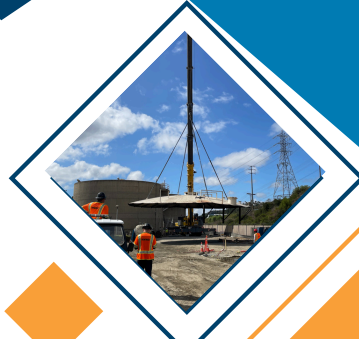




moulton niguel water district

2025 COST OF SERVICE STUDY REPORT





MOULTON NIGUEL WATER DISTRICT

**Long Range Financial Plan,
Potable Water, Recycled
Water, and Wastewater
Cost of Service, and Rate
Design Report**

October 2025

MOULTON NIGUEL WATER DISTRICT

**LONG RANGE FINANCIAL PLAN, POTABLE WATER, RECYCLED WATER,
AND WASTEWATER COST OF SERVICE, AND RATE DESIGN REPORT**

FINAL REPORT

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With Technical Support from:

Black & Veatch

October 2025

EXECUTIVE SUMMARY

As a utility agency, Moulton Niguel Water District (MNWD or District) serves as a steward of the Potable Water, Recycled Water, and Wastewater Systems (Systems) on behalf of its customers by overseeing the day-to-day operations and maintenance and planning for the long-term infrastructure investment needs for these critical Systems. Maintaining these Systems at a level that ensures safe and reliable service to customers to meet both their individual needs as well as fire protection requires regular reinvestment and alignment of revenue requirements in light of increasing imported water costs, utilities used to operate the distribution and collections systems, chemicals for water quality and treatment, and construction costs. The District's Board of Directors has established financial policies and objectives to ensure the District maintains a strong financial position while also ensuring high quality service to its customers and appropriate investments in infrastructure. Annually, staff update the District's 10-year financial model to reflect the revenues and expenses required to meet the Board's financial policies and strategic initiatives. As a part of that process, the District regularly reviews the rates it charges to customers to provide water, wastewater, and recycled water services to ensure continued financial health and compliance with California law.

MNWD updated the District's Long Range Financial Plan (LRFP) and Cost-of-Service (COS) analysis for its Potable Water, Recycled Water, and Wastewater Systems the results of which are compiled in a detailed report to support adjusting rates to reflect the cost of providing service to each of the District's customer classes. This Potable Water, Recycled Water, and Wastewater Cost of Service, and Rate Design Report (Report), which was completed in consultation with the District's Legal Counsel, Best Best & Krieger (BBK), and Black & Veatch (B&V), presents the findings of each of these analyses, culminating in a recommendation for a four-year rate schedule for each customer class of the District's three systems.

The District calculated the proposed rates in a manner consistent with COS principals and all State of California legal requirements including Article XIII D Section 6 and the California Water Code. Rates were additionally set in accordance with industry practice for water and wastewater ratemaking, as described by the American Water Works Association (AWWA) and the Water Environment Federation (WEF). The proposed rates are designed to fully recover current and future revenue requirements of the District. The proposed rates were reviewed by both B&V and the District's legal counsel, Best Best & Krieger, LLP.

General Overview of Methodology

This project followed three major phases:

1. **Long Range Financial Plan (LRFP):** The LRFP developed detailed projections of revenue requirements through FY 2034-35 for each of the District's individual systems (potable water, recycled water, and wastewater). Based on the revenue requirements method for allocating costs, this analysis incorporates the latest forecasts of water demands inclusive of the increased cost for purchased water, operations and maintenance costs, capital investments related to new projects and upgrades or replacement of critical infrastructure, debt service, recycled water conversions, and water efficiency trends available into the District's financial planning model in order to determine the adequacy of the District's existing rates to

continue recovering the cost of providing service. A key outcome of this analysis is recommendations for rate revenue adjustments and capital financing for both the General Fund and the Water Efficiency (WE) Fund. The District's General Fund accounts for the programs and activities related to providing service for the efficient use of its potable and recycled water systems and the management of its wastewater collection systems and treatment plants. The separately maintained WE Fund was established to separately account for costs associated with reducing or offsetting the water supply reliability impacts attributable to inefficient water use. This Report relies on results and assumptions developed in detail in the District's Long Range Financial Plan report, attached as APPENDIX A.

2. **Cost of Service (COS):** The system-specific revenue requirements identified in the LRF are allocated among each system's customer classes in a multi-step process. For the selected *test year*¹ (FY 2025-26), General Fund revenue requirements were broken down into functions such as pumping, supply, storage, transmission, fire protection, collections, customer service, billing, and general administration, among others. The District also allocates costs attributable to inefficient usage to functions within the WE fund, which includes rebate program administration, customer service, water reliability investments, efficiency device rebates, and landscape transformation rebates. These costs and programs are designed to protect and increase water supply by identifying and implementing measures to reduce consumption. The functionalized revenue requirements of the Potable Water and Recycled Water Systems were classified according to their peak and base characteristics as well as their relationship to general administration of the District, customer service, and fire protection requirements. B&V performed a detailed review of Potable and Recycled Water System operations and customer usage data, peak demand relative to average demand, customer growth, customer service and accounting requirements, and equivalent meter size for fire protection requirements that rely on the District for water service. For the Wastewater System, costs were allocated to functional cost categories, including collection system, advanced treatment, customer service and billing, and capacity. The functionalized costs for the system were then allocated to various cost components such as flow, biological oxygen demand (BOD), and total suspended solids (TSS) and discharge strength to recognize the different levels of demand that each customer class places on the wastewater system based on their respective flow and waste characteristics. For all of the District's systems, the final step of the COS analysis is to allocate the functionalized and classified costs to each customer class commensurate with their relative system demands to ensure that the subsequently developed rates reflect the actual cost of service.

3. **Rate Design:** After the revenue requirements identified in the LRF were functionalized and proportionally allocated across each of the customer classes as part of the COS analysis, the existing rate structure was evaluated to determine its ability to continue proportionately recovering revenue requirements and mitigate potential financial or other operating risks. The goal of the Rate Design step is to determine the rate structure most appropriate for proportionately recovering rate revenues from each of the customer classes in a manner consistent with the COS analysis. Rates are also designed to achieve

¹ AWWA M1 Manual: *test year* may represent a specific 12-month period or an annualization of a rate-design period. For this report, it is Fiscal Year (FY) 2025-2026.

the District's financial and strategic goals and objectives while ensuring high-quality service to customers. It is in this step that the District's non-rate revenues are utilized to create a cost incentive for customers to use water within their budget and utilize recycled water to enhance water reliability, in a manner that ensures no customer's rates subsidize another customer's rates.

For the purposes of this study, the computed numbers are rounded to the nearest decimal points, and sums of these numbers may therefore not add up to totals.

Financial Plan – General Fund

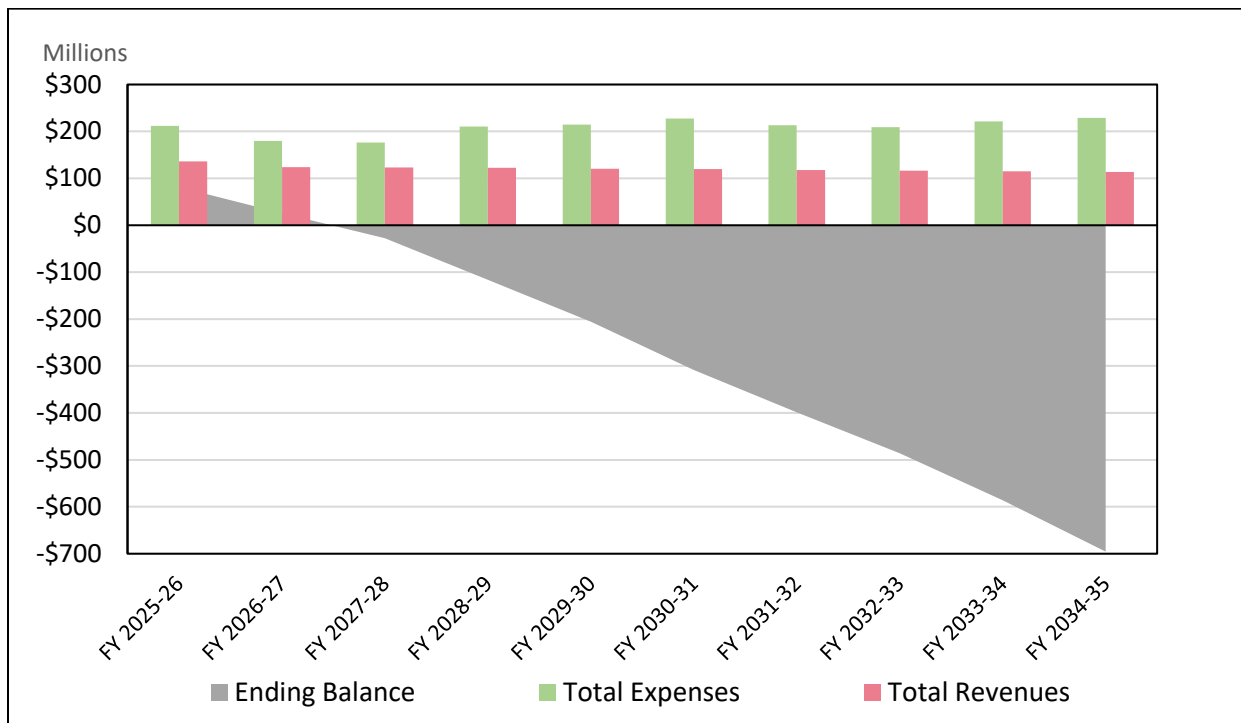
This Report evaluates revenue requirements for two primary cost types: the General Fund and the Water Efficiency Fund. The General Fund accounts for operation and maintenance of the Potable and Recycled Water Systems, management of the Wastewater System ("Systems"), and planning and executing capital improvement projects for the Systems. The Water Efficiency Fund is used for purposes related to water efficiency rebate programs and projects that proportionally offset the supply reliability cost impacts attributable to inefficient water use. Prior to performing the COS analysis, District staff created an updated LRFP Report, attached to this Report as APPENDIX A, which determines the financial impacts and revenue requirements of the District's forecasted operating expenses and capital improvement program and develops appropriate strategies to address those needs. For the required analysis, the District developed a long-range financial planning model which integrates financial and operational data such as revenue from rates, non-operating revenues, water purchases, utility costs, other miscellaneous operating revenues and expenses, rate-funded capital expenditures (PAYGO), long-term investments, and debt service payments. All revenues and expenses are projected over a 10-year planning horizon: FY 2025-26 through FY 2034-35. This detailed information is linked to a summarized pro-forma income statement and balance sheet to enable the District to review the impact of ongoing and future changes to operating cash, assets, liabilities, and fund balances. The long-range financial planning model also monitors potential impacts to any of the District's key financial ratios whenever major policy decisions are considered. Finally, the proposed financial plan is aligned with the District's financial policies through the 10-year horizon with respect to its debt service coverage ratio (DSCR)² and reserve policies.

The model uses the most recent audited financial information, Board-adopted FY 2025-26 operating and capital budgets and financial policies for the study period. Cost inflation assumptions were applied to specific expenditure categories, including assumptions related to the future cost of water supply. The District's revenue requirements were organized into four components: O&M costs, capital costs (cash and debt service), reserve targets, and DSCR target. After reviewing the long-term forecasts of the District's revenue requirements, three particular factors were identified as the primary drivers for future cost increases to the District: forecasted cost increases for wholesale water purchases, investment in critical water infrastructure necessary to provide reliable water service, fire flow capacity, and investments in wastewater treatment and collections facilities to increase reliability and maintain compliance with environmental and regulatory standards.

² Debt Service Coverage Ratio (DSCR) is a measure of the cash flow available to pay current debt obligations.

Without the proposed rate revenue adjustments and bond issuances, General Fund ending cash balance will fall below required reserves by FY 2026-27 and become negative by FY 2027-28. The District’s DSCR is similarly affected: without the proposed rate revenue adjustments and bond issuances the DSCR falls below the adopted 1.75 target by FY 2026-27 and below bond covenant requirements of 1.25 by FY 2027-28. Though not recommended or considered as part of this analysis, the District could elect to avoid negative fund balances by significantly reducing investments in critical system infrastructure that would likely yield negative impacts to existing service levels that should be carefully evaluated prior to considering such a cost-cutting driven plan. Figure ES-1 provides a forecast of the District’s General Fund total expenditure and revenue projections and respective ending cash balances without any rate revenue adjustments or supplemental financing over the next 10 years.

Figure ES-1. General Fund Total Expenditure, Revenue Projections, and Change in Ending Balance without Rate Revenue Adjustment or Supplemental Financing for FY 2025-26 – FY 2034-35



Note: the expense bar includes all CIPs scheduled for the planning period under the assumption in which no financing is available.

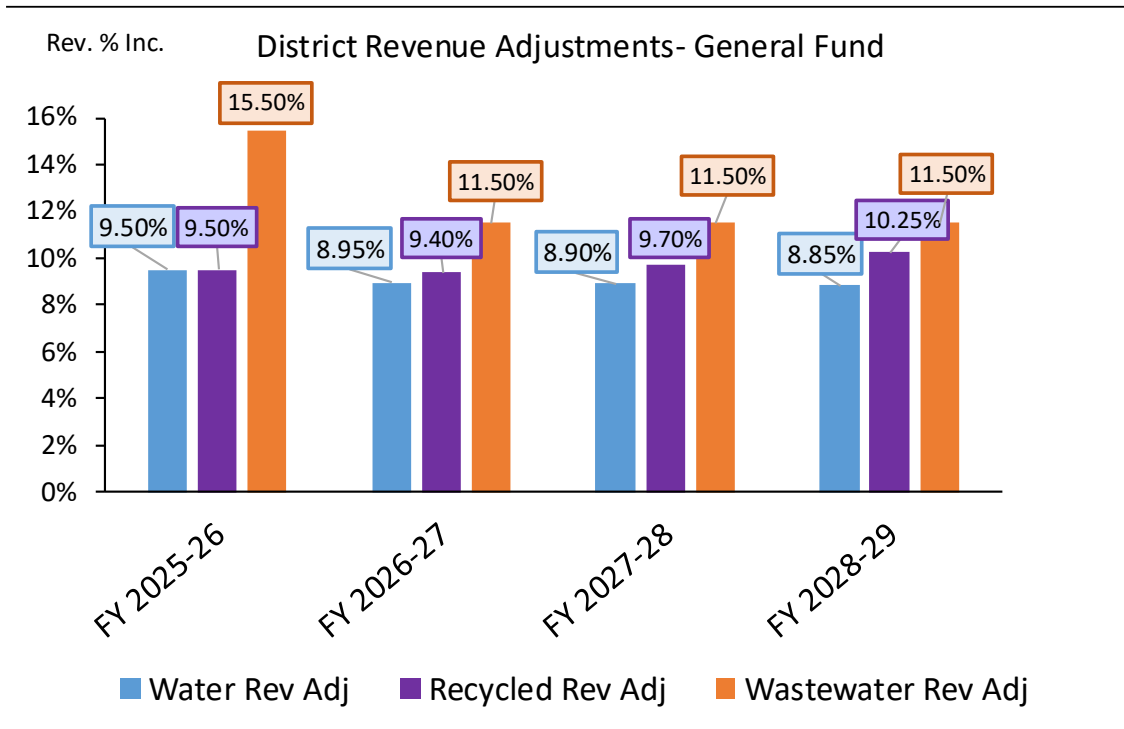
This Report confirms the recommendations detailed in the LRF Report which identified a financial strategy that minimizes annual rate impacts by utilizing a combination of planned spenddown remaining bond proceeds and existing cash balances and leveraging its strong credit ratings and available debt capacity to smooth out the immediate costs of long-lasting capital improvement projects.

This Report also confirms the recommended 4-year schedule of rate revenue adjustments for each of the District’s Systems. To meet current and projected General Fund revenue requirements, the proposed financial plan recommends an average annual rate revenue adjustment of 9.2 percent annually for the Potable Water System,

9.7 percent for the Recycled Water System, and 12.5 percent annually for the Wastewater System, which in the aggregate represents an average annual rate revenue increase of 10.5 percent.

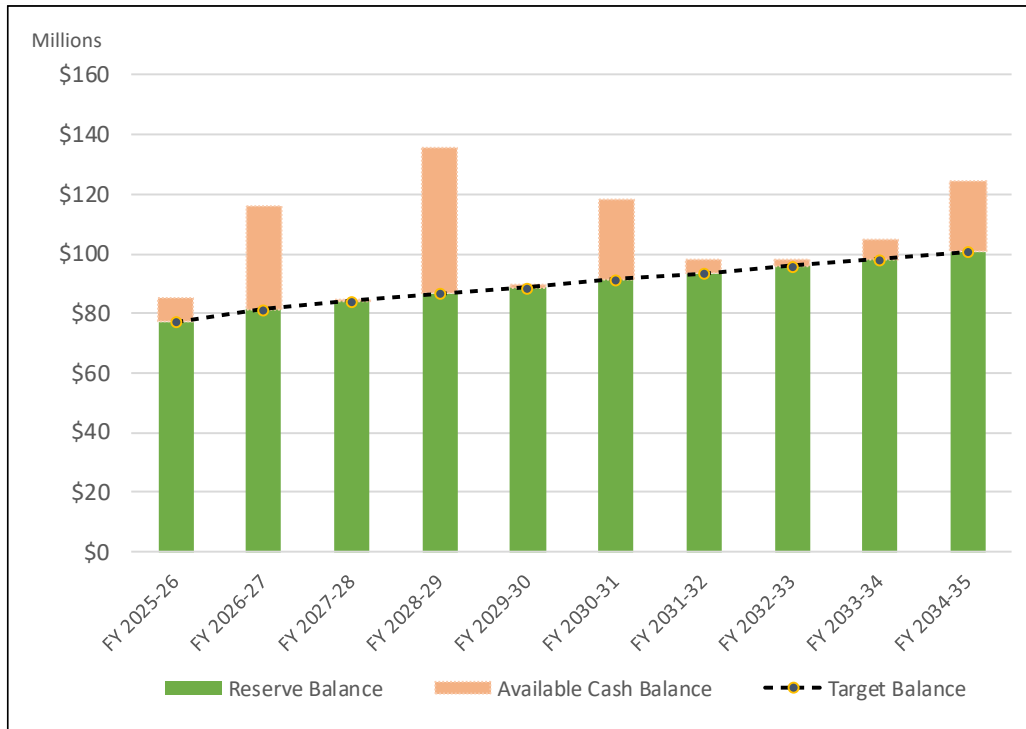
The specific year-over-year General Fund rate revenue adjustments for each system are shown in Figure ES-2.

Figure ES-2. General Fund Recommended Rate Revenue Adjustments for FY 2025-26 – FY 2028-29



As noted above, the recommended financial plan funds both near-term and future capital expenditures by continuing the planned spenddown of remaining bond proceeds and existing cash balances and leveraging the District’s strong credit rating and debt capacity to facilitate capital market financings. The District plans to spend down available cash balances as appropriate while maintaining reserve levels consistent with targets identified in the District’s adopted Reserve Policy. Figure ES-3 provides a 10-year forecast of the District’s General Fund reserve balance and available unrestricted cash balance under the recommended financial strategy.

Figure ES-3. General Fund Reserve Balance and Available Cash Balance, FY 2025-26 – FY 2034-35



Financial Plan – Water Efficiency (WE) Fund

As was done for the General Fund, an updated LRFP was developed for the WE Fund in which a 10-year forecast of operating and capital costs was created to understand the financial implications of the District’s water efficiency programs and objectives. A detailed discussion of the WE Fund’s financial plan can be found in APPENDIX A. Though similar methods were used to develop both plans, the underlying rationale for the WE Fund plan differs from that of the General Fund plan in that the WE Fund plan separately accounts for the costs associated with both inadvertent out-of-budget use associated with leaks and the potential long-term supply and reliability impacts attributable specifically to proportionally-higher inefficient water use.

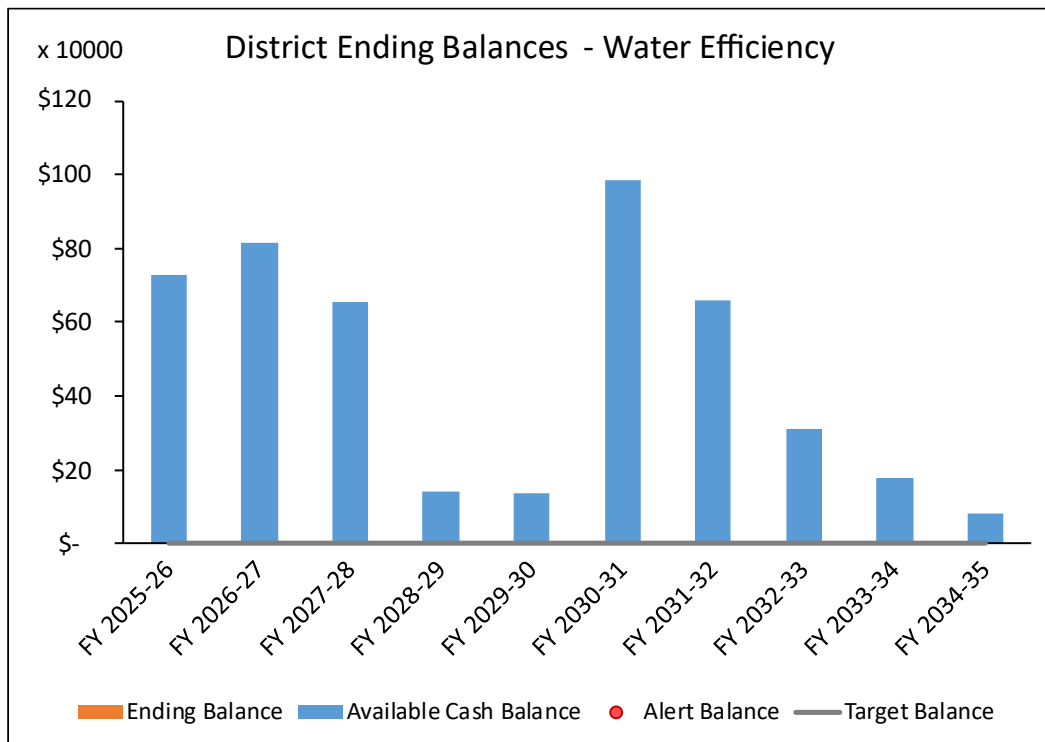
Each month, District customers receive a calculated water budget designed to meet their particular parcel’s proportional cost of service. Customers who use water in excess of their calculated water budgets place proportionally greater demands on the District’s Potable Water and Recycled Water systems and supplies. Those customers who use more than their calculated water budgets are therefore subject to higher water rates to offset the incrementally higher costs they create. The District ensures increased rates within each tier correspond to increasing marginal supply costs, and incremental revenues collected from higher tiers are used to fund alternative water supply planning and development, rebates, and demand management programs, which leads to an increase in the efficient use of water and offset the impacts of inefficient water use to existing supply reliability.

In addition to the costs associated with the ongoing management of the District’s water efficiency programs, capital costs associated with recycled water optimization projects have been allocated to the WE Fund to reflect

the increased supply reliability that recycled water provides by offsetting outdoor water demands that would otherwise be met with potable water. This approach also captures the water supply benefit to the District: reducing out-of-budget potable water use similarly reduces demand on limited potable supplies while reducing out-of-budget recycled water use further extends existing recycled supplies. The efficiency and rebate program costs allocated to each tier are spread over the total volume of water associated with that tier.

Based on the revenue requirements and anticipated spenddown rate of WE Fund balances, District staff is proposing an up-front to WE charges as part of the recommended four-year rate revenue adjustments, specifically, an increase of \$0.93 per average billing unit in additional rate revenues. This strategy is sufficient to avoid a negative fund balance in any one year of the financial planning period but will require a similar adjustment in the first year of the next rate cycle (FY 2029-30) and will draw the fund down over the 10-year planning horizon as shown in Figure ES-4.

Figure ES-4. WE Fund Available Cash Balance for FY 2025-26 – FY 2034-35



Cost-of-Service (COS) Analysis

The District’s Potable Water System provides service to several customer classes, specifically: **Single-family Residential** (individually metered residential households), **Multi-family Residential** (master-metered residential housing), **Commercial** (local businesses of varying size that may be either individually or master-metered, of which a small minority receives potable water for outdoor irrigation), **Potable Irrigation** (accounts associated with one or more meters dedicated exclusively for providing potable water to meet irrigation demands), and **Fire Protection** (accounts associated with a private property for which dedicated fire suppression infrastructure has

been installed and included in both prior and future fire flow capacity design considerations). The Recycled Water System serves, almost exclusively, **Recycled Irrigation** (accounts associated with one or more meters dedicated exclusively for providing recycled water to meet irrigation demands).

Though not subject to the provisions of California, Article XIII D, Section 6 (Proposition 218) because they are not imposed for a service related to the ownership of property, **Construction meters**, which temporarily connect to hydrants, are subject to California Constitution Article XIII C, Section 1(e) (Proposition 26) and are accounted for in the COS analysis to ensure a comprehensive cost nexus. These meters provide recycled and potable water to contractors, developers, or other construction-oriented customers who require a relatively large volume of water over a relatively short period of time and on an infrequent basis. To meet their needs, these customers acquire a temporary service connection from the District and are then charged the General Fund volumetric rate of their respective supply source based on the total volume delivered, as well as a monthly service meter fee, prorated over the period the temporary meter was in use.

The total rate revenue requirements shown in Table ES-1 below are determined by combining the O&M and capital costs, then subtracting the credits for non-rate revenues for each respective class. The values in the last column of the table are the rate revenue requirements by customer class. Note that the revenue requirements shown in Table ES-1 include both General Fund and WE Fund costs. Detailed discussion of the rate revenue requirements for the General and Water Efficiency Funds shown in Table ES-1 can be found in Sections 3.1, 3.2, and 3.4.

Table ES-1. FY 2025-26 Potable Water and Recycled Water Rate Revenue Requirement by Customer Class

	a	b	c	d=a+b+c	e	f=d+e
	Total O&M Revenue Requirements	Total Capital Revenue Requirements	Non-rate Revenue Credit	Total Rate Revenue Requirements	Reallocation of Public Fire Protection	Rate Revenue Requirements
Single-family Residential	\$43,186,575	\$11,274,978	(\$27,864,112)	\$26,597,442	\$571,640	\$27,169,081
Multi-family Residential	\$6,994,355	\$1,769,781	(\$4,619,729)	\$4,144,408	\$134,576	\$4,278,983
Commercial	\$6,116,025	\$1,633,407	(\$4,095,373)	\$3,654,060	\$99,501	\$3,753,561
Potable Irrigation	\$9,035,314	\$2,644,655	(\$4,862,354)	\$6,817,615	\$72,255	\$6,889,870
Recycled Irrigation	\$8,842,931	\$1,944,575	(\$3,481,619)	\$7,305,887	\$0	\$7,305,887
Construction Meter	\$57,995	\$14,372	\$0	\$72,367	\$0	\$72,367
Private Fire Protection	\$1,026,668	\$877,427	\$0	\$1,904,096	\$545,742	\$2,449,837
Public Fire Protection	\$642,929	\$780,785	\$0	\$1,423,713	(\$1,423,713)	\$0
Total	\$75,902,793	\$20,939,980	(\$44,923,186)	\$51,919,586	\$0	\$51,919,586

The differences in relative cost allocations between the current and proposed rate structures range from a 0.5 percent increase in Potable Irrigation share of total costs to a 0.5 percent decrease in Single-family Residential share of total costs based on the updated analysis of customer consumption patterns and demands placed on the systems.

Table ES-2 summarizes the adjustment of cost responsibilities among potable and recycled water customer classes recommended by the COS analysis.

Table ES-2. FY 2025-26 Potable and Recycled Water System Current vs. Proposed Cost Allocations by Customer Class

	a	b	c	d	e=c-a	f=d-b
Customer Class	Revenues under Current Rate Structure	Cost Distribution (%)	Revenues under Proposed Rate Structure*	Cost Distribution (%)	Cost Difference	% Difference
Single-family Residential	\$24,220,663	52.8%	\$27,194,945	52.4%	\$2,974,282	-0.5%
Multi-family Residential	\$3,810,341	8.3%	\$4,283,461	8.2%	\$473,120	-0.1%
Commercial	\$3,106,961	6.8%	\$3,757,390	7.2%	\$650,429	0.4%
Potable Irrigation	\$5,855,733	12.8%	\$6,895,227	13.3%	\$1,039,494	0.5%
Recycled Irrigation	\$6,626,787	14.4%	\$7,371,397	14.2%	\$744,610	-0.2%
Fire Protection	\$2,276,143	4.9%	\$2,449,837	4.7%	\$173,694	-0.2%
Total	\$45,896,628	100.0%	\$51,952,258	100.0%	\$6,055,630	

*Note: The proposed revenues shown in Table ES-2 differ slightly from those shown in Table ES-1 as a result of rounding in the cost-of-service process.

The methodology for allocating wastewater service costs is different from the COS methodology for water and recycled water due to the fundamental difference in cost drivers. Customer characteristics for the Wastewater System are measured in terms of estimated wastewater flows and sewage loadings. Sewage loadings are a measure of strength or concentration of the wastewater being discharged to the system. In addition to flow and strength, other cost drivers include bill processing, customer service, and other administrative services, which are primarily driven by the number of customers connected to the collection system. The District’s Wastewater System provides service to several customer classes, specifically: **Single-family Residential** (individually metered residential households), **Multi-family Residential** (master-metered residential housing), and **Commercial** (local businesses of varying size that may be either individually or master metered). Within the commercial customer class there are four subclasses of customers, based on the type of commercial activity and the strength of the wastewater that they discharge into the wastewater system.

The total rate revenue requirements are determined by combining O&M and capital costs, then subtracting the credits for non-rate revenues for each respective class. The total rate revenue requirements in the table below were used when calculating the wastewater rates (Table ES-3).

Table ES-3. Wastewater Rate Revenue Requirements by Customer Class

	a	b	c	d=a+b+c	e
	Total O&M Revenue Requirements	Total Capital Revenue Requirements	Non-rate Revenue Credit	Total Rate Revenue Requirements	Cost Allocation (%)
Single-family					
Residential	\$21,982,300	\$13,360,789	(\$9,136,521)	\$26,206,568	69.2%
Multi-family					
Residential	\$4,878,952	\$3,273,987	(\$2,090,945)	\$6,061,994	16.0%
Commercial 1	\$1,483,666	\$1,105,920	(\$623,387)	\$1,966,198	5.2%
Commercial 2	\$1,325,896	\$878,456	(\$519,489)	\$1,684,862	4.5%
Commercial 3	\$1,184,469	\$552,724	(\$357,149)	\$1,380,045	3.6%
Commercial 4	\$560,842	\$255,668	(\$259,745)	\$556,765	1.5%
Total	\$31,416,125	\$19,427,543	(\$12,987,236)	\$37,856,433	100.0%

As seen below in Table ES-4, the results of the COS analysis indicate that the differences in cost allocations between the current and proposed rate structures for the Wastewater System are minor ranging from a 0.2 percent increase in the Multi-family Residential and Commercial 1 customers’ cost allocation to a -0.4 percent decrease for the Commercial 3 customers’ allocation reflecting the relative changes in demands placed on the Wastewater System since the 2021 cost of service study.

Table ES-4. Wastewater System Current vs. Proposed Cost Allocation by Customer Class

	a	b	c	d	e=c-a	f=d-b
Customer Class	Revenues under Current Rate Structure	Cost Distribution (%)	Revenues under Proposed Rate Structure	Cost Distribution (%)	Cost Difference	% Difference
Single-family Residential	\$22,665,948	69.2%	\$26,206,568	69.2%	\$3,540,620	0.1%
Multi-family Residential	\$5,186,043	15.8%	\$6,061,994	16.0%	\$875,951	0.2%
Commercial 1	\$1,628,190	5.0%	\$1,966,198	5.2%	\$338,008	0.2%
Commercial 2	\$1,438,598	4.4%	\$1,684,862	4.5%	\$246,264	0.1%
Commercial 3	\$1,315,307	4.0%	\$1,380,045	3.6%	\$64,738	-0.4%
Commercial 4	\$542,045	1.7%	\$556,765	1.5%	\$14,719	-0.2%
Total	\$32,776,132	100.0%	\$37,856,433	100.0%	\$5,080,300	

Rate Recommendations

The District's rate schedule was designed to fully and proportionately recover rate revenue requirements consistent with the results of the COS analyses. The District's recommended rate schedule should support and optimize its objectives: compliance with all legal and regulatory standards, encourage efficient water use for the purpose of maintaining supply reliability, minimize adverse impacts to customers, and employ a reasonable and prudent means to assure revenue stability for the District. The recommended cost-of-service-based rate schedule should serve as an information tool in communicating these objectives to customers. This Report recommends retaining the same basic rate structure for water, recycled water, and wastewater rates and charges with the following modifications:

- 1) Average annual General Fund rate revenue increases of 9.05 percent, 9.7 percent, and 12.5 percent for the Potable Water, Recycled Water, and Wastewater Systems, respectively, for FY 2025-26 – FY 2029-30. These adjustments are necessary to ensure the amount of revenue collected meets the District's operational requirements, provides funding for investments in critical system infrastructure, addresses rising inflation and maintains the District's DSCR and reserve balance target.
- 2) Equally distribute the supply costs from Baker and Diemer to create a single "blended" supply consistent with the water that is delivered to individual customers.
- 3) This Report endorses the District's plan to allocate 97.0 percent of property tax revenue to potable water rates, and the remaining 3.0 percent will be applied to offset recycled water rates. This allocation acknowledges the continued District-wide benefit provided using recycled water and the costs incurred by customers who have converted to recycled water. When combined with other non-rate revenues, the allocated property tax revenues offset more than one third of the recycled water system's rate revenue requirements.
- 4) One-time increase of \$0.93 per average billing unit in FY 2025-26 to the WE Fund share of the rates for out-of-budget usage. This rate increase is required for the District to recover planned increases in rebate funding and water efficiency program participation and fund recycled water system expansions that increase water supply and reliability, which are particularly important considering the recent droughts, while maintaining a positive WE Fund balance during the study horizon.

Recommended Water & Recycled Water Rates

The District's fiscal year starts on July 1st and ends on June 30th; however, implementation of new rates will be scheduled on January 1, 2026, and January 1st of each subsequent calendar year (CY) through the CY commencing January 1, 2029. The proposed potable water and recycled water rate schedules for CY 2025 – CY 2029 are summarized in Section 4. The recommended CY 2026 rate schedules for Water and Recycled Water are summarized in the table below in comparison with the current rates. The recommended rate schedules were designed to meet the COS results by customer class of each system. The rates were designed such that anticipated revenues were calculated to meet each customer class's revenue requirement based on current and projected water use patterns.

Table ES-5 and Table ES-6 present a comparison of the existing and recommended water service charges by meter sizes and customer classes, and water usage rates by tier and customer classes respectively.

Table ES-5. Recommended Monthly Water Service Charges for Potable and Recycled Water Customers (\$/Meter Size in Inches)

Meter Size	Single-family Residential		Multi-family Residential		Commercial		Potable Irrigation		Recycled Irrigation	
	Current	Proposed	Current	Proposed	Current	Proposed	Current	Proposed	Current	Proposed
5/8"	\$10.54	\$11.13	\$10.97	\$12.31	\$3.98	\$5.11	\$17.03	\$21.83	\$17.03	\$21.83
3/4"	\$10.54	\$11.13	\$10.97	\$12.31	\$3.98	\$5.11	\$17.03	\$21.83	\$17.03	\$21.83
1"	\$10.54	\$11.13	\$10.97	\$12.31	\$3.98	\$5.11	\$17.03	\$21.83	\$17.03	\$21.83
1 1/2"	\$35.11	\$36.38	\$23.50	\$25.76	\$13.27	\$17.03	\$56.75	\$72.76	\$56.75	\$72.76
2"	\$56.18	\$58.03	\$34.24	\$37.29	\$21.24	\$27.24	\$90.80	\$116.41	\$90.80	\$116.41
3"	\$122.92	\$126.60	\$68.26	\$73.82	\$46.46	\$59.60	\$198.64	\$254.68	\$198.64	\$254.68
4"	\$210.71	\$216.81	\$113.01	\$121.87	\$79.65	\$102.16	\$340.52	\$436.58	\$340.52	\$436.58
6"	\$438.98	\$451.37	\$229.37	\$246.81	\$165.94	\$212.84	\$709.42	\$909.55	\$709.42	\$909.55
8"	\$632.12	\$649.84	\$327.83	\$352.53	\$238.96	\$306.48	\$1,021.56	\$1,309.74	\$1,021.56	\$1,309.74
10"	\$1,018.42	\$1,046.78	\$524.75	\$563.97	\$384.99	\$493.78	\$1,645.85	\$2,110.15	\$1,645.85	\$2,110.15

Table ES-6. Recommended Water Usage Rates for Potable and Recycled Water Customers (\$/hcf)

Tiers	Single-family Residential		Multi-family Residential		Commercial		Potable Irrigation		Recycled Irrigation	
	Current	Proposed	Current	Proposed	Current	Proposed	Current	Proposed	Current	Proposed
Tier 1	\$2.38	\$2.76	\$2.38	\$2.76	\$2.70	\$3.34	\$2.70	\$3.34	\$2.70	\$3.34
Tier 2	\$2.70	\$3.34	\$2.70	\$3.34	\$4.36	\$4.75	\$4.36	\$4.75	\$4.36	\$4.75
Tier 3	\$4.36	\$4.75	\$4.36	\$4.75	\$7.15	\$7.26	\$7.15	\$7.26	\$7.15	\$7.26
Tier 4	\$7.15	\$7.26	\$7.15	\$7.26	\$11.04	\$11.31	\$11.04	\$11.31	\$11.04	\$11.31
Tier 5	\$11.04	\$11.31	\$11.04	\$11.31						

The District also has a monthly service charge for Private Fire Protection based on connection size. These charges are reflected below in Table ES-7.

Table ES-7. Current vs. Proposed Monthly Charges for Private Fire Protection

Connection		\$/Connection		Connection		\$/Connection	
Size	Current	Proposed	Size	Current	Proposed		
5/8"	\$5.95	\$6.38	3"	\$69.36	\$74.42		
3/4"	\$5.95	\$6.38	4"	\$118.90	\$127.58		
1"	\$5.95	\$6.38	6"	\$247.71	\$265.78		
1 1/2"	\$19.82	\$21.26	8"	\$356.71	\$382.73		
2"	\$31.71	\$34.02	10"	\$574.70	\$616.62		
2 1/2"	\$50.52	\$54.21					

Recommended Wastewater Rates

The Wastewater System is comprised of Single-family Residential, Multi-family Residential, and Commercial customers. Commercial customers are assigned to one of the four classes described below based on business activity, and the rates for each of the Commercial customer classes are based on strength assumptions for their type of business. Using the results of the COS analysis, the District recommends the following wastewater rate schedule based on meter and household size (Table ES-8).

