5-10: Calculation of Proposed Five-Year Rate Schedule

Description	Current	Proposed FY 2025-26 (Feb. 2026)	Proposed FY 2026-27 (Jan. 2027)	Proposed FY 2027-28 (Jan. 2028)	Proposed FY 2028-29 (Jan. 2029)	Proposed FY 2029-30 (Jan. 2030)
Proposed Revenue Adjustment		***50%***	***30%***	***25%***	***20%***	***5%***
Bimonthly Fixed Meter Charge						
5/8 x 3/4-inch meter	$37.61	$39.84	$51.80	$64.75	$77.70	$81.59
1-inch meter	$127.52	$91.09	$118.42	$148.03	$177.64	$186.53
1 1/2-inch meter	$255.07	$176.52	$229.48	$286.85	$344.22	$361.44
2-inch meter	$510.14	$279.04	$362.76	$453.45	$544.14	$571.35
3-inch meter	$765.18	$552.41	$718.14	$897.68	$1,077.22	$1,131.09
4-inch meter	$892.73	$859.96	$1,117.95	$1,397.44	$1,676.93	$1,760.78
6-inch meter	$1,020.25	$1,714.25	$2,228.53	$2,785.67	$3,342.81	$3,509.96
8-inch meter	$1,069.38	$2,739.41	$3,561.24	$4,451.55	$5,341.86	$5,608.96
10-inch meter	$1,188.80	$4,106.28	$5,338.17	$6,672.72	$8,007.27	$8,407.64
Volumetric Rate per CCF						
All Customers[54]	$2.75	$3.74	$4.87	$6.09	$7.31	$7.68
Bimonthly Fixed Private Fire Line Charges						
4-inch connection	$163.24	$80.61	$104.80	$131.00	$157.20	$165.06
6-inch connection	$244.86	$217.15	$282.30	$352.88	$423.46	$444.64
8-inch connection	$327.27	$452.66	$588.46	$735.58	$882.70	$926.84
10-inch connection	$408.10	$806.91	$1,048.99	$1,311.24	$1,573.49	$1,652.17
12-inch connection	$489.73	$1,297.88	$1,687.25	$2,109.07	$2,530.89	$2,657.44

[54] If adopted, proposed volumetric rates will apply to all metered customer water use, as base minimum allotments are proposed to be eliminated.

5.5 CUSTOMER BILL IMPACT ANALYSIS

AVERAGE BIMONTHLY BILL IMPACTS

Sample bimonthly bills based on current and proposed rates were calculated to evaluate bill impacts to typical single-family residential and commercial customers. Average single-family residential and commercial bimonthly water bills under current and proposed rates are shown in Table 5-11 over the five-year rate-setting period. Single-family residential bills are reflective of a customer with a 5/8 x 3/4-inch meter[55] using 20 CCF per bimonthly billing period (i.e., average single-family residential water use). Commercial bills are reflective of a customer with a 1.5-inch meter[56] using 125 CCF per bimonthly billing period (i.e., average commercial water use).

Table 5-11: Average Water Bill Impacts

Description	Current	Proposed Feb. 2026	Proposed Jan. 2027	Proposed Jan. 2028	Proposed Jan. 2029	Proposed Jan. 2030
Average Residential						
Bimonthly Bill	$65.11	$114.64	$149.20	$186.55	$223.90	$235.19
Change ($)		$49.53	$34.56	$37.35	$37.35	$11.29
Average Commercial						
Bimonthly Bill	$461.32	$644.02	$838.23	$1,048.10	$1,257.97	$1,321.44
Change ($)		$182.70	$194.21	$209.87	$209.87	$63.47

AVERAGE BIMONTHLY BILL COMPARISON TO NEIGHBORING WATER UTILITIES

Current and proposed FY 2025-26 bimonthly bills for an average single-family residential customer and an average commercial customer were compared to customer bills at 15 neighboring water utilities (see Table 5-12 and Table 5-13). Under both current and proposed FY 2025-26 rates, average water bills in the City of Cerritos are among the lowest in the region.

All single-family residential bills were estimated based on the smallest available meter size and 20 CCF of bimonthly water use. All commercial bills were estimated based on a 1.5-inch meter size and 125 CCF of bimonthly water use. All bills for neighboring agencies were estimated based on adopted rates effective as of May 2025. Therefore, any adopted or proposed rate adjustments in FY 2025-26 for the 15 neighboring water utilities are not reflected in the bill comparisons shown.

[55] Over 95% of all single-family residential connections have a 5/8 x 3/4-inch meter.
[56] The median commercial meter size is 1.5-inches.

Table 5-12: Average Residential Water Bill Comparison to Neighboring Agencies

Water Agency	Bimonthly Residential Water Bill
Golden State Water Company	$201.54
Liberty Utilities	$196.57
Compton	$156.82
Norwalk	$153.48
Lynwood	$144.09
Signal Hill	$139.12
Long Beach	$138.70
Santa Fe Springs	$122.20
Bellflower (Cal American Water Co)	$120.10
South Gate	$119.60
Bellflower (Somerset Mutual Water Co)	$116.82
Whittier/ La Mirada (Suburban Water Systems)	$115.76
Cerritos (Proposed Feb. 2026)	***$114.64***
Lakewood	$88.12
Paramount	$72.28
Cerritos (Current)	***$65.11***
Downey	$52.64

Table 5-13: Average Commercial Water Bill Comparison to Neighboring Agencies

Water Agency	Bimonthly Commercial Water Bill
Golden State Water Company	$1,164.44
Liberty Utilities	$1,152.08
Signal Hill	$1,087.75
South Gate	$788.75
Bellflower (Cal American Water Co)	$784.75
Lynwood	$753.18
Santa Fe Springs	$729.51
Long Beach	$721.84
Norwalk	$697.95
Bellflower (Somerset Mutual Water Co)	$659.50
Cerritos (Proposed Feb. 2026)	***$644.02***
Whittier/ La Mirada (Suburban Water Systems)	$618.71
Compton	$555.81
Paramount	$547.35
Lakewood	$500.93
Cerritos (Current)	***$461.32***
Downey	$331.32

6. SEWER FINANCIAL PLAN

6.1 FINANCIAL PLAN METHODOLOGY

A five-year financial plan was developed to project revenues, expenses, and cash reserves for the City's Sewer Fund over the next five years through FY 2029-30. The primary goal of the financial plan analysis was to quantify the total amount of revenue required from sewer rates on an annual basis to support the Sewer Fund's financial needs. The key steps in developing the financial plan were:

- **Revenue projections**: Annual Sewer Fund revenues from rates and other miscellaneous sources were projected over the study period. Rate revenues were projected based on current rates to establish baseline revenues from which the need for rate increases were evaluated.
- **Expense projections**: Annual Sewer Fund expenses were projected over the study period. Expenses include operating expenses, debt service (if applicable), and CIP project costs.
- **Status quo financial plan projections**: Sewer Fund cash flow and reserve balances were projected over the study period in the absence of any proposed rate increases (i.e., the status quo). The status quo financial plan established a baseline scenario from which the need for rate increases could then be evaluated.
- **Proposed financial plan projections:** The magnitude and timing of annual proposed revenue adjustments (i.e., rate increases) over the rate-setting period were evaluated and determined. Proposed revenue adjustments must generate sufficient revenue to recover the utility's expenses and maintain adequate reserves. The proposed financial plan established the total annual rate revenue requirement over the rate-setting period.

6.2 REVENUES

CURRENT SEWER RATES

The City's current sewer rates have been in effect since FY 2020-21. Sewer customers are billed bimonthly by the City for wastewater collection service only. Wastewater treatment and disposal services are provided by LACSD, which charges customers separately via the Los Angeles County property tax roll. The City's current sewer rate structure consists of uniform volumetric rate per CCF of metered water use (see Table 6-1). All sewer customers are subject to the same uniform volumetric rate. There is currently no fixed charge component to the City's sewer rate structure.

Table 6-1: Current Sewer Rates

Current Sewer Rates	Per CCF
All Customers	$0.0322

UNITS OF SERVICE

Units of service represent the quantity of billing units subject to rates and charges. Annual metered water use (in CCF) are the units of service for current sewer rates. Actual FY 2023-24 metered water use subject to sewer rates was provided by City staff. WRE projected metered water use subject to sewer rates over the study period by increasing actual FY 2023-24 usage by 0.73% (see Table 6-2), which is consistent with water demand projections in the water financial plan (from Table 3-4). Note

that FY 2024-25 actual water use subject to sewer rates was not yet available at time the sewer financial plan analysis was conducted.

Table 6-2: Metered Water Use Subject to Sewer Charges

Fiscal Year	Water Use (CCF)	% Change
FY 2023-24 (Actual)	2,636,810	*N/A*
FY 2025-26 (Projected)	2,656,169	*0.73%*
FY 2026-27 (Projected)	2,656,169	*0.00%*
FY 2027-28 (Projected)	2,656,169	*0.00%*
FY 2028-29 (Projected)	2,656,169	*0.00%*
FY 2029-30 (Projected)	2,656,169	*0.00%*

REVENUE FROM CURRENT RATES

Annual revenues from current sewer rates were projected over the study period (see Table 6-3). Rate revenues were calculated by multiplying the current volumetric rate per CCF (from Table 6-1) by the projected annual water use subject to sewer rates (from Table 6-2).

Table 6-3: Revenue from Current Sewer Rates

Fiscal Year	Revenue from Current Rates
FY 2025-26 (Projected)	$85,529
FY 2026-27 (Projected)	$85,529
FY 2027-28 (Projected)	$85,529
FY 2028-29 (Projected)	$85,529
FY 2029-30 (Projected)	$85,529

MISCELLANEOUS REVENUES

The Sewer Fund also collects revenue from miscellaneous sources, which were projected over the study period (see Table 6-4). These projected revenues were held constant at FY 2025-26 preliminary budget amounts over the five-year projection period to ensure sufficiently conservative revenue projections, except for interest income. Interest income was projected beginning in FY 2025-26 based on projected annual cash reserve levels and an assumed 2% annual interest rate.

Table 6-4: Miscellaneous Sewer Fund Revenues

Description	FY 2025-26 (Budgeted/ Projected) [57]	FY 2026-27 (Projected)	FY 2027-28 (Projected)	FY 2028-29 (Projected)	FY 2029-30 (Projected)
Interest Income					
Interest Income	$12,981	$24,506	$30,309	$30,582	$29,081
Subtotal	**$12,981**	**$24,506**	**$30,309**	**$30,582**	**$29,081**
Other Miscellaneous Revenue					
Sewer Connection Fees	$9,000	$9,000	$9,000	$9,000	$9,000
Sewer Uncollectible Accounts	($100)	($100)	($100)	($100)	($100)
Subtotal	**$8,900**	**$8,900**	**$8,900**	**$8,900**	**$8,900**
Total	**$21,881**	**$33,406**	**$39,209**	**$39,482**	**$37,981**

REVENUE SUMMARY

A summary of total projected revenues over the study period is shown below (see Table 6-5), and includes both revenue from current rates (from Table 6-3) and miscellaneous revenues (from Table 6-4). For FY 2025-26, revenue from current rates and interest income were projected by WRE and therefore differ from budgeted amounts. Other miscellaneous revenues in FY 2025-26 are preliminary budget amounts, which are projected to remain level over the study period.

Table 6-5: Sewer Fund Revenue Summary

Description	FY 2025-26 (Budgeted/ Projected)	FY 2026-27 (Projected)	FY 2027-28 (Projected)	FY 2028-29 (Projected)	FY 2029-30 (Projected)
Current Sewer Rates	$85,529	$85,529	$85,529	$85,529	$85,529
Interest Income	$12,981	$24,506	$30,309	$30,582	$29,081
Other Miscellaneous Revenue	$8,900	$8,900	$8,900	$8,900	$8,900
Total	**$107,409**	**$118,934**	**$124,737**	**$125,011**	**$123,509**

6.3 OPERATING EXPENSES

OPERATING INFLATIONARY ASSUMPTIONS

Annual inflationary assumptions used to project Sewer Fund operating expenses over the study period (see Table 6-6) are consistent with inflationary assumptions used in the water financial plan analysis (from Table 3-8). The inflationary assumptions shown are based on an evaluation of the historical cost increases, anticipated increases per direction from City staff, as well as inflationary trends across the water/sewer utility industry and broader economy. The inflationary assumptions shown represent projected annual increases in various operating expense inflationary categories relative to a base year of FY 2025-26.

