

Report for:

Heritage Ranch Community Services District

4870 Heritage Road
Paso Robles, CA 93446
(805) 227-6230

Report on:

Wastewater Rate Study

Submitted By:

Tuckfield & Associates

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FINANCIAL CONSULTING
**TUCKFIELD &
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MANAGEMENT CONSULTING



December 2024

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December 16, 2024

Mr. Scott B. Duffield
General Manager
Heritage Ranch Community Services District
4870 Heritage Road
Paso Robles, CA 93446

Dear Mr. Duffield:

I am pleased to present this Wastewater Rate Study (Study) report for the Heritage Ranch Community Services District (District). The wastewater rates presented in this report have been developed based on cost of service principles following industry standard methods for wastewater utilities. The rates developed are fair and equitable for the users of the wastewater system and have been established in accordance with Proposition 218.

This study included a review and analysis of the wastewater enterprise revenue and revenue requirements including the Water Resources Recovery Facility project and its associated costs and financing. The number of customers, volumes, and rate structure were also summarized, reviewed, and analyzed. The major objectives of the Study include the following.

- Generate positive levels of income in the study period
- Maintain operating and capital reserves at or greater than target levels
- Maintain debt service coverage ratios at or greater than the minimum required
- Meet annual capital replacement spending from enterprise rate revenue

This report documents the findings and recommendations for the financial plan and rates for the District's wastewater enterprise. Tables and figures are provided throughout the report to demonstrate the calculations.

It has been a pleasure to work with District staff during the performance of this study. If there are any questions, please contact me at (949) 760-9454.

Very Truly Yours,

TUCKFIELD & ASSOCIATES



G. Clayton Tuckfield
Principal Consultant

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Wastewater Rate Study

HERITAGE RANCH COMMUNITY SERVICES DISTRICT

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Wastewater Rate Study

HERITAGE RANCH COMMUNITY SERVICES DISTRICT

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Executive Summary

The Heritage Ranch Community Services District (District) engaged Tuckfield & Associates to conduct a comprehensive Wastewater Rate Study (Study) for its wastewater enterprise system. Major objectives of the Study were to develop pro forma statements of revenues and revenue requirements, perform analyses to determine the costs of providing service, and design wastewater rates and charges for implementation.

Wastewater Financial Plan

The revenue and revenue requirements of the wastewater system were identified and projected to create a forward looking financial plan for the wastewater enterprise. Annual costs include operation and maintenance (O&M) expenses, annual capital replacement, a lease payment on a solar facility, and debt service from financing the future Water Resource Recovery facility (WRRF) project.

Future O&M expenses include using the District's FY 2024-25 budgeted expenses for the first year of projection, and then projecting future expenses through application of inflation factors to the budget year expenses. Annual capital replacement is included in the financial plan to assist in paying for wastewater system capital improvement plan projects.

The District has prepared a five-year capital improvement program (CIP) spending plan for the wastewater system. Major projects of the CIP include the design and construction costs of the proposed WRRF, lift station rehabilitations, SCADA upgrades, and other projects. The CIP expenditures total about \$20.7 million for the period FY 2024-25 to FY 2029-30. The WRRF is planned to be funded through two short term interim loans with a United States Department of Agriculture (USDA) take-out loan after project completion. Other CIP is planned to be funded through annual revenue and capital reserves.

Several analyses were performed that compared the projected revenue using the District's current wastewater rates with the projected revenue requirements (costs) of the wastewater system. The analyses indicated that the revenue being received would need to increase by 19.7 percent annually on July 1, 2025 and on each July 1 of 2026 through 2028, then 3 percent thereafter to meet the revenue requirements. The revenue increases are required to adequately meet O&M expenses, capital spending needs, and debt service coverage requirements and to maintain reserves at District Policy target levels. The wastewater financial plan is presented in Table 9.

Current Wastewater Rates

The current wastewater rates consist of monthly fixed charges based on an Equivalent Dwelling Unit (EDU) methodology for all customers. All customers are charged as a certain multiple to the Residential charge. For example, RV spaces are charged 0.8 times the Residential charge. Table ES-1 and Table 3 provide the current wastewater charges by customer classification.

Proposed Wastewater Rate Structure and Rates

The wastewater rates proposed herein update the EDU methodology for current estimates of wastewater flow generation. One EDU is defined as the wastewater flow impact to the wastewater system from a residential dwelling unit. Other customer groups are charged as a multiple of one EDU based on their wastewater flow impact. Table ES-1 presents the proposed wastewater rates for the next five years.