Table ES-8. Wastewater Variable Charges and Meter Charges (\$/Meter Size in Inches) Current vs. Proposed by Customer Class

Single-family Residential			Multi-family Residential		
Meter Size	Current	Proposed	Meter Size	Current	Proposed
Variable Rates (\$/Person in Household)	\$5.97	\$5.89	Variable Rates (\$/Person in Household)	\$5.97	\$5.89
5/8"	\$22.37	\$28.88	5/8"	\$25.62	\$33.70
3/4"	\$22.37	\$28.88	3/4"	\$25.62	\$33.70
1"	\$22.37	\$28.88	1"	\$25.62	\$33.70
1 1/2"	\$22.37	\$28.88	1 1/2"	\$77.32	\$100.85
2"	\$22.37	\$28.88	2"	\$121.63	\$158.41
3"	\$22.37	\$28.88	3"	\$261.98	\$340.70
4"	\$22.37	\$28.88	4"	\$446.62	\$580.52
6"	\$22.37	\$28.88	6"	\$926.72	\$1,204.10
8"	\$22.37	\$28.88	8"	\$1,332.94	\$1,731.73
10"	\$22.37	\$28.88	10"	\$2,145.40	\$2,787.00

Meter Size	Commercial 1		Commercial 2		Commercial 3		Commercial 4	
	Current	Proposed	Current	Proposed	Current	Proposed	Current	Proposed
5/8"	\$29.11	\$35.72	\$67.68	\$79.95	\$146.70	\$154.86	\$166.18	\$171.68
3/4"	\$29.11	\$35.72	\$67.68	\$79.95	\$146.70	\$154.86	\$166.18	\$171.68
1"	\$29.11	\$35.72	\$67.68	\$79.95	\$146.70	\$154.86	\$166.18	\$171.68
1 1/2"	\$88.95	\$107.57	\$217.50	\$255.01	\$480.86	\$504.66	\$545.80	\$560.74
2"	\$140.24	\$169.16	\$345.93	\$405.07	\$767.33	\$804.53	\$871.24	\$894.26
3"	\$302.68	\$364.23	\$752.67	\$880.33	\$1,674.57	\$1,754.23	\$1,901.90	\$1,950.52
4"	\$516.39	\$620.87	\$1,287.77	\$1,505.58	\$2,868.13	\$3,003.66	\$3,257.82	\$3,340.14
6"	\$1,072.07	\$1,288.15	\$2,679.13	\$3,131.32	\$5,971.57	\$6,252.33	\$6,783.43	\$6,953.35
8"	\$1,542.25	\$1,852.75	\$3,856.39	\$4,506.90	\$8,597.47	\$9,001.12	\$9,766.54	\$10,010.58
10"	\$2,482.62	\$2,981.99	\$6,210.98	\$7,258.14	\$13,849.41	\$14,498.85	\$15,732.92	\$16,125.21

Conclusion

This Report confirms the COS analysis and proposed rate structures were developed by the District using methodologies aligned with industry-standard practices for rate setting as summarized by the AWWA and WEF and all applicable laws, including California Water Code Section 372 et seq., Article XIII D Section 6 and Article X, Section 2 of the California Constitution.

The District’s water budget-based rate structure has proven to be an effective demand management tool, allowing the District to equitably achieve reliability objectives by appropriately attributing the costs of inefficient water use. The tiered rate structure creates a strong price signal to customers who have exceeded their budgets, and the share of rate revenues collected for out-of-budget usage are reinvested in programs and rebates to help those same customers stay within budget to offset water supply reliability impacts and develop additional water resources. Rates within each tier are established to recover marginal costs associated with increased water use and do not exceed the proportional cost of service within each tier.

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1. INTRODUCTION

Moulton Niguel Water District, with legal support from BBK and technical support from B&V, has prepared this Long Range Financial Plan, Cost of Service, and Rate Design Report (Report) for the District's Potable Water, Recycled Water, and Wastewater Systems. MNWD staff developed recommendations for rates and charges while BBK and B&V conducted an extensive review to ensure that recommended rates and charges reflect the proportional costs of providing service to specific classes of customers. If approved at the December 2025 public hearing, the recommended rates would take effect on January 1, 2026.

The District operates three utility services: (1) potable water distribution (Potable Water System), (2) recycled water distribution (Recycled Water System), and (3) wastewater collection and treatment (Wastewater System), collectively the "Systems." This Report presents the three components of an effective financial and service-pricing plan—the long-range financial plan, the cost of service analysis, and the rate design—culminating in a recommendation for four-year rate schedules for each of the District's three systems.

1.1. System Overview

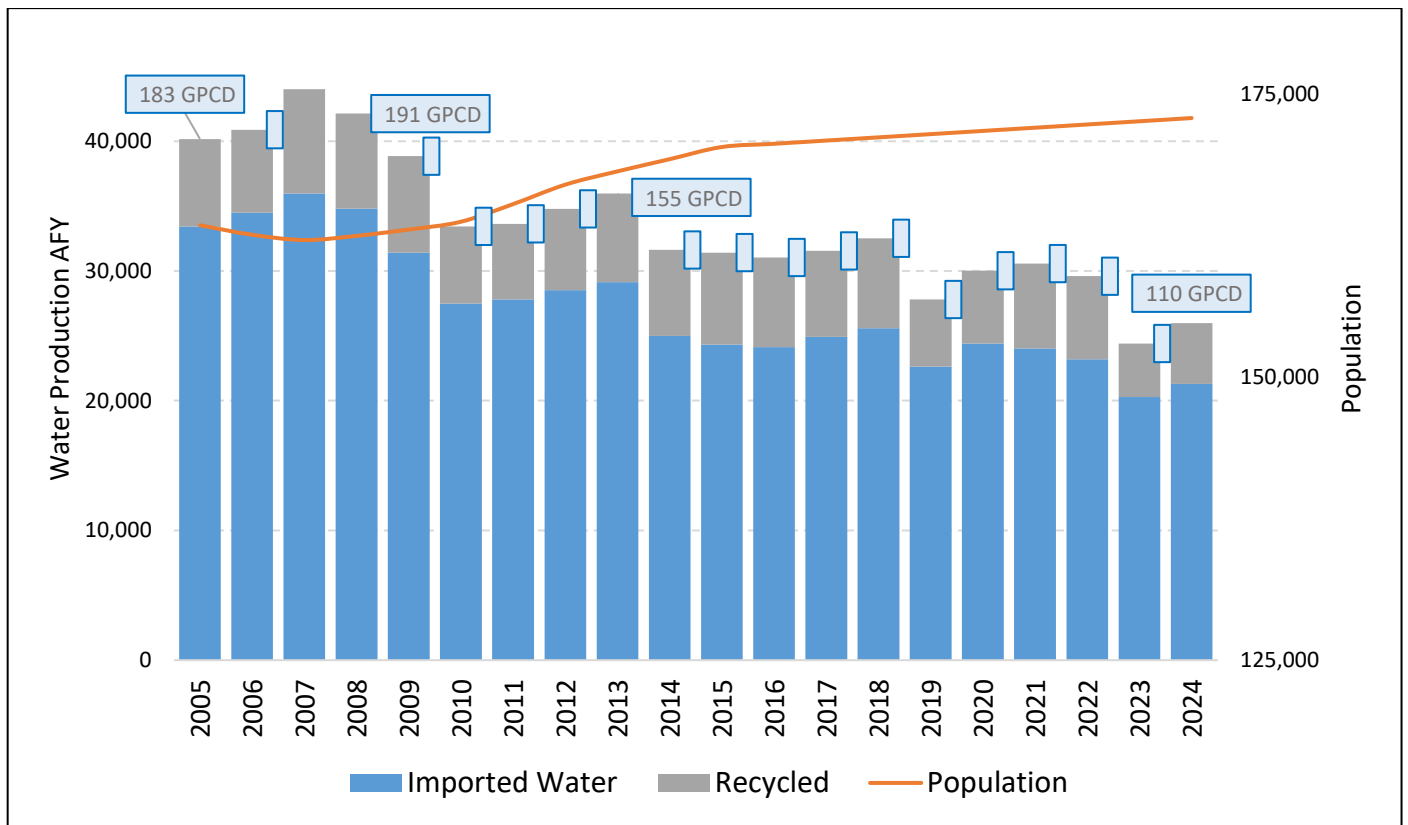
MNWD was formed in November 1960 under provisions of the California Water District Law, Division 13 of the Water Code. In 1964, the District began operation and management of wastewater services previously provided by the County of Orange. MNWD expanded to provide recycled water for irrigation in 1974. Today, MNWD provides potable water, recycled water, and wastewater services to over 170,000 residents and 6,000 businesses within a 37-square-mile service area in South Orange County. Cities within the service area are Aliso Viejo, Laguna Niguel, Laguna Hills, and Mission Viejo, as well as portions of the Cities of Dana Point and San Juan Capistrano. The District's potable water supply is provided by Metropolitan Water District of Southern California (MWDSC) from two principal sources – the Colorado River via the Colorado Aqueduct and the Feather River Watershed/Lake Oroville in Northern California through the State Water Project (SWP) and delivered to the District by the Municipal Water District of Orange County (MWDOC). Through MWDOC the District purchases both treated water from the Diemer Water Treatment Plant (Diemer WTP) in Yorba Linda and untreated water which is then treated at the Baker Water Treatment Plant (Baker WTP) in Lake Forest.

In 2005, MNWD's potable water purchases were 33,436 AF and recycled water production was 6,741 AF for a total annual water usage of 40,177 AF. The current four-year average (FY 2022-23 to FY 2024-25) potable purchases are at 20,791 AF and 5,257 AF for recycled water production, totaling 26,048 AF average annual usage. This 10.2% decrease in total water usage is due to effective water efficiency programs, recycled water system expansion, advanced metering infrastructure, leak alerts via the customer portal, extensive rebate programs, and communication, outreach, and education programs which encourage customers to use water efficiently and effectively.

This dramatic decrease occurred even while the overall service area population increased 6 percent since 2005 (Figure 1-1).

As stewards of the water, wastewater, and recycled water systems and supplies ratepayers have invested in over the last 65 years, it is our responsibility to ensure the continued reliability of those investments. Ensuring continued system reliability through reinvestment in the District’s \$2 billion critical infrastructure has remained a priority: nearly 75% of the \$92 million in capital expenses budgeted for FY 2025-26 and 86% of the \$583 million ten-year Capital Financing Plan can be attributed to the replacement or refurbishment of existing infrastructure. Figure 1-1 shows the District’s water usage and supply as compared to population over the last 20 years.

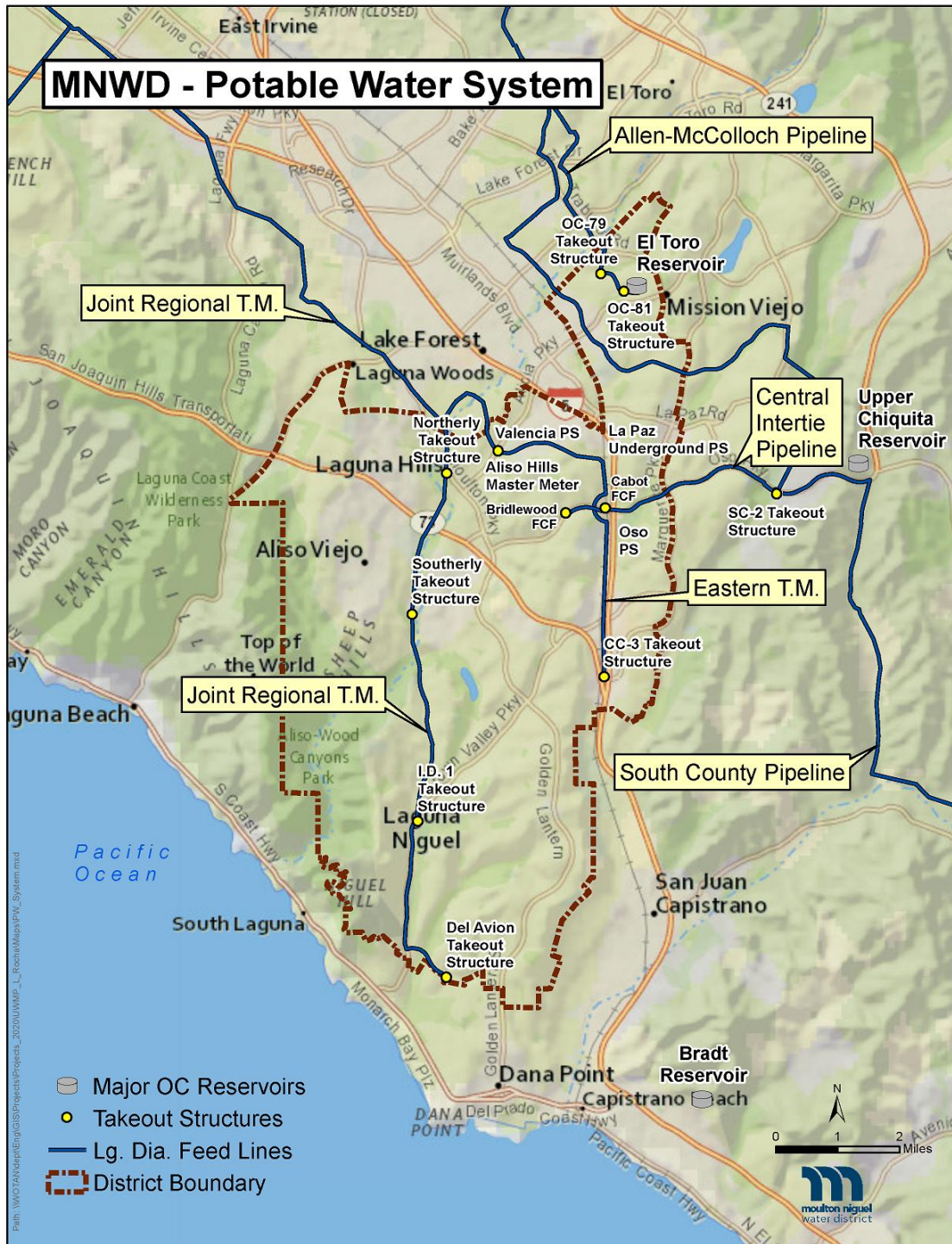
Figure 1-1. Historical Potable Water Purchases, Recycled Water Production, and Service Area Population, FY 2005-06 – FY 2023-24



1.1.1. Potable Water System

The District serves areas ranging in elevation from approximately 230 feet to 904 feet above mean sea level through various pressure zones. The District operates and maintains approximately 700 miles of potable water distribution pipelines. In addition, the District has 26 steel and 2 pre-stressed concrete operational storage reservoirs for a total potable water storage capacity within the District of approximately 173 million gallons. The District owns capacity rights in several adjoining water agencies' reservoirs and pipelines, such as: El Toro Water District R-6 Reservoir, Santa Margarita Water District (SMWD) Upper Chiquita Reservoir, Joint Transmission Main (a jointly owned pipeline between the District and other water agencies), Eastern Transmission Main (jointly owned by the District and the Santa Margarita Water District) and the South County Pipeline, which conveys water from the AMP to several south county water agencies. The District also operates 25 pump stations to pump potable water from lower pressure zones to the higher-pressure zones and 21 pressure reducing stations and flow control facilities to convey water from high to low zones. The Potable Water System currently distributes water to approximately 55,000 customer meters, approximately 51,000 of which also receive wastewater service. Average daily potable water demand during FY 2024-25 was approximately 19.1 million gallons per day (mgd). The District maintains approximately 7,200 public hydrants along with 16 pressure-reducing stations and flow control facilities. Figure 1-2 maps the service area, main takeout structures, pump stations, and reservoirs for the Potable Water System.

Figure 1-2. MNWD Potable Water System

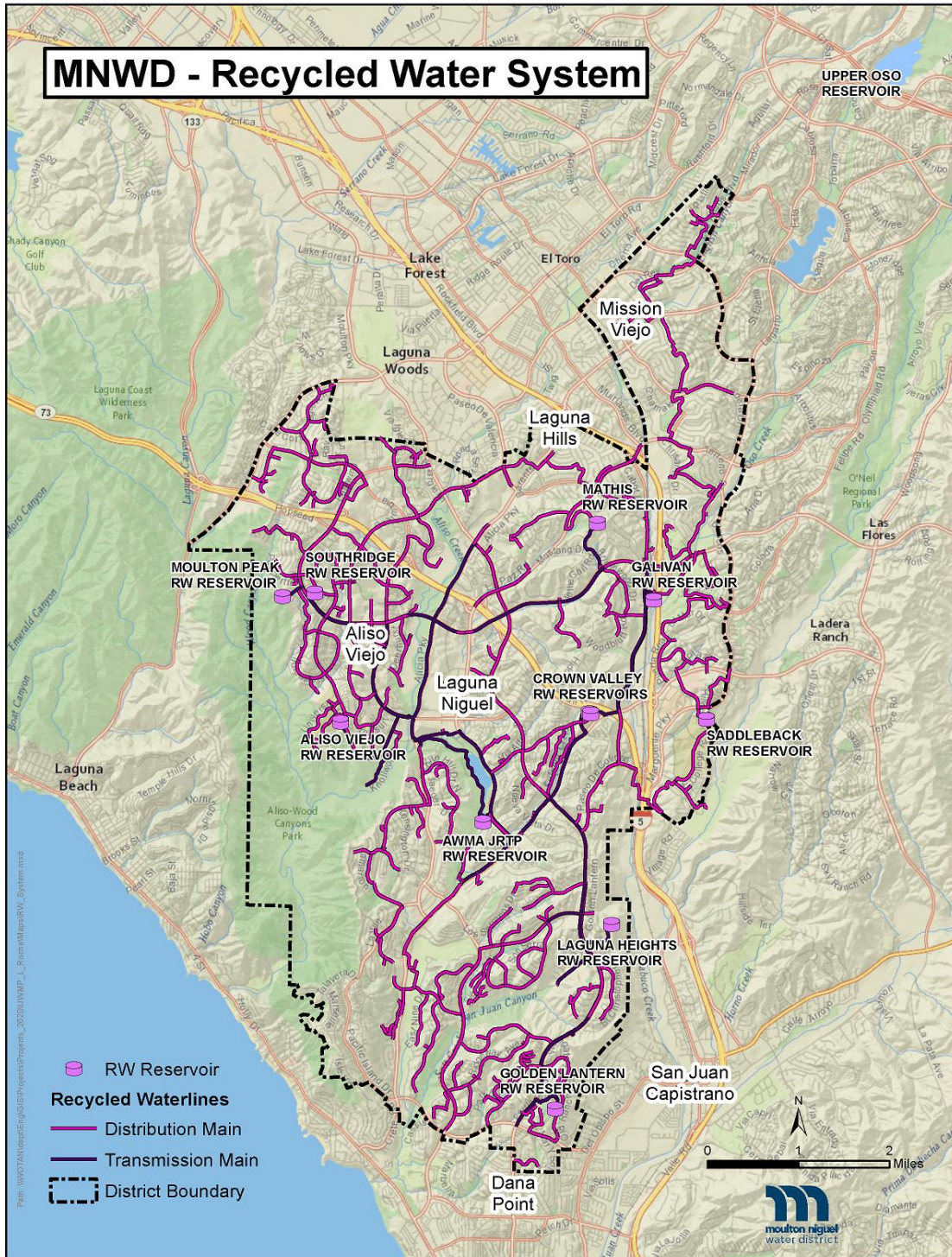


1.1.2. Recycled Water System

It is the policy of the District to promote the use of recycled water to provide for the reuse of all water resources, and to utilize this resource for any approved purpose to the maximum extent possible under the laws of the State of California. This practice reduces the demand for potable water and thereby enables the District to minimize the need to import water from other regions. In 1974, the District became one of the first water purveyors in Orange County to deliver recycled water for irrigation use. In 2020, MNWD supplied an average of 5.0 million gallons per day (MGD) of recycled water to 1,395 meters and currently has a tertiary recycled water treatment capacity of 11.4 MGD.

Today, the District owns capacity in two Advanced Wastewater Treatment (AWT) facilities which provide expansive recycled water service for landscaping. The District has constructed 150 miles of recycled water distribution pipelines with five pre-stressed concrete and six steel storage reservoirs to service the recycled water system. The District operates nine recycled-water pump stations. In addition, the District owns 1,000 acre-feet capacity rights in SMWD's Upper Oso recycled water reservoir. The projected annual demand for the recycled water system will hold steady over the next ten years, beginning in FY 2025-26. The District continues to target cost effective recycled water conversions, consistent with the findings from the Recycled Water Master Plan. Figure 1-3 maps the Recycled Water System's service area, recycled water reservoirs, and recycled waterlines including distribution and transmission mains.

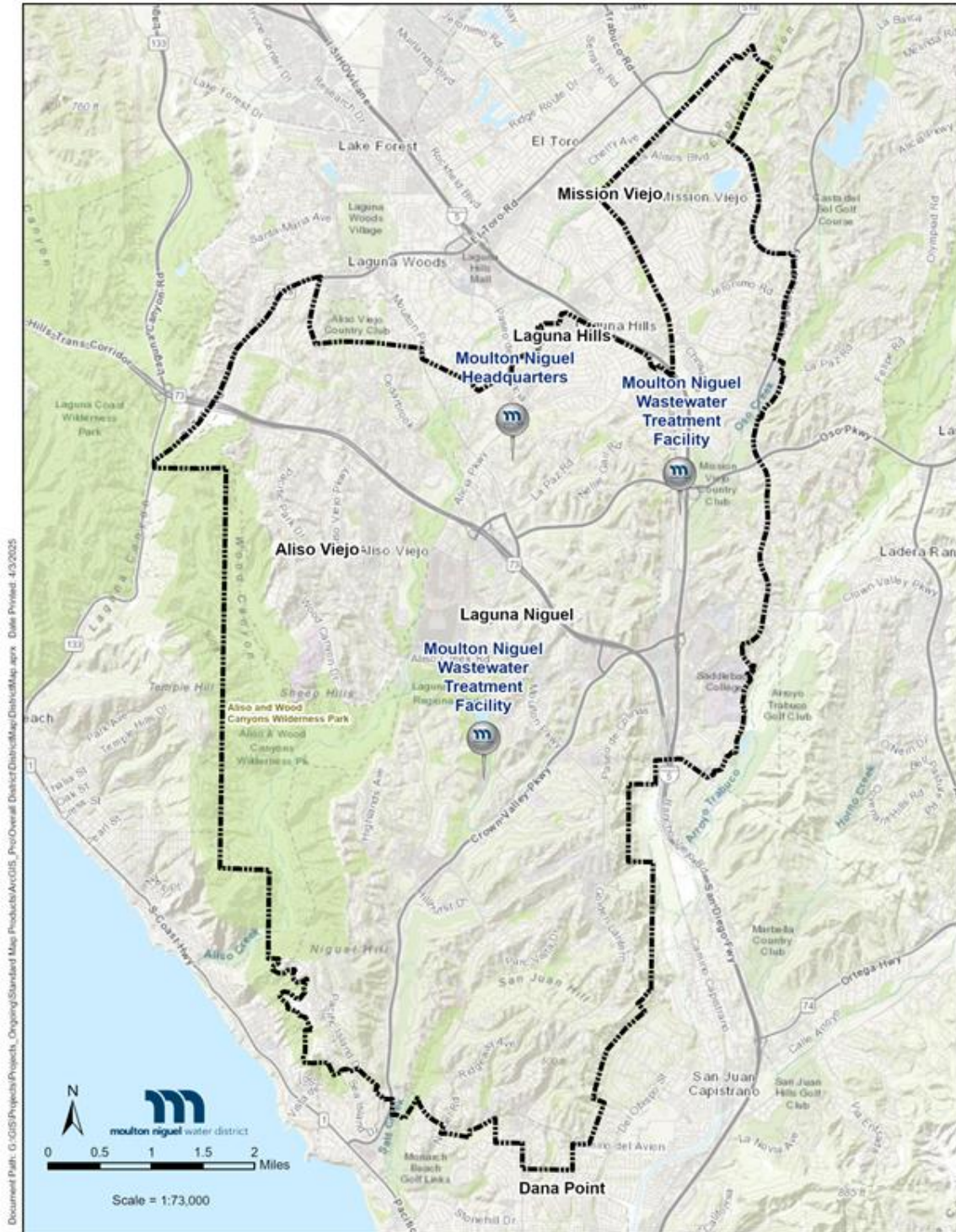
Figure 1-3. MNWD Recycled Water System



1.1.3. Wastewater System

The District operates two wastewater treatment plants, the Regional Treatment Plant and Plant 3A, which together treats approximately 85% of all wastewater generated by District customers and produces 100% of all recycled water used within the District's service area. The remaining 15% of wastewater is treated and disposed of by a neighboring agency via contract at the JB Latham Treatment Plant. The District's wastewater system has approximately 500 miles of wastewater pipelines and 17 lift stations that pump wastewater uphill to treatment plants for recycling or disposal. Capital investments in the wastewater system represent a significant portion of the overall capital improvement program for the upcoming year and through the planning horizon. Capital projects include comprehensive upgrades to the two wastewater treatment plants, replacement of critical pipelines, and major rehabilitation of lift stations to ensure reliable operation, conveyance and treatment of wastewater flow (as shown in the capital budget). The District also owns and operates the Advanced Wastewater Treatment (AWT) facilities located at the Regional Treatment Plant and Plant 3A. These facilities treat the secondary effluent water to Title 22 standards for recycled water, supplying up to 25% of the District's total water demands. In compliance with the State Water Resources Control Board's wastewater regulations, the District implements its Sewer System Management Plan (SSMP). The SSMP outlines the District's activities for operating and maintaining the wastewater collection system to mitigate any potential causes of a sanitary sewer overflow and includes elements such as the District's Sanitary Sewer Overflow Prevention Plan, Sanitary Sewer Overflow Response Plan, and pretreatment and engineering programs. The plan was updated most recently in July 2025.

Figure 1-4. MNWD Wastewater System



1.2. Project Methodology

The purpose of this analysis is to assess the District’s projected rate revenue requirements relative to its current rate revenue recovery. As graphed in Figure 1-1 in the previous section, the District’s potable water imports and sales have largely remained at the reduced levels experienced during the last drought with increases in FY 2020-21 being mostly attributable to weather and increased Single-family Residential demands resulting from COVID-19 related stay at home orders. Though its existing marginal cost-based rate structure insulates the District’s financial position from reductions in volumetric sales, these changes in water consumption patterns impact the distribution of revenue requirements among the District’s customer classes. Recognizing that customer demands have varied significantly among customer classes since the prior rate study due to businesses reopening after COVID-related closures, returning from work-from-home requirements, and a mix of both high precipitation and low precipitation years, this COS analysis used average water usage data calculated from actual billed consumption from July 1, 2022 to June 30, 2025 (FY 2024-25). Using an average of usage data over the entire four-year period captures a range of hydrologic conditions and minimizes the impact of periods of non-conventional water use.

Each System’s cost of service was allocated to each customer class utilizing a cost causative approach endorsed by the American Water Works Association (AWWA) M1 Principles of Water Rates, Fees, and Charges, Seventh Edition and Water Environment Federation’s (WEF) Financing and Charges for Wastewater Systems, WEF MOP 27: Manual of Practice No. 27. The recommended rate schedules comply with all requirements of California Constitution Article XIII D, Section 6 commonly referred to as Proposition 218. The recommended rates are designed to meet current and future revenue needs. The analysis includes three major components:

- The **Long-Range Financial Plan (LRFP)** develops detailed budget projections through FY 2034-35 for each of the District’s individual systems. This analysis incorporates the latest forecasts of water demands, operations and maintenance costs to ensure reliable potable water, wastewater, and recycled water services, capital investments in critical infrastructure, debt service, available cash and reserve balances, recycled water conversions, and changes in customer demand trends available in the District’s financial planning model. Non-rate revenues, which include property tax, investment income, and capacity fees are also forecasted for the study period.
- The **Cost of Service (COS) analysis** allocates the revenue requirements for a specific system, as projected in the LRFP, among that system’s customer classes in a multi-step process. For the selected **test year (FY 2025-26)**, the revenue requirements were broken down into major functional categories. For example, the water service functions include pumping, supply, storage, transmission, distribution, meters, fire protection, customer service, billing, and general administration. The District also allocates costs to functions within the Water Efficiency (WE) program, which includes rebate program administration, customer service, water reliability investments, efficiency device rebates, and landscape transformation (turf removal) rebates. The requirements were classified by function according to their peak and base characteristics as well as their relationship to general administration of the District, customer service, and fire protection needs. System capacity³ is designed to serve peak needs; for

³ System capacity is the System’s ability to supply water to all delivery points at the time demanded. Coincident peaking factors are calculated for each customer class at the time of greatest system demand. The time of greatest demand is known as peak demand. Both the operating costs and capital asset-related costs incurred to accommodate the peak flows are generally allocated to each customer class based upon the class’s contribution to the peak month, day, and hour event.

example, the need of the Potable Water System or Recycled Water System to supply potable and recycled water throughout the service area at the time of greatest demand, or the Wastewater System’s ability to collect wastewater at all collection points when demanded. The time of greatest demand is known as “peak demand.” A COS analysis will calculate both the average quantity of water consumed and the peak rate at which it is consumed, and the average quantity of wastewater discharged and the peak rate at which it is discharged. The District must construct infrastructure to deliver potable and recycled water and collect wastewater at peak times. The incremental costs associated with creating this above average peak capacity (peaking costs) include designing (i.e. sizing), constructing, and operating and maintaining the potable water, recycled water, and wastewater collection and treatment facilities. Because these peaking characteristics vary by customer class—both for infrastructure and operating capacity costs—the cost of service varies from one customer class to another. The classifications in this Report were accomplished by analyzing the characteristics of customer classes and their respective contribution to incurred costs. Specific consideration was given to differing delivery costs, peaking factors, service characteristics, and demand patterns for service. This included a review of such factors as system operations and usage data, peak demand relative to average demand, number of customers, customer service and accounting requirements, equivalent meter size, and fire flow capacity. The FY 2025-26 **test year** revenue requirements were then allocated by function and classification to each customer class to determine the cost of providing service to specific customer classes.

- Finally, the **Rate Design** addresses how rate revenues will be collected from each customer class in accord with its projected COS. The recommended rates encourage in-budget water use, minimize adverse impacts to customers, and provide reasonable and prudent revenue stability for the District while adhering to legal and regulatory standards (particularly California Constitution article XIII D, section 6).

The computed numbers for the purposes of this study are rounded to the nearest decimal points, and sums of these numbers may therefore not add up to totals.

1.3. Sources of Information Used in this Rate Study Report

Staff and B&V reviewed several District planning documents and draft reports during the course of this study. Where applicable, these are cited within the body of this report. A summary of key sources includes, but is not limited to:

- MNWD LRFP & COS FY 2025-26 Budget update model
- Detailed line- item budget for FY 2025-26;
- LRFP Report, attached as APPENDIX A;
- 10-Year Daily Demands through June 2025;
- Rate Study Report dated November 2021 (2021 Rate Study Report);
- Comprehensive Annual Financial Report for FY 2023-24;
- 2020 Urban Water Management Plan (UWMP);
- Comprehensive list of District assets as of June 2025;
- Debt repayment schedules as of June 2025;
- Reserve Policies (adopted annually, most recently June 2025);
- FOG (Fats, Oils & Grease abatement) program costs and list of registered accounts;
- AWWA M1 Manual; and
- MOP 27.

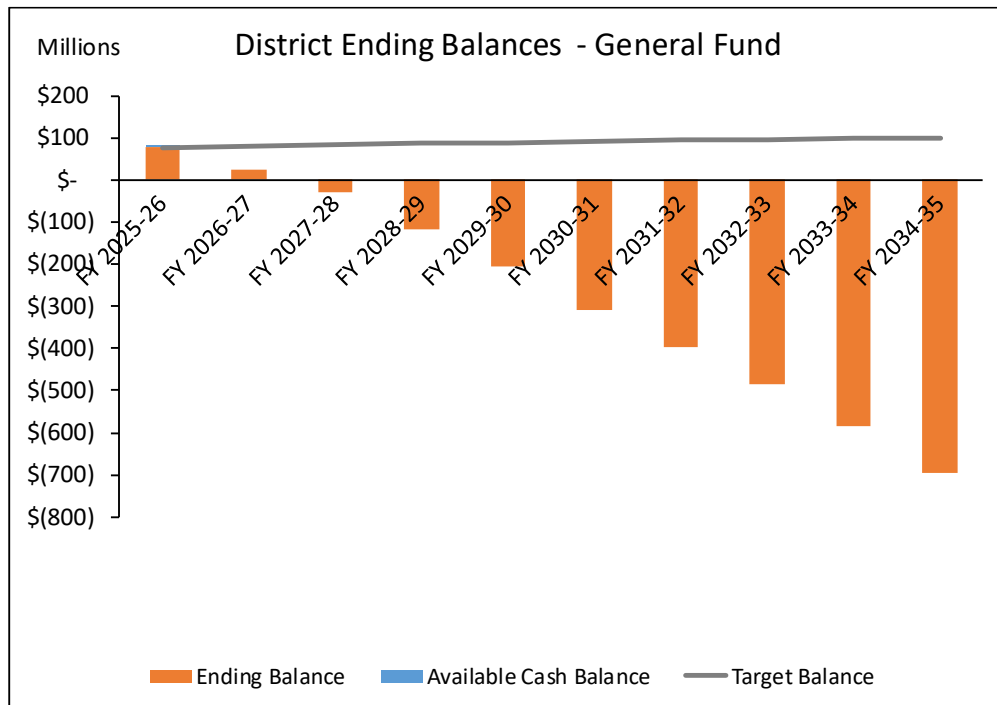
1.4. Acronyms and Abbreviations

AB	Assembly Bill
AF, AFY	Acre-Feet, Acre-Feet Per Year
AWWA	American Water Work Association
BOD	Biological Oxygen Demand
CIP	Capital Improvement Plan
COP	Certificates Of Participation (Debt Instrument)
COS	Cost Of Service
CY	Calendar Year (January 1 – December 31)
CPI	Consumer Price Index
DSCR	Debt Service Coverage Ratio
FEMA	Federal Emergency Management Agency
FOG	Fats, Oils, And Grease
FY	Fiscal Year (July 1 – June 30)
GO	General Obligation (Bond Type)
GPM	Gallons Per Minutes
GPCD	Gallons Per Capita per Day
hcf	Hundred Cubic Feet (Volume)
JRWSS	Joint Regional Water Supply System
LBS	Pounds
LRFP	Long Range Financial Plan
MG, MGD	Million Gallons, Millions of Gallons Per Day
mg/L	Milligrams Per Liter
MOU	Memorandum Of Understanding
MNWD	Moulton Niguel Water District
MWDSC/MET	Metropolitan Water District of Southern California
MWDOC	Municipal Water District of Orange County
O&M	Operation And Maintenance
R&R	Replacement And Refurbishment
B&V	Black & Veatch
SB	Senate Bill
SOCWA	South Orange County Water Authority
TSS	Total Suspended Solids
WBBRS	Water Budget-Based Rate Structure
WEF	Water Environment Federation
WE	Water Efficiency

2. FINANCIAL PLAN

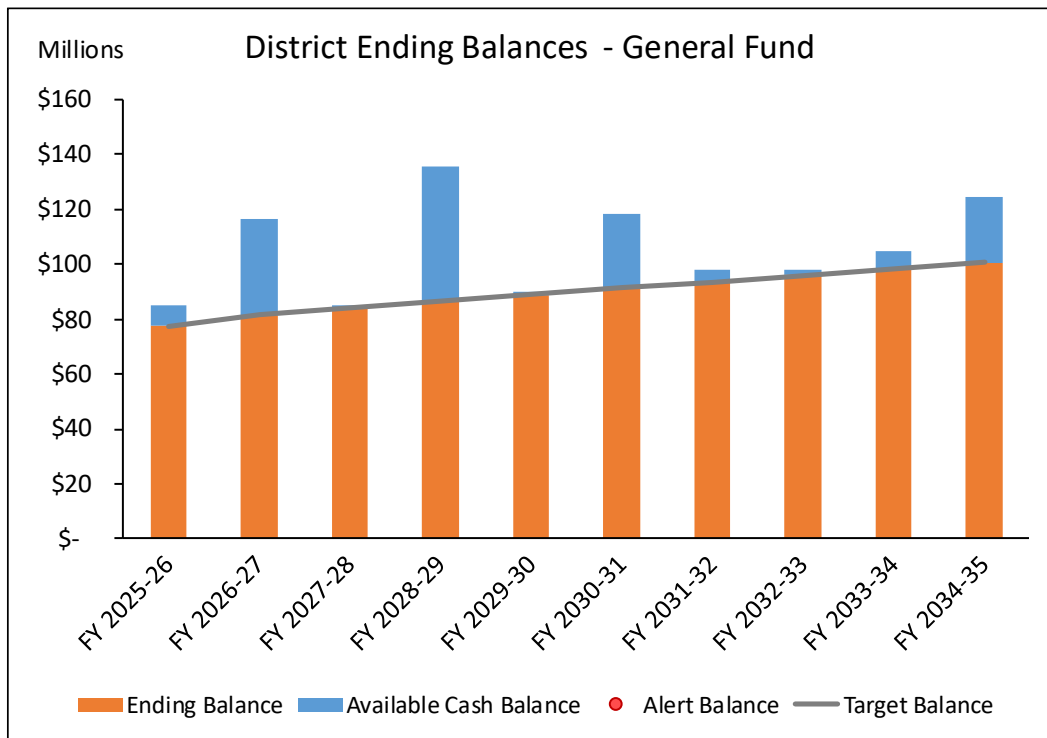
The District has maintained its strong financial position by planning and budgeting conservatively, funding adequate reserve balances, and sustaining a strong debt service coverage ratio (DSCR - the ratio of revenues net of expenses relative to the annual debt service payments). A major objective of the LRFP is to ensure that this strong performance continues through timely and thoughtful financial analysis and planning. Maintaining a strong financial position ensures that the District will have sufficient resources to continue the day-to-day operations of the Systems as well as be able to respond to unanticipated emergencies or infrastructure repair. The LRFP projects the District's future operating and capital investments in system infrastructure and identifies the rate revenue requirements necessary for the District to continue providing critical and reliable water, recycled water, and wastewater services over the 10-year forecast period from FY 2025-26 through FY 2034-35. The District has consistently implemented revisions to its financial plan to ensure continued stewardship of its customers' investments; however, the District's ability to continue providing essential services to its customers is wholly dependent on its ability to meet increasing operating and water purchase costs as well as the repair and maintenance needs of its infrastructure while addressing inflationary pressures and enhancing water efficiency programs to mitigate potential drought conditions and their long-term supply reliability impacts. The assumptions, conclusions, and recommendations identified in the LRFP have been incorporated into this Report. To demonstrate what is needed to achieve this goal, Figure 2-1 displays MNWD's General Fund cash balances when service rates for Potable Water, Recycled Water, and Wastewater Systems are held at current levels and no supplemental financings (such as bond issuances) are assumed over the next ten years.