[57] Interest income in FY 2025-26 was projected by WRE and differs from the preliminary budgeted amounts.

Table 6-6: Sewer Fund Operating Expense Annual Inflationary Assumptions

Inflationary Category	FY 2026-27	FY 2027-28	FY 2028-29	FY 2029-30
General	4.0%	4.0%	4.0%	4.0%
Electricity	5.0%	5.0%	5.0%	5.0%
Natural Gas	8.0%	8.0%	8.0%	8.0%
Salaries/Benefits	4.0%	4.0%	4.0%	4.0%
Groundwater Supply	5.0%	5.0%	5.0%	5.0%
Imported Water Supply/Leased Water	8.5%	8.5%	7.5%	7.5%
Reclaimed Water Supply	5.0%	5.0%	5.0%	5.0%
Equipment/Parts	4.0%	4.0%	4.0%	4.0%

OPERATING EXPENSE PROJECTIONS

Sewer Fund operating expenses were projected annually over the rate-setting period (see Table 6-7 for a summary and Appendix E for detailed projections of each line item expense). Direct water supply costs allocable to the Sewer Fund were previously established in Table 3-9. All other operating expenses were projected over the five-year period by increasing FY 2025-26 preliminary budget amounts[58] by the most closely related annual inflationary adjustment from Table 6-6. Total operating expenses over the next five years are projected to increase by about 5.2% per year on average. Note that under the City's current budget structure, cost centers are consistent between the Water Fund and Sewer Fund.

[58] May differ from adopted budget amounts.

Table 6-7: Summary of Sewer Fund Operating Expenses

Operating Expenses	FY 2025-26 (Budgeted/ Projected) [59]	FY 2026-27 (Projected)	FY 2027-28 (Projected)	FY 2028-29 (Projected)	FY 2029-30 (Projected)
Direct Operating Expenses					
Water Management	$22,162	$23,049	$23,971	$24,930	$25,927
Water Production/Distribution (Direct Water Supply Costs)	$64,094	$67,422	$124,359	$132,519	$141,234
Water Production/Distribution (All Other)	$63,255	$66,973	$70,933	$74,968	$79,253
Water Operations	$34,722	$36,111	$37,555	$39,057	$40,619
Water Inspection	$12,235	$12,724	$13,233	$13,763	$14,313
Reclaimed Water Operations	$18,243	$18,753	$19,286	$19,844	$20,427
Water Billing	$4,004	$4,164	$4,331	$4,504	$4,684
Subtotal	**$218,714**	**$229,195**	**$293,668**	**$309,585**	**$326,458**
Indirect Overhead Expenses					
Legislative and Administrative	$70,504	$73,324	$76,257	$79,307	$82,480
Public Works	$823,358	$856,292	$890,544	$926,166	$963,212
Administrative Services	$242,782	$252,493	$262,593	$273,097	$284,021
Subtotal	**$1,136,644**	**$1,182,110**	**$1,229,394**	**$1,278,570**	**$1,329,713**
Total	**$1,355,358**	**$1,411,305**	**$1,523,062**	**$1,588,155**	**$1,656,171**
% Change		*4.13%*	*7.92%*	*4.27%*	*4.28%*

6.4 DEBT SERVICE

The City's Sewer Fund has no outstanding debt. Furthermore, the City does not currently plan to issue any new debt over the next five years to finance any Sewer Fund CIP projects. Therefore, no debt service was incorporated into the financial plan projections.

6.5 CAPITAL IMPROVEMENT PROGRAM

The Sewer Fund's preliminary five-year CIP as of June 2025 included $6.3 million in project costs between FY 2025-26 through FY 2029-30 associated with sewer collection system repair and replacement projects. Because full funding of the five-year CIP would result in unacceptably high bill impacts to customers, City staff developed a reduced CIP scenario which included $3.9 million in critical CIP projects needed to maintain the sewer system's existing level of service. These critical five-year CIP project costs are shown in Table 6-8. After accounting for 4% assumed annual inflation, total CIP increases from $3.9 million to $4.3 million. All CIP projects over the rate-setting period are assumed to be cash funded (i.e., no new debt financing or grant funding). Funded CIP projects include critical improvements to dewatering stations, lift stations, and sewer mains and pipelines.

[59] Direct water supply costs allocable to the Sewer Fund were projected by WRE and differ from the preliminary budgeted amounts.

Table 6-8: Sewer Fund CIP Project Costs

CIP Project Description	FY 2025-26	FY 2026-27	FY 2027-28	FY 2028-29	FY 2029-30	5-Year Total
Bi-annual Rehabilitation/Replacement of Dewatering Stations (Project #19602)	$0	$50,000	$0	$50,000	$0	**$100,000**
Bi-annual Rehabilitation/Replacement of Sewer Lift Stations (Project #18001)	$50,000	$0	$50,000	$0	$50,000	**$150,000**
Annual Sewer Main Replacement/Upgrades (Project #23602)	$0	$0	$600,000	$600,000	$1,200,000	**$2,400,000**
Sewer Pipe CCTV Inspection	$0	$400,000	$400,000	$400,000	$0	**$1,200,000**
Total (excluding Inflation)	$50,000	$450,000	$1,050,000	$1,050,000	$1,250,000	**$3,850,000**
TOTAL (including 4% Annual Inflation)	**$50,000**	**$468,000**	**$1,135,680**	**$1,181,107**	**$1,462,323**	**$4,297,110**

6.6 RESERVE POLICY

SEWER FUND RESERVE POLICY

As with water utilities, sewer utilities also need to maintain sufficient cash reserves to cover expenses and mitigate financial risks. Sewer utilities often establish reserve minimum and/or target levels to ensure that cash reserves are maintained at responsible and reasonable levels. The City's existing enterprise fund reserve policy applies to the Sewer Fund in the same manner as the Water Fund, as outlined in Resolution No. 2025-04 and summarized below:

Current enterprise fund reserve policy:

- **Minimum Level**: 25% of annual operating expenses plus annual average five-year CIP
- **Target Level**: 35% of annual operating expenses plus annual average five-year CIP

The policy also states that "any depletion below the minimum level will trigger a review of rates and financial plans to restore reserves within three to five years." No changes to the existing reserve policy were recommended as part of this study. However, we recommend that the City reevaluate its enterprise fund reserve policy, and its application to the City's Sewer Fund, periodically to ensure that Sewer Fund reserves are maintained at appropriate levels and are aligned with industry standards.

PROJECTED MINIMUM AND TARGET RESERVE LEVELS

Minimum and target reserve levels were projected annually over the study period for the Sewer Fund (see Table 6-9) based on the current enterprise fund reserve policy, projected operating expenses (from Table 6-7), and projected CIP (from Table 6-8). Sewer Fund reserves are primarily intended to maintain sufficient cash on hand to meet short-term cash flow imbalances, award construction contracts and execute CIP projects, and to mitigate other financial risks.

Table 6-9: Projected Minimum and Target Reserve Levels

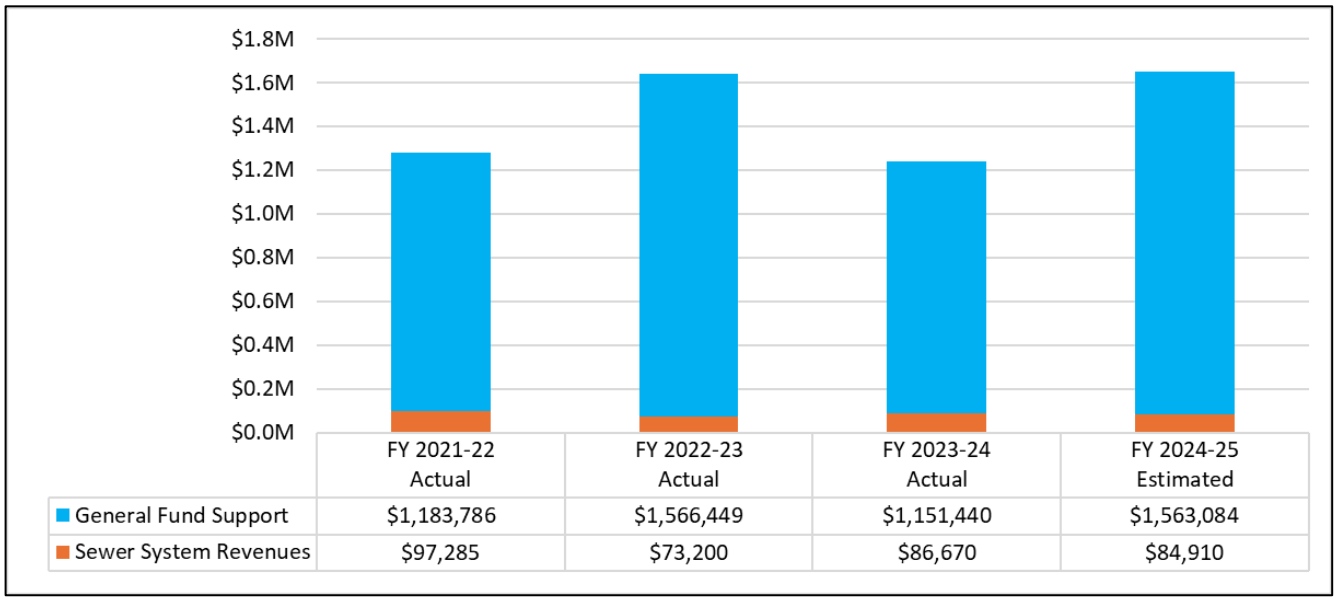
Description	FY 2025-26 (Projected)	FY 2026-27 (Projected)	FY 2027-28 (Projected)	FY 2028-29 (Projected)	FY 2029-30 (Projected)
Minimum Reserve Level					
25% of Operating Expenses	$338,840	$352,826	$380,766	$397,039	$414,043
Annual Average of 5-Year CIP	$859,422	$859,422	$859,422	$859,422	$859,422
Total	**$1,198,262**	**$1,212,248**	**$1,240,188**	**$1,256,461**	**$1,273,465**
Target Reserve Level					
35% of Operating Expenses	$474,375	$493,957	$533,072	$555,854	$579,660
Annual Average of 5-Year CIP	$859,422	$859,422	$859,422	$859,422	$859,422
Total	**$1,333,798**	**$1,353,379**	**$1,392,494**	**$1,415,276**	**$1,439,082**

6.7 GENERAL FUND SUPPORT

Similar to the Water Fund, the Sewer Fund also currently receives support from the City's General Fund to recover expenses while maintaining low customer rates. However, the Sewer Fund's

dependence on the General Fund has historically been much more significant than that of the Water Fund. Over the past four fiscal years, sewer system revenues have covered fewer than 10% of total Sewer Fund expenses, with General Fund support recovering over 90% (see Figure 6-1).[60] In October 2023, City Council adopted Resolution 2023-35 directing that outstanding enterprise loan balances owed by the Sewer Fund to the General Fund be written off and that any future funding provided by the General Fund to the Sewer Fund be classified as a non-reimbursable transfer. This resulted in the write-off of $14.7 million in outstanding General Fund loans to the Sewer Fund. City Council also directed City staff to develop sewer rate options to address the deficit in the Sewer Fund. Proposed General Fund support presented in subsequent sections is informed by direction outlined in Resolution 2023-35 to reduce the Sewer Fund's reliance on the General Fund.

Figure 6-1: Sewer Fund Cost Recovery



	FY 2021-22 Actual	FY 2022-23 Actual	FY 2023-24 Actual	FY 2024-25 Estimated
General Fund Support	$1,183,786	$1,566,449	$1,151,440	$1,563,084
Sewer System Revenues	$97,285	$73,200	$86,670	$84,910

6.8 STATUS QUO FINANCIAL PLAN

STATUS QUO REVENUE ADJUSTMENTS AND GENERAL FUND SUPPORT

A status quo financial plan was first established to evaluate a scenario in which no rate increases are implemented over the rate-setting period (i.e., current rates remain unchanged). This scenario provided a baseline from which to evaluate the magnitude and timing of proposed sewer rate increases. Key status quo financial plan assumptions are shown in Table 6-10. Revenue adjustments represent rate revenue increases resulting from proposed rate increases and were therefore equal 0% under the status quo financial plan scenario. Assumed General Fund transfers to the Sewer Fund total $12.1 million over the five-year rate-setting period, which represents the level of General Fund support that would be required to meet all Sewer Fund funding requirements while achieving minimum reserve levels each year.