Table ES-1
Proposed Wastewater Monthly Fixed Charges

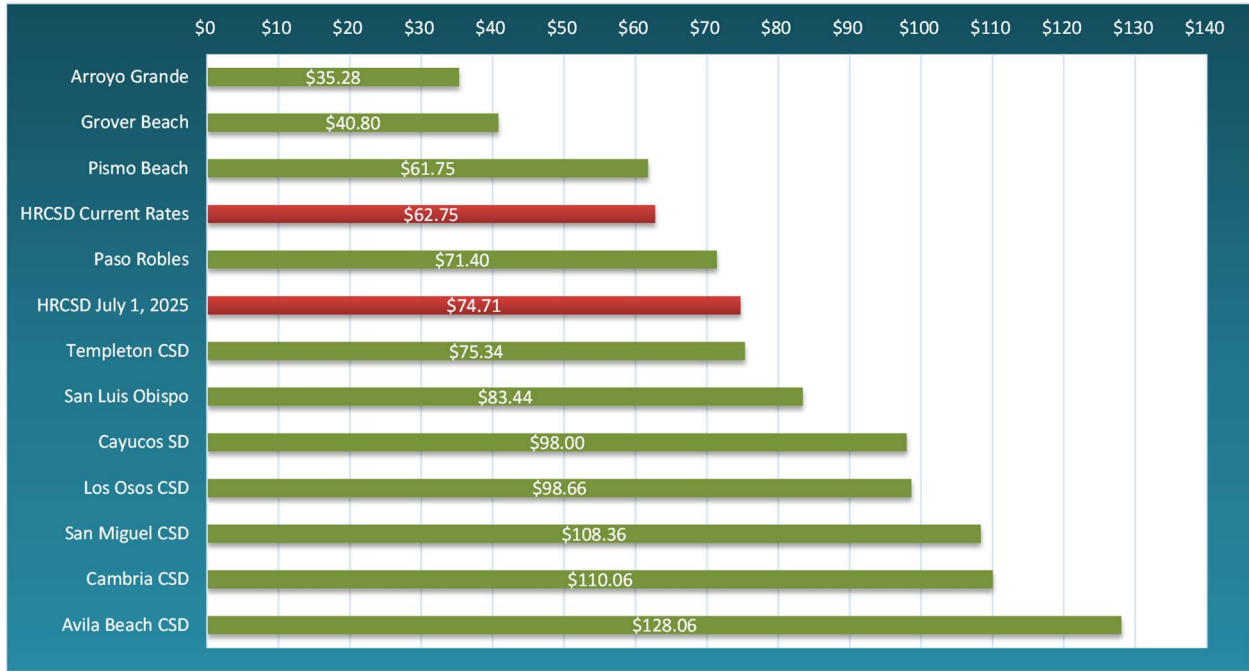
Description	EDU Ratio	Current Charge	July 1, FY 25-26	July 1, FY 26-27	July 1, FY 27-28	July 1, FY 28-29	July 1, FY 29-30
Residential/Condo	1.00	\$62.75	\$74.71	\$89.43	\$107.05	\$128.13	\$131.99
RV Space	0.80	\$50.20	\$59.77	\$71.54	\$85.64	\$102.50	\$105.59
Commercial	3.50	\$181.98	\$261.49	\$313.01	\$374.68	\$448.46	\$461.97
Restrooms	2.50	\$144.33	\$186.78	\$223.58	\$267.63	\$320.33	\$329.98
Dump Station	12.50	\$784.38	\$933.88	\$1,117.88	\$1,338.13	\$1,601.63	\$1,649.88
Holiday Condo	30.00	\$1,862.50	\$2,241.30	\$2,682.90	\$3,211.50	\$3,843.90	\$3,959.70

Wastewater Bill Impacts

The impact on wastewater bills from the proposed rate increases can be determined from inspection of Table ES-1. For a SFR customer, the monthly wastewater bill will increase from \$62.75 to \$74.71, an increase of \$11.96, or 19.1 percent. The 19.1 percent increase is lower than the overall 19.7 percent overall first year revenue increase from Table 9 due to cost of service adjustments that are made resulting from the update to the EDU ratios of the customer classifications.

Chart ES-1 has been prepared to compare the District’s SFR wastewater bill with those of other communities. The chart indicates that the District’s SFR wastewater bill with the proposed July 1, 2025 increase is in the lower mid-range of the communities listed.

Chart ES-1
 Single-family Residential Monthly Wastewater Bills
 For Rates in Effect October 2024



Note: Above table uses wastewater rates in effect October 2024. District's July 2025 bill is based on the rate structure and rates in Table ES-1.

Introduction

The Heritage Ranch Community Services District (District) engaged Tuckfield & Associates to conduct a comprehensive Wastewater Rate Study (Study) for its wastewater enterprise. Major objectives of the Study are to develop a pro forma statement of revenues and revenue requirements, perform analyses to determine the cost of providing service, and design new wastewater rates and charges for implementation.

Background

The Heritage Ranch Community Services District is an unincorporated community in San Luis Obispo County, California. The District is located in the north-west portion of San Luis Obispo County approximately 15 miles northwest of the City of Paso Robles. The District was formed in 1990 to provide wastewater service for the Heritage Ranch community. The District's customer base consists mostly of residential customers with some commercial, retail, and public facility customers. Wastewater service is identified in a separate enterprise fund of the District.

The District owns and operates a wastewater collection, treatment, and disposal system. Wastewater is collected through a system of sewer gravity mains and several lift stations. The wastewater treatment plant provides secondary treatment through a lagoon/ponding system with a permitted capacity of 0.4 million gallons per day (MGD). Treated wastewater is discharged into a drainage way that is tributary to the Nacimiento river.

The Central Coast Regional Water Quality Control Board recently evaluated the District's wastewater discharge and determined that new effluent limitations are necessary. Their findings are determined in the Waste Discharge Requirements (WDR) Order No. R3-2017-0026. The District requested and received Time Schedule Order (TSO) No. R3-2018-0011 that allows the District time to comply with the findings while meeting interim discharge levels. The District has requested an extension of the TSO that will allow construction and commissioning of a new WRRF and achieving compliance by October 2027.

Objectives

The objectives of this Study are to (1) develop a financial plan for the wastewater enterprise, (2) make any adjustments to the revenue being received to meet future financial obligations, provide adequate reserves, and debt service coverage, and (3) design wastewater rates that generate the required revenue while being fair and equitable for its customers. Specifically, the Study also sought to provide the following.

- Revenue sufficiency to fund operating and capital needs
- Appropriate levels of operating and capital reserves
- Cost of service allocations following appropriate standards, regulations, and guidelines
- Rates that are consistent with industry practice
- Ease of understanding and administration

Scope of the Study

This Study includes the findings and recommendations of analyzing the wastewater enterprise's financial status and related CIP. Historical trends were analyzed from data supplied by the District showing the number of customers, volumes, revenue, and revenue requirements.