Figure 2-1. District-wide General Fund Cash Balance Projections without Rate Revenue Adjustments and Supplemental Financings, Compared to the District's Target Reserve Balance, FY 2025-26 – FY 2034-35



After careful review and analysis of each component of the District’s financial plan, an overall 12.0 percent rate increase (9.5 percent for Potable and Recycled Water, and 15.5 percent for Wastewater) in FY 2025-26 followed by overall average increases of 10.0 percent through FY 2029-30 were identified as the necessary level of rate revenue adjustments, combined with anticipated capital market financings of approximately \$73 million in FY 2026-27, \$106 million FY 2028-29, and \$75 million in FY 2030-31, to meet the revenue requirements for the projected years. Figure 2-2 presents a 10-year forecast of the District’s General Fund cash balances with the proposed rate revenue adjustments as compared to the reserve targets⁴. An overall 10.3 percent average annual rate increase with supplemental financing will maintain the District’s General Fund unrestricted cash balance level above target throughout the 10-year period.

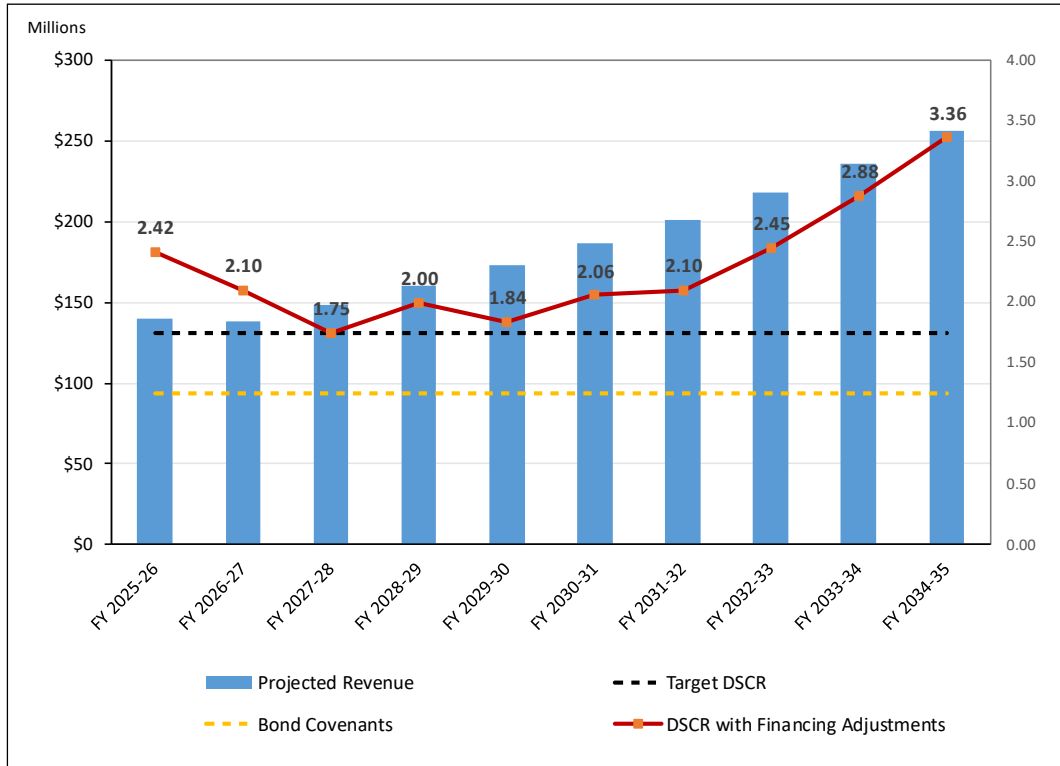
Figure 2-2. District-wide General Fund Cash Balance Projections with Rate Revenue Adjustments (Avg. 10.3 Percent) and Supplemental Financings, Compared to the District’s Target Cash Balances, FY 2025-26 to 2034-35



⁴ Reserve targets are established by the District’s Reserve Policy which is discussed in Section 2.3.

Figure 2-3 presents the District-wide General Fund rate revenues and DSCRs with 10.3 percent average annual rate revenue adjustment over the 10-year period, combined with anticipated capital market financings of approximately \$73 million in FY 2026-27 and \$106 million FY 2028-29 and \$75 million in FY 2030-31. With these adjustments, the District’s DSCR will remain above the District’s target rate of 1.75 throughout the projected years.

Figure 2-33. District-wide General Fund Rate Revenues and Debt Service Coverage Ratio (DSCR) with Proposed Rate Revenue Adjustments and Supplemental Financings, FY 2025-26 – FY 2034-35



This Report includes revenue requirements for two primary funds: the General Fund and the Water Efficiency Fund. The General Fund accounts for operation and maintenance of the Potable and Recycled Water Systems, Wastewater Collection System and Treatment Plants, as well as for planning and executing capital infrastructure projects for the three Systems. The Water Efficiency Fund is used for purposes related to water efficiency and water reliability projects. In this chapter, financial plans and revenue requirements are individually discussed for each system under the funding types: the Potable Water, Recycled Water, and Wastewater System under the General Fund (Sections 2.4–2.6), and the Potable Water and Recycled Water Systems under the Water Efficiency Fund (Section 2.7). The District’s DSCR and reserve levels are managed at the District- level and discussed in Sections 2.2 and 2.3, respectively.

The District’s comprehensive LRF model considers the costs of operations and maintenance (O&M), capital infrastructure, and debt, while also accounting for non-rate revenues, reserve targets, and financial performance metrics.

2.1. Modeling Assumptions

The 10-Year LRFPP employs assumptions to project future year revenues and expenses where budget projections are not available. The following assumptions were reviewed by District staff and B&V as part of the development of this Report. The test year cost-of-service analyses detailed in subsequent chapters of this Report are based on adopted FY 2025-26 budgets with adjustments in certain categories to account for net treatment plant costs, current levels of rebate participation, etc. This Report repeats information provided in the District's Long Range Financial Plan report, attached as APPENDIX A.

2.1.1. District-wide General Fund Financial Projections

The District operates as a self-sufficient enterprise that oversees the operations, maintenance, and rehabilitation and replacement of infrastructure needed to provide potable water, recycled water, and wastewater collection and treatment services to its customers. This autonomy allows the District to structure its costs to reflect its approach to management, planning and commitment to exemplary service while maintaining the lowest average bill in South Orange County.

The District's General Fund accounts for the programs and activities related to providing service for efficient use of the Potable, Recycled Water, and its Wastewater Systems.

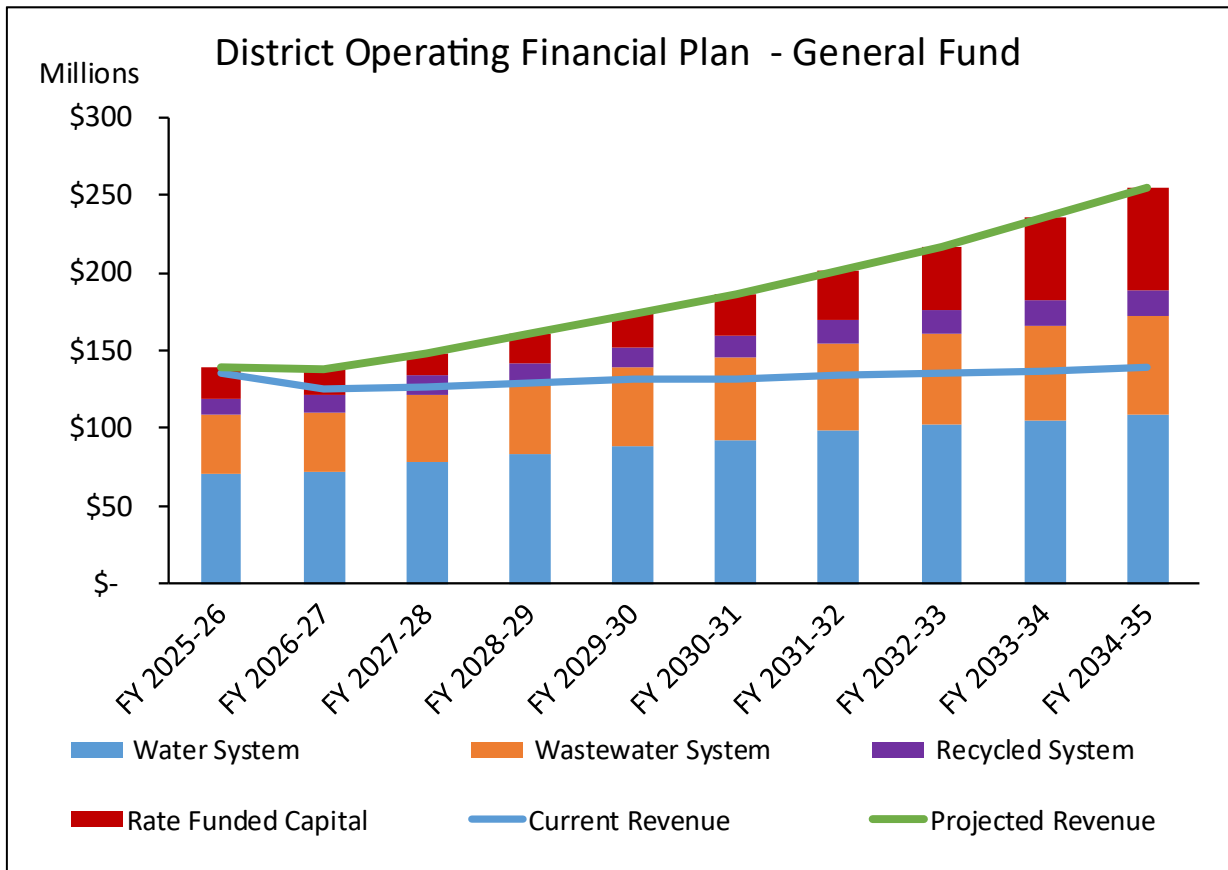
The District's General Fund revenue requirements can be organized into four components: O&M costs, capital investments into infrastructure (cash and debt service), reserve requirements, and debt service coverage ratio requirements. The former two components are described below, while the latter two components are described in Sections 2.3.1 and 2.2.

O&M Costs - This Report uses the District's adopted O&M budget for FY 2025-26. Operating costs beyond FY 2025-26 were calculated based on cost inflation assumptions (see Section 2.1.2) unless otherwise specified.

Capital Investments into Infrastructure - The District maintains a long-range fiscal perspective using its 10-year CIP to maintain the reliability of the District's Potable Water, Recycled Water, and Wastewater infrastructure. Capital spending has been projected through FY 2034-35, although it should be noted that spending projections beyond a five-year horizon are intended to reflect expectations of long-term revenue requirements and will be updated annually to reflect updated infrastructure investments.

Figure 2-4 presents the District’s General Fund revenue requirements alongside current and projected revenues, inclusive of recommended rate revenue adjustments for FY 2025-26 through FY 2028-29. As previously discussed, the projected rate revenue was computed based on a 10.3 percent average annual rate revenue adjustment over the 10-year period to fully recover revenue requirements. Water purchases are the District’s largest operating cost, representing a projected 35.5 percent of the General Fund’s total operating expenses for FY 2025-26.

Figure 2-44. General Fund Total Revenue Requirements and Total Current and Proposed Revenues, FY 2025-26 – FY 2034-35



2.1.2. Inflation Assumptions

The following describes the cost inflation factors that were applied to specific expenditure categories during the study period. All inflation factors are displayed in Table 2-1.

Table 2-1. Ten-Year Average of Inflation Assumptions for FY 2025-26 – FY 2034-35

Inflation Factors	FY 2025-26*	FY 2026-27	FY 2027-28	FY 2028-29	FY 2029-30	FY 2030-31	FY 2031-32	FY 2032-33	FY 2033-34	FY 2034-35
Operating Costs										
General	-	6.2%	5.8%	4.3%	7.1%	4.2%	4.9%	4.1%	4.6%	4.2%
Utilities	-	6.3%	8.7%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%
Chemicals	-	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%
Insurance	-	2.0%	1.8%	1.8%	1.8%	1.8%	1.8%	1.8%	1.8%	1.8%
Capital Costs										
District	-	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%

**FY 25-26 is based on the adopted budget and therefore not impacted by the inflationary assumptions used in the 2025 long-range financial planning methodology*

Operating Costs Inflation Assumptions

Inflation assumptions for costs related to operating the Potable Water, Recycled Water, and Wastewater Systems have been grouped into four distinct categories to reflect the different nature of the underlying costs. Inflation assumptions for water purchase costs are discussed in detail in a subsequent section.

1. *Operations - General:*

As part of the annual budget process, District staff develop department-level cost projections based on their anticipated work activity, contract terms, and other sector-specific trends which are then aggregated into District-level budget forecasts. The inflationary factors shown in Table 2 represent the expected year-over-year change in costs associated with materials, regulatory compliance and reporting, consulting support, engineering studies, planned infrastructure maintenance and emergency repairs, as well as the staffing resources needed to support those functions. For other non-specific expenses, the general inflation assumption is based on blended Consumer Price Index (CPI) data for Commodities, Durables, and Non-Durables (less food & beverages) for the Los Angeles area provided by the California Department of Finance. District staff feel this level of inflation is appropriate given that other major or more volatile cost categories are specifically defined.

2. *Operations – Utilities:*

Electricity dominates the District’s utility expenditure and electric utility rates are expected to rise approximately 5% based on the composite of the District’s electricity providers. The higher 6.3% and 8.7% for FY 2026-27 and 2027-28, respectively, reflect additional utilities costs associated with new salinity management processes in recycled water production. Recognizing that utility rates in Southern California have risen substantially in recent years, the District actively seeks to explore opportunities for enhancing cost management. Multiple projects in the FY 25-26 Capital Improvement Plan (CIP) budget involve the replacement of mechanical equipment where the new equipment, such as pumps and generators, will have a higher efficiency factor than existing equipment and are expected to result in reduced electricity consumption

associated with those assets. The test-year FY 25-26 budget included both the installation costs and the energy savings from the Micro-Hydro Turbine at Bridlewood FCF and Solar Panels at Headquarters Projects which will generate electricity to offset the impact of future electricity rate increases on total utilities' costs.

3. *Operations – Chemicals:*

The District has seen significant variability in chemicals costs associated with wastewater treatment at Plant 3A and the Regional Treatment Plant. Volatility in chemicals costs impacts the entire utility industry and given the exogenous nature of these costs, District staff have assumed a more conservative 5% annual inflationary rate.

4. *Operations – Insurance:*

Costs associated with *Operations – Insurance* consist of two categories:

- Premiums the District pays to insure its facilities and assets against damage or other loss. The District maintains several broad insurance policies through its membership with Association of California Water Agencies Joint Powers Insurance Authority (ACWA/JPIA). A hard excess insurance market has driven consecutive ACWA/JPIA rate increases in recent years for District insurance plans ranging from 10-20% each year. As a result, the premiums for insurance have increased substantially industry-wide, contributing to a 250% increase for the study base year compared to the adopted FY 2023-24 budget. This increase is largely believed to be a market correction and given JPIA's large risk-sharing pool and premiums-based incentives for reducing claims, inflation assumptions for all future years have been set equal to the general inflation assumption based on blended CPI data for Commodities, Durables, and Non-Durables (less food & beverages) for the Los Angeles area provided by the California Department of Finance as any future rate increases would likely be tied to new asset purchases.
- District's contribution to employee welfare and safety-net programs, such as: Workers' Compensation, Medicare, Federal Insurance Contributions Act (FICA), short and long-term disability, and State Unemployment Insurance. Workers' Comp. premiums for District employees are based on a formula that accounts for several operational factors that are intended to capture the relative claim risk among the ACWA/JPIA member agencies and allocates the total pool premium accordingly. The "Experience Modification Rate" or "E-Mod" reflects an agencies overall level of safety and is adjusted up or down annually based on the number and severity of claims. The District places significant emphasis on worksite safety and training for field staff and as a result, the District's E-Mod is 0.80, paying only 80% of the standard premium.

Capital Cost Inflation Assumptions

Costs for projects in the 10-year CIP are based on planning-level estimates which include contingencies that are intended to address assumptions about future materials and labor costs. Additionally, District staff have found that many construction projects often result in cost savings. Recognizing this, projected capital costs are not additionally inflated above levels already assumed in the developed estimates.

2.1.3. Water Supply Assumptions

Though all of the District's potable water deliveries are supplied by MWDSC through purchases furnished by MWDOC, they are segregated into two categories based on the water treatment facility and its associated costs. Baker WTP (a facility the District owns jointly with Santa Margarita Water District, El Toro Water District, Trabuco Canyon Water District, and Irvine Ranch Water District) treats raw MWDSC water and provides approximately one-third of the

District’s treated potable water (projected to be approximately 8,908 AFY). The remaining 13,536 AFY of potable water deliveries are treated at Diemer WTP.

Although the District’s demand for recycled water is expected to increase slightly as new services are connected to the Recycled Water System, existing recycled water customers responded to the 2011 - 2016 and 2020 - 2022 droughts by dramatically increasing their water efficiency and thereby decreasing their individual demands on the system. Recycled water use is assumed to account for approximately 20.6 percent of MNWD’s total treated/untreated water supply.

The current meter count for recycled water customers is 1,395, surpassing the count of dedicated potable irrigation customers’ total meter count as shown in Figure 2-5.

Figure 2-55. MNWD Water Supply and Customer Meter Counts FY 2025-26 – FY 2034-35

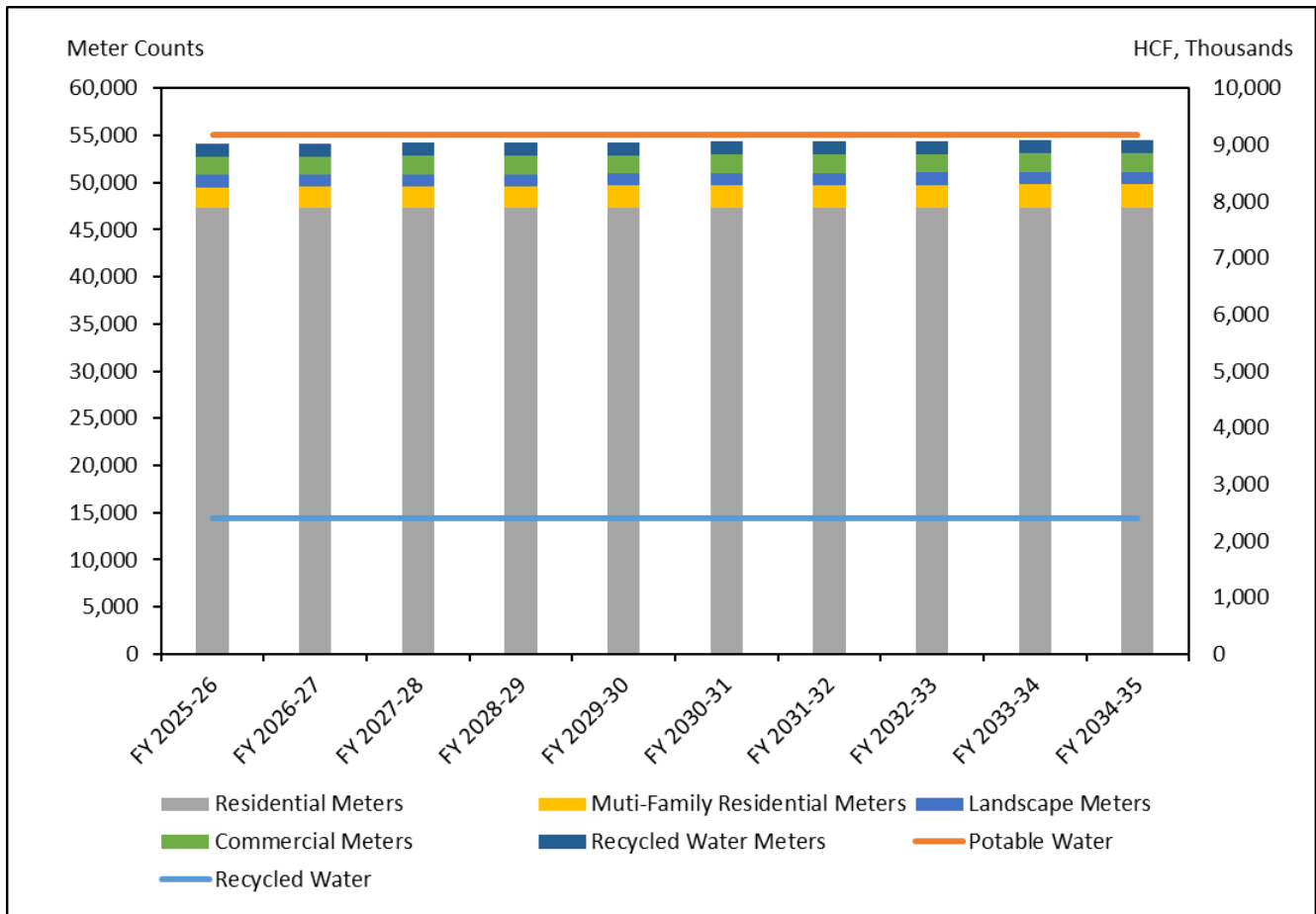


Table 2-2 presents a detailed breakdown of the component rates and charges of the two treated water supplies. The projected variable rates for deliveries from the Diemer WTP are represented by the “MWD Treated Variable Rate” and are based on projections of Treated Tier 1 water rates from MWDSC. The effective variable rates for deliveries from the Baker WTP are calculated as the sum of the “MWD Untreated Variable Rate” and “Baker Variable Costs”, which

captures both the purchase cost of raw water at MWDSC Tier 1 rates and the variable costs of treating the purchased raw water at the Baker WTP. The “Baker Fixed Costs” include both O&M and annual debt service payments attributable to the Baker WTP. The wholesale supply rates charged to the District are presented in detail in the Modeling Assumptions section of the LRFP, attached in APPENDIX A.

Table 2-2: Projected Water Supply Rates and Charges, FY 2025-26 - FY 2034-35

Projected Rates and Charges	FY 2025-26	FY 2026-27	FY 2027-28	FY 2028-29	FY 2029-30
MWD Treatment Variable Rate (\$/AF)*	\$1,455	\$1,614	\$1,775	\$1,877	\$1,949
MWD Untreated Variable Rate (\$/AF)*	\$960	\$1,070	\$1,231	\$1,331	\$1,401
Baker Variable Costs (\$/AF)	\$122	\$128	\$135	\$142	\$149
Baker Fixed Costs	\$957,134	\$1,004,990	\$1,055,240	\$1,108,002	\$1,163,402
MWD Readiness-to-Serve Charge*	\$2,073,574	\$2,172,841	\$2,724,324	\$3,066,243	\$3,220,658
MWD Capacity Charge*	\$556,524	\$579,552	\$767,619	\$905,791	\$1,032,448
MWDOC Annual Connection Charge	\$806,333	\$835,185	\$865,069	\$896,022	\$928,082

Projected Rates and Charges	FY 2030-31	FY 2031-32	FY 2032-33	FY 2033-34	FY 2034-35
MWD Treatment Variable Rate (\$/AF)*	\$2,031	\$2,101	\$2,191	\$2,271	\$2,354
MWD Untreated Variable Rate (\$/AF)*	\$1,475	\$1,538	\$1,599	\$1,659	\$1,723
Baker Variable Costs (\$/AF)	\$156	\$164	\$172	\$181	\$190
Baker Fixed Costs	\$1,221,572	\$1,282,651	\$1,346,783	\$1,414,122	\$1,484,828
MWD Readiness-to-Serve Charge*	\$3,275,806	\$3,408,162	\$3,551,548	\$3,816,259	\$3,968,910
MWD Capacity Charge*	\$1,120,724	\$1,205,162	\$1,255,057	\$1,312,629	\$1,365,134
MWDOC Annual Connection Charge	\$961,288	\$995,682	\$1,031,305	\$1,068,203	\$1,106,420

***MWD rates and charges shown are adjusted to an effective fiscal year rate based on adopted 10-year forecasts of MWD calendar year rates.**

In recent years, the District has taken several steps to reduce water loss, such as the development of a leak detection team and improvements to its meter testing program. Though these initiatives are still relatively new, the District has seen a decrease in water losses since 2017, with non-revenue water⁵ totaling 1,418 AF in FY 2024-25, down from 2,946 AF in FY 2016-17. The District’s Long Range Financial Plan assumes a water loss factor of 6.10 percent for the FY 2025-26 test year based on a typical weather year and continued expansion of the District’s meter testing program, leak detection efforts, and other water loss reduction programs.

⁵ Non-revenue water refers to water that enters the District’s system but is not captured as metered use due to such factors as system breaks or failing meters. Non-revenue water as a percent of volume of Water Supplied is reported annually to the State Water Resources Control Board as calculated using AWWA Free Water Audit Software.

The District has been proactive in its planning efforts to ensure water reliability. The District developed the 2020 Long-Range Water Reliability Plan to provide an adaptive management approach to reliability planning. This is a working document that the District recently updated to reflect the changed water demand assumptions that have persisted since the last drought emergency and any changes to the status of local supply projects. The District has continued to pursue expansion of its reuse programs through implementation of its Recycled Water Optimization Study and has initiated several planning studies to evaluate the OASIS Water Resources Center to further expand the District’s local water reliability. Other local efforts such as ocean desalination and transfers are also being closely monitored to determine the District’s and South Orange County interest in these types of alternative water supply projects.

2.1.4. Debt Financing Assumptions

In evaluating future financing needs, this analysis made assumptions regarding initial and ongoing costs associated with issuing debt. Table 2-3 summarizes the projected terms for debt issuance mechanisms that were considered as part of the LRF analysis. These were provided by District finance staff, in conjunction with the District’s Financial Advisors, based on recent experience, conservative estimates of long-term trends, and expected issuance costs for highly-rated municipal debt.

Table 2-3. Summary of Debt Financing Assumptions

Debt Mechanism	Interest Rate	Term (Years)	Issuance Cost
<i>Certificate of Participation (COP)</i>	3.5%	30	\$250,000

2.1.5. Existing Debt Service

As the District has developed over the past 65 years, issuing bonds has been a key strategy to expanding infrastructure across the service area while also keeping rates and charges affordable. Currently, the District has a portfolio of four issuances: the 2025 Certificates of Participation (2025 COPs), the 2021 Certificates of Participation (2021 COPs), the 2019 Certificates of Participation (2019 COPs), and the 2019 Revenue Refunding Bonds (2019 Refunding Bonds). Most recently, the District issued \$71,260,000 of 2025 Certificates of Participation. Due to favorable market conditions, the District issued at a premium and received approximately \$80 million in proceeds from the issuance which were used to finance the costs of acquiring and constructing replacements and upgrades to the District’s reservoir management system and pump stations, lift station enhancements, transmission main improvements, and other projects that have been identified as part of the District’s most recently adopted Capital Improvement Program.

In addition to supporting investments in new infrastructure, staff actively work with the District’s Financial Advisor to identify potential refunding opportunities to ensure that the debt portfolio is at optimal interest rates. On March 1, 2019, the District issued \$48.6 million of 2019 Refunding Bonds. Proceeds from the issuance were used to refund the 2009 Certificates of Participation federally taxable “Build America Bonds” and pay the cost of issuing the 2019 Refunding Bonds. The refunded COPs were originally issued to fund reliability improvements including Upper Chiquita Reservoir, expansion of the recycled water system, an interconnection to Irvine Ranch Water District, and to fund the District’s portion of the Baker Water Treatment Plant. These projects in total increased the District’s system reliability,

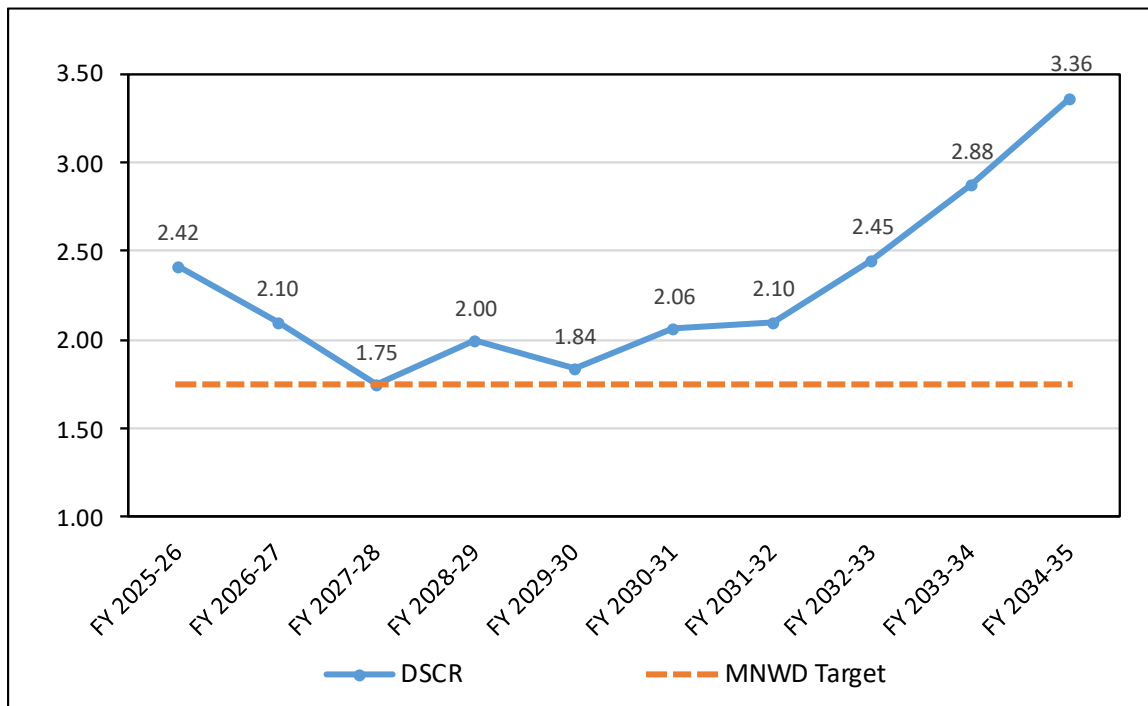
or ability to maintain service in the event of an outage at the Diemer Water Treatment Plant, from 2 days to almost 32 days on average, when coupled with the District’s demand management programs.

2.2. Capital Financing Policies – Debt Service Coverage Ratio (DSCR)

The District’s policy is to manage revenues and debt levels such that the District’s overall DSCR can be maintained above the Board adopted minimum target of 1.75, with a minimum of 1.25 required by bond covenants. DSCR is calculated as the ratio of net operating income to annual debt service payments, where net operating income is the District’s total annual income less operating expenses, and annual debt service is the total amount of all interest and principal to be paid in the respective year. It should be noted that, for added conservatism, the DSCR amounts shown in this report do not include revenues associated with the District’s WE Fund. Maintaining a coverage ratio at or above the target level allows the District to maintain a strong credit rating, which in turn gives the District the ability to borrow at low interest rates when needed. Historically, the District has regularly maintained DSCRs above 2.00 and is rated AAA by both S&P Global Ratings and Fitch Ratings. While the District requires each System to meet its individual financial obligations from a cost-of-service perspective, reserve levels and DSCR are managed at the District level, as finance markets in general would evaluate the District’s financial health as a whole. Therefore, the DSCR is not discussed at the individual System level in this Report. The District’s DSCR will continue to be above target levels through the projected 10-year period assuming the recommended annual rate revenue adjustments are approved.

Figure 2-6 displays the District’s DSCR for FY 2025-26 through FY 2034-35.

Figure 2-66. Debt Service Coverage Ratio (DSCR) for FY 2025-26 – FY 2034-35



2.3. Reserve Policies

The District has established reserves to mitigate risks associated with revenue and expense volatility and reduce potential unexpected and significant rate adjustments. The reserves help in maintaining the District's creditworthiness by providing adequate safeguards against economic uncertainty, natural disaster, extraordinary costs, or other emergency conditions. Reserves can be utilized when there are fluctuations in revenues such as reductions in property tax receipts, disasters or catastrophic events, losses not covered by insurance, compliance with bond covenants, and funding designated infrastructure replacement and refurbishment.

2.3.1. Reserves

The District currently maintains four types of reserves: a General Operating Reserve, a Self-Insurance Reserve, a Rate Stabilization Reserve, and an Emergency Reserve. The District's Board of Directors reviews the reserve policy annually as part of the budget adoption process. Each of these reserves is described below.

General Operating Reserve - The District maintains a General Operating Reserve to provide funding for sufficient liquidity and cash flow for operations on a day-to-day basis. Maintaining this reserve is key to managing routine delays between the payment of expenses and the receipt of revenues. The target balance of the General Operating Reserve will equal **three months of operating expenses**, consistent with industry best practices for agencies with monthly billing. Sufficient funding for the General Operating Reserve shall be identified at the beginning of each fiscal year and maintained within the General Fund.

Self-Insurance Reserve – This reserve is used to provide funding for expenses incurred by the District for the deductible amounts on insurance claims for repairs to facilities by outside contractors and expenses related to the State Unemployment Insurance for unemployment claims made against the District. The target amount of the Self-Insurance Reserve will equal **five times the current JPIA insurance deductible** (current deductible is up to \$50,000). Sufficient funding for the Self-Insurance Reserve shall be provided at the beginning of each fiscal year via budget transfers and maintained in the Self-Insurance Fund.

Rate Stabilization Reserve - The District maintains a Rate Stabilization Reserve to provide funding to smooth out potential fluctuations in water service rates of the District that may result from changes in wholesale water rates or unanticipated reductions in non-rate revenue. The target balance of the Rate Stabilization Reserve is set to be equal to **50 percent of the District's ad valorem property tax revenue**. The Rate Stabilization Reserve will be maintained in the Rate Stabilization Fund.

Emergency Reserve - The Emergency Reserve will provide funds to enable the District to quickly repair critical assets in the event of a natural disaster or facility failure. The target balance of the Emergency Reserve will equal **2% of the anticipated replacement costs of the District's critical assets**, as outlined in current guidelines from the Federal Emergency Management Agency (FEMA). The Emergency Reserve is maintained within the General Fund. Table 2-4 presents FY 2025-26 MNWD reserve targets.

Table 2-4. FY 2025-26 Reserve Targets

Type	Target
General Operating	\$ 23,431,481
Self-Insurance	\$ 250,000
Rate Stabilization	\$ 18,619,038
Emergency	\$ 35,300,000
Total Reserves	\$ 77,600,519

Note: Reserve Targets are based on the District’s FY 2025-26 budget.

2.4. Potable Water System General Fund Financial Plan

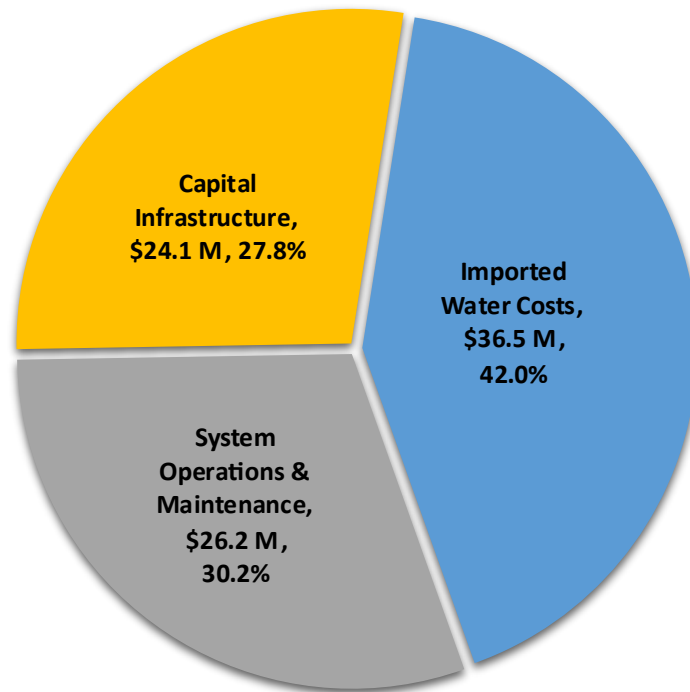
The following describes the revenue requirements over the next ten years for the Potable Water System. All cost projections are based on the District staff’s best available data on wholesale water costs, future operational needs, projected water demands, and delivery cost escalation.

2.4.1. Potable Water Total System Cost

Figure 2-7 displays the cost distribution of the Potable Water System costs for test year FY 2025-26, which amounts to approximately \$86.8 million based on the District’s adopted FY 2025-26 operating and capital budgets. The largest costs are **Imported Water Costs**, which amount to \$36.5 million and represent 42 percent of the total Potable Water System cost, followed by **Capital Infrastructure Investments** which includes current capital project costs to address critical water and fire protection infrastructure and bond payments for prior capital investments (estimated to be \$24.1 million representing 27.8 percent of the total Potable Water System cost). **System Operations & Maintenance** account for the remaining \$26.2 million (30.2 percent) of Potable System costs. As noted previously, these amounts represent only the General Fund costs and exclude any costs associated with the Water Efficiency Fund.