[60] Per the City's FY 2025-26 adopted budget.

Table 6-10: Status Quo Sewer Revenue Adjustments and General Fund Support

Fiscal Year	Revenue Adjustment	General Fund Transfer to Sewer Fund
FY 2025-26 Projected	0%	$2,110,000
FY 2026-27 Projected	0%	$1,780,000
FY 2027-28 Projected	0%	$2,570,000
FY 2028-29 Projected	0%	$2,660,000
FY 2029-30 Projected	0%	$3,020,000
Five-Year Total	**0%**	**$12,140,000**

STATUS QUO FINANCIAL PLAN

The status quo financial plan combines revenues and expenses from preceding subsections to project Sewer Fund cash flow and reserve balances on an annual basis (see Table 6-11). Sources of funds include current rate revenues and miscellaneous revenues (from Table 6-5) and General Fund support (from Table 6-10). Revenue adjustments (Line 3) represent additional revenue from rate increases and are therefore excluded from the status quo financial plan.

Uses of funds include operating expenses (from Table 6-7) and CIP expenses (from Table 6-8). Projected reserve ending balances are compared to the minimum and target reserve levels based on the City's current enterprise fund reserve policy (from Table 6-9). A graphical summary of the status quo financial plan is provided in Figure 6-2.

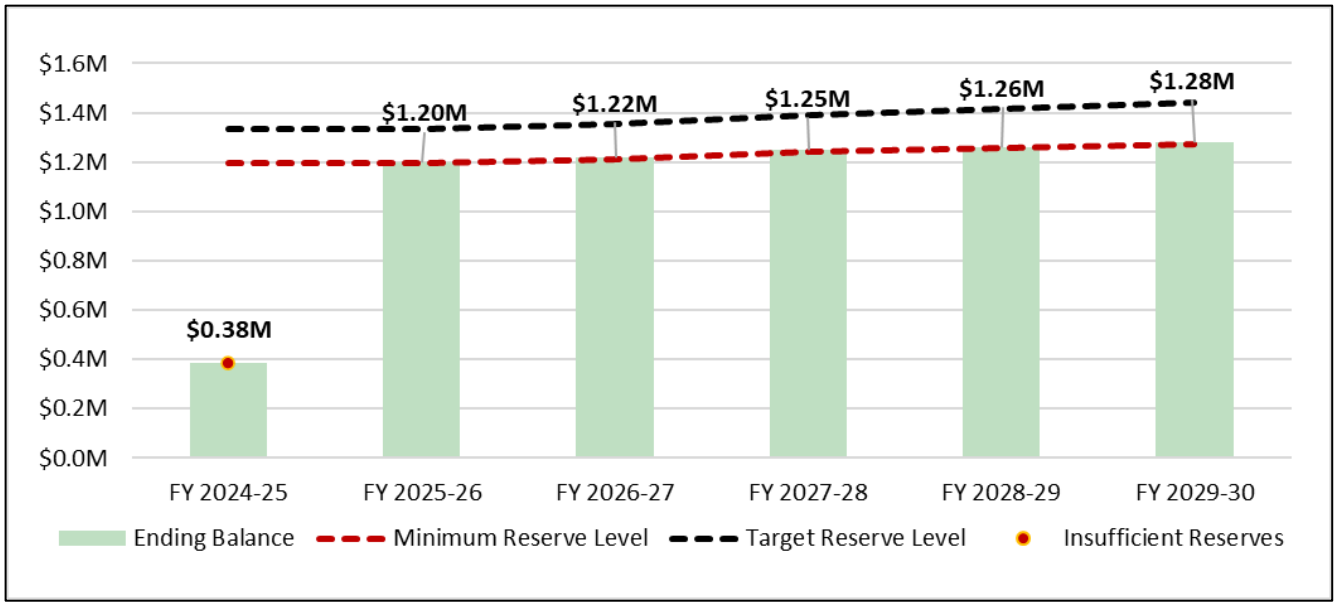
Under the status quo financial plan, sewer system revenues cover less than 10% of operating expenses in each year of the rate-setting period, indicating a severe operating deficit. Significant General Fund support totaling $12.1 million over the five year period would be necessary to cover all funding requirements while meeting the minimum reserve level each year. The status quo financial plan is inconsistent with direction provided by City Council per Resolution 2023-35, thus demonstrating the need for proposed revenue adjustments to help the Sewer Fund achieve financial self-sufficiency in the near-term.

Table 6-11: Sewer Fund Status Quo Financial Plan

Line	Description	FY 2025-26 (Projected)	FY 2026-27 (Projected)	FY 2027-28 (Projected)	FY 2028-29 (Projected)	FY 2029-30 (Projected)
1	**Source of Funds**					
2	Current Rate Revenue	$85,529	$85,529	$85,529	$85,529	$85,529
3	Revenue Adjustments	$0	$0	$0	$0	$0
4	Other Revenue[61]	$24,576	$32,831	$33,318	$33,715	$34,022
5	General Fund Support	$2,110,000	$1,780,000	$2,570,000	$2,660,000	$3,020,000
6	**Total Source of Funds**	**$2,220,104**	**$1,898,360**	**$2,688,847**	**$2,779,243**	**$3,139,551**
7						
8	**Use of Funds**					
9	Operating Expenses	$1,355,358	$1,411,305	$1,523,062	$1,588,155	$1,656,171
10	Debt Service	$0	$0	$0	$0	$0
11	CIP	$50,000	$468,000	$1,135,680	$1,181,107	$1,462,323
12	**Total Use of Funds**	**$1,405,358**	**$1,879,305**	**$2,658,742**	**$2,769,263**	**$3,118,494**
13						
14	**Reserves**					
15	Beginning Reserve Balance	$384,249	$1,198,995	$1,218,050	$1,248,154	$1,258,135
16	Net Cash Flow[62]	$814,746	$19,055	$30,104	$9,981	$21,057
17	**Ending Reserve Balance**	**$1,198,995**	**$1,218,050**	**$1,248,154**	**$1,258,135**	**$1,279,192**
18						
19	**Key Financial Metrics**					
20	*Minimum Reserve Level*	*$1,198,262*	*$1,212,248*	*$1,240,188*	*$1,256,461*	*$1,273,465*
21	*Target Reserve Level*	*$1,333,798*	*$1,353,379*	*$1,392,494*	*$1,415,276*	*$1,439,082*
22	*Minimum Reserve Level Met?*	*Yes*	*Yes*	*Yes*	*Yes*	*Yes*
23	*Target Reserve Level Met?*	*No*	*No*	*No*	*No*	*No*

[61] Other revenues differ from the values previously shown in Table 6-5 due to differing interest earnings under the status quo financial plan. This is because interest earnings are a function of reserve balances, which differ in the status quo financial plan compared to the proposed financial plan.
[62] =[Line 6] – [Line 12]

Figure 6-2: Sewer Fund Status Quo Financial Plan – Projected Cash Reserves



6.9 PROPOSED FINANCIAL PLAN

PROPOSED REVENUE ADJUSTMENTS AND GENERAL FUND SUPPORT

Various financial plan scenarios with differing levels of revenue adjustments and General Support were considered and refined based on input from City staff. At the August 28, 2025 City Council meeting, the City Council instructed City staff and WRE to proceed with the proposed revenue adjustments and General Fund support shown in Table 6-12. The proposed revenue adjustments include a 1,425% increase in FY 2025-26 followed by 25% annual increases in the following four years. General Fund support is assumed to provide $1.3 million to the Sewer Fund in FY 2025-26 per the preliminary budget,[63] followed by a gradual phaseout over the following three years.

The purpose of the General Fund support phaseout is to eliminate General Fund support altogether by the end of the rate-setting period in order to help the Sewer Fund achieve self-sufficiency in line with Resolution 2023-35. Total five-year General Fund support under the proposed financial plan is $3.6 million, compared to $12.1 million under the status quo financial plan. The primary reason for unprecedented revenue adjustments is the need to address the Sewer Fund's severe current operating deficit while phasing out General Fund support. As with the water Fund, additional factors contributing to the need for Sewer Fund revenue adjustments include ongoing cost inflation, lower volumetric sewer rate revenue due to declining water demand, and substantial planned CIP spending to maintain system reliability.

Annual projected rate revenue increases resulting from the proposed revenue adjustments are shown in Table 6-13. The proposed FY 2025-26 revenue adjustment is assumed to be effective February 1, 2026, with the following four proposed revenue adjustments assumed to be effective January 1 of each respective fiscal year. The rate revenue projections shown were prorated to

[63] May differ from adopted budget amounts.

account for mid-year revenue adjustments. The cumulative impact of the proposed revenue adjustments is projected to increase total annual sewer rate revenues to nearly $2.9 million by the end of the rate-setting period in FY 2029-30.

Table 6-12: Proposed Sewer Revenue Adjustments and General Fund Support

Fiscal Year	Revenue Adjustment	General Fund Transfer to Sewer Fund
FY 2025-26 Projected	1,425%	$1,332,680
FY 2026-27 Projected	25%	$1,000,000
FY 2027-28 Projected	25%	$750,000
FY 2028-29 Projected	25%	$500,000
FY 2029-30 Projected	25%	$0
Five-Year Total	**3,623%**	**$3,582,680**

Table 6-13: Sewer Fund Proposed Revenue Adjustments

Line	Description	FY 2025-26	FY 2026-27	FY 2027-28	FY 2028-29	FY 2029-30
1	Proposed Revenue Adjustment (%)	1425%	25%	25%	25%	25%
2	Effective Month	Feb. 2026	Jan. 2027	Jan. 2028	Jan. 2029	Jan. 2030
3	Proration Adjustment	42%	50%	50%	50%	50%
4	Current Rate Revenue	$85,529	$85,529	$85,529	$85,529	$85,529
5						
6	**Revenue Adjustment Calculations**					
7	FY 2025-26 Adjustment	$507,826	$1,218,783	$1,218,783	$1,218,783	$1,218,783
8	FY 2026-27 Adjustment		$163,039	$326,078	$326,078	$326,078
9	FY 2027-28 Adjustment			$203,799	$407,597	$407,597
10	FY 2028-29 Adjustment				$254,748	$509,497
11	FY 2029-30 Adjustment					$318,436
12	**Total Revenue Adjustment**	**$507,826**	**$1,381,822**	**$1,748,660**	**$2,207,207**	**$2,780,391**
13						
14	**Total Proposed Rate Revenue**	**$593,355**	**$1,467,351**	**$1,834,189**	**$2,292,736**	**$2,865,920**

PROPOSED FINANCIAL PLAN

Proposed financial plan projections were developed to evaluate the sufficiency of the proposed revenue adjustments over the rate-setting period (see Table 6-14). The proposed financial plan projections were calculated by applying the same methodology described previously for the status quo financial plan projections in Table 6-11. The primary difference is that revenue adjustments under the proposed financial plan (from Table 6-13) substantially increase total sewer system revenues relative to the status quo financial plan, thus reducing reliance on General Fund support. A graphical summary of the proposed financial plan is provided in Figure 6-3.

Under the proposed financial plan, the significant first year revenue adjustment is necessary to increase revenue generation to cover more substantial CIP spending in the final three years of the rate-setting period. Cash reserve levels are projected to meet the minimum reserve level beginning in FY 2026-27. This is consistent with the City's current enterprise fund reserve policy, which dictates that any depletion below the minimum level will require a new rate plan to restore reserves within three to five years.