Revenue requirements of the wastewater enterprise include operation and maintenance expenses, routine capital outlays, replacement transfers, debt service, and additions to reserves. Changing conditions such as additional facilities, system growth, employee staffing levels, and non-recurring maintenance expenditures are recognized. Inflation for ongoing expenditures is included to reflect cost escalation.

The financial plan and rates developed herein are based on funding of the capital improvement plan and estimates of operation and maintenance expenses developed from information provided by the District. Deviation from the financial plans, construction cost estimates and funding requirements, major operational changes, or other financial policy changes that were not foreseen, may result in the need for lower or higher revenue than anticipated. It is suggested that the District review the adequacy of its revenues to meet obligations annually and consider conducting an update to the rate study at least every three years for prudent rate planning.

Assumptions

Several assumptions were used to conduct the Study for the period FY 2024-25 to FY 2029-30. The assumptions included growth rates in customer accounts, percent increases in property tax revenues, interest earnings rate, expense inflation factors, and other financial assumptions used for projecting revenue and expense. The financial planning assumptions are provided below in Table 1.

Table 1
Assumptions and Planning Factors

Description	Value
Annual Account & Demand growth [1]	
Single-family Residential	0.25%
All Other	0.0%
Property Taxes and Interest Income	
Property Tax Revenue Increase	2.0%
Interest earnings on fund reserves (annual)	3.0%
Cost Escalation	
Personnel Services [2]	4.0%
Benefits	8.0%
Electrical Power	6.0%
Chemicals	6.0%
All Other Operations & Maintenance	4.0%
Capital	3.0%

[1] Annualized growth in wastewater accounts is based on historical information provided by District staff.

[2] Personnel Services growth in staffing, promotions and inflation are 4 percent annually.

District Reserve Policy

The District has a written reserve policy adopted in Resolution 14-01 on March 20, 2014. The reserve policy sets forth goals for maintaining various reserves for wastewater operations and capital spending. The reserve policy provides a basis to deal with unanticipated reductions in revenues, changes in the costs of providing services, fixed asset repair and replacement, natural disasters, and other issues. It also provides guidelines to maintain the financial health and stability of the wastewater enterprise. The reserve types and the amount of reserves used in this Study are discussed below.

Sewer Operating Reserve – The purpose of the Operating Reserve is to provide working capital to meet cash flow needs during normal operations and support the operation, maintenance and administration of the utility. This reserve ensures that operations can continue should there be noteworthy events that impact cash flow. The target balance to be maintained is 180 days of annual budgeted expenses.

Sewer Maintenance/Repair Equipment Reserve – The Maintenance/Repair Equipment Reserve is used to fund maintenance and repair of sewer facilities and is funded by a percentage of Standby/Availability Charges collected annually. The target balance is equal to annual depreciation.

Sewer Capital Facility Replacement Reserve – This reserve is defined in Resolution 14-01 and is funded by Capacity Charges/Fees which are restricted reserves. The Capital Facility Replacement Reserve is used to fund future replacement of assets and capital projects where such funding matches with the purpose for which the fees were collected. The target balance is equal to accumulated depreciation expense.

Sewer Debt Service Reserve – The purpose of the debt service reserve is to provide sufficient funds to meet the annual debt service payment should the District need to increase rates due to annual net revenue deficiencies. The target balance is established at \$39,000 for the solar facility lease.

Renewable Energy Reserve – The Renewable Energy Reserve is restricted for capital projects that support or create renewable energy. The target reserve is equal to \$250,000 shared equally by the water and sewer systems.

District Beginning Balances and Reserve Targets

The reserve fund balances discussed above are used in developing the financial plans for the wastewater utility. The District’s beginning fund balances are listed in Table 2 below as of June 30, 2024. Target Reserves are also stated in the table.

Table 2
June 30, 2024 Estimated Wastewater Beginning Reserve Balances and Reserve Targets

Reserve Type	Reserve Balance	Target Reserves
Operating Reserve	\$492,000	\$492,000
Maint Repair/Equipment Reserve	\$167,000	\$167,000
Capital Facility Replacement Reserve	\$272,640	\$4,842,000
Debt Service Reserve	\$39,000	\$39,000
Renewable Energy Reserve	\$125,000	\$125,000
Total	\$1,095,640	\$5,665,000

Wastewater Financial Planning

Financial planning for the wastewater enterprise includes identifying and projecting revenues and revenue requirements of the wastewater system for a six-year planning period. A sixth year is included in the financial plan because there is no fiscal year 2024-25 increase, however rates will be increased on July 1 of the remaining five fiscal years of the plan.

Projected revenue is compared with the projected revenue requirements allowing the evaluation of the sufficiency of current revenue to meet annual wastewater expenses and obligations, which provides the basis for revenue adjustments. Proposed wastewater rates and charges are created to recover the District’s annual operating and capital costs associated with the wastewater system.

This section discusses the current wastewater rates, user classifications, revenues and revenue requirements, debt service, capital improvement expenditures, and proposed revenue adjustments.

Current Wastewater Rates

The current wastewater rates consist of fixed charges to residential and non-residential customers. Customers of the wastewater system are charged a multiple of the Residential fixed charge. For example, RV spaces are charged 0.8 times the Residential charge. The current rates for the wastewater system were implemented on January 1, 2024 and it is planned to implement the January 1, 2025 rates from the most recent Proposition 218 public hearing notice. Both the January 1, 2024 and the January 1, 2025 rates are presented in Table 3.

Table 3
Current Wastewater Rates

Classification	Fixed Charges	
	Jan 1, 2024	Jan 1, 2025
	\$/month	\$/month
Residential	\$51.64	\$62.75
RV Space	41.31	50.20
Commercial	149.76	181.98
Camp Restroom	118.77	144.33
Dump Station	645.50	784.38
Holiday Condo	\$1,549.20	\$1,862.50

Wastewater User Classifications

Number of Customers

The District currently classifies wastewater customers as Residential, RV Space, Commercial, Camp Restroom, Dump Station, and Holiday Condo. Residential customers account for about 88 percent of the total customers

served by the wastewater system. Growth is projected to occur only in Residential accounts at a rate of 0.25 percent annually following the assumptions listed in Table 1. Table 4 provides the historical and projected number of customers by classification.