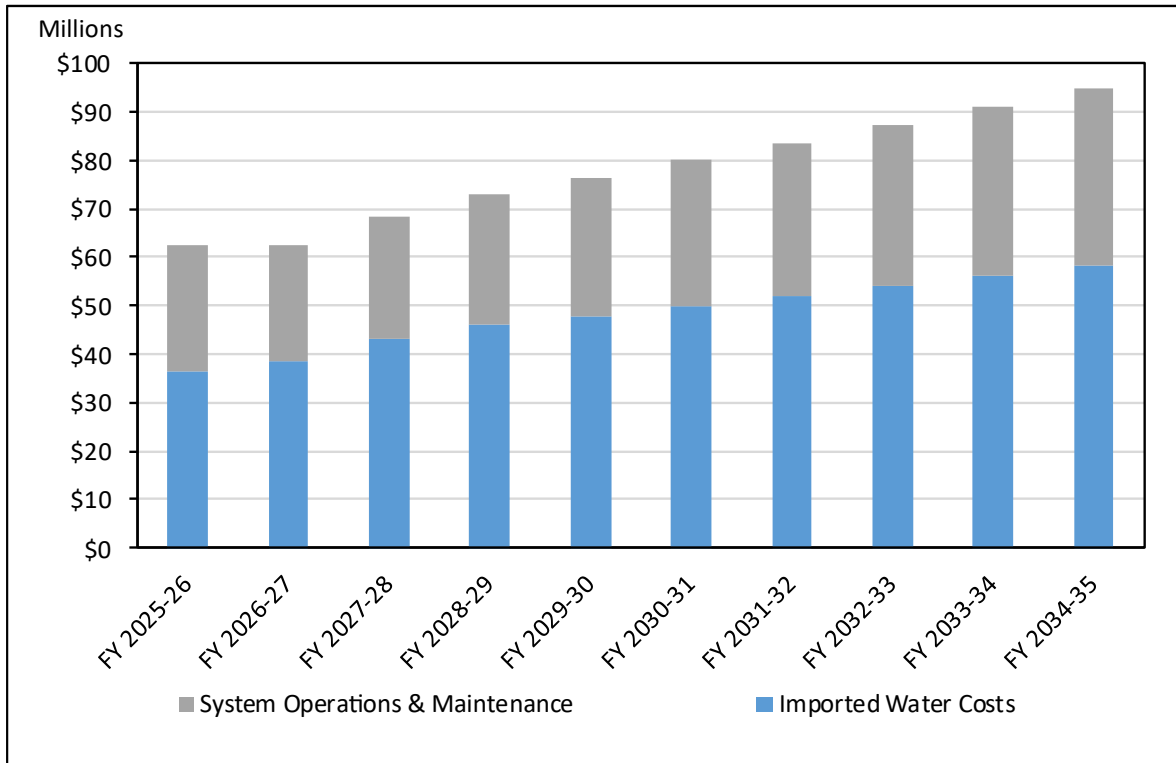
Figure 2-77. Potable Water Total System Cost for FY 2025-26

Note: the distribution in the pie chart represents only the General Fund portion of expenses.



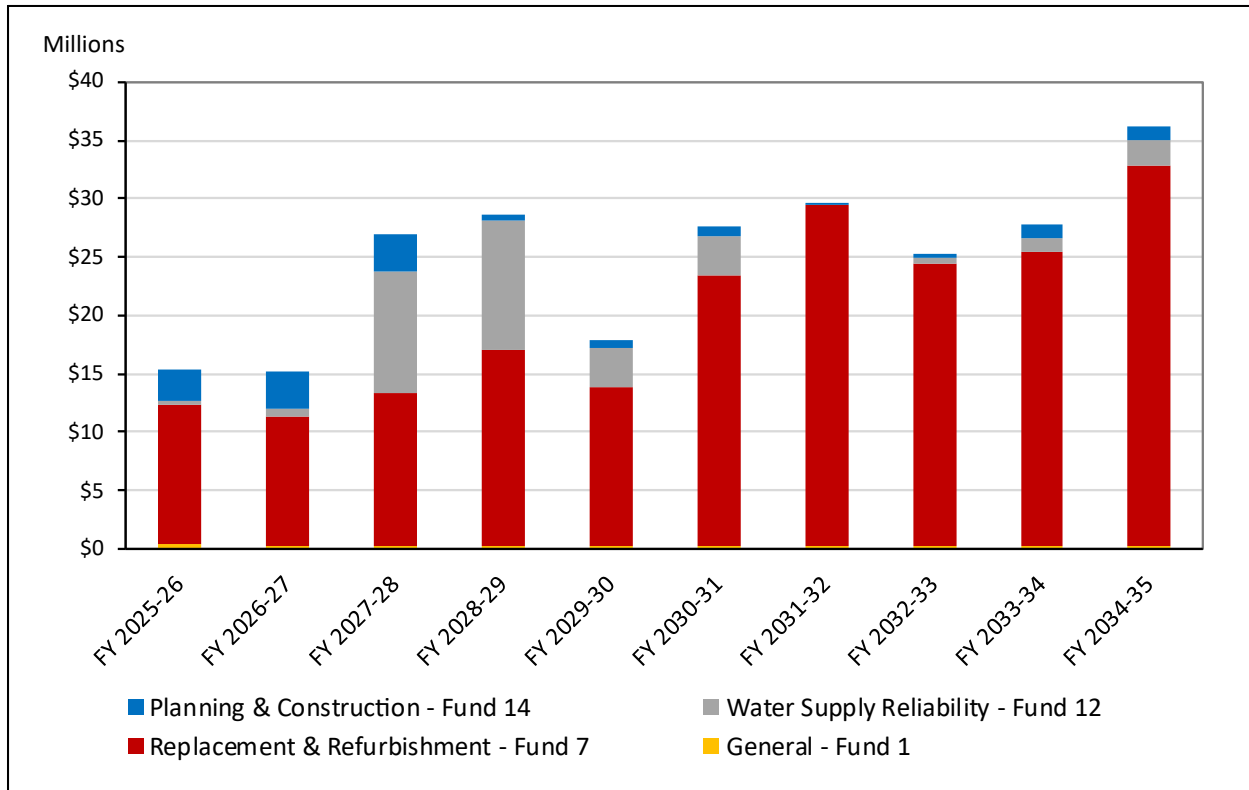
Potable Water System O&M expense projections for FY 2025-26 through FY 2034-35 are summarized in Figure 2-8. Costs for **test year** FY 2025-26 are based on adopted budgets and costs projections for FY 2026-27 through FY 2034-35 are escalated by the inflation factors discussed in Section 2.1.2. **Imported Water Costs** continue to represent the largest portion of O&M costs attributable to the Potable Water System throughout the forecast period.

Figure 2-88. Potable Water System O&M Expense Summary, FY 2025-26 – FY 2034-35



The District’s LRFPP projects capital spending from FY 2025-26 through FY 2034-35 based on the District’s 10-Year Capital Financing Plan. The Potable Water System is expected to fund approximately \$ 255.7 million in capital projects over the next 10 years. Anticipated projects include on-going valve replacements, reservoir management system replacements, fire hydrant replacements, transmission main replacements, storage tank recoating projects, and water reliability projects such as the Santa Ana Emergency Interconnection and the Direct Potable Reuse Demonstration Facility, among others. Figure 2-09 displays the projected CIP projects for the 10-year period summarized by the funding type.

Figure 2-99. Potable Water System General Fund Capital Financing Plan, FY 2025-26 – FY 2034-35



2.4.2. Potable Water System Debt Service

In 2009, the District issued Certificates of Participation (COPs) to fund reliability improvements including Upper Chiquita Reservoir, an interconnection to Irvine Ranch Water District, and the District’s share of the Baker Water Treatment Plant. These projects in total increased the District’s system reliability, or ability to maintain service in the event of an outage at the Diemer WTP, from two days to almost 32 days on average, when coupled with the District’s demand management programs. On March 1, 2019, the District issued \$48.6 million of 2019 Revenue Refunding Bonds to refund the 2009 COPs.

In November 2019, the District issued \$64,570,000 of 2019 Certificates of Participation (2019 COPs). Due to favorable market conditions, the District issued at a premium and received approximately \$68 million in proceeds from the issuance which were being used to finance construction and other project costs related to the replacement and upgrade of the District’s reservoir management system and pump stations, lift station enhancements, pipeline improvements, and other projects that have been identified as part of the District’s adopted Capital Improvement Program.

On December 16, 2021, the District issued \$60,000,000 of 2021 Revenue Refunding Bonds. Due to the historic low interest rates, District staff identified an opportunity to advance a planned debt issuance, which ultimately reduced total issuance costs by \$14 million compared to if the certificates were issued when originally planned. Proceeds from

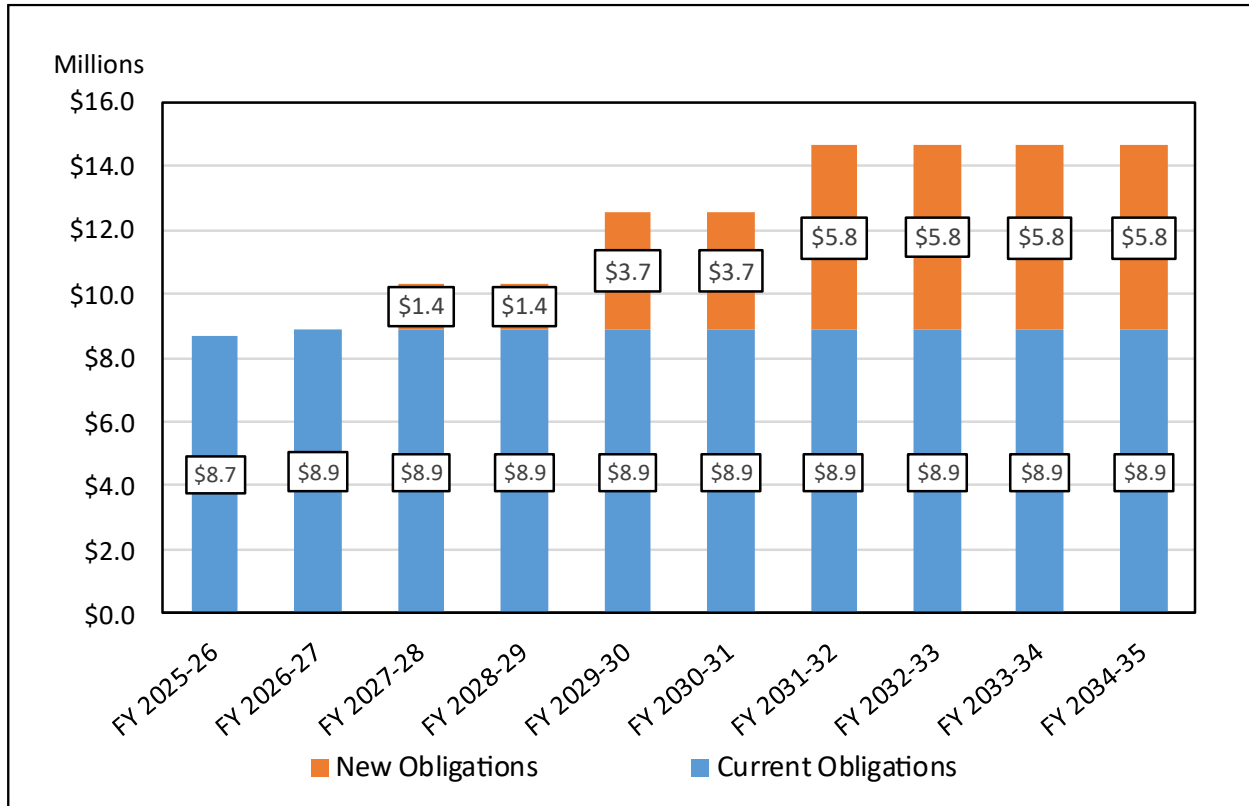
the issuance have been used to finance construction and other project costs related to the District's adopted Capital Improvement Program.

On March 11, 2025, the District issued \$71,260,000 of 2025 Certificates of Participation. Due to favorable market conditions, the District issued at a premium and received approximately \$80 million in proceeds from the issuance which were used to finance the costs of acquiring and constructing replacements and upgrades to the District's reservoir management system and pump stations, transmission main improvements, and other projects that have been identified as part of the District's most recently adopted Capital Improvement Program.

The District anticipates issuing \$73 million of 2026 Certificates of Participation (2026 COPs) in December 2026. The LRFP assumes \$26.3 million in proceeds from the 2026 COPs will be used to fund Potable Water System projects, such as: replacement of the reservoir management system, pump station and transmission main replacements, and other investments in critical water infrastructure to support water and fire protection services. In addition to the 2026 COPs issuance, the issuances identified in FY 2028-29 and FY 2030-31 have been allocated to the different systems in proportion to their share of rolling 4-year capital project costs assuming a mid-fiscal year issuance. Debt service payments are assumed to begin in September of the fiscal year following an issuance. Consistent with this assumption, the first debt service payment associated with the 2026 COPs occurs in FY 2027-28 and is shown in the Proposed Debt Service category in Figure 2-10. These issuances will add \$1.4 million in FY 2027-28 and FY 2028-29, \$3.7 million in FY 2029-30 and FY 2030-31, and \$5.8 million in FY 2031-32 through FY 2034-35 to the Potable System's share of debt service payment obligations.

The annual debt service payments to be recovered from Potable Water System rates and charges are shown in Figure 2-10. To reflect the IRS expectation that proceeds from tax-exempt bonds be used within three years of issuance date, in addition to the anticipated 2026 COPs issuance, the potential issuances identified in FY 2028-29 and FY 2030-31 have been allocated to the different systems in proportion to their share of rolling 4-year capital project costs assuming a mid-year issuance. Debt service payments are assumed to begin in September of the fiscal year following an issuance.

Figure 2-1010. Potable Water System Existing and Proposed New Debt Service Obligations, FY 2025-26 – FY 2034-35



2.4.3. Potable Water System Revenues

Potable Water System revenue requirements are met with a mix of both rate and non-rate revenues. Figure 2-11 displays the breakdown of Potable Water System revenues projected for **test year** FY 2025-26 based on the District’s adopted FY 2025-26 operating and capital budgets. The Potable Water System is projected to receive \$78.5 million in revenues for **test year** FY 2025-26 assuming the recommended 9.5 percent potable water rate increase is adopted. **Property Tax** receipts represent 45.8 percent of total revenues, while **Water Sales - Volumetric** account for 32.9 percent and **Water Sales - Fixed** represent 14.3 percent. Other revenue components account for 7.1 percent or less of Potable Water System revenues. The **Property Lease** revenue is from cell site carriers placing antennas and equipment on reservoir properties and other District locations. The **Other Operating Revenue** consists of miscellaneous fees and charges, including customer service fees, tag fees, and meter sales. **Capacity Fees** (not shown) are the District’s charges assessed on new or expanded connections to proportionately buy into existing assets and available capacity and equates to 0.01 percent for the test year. Revenues from capacity fees are restricted for funding capital projects and have been used to directly offset capital revenue requirements shown in Section 3.1.7.

Figure 2-1111. Potable Water System General Fund Revenue by Type, FY 2025-26

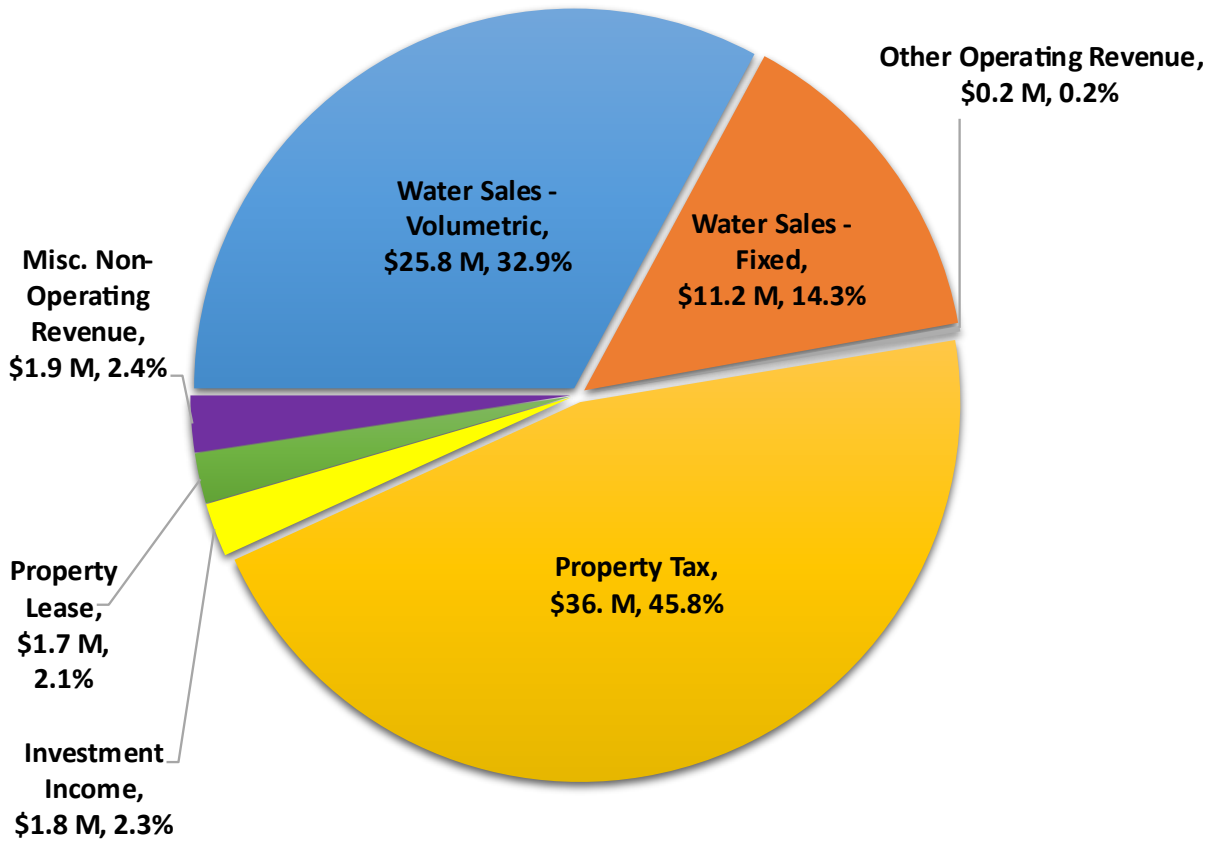
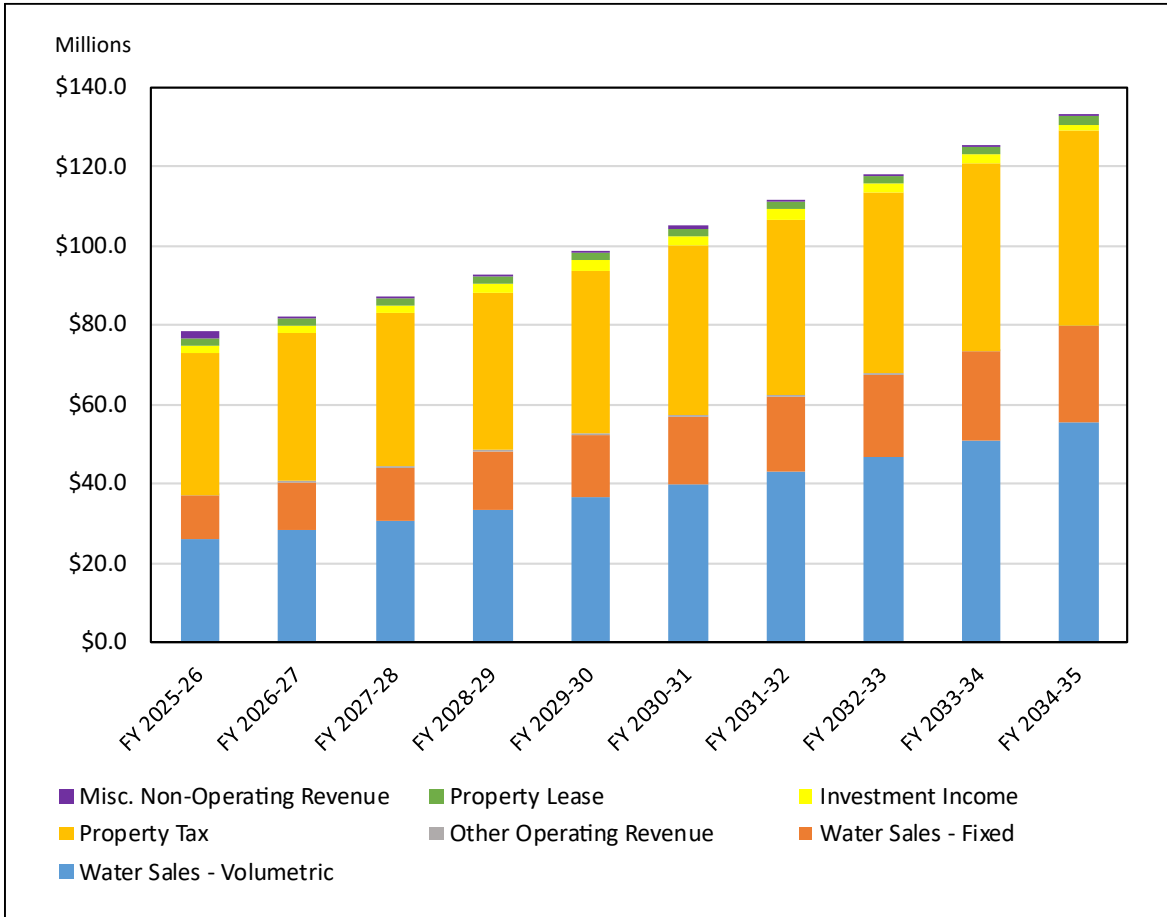


Figure 2-12 presents a summary of the Potable Water System’s projected revenues for FY 2025-26 through FY 2034-35 assuming the recommended 9.05 percent average annual rate revenue adjustments for FY 2025-26 – FY 2028-29 are adopted. Over the 10-year period, the identified average annual rate adjustment is 8.87 percent.

Figure 2-1212. Potable Water System General Fund Projected Revenues for FY 2025-26- FY 2034-35



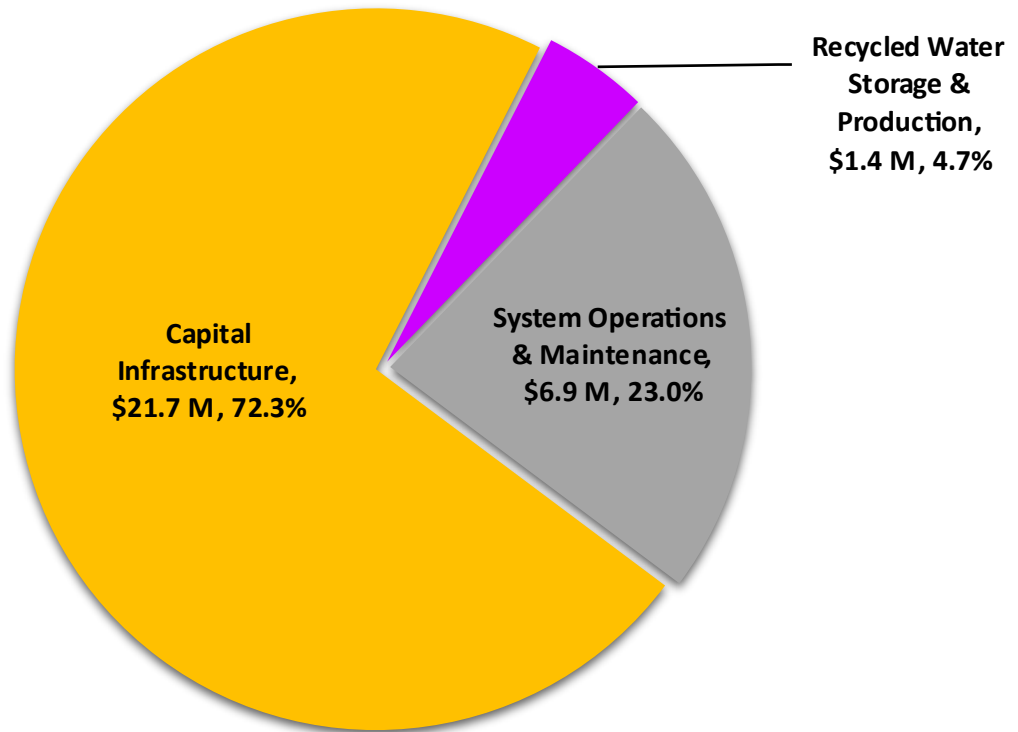
2.5. Recycled Water Financial Plan

The principles for the Recycled Water System financial plan mirror those of the Potable Water System financial plan as described in Section 2.4. The Recycled Water System revenue requirements over the next ten fiscal years are described below.

2.5.1. Recycled Water Total System Cost

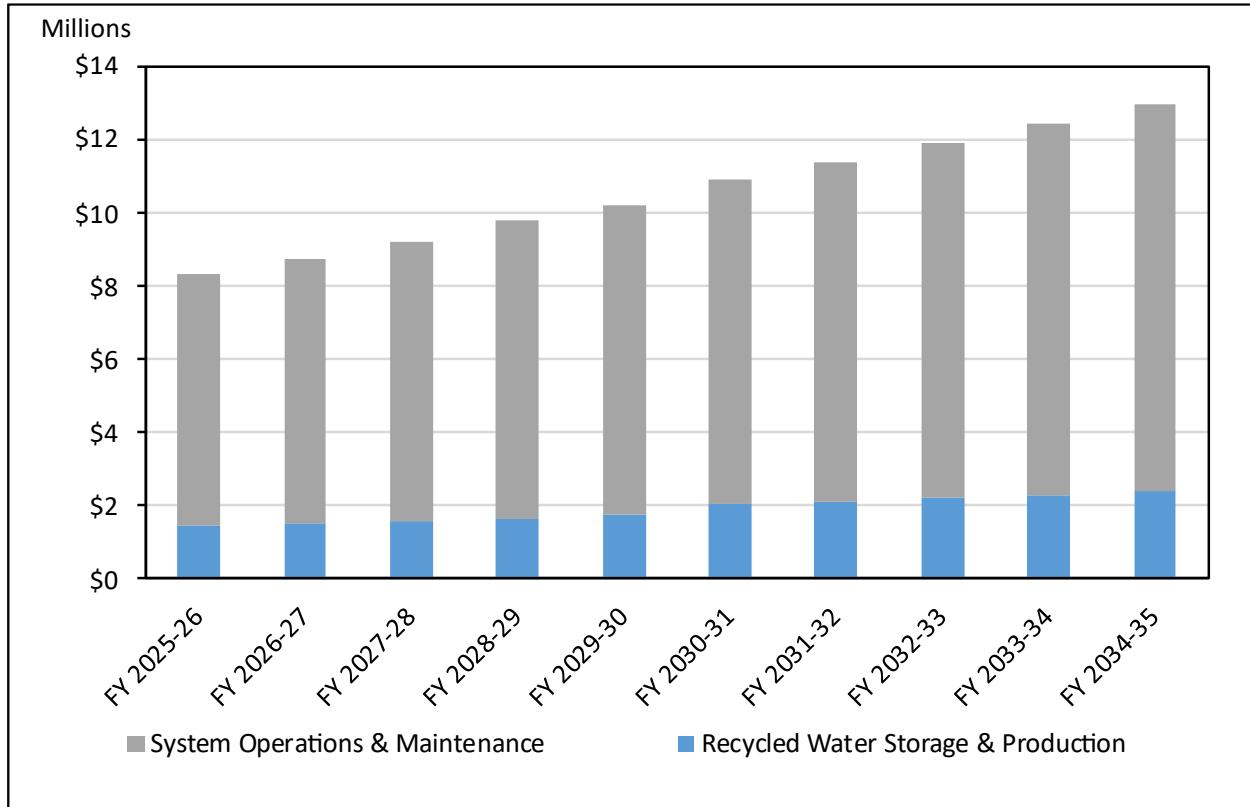
The Recycled Water System’s General Fund costs for test year FY 2025-26 amounts to approximately \$30 million based on the District’s adopted FY 2025-26 operating and capital budgets. **Capital Infrastructure** costs are at \$21.7 million (72.3 percent) for projects related to regulatory compliance for inspections and permits and salinity management. Other costs include \$6.9 million for **System Operations & Maintenance** expenses (representing 23 percent) and \$1.4 million for **Recycled Water Storage & Production** (4.7 percent) (Figure 2-13).

Figure 2-1313. Recycled Water Total System Cost, FY 2025-26



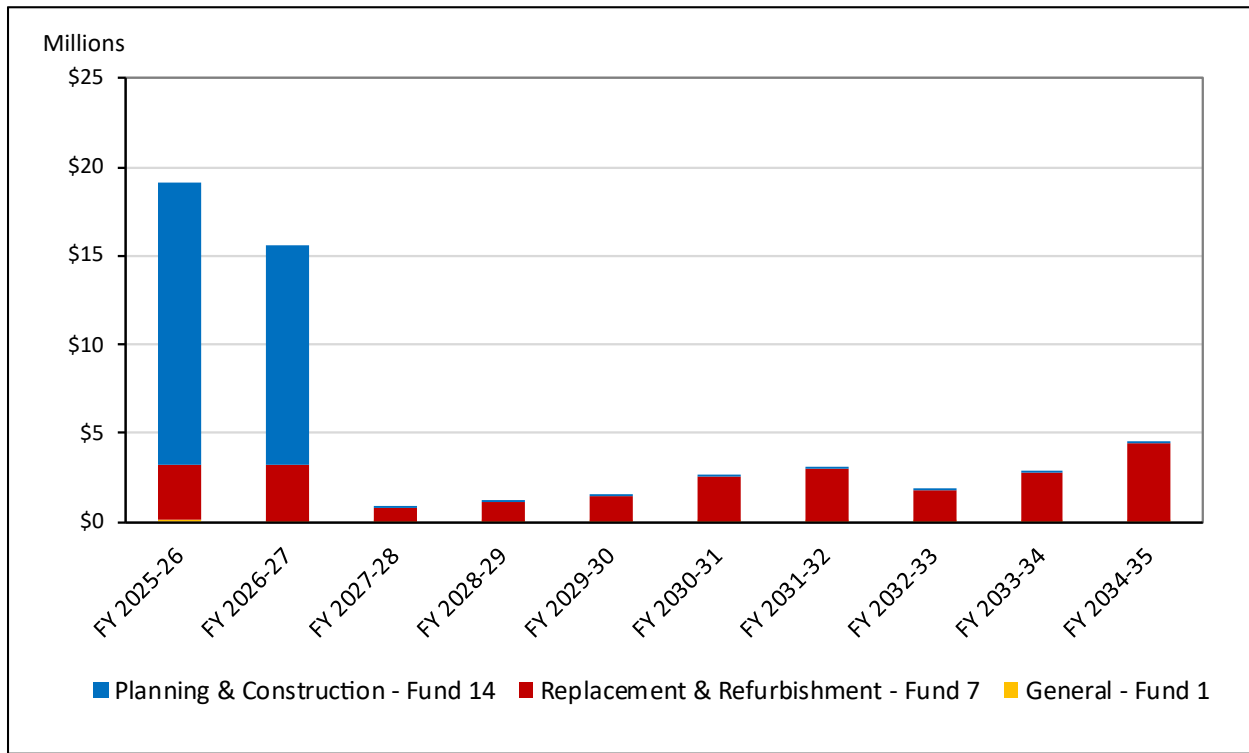
The District will continue to evaluate options for increasing recycled water production, primarily from operational and site improvements at the District’s Plant 3A, while ensuring that any expansion of the recycled water program is cost-effective for the District’s ratepayers. Recycled water production is a critical component of the District’s water reliability strategies. As such, the District will continue to review the available recycled water production opportunities, available treatment technologies, and recycled water needs of its ratepayers. The Recycled Water System’s O&M expense projections for the study period are summarized in Figure 2-14.

Figure 2-1414. Recycled Water System Operating Budget Summary, FY 2025-26 – FY 2034-35



The District’s LRFPP projects capital expenditures for the Recycled Water System from FY 2025-26 through FY 2034-35 based on the District’s 10-Year Capital Financing Plan. The Recycled Water System is expected to fund more than \$53.0 million in capital projects over the next 10 years (Figure 2-15). Anticipated projects include salinity management, pipeline rehabilitation and replacements, meter replacements, valve and service line replacements, and various main replacements, among others.

**Figure 2-1515. Recycled Water System General Fund
Capital Improvement Project (CIP), FY 2025-26 – FY 2034-35**



2.5.2. Recycled Water System Debt Service

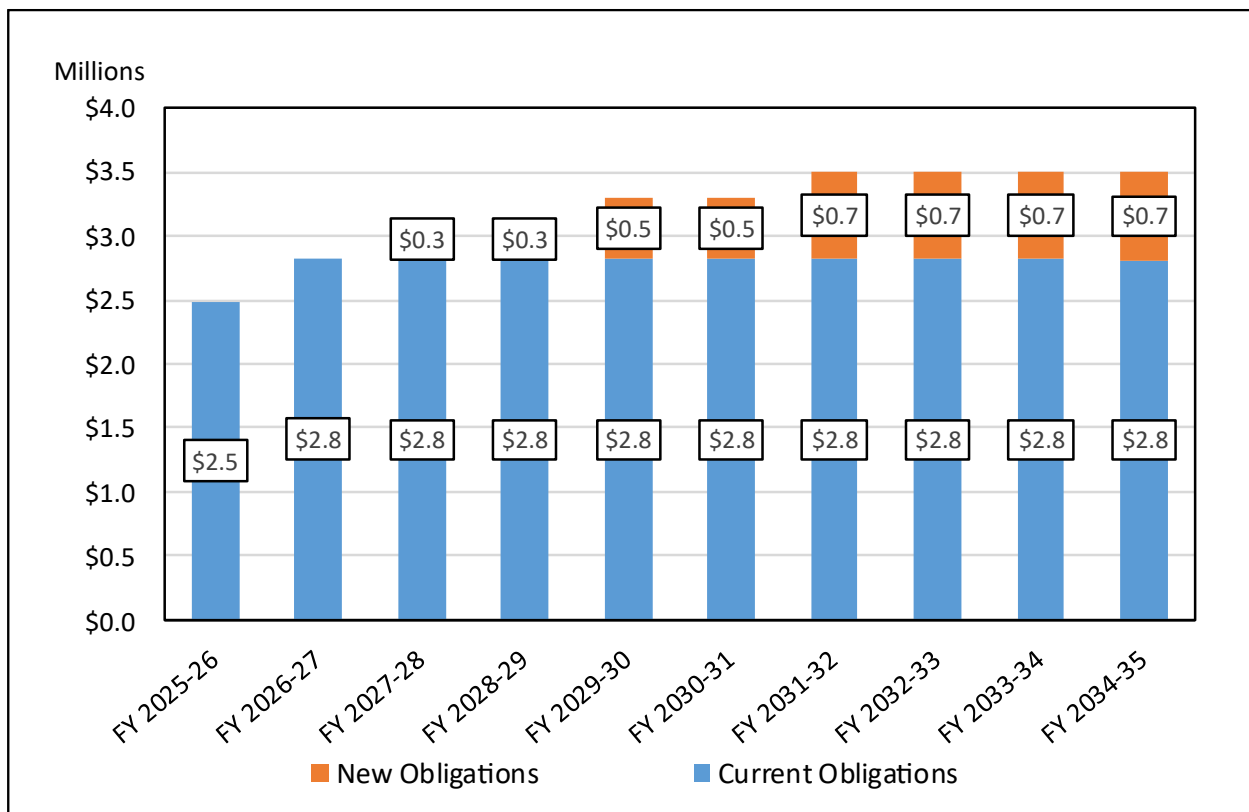
Existing debt service for the Recycled Water System includes a portion of the 2019, 2021, and 2025 COPs. As noted previously, annual debt service expenses have been allocated to the different systems in proportion to the projects that they funded. The annual debt service payments to be recovered from recycled water rates are shown in Figure 2-18.

In addition to the anticipated 2026 COPs, the potential issuances identified in FY 2028-29 and FY 2030-31 have been allocated to the different systems in proportion to their share of rolling 4-year capital project costs assuming a mid-year issuance. Debt service payments are assumed to begin in September of the fiscal year following an issuance. Note that the first debt service payment associated with the 2026 COPs occurs in FY 2027-28 and is shown in the Proposed Debt Service category in Figure 2-16. These debt issuances will add \$0.3 million in FY 2027-28 and FY 2028-29, \$0.5

million in FY 2029-30 and FY 2030-31, and \$0.72 million in FY 2031-32 through FY 2034-35 for debt service payments to be recovered from the Recycled Water System.

To reflect the IRS expectation that proceeds from tax-exempt bonds be used within three years of issuance date, in addition to the anticipated 2026 COPs issuance, the potential issuances identified in FY 2028-29 and FY 2030-31 have been allocated to the different systems in proportion to their share of rolling 4-year capital project costs assuming a mid-year issuance. Debt service payments are assumed to begin in September of the fiscal year following an issuance.

**Figure 2-1616. Recycled Water System General Fund
Existing and Proposed New Debt Service Obligations, FY 2025-26 to FY 2034-35**



2.5.3. Recycled Water System Revenues

The Recycled Water System costs are recovered through a mix of rate and non-rate revenue. Figure 2-17 presents projected Recycled Water System revenues for the **test year FY 2025-26**. Revenues projected for FY 2025-26 total \$10 million assuming the recommended 9.5 percent rate revenue increase is adopted. **Property Tax** revenues are forecasted to account for 11.1 percent, while **Recycled Sales - Volumetric** revenues account for 48.2 percent, and **Recycled Sales - Fixed** represent 16.8 percent. **Property Lease** income accounts for 6.6 percent and other revenue components account for the remaining 5 percent.