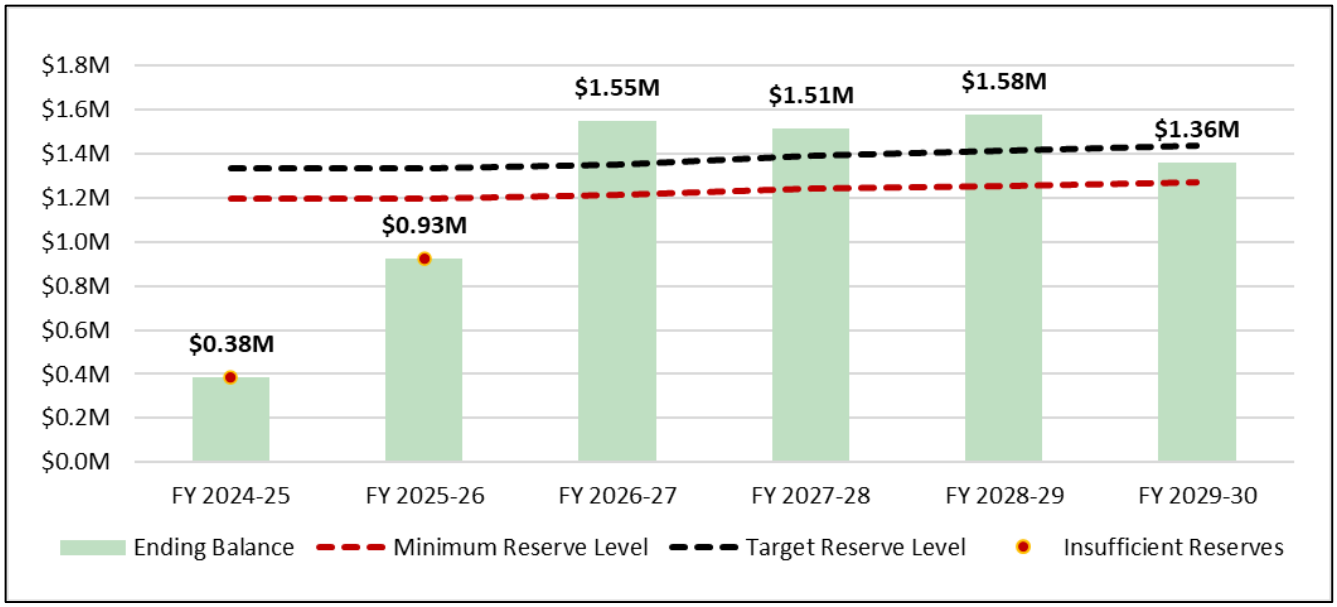
Under the proposed financial plan, General Fund support is necessary to cover a portion of Sewer Fund CIP expenses in the first four years. By FY 2029-30, sewer system revenues are projected to cover all operating expenses and nearly all CIP expenses. Reserves are needed in FY 2029-30 to cover a portion of CIP, although this primarily due to higher than average CIP in FY 2029-30. Although the proposed financial plan requires massive revenue adjustments which will significantly impact customer bills, it places the Sewer Fund on a pathway towards functioning as a self-sustaining enterprise and eliminating General Fund support consistent with Resolution 2023-35.

Table 6-14: Sewer Fund Proposed Financial Plan

Line	Description	FY 2025-26 (Projected)	FY 2026-27 (Projected)	FY 2027-28 (Projected)	FY 2028-29 (Projected)	FY 2029-30 (Projected)
1	**Source of Funds**					
2	Current Rate Revenue	$85,529	$85,529	$85,529	$85,529	$85,529
3	Revenue Adjustments	$507,826	$1,381,822	$1,748,660	$2,207,207	$2,780,391
4	Other Revenue	$21,881	$33,406	$39,209	$39,482	$37,981
5	General Fund Support	$1,332,680	$1,000,000	$750,000	$500,000	$0
6	**Total Source of Funds**	**$1,947,916**	**$2,500,756**	**$2,623,397**	**$2,832,218**	**$2,903,900**
7						
8	**Use of Funds**					
9	Operating Expenses	$1,355,358	$1,411,305	$1,523,062	$1,588,155	$1,656,171
10	Debt Service	$0	$0	$0	$0	$0
11	CIP	$50,000	$468,000	$1,135,680	$1,181,107	$1,462,323
12	**Total Use of Funds**	**$1,405,358**	**$1,879,305**	**$2,658,742**	**$2,769,263**	**$3,118,494**
13						
14	**Reserves**					
15	Beginning Reserve Balance	$384,249	$926,806	$1,548,258	$1,512,913	$1,575,868
16	Net Cash Flow[64]	$542,557	$621,451	($35,345)	$62,955	($214,594)
17	**Ending Reserve Balance**	**$926,806**	**$1,548,258**	**$1,512,913**	**$1,575,868**	**$1,361,274**
18						
19	**Key Financial Metrics**					
20	*Minimum Reserve Level*	*$1,198,262*	*$1,212,248*	*$1,240,188*	*$1,256,461*	*$1,273,465*
21	*Target Reserve Level*	*$1,333,798*	*$1,353,379*	*$1,392,494*	*$1,415,276*	*$1,439,082*
22	*Minimum Reserve Level Met?*	*No*	*Yes*	*Yes*	*Yes*	*Yes*
23	*Target Reserve Level Met?*	*No*	*Yes*	*Yes*	*Yes*	*No*

[64] =[Line 6] – [Line 12]

Figure 6-3: Sewer Fund Proposed Financial Plan – Projected Cash Reserves



7. SEWER COST-OF-SERVICE ANALYSIS

7.1 COST-OF-SERVICE METHODOLOGY

A cost-of-service analysis was conducted to allocate the overall rate revenue requirement to sewer customers in proportion to their use of and burden on the City's sewer system. The overall goal of the cost-of-service analysis was to develop "unit costs," which were used to calculate proposed rates. Although the rate-setting period in this study spans five years, the cost-of-service analysis is limited to a single representative year referred to as the "test year." As with the water cost-of-service analysis, the test year is FY 2025-26. All values presented in Section 7 pertain to FY 2025-26 unless stated otherwise. The key steps in conducting the sewer cost-of-service analysis were:

- **Revenue requirement determination**: The total rate revenue requirement for the test year was determined based on the results of the proposed financial plan and divided into primary sub-components (operating, capital, and non-rate revenues).
- **Cost functionalization**: Operating and capital costs were evaluated and assigned to "functional categories" in the sewer system. This established a proportional breakdown of system costs by functional category.
- **Revenue requirement allocation to cost causation components**: Functionalized costs were then allocated to "cost causation components," which were used to attribute customers' utilization of the system to the Sewer Fund's incursion of costs for the test year.
- **Unit cost development**: The rate revenue requirement allocation for each cost causation component was divided by the appropriate units of service to establish unit costs for the test year. Unit costs provided the basis from which proposed sewer rates were calculated.

Note that the cost-of-service analysis presented in Section 7 was considerably simpler than a typical sewer cost-of-service analysis for two reasons. Firstly, the City's sewer system provides wastewater collection service only, but not treatment and disposal. A key step in a typical sewer cost-of-service analysis is to determine sewer strength loadings (i.e., the concentration of contaminants in wastewater) attributable to various customer types. This step is necessary to appropriately allocate treatment related costs across different customer types. Because the City does not provide wastewater treatment service, this step is not necessary. Secondly, the City's simple sewer rate structure, which consists of a single uniform volumetric rate, effectively eliminates the need to allocate the rate revenue requirement to multiple cost causation components (as was necessary for the water cost-of-service analysis in Section 4).

7.2 REVENUE REQUIREMENT DETERMINATION

The total rate revenue requirement for FY 2025-26 was based on the proposed financial plan projections from Table 6-14 and was allocated to three primary sub-components (see Table 7-1):

- The **Operating revenue requirement** consists solely of FY 2025-26 Sewer Fund operating expenses (Line 1).

- The **Capital revenue requirement** consists of FY 2025-26 Sewer Fund CIP project costs (Line 3). It also includes the projected contribution to reserves in FY 2025-26 (Line 6)[65] and an adjustment to annualize to the mid-year revenue adjustment (Line 7).
- **Non-rate revenues** include all miscellaneous revenues and other sources of funds that contribute towards meeting the Sewer Fund's total revenue requirement (Lines 4-5). Non-rate revenues effectively reduce the total revenue required from rates by offsetting a portion of the Sewer Fund's total revenue requirement.

Table 7-1: FY 2025-26 Sewer Rate Revenue Requirement Determination

Line	FY 2025-26 Rate Revenue Requirement	Operating Revenue Requirement	Capital Revenue Requirement	Non-Rate Revenues	Total
1	Operating Expenses	$1,355,358	$0	$0	**$1,355,358**
2	Debt Service	$0	$0	$0	**$0**
3	CIP	$0	$50,000	$0	**$50,000**
4	Less General Fund Transfer to Sewer Fund	$0	$0	($1,332,680)	**($1,332,680)**
5	Less Miscellaneous Revenues	$0	$0	($21,881)	**($21,881)**
6	Adjustment for Cash Balance	$0	$542,557	$0	**$542,557**
7	Annualization of Mid-Year Revenue Adjustment	$0	$710,957	$0	**$710,957**
8	**Total**	**$1,355,358**	**$1,303,514**	**($1,354,561)**	**$1,304,312**

7.3 COST FUNCTIONALIZATION

In a typical sewer cost-of-service analysis, the cost functionalization step focuses primarily on identifying costs associated with wastewater collection versus treatment and disposal. Because the City's sewer system provides wastewater collection service only, the entire test year rate revenue requirement was fully allocated to a "collection" functional category (see Table 7-2).

Table 7-2: Cost Functionalization of Sewer Rate Revenue Requirement

Line	FY 2025-26 Rate Revenue Requirement	Collection Functional Category	Total
1	Operating Revenue Requirement	$1,355,358	$1,355,358
2	Capital Revenue Requirement	$1,303,514	$1,303,514
3	Non-Rate Revenues	($1,354,561)	($1,354,561)
4	**Total**	**$1,304,312**	**$1,304,312**

[65] I.e., net cash flow in FY 2025-26.

7.4 REVENUE REQUIREMENT ALLOCATION TO COST CAUSATION COMPONENTS

Cost causation components are used to categorize costs based on what proportional basis they are incurred. Collection system costs vary primarily in proportion to the quantity of wastewater flows discharged to the sewer system. Therefore, the collection functional category was fully allocated to a "flow" cost causation component (see Table 7-3).

Table 7-3: Sewer Rate Revenue Requirement Allocation to Cost Causation Components

Line	Functional Category	Flow Cost Causation Component
1	Collection	$1,304,312
2	**Total**	**$1,304,312**

7.5 UNIT COST DEVELOPMENT

Metered water use is proportional to the quantity of wastewater discharged to the City's sewer collection system. Therefore, metered water use subject to sewer rates represents the units of service for the flow cost causation component. The unit cost for the flow cost causation component was calculated in Table 7-4 below by dividing the flow cost causation component allocation (from Table 7-3) by projected FY 2025-26 metered water use subject to sewer rates (from Table 6-2). The unit cost shown below provides the direct basis from which proposed rates were subsequently determined in Section 8.

Table 7-4: Unit Cost Calculation

Line	Description	FY 2025-26
1	Flow Cost Causation Component	$1,304,312
2	Metered Water Use Subject to Sewer Charges (CCF)	2,656,169
3	**Unit Cost per CCF**	**$0.4911**

8. SEWER RATE DESIGN

8.1 RATE DESIGN METHODOLOGY

A five-year proposed sewer rate schedule was developed based on the results of the proposed financial plan and cost-of-service analysis. The key steps in developing the proposed rates were:

- **Rate structure evaluation**: The existing sewer rate structure was evaluated and proposed changes were considered. Rate structure changes typically intend to address specific policy objectives or maintain alignment with changing industry standards.
- **Test year rate development**: Rates were calculated for the proposed rate structure for the cost-of-service test year (FY 2025-26). Test year rate calculations directly incorporated the unit costs developed in the cost-of-service analysis.
- **Proposed five-year rate schedule development**: Proposed rates for the full five-year rate-setting period were calculated by increasing the test year rates by the annual revenue adjustment percentages specified in the proposed water financial plan.
- **Customer bill impact analysis**: Sample bills were calculated to evaluate the impacts of the proposed rate schedule on representative customers.