Table 4
Projected Wastewater Customers by Classification

Customer Class	Actual		Projected			
	FY 23-24	FY 24-25	FY 25-26	FY 26-27	FY 27-28	FY 28-29
Number of Accounts						
Residential/Condo [1] [2]	1,576	1,580	1,584	1,588	1,592	1,596
RV Space	192	192	192	192	192	192
Commercial	15	15	15	15	15	15
Restrooms	3	3	3	3	3	3
Dump Station	1	1	1	1	1	1
Total Accounts	1,787	1,791	1,795	1,799	1,803	1,807

[1] Accounts are forecast to increase based on the assumed growth rate of 0.25 percent annually.

[2] Includes Holiday Condo 30 units.

Wastewater Financial Plan

The financial plan provides the means of analyzing the revenue and revenue requirements of the wastewater system, the ability to fund on-going operation and maintenance expense and capital expenditures, and the impact on reserves. This section of the Report discusses the projection of revenue, projection of operation and maintenance expenses, capital improvement needs of the wastewater system, debt and debt service requirements, and revenue adjustments needed to maintain a sustainable wastewater enterprise.

Revenues

The District receives operating and miscellaneous revenue from several sources. Operating revenue is received from rates and charges for wastewater service. Operating revenue is projected by applying the current wastewater rates from Table 3 to the projected number of accounts in Table 4. Table 5 presents the projected operating revenues from the fixed charges stated in Table 3.

Table 5
Projected Rate-based Wastewater Revenue Using Current Rates

Description	Projected					
	FY 24-25	FY 25-26	FY 26-27	FY 27-28	FY 28-29	FY 29-30
Wastewater Service Revenues						
Fixed Charges [1]	\$1,213,049	\$1,355,778	\$1,358,790	\$1,361,802	\$1,364,814	\$1,367,826
Total Revenues From Current Rates	\$1,213,049	\$1,355,778	\$1,358,790	\$1,361,802	\$1,364,814	\$1,367,826

[1] FY 24-25 and forecast years' revenue calculated by multiplying current wastewater service rate by the number of customers.

Miscellaneous revenue received includes hook-up fees, turn on fees, penalties/late fees, plan check and inspection fees, standby charges, property tax revenue, and connection fees. Table 6 presents the projected revenue from miscellaneous sources.

Table 6
Projected Wastewater Miscellaneous Revenue

Description	Budget		Projected			
	FY 24-25	FY 25-26	FY 26-27	FY 27-28	FY 28-29	FY 29-30
Hook-up Fees	\$400	\$400	\$400	\$400	\$400	\$400
Turn-On Fees	1,500	1,500	1,500	1,500	1,500	1,500
Late Fees	7,700	9,600	9,600	9,600	9,600	9,600
Plan Check and Inspection	800	800	800	800	800	800
Standby Charges	39,200	39,200	39,200	39,200	39,200	39,200
Property Tax	142,689	145,500	148,400	151,400	154,400	157,500
Connection Fees	15,534	15,000	15,000	15,000	15,000	15,000
Total Miscellaneous Revenues	\$207,823	\$212,000	\$214,900	\$217,900	\$220,900	\$224,000

Revenue Requirements

Revenue requirements of the wastewater system include operation and maintenance expenses, annual capital replacement, debt service, and capital improvement costs related to upgrading the wastewater system. Each of these items are discussed below.

Operation and Maintenance Expense

O&M expenses are an on-going obligation of the wastewater system and such costs are normally met from wastewater service revenue. O&M expenses include the cost to operate and maintain the wastewater collection system, lift stations, and treatment and disposal facilities. Costs also include technical services and other general and administrative expenses.

O&M expenses have been projected recognizing the major expense categories of personnel services, electric power expense, chemicals expense, and other expenses. Personnel costs consist of salaries and benefits expense of those personnel directly involved with providing wastewater service. Future salary costs are projected to increase by 4 percent annually whereas benefits costs are projected to increase at 8 percent annually. Electric power and chemicals expenses are projected to increase annually at 6 percent. All other O&M expenses are projected to increase by 4 percent annually except capital which is projected at 3 percent annually. Additionally, all costs associated with the WRRF are included in FY 2028-29 and reflect changes in operations that have impacts on salary and benefit costs. Table 7 provides a summary of the wastewater O&M expenses for the Study period.

Table 7
Budget and Projected Wastewater Operation and Maintenance Expense

Description	Budget	Projected				
	FY 24-25	FY 25-26	FY 26-27	FY 27-28	FY 28-29	FY 29-30
Salaries & Benefits	\$366,505	\$386,578	\$407,888	\$430,518	\$734,208	\$773,812
Maintenance and Supply						
Electricity	\$36,210	\$38,383	\$40,686	\$43,127	\$295,424	\$313,149
Chemicals	18,387	19,490	20,659	21,899	34,164	36,214
Other O&M	124,687	129,676	134,863	140,257	240,015	249,615
Subtotal	\$179,284	\$187,549	\$196,208	\$205,283	\$569,603	\$598,978
General & Administration						
General Fund Allocation	\$342,584	\$356,287	\$370,538	\$385,360	\$364,731	\$379,320
Insurance	14,316	14,889	15,485	16,104	31,633	32,898
Other O&M	55,230	57,439	59,736	62,126	70,479	73,298
Subtotal	\$412,130	\$428,615	\$445,759	\$463,590	\$466,843	\$485,516
Capital Outlay	\$26,000	\$26,780	\$27,583	\$28,410	\$29,262	\$30,140
Total O&M Expense	\$983,919	\$1,029,522	\$1,077,438	\$1,127,801	\$1,799,916	\$1,888,446

Capital Replacement

The District plans for replacements in the wastewater system that occur from time to time during the fiscal year. The amount of annual wastewater CIP project spending includes lift station rehabilitation, collection system SCADA project, collection system infiltration/inflow study, corporate yard electric gate, and other replacement CIP, but excluding the WRRF design and construction spending discussed further below.