Figure 2-1717. Recycled Water System General Fund Revenue by Type, FY 2025-26

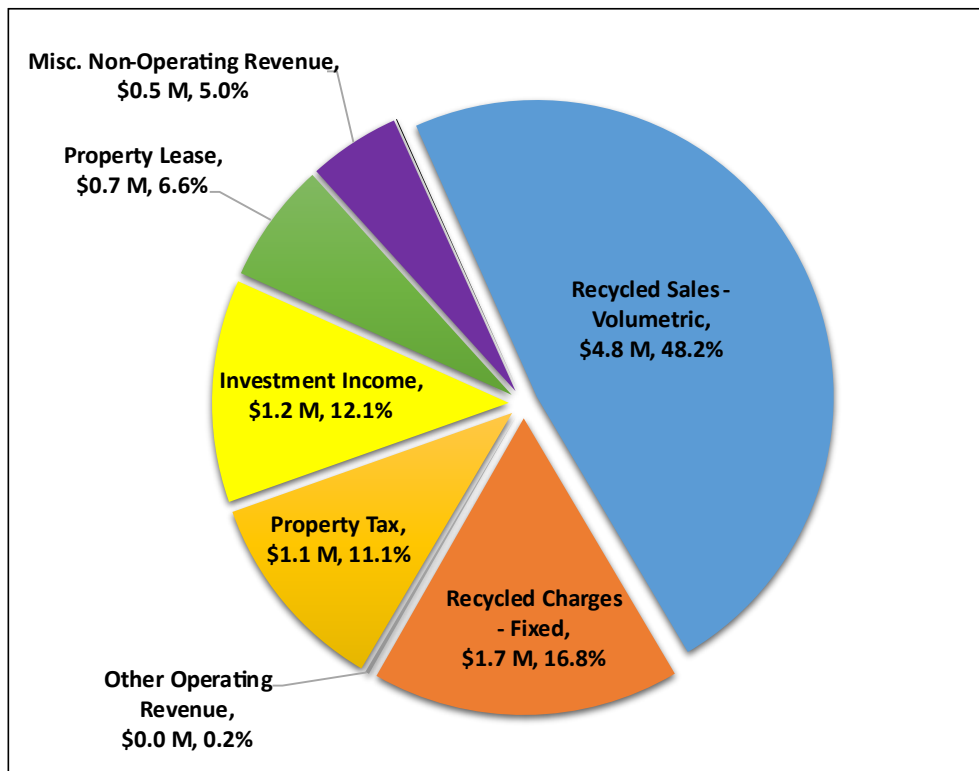
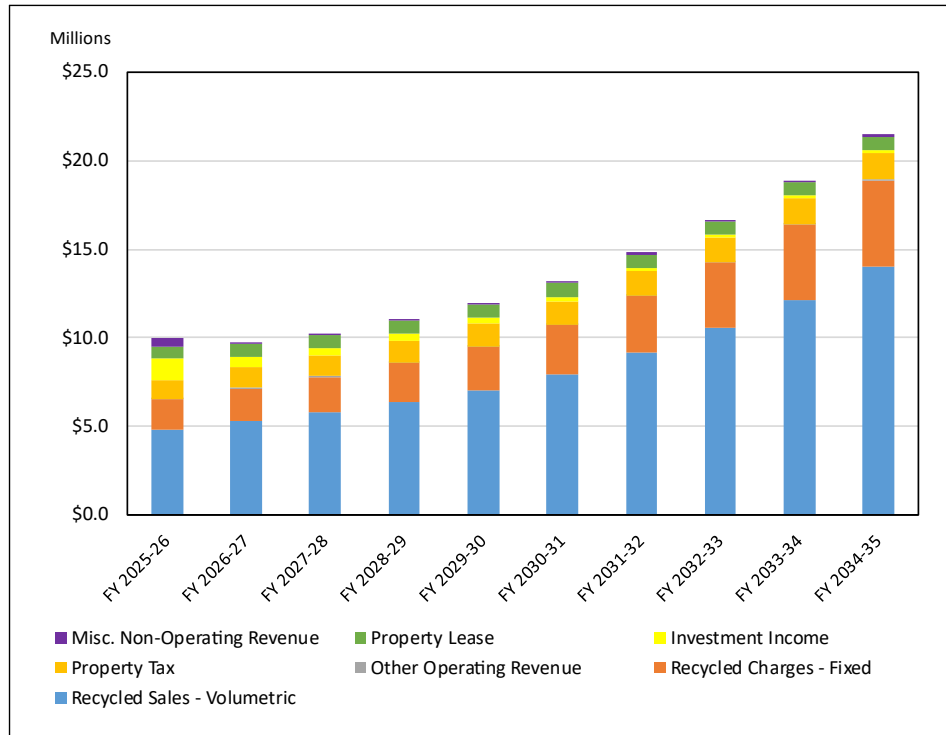


Figure 2-18 shows a summary of projected Recycled Water System revenues through FY 2034-35 assuming the recommended 9.71 percent average annual rate revenue adjustments for FY 2025-26 – FY 2028-29 are adopted. Over the 10-year period, the identified average annual rate adjustment is 12.61 percent.

Figure 2-1818. Recycled Water System General Fund Projected Revenues for FY 2025-26 – FY 2034-35



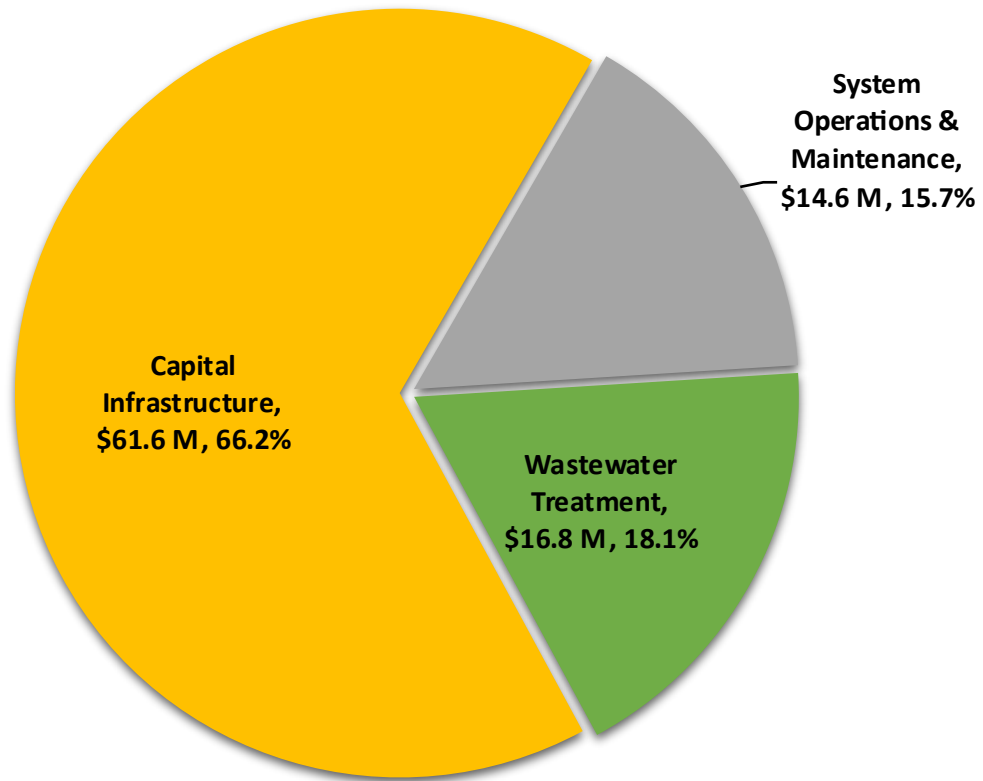
2.6. Wastewater System Financial Plan

The principles for the Wastewater System financial plan mirror those of the Potable Water System financial plan as described in Section 2.4. The following describes the Wastewater System revenue requirements over the next ten years.

2.6.1. Wastewater Total System Cost

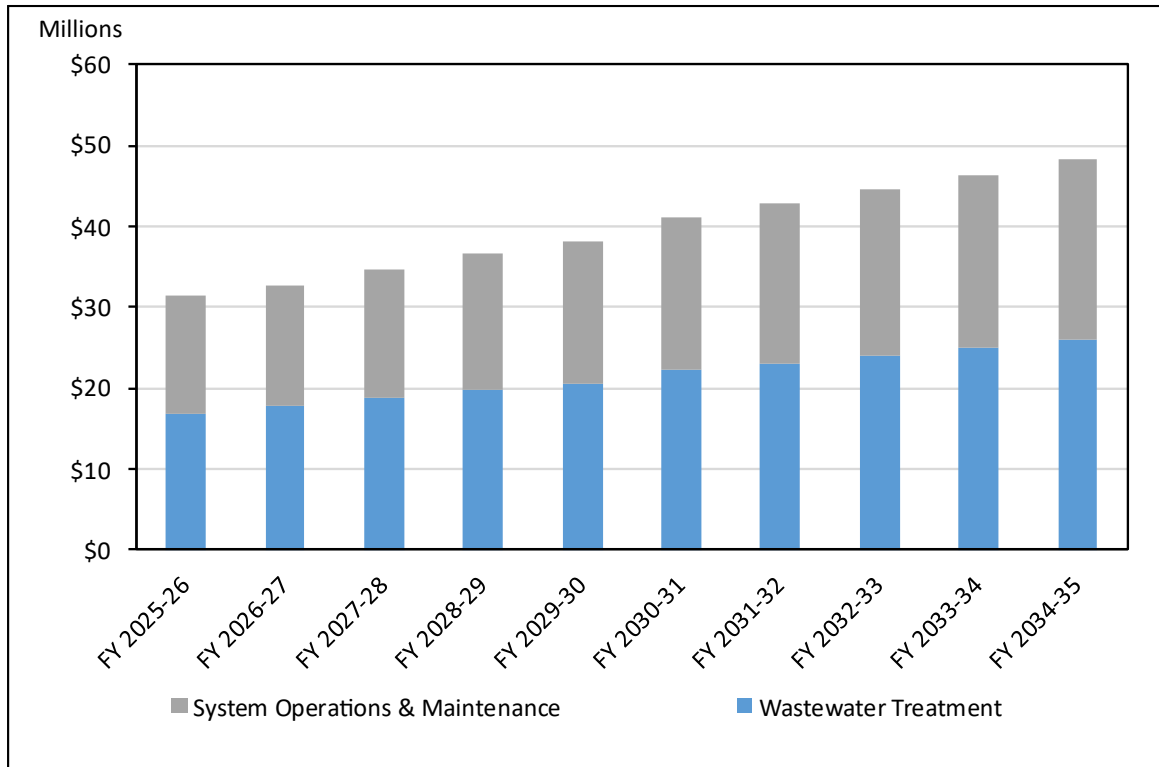
The Wastewater System General Fund costs for **test year** FY 2025-26 amounts to approximately \$93 million based on the District’s adopted FY 2025-26 operating and capital budgets. Figure 2-19 presents a breakdown of projected total system costs by category for the Wastewater System. **Capital Infrastructure** represents the Wastewater System’s largest cost category, representing \$61.6 million or 66.2 percent of the System’s total costs. Other large costs for FY 2025-26 include **System Operations & Maintenance** expenses of approximately \$14.6 million (15.7 percent), and \$16.8 million for **Wastewater Treatment** (18.1 percent).

Figure 2-1919. Wastewater Total System Cost for FY 2025-26



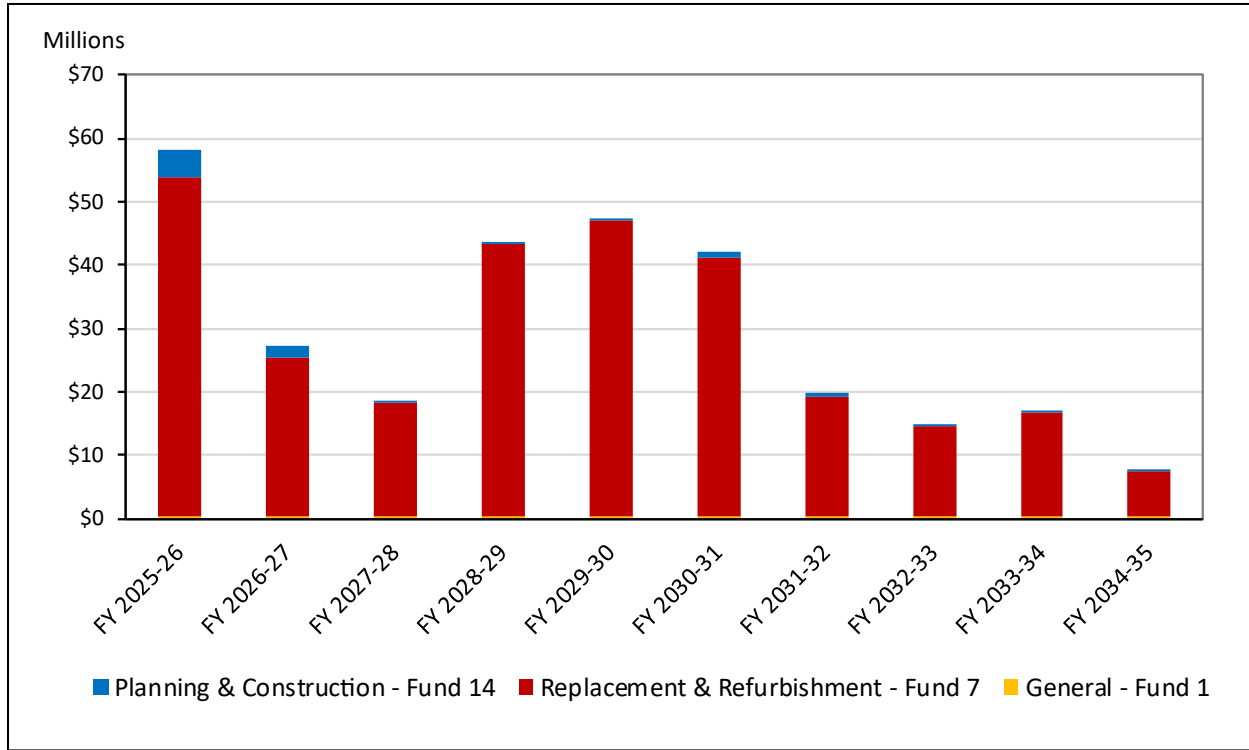
The Wastewater System’s operating expense projections for the study period are summarized in Figure 2-20. The Wastewater System’s largest operating expense is attributable to the wastewater treatment costs at Plant 3A and the Regional Treatment Plant. The projections for **Wastewater Treatment** differ from budget as they exclude costs associated with solids treatment provided to neighboring agencies to ensure that the proposed wastewater rate revenue adjustments only recover the costs attributable to the cost of providing service to the District’s retail customers.

Figure 2-2020. Wastewater System Operating Expense Summary, FY 2025-26 – FY 2034-35



The District’s LRFP projects capital spending from FY 2025-26 through FY 2034-35 based on the District’s 10-Year Capital Financing Plan. The Wastewater System is expected to fund approximately \$296.2 million in capital project costs over the next 10 years. Anticipated major capital projects solids facilities Improvements at Plant 3A, several facilities improvements at the Regional Treatment Plant, include replacement of the Regional Lift Station force mains, vertical assets rehabilitation and replacement, outfall line valves, and manhole rehabilitation projects, among others. Figure 2-21 displays the projected projects for the 10-year study period summarized by project type.

Figure 2-2121. Wastewater System General Fund Projected Capital Financing Plan, FY 2025-26 – FY 2034-35



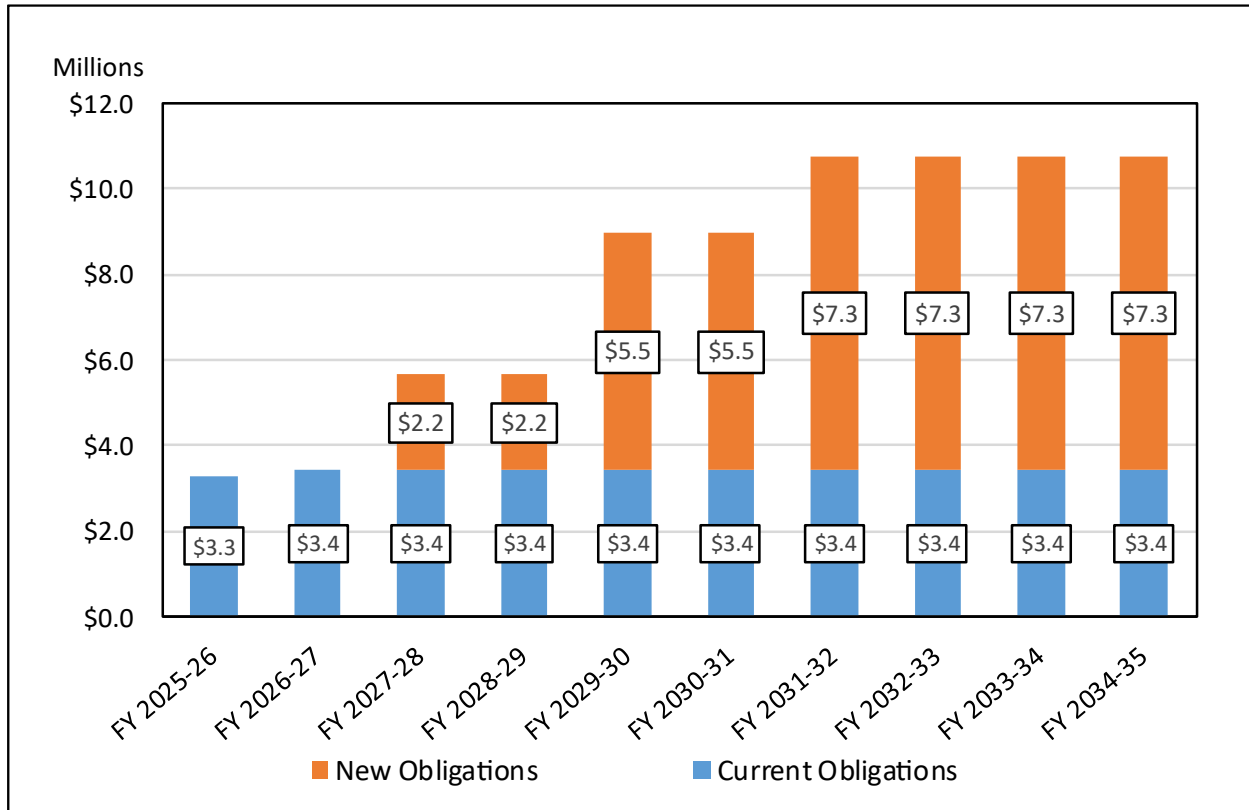
2.6.2. Wastewater System Debt Service

Existing debt service for the Wastewater System is comprised of the relative portion of the 2019 COPs which are allocated to wastewater projects. Annual debt service expenses have been allocated to the different systems in proportion to the projects that they have funded. The annual debt service payments to be recovered from Wastewater rates are shown in Figure 2-22.

To reflect the IRS expectation that proceeds from tax-exempt bonds be used within three years of issuance date, in addition to the anticipated 2026 COPs issuance, the potential issuances identified in FY 2028-29 and FY 2030-31 have been allocated to the different systems in proportion to their share of rolling 4-year capital project costs assuming a mid-year issuance. Debt service payments are assumed to begin in September of the fiscal year following an issuance. These anticipated debt issuances add \$2.2 million in FY 2027-28 and FY 2028-29, \$5.5 million in FY 2029-30 and FY 2030-31, and \$7.3 million in FY 2031-32 through FY 2034-35 to total annual debt service payments.

Figure 2-22 provides a breakdown of existing and proposed total debt service associated with the Wastewater System.

**Figure 2-2222. Wastewater System General Fund
Existing and Proposed New Debt Service Obligations, FY 2025-26 – FY 2034-35**



2.6.3. Wastewater System Revenues

The Wastewater System also receives a mix of both rate and non-rate revenue. Revenues projected for FY 2025-26 totaled \$36.6 million assuming the recommended 15.5 percent wastewater rate increase is adopted. Figure 2-23 presents the relative amount of revenue that the Wastewater System is projected to receive in FY 2025-26 by revenue type. **Wastewater Charges – Variable** (representing the Per-Person Wastewater Charges for Single-family Residential and Multi-family Residential customers) and **Wastewater Charges – Fixed** (representing the fixed charges for all customer classes) are forecast to account for 95.4 percent of system revenues, while **Misc. Non-Operating Revenue** represents 0.5 percent and other revenue components total to 4.2 percent of revenues.

Figure 2-2323. Wastewater System General Fund Projected Revenues by type for FY 2025-26

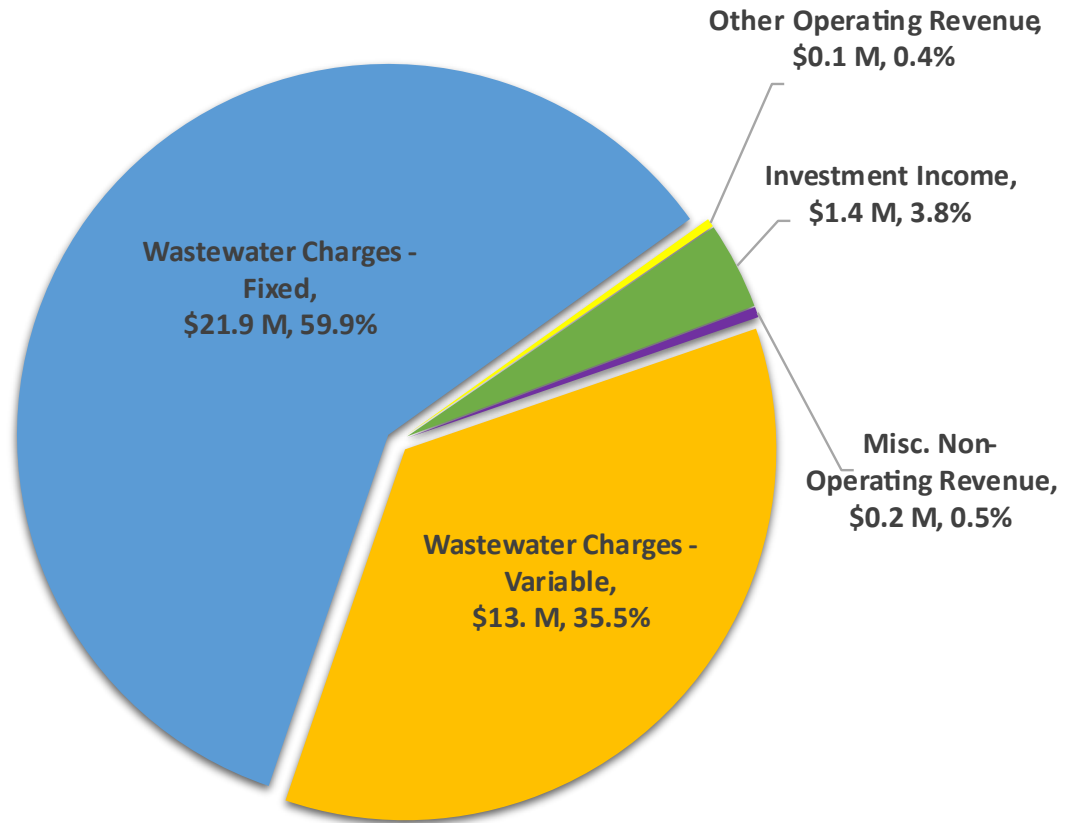
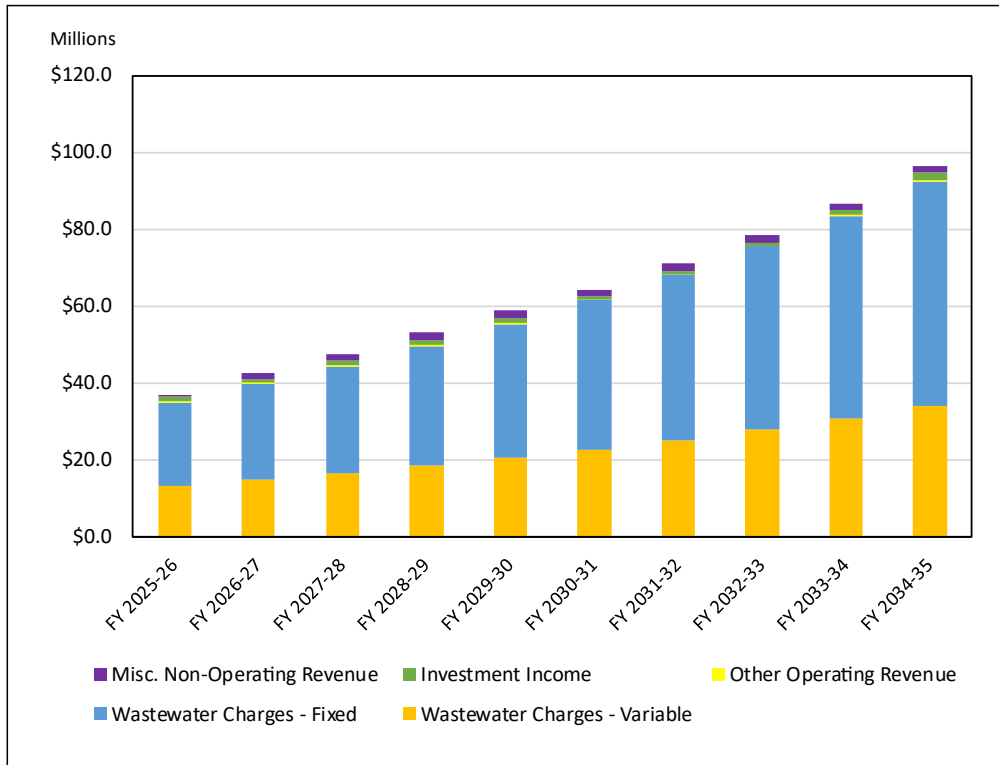


Figure 2-24 shows a summary of the Wastewater System’s projected revenue from FY 2025-26 through FY 2034-35, assuming the recommended 12.5 percent average annual rate revenue adjustments for FY 2025-26 – FY 2028-29 are adopted. Over the 10-year period, the identified average annual rate adjustment is 11.40 percent.

Figure 2-2424. Wastewater System General Fund Projected Revenue for FY 2025-26 – FY 2034-35



2.7. Water Efficiency (WE) Fund Financial Plan

As was done for the General Fund, an updated LRF was developed for the WE Fund in which a 10-year forecast of operating and capital costs was created to understand the financial implications of the District’s water efficiency programs and objectives being considered as part of this study. A detailed discussion of the WE Fund’s financial plan can be found in APPENDIX A. Though similar methods were used to develop both plans, the underlying rationale for the WE Fund plan differs from that of the General Fund plan in that the WE Fund plan separately accounts for both the immediate costs and potential long-term supply impacts attributable specifically to out-of-budget water use.

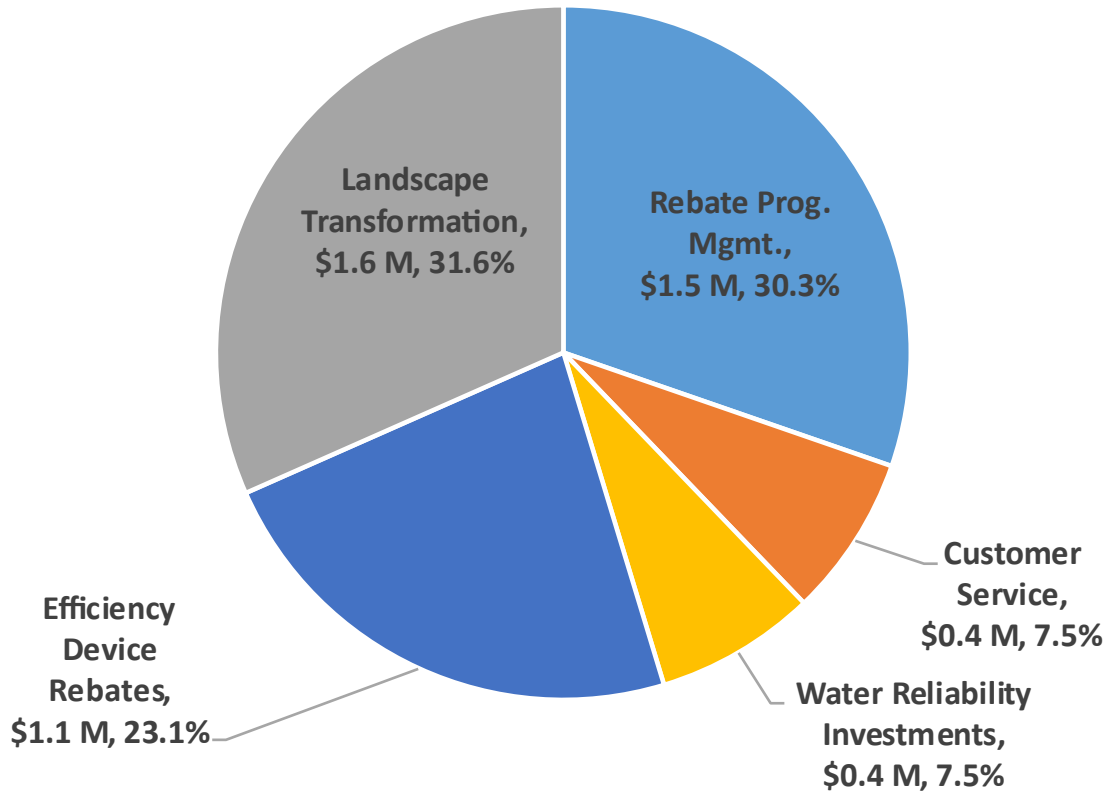
Each month, District customers receive a calculated water budget reflecting the proportional cost of service specific to their parcel, based on the unique characteristics and demands of their property.. Customers who use water in excess of their calculated water budgets place greater demands on the District’s Potable Water and Recycled Water Systems and supplies. Those customers who use more than their allocated water budgets are therefore subject to higher water use rates to offset the costs they create. These costs include water efficiency programs designed to increase water supply and reliability. The District ensures increased rates within each tier correspond to increasing marginal supply costs, and incremental revenues collected from higher tiers are used to fund alternative water supply programs, rebates, and demand management measures to increase efficient, in-budget uses of water and offset supply reliability impacts out-of-budget water use.

By establishing the Water Efficiency Fund (Fund 6), the District can clearly delineate the costs associated with providing continued service to its customers from those costs that could have otherwise been avoided had all customers stayed within budget. Revenues collected are immediately reinvested in programs and rebates to increase water supply by helping those same customers get back into budget. Throughout historic droughts, the District has maintained that “it’s not about using less water, it’s about wasting less water,” and customers have responded not only by becoming more efficient, but also by an unprecedented level of rebate program participation. The test year budget for water efficiency rebates has been reduced to reflect an adjustment in scope for the NatureScape turf removal program. This program has been transformed into the Residential NatureScape Garden Design Program to better align with the evolving needs of our customers. This strategic change was prompted by the District’s remarkable achievement of surpassing the goals set by the previous turf removal program, which saw the removal of 7 million square feet of turf and the installation of 130 California native landscapes. The financial plan for Fund 6 has been adjusted accordingly. In addition to the costs associated with the ongoing management of the District’s WE and conservation programs, capital costs associated with recycled water optimization projects have been allocated to the WE Fund to reflect the increased supply reliability that recycled water provides by offsetting outdoor water demands that would otherwise be met with potable water. The efficiency and rebate program costs allocated to each tier are spread over the total volume of water associated with that tier.

2.7.1. WE Total Program Cost

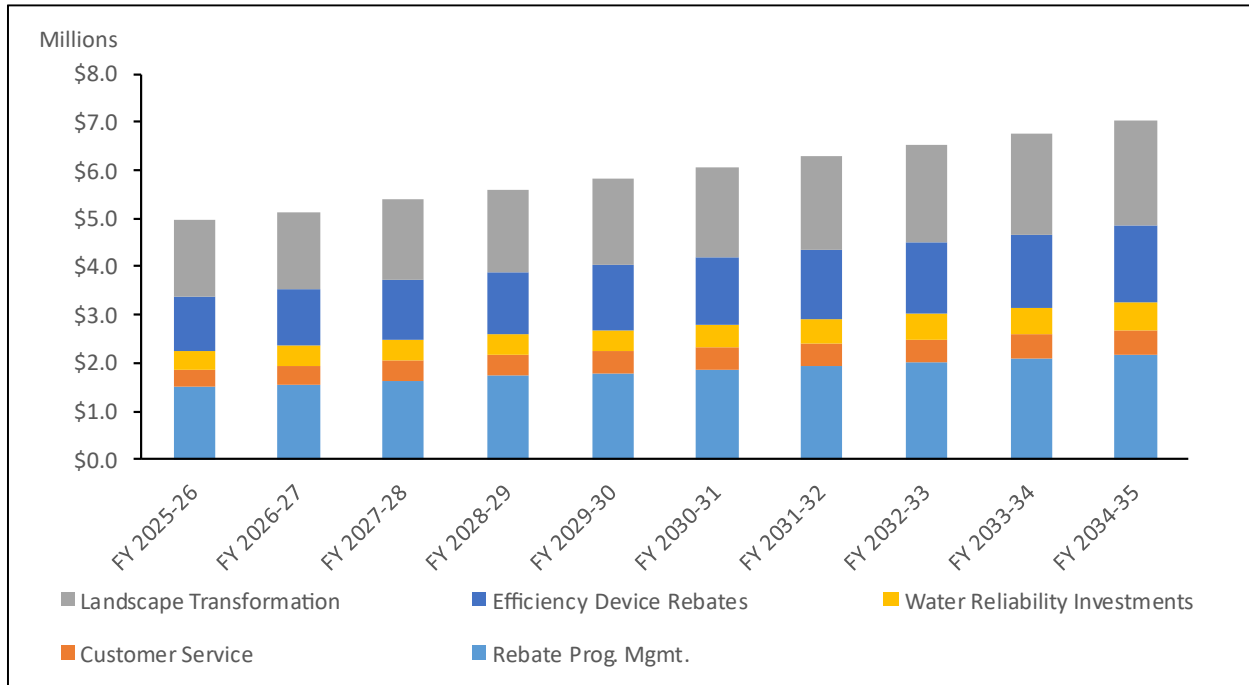
WE Fund costs are projected to be approximately \$4.6 million for FY 2025-26 based on the District’s adopted FY 2025-26 operating and capital budgets. Of this total, **Landscape Transformation** costs associated with the newly redesigned NatureScape turf removal program are forecasted to account for 31.6 percent (\$1.6 million), and **Rebate Program Management** for 30.3 percent (\$1.5 million). **Efficiency Device Rebates** for smart timers, irrigation improvements, etc. make up 23.1 percent (\$1.1 million). **Water Reliability Investments** and **Customer Service** costs account for the remaining 15 percent (7.5 percent or \$0.4 million each) of the WE program costs. Figure 2-25 presents a distribution of the total program cost by type.

Figure 2-2525. WE Total Program Cost by Type, FY 2025-26



The WE Program O&M expense projections for FY 2025-26 through FY 2034-35 are summarized in Figure 2-26.

Figure 2-26. WE Program O&M Expense Summary, FY 2025-26 – FY 2034-35



In addition to the costs associated with the ongoing management of the District’s water efficiency and conservation programs, a portion of the 10-Year Capital Financing Plan’s costs associated with recycled water optimization projects have been allocated to the WE Fund to reflect the increased supply reliability that recycled water provides by offsetting outdoor water demands that would otherwise be met with potable water. This approach also captures the overall collective benefit provided by the efficient use of water from any source: efficient potable water use reduces demand on potable supplies while efficient recycled water use further extends existing recycled supplies. Efficiency and rebate program costs increase water supply and reliability for all customers, and as such, the efficiency and rebate program costs allocated to a particular tier are spread over the total volume of water (potable and recycled) associated with that tier such that the WE Fund unit rate for the respective tier is the same regardless of the type of water that is being used inefficiently. A detailed accounting of this allocation can be found in Section 3.4.1. The District has identified \$5.5 million in expected capital project costs from the 10-Year Capital Financing Plan that are appropriate to allocate to the WE Fund.

2.7.2. WE Program Revenue

The District's continued investment in efficiency efforts and rebate programs along with its future supply reliability investments will draw down current WE Fund balances within three years without an adjustment in rate revenues or other supplemental funding sources. Based on the revenue requirements and increased spenddown of WE Fund balances, District staff is proposing a one-time adjustment to its WE rates as part of the recommended four-year rate adjustment, specifically, an average \$0.93 per billing unit in rate revenues. This one-time adjustment in rates is sufficient to avoid a negative fund balance in any one year of the proposed rate schedule window but will require a similar adjustment in the first year of the next rate cycle (FY 2029-30) to avoid a negative fund balance in any one year of the 10-year financial plan. Staff consider the proposed funding strategy optimal as FY 2028-29 would coincide with the District's 2029 Long-Range Financial Plan at which point Fund 6 revenue requirements would be re-evaluated.

Including the proposed one-time rate revenue adjustment, projected WE revenues for FY 2025-26 total about \$4.54 million. The majority of WE revenue is collected through rates charged to recover the cost of out-of-budget potable and recycled water use, because WE activities are targeted at water usage that exceeds budget. In addition to rate revenue, the District also collects Demand Offset Fees⁶ and retains any interest earned on WE Fund balances within the WE Fund in order to accurately account for the associated revenue of the program fund balance. Figure 2-27 presents the relative amount of revenue that the WE Fund is projected to receive in FY 2025-26 by revenue type. Revenues received from the Potable Water System and the Recycled Water System total approximately \$4.5 million, representing 90.2 percent and 8.4 percent respectively. Other revenues include **Investment Income** (\$37,613), representing 1.4 percent of total revenues, and approximately 0.3 percent (\$12,000) of income generated from the **Demand Offset Fees** (not shown) to customers upon establishment of new services which require potable water for dedicated irrigation.

⁶ Pursuant to California Government Code Section 66013, the District has adopted "Water Demand Offset Fees" to fund future water reliability and water efficiency projects, programs, and capital improvement projects, in order to offset the additional potable outdoor demand from new or expanded development that would otherwise impact existing water supply reliability. Such a fee meets the definition of a "Capacity Charge" as outlined in California Government Code Section 66013.

Figure 2-2727. Water Efficiency Fund Revenue by Type, FY 2025-26

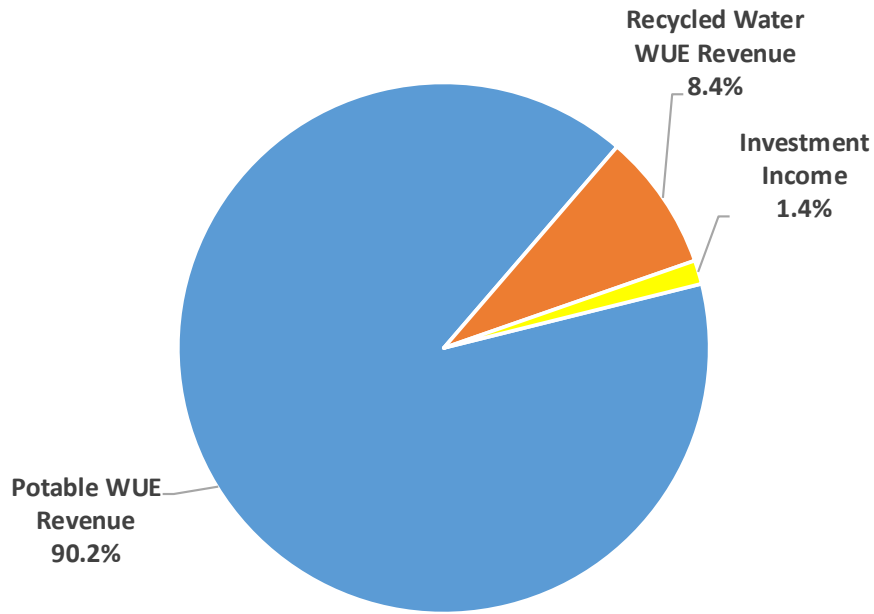
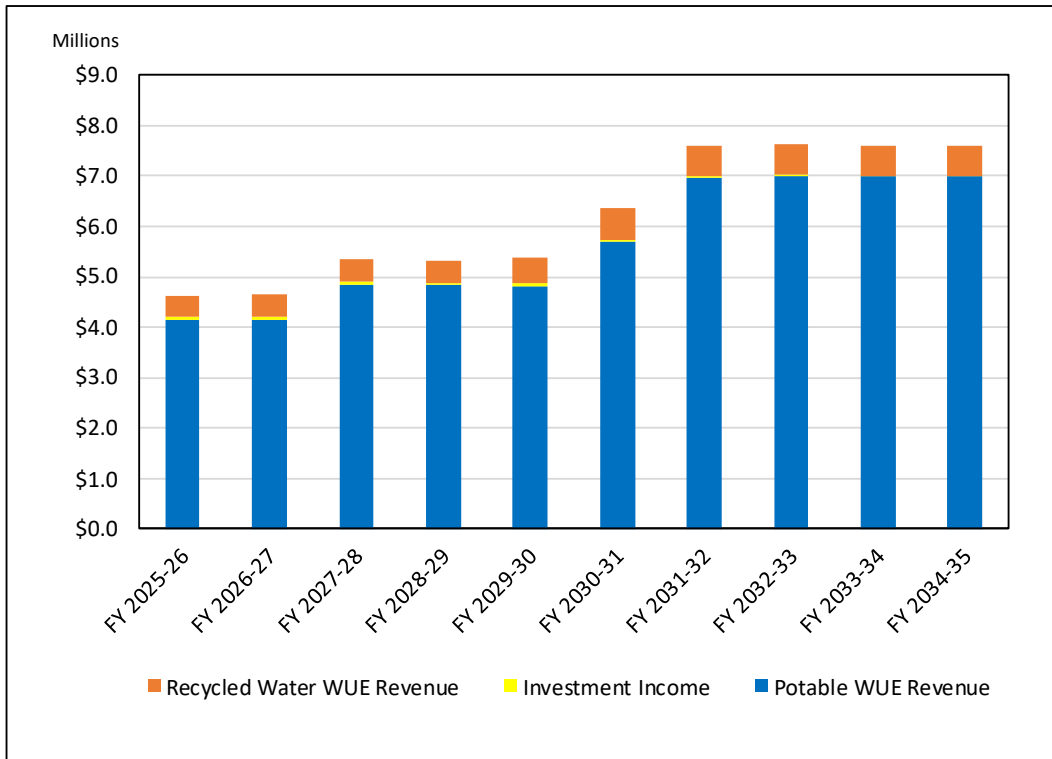


Figure 2-28 presents WE Program revenue projections by Type for FY 2025-26 through FY 2034-35.