8.2 RATE STRUCTURE EVALUATION

The City's existing sewer rate structure, which consists of a uniform volumetric rate, was evaluated and potential changes were considered. Rate structure changes often exacerbate distributional impacts to customers. Because proposed sewer revenue adjustments over the five-year rate-setting period are so significant, it was determined that any proposed rate structure changes at this time would likely result in unacceptably high bill impacts to the City's sewer customers. Therefore, no proposed changes to the existing rate structure were recommended as part of this rate study. Thus, all proposed rate calculations presented in Section 8 are consistent with the existing sewer rate structure. However, it is recommended that the City reevaluate the existing sewer rate structure during the next sewer rate study. A potential change to consider in the future is the introduction of a fixed charge component to the rate structure, which could improve revenue stability.

8.3 TEST YEAR RATE DEVELOPMENT

The proposed sewer rate per CCF for the test year (FY 2025-26) simply equals the flow unit cost from Table 7-4 rounded up to the nearest one-hundredth of one cent (see Table 8-1). A comparison of proposed FY 2025-26 and current sewer rates is provided in Table 8-2. Note that the percentage increase in the FY 2025-26 proposed rate relative to the current rate equals the proposed FY 2025-26 revenue adjustment percentage.

Table 8-1: Sewer Rate Test Year Calculation

Cost Causation Component	Unit Cost
Flow	$0.4911
Proposed Sewer Rate per CCF	**$0.4911**

Table 8-2: Comparison to Current Sewer Rates

Description	Value
Proposed Sewer Rate per CCF	$0.4911
Current Sewer Rate per CCF	$0.0322
$ Difference	$0.4589
% Difference	1,425%

8.4 PROPOSED FIVE-YEAR RATE SCHEDULE DEVELOPMENT

A proposed five-year sewer rate schedule was calculated directly from the results of the proposed sewer financial plan and the test year rate calculation in the preceding section (see Table 8-3). The proposed FY 2025-26 sewer rate simply equals the test year rate previously calculated in Table 8-1. Proposed rates in FY 2026-27 through FY 2029-30 were calculated by increasing the proposed FY 2025-26 rate by the revenue adjustment percentages specified in the proposed sewer financial plan (from Table 6-12). This step is necessary to establish proposed rates that will sufficiently recover the annual rate revenue requirement identified in the proposed financial plan over the five-year rate-setting period. All proposed rates were rounded up to the nearest one-hundredth of one cent. The proposed FY 2025-26 sewer rate is assumed to be implemented February 1, 2026, with the four subsequent rate adjustments assumed to be effective January 1 of each respective fiscal year.

Table 8-3: Calculation of Proposed Five-Year Sewer Rate Schedule

Description	Current	Proposed FY 2025-26 (Feb. 2026)	Proposed FY 2026-27 (Jan. 2027)	Proposed FY 2027-28 (Jan. 2028)	Proposed FY 2028-29 (Jan. 2029)	Proposed FY 2029-30 (Jan. 2030)
Revenue Adjustment	***N/A***	***1,425%***	***25%***	***25%***	***25%***	***25%***
Sewer Rates (per CCF)						
All Customers	$0.0322	$0.4911	$0.6139	$0.7674	$0.9593	$1.1992

8.5 CUSTOMER BILL IMPACT ANALYSIS

AVERAGE BIMONTHLY BILL IMPACTS

Sample bimonthly bills based on current and proposed rates were calculated to evaluate bill impacts to typical single-family residential and commercial sewer customers. Average single-family residential and commercial bimonthly sewer bills under current and proposed rates are shown in Table 8-4 over the five-year rate-setting period. Single-family residential bills are reflective of a customer with metered water use of 20 CCF per bimonthly billing period (i.e., average single-family residential water use). Commercial bills are reflective of a customer with metered water use of 125 CCF per bimonthly billing period (i.e., average commercial water use). Average bimonthly bill increases are significantly higher in the first year of the proposed rate schedule due to the substantial first year revenue adjustment of 1,425%.

Table 8-4: Average Sewer Bill Impacts

Description	Current	Proposed Feb. 2026	Proposed Jan. 2027	Proposed Jan. 2028	Proposed Jan. 2029	Proposed Jan. 2030
Average Residential						
Bimonthly Bill	$0.64	$9.82	$12.28	$15.35	$19.19	$23.98
Change ($)		$9.18	$2.46	$3.07	$3.84	$4.80
Average Commercial						
Bimonthly Bill	$4.03	$61.39	$76.74	$95.93	$119.91	$149.90
Change ($)		$57.36	$15.35	$19.19	$23.98	$29.99

AVERAGE BIMONTHLY BILL COMPARISON TO NEIGHBORING SEWER UTILITIES

Current and proposed FY 2025-26 bimonthly sewer collection bills for an average single-family residential customer were compared to customer bills at nine neighboring sewer utilities (see Table 8-5). Current average bills in the City of Cerritos are far below all neighboring utilities, further demonstrating the insufficiency of current rates. Even after the significant proposed revenue adjustment in FY 2025-26, average bills in the City of Cerritos will remain lower than at six of the nine neighboring utilities. All bills are intended to reflect sewer collection service only and exclude LACSD charges for wastewater treatment and disposal. All volumetric bill components were estimated based on 20 CCF of bimonthly water use. All bills for neighboring agencies were estimated based on adopted rates effective as of July 2025. Therefore, any adopted or proposed future rate adjustments for the nine neighboring sewer utilities are not reflected in the bill comparisons shown. Sewer bills for average commercial customers were not compared to neighboring utilities, as commercial sewer rates at other agencies often vary significantly based on business type (e.g., retail, restaurants, etc.).

Table 8-5: Average Residential Sewer Bill Comparison to Neighboring Agencies

Sewer Agency	Bimonthly Residential Sewer Bill
Lynwood	$39.35
Long Beach	$27.75
Whittier	$27.13
La Habra Heights	$22.36
Norwalk	$15.16
Compton	$12.76
Cerritos (Proposed Feb. 2026)	***$9.82***
Downey	$7.48
South Gate	$7.00
Santa Fe Springs	$5.33
Cerritos (Current)	***$0.64***

9. LOW-INCOME AFFORDABILITY PROGRAM

OVERVIEW OF LOW-INCOME AFFORDABILITY PROGRAM EVALUATION

If adopted, the proposed water and sewer rate increases will substantially impact customer affordability. City staff therefore directed WRE to evaluate the potential for the City to implement a customer affordability program to provide discounts to low-income residences most adversely impacted by the proposed rate increases. Preliminary recommendations resulting from WRE's evaluation are provided below. Please note that all recommendations are for informational purposes only and are solely intended to provide high-level guidance to City staff. Please also note that any bill discounts offered to water and sewer customers must be considered distinct from the proposed rates presented in this report (i.e., must effectively function as independent rebates) due to Proposition 218 legal requirements.

LOW-INCOME AFFORDABILITY PROGRAM PRELIMINARY RECOMMENDATIONS

- **Discount structure:** Existing low-income affordability programs at other water/sewer utilities in Southern California typically offer bill discounts equal to either 1) a fixed dollar amount or 2) a percentage of the total water and/or sewer bill. WRE recommends discounts based on a fixed dollar amount for two reasons. Firstly, percentage-based discounts adversely affect low water users. Secondly, the funding requirements for fixed discounts are more predictable and do not vary based on bill fluctuations.
- **Eligibility**: It is recommended that any low-income affordability program be limited to residential water and sewer customers only. The California Alternate Rates for Energy (CARE) program provides energy bill financial assistance to qualifying residences based on household income (for example, the annual household income upper limit for a three-person household is $53,300). To simplify eligibility determination, the best option may be for the City's water and sewer customers to provide City staff with proof of CARE program eligibility in order to qualify for a potential low-income water and sewer affordability program administered by the City.
- **Funding source**: Any discounts would need to be funded by sources external to the Water Fund and Sewer Fund, as the proposed water and sewer financial plans do not include any funding for a low-income affordability program. Potential funding sources would need to be determined by City staff.

PRELIMINARY ANALYSIS OF POTENTIAL LOW-INCOME AFFORDABILITY PROGRAM

A preliminary analysis of potential low-income affordability program options is shown in Table 9-1. Please note that all calculations are for informational purposes only. Varying levels of water and sewer fixed bill discounts are shown, ranging from $0 (i.e., no discount) to $40 per bimonthly bill. Combined water and sewer bimonthly bills, including potential discounts, are shown for an average single-family residential customer based on proposed FY 2025-26 rates.[66] The effective discount is

[66] The sample bills shown are based on an average single-family residential customer with a 5/8 x 3/4-inch meter using 20 CCF per bimonthly period.

also shown in percentage terms relative to the combined water and sewer bill. Lastly, annual funding requirements were estimated assuming 2,300 single-family residential customers participate in the program (about 16.5% of single-family residential water and sewer customers).[67] Because program participation is difficult to predict, the estimated annual funding requirements are intended to reflect upper bounds of potential funding requirements.

Table 9-1: Preliminary Analysis of Potential Low-Income Affordability Program

Fixed Bimonthly Discount	Average Residential Bimonthly Water & Sewer Bill After Discount (FY 2025-26)	Discount (% of Average Water & Sewer Bill)	Estimated Annual Funding Requirement
$0	$124.46	0.0%	$0
$5	$119.46	4.0%	$69,000
$10	$114.46	8.0%	$138,000
$15	$109.46	12.1%	$207,000
$20	$104.46	16.1%	$276,000
$25	$99.46	20.1%	$345,000
$30	$94.46	24.1%	$414,000
$35	$89.46	28.1%	$483,000
$40	$84.46	32.1%	$552,000

[67] As of October 2025, Southern California Edison reports that 2,252 customers in the City of Cerritos are enrolled in the CARE program. In the absence of detailed data on household size and income distribution, City staff conservatively estimated approximately 2,300 potentially eligible households.

10. APPENDICES

10.1 APPENDIX A: DETAILED WATER FUND OPERATING EXPENSE PROJECTIONS

Table 10-1: Detailed Water Fund Operating Expenses

Line	Water Fund Operating Expenses	Inflationary Category	FY 2025-26 (Budgeted/ Projected)	FY 2026-27 (Projected)	FY 2027-28 (Projected)	FY 2028-29 (Projected)	FY 2029-30 (Projected)
1	**Water Management**						
2	Regular Earnings (51010)	Salaries	$441,757	$459,427	$477,804	$496,916	$516,793
3	Employee Benefits (52400)	Benefits	$392,231	$407,920	$424,237	$441,207	$458,855
4	Dues And Publications (53020)	General	$39,339	$40,913	$42,549	$44,251	$46,021
5	Education And Training (53030)	General	$11,160	$11,606	$12,071	$12,553	$13,056
6	Reimbursed Mileage (53070)	General	$800	$832	$865	$900	$936
7	Training And Meeting (53080)	General	$558	$580	$604	$628	$653
8	Uniform And Shoes (53090)	General	$3,627	$3,772	$3,923	$4,080	$4,243
9	Vehicle Operations (53091)	General	$4,464	$4,643	$4,828	$5,021	$5,222
10	Engineering Services (61180)	General	$5,115	$5,320	$5,532	$5,754	$5,984
11	Legal Services (61310)	General	$9,300	$9,672	$10,059	$10,461	$10,880
12	Professional Services (61430)	General	$23,250	$24,180	$25,147	$26,153	$27,199
13	Water Master Assessment (61612)	General	$90,210	$93,818	$97,571	$101,474	$105,533
14	Maps And Publications (63230)	General	$5,115	$5,320	$5,532	$5,754	$5,984
15	Office Supplies (63250)	General	$465	$484	$503	$523	$544
16	Special Supplies (63520)	General	$930	$967	$1,006	$1,046	$1,088
17	Cellular Phone (67060)	General	$2,232	$2,321	$2,414	$2,511	$2,611
18	**Subtotal - Water Management**		**$1,030,553**	**$1,071,775**	**$1,114,646**	**$1,159,231**	**$1,205,601**
19							
20	**Water Production and Distribution**						
21	Regular Earnings (51010)	Salaries	$343,609	$357,353	$371,647	$386,513	$401,974
22	Overtime (51021)	Salaries	$97,000	$100,880	$104,915	$109,112	$113,476