Western Alliance Bank 2020 Solar Lease

The District closed on a lease for a solar facility on April 29, 2019 and which is paid from both the District water and wastewater funds. The wastewater allocation of the lease payments totals about \$38,500 annually. The final lease payment occurs on April 1, 2035.

Water Resource Recovery Facility

The Central Coast Regional Water Quality Control Board (CCRWQCB) evaluated the District's wastewater discharge and determined that new effluent limitations are necessary. The findings are determined in the Waste Discharge Requirements (WDR) Order No. R3-2017-0026. The District requested and received Time Schedule Order (TSO) No. R3-2018-0011 that allows the District time to comply while meeting interim discharge levels. The District has requested an extension of the TSO that will allow construction and commissioning of a new WRRF and achieving compliance by October 2027.

The District proposes constructing the WRRF project to meet the discharge requirements of WDR No. R3-2017-0026. The project is estimated to cost about \$22.752 million consisting of design, construction, capitalized interest, and debt issuance costs.

WRRF Financing Plan and Debt Service

The District proposes to pay for the WRRF project through a series of interim loans during construction, with a final take-out loan from the USDA upon project completion. The purpose of the interim loans is to allow lower annual payments for the first two years than the District would otherwise have to pay if they had a fully amortizing loan at the start of construction, and allows a lower second loan borrowing amount in a grant is received.

A first interim loan, initiated in June 2025 with an estimated interest rate of 4.50 percent, will provide about \$13.913 million of proceeds that capitalizes interest and issuance costs associated with this loan while reimbursing the District for design costs. A second interim loan, initiated in June 2026, will also have an estimated interest rate of 4.50 percent and will provide about \$8.734 million of proceeds that capitalizes interest and issuance costs of this loan. And in June of 2028, the District plans a final take-out loan from the USDA in the amount of \$22.752 million, including \$105,000 of issuance costs, to pay off the two interim loans. The USDA loan has current terms that include an estimated 3.625 percent interest rate and a 40-year term. All interest rates are estimated and subject to change until the loans close.

Wastewater Capital Improvement Program

Table 8 provides the wastewater capital improvement program (CIP) of the District that lists planned capital expenditures for FY 2024-25 through FY 2029-30. Major projects include design costs of the WRRF, lift station rehabilitation costs, and SCADA upgrades. The CIP expenditures are funded by wastewater system revenues, reserves, and loans to complete the WRRF project.

Table 8
Wastewater Capital Improvement Program

Description	Projected					
	FY 24-25	FY 25-26	FY 26-27	FY 27-28	FY 28-29	FY 29-30
Current Capital Improvement Projects (CIP) [1]						
Water Resource Recovery Facility - Design Design Costs Only	\$775,772	-	-	-	-	-
Water Resource Recovery Facility - Construction	-	10,711,000	8,113,750	-	-	-
Lift Station 1-5 Rehabilitation	200,000	180,000	186,000	27,000	197,000	174,000
Collection System SCADA	200,000	-	-	-	-	-
Wastewater Collection System Model and Infiltration/Inflow Phase II	75,000	-	-	-	-	-
Electric Gate at Corp Yard (40% of Cost)	50,000	-	-	-	-	-
Proposed Asset Replacement Projects [2]	-	-	-	-	-	116,000
Total Wastewater CIP	\$1,300,772	\$10,891,000	\$8,299,750	\$27,000	\$197,000	\$290,000

Wastewater Financial Plan

A financial plan has been prepared for the wastewater utility that includes the revenues and revenue requirements that were identified for the wastewater system and is presented in Table 9. The plan incorporates specific financial planning criteria to provide guidance to maintain the health of the wastewater utility on an on-going basis. The criteria included the following.

- Generate positive levels of income in each year of the Study period
- Meet annual capital replacement expenditures
- Maintain the operating and capital reserves at or greater than target levels
- Maintain debt service coverage ratios at or greater than the minimum required

Proposed Revenue Adjustments

Analysis of the revenues and revenue requirements of the wastewater financial plan indicates that revenue increases are necessary. Revenue increases of 19.7 percent annually are proposed for July 1, 2025 and on each July 1 of 2026 through 2028. Annual increases of 3 percent are assumed thereafter. The proposed increases are shown near the top of the wastewater financial plan in Table 9.

The financial plan in Table 9 also shows the financing plan for the WRRF project. Under the heading “Capital Sources of Funds” in the table, the interim loan and USDA loan proceeds are shown as sources of funding along with issuance costs and capitalized interest, resulting in a “Total Capital Sources of Funds” amount for each year shown in Table 9 to meet the CIP spending plan from Table 8.

Debt service of the interim and USDA loans used to finance the WRRF project is shown under the heading “Uses of Funds”, listing the Interim loans and the USDA loan debt service separately. The USDA loan has a requirement to set aside 1/10th of the annual debt service amount as a reserve for 10 years. This is shown below the USDA loan debt service payment amount.