Figure 2-2828. WE Program Projected Revenues, FY 2025-26 – FY 2034-35



2.8. Summary of System Rate Revenue Requirements by Fund

Tables 2-5 through Table 2-8 provide a detailed summary of the General Fund and WE Fund user-charge revenue requirements for each System for the FY 2025-26 test year as outlined in Sections 2.4 - 2.7.

2.8.1. General Fund User-Charge Revenue Requirements

Table 2-5. Rate Revenue Requirements Potable Water System – General Fund, FY 2025-26

O&M Expenses	
Imported Water Costs	\$36,479,988
System Operations & Maintenance	\$26,185,564
Subtotal O&M Expenses	\$62,665,552
Debt Service	
Existing	\$8,697,362
Proposed	
Subtotal Debt Service Expenses	\$8,697,362
Capital Infrastructure Projects	\$15,395,605
Annualization of Partial Year Rate Adjustment	\$1,974,739
Total Costs for Potable Water System	\$88,733,258
Change in Fund Balance	(\$7,362,877)
Non-Rate Revenue	
Other Operating Revenue	\$184,311
Property Tax	\$35,987,848
Investment Income	\$1,790,614
Property Lease	\$1,675,382
Misc. Non-Operating Revenue	\$1,886,359
Subtotal Non-Rate Revenue	\$41,524,514
Total Rate Revenue Requirement	\$39,845,867

Table 2-6. Rate Revenue Requirements Recycled Water System – General Fund, FY 2025-26

O&M Expenses	
Recycled Water Storage & Production	\$1,415,507
System Operations & Maintenance	\$6,897,309
Subtotal O&M Expenses	\$8,312,816
Debt Service	
Existing	\$2,483,091
Proposed	\$0
Subtotal Debt Service Expenses	\$2,483,091
Capital Projects	\$19,179,583
Annualization of Partial Year Rate Adjustment	\$347,043
Total Costs for Recycled Water System	\$30,322,534
Change in Fund Balance	(\$19,953,891)
Non-Rate Revenue	
Other Operating Revenue	\$21,883
Property Tax	\$1,113,026
Investment Income	\$1,217,369
Property Lease	\$658,186
Misc. Non-Operating Revenue	\$500,813
Subtotal Non-Rate Revenue	\$3,511,278
Total Rate Revenue Requirement	\$6,857,365

Table 2-7. Rate Revenue Requirements Wastewater System – General Fund, FY 2025-26

O&M Expenses	
System Operations & Maintenance	\$14,578,952
Wastewater Treatment	\$16,837,174
Subtotal O&M Expenses	\$31,416,126
Debt Service	
Existing	\$3,281,181
Proposed	\$0
Subtotal Debt Service Expenses	\$3,281,181
Capital Projects	\$58,312,682
Annualization of Partial Year Rate Adjustment	\$2,963,509
Total Costs for Wastewater System	\$95,973,497
Change in Fund Balance	(\$45,129,828)
Non-Rate Revenue	
Other Operating Revenue	\$131,199
Investment Income	\$1,390,278
Misc. Non-Operating Revenue	\$11,465,760
Subtotal Non-Rate Revenue	\$12,987,237
Total Rate Revenue Requirement	\$37,856,432

2.8.2. Water Efficiency Fund User-Charge Revenue Requirements

Table 2-8. Rate Revenue Requirements WE Program, FY 2025-26

O&M Expenses	
Rebate Prog. Mgmt.	\$1,502,604
Customer Service	\$372,956
Water Reliability Investments	\$371,833
Efficiency Device Rebates	\$1,143,050
Landscape Transformation	\$1,568,325
Subtotal O&M Expenses	\$4,958,768
Capital Projects	
	\$200,000
Annualization of Partial Year Rate Adjustment	\$698,832
Total Costs for Water Efficiency Program	\$5,857,600
Change in Fund Balance	
	(\$616,660)
Non-Rate Revenue	
Investment Income	\$37,613
Demand Offset Fees	\$12,000
Subtotal Non-Rate Revenue	\$49,613
Total Rate Revenue Requirement	\$5,191,327

2.9. Recommended Rate Revenue Adjustments

The District’s LRFPS strategy includes leveraging available debt capacity to minimize rate revenue increases and smooth out the costs of capital projects. The District plans to issue certificates of participation worth approximately \$73 million in FY 2026-27, \$106 million in FY 2028-29 and \$75 million in FY 2030-31 to fund capital projects without triggering large rate increases, deferring planned capital projects, or reducing current service levels. Figure 2-29 displays this pattern of capital outlays and financing.

Figure 2-2929. Annual CIPs Funded by Cash Reserves and Market Debt Proceeds, FY 2026-27 – FY 2034-35

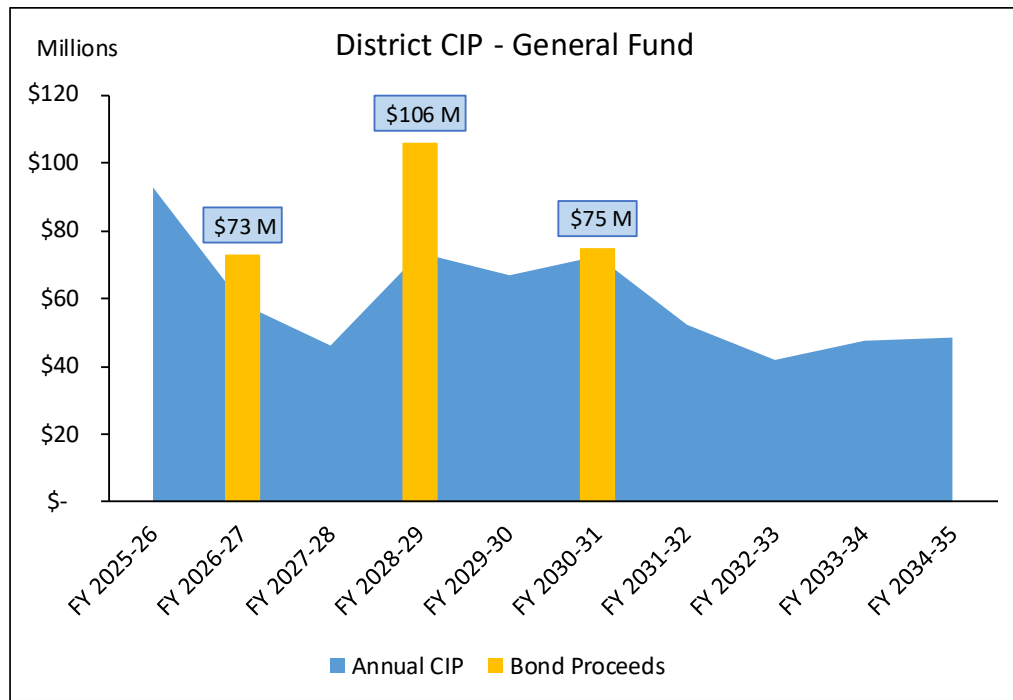


Figure 2-30 provides the planned adjustments to the General Fund rate revenue for all three Systems to maintain the District’s debt coverage ratio at or above 1.75, and reserves at or above target levels over the course of the 10-year planning period.

Figure 2-3030. Rate Revenue Adjustments for Water, Recycled Water, and Wastewater Systems

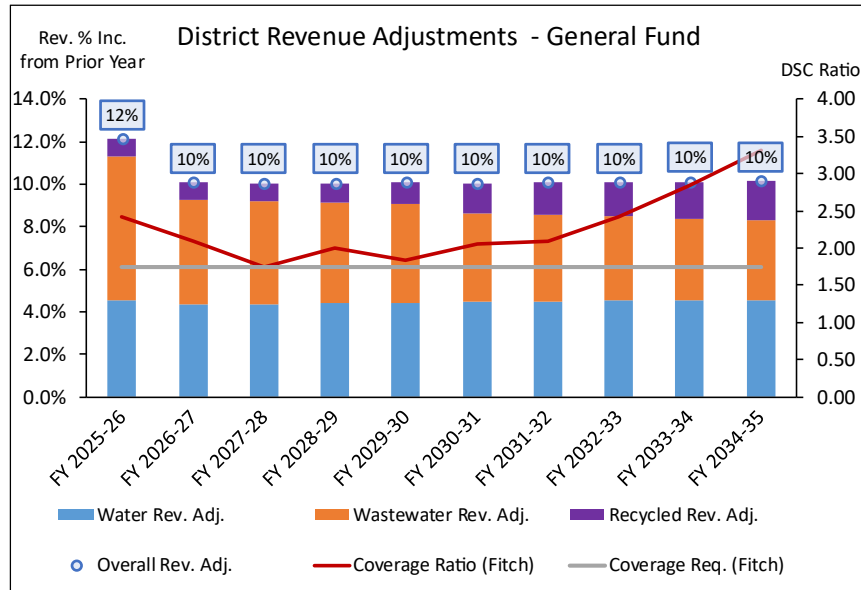
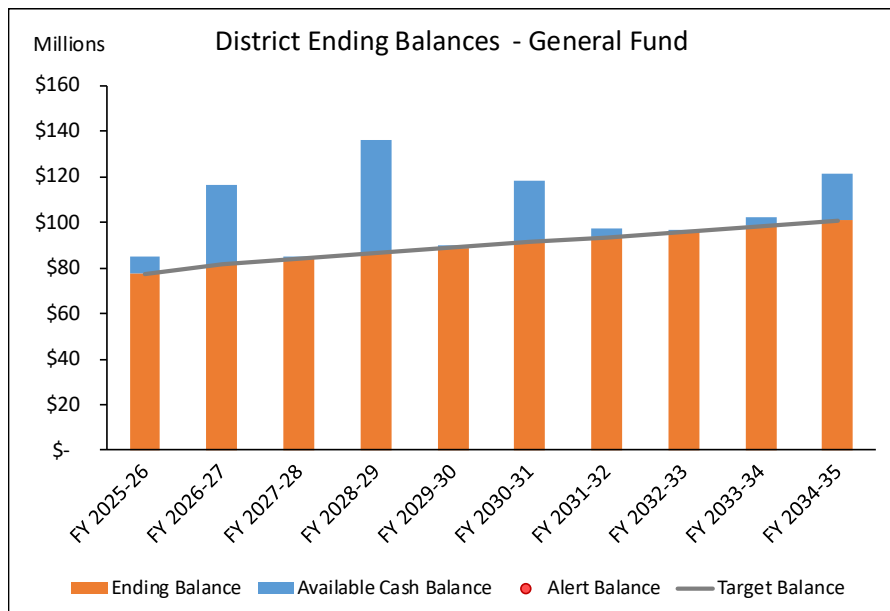


Figure 2-31 provides a 10-year forecast of the District’s General Fund Ending Balances assuming the recommended financial plan is adopted. Aggregated across all three Systems, the proposed financial strategy will provide sufficient funding to invest in the District’s capital infrastructure, operate and maintain the three Systems to meet the service needs of the District’s customers, and maintain the District’s coverage ratios and reserves at or above target levels in all years. Specifically, the Figure 2-31 shows that the ending balances will be maintained above the target levels during the projected years.

Figure 2-3131. General Fund Ending Balances for FY 2025-26 – FY 2034-35



3. COST-OF-SERVICE ANALYSIS

Having identified the District's FY 2025-26 test year revenue requirements, discussed in Chapter 2 and the LRFP report, the next step is to allocate the respective system costs across customers in proportion to their cost of service. In order to accomplish this goal, the District groups customers into customer classes based on shared usage characteristics and service requirements, and therefore, shared costs of service. Such cost differentials are reflected through the District's Monthly Water Service Charges. Through the process of cost functionalization and allocation, the cost-of-service analysis identifies what differing relative demands exist between customer classes. Annual revenue from rates must recover expenditures such as system maintenance & operations, debt service payments, and capital infrastructure costs, as discussed in Section 2.9.

3.1. Potable Water System Cost-of-Service

The Potable Water System customers place the following demands on the System:

- Customer service requirements such as bill processing, customer service support, meter reading, and other administrative services, determined by the number of customers connected to the Potable Water System,
- The water capacity demands measured by each class's average-day water use (base), maximum-day (max-day) use, and maximum-hour (max-hour) use (impacting the size of a customer's meter and other system capacity),
- Reservation for fire flow capacity to provide emergency water service to property served by the District during fire events that are applicable to the Potable Water System,
- Costs to offset the water supply and reliability impacts are attributable to out-of-budget usage of Potable Water, which will be discussed in Section 3.4.

3.1.1. Customer Classes

The cost of providing water service can reasonably be determined for groups or classes of customers that have similar service characteristics and water use demand patterns. Assigning costs accurately to classes of customers based on their service requirements is critical in designing nondiscriminatory rates that proportionately allocate the cost of service among customer classes. The District's Potable Water System consists of the following customer classes:

- **Single-Family Residential:** Customers who reside in single-family detached homes, or individually metered condominiums and townhouses.
- **Multi-family Residential:** Customers who reside in a housing structure where multiple housing units share a single meter (master meter).
- **Commercial:** Nonresidential or nonindustrial business enterprise and institutional customers, from small retail shops to office buildings, car washes, schools, and restaurants.

- **Potable Irrigation:** Customers who use individually metered potable water service for the sole purpose of outdoor irrigation. This class includes private irrigation connections such as homeowners’ associations and some municipal accounts with a separate meter dedicated to outdoor irrigation.
- **Private Fire Protection:** Customers with private fire protection within a structure, such as apartments and commercial buildings equipped with water systems that provide sufficient capacity for fire protection. While these accounts use very little water, the District’s distribution infrastructure must be sized to serve high volume water when needed in the event of an emergency.

Table 3-1 displays the number of Potable Water customer accounts by customer class.

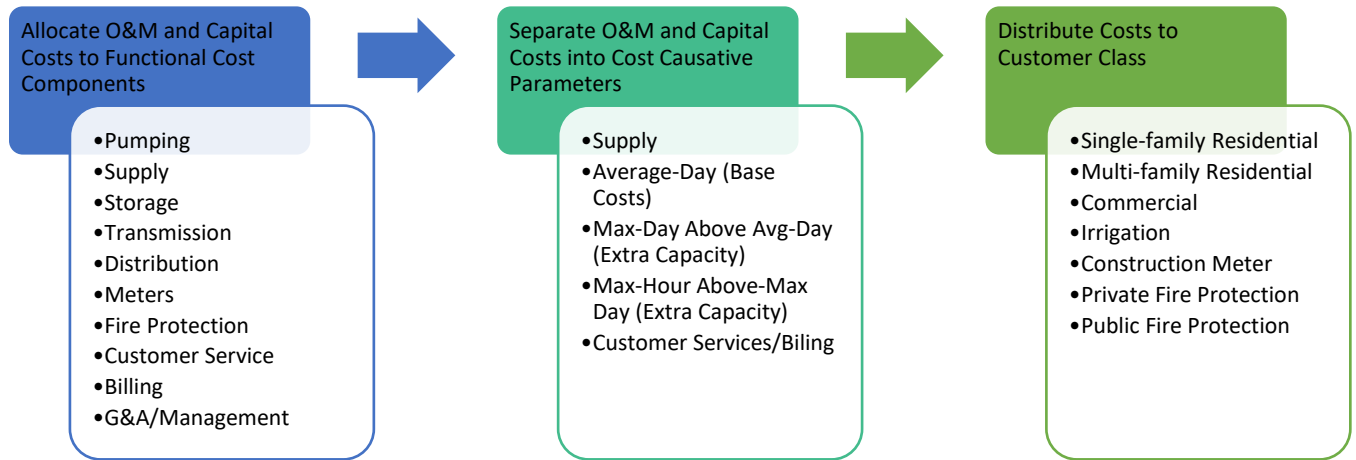
Table 3-1. Number of Potable Water Customer Accounts by Customer Class

Customer Class	Number of Accounts
Single-family Residential	47,331
Multi-family Residential	2,163
Commercial	1,928
Irrigation	1,281
Private Fire Protection	973
Public Fire Protection	-
Total	53,676

Construction Meters (temporary meters) are used as requested to be installed at fire hydrants for temporary activities such as providing water to construction sites or street cleaning. The costs incurred from the Public Fire Protection services are first allocated to its own class and ultimately reallocated to other Potable Water customer classes in proportion to the number of equivalent meters of each customer class.

Figure 3-1 illustrates the general process for allocating costs of service to customer classes. The cost-of-service methodology first allocates costs to major functional cost components, then to cost categories, and subsequently distributes the costs to customer classes.

Figure 3-1. MNWD Potable Water System Cost-of-Service Analysis Flow Chart



3.1.2. Cost Functionalization

The District is composed of multiple facilities that serve a particular function related to providing water service. These facilities are designed and operated to meet both the average-day and peak demands as well as customer-related requirements. The revenue requirements to operate, maintain, and expand the Potable Water System are allocated to the functions which provide specific services. For purposes of the cost-of-service analysis, the Potable Water System costs are allocated into the following major functional areas:

- Pumping: costs associated with pumping water from treatment takeout facilities to transmission and distribution systems
- Supply: costs associated with the (source of) supply of water, including supply development
- Storage: costs associated with storing water, such as reservoir maintenance
- Transmission: costs associated with transmitting water from treatment takeout facilities to the distribution system. An Internal diameter of 12” or greater was used to distinguish pipes and delivery infrastructure associated with transmission
- Distribution: costs associated with distributing water to end users. An internal diameter of less than 12” was used to distinguish pipes and delivery infrastructure associated with transmission
- Meters: costs associated with customer water meters, including provision, replacement, servicing, and testing

- **Fire Protection:** costs associated with private fire suppression systems and public fire hydrants to provide water service to property served by the District during fire events
- **Customer Service and Billing:** costs associated with meter reading, billing, collections, and managing customer accounts (such as responding to customer requests and complaints)
- **General and Administrative:** costs associated with the overall management of the District’s operations, as well as supplementary tasks such as accounting, legal services, and human resources

Costs are allocated for each District employee, based on job description, salary, and the percentage of the employee’s time spent on tasks corresponding to each functional category. Each of these functional categories contains specific facilities associated with that function. Costs are further allocated to specific facilities in a particular function to assist the cost allocation.

3.1.3. Cost Allocation

The cost of providing water service to customers depends not only on the total volume of water used, but also on the rate of use or peak demand requirements. In using the base-extra capacity method described in the AWWA M1, costs are typically separated into broad cost components, including: “Supply”, “Base,” “Extra Capacity,” and “Customer.” Each cost component is described in detail below:

- **Supply (Diemer/Baker):** Costs associated with water imports and production including water purchases, MWDOC annual connection charge, IRWD Baker fixed and variable costs, and pipeline maintenance, among others. As noted, these Supply costs will be further divided into their respective fixed and variable components to facilitate the development of marginal cost based volumetric rates, discussed in detail in Section 4.2.3.
- **Base Costs:** Costs that tend to vary with the total quantity of water used, plus the costs incurred to provide water under average daily demand conditions. Base demands for customer classes are measured as average daily demand of each customer class.
- **Extra-Capacity Costs (Max-Day and Max-Hour)⁷:** Costs incurred to meet peak demands for water in excess of basic demand (base). This cost category includes the infrastructure costs related to providing the required extra capacity of the System to meet maximum day (max-day) and maximum-hour (max-hour) demands such as tanks and pump stations.
- **Customer Services/Meter:** Customer service-related costs such as the meter reading, maintenance and capital projects on meters and services, accounting, general and administrative costs, and other related expenses. The customer costs are allocated based on the number of customer accounts. These costs are incurred at the same level regardless of whether the District provides water to the customers.
- **Billing:** Costs related to the number of bills issued and distributed to customer classes based on the number of bills rendered to customers within each class.

⁷ Maximum day demand is the maximum amount of water used in a single day in a year. Maximum hour demand is the maximum usage of water in an hour on the maximum usage day.

Functionalization provides a reasonable, appropriate, and industry-standard basis for proportionately distributing costs to customers based on their usage patterns. It is also grounded in cost-of-service principles and standards.

3.1.4. Average Daily Water Demands

In the base-extra capacity method, costs are carefully separated between base costs and extra capacity costs. The base costs are incurred as a result of providing water to meet demands at an average daily rate. Because the District has fully deployed its Advanced Metering Infrastructure (AMI), customer meters are able to be read on a daily basis; however, intermittent radio signal strength and measurement limitations due to meter read resolution do not allow for all water usage to be captured on a given day. Because of this limitation, average daily demands were estimated by dividing average billed monthly demand by 30 days. Recognizing that customer demands have varied significantly among customer classes since the prior rate study due to businesses reopening after COVID-related closures, returning from work-from-home requirements, and a mix of both high precipitation and low precipitation years, this COS analysis used average water usage data calculated from actual billed consumption from July 1, 2022 to June 30, 2025 (FY 2024-25). Using average usage data over the entire four-year period captures a range of hydrologic conditions and minimizes the impact of periods of non-conventional water use. Table 3-2 shows the average annual water demand and average daily water demands by the Potable customer classes. The cost implications of water demands are discussed in the next section.

Table 3-2. Potable Water System Annual Water Demand and Average Daily Demand by Customer Class

Customer Class	Annual Water Demand (hcf)	Average Daily Water Demand (hcf /day)
Single-family Residential	6,011,471	16,182
Multi-family Residential	1,052,630	2,971
Commercial	889,017	2,750
Irrigation	1,226,956	3,242
Construction Meter	3,756	10
Private Fire Protection	704	2
Total Potable Usage	9,184,534	25,157

Note: Annual Water Demand is based on an average of billed water usage for FY 2022-23 through FY 2024-25.

3.1.5. Maximum-Day and Maximum-Hour Demands

The concept of proportionate allocation of costs to customer classes implies that allocations should take into consideration not only the relative quantity of water used by each class but also the different rates at which water could be consumed. For example, costs associated with constructing a pump station capable of meeting peak (above average) demands are to be allocated appropriately such that the customer class with higher peak demands pays proportionately more towards the infrastructure costs that accommodate said peak demands. The peak demands have significant cost-of-service implications because infrastructure for water supply and the distribution system needs to be sized to provide not just the average water demand, but also the peak demands of customers. Customers with high seasonal use, such as summertime irrigators, tend to have the highest max-day and max-hour demands. Such cost

differentials are reflected through the District’s Monthly Water Service Charges. The maximum-day usage for the Potable Water System was estimated using the four-year average billed monthly usage data by customer class. The average of the maximum-day total water usage for the total system was 37,736 hcf (approximately 28.2 mgd) on average during FY 2021-22 – FY 2024-25, which represents approximately 1.5 times the average daily (i.e., base) demand of 25,157 hcf (18.8 mgd). Based on this historical average, the max-hour demand is estimated to be 1.5 times the max-day demand for all customer classes based on minimum design requirements per the California Code of Regulations (Titles 17 and 22 of the California Code of Regulations California Regulations Related to Drinking Water, 2016). As noted in Section 3.1.4, the District’s AMI network captures hourly reads from meters on a daily basis but due to data gaps stemming from intermittent radio signal strength or measurement limitations, AMI reads do not comprehensively capture all of the water used by customers in any given hour. Though the AMI reads do not account for 100 percent of customer usage, a significant proportion of usage from each class is captured by the network. B&V used a representative sample of AMI reads to validate the class-specific demand factors. Table 3-3 presents average-day, max-day, and max-hour demands by customer class for the Potable Water System.

Table 3-3. Potable Water System Average Day, Max-Day, and Max-Hour Demand by Customer Class

Customer Class	Total Annual Usage (hcf)	Avg-Day Usage (hcf)	Max-Day Usage (hcf)	Max-Day above Avg Day (hcf)	Max-Hr Usage (hcf)	Max-Hr above Max-Day (hcf)
Single-family Residential	6,011,471	16,182	21,706	5,524	32,559	10,853
Multi-family Residential	1,052,630	2,971	3,266	295	4,900	1,633
Commercial	889,017	2,750	3,165	415	4,747	1,582
Irrigation	1,226,956	3,242	5,688	2,446	8,532	2,844
Construction Meter	3,756	10	17	6	25	8
Private Fire Protection	704	2	81	79	488	407
Public Fire Protection	0	0	642	642	3,850	3,208
Total	9,184,534	25,157	34,565	9,407	55,101	20,535

Note: Annual Water Demand is based on an average of billed water usage for FY 2021-22 through FY 2024-25.

Public fire protection capacity was added to reflect a fire-flow requirement of 2,000 gallons per minute (GPM) for a 4 - hour duration, yielding approximately 0.5 mgd for max-day and 2.9 mgd for max-hour demand. The methodology used to calculate water service for public fire protection demands and associated costs are based on development requirements outlined in the District’s Standards and Specifications and District engineering staff estimates of fire flow capacity requirements. These requirements are consistent with industry standards, as described in the AWWA M1. These requirements reflect the costs for delivering water to property served by the District through public fire hydrants at sufficient quantities and pressures to fight fires.

3.1.6. Customer-Related Costs (Customer Services/Billing)

Customer-related costs such as customer services and billing must be distributed among customer classes proportionally based on certain demands associated with these costs. Customer costs are related to the number of customer accounts served in the District’s service area. Meter costs are related to the number and size of the meters. The number of equivalent meters is used to compute the Customer-related demands, which vary depending on the size of service pipe, materials used, locations of meters and other local characteristics. This assumes that larger meters have the potential to demand more capacity, or said differently, exert more peaking characteristics compared to smaller meters. The potential capacity demanded (peaking) is proportional to the potential flow through each meter size. The ratios shown in Table 3-6 are the ratio of potential flow through each meter size compared to the flow through a 5/8-inch meter as the standard meter size. As a result of District’s service area’s rapid development, a variety of water meter sizes are used to deliver water to parcels with otherwise similar water demands. As these parcels place similar demands on the Systems, 3/4-inch and 1-inch meters are assigned the same ratio as the smaller 5/8-inch meter. For example, the second column of Table 3-6 shows that the flow through a 2-inch meter is 5.3 times that of a 5/8-inch meter. The number of customer accounts and the equivalent meter counts are summarized in Table 3-4. The AWWA-recommended equivalent meter and service ratios used to compute the equivalent meter counts are presented in Table 3-5.

Table 3-4. Potable Water System Number of Customer Accounts and Equivalent Meters by Customer Class

Customer Class	# of Customer Accounts	# of Equivalent Meters
Single-family Residential	47,325	47,640
Multi-family Residential	2,173	11,215
Commercial	1,943	8,292
Potable Irrigation	1,282	6,022
Private Fire Protection	998	32,005
Total	53,721	105,174

Table 3-5. AWWA Equivalent Meter and Service Ratios

Meter Size	AWWA Ratio
5/8"	1.0
3/4"	1.0
1"	1.0
1.5"	3.3
2"	5.3
3"	11.7
4"	20.0
6"	41.7
8"	60.0
10"	96.7

Billing Costs are related to the number of bills issued and distributed to customer classes based on the number of bills rendered to customers within each class. MNWD bills customers monthly, thus the District's customer class responsibility for billing is determined by multiplying the billing unit cost by 12 in each customer class rendered for the test year.

3.1.7. Cost-of-Service Analysis Procedure

Procedure 1: Functionalize Potable Water System Costs

The first step of the cost-of-service analysis is to analyze and segregate the O&M costs of the Potable Water System by the system functions. The functional categories discussed in Section 3.1.2 and their associated values were used to determine the proper allocation of O&M costs to the customer classes based on their demand characteristics.

Table 3-6 provides a summary of the test year's O&M expenses by function and a distribution of the costs. The values were assigned based on reviewing each line item of the District's O&M budget.

Table 3-6. General Fund Potable Water System O&M Cost Allocation and Distribution by Function

System Function	Cost Allocation	% Allocated
Pumping	\$2,268,850	3.6%
Supply (Diemer + Baker)	\$36,754,790	58.7%
Storage	\$1,164,093	1.9%
Transmission	\$2,170,570	3.5%
Distribution	\$3,000,679	4.8%
Meters	\$2,339,708	3.7%
Fire	\$243,133	0.4%
Customer Service	\$1,694,875	2.7%
Billing	\$1,461,465	2.3%
G&A - O&M	\$11,567,399	18.5%
Total	\$62,665,562	100.0%

Note: The total amount of \$62.7 million does not include O&M expense for WE program

The capital costs of the Potable Water System were also analyzed and segregated by the system functions. A summary of the net capital assets by function and the resultant capital budget allocation by function are presented in Table 3-7. Total Potable Water System capital costs for the test year are approximately \$18.6 million.

Table 3-7. General Fund Potable Water System Assets and Capital Expenses by Functions

System Function	Cost Allocation	% Allocated
Pumping	\$2,193,762	11.8%
Supply (Diemer + Baker)	\$1,758,243	9.4%
Storage	\$2,881,626	15.5%
Transmission	\$3,355,995	18.0%
Distribution	\$3,588,179	19.3%
Meters	\$2,296,508	12.3%
Fire	\$304,615	1.6%
Customer Service	\$12,628	0.1%
Billing	\$551,629	3.0%
G&A - CIP	\$1,668,983	9.0%
Total	\$18,612,168	100.0%

Note: The total amount of \$18.6 million does not include CIPs for WE program

Procedure 2: Allocate Costs Based on Customer Service Characteristics

The functionalized O&M and capital costs are then assigned to the cost components described in Section 3.1.3. Table 3-8 and Table 3-19 summarize the cost allocations of the functionalized O&M and the capital costs to each Potable Water System customer class.

Table 3-8. General Fund Allocation of Potable Water System Functionalized O&M Cost to Customer Class

Customer Class	Supply	Base	Max-Day	Max-Hour	Customer	Meter	Total*
Single-family Residential	\$23,996,611	\$8,915,222	\$1,245,566	\$1,685,455	\$3,409,333	\$1,298,177	\$40,550,364
Multi-family Residential	\$4,235,540	\$1,637,027	\$66,518	\$253,628	\$156,545	\$305,618	\$6,654,876
Commercial	\$3,635,691	\$1,514,900	\$93,643	\$245,757	\$139,975	\$225,964	\$5,855,930
Irrigation	\$4,882,835	\$1,786,044	\$551,584	\$441,680	\$92,356	\$164,089	\$7,918,588
Construction Meter	\$2,547	\$5,748	\$1,379	\$1,285	\$768	\$3,391	\$15,118
Private Fire Protection	\$477	\$1,077	\$17,905	\$63,178	\$71,897	\$872,134	\$1,026,668
Public Fire Protection	\$0	\$0	\$144,679	\$498,250	\$0	\$0	\$642,929
Total	\$36,753,701	\$13,860,018	\$2,121,274	\$3,189,233	\$3,870,874	\$2,869,373	\$62,664,472

*Note: The proposed revenues shown in Table 3-8 differ slightly from those shown in Table 3-6 as a result of rounding in the cost-of-service process.

Table 3-9. General Fund Allocation of Potable Water System Functionalized CIP Cost to Customer Class

Customer Class	Supply	Base	Max-Day	Max-Hour	Customer	Meter	Total*
Single-family Residential	\$1,130,960	\$4,632,176	\$1,575,987	\$2,021,957	\$545,933	\$1,141,344	\$11,048,357
Multi-family Residential	\$207,669	\$850,567	\$84,163	\$304,266	\$25,067	\$268,696	\$1,740,428
Commercial	\$192,176	\$787,112	\$118,484	\$294,823	\$22,414	\$198,665	\$1,613,674
Irrigation	\$226,573	\$927,994	\$697,907	\$529,861	\$14,789	\$144,265	\$2,541,389
Construction Meter	\$729	\$2,987	\$1,745	\$1,542	\$123	\$2,982	\$10,108
Private Fire Protection	\$137	\$560	\$22,654	\$75,792	\$11,513	\$766,772	\$877,428
Public Fire Protection	\$0	\$0	\$183,059	\$597,726	\$0	\$0	\$780,785
Total	\$1,758,244	\$7,201,396	\$2,683,999	\$3,825,967	\$619,839	\$2,522,724	\$18,612,167

*Note: The proposed revenues shown in Table 3-9 differ slightly from those shown in Table 3-7 as a result of rounding in the cost-of-service process.

Table 3-10 and Table 3-11 display the distribution of Potable Water System O&M costs and capital costs among customer classes.

Table 3-40. General Fund Potable Water System O&M Cost Distribution by Customer Class

Customer Class	Cost Allocation*	% Allocated
Single-family Residential	\$40,550,364	64.7%
Multi-family Residential	\$6,654,875	10.6%
Commercial	\$5,855,930	9.3%
Irrigation	\$7,918,587	12.6%
Construction Meter	\$15,119	0.2%
Private Fire Protection	\$1,026,668	1.6%
Public Fire Protection	\$642,929	1.0%
Total	\$62,664,472	100.0%

*Note: The proposed revenues shown in Table 3-10 differ slightly from those shown in Table 3-6 as a result of rounding in the cost-of-service process.

Table 3-51. General Fund Potable Water System Capital Cost Distribution by Customer Class

Customer Class	Cost Allocation*	% Allocated
Single-family Residential	\$11,048,357	59.4%
Multi-family Residential	\$1,740,428	9.4%
Commercial	\$1,613,675	8.7%
Irrigation	\$2,541,388	13.7%
Construction Meter	\$10,107	0.1%
Private Fire Protection	\$877,427	4.7%
Public Fire Protection	\$780,785	4.2%
Total	\$18,612,167	100.0%

*Note: The proposed revenues shown in Table 3-11 differ slightly from those shown in Table 3-7 as a result of rounding in the cost-of-service process.

Procedure 3: Allocate Non-Rate Revenues to Customer Classes

Non-rate revenues are allocated back to customer classes based on their respective shares of total rate revenue. The non-rate revenues allocated to the Potable Water System customers are used to minimize the bill impact to individual customer classes and includes the District’s share of property tax, investment income, property lease, and miscellaneous non-operating revenue. The revenue from property tax amounts to approximately \$35.9 million, representing 86.6 percent of the Potable Water System’s total non-rate revenues. The property tax revenues are unrestricted and may be used by the District for any purpose. Table 3-12 summarizes the non-rate revenue credited to each customer class.

Table 3-162. General Fund Potable Water System Non-Rate Revenue Allocation by Customer Class

Customer Class	Property Tax	Other Non-Rate Revenues	Total Non-Rate Revenues
Single-family Residential	\$24,085,564	\$3,778,548	\$27,864,112
Multi-family Residential	\$4,071,589	\$548,139	\$4,619,729
Commercial	\$3,337,105	\$758,268	\$4,095,373
Irrigation	\$4,410,643	\$451,711	\$4,862,354
Total	\$35,904,901	\$5,536,666	\$41,441,568

Procedure 4: Distribute Total Costs to Specific Customer Classes

The total rate revenue requirement is determined by combining the O&M and capital costs and subtracting the credits from non-rate revenues for each respective class. From the total rate revenue requirements, the Public Fire Protection revenue requirements are allocated among the remaining customer classes (except Construction Meters) based on their respective capacity demands on the distribution system measured by the number of equivalent meters. The values in Column g of Table 3-13 are the revenue requirements used when calculating the water rates and charges for each customer class of the Potable Water System.

Table 3-173. General Fund Potable Water System Summary of Rate Revenue Requirements

Customer Class	a Total O&M Revenue Requirement _s	b Total Capital Revenue Requirements	c Non-rate Revenue Credit	d=a+b+c Total Rate Revenue Requirements	e Reallocation of Public Fire Protection	f=d+e Rate Revenue Requirements	Cost Allocation (%)
Single-family Residential	\$40,550,364	\$11,048,357	(\$27,864,112)	\$23,734,609	\$571,640	\$24,306,248	61.0%
Multi-family Residential	\$6,654,875	\$1,740,428	(\$4,619,729)	\$3,775,574	\$134,576	\$3,910,150	9.8%
Commercial	\$5,855,930	\$1,613,675	(\$4,095,373)	\$3,374,232	\$99,501	\$3,473,733	8.7%
Irrigation	\$7,918,587	\$2,541,388	(\$4,862,354)	\$5,597,622	\$72,255	\$5,669,877	14.2%
Construction Meter	\$15,119	\$10,107	\$0	\$25,227	\$0	\$25,227	0.1%
Private Fire Protection	\$1,026,668	\$877,427	\$0	\$1,904,096	\$545,742	\$2,449,837	6.1%
Public Fire Protection	\$642,929	\$780,785	\$0	\$1,423,713	(\$1,423,713)	\$0	0.0%
Total	\$62,664,472	\$18,612,167	(\$41,441,567)	\$39,835,073	\$0	\$39,835,072	100.0%

3.1.8. Cost Allocation Comparison (Current vs. Proposed)

Table 3-14 summarizes the required rate revenues derived from each customer class based on the proposed cost allocation identified in Section 3.1.7 and compares them to the current cost allocation. Under the proposed cost allocation, 97.0 percent of the total property tax revenue is allocated to the Potable Water System customers while 3.0 percent is allocated to the Recycled Water System customers. The Recycled Water System cost of service is provided in detail in Section 3.2. Potable Irrigation, and Commercial customers’ cost share will increase while Single-Family Residential, Multi-Family Residential, and Private Fire Protection cost share will slightly decrease.