Line	Water Fund Operating Expenses	Inflationary Category	FY 2025-26 (Budgeted/ Projected)	FY 2026-27 (Projected)	FY 2027-28 (Projected)	FY 2028-29 (Projected)	FY 2029-30 (Projected)
23	Employee Benefits (52400)	Benefits	$307,076	$319,359	$332,133	$345,419	$359,235
24	Reimbursed Mileage (53070)	General	$2,231	$2,320	$2,413	$2,510	$2,610
25	Training And Meeting (53080)	General	$2,425	$2,522	$2,623	$2,728	$2,837
26	Uniform And Shoes (53090)	General	$9,943	$10,340	$10,754	$11,184	$11,631
27	Vehicle Operations (53091)	General	$10,185	$10,592	$11,016	$11,457	$11,915
28	Outside Services (61340)	General	$200,111	$208,115	$216,440	$225,098	$234,102
29	Permit Fees (61360)	General	$46,230	$48,079	$50,003	$52,003	$54,083
30	Professional Services (61430)	General	$7,760	$8,070	$8,393	$8,729	$9,078
31	Special Supplies (63520)	General	$38,800	$40,352	$41,966	$43,645	$45,391
32	Small Tools (63530)	Equipment/ Parts	$7,595	$7,899	$8,215	$8,543	$8,885
33	Water Production Equipment (65212)	Equipment/ Parts	$86,728	$90,197	$93,805	$97,557	$101,459
34	Water Well Pumping Assessment (65213)	Calculated	$2,937,549	$3,084,426	$2,262,268	$2,375,381	$2,494,151
35	Mwd Purchase (67020)	Calculated	$170,990	$185,525	$3,769,128	$4,051,813	$4,355,699
36	Natural Gas (67030)	Natural Gas	$398,701	$430,597	$465,045	$502,248	$542,428
37	Electricity (67040)	Electricity	$29,100	$30,555	$32,083	$33,687	$35,371
38	Telephone (67050)	General	$19,342	$20,115	$20,920	$21,757	$22,627
39	Cellular Phone (67060)	General	$388	$404	$420	$436	$454
40	Power (67070)	Electricity	$696,072	$730,876	$767,419	$805,790	$846,080
41	Leased Water Rights (69050)	Leased Water	$764,554	$829,541	$900,052	$967,556	$1,040,123
42	**Subtotal - Water Production and Distribution**		**$6,176,388**	**$6,518,119**	**$9,471,658**	**$10,063,165**	**$10,693,608**
43							
44	**Water Operations**						
45	Regular Earnings (51010)	Salaries	$537,099	$558,583	$580,926	$604,163	$628,329
46	Overtime (51021)	Salaries	$95,000	$98,800	$102,752	$106,862	$111,137
47	Employee Benefits (52400)	Benefits	$509,188	$529,555	$550,737	$572,767	$595,678
48	Reimbursed Mileage (53070)	General	$1,900	$1,976	$2,055	$2,137	$2,223
49	Training And Meeting (53080)	General	$475	$494	$514	$534	$556
50	Uniform And Shoes (53090)	General	$10,165	$10,572	$10,994	$11,434	$11,892

Line	Water Fund Operating Expenses	Inflationary Category	FY 2025-26 (Budgeted/ Projected)	FY 2026-27 (Projected)	FY 2027-28 (Projected)	FY 2028-29 (Projected)	FY 2029-30 (Projected)
51	Vehicle Operations (53091)	General	$17,860	$18,574	$19,317	$20,090	$20,894
52	Outside Services (61340)	General	$200,906	$208,942	$217,300	$225,992	$235,032
53	Professional Services (61430)	General	$18,620	$19,365	$20,139	$20,945	$21,783
54	Special Supplies (63520)	General	$19,950	$20,748	$21,578	$22,441	$23,339
55	Small Tools (63530)	Equipment/ Parts	$8,664	$9,011	$9,371	$9,746	$10,136
56	Emergency Water Storage Supply (63675)	General	$1,900	$1,976	$2,055	$2,137	$2,223
57	Water Meters (63710)	General	$85,814	$89,246	$92,816	$96,529	$100,390
58	Building And Grounds (65020)	General	$665	$692	$719	$748	$778
59	Rent Other Equipment (65131)	Equipment/ Parts	$1,425	$1,482	$1,541	$1,603	$1,667
60	Distribution Systems (65210)	Equipment/ Parts	$69,350	$72,124	$75,009	$78,009	$81,130
61	Water - Special Maintenance (65211)	General	$39,900	$41,496	$43,156	$44,882	$46,677
62	Cellular Phone (67060)	General	$11,400	$11,856	$12,330	$12,823	$13,336
63	Machinery And Equipment (79070)	Equipment/ Parts	$19,000	$19,760	$20,550	$21,372	$22,227
64	**Subtotal - Water Operations**		**$1,649,280**	**$1,715,251**	**$1,783,861**	**$1,855,215**	**$1,929,424**
65							
66	**Water Inspection**						
67	Regular Earnings (51010)	Salaries	$94,396	$98,172	$102,099	$106,182	$110,430
68	Employee Benefits (52400)	Benefits	$90,801	$94,433	$98,210	$102,139	$106,224
69	Dues And Publications (53020)	General	$1,320	$1,373	$1,428	$1,485	$1,544
70	Reimbursed Mileage (53070)	General	$211	$220	$228	$238	$247
71	Training And Meeting (53080)	General	$176	$183	$190	$198	$206
72	Uniform And Shoes (53090)	General	$1,672	$1,739	$1,808	$1,881	$1,956
73	Vehicle Operations (53091)	General	$4,752	$4,942	$5,140	$5,345	$5,559
74	Outside Processing (61350)	General	$84,172	$87,539	$91,040	$94,682	$98,469
75	Water Treatment Services (61611)	General	$184,008	$191,368	$199,023	$206,984	$215,263
76	Special Supplies (63520)	General	$2,728	$2,837	$2,951	$3,069	$3,191
77	Small Tools (63530)	Equipment/ Parts	$4,576	$4,759	$4,949	$5,147	$5,353
78	Water - Special Maintenance (65211)	General	$60,720	$63,149	$65,675	$68,302	$71,034

Line	Water Fund Operating Expenses	Inflationary Category	FY 2025-26 (Budgeted/ Projected)	FY 2026-27 (Projected)	FY 2027-28 (Projected)	FY 2028-29 (Projected)	FY 2029-30 (Projected)
79	Machinery And Equipment (79070)	Equipment/ Parts	$8,800	$9,152	$9,518	$9,899	$10,295
80	**Subtotal - Water Inspection**		**$538,332**	**$559,865**	**$582,260**	**$605,550**	**$629,772**
81							
82	**Reclaimed Water Operations**						
83	Training And Meeting (53080)	General	$36	$37	$39	$40	$42
84	Vehicle Operations (53091)	General	$1,080	$1,123	$1,168	$1,215	$1,263
85	Outside Services (61340)	General	$18,000	$18,720	$19,469	$20,248	$21,057
86	Professional Services (61430)	General	$4,860	$5,054	$5,257	$5,467	$5,686
87	Special Supplies (63520)	Equipment/ Parts	$216	$225	$234	$243	$253
88	Small Tools (63530)	Equipment/ Parts	$144	$150	$156	$162	$168
89	Water Meters (63710)	General	$3,600	$3,744	$3,894	$4,050	$4,211
90	Water Purchase (63720)	Reclaimed Supply	$108,270	$113,684	$119,368	$125,336	$131,603
91	Building And Grounds (65020)	General	$108	$112	$117	$121	$126
92	Rent Other Equipment (65131)	General	$180	$187	$195	$202	$211
93	Rent Building And Grounds (65132)	General	$35,280	$36,691	$38,159	$39,685	$41,273
94	Water Production Equipment (65212)	General	$30,600	$31,824	$33,097	$34,421	$35,798
95	Power (67070)	Electricity	$126,000	$132,300	$138,915	$145,861	$153,154
96	**Subtotal - Reclaimed Water Operations**		**$328,374**	**$343,852**	**$360,066**	**$377,051**	**$394,845**
97							
98	**Water Billing**						
99	Regular Earnings (51010)	Salaries	$68,060	$70,783	$73,614	$76,559	$79,621
100	Regular Earnings - Part Time (52010)	Salaries	$38,673	$40,220	$41,829	$43,502	$45,242
101	Employee Benefits (52400)	Benefits	$84,553	$87,935	$91,452	$95,110	$98,915
102	Bank Charges And Fees (61050)	General	$47,300	$49,192	$51,160	$53,206	$55,334
103	Printing (61380)	General	$11,180	$11,627	$12,092	$12,576	$13,079
104	Professional Services (61430)	General	$60,200	$62,608	$65,112	$67,717	$70,425
105	Postage (63310)	General	$34,400	$35,776	$37,207	$38,695	$40,243
106	**Subtotal - Water Billing**		**$344,366**	**$358,141**	**$372,467**	**$387,365**	**$402,860**

Line	Water Fund Operating Expenses	Inflationary Category	FY 2025-26 (Budgeted/ Projected)	FY 2026-27 (Projected)	FY 2027-28 (Projected)	FY 2028-29 (Projected)	FY 2029-30 (Projected)
107							
108	**Indirect Overhead Expenses**						
109	Legislative and Administrative	General	$747,361	$777,255	$808,346	$840,679	$874,307
110	Public Works	General	$1,410,031	$1,466,432	$1,525,090	$1,586,093	$1,649,537
111	Administrative Services	General	$2,571,343	$2,674,197	$2,781,165	$2,892,411	$3,008,108
112	**Subtotal - Indirect Overhead Expenses**		**$4,728,735**	**$4,917,884**	**$5,114,600**	**$5,319,184**	**$5,531,951**
113							
114	**TOTAL**		**$14,796,028**	**$15,484,887**	**$18,799,557**	**$19,766,763**	**$20,788,061**

10.2 APPENDIX B: DETAILED FUNCTIONALIZATION OF WATER FUND OPERATING EXPENSES

Table 10-2: Detailed Functionalization of FY 2025-26 Water Fund Operating Expenses

Line	Water Fund Operating Expenses	FY 2025-26 (Budgeted/ Projected)	Allocation to Cost Functions
1	**Water Management**		
2	Regular Earnings (51010)	$441,757	*100% General & Admin*
3	Employee Benefits (52400)	$392,231	*100% General & Admin*
4	Dues And Publications (53020)	$39,339	*100% General & Admin*
5	Education And Training (53030)	$11,160	*100% General & Admin*
6	Reimbursed Mileage (53070)	$800	*100% General & Admin*
7	Training And Meeting (53080)	$558	*100% General & Admin*
8	Uniform And Shoes (53090)	$3,627	*100% General & Admin*
9	Vehicle Operations (53091)	$4,464	*100% General & Admin*
10	Engineering Services (61180)	$5,115	*100% General & Admin*
11	Legal Services (61310)	$9,300	*100% General & Admin*
12	Professional Services (61430)	$23,250	*100% General & Admin*
13	Water Master Assessment (61612)	$90,210	*95.28% Water Supply* *4.72% General & Admin*
14	Maps And Publications (63230)	$5,115	*100% General & Admin*
15	Office Supplies (63250)	$465	*100% General & Admin*
16	Special Supplies (63520)	$930	*100% General & Admin*
17	Cellular Phone (67060)	$2,232	*100% General & Admin*
18	**Subtotal - Water Management**	**$1,030,553**	
19			
20	**Water Production and Distribution**		
21	Regular Earnings (51010)	$343,609	*50% Wells/Treatment/Storage* *50% Distribution*
22	Overtime (51021)	$97,000	*50% Wells/Treatment/Storage* *50% Distribution*