Table 9
Wastewater Financial Plan

Description	Projected					
	FY 24-25	FY 25-26	FY 26-27	FY 27-28	FY 28-29	FY 29-30
Proposed Revenue Increase (July 1)		19.7%	19.7%	19.7%	19.7%	3.0%
Sources of Funds						
Rate-based Revenues, Existing Rates [1]	\$1,213,049	\$1,355,778	\$1,358,790	\$1,361,802	\$1,364,814	\$1,367,826
Total Additional Wastewater Service Revenue [2]	-	244,831	561,395	941,755	1,398,642	1,517,463
Miscellaneous Income [3]	207,823	212,000	214,900	217,900	220,900	224,000
Interest Income	19,627	45,071	92,953	108,406	112,745	107,975
Total Sources of Funds	\$1,440,499	\$1,857,680	\$2,228,038	\$2,629,863	\$3,097,101	\$3,217,264
Uses of Funds						
O&M and Capital Outlay	\$983,919	\$1,029,522	\$1,077,438	\$1,127,801	\$1,799,916	\$1,888,446
Capital Replacement [4]	167,000	164,000	193,000	157,000	166,000	747,000
Western Alliance Lease	38,643	38,506	38,595	38,650	38,672	38,661
Interim Loan Net Debt Service	-	-	313,043	1,019,115	-	-
USDA Loan Debt Service	-	-	-	-	1,081,422	1,081,943
USDA Loan Reserve Fund Payment	-	-	-	-	108,142	108,194
Total Uses of Funds	\$1,189,562	\$1,232,028	\$1,622,076	\$2,342,566	\$3,194,152	\$3,864,244
Net Funds Available Before Capital	\$250,937	\$625,652	\$605,962	\$287,297	(\$97,051)	(\$646,980)
Capital Sources of Funds						
Operations Financed Capital	\$167,000	\$164,000	\$193,000	\$157,000	\$166,000	\$747,000
Interim Loan #1	-	13,913,000	-	(13,913,000)	-	-
Interim Loan #2	-	-	8,734,000	(8,734,000)	-	-
New Bond Proceeds	-	-	-	22,752,000	-	-
Issuance Costs	-	(293,391)	(227,220)	(105,000)	-	-
Capitalized Interest	-	(939,128)	(393,030)	-	-	-
Total Capital Sources of Funds	\$167,000	\$12,844,481	\$8,306,750	\$157,000	\$166,000	\$747,000
Capital Uses of Funds						
Capital Improvement Plan [5]	\$1,300,772	\$10,891,000	\$8,299,750	\$27,000	\$197,000	\$290,000
Total Capital Uses of Funds	\$1,300,772	\$10,891,000	\$8,299,750	\$27,000	\$197,000	\$290,000
Net Capital Spending	(\$1,133,772)	\$1,953,481	\$7,000	\$130,000	(\$31,000)	\$457,000
Net Funds After Capital	(\$882,835)	\$2,579,133	\$612,962	\$417,297	(\$128,051)	(\$189,980)
Available Reserves						
Beginning available reserves [6]	\$1,095,640	\$212,805	\$2,791,938	\$3,404,900	\$3,822,197	\$3,694,146
Additions (reductions)	(882,835)	2,579,133	612,962	417,297	(128,051)	(189,980)
Ending available reserves	\$212,805	\$2,791,938	\$3,404,900	\$3,822,197	\$3,694,146	\$3,504,166
Target Reserves [7]	\$823,000	\$843,000	\$896,000	\$885,000	\$1,230,000	\$1,855,000
Above (below) Target	(\$610,195)	\$1,948,938	\$2,508,900	\$2,937,197	\$2,464,146	\$1,649,166
Debt Service Coverage						
Net Revenues [8]	\$456,580	\$828,158	\$1,150,600	\$1,502,062	\$1,297,185	\$1,328,818
Annual Debt Service	-	-	313,043	1,019,115	1,081,422	1,081,943
Coverage	n/a	n/a	368%	147%	120%	123%

[1] Projected using the existing rates.

[2] Additional revenue from proposed rate adjustments.

[3] Miscellaneous income including hookup fees, turn-on fees, late fees, standby charges, property taxes, and other miscellaneous income.

[4] Equal to approximate annual depreciation expense.

[5] From Table 26. Includes Water Resource Recovery Facility (WRRF) design and construction costs.

[6] The available beginning FY 24-25 cash balance provided by the District. Includes operating and capital reserves.

[7] Target reserve includes operating, equipment, debt service, and solar reserves per Resolution 14-10. Excludes Capital Facility Reserve.

[8] Total Revenue less operation and maintenance expense.

[1] Projected using the existing rates.

[2] Additional revenue from proposed rate adjustments.

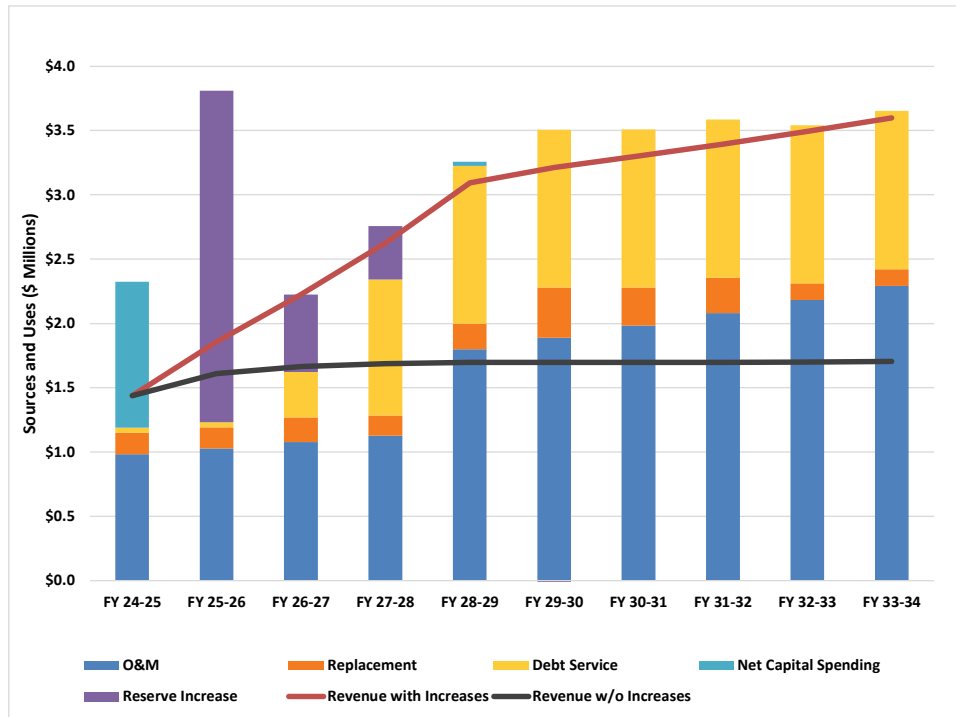
[3] Miscellaneous income including hookup fees, turn-on fees, late fees, standby charges, property taxes, and other miscellaneous income.