Table 3-184. Potable Water System Current vs. Proposed Cost Allocation by Customer Class

	a	b	c	d	e = c - a	f = d - b
Customer Class	Revenues under Current Rate Structure	Cost Distribution (%)	Revenues under Proposed Rate Structure	Cost Distribution (%)	Cost Difference	% Difference
Single-Family Residential	\$22,049,345	61.9%	\$24,332,112	61.1%	\$2,282,767	-0.8%
Multi-Family	\$3,527,866	9.9%	\$3,914,627	9.8%	\$386,761	-0.1%
Commercial	\$2,907,245	8.2%	\$3,477,562	8.7%	\$570,317	0.5%
Potable Irrigation	\$4,880,267	13.7%	\$5,675,234	14.2%	\$794,968	0.5%
Private Fire Protection	\$2,276,143	6.3%	\$2,449,837	6.2%	\$173,694	-0.2%
Total	\$35,640,866	100.0%	\$39,849,373	100.0%	\$4,208,508	

3.2. Recycled Water System Cost-of-Service

The Recycled Water System customers place the following demands on the System:

- Customer service requirements such as bill processing, customer service support, meter reading, and other administrative services, determined by the number of customers connected to the Recycled Water System
- The water capacity demands measured by average day water use, max-day use, and max-hour use (impacting the size of a customer’s meter)
- Costs for the out-of-budget usage of Recycled Water, which will be discussed in Section 3.4.

3.2.1. Customer Classes

The District currently provides recycled water service to a customer class identified as Recycled Irrigation. The District also rents meters (temporary meters) described in section 3.1.1 to provide recycled water for construction; however, this class accounts for only 0.21 percent of the total System demand.

Table 3-195. Number of Recycled Water Customer Accounts

Customer Class	Number of Accounts
Recycled Irrigation	1,395

The cost-of-service methodology is the same in all three Systems; however, the functions, cost components, and customer classes vary depending on the System, as some facilities related to the functions, cost components, and customer classes may be specific to that System.

3.2.2. Cost Functionalization

The Recycled Water System's functions are similar to those of the Potable Water System as both systems operate in a similar manner. These facilities are designed and operated to meet both average-day and peak demands, as well as customer-related requirements. The only function that is part of the Potable Water System but not of the Recycled Water System is Fire Protection because recycled water is not used for fire suppression. The Recycled Water System costs are allocated into the following major functional categories (see the detailed description for each function in Section 3.1.2):

- Pumping
- Supply
- Storage
- Transmission
- Distribution
- Meters
- Customer Service/Billing
- General and Administrative

Each of these functional categories contains specific facilities associated with that function. Costs are further allocated to specific facilities associated with a particular function.

3.2.3. Cost Allocation

The same principle of allocating costs to functional categories for potable water largely applies to the Recycled Water System. The cost of service depends not only on the total volume of water used, but also on the rate of use or peak demand requirements. The five cost components of the Potable Water System also exist for the Recycled Water System: Supply, Base, Extra Capacity (Max-Day and Max-Hour), Customer, and Meter. See the description of the cost categories in Section 3.1.3.

This functional allocation process provides a reasonable, appropriate, and industry-standard basis for proportionately distributing costs to customer classes based on their usage patterns and is grounded in cost-of-service principles and standards.

3.2.4. Average Daily Water Demands

The base costs are incurred as a result of providing water to meet demands at an average daily rate. Since customer meters are not read daily, the average daily demands were estimated by dividing average monthly demand by 30 days. Based on the best available data, this cost-of-service analysis used the average water usage data from 2022 through June 2025 (FY 2024-25). Table 3-16 shows the annual water demand and average daily water demands by the Recycled Water customer classes. The cost implications of water demands are discussed in the next section.

Table 3-1106. Recycled Water System Annual Water Demand and Average Daily Demand by Customer Class

Customer Class	Annual Water Demand (hcf)	Average Daily Water Demand (hcf /day)
Recycled Irrigation	2,393,302	6,347
Construction Meter	5,071	14
Total Potable Usage	2,398,373	6,361

Note: Annual Water Demand is based on an average of billed water usage for FY 2021-22 through FY 2024-25.

3.2.5. Maximum-Day and Maximum-Hour Demands

A peaking analysis was performed to compute the rate of peak demand (max-day demand over average-day demand and max-hour demand above max-day demand) for Recycled Irrigation customers. In aggregate, Recycled Irrigation customer demand has a peaking factor of 2.3 times average-day demand for max-day usage and 3.4 times average-day demand for max-hour usage, which equates to 14,515 hcf (approximately 10.9 mgd) and 21,803 hcf (16.3 mgd) of recycled water consumption, respectively. Recycled Water demand spikes during the summer months such as August and September, to approximately 1.7 times its average month.

Table 3-17 presents average-day, max-day, and max-hour demand by customer class for the Recycled Water System.

Table 3-17. Recycled Water System Average Day, Max-Day, and Max-Hour Demand by Customer Class

Customer Class	Total Annual Usage (hcf)	Avg-Day Usage (hcf)	Max-Day Usage (hcf)	Max-Day above Avg Day (hcf)	Max-Hr Usage (hcf)	Max-Hr above Max-Day (hcf)
Recycled Irrigation	2,289,982	6,347	14,515	8,168	21,772	7,257
Construction Meter	5,141	14	21	7	31	10
Total	2,295,123	6,361	14,536	8,175	21,803	7,267

3.2.6. Customer-Related Costs (Customer/Meter)

Customer-related costs such as Customer and Meter are distributed to the Recycled Water System customers proportionally based on certain demands associated with these costs. The number of customer accounts and the equivalent meter counts are summarized in Table 3-8.

Table 3-18. Recycled Water System Number of Customer Accounts and Equivalent Meters by Customer Class

Customer Class	# of Customer Accounts	# of Equivalent Meters
Recycled Irrigation	1,395	7,914
Construction Meter	15	170
Total	1,410	8,084

3.2.7. Cost-of-Service Analysis Procedure

Procedure 1: Functionalize Recycled Water System Costs

O&M costs of the Recycled Water System were analyzed and segregated by the system functions. The functional categories discussed in Section 3.2.2 and their associated values were used to determine the proper allocation of the O&M costs. Table 3-19 provides a summary of the test year O&M costs by function and a distribution of the costs.

Table 3-19. General Fund Recycled Water System O&M Cost Allocation and Distribution by Function

System Function	Cost Allocation	% Allocated
Pumping	\$1,058,915	12.7%
Supply	\$507,320	6.1%
Storage	\$719,170	8.7%
Transmission	\$786,742	9.5%
Distribution	\$405,989	4.9%
Meters	\$734,681	8.8%
Customer Service	\$86,756	1.0%
Billing	\$78,035	0.9%
G&A - O&M	\$3,933,741	47.3%
Total	\$8,311,349	100.0%

Note: The total amount of \$8.3 million does not include O&M expense for WE program

The capital costs of the Recycled Water System were also analyzed and segregated by the system functions. Total Recycled Water System capital costs for the test year are \$2.1 million.

Table 3-20. General Fund Recycled Water System Assets and Capital Expenses by Functions

System Function	Cost Allocation	% Allocated
Pumping	\$89,468	4.4%
Supply	\$206,258	10.0%
Storage	\$184,882	9.0%
Transmission	\$1,056,919	51.4%
Distribution	\$29,325	1.4%
Meters	\$42,557	2.1%
Customer Service	\$2,726	0.1%
Billing	\$0	0.0%
G&A – CIP	\$444,223	21.6%
Total	\$2,056,358	100.0%

Note: The total amount of \$2.1 million does not include CIP expense for WE program

Procedure 2: Allocate Costs Based on Customer Service Characteristics

The functionalized O&M and capital costs are then assigned to the cost components described in Section 3.2.3. Table 3-21 and Table 3-22 summarize the cost allocations of the functionalized O&M and the capital costs to Recycled Water System customer classes.

Table 3-1121. General Fund Recycled Water System Functionalized O&M Cost Allocation by Customer Class

Customer Class	Supply	Base	Max-Day	Max-Hour	Customer	Meter	Total*
Recycled Irrigation	\$506,188	\$2,314,203	\$2,392,689	\$1,380,235	\$309,637	\$1,365,513	\$8,268,465
Construction Meter	\$1,123	\$5,136	\$2,025	\$1,997	\$3,237	\$29,358	\$42,875
Total	\$507,311	\$2,319,339	\$2,394,714	\$1,382,232	\$312,874	\$1,394,871	\$8,311,340

*Note: The proposed revenues shown in Table 3-21 differ slightly from those shown in Table 3-19 as a result of rounding in the cost-of-service process.

Table 3-22. General Fund Recycled Water System Functionalized Capital Cost Allocation by Customer Class

Customer Class	Supply	Base	Max-Day	Max-Hour	Customer	Meter	Total
Recycled Irrigation	\$205,796	\$758,175	\$902,670	\$128,936	\$3,085	\$53,144	\$2,051,806
Construction Meter	\$457	\$1,683	\$764	\$187	\$32	\$1,143	\$4,265
Total	\$206,253	\$759,858	\$903,434	\$129,123	\$3,117	\$54,287	\$2,056,071

*Note: The proposed revenues shown in Table 3-22 differ slightly from those shown in Table 3-20 as a result of rounding in the cost-of-service process.

Table 3-23 and Table 3-24 display the allocation of Recycled Water System O&M costs and capital costs to its customer classes.

Table 3-23. General Fund Recycled Water System O&M Cost Distribution by Customer Class

Customer Class	Cost Allocation	% Allocated
Recycled Irrigation	\$8,268,465	99.5%
Construction Meter	\$42,875	0.5%
Total	\$8,311,340	100.0%

*Note: The proposed revenues shown in Table 3-24 differ slightly from those shown in Table 3-19 as a result of rounding in the cost-of-service process.

Table 3-1224. General Fund Recycled Water System Capital Cost Distribution by Customer Class

Customer Class	Cost Allocation	% Allocated
Recycled Irrigation	\$2,051,806	99.8%
Construction Meter	\$4,265	0.2%
Total	\$2,056,071	100.0%

*Note: The proposed revenues shown in Table 3-24 differ slightly from those shown in Table 3-20 as a result of rounding in the cost-of-service process.

Procedure 3: Allocate Non-Rate Revenues to Customer Classes

Non-rate revenues are allocated to the Recycled Water System customers as shown in Table 3-25. The System’s non-rate revenues include property tax, investment income, property lease, and miscellaneous non-operating revenues. The property tax revenue amounts to approximately \$1.1 million, representing 3.0 percent of the total property tax revenues (\$37.0 million) that are used to offset rates. The expansion of the Recycled Water System and increased utilization to meet the needs of outdoor irrigation improves the availability of potable water supplies for all customers. Combined, these non-rate revenues offset more than one third of the recycled water system’s rate revenue requirements.

Table 3-1325. General Fund Recycled Water System Non-Rate Revenue Allocation by Customer Class

Customer Class	Property Tax	Other Non-Rate Revenues	Total Non-Rate Revenues
Recycled Irrigation	\$1,083,367	\$2,398,251	\$3,481,618

Procedure 4: Distribute Total Costs to Specific Customer Classes

The total rate revenue requirement is determined by combining the O&M and capital costs and subtracting the credits for non-rate revenues for the Recycled Water System customers. The values in the last column of Table 3-26 are the revenue requirements used when calculating the water rates for the Recycled Water System customers.

Table 3-1426. General Fund Recycled Water System Summary of Rate Revenue Requirements

	a	b	c	d=a+b+c
Customer Class	Total O&M Revenue Requirements	Total Capital Revenue Requirements	Non-rate Revenue Credit	Total Rate Revenue Requirements
Recycled Irrigation	\$8,268,465	\$2,051,806	(\$3,481,619)	\$6,838,652
Construction Meter	\$42,875	\$4,265	\$0	\$47,140
Total	\$8,311,340	\$2,056,071	(\$3,481,619)	\$6,885,792

3.3. Wastewater System Cost-of-Service

Much like the Potable and Recycled Water Systems, the Wastewater System incurs costs as a result of specific customer demands. The Wastewater System customer demands were determined, and costs were allocated to the following cost components:

- Flow:** Costs that vary with the hydraulic flow of sewage. The Flow costs typically include the operating, maintenance, and capital costs associated with treatment or collection lines or lift stations, and outfall infrastructure, which are typically designed to accommodate maximum hydraulic flow rates. These costs were assigned to the customer classes based on demand characteristics of each customer class.
- Biological Oxygen Demand (BOD) and Total Suspended Solids (TSS) Loadings:** Costs associated with sewage loadings. Loadings are measures of the concentration and mass of waste contributed to the Wastewater System. Most wastewater utilities, measure waste composition for two primary categories, BOD and TSS Loadings. The removal of BOD is primarily associated with the degradation of organic compounds. The cost of BOD removal is measured by total BOD loadings by customer class, as described in Section 3.3.2. The cost of TSS removal is primarily associated with the separation and disposal of solids. The cost of TSS removal is measured by total TSS loadings by customer class, as described in Section 3.3.2.
- Customer Costs:** Costs incurred as a result of serving customers are incurred regardless of the amount of wastewater produced. Customer costs include the costs of billing, customer accounting, general and administrative costs, and other customer-related costs. Customer costs are measured by the number of accounts in each customer class.

3.3.1. Customer Classes

The District’s Wastewater System is composed of the following customer classes:

- Single-family Residential
- Multi-Family
- Commercial, which is subdivided into four categories based on sewage strength

Costs were allocated to customer classes using the standard user strength data published by the California State Water Quality Control Board in the Revenue Program Guidelines, March 1998, in which customers are charged based on the approximate volume and strength of their wastewater.

Table 3-27 lists the six customer classes, along with industry standard values for wastewater concentrations by customer class, including examples of the type of customers that fall into each respective class.

Table 3-1527. Wastewater Strength by Customer Class

Customer Class	BOD (mg/L)	TSS (mg/L)	Description
Residential	212.50	212.50	Single-family Residential
Multi-family	212.50	212.50	Master Metered Residential
Commercial 1	132.08	133.75	Banks, car washes, churches, department stores, laundromats, offices, schools, and colleges
Commercial 2	278.00	188.00	Beauty and barber shops, hospitals and convalescence, commercial laundry, repair shops, service stations, and veterinarian hospitals
Commercial 3	700.00	733.33	Hotels with dining facilities, markets with garbage disposals, mortuaries, and fast-food restaurants
Commercial 4	955.00	782.50	Restaurants, auto steam cleaning and bakeries

Wastewater flow demands are difficult to measure accurately as individual customer discharges to the Wastewater System are not metered. Currently wastewater demands are estimated based on metered potable water usage. However, using metered potable water usage as a proxy for the volume of wastewater discharge does not fully account for the “return-to-sewer” factor. “Return-to-sewer” factor describes how much discharged potable water goes back to the sewer system. To compute this factor, the average wintertime (December through March) water usage was compared to year-round average water usage, assuming that the wintertime water demand is primarily for indoor use (returned to the Wastewater System) while during the rest of the year customers were assumed to use both indoor and outdoor water. Although some irrigation does occur during the wintertime, this approach uses the best available data and is applied equally (therefore equitably) to all customer classes. For purposes of this analysis, water usage data was used from FY 2024-25. The results are provided in Table 3-28.

Table 3-28. Wastewater System Return-to-Sewer Factors by Customer Class

Customer Class	Return to Sewer Factor
Residential	0.82
Multi-family	0.99
Commercial 1	0.88
Commercial 2	0.94
Commercial 3	0.96
Commercial 4	0.98

Based on the assumptions listed above and using projected water usage data, the total flow and loading values by customer class were projected for the test year and are provided in Table 3-29.

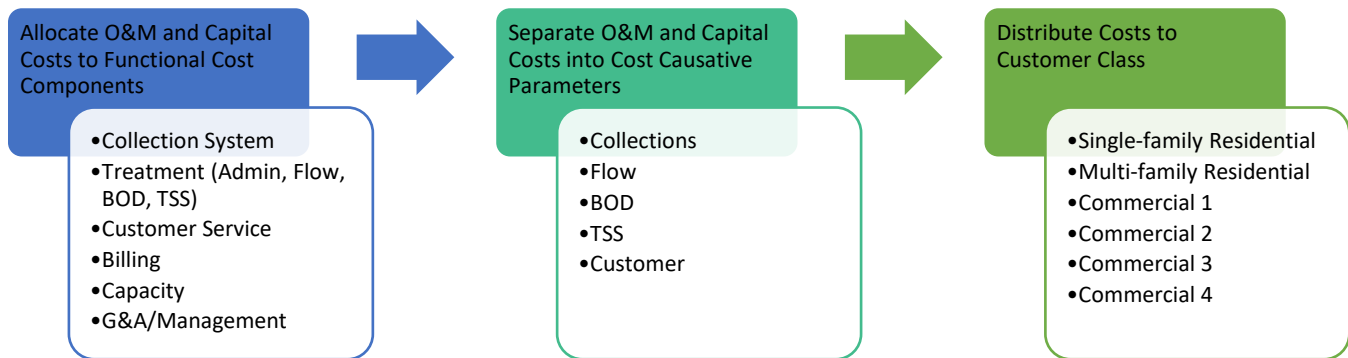
Table 3-1629. Number of Customer Accounts and Equivalent Meters, and Wastewater Flows and Loading, FY 2025-

26

Customer Class	# of Customer Accounts	# of Equivalent Meters	Wastewater Flow	BOD Loading	TSS Loadings
Residential	46,903	47,204	3,814,104	9,042,349	9,042,349
Multi-family	2,167	11,183	941,185	2,231,330	2,231,330
Commercial 1	1,209	5,127	328,279	483,749	489,853
Commercial 2	376	1,847	259,304	804,237	543,873
Commercial 3	205	760	118,444	924,995	969,042
Commercial 4	76	276	51,200	545,511	446,976

Figure 3-2 illustrates the general process of allocating costs-of-service to the Wastewater System customers.

Figure 3-2. Wastewater System Cost-of-Service Analysis Flow Chart



The District has a fats, oils, and grease (FOG) program, which is administered by a third party to permit fats, oil, and grease interceptors for food waste facilities. In developing the Wastewater System revenue requirements, the costs of administering this permit program are offset by approximately \$57,000 in projected FOG fees.

3.3.2. Cost-of-Service Analysis Procedure

Procedure 1: Functionalize Costs

O&M costs for the Wastewater System were analyzed and segregated by the distinct System functions. The functions were as follows:

- **Collection System:** Costs associated with conveying sewage from the customer site to treatment facilities.
- **Treatment Administrative:** Costs associated with the administrative facilities and functions at the District’s treatment plants.
- **Treatment Flow:** Costs associated with the conveyance of sewage through the treatment plant(s).
- **Treatment BOD:** Costs associated with the removal of BOD.
- **Treatment TSS:** Costs associated with the removal of TSS.
- **Billing:** Costs associated with billing customers for wastewater services.
- **Customer Service:** Costs associated with serving customers.
- **Capacity:** Costs associated with the sizing of the Collection System or Treatment Plants to meet peak wastewater flow rates.
- **General/Administrative:** District overhead costs.

Table 3-30 provides a summary of the test year O&M expenses by function for the Wastewater System.

Table 3-1730. Wastewater System O&M Cost Allocation and Distribution by Function

System Function	Cost Allocation	% Allocated
Collection System	\$7,967,751	25.4%
Treatment Admin	\$2,700,113	8.6%
Treatment Flow	\$1,306,451	4.2%
Treatment BOD	\$1,496,653	4.8%
Treatment TSS	\$3,855,098	12.3%
Customer Service	\$961,819	3.1%
Billing	\$840,884	2.7%
Capacity	\$75,653	0.2%
G&A - O&M	\$12,211,704	38.9%
Total	\$31,416,126	100.0%

The capital costs of the Wastewater System were also analyzed and classified by function. A summary of the capital budget allocation by function is presented in Table 3-31. The total Wastewater System capital costs for the test year are estimated to be approximately \$19.4 million.

Table 3-31. Wastewater System Capital Expenses by Functions

System Function	Cost Allocation	% Allocated
Collection System	\$7,949,412	40.9%
Treatment Admin	\$387,197	2.0%
Treatment Flow	\$1,410,501	7.3%
Treatment BOD	\$851,531	4.4%
Treatment TSS	\$1,036,745	5.3%
Customer Service	\$36,077	0.2%
Billing	\$2,779	0.0%
Capacity	\$1,139,615	5.9%
G&A - CIP	\$6,613,685	34.0%
Total	\$19,427,542	100.0%

Procedure 2: Allocate Costs Based on Customer Service Characteristics

The functionalized O&M and capital costs were then assigned to the cost categories described in the previous section. A summary of the test year assignment of O&M and capital costs by customer class for the Wastewater System are shown in Table 3-32 and Table 3-33, respectively.

Table 3-1832. Wastewater System Functionalized O&M Cost Allocation by Customer Class

Customer Class	Collections	Flow	BOD	TSS	Customer	Capacity	Total
Residential	\$6,518,696	\$4,970,772	\$1,982,143	\$5,707,196	\$2,715,509	\$87,984	\$21,894,316
Multi-family	\$1,608,582	\$1,226,609	\$489,122	\$1,408,333	\$125,461	\$20,845	\$4,858,108
Commercial 1	\$561,062	\$427,833	\$106,041	\$309,177	\$69,997	\$9,556	\$1,474,109
Commercial 2	\$443,178	\$337,941	\$176,294	\$343,272	\$21,769	\$3,442	\$1,322,454
Commercial 3	\$202,432	\$154,363	\$202,765	\$611,624	\$11,869	\$1,417	\$1,183,052
Commercial 4	\$87,506	\$66,727	\$119,580	\$282,115	\$4,400	\$514	\$560,327
Total	\$9,421,456	\$7,184,245	\$3,075,945	\$8,661,717	\$2,949,005	\$123,758	\$31,292,366

*Note: The proposed revenues shown in Table 3-32 differ slightly from those shown in Table 3-30 as a result of rounding in the cost-of-service process.

Table 3-1933. Wastewater System Functionalized Capital Cost Allocation by Customer Class

Customer Class	Collections	Flow	BOD	TSS	Customer	Capacity	Total
Residential	\$6,027,630	\$3,922,921	\$885,695	\$1,241,936	\$54,247	\$1,228,359	\$13,360,789
Multi-family	\$1,487,404	\$968,037	\$218,558	\$306,466	\$2,506	\$291,015	\$3,273,987
Commercial 1	\$518,796	\$337,644	\$47,383	\$67,280	\$1,398	\$133,418	\$1,105,920
Commercial 2	\$409,792	\$266,702	\$78,775	\$74,699	\$435	\$48,052	\$878,456
Commercial 3	\$187,183	\$121,823	\$90,603	\$133,095	\$237	\$19,784	\$552,724
Commercial 4	\$80,914	\$52,661	\$53,433	\$61,391	\$88	\$7,182	\$255,668
Total	\$8,711,719	\$5,669,789	\$1,374,447	\$1,884,866	\$58,911	\$1,727,811	\$19,427,543

*Note: The proposed revenues shown in Table 3-33 differ slightly from those shown in Table 3-31 as a result of rounding in the cost-of-service process.

Procedure 3: Allocate Non-Rate Revenues to Customer Classes

As with the Potable and Recycled Water Systems, non-rate revenues are applied as credits against the rate revenue requirement for the Wastewater System. Table 3-34 summarizes the non-rate revenue credits by customer class.

Table 3-2034. Wastewater System Non-Rate Revenue Allocation by Customer Class

Customer Class	Non-Rate Revenues
Residential	\$9,136,521
Multi-family	\$2,090,945
Commercial 1	\$623,387
Commercial 2	\$519,489
Commercial 3	\$357,149
Commercial 4	\$259,745
Total	\$12,987,236

The total rate revenue requirements by customer class for the Wastewater System are shown in Table 3-35. The values in Column e are the revenue requirements that will be used to calculate the Wastewater rates for each customer class, as described in Section 4.

Table 3-35. Wastewater System Summary of Rate Revenue Requirements by Customer Class

Customer Class	a Total O&M Revenue Requirements	b Total Capital Revenue Requirements	c Non-rate Revenue Credit	d=a+b+c Total Rate Revenue Requirements	e Cost Allocation (%)
Residential	\$21,982,300	\$13,360,789	(\$9,136,521)	\$26,206,568	69.2%
Multi-family	\$4,878,952	\$3,273,987	(\$2,090,945)	\$6,061,994	16.0%
Commercial 1	\$1,483,666	\$1,105,920	(\$623,387)	\$1,966,198	5.2%
Commercial 2	\$1,325,896	\$878,456	(\$519,489)	\$1,684,862	4.5%
Commercial 3	\$1,184,469	\$552,724	(\$357,149)	\$1,380,045	3.6%
Commercial 4	\$560,842	\$255,668	(\$259,745)	\$556,765	1.5%
Total	\$31,416,125	\$19,427,544	(\$12,987,236)	\$37,856,432	100.0%

3.3.3. Cost Allocation Comparison (Current vs. Proposed)

Table 3-36 summarizes the required rate revenues derived from each customer class based on the proposed cost allocation identified in Section 3.3.2 and compares them to the current cost allocation. Under the proposed cost allocation, the cost shares of Residential, Multi-Family, Commercial 1, and Commercial 2 customers will increase between 0.1 percent and 0.2 percent. All other customers will see a decrease of 0.2 percent or more.

Table 3-36. Wastewater System Current vs. Proposed Cost Allocation by Customer Class

a	b	c	d	e=c-a	f=d-b
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Customer Class	Revenue under Current Rate Structure	Cost Distribution (%)	Revenues under New Proposed Structure	Cost Distribution (%)	Cost Difference	Cost Distribution % Change
Residential	\$22,665,948	69.2%	\$26,206,568	69.2%	\$3,540,620	0.1%
Multi-family	\$5,186,043	15.8%	\$6,061,994	16.0%	\$875,951	0.2%
Commercial 1	\$1,628,190	5.0%	\$1,966,198	5.2%	\$338,008	0.2%
Commercial 2	\$1,438,598	4.4%	\$1,684,862	4.5%	\$246,264	0.1%
Commercial 3	\$1,315,307	4.0%	\$1,380,045	3.6%	\$64,738	-0.4%
Commercial 4	\$542,045	1.7%	\$556,765	1.5%	\$14,719	-0.2%
Total	\$32,776,131	100.0%	\$37,856,432	100.0%	\$5,080,300	

3.4. WE Program

California water agencies are stewards of scarce resources and regularly engage in programs and efforts designed to reduce impacts to supply reliability attributable to out-of-budget water use, such as rebates, targeted education, and diversifying water portfolios. Such programs have costs, and California water agencies can recover those costs from the customers necessitating agencies to engage in such programs.

Each month, District customers receive a calculated water budget designed to proportionately allocate costs based on the unique needs of their property. Customers who use water in excess of their calculated water budgets place greater demands on the District’s Potable Water and Recycled Water systems and supplies. Those customers who use more than their calculated water budgets are therefore subject to higher water rates to offset the incrementally higher costs they create. The District ensures increased rates within each tier correspond to increasing marginal supply costs, and incremental revenues collected from higher tiers are used to fund alternative water supply planning and development, rebates, and demand management programs, which lead to increased supply reliability. In addition, the District uses interest income earned from the WE Fund balances, as well as revenue from Demand Offset Fees to supplement the WE program fund.

3.4.1. Cost-of-Service Analysis Procedure

Procedure 1: Functionalize Costs

O&M costs and capital costs for the WE program were analyzed and segregated by the distinct System functions. The defined functions were as follows:

- **Customer Service:** costs associated with responding to customer inquiries concerning WE programs, educational content development, workshops, leak alerts, and monitoring program effectiveness
- **Rebate Program Management:** costs associated with management of the District’s rebate programs and other efficiency programs
- **Water Reliability Investments:** costs associated with Recycled Water System efficiency retrofits, meter infrastructure upgrades, and other supply reliability projects

- **Efficiency Device Rebates:** costs associated with improving end-user efficiency, such as MNWD’s commercial audit program, installation of smart timers, and rebate programs for washing machines and drip irrigation
- **Landscape Transformation:** costs associated with conservation programs, such as NatureScape, turf inspections, rebates, and installation

Table 3-37 provides a summary of total combined Potable Water and Recycled Water expenses by function for the WE program.

Table 3-2137. WE Program Cost Allocation and Distribution by Function

System Function	Total Cost	Percentage
Customer Service	\$1,433,083	27.6%
Rebate Program Management	\$364,838	7.0%
Water Reliability Investments	\$559,992	10.8%
Efficiency Device Rebates	\$1,198,864	23.1%
Landscape Transformation	\$1,641,946	31.6%
Total	\$5,198,723	100.0%

Procedure 2: Allocate Costs Based on Customer Service Characteristics

Table 3-38 summarizes the cost allocations of the total functionalized costs to each Potable Water and Recycled Water System customer class. The costs are allocated to each customer class based on the amount of usage in Tier 3, 4, and 5.

Table 3-38. WE Program O&M Cost Distribution by Customer Class

Customer Class	Cost Allocation	% Allocated
Single-family Residential	\$2,862,833	55.1%
Multi-family Residential	\$368,834	7.1%
Commercial	\$279,828	5.4%
Potable Irrigation	\$1,219,993	23.5%
Recycled Irrigation	\$467,235	9.0%
Total	\$5,198,723	100.0%

Procedure 3: Allocate Non-Rate Revenues to Customer Classes

Non-rate revenues are allocated to the WE Program as shown in Table 3-39. The non-rate revenues allocated to the WE program include investment income and Demand Offset Fees. Demand Offset Fees are charged for new development and used to offset new Potable Irrigation customers’ demands on the System and create equity in reliability between new and existing customers. The non-rate revenues are unrestricted revenues that may be used by the District for any purpose.

Table 3-2239. WE Program Non-Rate Revenue Allocation by Customer Class

Customer Class	Investment Income	Demand Offset Fees	Total Non-Rate Revenues
Single-family Residential	\$21,655	\$6,632	\$28,287
Multi-family Residential	\$2,711	\$845	\$3,556
Commercial	\$2,652	\$605	\$3,257
Potable Irrigation	\$7,388	\$2,850	\$10,238
Recycled Irrigation	\$3,207	\$1,067	\$4,275
Total	\$37,613	\$11,999	\$49,613

Procedure 4: Distribute Total Costs to Specific Customer Classes

The total rate revenue requirement is determined by subtracting the credits for non-rate revenues for the WE program from the total revenue requirements.

Table 3-4023. WE Program Potable Water, Summary of Rate Revenue Requirements by Customer Class

Customer Class	a	b	c = b-a	
	Total Revenue Requirements	Non-rate Revenue Credit	Total Rate Revenue Requirements	Cost Allocation (%)
Single-family Residential	\$2,862,833	(\$28,287)	\$2,834,545	55.0%
Multi-family Residential	\$368,834	(\$3,556)	\$365,278	7.1%
Commercial	\$279,828	(\$3,257)	\$276,571	5.4%
Potable Irrigation	\$1,219,993	(\$10,238)	\$1,209,755	23.5%
Recycled Irrigation	\$467,235	(\$4,275)	\$462,961	9.0%
Total	\$5,198,723	(\$49,613)	\$5,149,109	100.0%

4. RATE DESIGN & RATE SCHEDULE RECOMMENDATION

The District first implemented a Water Budget Based Rate Structure (WBBRS) in July 2011 and further refined the structure in 2015 and again in 2018. Under this rate structure, a customized monthly water budget is calculated for each customer based on the proportional cost of serving such parcel based on their specific household or business characteristics and landscape. The underlying rationale of any WBBRS is that customers who use water in excess of their calculated water budgets place greater demands on the District's Potable Water and Recycled Water Systems than those customers who use water within their calculated water budgets. Those customers who use more than their calculated water budgets are therefore subject to higher water rates to offset the incrementally higher costs they create. The District ensures increased rates within each tier correspond to increasing marginal supply costs, and incremental revenues collected from higher tiers are used to fund alternative water supply planning and development, rebates, and demand management programs, which lead to an increase in existing supply reliability.

4.1. Recommended Changes to Potable Water and Recycled Water Rate Structure

Since its adoption in 2011, the WBBRS continues to demonstrate its ability to safeguard the District's financial health and protect water supply while proportionally allocating the cost of service to each customer and within each tier. The District intends to build upon this success by continuing to refine the current rate structure's ability to accurately reflect the District's underlying cost structure and ensure those costs are proportionally recovered from customers while incidentally providing a strong price signal to encourage efficient water use. The proposed refinements are consistent with several made in the 2017 and 2021 COS in that they are intended to ensure the rate structure collects sufficient revenue, reflects water usage trends, aligns cost recovery with cost creation, and equitably recovers costs among customers. B&V acknowledges the robust design of the current rate structure and supports retaining the same basic structure with the proposed refinements as follows:

- 1) Average annual General Fund rate revenue increases of 9.05 percent, 9.7 percent, and 12.5 percent for the Potable Water, Recycled Water, and Wastewater Systems, respectively, for FY 2025-26 – FY 2029-30 to ensure sufficient recovery of revenue requirements, as discussed in Chapter 2.
- 2) Equally distribute the supply costs from Baker and Diemer to create a single "blended" supply consistent with the water that is delivered to individual customers.
- 3) The use of unrestricted non-rate revenues to continue providing a cost incentive for recycled water use. As part this study, the District determined that the share of property tax for potable water volumetric rates and meter charges should be 97.0 percent while recycled water will be allocated the remaining 3.0 percent share to offset its volumetric rates and meter charges.
- 4) A one-time \$1.2 million (\$0.93 per average billing unit) adjustment in FY 2025-26 to the average annual rate revenue from inefficient water use for the WE Fund. This rate revenue increase is required for the District to continue funding rebates and water efficiency programs, and water reliability projects and programs, while preventing the WE Fund from incurring a negative balance during the rate study period.

Though outside of this rate cycle window, the WE Financial Plan identified that a similar adjustment will be required in the first year of the next rate cycle (FY 2029-30). This would coincide with the District's 2029 Long-Range Financial Plan at which point Fund 6 revenue requirements would again be re-evaluated.

Potable water demand projections are held fixed over the study period; however, if demand either increase or decrease above those projections, the District will experience no fiscal impact by making these changes to the rate structure and will continue to proportionally recover only the cost of service.

4.2. Potable and Recycled Water Rate Design

The District's rate schedule is designed to sufficiently recover rate revenue requirements in an amount and manner that does not exceed the proportional cost of service from any customer. The District's recommended rate schedule supports and optimizes these objectives: compliance with all legal and regulatory standards, ensure rates recovery only the cost of service, proportionately allocate water efficiency costs to out-of-budget usage to preserve supply reliability, minimize adverse impacts to customers, and assure reasonable and prudent revenue stability for the District. The District's Potable Water and Recycled Water Systems accomplish these goals through its water budget-based rate structure.

4.2.1. Potable Water and Recycled Water Budgets

The Single-Family Residential and Multi-family Residential rate structures include a calculated indoor and outdoor budget. The indoor budget is calculated based on the volume of water needed to meet the essential water use of each person in the respective household or dwelling. The outdoor budget is calculated such that customers are provided with a sufficient volume of water to efficiently meet the irrigation needs of a mixed landscape on their property.

Single-family Residential (Individually Metered) and Multi-family Residential (Master Metered) Customers

Indoor Water Budget Calculation

The indoor water budget is calculated based on three factors:

1. **Persons per Household:** Customers are asked to self-report their household size at the time they start service. Should their domestic situation change, and their prior household size no longer be representative, customers have the option to submit a budget modification request to have their household size increased or decreased as appropriate. For customers who have not specified their household size a ‘default’ household size is assigned based on dwelling type:
 - Individually metered service: an average size of four persons per household is assumed for accounts serving detached residential properties and three persons per household for accounts serving attached residential properties such as condominiums and townhomes.
 - Master metered service: an average size of three persons per household per service has been assumed for accounts serving individually owned residential properties such as condominiums and two persons per dwelling unit per service for account serving attached Multi-family residential properties such as apartments.
2. **Gallons per Capita per Day (GPCD):** a volume of water sufficient for meeting the indoor and sanitary water use demands of each person residing in a household, such as house cleaning, showers, and washing clothes using a water-efficient device. Single-family Residential and Multi-family Residential indoor water budgets are calculated based on an assumed factor of 55 GPCD.
3. **Number of Days in the Billing Cycle:** the number of days, typically between 28 and 35 days, for which customers were provided water service.

As an equation, the indoor water budget calculation is expressed as follows:

$$\text{Residential Indoor Budget (hcf)} = \frac{\text{Persons per Household} \times \text{GPCD} \times \text{Days Billed}}{748}$$

Note: The conversion factor of 748 converts the calculated indoor budget from gallons to hundred cubic feet (hcf). 1 hcf = 748 gallons.

Outdoor Water Budget Calculation

The outdoor water budget is calculated based on the following three factors:

1. **Irrigable Area:** The amount of irrigable area per parcel based on the District’s Geographic Information System (GIS), County Assessor parcel data, development plans approved by the District, site surveys conducted by the District, or customer information through the budget modification process.
2. **ET (Evapotranspiration):** The amount of water measured in inches, lost to the atmosphere from the combined processes of evaporation from soil and plant transpiration. ET will vary each day and across the District due to neighborhood-specific factors such as solar exposure, air temperature, relative humidity, and wind speed. To account for this variability, each parcel is mapped into one of over 110 individually tracked 1 km² “microzones” which reflect the neighborhood-specific environmental factors that affect the water demand of landscaped areas.
3. **Landscaping Factor:** A factor representing water requirements of specific landscapes, calculated as a ratio of average plant water needs and the average efficiency of irrigation devices. A landscaping factor of 0.7, representing a mixed landscape of turf and low water use plants, was used to reflect the most common landscape features in the District’s service area

As an equation, the outdoor water budget is expressed as follows:

$$\text{Residential Outdoor Budget (hcf)} = \frac{\text{Irrigable Area} \times \text{ET} \times \text{Landscaping Factor} \times 0.62}{748}$$

Note: The conversion factor of 0.62 converts inches of ET to gallons per square feet. The conversion factor of 748 converts the calculated outdoor budget from gallons to hundred cubic feet (hcf). 1 hcf = 748 gallons.