Line	Water Fund Operating Expenses	FY 2025-26 (Budgeted/ Projected)	Allocation to Cost Functions
23	Employee Benefits (52400)	$307,076	*50% Wells/Treatment/Storage*
24	Reimbursed Mileage (53070)	$2,231	*50% Distribution*
25	Training And Meeting (53080)	$2,425	*50% Wells/Treatment/Storage*
26	Uniform And Shoes (53090)	$9,943	*50% Distribution*
27	Vehicle Operations (53091)	$10,185	*100% Distribution*
28	Outside Services (61340)	$200,111	*50% Wells/Treatment/Storage* *50% Distribution*
29	Permit Fees (61360)	$46,230	*100% Wells/Treatment/Storage*
30	Professional Services (61430)	$7,760	*50% Wells/Treatment/Storage* *50% Distribution*
31	Special Supplies (63520)	$38,800	*50% Wells/Treatment/Storage* *50% Distribution*
32	Small Tools (63530)	$7,595	*50% Wells/Treatment/Storage* *50% Distribution*
33	Water Production Equipment (65212)	$86,728	*100% Wells/Treatment/Storage*
34	Water Well Pumping Assessment (65213)	$2,937,549	*95.28% Water Supply* *4.72% General & Admin*
35	Mwd Purchase (67020)	$170,990	*95.28% Water Supply* *4.72% General & Admin*
36	Natural Gas (67030)	$398,701	*100% Wells/Treatment/Storage*
37	Electricity (67040)	$29,100	*100% Wells/Treatment/Storage*
38	Telephone (67050)	$19,342	*50% Wells/Treatment/Storage* *50% Distribution*
39	Cellular Phone (67060)	$388	*50% Wells/Treatment/Storage* *50% Distribution*
40	Power (67070)	$696,072	*100% Wells/Treatment/Storage*
41	Leased Water Rights (69050)	$764,554	*95.28% Water Supply* *4.72% General & Admin*
42	**Subtotal - Water Production and Distribution**	**$6,176,388**	

Line	Water Fund Operating Expenses	FY 2025-26 (Budgeted/ Projected)	Allocation to Cost Functions
43			
44	**Water Operations**		
45	Regular Earnings (51010)	$537,099	*17.32% Meter Maintenance & Replacement* *32.80% Wells/Treatment/Storage* *49.88% Distribution*
46	Overtime (51021)	$95,000	*17.32% Meter Maintenance & Replacement* *32.80% Wells/Treatment/Storage* *49.88% Distribution*
47	Employee Benefits (52400)	$509,188	*17.32% Meter Maintenance & Replacement* *32.80% Wells/Treatment/Storage* *49.88% Distribution*
48	Reimbursed Mileage (53070)	$1,900	*17.32% Meter Maintenance & Replacement* *32.80% Wells/Treatment/Storage* *49.88% Distribution*
49	Training And Meeting (53080)	$475	*17.32% Meter Maintenance & Replacement* *32.80% Wells/Treatment/Storage* *49.88% Distribution*
50	Uniform And Shoes (53090)	$10,165	*17.32% Meter Maintenance & Replacement* *32.80% Wells/Treatment/Storage* *49.88% Distribution*
51	Vehicle Operations (53091)	$17,860	*100% Distribution*
52	Outside Services (61340)	$200,906	*50% Wells/Treatment/Storage* *50% Distribution*
53	Professional Services (61430)	$18,620	*50% Wells/Treatment/Storage* *50% Distribution*
54	Special Supplies (63520)	$19,950	*50% Wells/Treatment/Storage* *50% Distribution*
55	Small Tools (63530)	$8,664	*50% Wells/Treatment/Storage* *50% Distribution*
56	Emergency Water Storage Supply (63675)	$1,900	*100% Wells/Treatment/Storage*

Line	Water Fund Operating Expenses	FY 2025-26 (Budgeted/ Projected)	Allocation to Cost Functions
57	Water Meters (63710)	$85,814	*100% Meter Maintenance & Replacement*
58	Building And Grounds (65020)	$665	*100% Wells/Treatment/Storage*
59	Rent Other Equipment (65131)	$1,425	*50% Wells/Treatment/Storage* *50% Distribution*
60	Distribution Systems (65210)	$69,350	*100% Distribution*
61	Water - Special Maintenance (65211)	$39,900	*50% Wells/Treatment/Storage* *50% Distribution*
62	Cellular Phone (67060)	$11,400	*50% Wells/Treatment/Storage* *50% Distribution*
63	Machinery And Equipment (79070)	$19,000	*50% Wells/Treatment/Storage* *50% Distribution*
64	**Subtotal - Water Operations**	**$1,649,280**	
65			
66	**Water Inspection**		
67	Regular Earnings (51010)	$94,396	*100% Distribution*
68	Employee Benefits (52400)	$90,801	*100% Distribution*
69	Dues And Publications (53020)	$1,320	*100% Distribution*
70	Reimbursed Mileage (53070)	$211	*100% Distribution*
71	Training And Meeting (53080)	$176	*100% Distribution*
72	Uniform And Shoes (53090)	$1,672	*100% Distribution*
73	Vehicle Operations (53091)	$4,752	*100% Distribution*
74	Outside Processing (61350)	$84,172	*100% Distribution*
75	Water Treatment Services (61611)	$184,008	*100% Distribution*
76	Special Supplies (63520)	$2,728	*100% Distribution*
77	Small Tools (63530)	$4,576	*100% Distribution*
78	Water - Special Maintenance (65211)	$60,720	*100% Distribution*
79	Machinery And Equipment (79070)	$8,800	*100% Distribution*
80	**Subtotal - Water Inspection**	**$538,332**	

Line	Water Fund Operating Expenses	FY 2025-26 (Budgeted/ Projected)	Allocation to Cost Functions
81			
82	**Reclaimed Water Operations**		
83	Training And Meeting (53080)	$36	*100% Conservation*
84	Vehicle Operations (53091)	$1,080	*100% Conservation*
85	Outside Services (61340)	$18,000	*100% Conservation*
86	Professional Services (61430)	$4,860	*100% Conservation*
87	Special Supplies (63520)	$216	*100% Conservation*
88	Small Tools (63530)	$144	*100% Conservation*
89	Water Meters (63710)	$3,600	*100% Conservation*
90	Water Purchase (63720)	$108,270	*100% Conservation*
91	Building And Grounds (65020)	$108	*100% Conservation*
92	Rent Other Equipment (65131)	$180	*100% Conservation*
93	Rent Building And Grounds (65132)	$35,280	*100% Conservation*
94	Water Production Equipment (65212)	$30,600	*100% Conservation*
95	Power (67070)	$126,000	*100% Conservation*
96	**Subtotal - Reclaimed Water Operations**	**$328,374**	
97			
98	**Water Billing**		
99	Regular Earnings (51010)	$68,060	*100% Billing & Customer Service*
100	Regular Earnings - Part Time (52010)	$38,673	*100% Billing & Customer Service*
101	Employee Benefits (52400)	$84,553	*100% Billing & Customer Service*
102	Bank Charges And Fees (61050)	$47,300	*100% Billing & Customer Service*
103	Printing (61380)	$11,180	*100% Billing & Customer Service*
104	Professional Services (61430)	$60,200	*100% Billing & Customer Service*
105	Postage (63310)	$34,400	*100% Billing & Customer Service*
106	**Subtotal - Water Billing**	**$344,366**	
107			
108	**Indirect Overhead Expenses**		

Line	Water Fund Operating Expenses	FY 2025-26 (Budgeted/ Projected)	Allocation to Cost Functions
109	Legislative and Administrative	$747,361	*100% General & Admin*
110	Public Works	$1,410,031	*100% General & Admin*
111	Administrative Services	$2,571,343	*100% General & Admin*
112	**Subtotal - Indirect Overhead Expenses**	**$4,728,735**	
113			
114	**TOTAL**	**$14,796,028**	

Notes:

- Direct water supply costs attributable to wholesale and construction water demand were allocated to General & Admin based on the proportion of total water demand from wholesale and construction customers (see Lines 13, 34-35, and 41).
- Personnel-related costs within "Water Operations" (see Lines 45-50) were allocated to the cost functions based on the overall allocation of other "Water Operations" costs (i.e., the weighted average of all cost allocations from Lines 51-63).
- "Reclaimed Water Operations" costs were allocated to the "Conservation" cost function because reclaimed water use helps to conserve potable water supplies.

10.3 APPENDIX C: DETAILED FUNCTIONALIZATION OF WATER CAPITAL ASSETS

Table 10-3: Detailed Functionalization of Current Water System Capital Assets

Line	Water Fund Operating Expenses	Original Cost	Allocation to Cost Functions
1	**Buildings**		
2	C-4	$2,029,476	*100% Wells/Treatment/Storage*
3	C-2	$967,528	*100% Wells/Treatment/Storage*
4	C-1	$1,647,048	*100% Wells/Treatment/Storage*
5	Photovoltaic System-Corp. Yard	$759,975	*100% Wells/Treatment/Storage*
6	MWD	$12,253	*100% Wells/Treatment/Storage*
7	La Palma	$1,285	*100% Wells/Treatment/Storage*
8	Santa Fe	$7,745	*100% Wells/Treatment/Storage*
9	Water Vaults/ Blow-offs	$19,277	*100% Wells/Treatment/Storage*
10	**Subtotal**	**$5,444,587**	
11			
12	**Distribution/Mains & Lines**		
13	944 Piping, Valves & Hy	$9,499,002	*100% Distribution*
14	FY2021 Additions	$34,200	*100% Distribution*
15	FY2022 Additions	$24,200	*100% Distribution*
16	FY2023 Additions	$222,125	*100% Distribution*
17	FY2024 Additions	$226,699	*100% Distribution*
18	960 Dist. sys./ mains	$20,189,173	*100% Distribution*
19	967 Water Meters	$83,720	*100% Distribution*
20	FY2021 Additions	$47,447	*100% Distribution*
21	FY2022 Additions	$49,890	*100% Distribution*
22	FY2023 Additions	$55,711	*100% Distribution*
23	FY2024 Additions	$39,346	*100% Distribution*
24	**Subtotal**	**$30,471,512**	
25			
26	**Machinery/Equipment**		
27	900 Utilities	$14,107	*100% Wells/Treatment/Storage*
28	909 Electrical Controls	$364,288	*100% Wells/Treatment/Storage*
29	932 Filters	$61,382	*100% Wells/Treatment/Storage*
30	949 Chlorinators	$398,906	*100% Wells/Treatment/Storage*
31	952 Pumps	$2,019,869	*100% Wells/Treatment/Storage*
32	953 Purification media	$8,639	*100% Wells/Treatment/Storage*
33	954 Pump Motors	$1,639,998	*100% Wells/Treatment/Storage*
34	Generators	$401,000	*100% Wells/Treatment/Storage*
35	319 Trash Pump	$1,602	*100% Wells/Treatment/Storage*
36	Other 182,265,439,562	$3,640	*100% Wells/Treatment/Storage*
37	512 Telemetry	$8,117	*100% Wells/Treatment/Storage*
38	512 Telemetry	$432,666	*100% Wells/Treatment/Storage*

Line	Water Fund Operating Expenses	Original Cost	Allocation to Cost Functions
39	Other Gge 349-500,513-542	$37,654	*100% Wells/Treatment/Storage*
40	850 Caisson	$1,000	*100% Wells/Treatment/Storage*
41	Other Eq. 509,546,699,867	$524,141	*100% Wells/Treatment/Storage*
42	Other Mach. 318,326,654	$31,059	*100% Wells/Treatment/Storage*
43	C-1 Engine	$138,280	*100% Wells/Treatment/Storage*
44	C-2 Heat Exchanger	$31,109	*100% Wells/Treatment/Storage*
45	C-4 Well Rehab	$529,282	*100% Wells/Treatment/Storage*
46	C-2 Booster Pump Station Back Up Generator	$80,122	*100% Wells/Treatment/Storage*
47	C-1 Engine Exhaust Silencer	$47,180	*100% Wells/Treatment/Storage*
48	**Subtotal**	**$6,774,043**	
49			
50	**Vehicles**		
51	2022 Ford Super Duty F-450	$192,757	*100% Distribution*
52	2023 Ford F250	$66,282	*100% Distribution*
53	2023 Ford F250	$66,282	*100% Distribution*
54	2023 Ford F250	$66,282	*100% Distribution*
55	**Subtotal**	**$391,602**	
56			
57	**Water Rights**		
58	Water Rights	$2,259,378	*Excluded*
59	**Subtotal**	**$2,259,378**	
60			
61	**Total**	**$45,341,122**	

Notes:

- Water rights were excluded as they do not reflect typical water system CIP needs.