[4] Equal to approximate annual depreciation expense.

[5] From Table 8. Includes Water Resource Recovery Facility (WRRF) design and construction costs.

A graphical depiction of the revenue and revenue requirements from Table 9 is presented in Figure 1. Revenue using the current rates is shown as the black line while revenue with revenue adjustments is shown as the red line. Figure 1 shows that the revenue increases from Table 9 are necessary to meet annual O&M expense, fund CIP, and meet debt service payments as well as to increase reserves.

Figure 1
Wastewater Financial Plan
Comparison of Revenue with Revenue Requirements



The District’s wastewater reserves position at the end of each fiscal year is provided in Figure 2. The green columns represent the end of year reserve balance including all funds, while the red line indicates the Target level for these reserves. The figure shows the use of District reserves to pay for WRRF design costs in the first year, then increasing from the reimbursement of those design costs in the second year. The reserve balance provides a cushion during the construction phases of the WRRF project.

Figure 2
End of Year Wastewater System Reserves versus Target Reserves



Cost of Service

This section of the report discusses how the wastewater system’s operating and capital costs are allocated for use in designing rates. Establishing rates in California requires that the agency responsible for imposing property-related fees create a nexus between the cost of providing service and the rates to be imposed.

Industry Methodology

Methodology from the Water Environment Federation (WEF) is commonly used to allocate wastewater costs in an appropriate manner. Similar to AWWA, WEF is an industry trade organization that provides guidance on operations, technical training, education, and management of wastewater utilities. General principles are provided to assist agencies with the design of wastewater rates and charges that are consistent with local requirements while also recognizing state laws and legal framework.

Due to the District’s current wastewater system operations, and that the District is pursuing a loan with the USDA, the method used in this Study to allocate costs and to design wastewater rates is an Equivalent Dwelling Unit (EDU) methodology. For this Study, one EDU is defined as the wastewater flow impact on the wastewater system by a Residential customer.

Costs of Service to be Allocated

The annual cost of service consists of O&M expenses and capital costs of the wastewater system. O&M expenses include costs related to wastewater collection, treatment, disposal maintenance of the facilities, and general and administrative costs. Capital costs include the annual capital replacement, lease expense, and debt service on loans associated with the WRRF project discussed in the financial plan. The annual costs to be recovered from wastewater rates are provided in Table 10.

Table 10
Costs to be Recovered From Wastewater Rates

Description	FY 25-26	FY 26-27	FY 27-28	FY 28-29	FY 29-30
Operating Expense					
O&M and Capital Outlay	\$1,029,522	\$1,077,438	\$1,127,801	\$1,799,916	\$1,888,446
Subtotal	\$1,029,522	\$1,077,438	\$1,127,801	\$1,799,916	\$1,888,446
Capital					
Capital Replacement [4]	\$164,000	\$193,000	\$157,000	\$166,000	\$747,000
Western Alliance Lease	38,506	38,595	38,650	38,672	38,661
Interim Loan Debt Service	-	313,043	1,019,115	-	-
USDA Loan Debt Service	-	-	-	1,081,422	1,081,943
USDA Loan Reserve Fund Payment	-	-	-	108,142	108,194
Subtotal	\$202,506	\$544,638	\$1,214,765	\$1,394,236	\$1,975,798
Net Capital Spending					
Capital Replacement [4]	(\$164,000)	(\$193,000)	(\$157,000)	(\$166,000)	(\$747,000)
Interim Loan and Bond Proceeds	(12,680,481)	(8,113,750)	-	-	-
Capital Improvement Plan	10,891,000	8,299,750	27,000	197,000	290,000
Subtotal	(\$1,953,481)	(\$7,000)	(\$130,000)	\$31,000	(\$457,000)
Met From Other Sources					
Revenue Offsets	(\$257,071)	(\$307,853)	(\$326,306)	(\$333,645)	(\$331,975)
Subtotal	(\$257,071)	(\$307,853)	(\$326,306)	(\$333,645)	(\$331,975)
Adjustments					
Adjustments for Annual Cash Balance	\$2,579,133	\$612,962	\$417,297	(\$128,051)	(\$189,980)
Adjustments to Annualize Rate Increase [1]	22,257	26,702	32,032	38,427	7,020
Subtotal	\$2,601,390	\$639,664	\$449,329	(\$89,624)	(\$182,960)
Total Costs to be Recovered	\$1,622,866	\$1,946,887	\$2,335,589	\$2,801,883	\$2,892,309

[1] Includes one month billing lag from when customer is charged and the bill is paid.

Wastewater Rate Design

The goal of the design of rates is to achieve fairness while ensuring that each customer class pays its fair share of costs. Rates should be simple to administer, easy to understand, and comply with regulatory requirements. This section describes how wastewater rates and charges are designed and includes the proposed schedule of wastewater rates for implementation.

Proposed Wastewater Rates

The wastewater charges proposed in this Study reflect an EDU methodology and charges are based on an EDU ratio to a Residential customer. Wastewater charges are calculated by first developing the number of EDU’s served by the District and then calculating an EDU ratio for each customer classification that reflects its historical 5-year average wastewater flow impact in relation to a Residential customer. This calculation is provided in Table 11. The calculation uses average monthly winter water consumption of the last five years of each customer classification to calculate an EDU ratio.

Table 11
Calculation of the EDU Ratio

Description	5-Year Avg Winter Water Consumption ^[1]	Average Monthly Winter Water Consumption ^[2]	Number of Users	Adjusted Number of Users	Average Monthly Flow per User	Number of EDUs ^[3]	Calculated EDU Ratio
	HCF/ 3 mos	HCF/mo			col [2] + col [4]		
Residential/Condo [4]	19,718.0	6,572.7	1,576	1,576.0	4.2	1,576.0	1.00
RV Space [5]	308.0	102.7	192	32.0	3.2	24.6	0.80
Commercial	661.0	220.3	15	15.0	14.7	52.8	3.50
Restrooms [6]	31.0	10.3	3	1.0	10.3	2.5	2.50
Dump Station	156.4	52.1	1	1.0	52.1	12.5	12.50
Total	20,874.4	6,958.1	1,787	1,625.0		1,668.4	

[1] Water consumption for the lowest 3 months of January, February, and March.

[2] Estimate for total monthly wastewater flow.

[3] For EDU ratio calculations only.

[4] Includes Holiday Condo 30 units.

[5] Adjusted number of users for RV Spaces reflects average occupied spaces during January, February, and March.

[6] Adjusted number of users reflects seasonal use.

The calculated EDU ratio from Table 11 is applied to the number of customers/units of each customer classification to determine the number of billing units served by the wastewater system. The annual revenue requirements from Table 10 are divided by the number of annual billing units in Table 11 to calculate the monthly wastewater charge per billing unit, shown in Table 12.

Table 12
Calculation of the Monthly Charge per Billing Unit

Description	FY 25-26	FY 26-27	FY 27-28	FY 28-29	FY 29-30
Number of Customers/Units [1]					
Residential/Condo [2]	1,584	1,588	1,592	1,596	1,600
RV Space	192	192	192	192	192
Commercial	15	15	15	15	15
Restrooms	3	3	3	3	3
Dump Station	1	1	1	1	1
Total Number of Customers	1,795	1,799	1,803	1,807	1,811
Number of Billing Units [3]					
Residential/Condo [2]	1,584.00	1,588.00	1,592.00	1,596.00	1,600.00
RV Space	153.60	153.60	153.60	153.60	153.60
Commercial	52.50	52.50	52.50	52.50	52.50
Restrooms	7.50	7.50	7.50	7.50	7.50
Dump Station	12.50	12.50	12.50	12.50	12.50
Total Number of Billing Units	1,810.10	1,814.10	1,818.10	1,822.10	1,826.10
Revenue Requirement [4]	\$1,622,866	\$1,946,887	\$2,335,589	\$2,801,883	\$2,892,309
Monthly Charge per Billing Unit [5]	\$74.71	\$89.43	\$107.05	\$128.13	\$131.99

- [1] From Table 4.
- [2] Includes Holiday Condo 30 units.
- [3] Number of customers/units multiplied by EDU ratio.
- [4] Revenue requirements from Table 10.
- [5] Revenue Requirement divided by billing units.

Applying the EDU ratio from Table 10 to the proposed wastewater fixed charge per billing unit from Table 12 determines the wastewater charge for the District’s customer classifications. The proposed wastewater monthly fixed charges are shown in Table 13 for the Study period.

Table 13
Proposed Wastewater Monthly Fixed Charges

Description	EDU Ratio	Current Charge	July 1, FY 25-26	July 1, FY 26-27	July 1, FY 27-28	July 1, FY 28-29	July 1, FY 29-30
Residential/Condo	1.00	\$62.75	\$74.71	\$89.43	\$107.05	\$128.13	\$131.99
RV Space	0.80	\$50.20	\$59.77	\$71.54	\$85.64	\$102.50	\$105.59
Commercial	3.50	\$181.98	\$261.49	\$313.01	\$374.68	\$448.46	\$461.97
Restrooms	2.50	\$144.33	\$186.78	\$223.58	\$267.63	\$320.33	\$329.98
Dump Station	12.50	\$784.38	\$933.88	\$1,117.88	\$1,338.13	\$1,601.63	\$1,649.88
Holiday Condo	30.00	\$1,862.50	\$2,241.30	\$2,682.90	\$3,211.50	\$3,843.90	\$3,959.70

Wastewater Bill Impacts

Since the Residential wastewater charge is a fixed charge per month, the impact on wastewater bills can be determined from inspection of Table 13. For a SFR customer, the current monthly wastewater bill will increase from \$62.75 to \$74.71 on July 1, 2025, an increase of \$11.96 or 19.1 percent. The increase of 19.1 percent is lower than the overall increase of 19.7 percent from Table 9 due to cost of service adjustments that were made to update the EDU ratios. For years after the first year, the SFR bill increases by 19.7 percent on July 1, 2026 through 2028, and then 3 percent on July 1, 2029.

Wastewater Rate Survey

A wastewater rate survey was conducted for neighboring communities to the District. Chart 1 compares the District’s current and proposed SFR monthly wastewater bill with those of neighboring communities. The chart indicates that for the proposed charges on July 1, 2025, a SFR customer will experience a bill that is in the mid-range of the communities surveyed.

Chart 1
Single-family Residential Monthly Wastewater Bills
For Rates in Effect October 2024



Note: Above table uses wastewater rates in effect October 2024. District’s July 2025 bill is based on the rate structure and rates in Table 13.