10.4 APPENDIX D: DETAILED FUNCTIONALIZATION OF WATER FUND NON-RATE REVENUES

Table 10-4: Detailed Functionalization of FY 2025-26 Water Fund Non-Rate Revenues

Line	Water Fund Non-Rate Revenues	FY 2025-26 (Budgeted/ Projected)	Allocation to Cost Functions
1	**Other Water Sales**		
2	Wholesale Water Sales	$600,000	*100% General & Admin*
3	Construction Water Sales	$6,000	*100% General & Admin*
4	**Subtotal**	**$606,000**	
5			
6	**Interest Income**		
7	Interest Income	$4,834	*100% General & Admin*
8	**Subtotal**	**$4,834**	
9			
10	**Other Miscellaneous Revenue**		
11	Late Charge	$4,000	*100% General & Admin*
12	Returned Check Charge	$2,000	*100% General & Admin*
13	Water - Uncollectible Accounts	($10,000)	*100% General & Admin*
14	Water Service Fees	$8,500	*100% General & Admin*
15	Sale of Emergency Kits	$100	*100% General & Admin*
16	**Subtotal**	**$4,600**	
17			
18	**General Fund Support**		
19	Transfer from General Fund to Water Fund	$3,500,000	*100% Revenue Offsets*
20	**Subtotal**	**$3,500,000**	
21			
22	**TOTAL**	**$4,115,434**	

10.5 APPENDIX E: DETAILED SEWER FUND OPERATING EXPENSE PROJECTIONS

Table 10-5: Detailed Sewer Fund Operating Expenses

Line	Sewer Fund Operating Expenses	Inflationary Category	FY 2025-26 (Budgeted/ Projected)	FY 2026-27 (Projected)	FY 2027-28 (Projected)	FY 2028-29 (Projected)	FY 2029-30 (Projected)
1	**Water Management**						
2	Regular Earnings (51010)	Salaries	$9,500	$9,880	$10,275	$10,686	$11,114
3	Employee Benefits (52400)	Benefits	$8,435	$8,772	$9,123	$9,488	$9,868
4	Dues And Publications (53020)	General	$846	$880	$915	$952	$990
5	Education And Training (53030)	General	$240	$250	$260	$270	$281
6	Reimbursed Mileage (53070)	General	$17	$18	$19	$19	$20
7	Training And Meeting (53080)	General	$12	$12	$13	$13	$14
8	Uniform And Shoes (53090)	General	$78	$81	$84	$88	$91
9	Vehicle Operations (53091)	General	$96	$100	$104	$108	$112
10	Engineering Services (61180)	General	$110	$114	$119	$124	$129
11	Legal Services (61310)	General	$200	$208	$216	$225	$234
12	Professional Services (61430)	General	$500	$520	$541	$562	$585
13	Water Master Assessment (61612)	General	$1,940	$2,018	$2,098	$2,182	$2,270
14	Maps And Publications (63230)	General	$110	$114	$119	$124	$129
15	Office Supplies (63250)	General	$10	$10	$11	$11	$12
16	Special Supplies (63520)	General	$20	$21	$22	$22	$23
17	Cellular Phone (67060)	General	$48	$50	$52	$54	$56
18	**Subtotal - Water Management**		**$22,162**	**$23,049**	**$23,971**	**$24,930**	**$25,927**
19							
20	**Water Production and Distribution**						
21	Regular Earnings (51010)	Salaries	$7,085	$7,368	$7,663	$7,969	$8,288
22	Overtime (51021)	Salaries	$2,000	$2,080	$2,163	$2,250	$2,340
23	Employee Benefits (52400)	Benefits	$6,331	$6,585	$6,848	$7,122	$7,407
24	Reimbursed Mileage (53070)	General	$46	$48	$50	$52	$54

Line	Sewer Fund Operating Expenses	Inflationary Category	FY 2025-26 (Budgeted/ Projected)	FY 2026-27 (Projected)	FY 2027-28 (Projected)	FY 2028-29 (Projected)	FY 2029-30 (Projected)
25	Training And Meeting (53080)	General	$50	$52	$54	$56	$58
26	Uniform And Shoes (53090)	General	$205	$213	$222	$231	$240
27	Vehicle Operations (53091)	General	$210	$218	$227	$236	$246
28	Outside Services (61340)	General	$4,126	$4,291	$4,463	$4,641	$4,827
29	Permit Fees (61360)	General	$953	$991	$1,031	$1,072	$1,115
30	Professional Services (61430)	General	$160	$166	$173	$180	$187
31	Special Supplies (63520)	General	$800	$832	$865	$900	$936
32	Small Tools (63530)	Equipment/ Parts	$157	$163	$169	$176	$183
33	Water Production Equipment (65212)	Equipment/ Parts	$1,788	$1,860	$1,934	$2,011	$2,092
34	Water Well Pumping Assessment (65213)	Calculated	$60,568	$63,596	$46,645	$48,977	$51,426
35	Mwd Purchase (67020)	Calculated	$3,526	$3,825	$77,714	$83,543	$89,808
36	Natural Gas (67030)	Natural Gas	$8,221	$8,878	$9,589	$10,356	$11,184
37	Electricity (67040)	Electricity	$600	$630	$662	$695	$729
38	Telephone (67050)	General	$399	$415	$431	$449	$467
39	Cellular Phone (67060)	General	$8	$8	$9	$9	$9
40	Power (67070)	Electricity	$14,352	$15,070	$15,823	$16,614	$17,445
41	Leased Water Rights (69050)	Leased Water	$15,764	$17,104	$18,558	$19,950	$21,446
42	**Subtotal - Water Production and Distribution**		**$127,348**	**$134,394**	**$195,292**	**$207,488**	**$220,487**
43							
44	**Water Operations**						
45	Regular Earnings (51010)	Salaries	$11,307	$11,760	$12,230	$12,719	$13,228
46	Overtime (51021)	Salaries	$2,000	$2,080	$2,163	$2,250	$2,340
47	Employee Benefits (52400)	Benefits	$10,720	$11,149	$11,594	$12,058	$12,541
48	Reimbursed Mileage (53070)	General	$40	$42	$43	$45	$47
49	Training And Meeting (53080)	General	$10	$10	$11	$11	$12
50	Uniform And Shoes (53090)	General	$214	$223	$231	$241	$250
51	Vehicle Operations (53091)	General	$376	$391	$407	$423	$440
52	Outside Services (61340)	General	$4,230	$4,399	$4,575	$4,758	$4,948

Line	Sewer Fund Operating Expenses	Inflationary Category	FY 2025-26 (Budgeted/ Projected)	FY 2026-27 (Projected)	FY 2027-28 (Projected)	FY 2028-29 (Projected)	FY 2029-30 (Projected)
53	Professional Services (61430)	General	$392	$408	$424	$441	$459
54	Special Supplies (63520)	General	$420	$437	$454	$472	$491
55	Small Tools (63530)	Equipment/ Parts	$182	$190	$197	$205	$213
56	Emergency Water Storage Supply (63675)	General	$40	$42	$43	$45	$47
57	Water Meters (63710)	General	$1,807	$1,879	$1,954	$2,032	$2,113
58	Building And Grounds (65020)	General	$14	$15	$15	$16	$16
59	Rent Other Equipment (65131)	Equipment/ Parts	$30	$31	$32	$34	$35
60	Distribution Systems (65210)	Equipment/ Parts	$1,460	$1,518	$1,579	$1,642	$1,708
61	Water - Special Maintenance (65211)	General	$840	$874	$909	$945	$983
62	Cellular Phone (67060)	General	$240	$250	$260	$270	$281
63	Machinery And Equipment (79070)	Equipment/ Parts	$400	$416	$433	$450	$468
64	**Subtotal - Water Operations**		**$34,722**	**$36,111**	**$37,555**	**$39,057**	**$40,619**
65							
66	**Water Inspection**						
67	Regular Earnings (51010)	Salaries	$2,145	$2,231	$2,320	$2,413	$2,510
68	Employee Benefits (52400)	Benefits	$2,064	$2,146	$2,232	$2,321	$2,414
69	Dues And Publications (53020)	General	$30	$31	$32	$34	$35
70	Reimbursed Mileage (53070)	General	$5	$5	$5	$5	$6
71	Training And Meeting (53080)	General	$4	$4	$4	$4	$5
72	Uniform And Shoes (53090)	General	$38	$40	$41	$43	$44
73	Vehicle Operations (53091)	General	$108	$112	$117	$121	$126
74	Outside Processing (61350)	General	$1,913	$1,990	$2,069	$2,152	$2,238
75	Water Treatment Services (61611)	General	$4,182	$4,349	$4,523	$4,704	$4,892
76	Special Supplies (63520)	General	$62	$64	$67	$70	$73
77	Small Tools (63530)	Equipment/ Parts	$104	$108	$112	$117	$122
78	Water - Special Maintenance (65211)	General	$1,380	$1,435	$1,493	$1,552	$1,614
79	Machinery And Equipment (79070)	Equipment/ Parts	$200	$208	$216	$225	$234
80	**Subtotal - Water Inspection**		**$12,235**	**$12,724**	**$13,233**	**$13,763**	**$14,313**

Line	Sewer Fund Operating Expenses	Inflationary Category	FY 2025-26 (Budgeted/ Projected)	FY 2026-27 (Projected)	FY 2027-28 (Projected)	FY 2028-29 (Projected)	FY 2029-30 (Projected)
81							
82	**Reclaimed Water Operations**						
83	Training And Meeting (53080)	General	$2	$2	$2	$2	$2
84	Vehicle Operations (53091)	General	$60	$62	$65	$67	$70
85	Outside Services (61340)	General	$1,000	$1,040	$1,082	$1,125	$1,170
86	Professional Services (61430)	General	$270	$281	$292	$304	$316
87	Special Supplies (63520)	General	$12	$12	$13	$13	$14
88	Small Tools (63530)	Equipment/ Parts	$8	$8	$9	$9	$9
89	Water Meters (63710)	General	$200	$208	$216	$225	$234
90	Water Purchase (63720)	Reclaimed Supply	$6,015	$6,316	$6,632	$6,963	$7,311
91	Building And Grounds (65020)	General	$6	$6	$6	$7	$7
92	Rent Other Equipment (65131)	Equipment/ Parts	$10	$10	$11	$11	$12
93	Rent Building And Grounds (65132)	General	$1,960	$2,038	$2,120	$2,205	$2,293
94	Water Production Equipment (65212)	Equipment/ Parts	$1,700	$1,768	$1,839	$1,912	$1,989
95	Power (67070)	Calculated	$7,000	$7,000	$7,000	$7,000	$7,000
96	**Subtotal - Reclaimed Water Operations**		**$18,243**	**$18,753**	**$19,286**	**$19,844**	**$20,427**
97							
98	**Water Billing**						
99	Regular Earnings (51010)	Salaries	$791	$823	$856	$890	$926
100	Regular Earnings - Part Time (52010)	Salaries	$450	$468	$486	$506	$526
101	Employee Benefits (52400)	Benefits	$983	$1,022	$1,063	$1,106	$1,150
102	Bank Charges And Fees (61050)	General	$550	$572	$595	$619	$643
103	Printing (61380)	General	$130	$135	$141	$146	$152
104	Professional Services (61430)	General	$700	$728	$757	$787	$819
105	Postage (63310)	General	$400	$416	$433	$450	$468
106	**Subtotal - Water Billing**		**$4,004**	**$4,164**	**$4,331**	**$4,504**	**$4,684**
107							
108	**Indirect Overhead Expenses**						

Line	Sewer Fund Operating Expenses	Inflationary Category	FY 2025-26 (Budgeted/ Projected)	FY 2026-27 (Projected)	FY 2027-28 (Projected)	FY 2028-29 (Projected)	FY 2029-30 (Projected)
109	Legislative and Administrative	General	$70,504	$73,324	$76,257	$79,307	$82,480
110	Public Works	General	$823,358	$856,292	$890,544	$926,166	$963,212
111	Administrative Services	General	$242,782	$252,493	$262,593	$273,097	$284,021
112	**Subtotal - Indirect Overhead Expenses**		**$1,136,644**	**$1,182,110**	**$1,229,394**	**$1,278,570**	**$1,329,713**
113							
114	**TOTAL**		**$1,355,358**	**$1,411,305**	**$1,523,062**	**$1,588,155**	**$1,656,171**