Single-family Residential (Individually Metered) and Multi-family (Master Metered) Customer Water Budgets

The District’s Single-family Residential and Multi-family Residential Customer rates are structured to include five tiers:

Tier 1 – Indoor water budget

Tier 2 – Outdoor water budget

Tier 3 – Usage above 100% of total water budget (where a customer’s total water budget is the sum of their calculated indoor and outdoor water budgets) up to 125% of total water budget

Tier 4 – Usage above 125% of total water budget up to 150% of total water budget

Tier 5 – Usage above 150% of the total water budget

Non-residential Customer Water Budgets

The District’s Commercial, Potable Irrigation, and Recycled Irrigation customer class rates are structured into four tiers:

Tier 1 - Total water budget

Tier 2 - Usage above 100% of total water budget up to 125% of total water budget

Tier 3 - Usage above 125% of total water budget up to 150% of total water budget

Tier 4 - Usage above 150% of total water budget

Most Commercial customers have two or more metered services, a commercial service which measures indoor water use and a dedicated irrigation meter which measures outdoor water use. Water budgets for Commercial customers are calculated based on a three-year rolling average of daily water use for the respective billing cycle. The billing cycle is typically expressed as one calendar month with the current and historical months’ water usage being weighted by the number of days in the respective bill to account for the potential difference in meter read dates for the different years. This 3-year rolling monthly average accounts for typical monthly usage for Commercial customers as well as for potential increases in business activity or recent efficiency improvements that may have been made within the current month. Water budgets for Commercial customers shall be calculated such that a minimum budget of one billing unit shall be provided. For Commercial customers with less than 3-years of data, water budgets are calculated as follows: (a) for the first year, the customer’s budget is equal to water used; and (b) for the second year, it is a weighted daily average of the current and previous year’s usage in the respective month (e.g. January 2026 and January 2025). An example calculation of a monthly water budget for a Commercial customer is provided below:

January 2026 Budget (hcf) =

$$\left(\frac{\text{Jan.2026 Usage}}{\text{Days Billed in Jan.2026}} + \frac{\text{Jan.2025 Usage}}{\text{Days Billed in Jan.2025}} + \frac{\text{Jan.2024 Usage}}{\text{Days Billed in Jan.2024}} \right) \div 3 \times \text{Days Billed in Jan.2026}$$

Outdoor water budgets for non-residential accounts with areas irrigated by potable water are calculated using a Landscaping Factor of 0.7, representing a mixed landscape of turf and low water use plants, as follows:

$$\text{Potable Water Irrigation Outdoor Budget (hcf)} = \frac{\text{Irrigable Area} \times \text{ET} \times 0.7 \times 0.62}{748}$$

Note: The conversion factor of 0.62 converts inches of ET to gallons per square feet. The conversion factor of 748 converts the calculated outdoor budget from gallons to hundred cubic feet (hcf). 1 hcf = 748 gallons.

Outdoor water budgets for areas irrigated with recycled water are calculated similarly to Potable Irrigation Outdoor Water Budgets, but with a higher landscaping factor of 0.8 to account for the higher salinity of recycled water:

$$\text{Recycled Water Irrigation Outdoor Budget (hcf)} = \frac{\text{Irrigable Area} \times \text{ET} \times 0.8 \times 0.62}{748}$$

Note: The conversion factor of 0.62 converts inches of ET to gallons per square feet. The conversion factor of 748 converts the calculated outdoor budget from gallons to hundred cubic feet (hcf). 1 hcf = 748 gallons.

For areas defined as functional or high-traffic public spaces, which include public parks and sports facilities, outdoor water budgets are calculated with a landscaping factor of 1.0, regardless of water type:

$$\text{Public Spaces Irrigation Outdoor Budget (hcf)} = \frac{\text{Irrigable Area} \times \text{ET} \times 1.0 \times 0.62}{748}$$

Note: The conversion factor of 0.62 converts inches of ET to gallons per square feet. The conversion factor of 748 converts the calculated outdoor budget from gallons to hundred cubic feet (hcf). 1 hcf = 748 gallons.

Budget Modification Process

Each customer can apply for a budget modification to update the factors used to calculate their water budgets such as household size, irrigable area, or changes in business activity, as described by the District’s adopted Water Budget Modification And Bill Adjustment Policy.

4.2.2. Potable and Recycled Water Demands

Based on the budgets established in Section 4.2.1, each customer’s tiered water use is aggregated to determine the total water demand for each of the respective usage tiers.

Test Year Water Demands

As noted throughout this Report, water budgets are calculated such that they provide a sufficient volume of water to meet the water needs of each customer, and the width of each tier of the District’s rate structure is calculated to reflect relative levels of usage. FY 2025-26 usage was forecasted by taking averages from the customer class level historical usage data between FY 2021-22 and FY 2024-25. B&V supports this approach as the General Fund volumetric rates are set so as to only recover the marginal cost of water purchases and the District will utilize unrestricted non-rate revenues to establish volumetric rates for in-budget usage below the marginal cost of supply, ensuring that the recommended rates will provide sufficient revenue to fully recover cost requirements in the event of decreased or increased water sales. Table 4-1 presents potable and recycled water demands for the **test year** based on the budget factors established in Section 4.2.1. Note, to accurately capture the total volume of inefficient water usage for the test year, non-residential efficient in-budget usage is shown entirely in Tier 2 and out-of-budget usage is shown in tiers beginning with Tier 3. After conducting an analysis on the widths of Tier 3 and Tier 4, B&V verified that the District’s tier break points reflect relative levels of out-of-budget usage.

Table 4-1. Potable and Recycled Water Demands by Tier, FY 2025-26

Water Demand by Tier (in hcf)		
	Potable	Recycled
Tier 1	4,573,444	-
Tier 2	3,430,764	2,283,682
Tier 3: 100% - 125% of total water budget	540,292	47,582
Tier 4: 126% - 150% of total water budget	269,246	23,166
Tier 5: Above 150% of total water budget	366,328	38,872
Total Demand	9,180,074	2,393,302

4.2.3. Potable Water and Recycled Water Rate Calculation

Unit rates were developed by dividing the total revenue requirement of each functional cost center over its respective demands. The District currently collects a volumetric charge and a basic service charge for water service. The volumetric charge is a variable charge, based on the volume of water delivered to the parcel, and is intended to capture both the marginal supply cost of imported water within each tier, and the incremental cost of inefficient usage that places additional demands on existing supply. The basic service charge is a fixed charge intended to reflect each customer's proportionate share of capacity in the water system and is assessed based on the diameter of the meter delivering water to the associated parcel.

Potable Water Rate Calculation – General Fund

As noted throughout this Report and the attached LRFP, the use of marginal cost-based pricing has been a major contributor to the District's present financial strength. Recognizing this, the proposed rates do not attempt to recover any of the District's fixed water supply costs through its volumetric rates. Any proportional differences in system capacity or peaking related costs are recovered on a fixed basis through the basic service charge, and as a result the unit cost of water supply does not vary between customer classes. As such, the water supply unit rates for each tier will be calculated on the basis of total water demand in each tier. For usage in the out-of-budget tiers, Water Efficiency efforts are targeted to the specific levels of out-of-budget usage, and therefore, recognizes the true cost differential between each individual customer's tiered usage. See the **Volumetric Rate Calculation – WE Fund** section for a detailed discussion of these costs.

It has been several years since the Baker WTP has become fully operational and is expected to deliver approximately 8,908 AF of treated water supply per year to the District (the District has capacity rights to 9,400 AFY; however, deliveries are assumed at 8,908 AFY or 95% to recognize downtime for maintenance). As noted in Section 2.1.3, the variable costs of water deliveries from Baker WTP are lower than the volumetric rate for fully treated MWDSC water deliveries from Diemer. Consistent with how water from these two distinct supply sources are blended together in the transmission system as they are conveyed to the District, the distinct costs of water from Baker and Diemer have been combined to create a lower cost "blended" water supply. Thus, the marginal supply cost of water is determined for each tier equally. The resulting rates are effectively the price paid by the District from its General Fund for each unit of water delivered to customers.

As shown in Table 4-2 and Table 4-3, the effective volumetric unit rate for potable water is \$3.34 per hcf. It is important to note that these rates represent only the cost of purchasing an additional unit of water, and do not consider any costs incurred as a result of the additional demands placed on the system by the incremental use.

Table 4-2. Supply Cost by Tier

	a		b	c	d	e	f=d+e
	Demand*	Supply Source	Total Supply (AF)		Total Supply Cost		Supply Cost
			Baker	Diemer	Baker	Diemer	
Tier 1	10,500 AF	Baker + Diemer	4,438 AF	6,062 AF	\$4,962,584	\$10,287,133	\$15,249,717
Tier 2	7,876 AF	Baker + Diemer	3,329 AF	4,547 AF	\$3,722,410	\$7,716,330	\$11,438,740
Tier 3	1,241 AF	Baker + Diemer	524 AF	717 AF	586,530.12	\$1,215,841	\$1,802,371
Tier 4	619 AF	Baker + Diemer	262 AF	357 AF	292,556.12	\$606,451	\$899,007
Tier 5	841 AF	Baker + Diemer	355 AF	486 AF	397,479.32	\$823,950	\$1,221,430
Total	21,077 AF		8,908 AF	12,169 AF	\$9,961,560	\$20,649,705	\$30,611,265

*Non-residential efficient in-budget usage is shown entirely in Tier 2 and out-of-budget usage is shown in tiers beginning with Tier 3.

Table 4-3. Effective General Fund Supply Rates per hcf by Tier

	a		b	c = b+a	d = c ÷ 435.6
	Demand*	Supply Source	Effective Supply Cost	Effective Unit Supply Rate	Effective Volumetric Rate
Tier 1	10,500 AF	Baker + Diemer	\$15,249,717	\$1,452/AF	\$3.34/hcf
Tier 2	7,876 AF	Baker + Diemer	\$11,438,740	\$1,452/AF	\$3.34/hcf
Tier 3	1,241 AF	Baker + Diemer	\$1,802,371	\$1,452/AF	\$3.34/hcf
Tier 4	619 AF	Baker + Diemer	\$899,007	\$1,452/AF	\$3.34/hcf
Tier 5	841 AF	Baker + Diemer	\$1,221,430	\$1,452/AF	\$3.34/hcf
Total	21,077 AF		\$30,611,265		

*Non-residential efficient in-budget usage is shown entirely in Tier 2 and out-of-budget usage is shown in tiers beginning with Tier 3.

Access to the blended supply that was made possible by the District’s investment in the Baker WTP has provided customers with both improved system reliability in the event of an emergency as well as helped lower the overall volumetric cost. Recognizing that the essential health and safety indoor water needs of its customers are provided for in Tier 1, the District has allocated a portion of the property tax revenues to offset the marginal supply cost of water to create a below cost tier for in-budget indoor water use.

The remaining property tax revenue that was allocated to the Potable Water System was used to offset the fixed monthly service charges. The resulting tiered supply rates are presented in Table 4-4. The effect of property tax revenues on the overall tiered rate structure design is illustrated in Figure 4-1.

Table 4-4. Non-Rate Revenue Offset by Customer Class

	a	b	c = a+b
	Calculated Rate	Property Tax Offset	Effective Rate
Tiers			
1	\$3.34/hcf	-\$0.58/hcf	\$2.76/hcf
2	\$3.34/hcf	\$0.00/hcf	\$3.34/hcf
3	\$3.34/hcf	\$0.00/hcf	\$3.34/hcf
4	\$3.34/hcf	\$0.00/hcf	\$3.34/hcf
5	\$3.34/hcf	\$0.00/hcf	\$3.34/hcf

Recycled Rate Calculation – General Fund

A similar unit rate approach was used to develop the General Fund volumetric rates for the Recycled Water system as shown in Table 4-5. The marginal supply cost of recycled water (column c) is determined for each tier by dividing the associated supply cost (column a) over the volume of water required to meet the respective demands of that tier (column b). The resulting rates reflect the price paid by the District from its General Fund for each unit of recycled water delivered to customers. The recycled water volumetric unit rate for in-budget usage (Tier 1) is calculated as \$2.10/hcf and \$2.96/hcf for Tiers 3, 4, and 5. Recognizing the supply reliability benefits that recycled water provides, the District has allocated a portion of the total *ad-valorem* property tax revenues it receives to offset the marginal supply cost of recycled water (column d).. The effective rate for each tier is shown in column e of Table 4-5.

Table 4-5. Recycled Volumetric Rate Calculation – General Fund

	a	b	c=a÷b	d	e=c+d
	Supply Cost	Demand	Calculated Rate	Property Tax Offset	Effective Rate
Tiers					
1	\$4,778,234	2,283,682 hcf	\$2.10/hcf	-\$0.14/hcf	\$1.96/hcf
2	\$140,754	47,582 hcf	\$2.96/hcf	-\$0.14/hcf	\$2.82/hcf
3	\$68,528	23,166 hcf	\$2.96/hcf	-\$0.19/hcf	\$2.77/hcf
4	\$114,989	38,872 hcf	\$2.96/hcf	-\$0.14/hcf	\$2.82/hcf
Total	\$5,102,505	2,393,302 hcf			-

Volumetric Rate Calculation – WE Fund

By specifically allocating the costs of its water efficiency programs and rebates to increasingly out-of-budget levels of water use, the District’s tiered rate structure proportionally recovers the additional cost of incremental out-of-budget usage. Routine customer service, customer portal initiated leak alerts, and rebate program management costs are allocated to Tier 3 to recognize that a customer may inadvertently use slightly more than their water budget for issues that can easily be remedied by small interventions such as fixing an unknown leak after receiving an alert from the District’s customer portal or replacing older indoor appliances with newer rebate-qualifying models. Water reliability investments and rebates for efficient irrigation devices are allocated to Tier 4 as offsetting the supply impacts of out-of-budget usage in Tier 4 (greater than 125 percent of budget) would require moderate levels of intervention equivalent to converting spray or rotary style sprinklers with a more efficient in-line drip irrigation system or converting potable irrigation to recycled irrigation. Similarly, offsetting the supply impacts of the highest levels of out-of-budget usage represented by Tier 5 (greater than 150 percent of budget) would require high levels of intervention equivalent to converting landscapes from turf to California native plants and the costs for turf replacement rebates have been allocated to Tier 5 accordingly.

As part of the detailed COS analysis presented in Section 3.4, specific efficiency program costs were allocated across all customer classes relative to their out-of-budget usage. The total cost assigned to each tier reflects the costs associated with the specific level of intervention that the District takes to offset the supply impacts caused by increasing levels of inefficient usage, as shown in Table 4-6.

Table 4-6. WE Fund Unit Rate Calculation

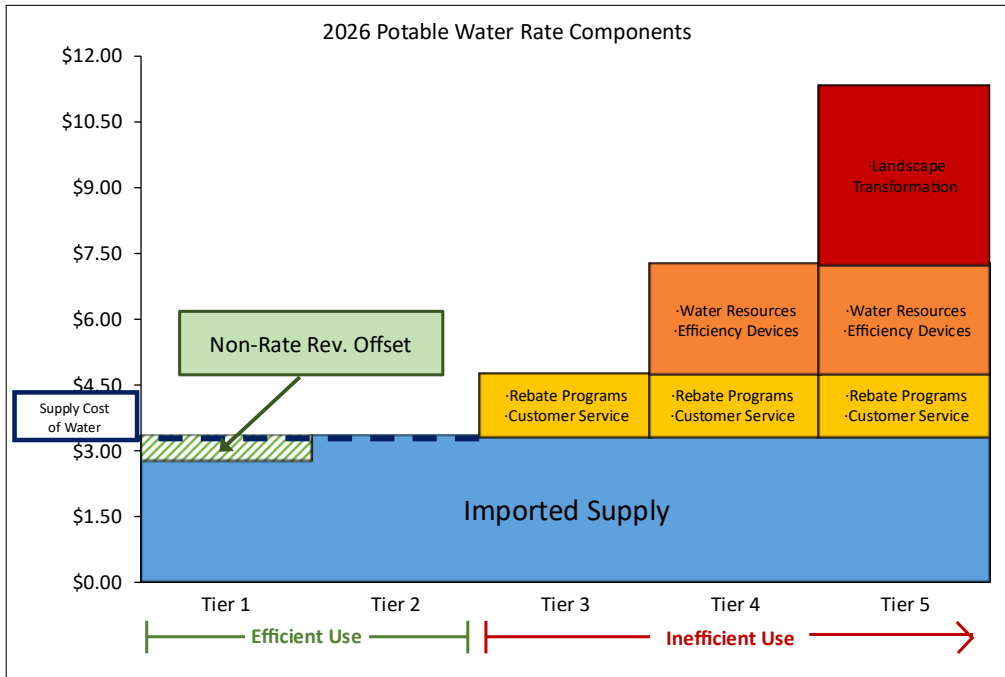
		a	b	c = a÷b
Tiers	Component	Cost	Out-of-Budget Use*	Unit Rate
3	Customer Service + Rebate Program Management	\$821,308	587,874 hcf	\$1.40/hcf
4	Customer Service + Rebate Program Management + Water Reliability Investments + Efficiency Device Rebates	\$1,145,559	292,412 hcf	\$3.92/hcf
5	Customer Service + Rebate Program Administration + Water Reliability Investments + Efficiency Device Rebates + Landscape Transformation Rebates	\$3,229,285	405,200 hcf	\$7.97/hcf

*Non-residential in-budget usage is shown entirely in Tier 2 and out-of-budget usage is shown in tiers beginning with Tier 3.

The District continues to prioritize cost-effective opportunities to expand recycled water utilization as a critical component of its long-range supply planning efforts. Specifically, the District recognizes the increased supply reliability that recycled water expansion provides by offsetting outdoor water demands that would otherwise be met with potable water. This approach also captures the overall collective benefit provided by the efficient use of water from any source: efficient potable water use reduces demand on potable supplies while efficient recycled water use further extends existing recycled supplies. The efficiency and rebate program costs allocated to each tier are spread over the total volume of water associated with that tier.

Because of the higher demand, and consequently higher cost, that inefficient usage places on the District’s Water and Recycled Water Systems, water use in excess of a customer’s calculated budget is subject to higher water use rates. The District maintains a strong cost nexus between increasing marginal supply costs and increasing rates by investing the incremental rate difference in alternative water supply programs, rebates, and demand management measures to increase in-budget uses of water and offset supply reliability impacts from out-of-budget water use. Figure 4-1 illustrates the use of unrestricted property tax revenues and appropriate allocation of WE program costs to develop a tiered rate structure. The non-discounted General Fund effective volumetric rates calculated in Table 4-3 are represented by the dashed dark blue “Supply Cost of Water” line. The dashed green area below this line represents the unrestricted property tax revenue that offsets the supply cost of efficient indoor water usage. The effective General Fund rates derived in Table 4-4 (column c) are illustrated in Figure 4-1 as the light blue “Imported Supply”. The unit rates for increasingly out-of-budget water use, calculated in Table 4-6 and represented in Figure 4-1 by their respective color, the yellow, orange, and red colors, are added to the supply cost of water to capture the additional costs associated with offsetting the supply reliability impacts attributable to these additional demands.

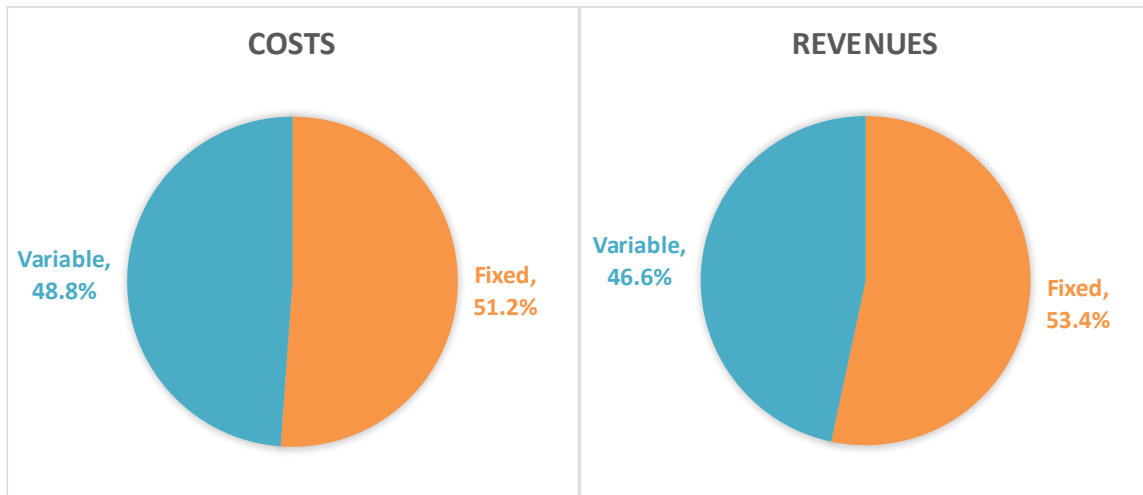
Figure 4-1. Volumetric Rate Components



Meter Service Charge Calculation

Recognizing that the overall cost of providing essential water service to customers is only partially driven by incremental increases in usage and that the majority of the ongoing costs are related to the continual maintenance and needed repair and replacement of existing system infrastructure, the District recovers the fixed share of its Potable and Recycled Water System costs via a monthly basic service charge assessed on the basis of meter size. The District projects Potable Water System variable (volume-related) General Fund costs to account for 48.8 percent of total FY 2025-26 costs, and variable General Fund revenues to account for 46.6 percent of the total. Figure 4-2 displays the share of variable and fixed components in costs and revenues for FY 2025-26.

Figure 4-2. General Fund Variable and Fixed Costs vs. Revenues, FY 2021-2022



A stated goal of this rate study is to ensure alignment between the ratio of fixed and variable costs with fixed and variable revenues to minimize the District’s financial exposure to unanticipated increases or decreases in water sales (variable revenue). As seen in Figure 4-2, the District’s overall ratio of fixed and variable costs to fixed and variable expenses remains closely aligned with fixed non-rate revenues accounting for the higher percentage of fixed revenues, which provides revenue stability. Table 4-7 illustrates this calculation for the test year revenue requirements developed in Section 3.

Table 4-7. Fixed Rate Revenue Requirement Calculation

	a	b	c=a-b
Customer Class	Total Rate Revenue Requirement	Variable Rate Revenue	Fixed Rate Revenue Requirement
Single-family Residential	\$27,194,945	\$20,835,825	\$6,359,119
Multi-family Residential	\$4,283,461	\$3,336,848	\$946,613
Commercial	\$3,757,390	\$3,249,099	\$508,291
Potable Irrigation	\$6,895,227	\$5,317,869	\$1,577,358
Recycled Irrigation	\$20,639,189	\$18,566,154	\$2,073,035
Total	\$62,770,212	\$51,305,795	\$11,464,416

The resulting fixed rate revenue requirements consist of both customer and meter costs, as described in Section 3.1.6. For each customer class, the customer costs are recovered uniformly on a per account basis, and the meter costs are recovered proportionally on an equivalent meter basis. The uniform per account charge and scaled meter charge are combined and assessed as a single fixed charge based on meter size, as shown in Table 4-8.

Table 4-8. Calculated Monthly Water Service Charges Effective January 1, 2026 (\$/Meter Size in Inches)

	Single-family Residential	Multi-family Residential	Commercial	Potable Irrigation	Recycled Irrigation
Meter Size					
5/8"	\$11.13	\$12.31	\$5.11	\$21.83	\$ 21.83
3/4"	\$11.13	\$12.31	\$5.11	\$21.83	\$21.83
1"	\$11.13	\$12.31	\$5.11	\$21.83	\$ 21.83
1.5"	\$36.38	\$25.76	\$17.03	\$72.76	\$ 72.76
2"	\$58.03	\$37.29	\$27.24	\$116.41	\$116.41
3"	\$126.60	\$73.82	\$59.60	\$254.68	\$254.68
4"	\$216.81	\$121.87	\$102.16	\$436.58	\$436.58
6"	\$451.37	\$246.81	\$212.84	\$909.55	\$909.55
8"	\$649.84	\$352.53	\$306.48	\$1,309.74	\$1,309.74
10"	\$1,046.78	\$563.97	\$493.78	\$2,110.15	\$2,110.15

Private Fire Protection and Construction Meters

The District also has a monthly service charge for Private Fire Protection accounts which is assessed based on the size of connection required to provide sufficient flow for water service in the event of a fire. Despite the relatively small volume of water used for private fire protection within a given year, a rigorous cost of service study must appropriately allocate costs to account for not only the actual volume of water delivered to meet customer demands, but also the costs of building and maintaining a system with sufficient capacity reserved to meet potential fire flow demands. However, recognizing that early fire suppression presents a potential benefit to neighboring parcels and property served by the District through avoided fire damage, in addition to the immaterial amount of water used for this purpose, Private Fire Protection Service accounts are not charged for water used for fire suppression. These charges are reflected below in Table 4-9 and Table 4-10.

Table 4-9. Proposed Private Fire Protection Service Monthly Service Charge

Effective January 1, 2026 (\$/Connection Size in Inches)			
Connection Size	Fire Protection	Connection Size	Fire Protection
5/8"	\$6.38	3"	\$74.42
3/4"	\$ 6.38	4"	\$127.58
1"	\$ 6.38	6"	\$265.78
1.5"	\$21.26	8"	\$382.73
2"	\$34.02	10"	\$616.62
2.5"	\$54.21		

Though not subject to the provisions of Proposition 218 because the fees are not related to charges imposed for services provided on an ongoing basis to a parcel, construction meters are subject to California Constitution Article XIII C, Section 1(e) and are accounted for in the COS analysis to ensure a comprehensive cost nexus. These meters are temporarily connected to fire hydrants to provide recycled or potable water to contractors, developers, or other construction customers who require a relatively large volume of water over a relatively short period of time and not on an emergency basis. To meet their needs, these customers acquire a temporary service connection from the District and are then charged the General Fund volumetric rate of their respective supply source based on the total volume delivered, as well as a monthly service meter fee, prorated over the period the temporary meter was in use.

Table 4-10. Proposed Construction Meter Rates Effective January 1, 2026

Assumed 3" Construction Meter	CY 2026
Meter Charge (\$/month)	\$197.08
Volumetric Charge (\$/hcf)	
Potable Water	\$3.34
Recycled Water	\$2.96

Recommended Water & Recycled Water Rates

The proposed rate schedules for potable water and recycled water for FY 2025-26 are summarized in Table 4-11 and Table 4-12. The volumetric rates are the same between all potable water customer classes to reflect the fact that the variable cost of potable water is largely the same, irrespective of the customer demands. Approximately 3.0 percent of property tax is allocated to the Recycled Water System customers to maintain lower rates for the District-wide benefit that an affordable recycled water supply provides.

The monthly water service charge varies between customers classes, reflecting the fixed costs associated with service demands of each customer class. These fixed cost drivers include system capacity, peaking factors, meter maintenance, billing costs, and customer service support.

The proposed rate schedule was designed to align with the results of the COS analysis. These costs were calculated using the District’s LRF model to estimate anticipated revenue based on the current water use patterns of existing customers. All volumetric rate revenue from rates at or below \$3.34 (in FY 2025-26) for potable water is used to meet the revenue requirements of the General Fund while volumetric rates above \$3.34 are used to meet the revenue requirements of the WE Fund. Similarly, the rate for recycled water is \$2.96.

Table 4-11. Recommended Water Service Charge and Volumetric Charges for Single-family Residential and Multi-family Residential Customers

SINGLE-FAMILY RESIDENTIAL: Rates for Monthly Water Service Charges (\$/Meter)

Meter Size	Effective Dates			
	Jan 1, 2026	Jan 1, 2027	Jan 1, 2028	Jan 1, 2029
5/8"	\$11.13	\$12.12	\$13.20	\$14.37
3/4"	\$11.13	\$12.12	\$13.20	\$14.37
1"	\$11.13	\$12.12	\$13.20	\$14.37
1.5"	\$36.38	\$39.64	\$43.16	\$46.98
2"	\$58.03	\$63.22	\$68.85	\$74.94
3"	\$126.60	\$137.93	\$150.20	\$163.50
4"	\$216.81	\$236.21	\$257.23	\$279.99
6"	\$ 451.37	\$491.75	\$535.51	\$582.91
8"	\$649.84	\$707.97	\$770.98	\$839.21
10"	\$1,046.78	\$1,140.42	\$1,241.91	\$1,351.82

MULTI-FAMILY RESIDENTIAL: Rates for Monthly Water Service Charges (\$/Meter)

Meter Size	Effective Dates			
	Jan 1, 2026	Jan 1, 2027	Jan 1, 2028	Jan 1, 2029
5/8"	\$12.31	\$13.41	\$14.60	\$15.89
3/4"	\$12.31	\$13.41	\$14.60	\$15.89
1"	\$12.31	\$13.41	\$14.60	\$15.89
1.5"	\$25.76	\$28.06	\$30.56	\$33.27
2"	\$37.29	\$40.63	\$44.24	\$48.16
3"	\$73.82	\$80.42	\$87.58	\$95.33
4"	\$121.87	\$132.77	\$144.59	\$157.38
6"	\$246.81	\$268.89	\$292.82	\$318.74
8"	\$352.53	\$384.06	\$418.24	\$455.26
10"	\$563.97	\$ 614.42	\$669.10	\$728.31

SINGLE & MULTI-FAMILY RESIDENTIAL: Rates for Volumetric Charges (\$/hcf)

Tiers	Effective Dates			
	Jan 1, 2026	Jan 1, 2027	Jan 1, 2028	Jan 1, 2029
1	\$2.76	\$3.06	\$3.41	\$3.62
2	\$3.34	\$3.70	\$4.12	\$4.39
3	\$4.74	\$5.10	\$5.52	\$5.79
4	\$7.26	\$7.62	\$8.04	\$8.30
5	\$11.31	\$11.67	\$12.09	\$12.36

Table 4-12. Recommended Water Service Charge and Volumetric Charges for Commercial Customers

COMMERCIAL: Rates for Monthly Water Service Charges (\$/Meter)

Effective Dates				
Meter Size	Jan 1, 2026	Jan 1, 2027	Jan 1, 2028	Jan 1, 2029
5/8"	\$5.11	\$5.56	\$6.06	\$6.60
3/4"	\$5.11	\$5.56	\$6.06	\$6.60
1"	\$5.11	\$5.56	\$6.06	\$6.60
1.5"	\$17.03	\$18.55	\$20.20	\$21.99
2"	\$27.24	\$29.68	\$32.32	\$35.18
3"	\$59.60	\$64.93	\$70.71	\$76.96
4"	\$102.16	\$111.30	\$121.21	\$131.93
6"	\$212.84	\$231.88	\$252.51	\$274.86
8"	\$306.48	\$333.90	\$363.62	\$395.80
10"	\$493.78	\$537.95	\$585.83	\$637.68

COMMERCIAL: Rates for Volumetric Charges (\$/hcf)

Effective Dates				
Tiers	Jan 1, 2026	Jan 1, 2027	Jan 1, 2028	Jan 1, 2029
1	\$3.34	\$3.70	\$4.12	\$4.39
2	\$4.74	\$5.10	\$5.52	\$5.79
3	\$7.26	\$7.62	\$8.04	\$8.30
4	\$11.31	\$11.67	\$12.09	\$12.36

Table 4-13. Recommended Water Service Charge and Volumetric Charges for Potable Irrigation Customers

POTABLE IRRIGATION: Rates for Monthly Water Service Charges (\$/Meter)

Effective Dates				
Meter Size	Jan 1, 2026	Jan 1, 2027	Jan 1, 2028	Jan 1, 2029
5/8"	\$21.83	\$23.78	\$25.90	\$28.19
3/4"	\$21.83	\$23.78	\$25.90	\$28.19
1"	\$21.83	\$23.78	\$25.90	\$28.19
1.5"	\$72.76	\$79.26	\$86.32	\$93.96
2"	\$116.41	\$126.83	\$138.12	\$150.34
3"	\$254.68	\$277.46	\$302.16	\$328.90
4"	\$436.58	\$475.63	\$517.97	\$563.81
6"	\$909.55	\$990.91	\$1,079.10	\$1,174.61
8"	\$1,309.74	\$1,426.90	\$1,553.90	\$1,691.42
10"	\$2,110.15	\$2,298.91	\$2,503.51	\$2,725.07

POTABLE IRRIGATION: Rates for Volumetric Charges (\$/hcf)

Effective Dates				
Tiers	Jan 1, 2026	Jan 1, 2027	Jan 1, 2028	Jan 1, 2029
1	\$3.34	\$3.70	\$4.12	\$4.39
2	\$4.74	\$5.10	\$5.52	\$5.79
3	\$7.26	\$7.62	\$8.04	\$8.30
4	\$11.31	\$11.67	\$12.09	\$12.36

Table 4-14. Recommended Water Service Charge and Volumetric Charges for Recycled Irrigation Customers

RECYCLED IRRIGATION: Rates for Monthly Water Service Charges (\$/Meter)

Meter Size	Effective Dates			
	Jan 1, 2026	Jan 1, 2027	Jan 1, 2028	Jan 1, 2029
5/8"	\$21.83	\$23.88	\$26.20	\$28.88
3/4"	\$21.83	\$23.88	\$26.20	\$28.88
1"	\$21.83	\$23.88	\$26.20	\$28.88
1.5"	\$72.76	\$79.60	\$87.32	\$96.27
2"	\$116.41	\$127.36	\$139.71	\$154.03
3"	\$254.68	\$278.62	\$305.65	\$336.97
4"	\$436.58	\$477.62	\$523.95	\$577.65
6"	\$909.55	\$995.05	\$1,091.57	\$1,203.46
8"	\$1,309.74	\$1,432.86	\$1,571.85	\$1,732.96
10"	\$2,110.15	\$2,308.51	\$2,532.43	\$2,792.01

RECYCLED IRRIGATION: Rates for Volumetric Charges (\$/hcf)

Tiers	Effective Dates			
	Jan 1, 2026	Jan 1, 2027	Jan 1, 2028	Jan 1, 2029
1	\$1.96	\$2.14	\$2.35	\$2.59
2	\$4.22	\$4.49	\$4.78	\$5.13
3	\$6.69	\$6.95	\$7.24	\$7.59
4	\$10.79	\$11.06	\$11.35	\$11.70

The monthly service charges and volumetric usage charges for Private Fire Protection and Construction Meters. These charges are reflected below in Table 4-15 and Table 4-16.

Table 4-15. Recommended Monthly Water Service Charge Private Fire Protection Customers

PRIVATE FIRE PROTECTION: Rates for Monthly Water Service Charges (\$/Connection)

Meter Size	Effective Dates			
	Jan 1, 2026	Jan 1, 2027	Jan 1, 2028	Jan 1, 2029
5/8"	\$6.38	\$6.95	\$7.57	\$8.24
3/4"	\$6.38	\$6.95	\$7.57	\$8.24
1"	\$6.38	\$6.95	\$7.57	\$8.24
1.5"	\$21.26	\$23.16	\$25.22	\$27.46
2"	\$34.02	\$37.06	\$40.36	\$43.93
2.5"	\$54.21	\$59.06	\$64.32	\$70.01
3"	\$74.42	\$81.08	\$88.29	\$96.11
4"	\$127.58	\$138.99	\$151.36	\$164.75
6"	\$265.78	\$289.56	\$315.33	\$343.24
8"	\$382.73	\$416.96	\$454.07	\$494.26
10"	\$616.62	\$671.78	\$731.56	\$796.31

Table 4-16. Recommended Construction Meter Monthly Service Charge and Volumetric Charges for Potable/Recycled Water

WATER CONSTRUCTION METERS AND CONSTRUCTION WATER				
	Effective Dates			
	Jan 1, 2026	Jan 1, 2027	Jan 1, 2028	Jan 1, 2029
Monthly Meter Charge (assumed 3" meter)	\$510.77	\$557.80	\$610.02	\$668.97
Volumetric Charge (\$/hcf)				
Potable Water	\$3.34	\$3.70	\$4.12	\$4.39
Recycled Water	\$1.96	\$2.14	\$2.35	\$5.13

4.3. Wastewater Rate Design

The Wastewater System is comprised of Single-family Residential (single-family detached homes or individually metered townhomes and condos), Multi-family (master-metered apartments or condos), and Commercial customers. Commercial customers are assigned to one of the four classes described below based on land-use, and the rates for each of the Commercial customer classes are based on their respective strength classifications.

4.3.1. Wastewater Rate Structure and Current Rate and Charges

The District currently has the following wastewater rate schedule which consists of a wastewater service charge, charged to all customers based on meter size, and a per-person charge, charged to Single-family Residential and Multi-family customers based on household size. Within the District service area, Single-family Residential customers have similarly sized wastewater service laterals to service varying usage for a typical residential home, all Single-family Residential customers are billed a monthly charge of \$22.37, while Multi-family customers are billed according to their meter size, as shown in Table 4-17, which is more reflective of the magnitude of the Wastewater System capacity necessary to service Multi-family customers. Consistent with the rationale used to develop indoor water budgets and in assigning strength concentrations in Section 3.3.2, individual residents are assumed to have similar flow and strength characteristics and contribute to the wastewater system equally. As such, the variable costs are distributed equally across the District’s service area population. The current per-person charge is \$5.97. Commercial customers are assigned to one of the four classes below based on the type of commercial activity. These classifications were established based on customer data and industry-standard strength data for such classifications.

- **Commercial Class 1:** Typical users include residential, bank, car washes, churches, department and retail stores, Laundromats, professional offices, schools and colleges.
- **Commercial Class 2:** Typical users include beauty and barber shops, hospital and convalescent facilities, commercial laundry, repair shops, service stations and veterinary hospitals.
- **Commercial Class 3:** Typical users include hotels with dining facilities, markets with garbage disposals, mortuaries and fast-food restaurants.
- **Commercial Class 4:** Typical users include restaurants, auto-steam-cleaning facilities and bakeries.

A summary of current wastewater monthly service charge and variable rates are provided in Table 4-17 and Table 4-18 respectively.

Table 4-17. Existing Wastewater Monthly Service Charge

Meter Size	Residential	Multi-family	Commercial 1	Commercial 2	Commercial 3	Commercial 4
5/8"	\$22.37	\$25.62	\$29.11	\$67.68	\$146.70	\$166.18
3/4"	\$22.37	\$25.62	\$29.11	\$67.68	\$146.70	\$166.18
1"	\$22.37	\$25.62	\$29.11	\$67.68	\$146.70	\$166.18
1.5"	\$22.37	\$77.32	\$88.95	\$217.50	\$480.86	\$545.80
2"	\$22.37	\$121.63	\$140.24	\$345.93	\$767.33	\$871.24
3"	\$22.37	\$261.98	\$302.68	\$752.67	\$1,674.57	\$1,901.90
4"	\$22.37	\$446.62	\$516.39	\$1,287.77	\$2,868.13	\$3,257.82
6"	\$22.37	\$926.72	\$1,072.07	\$2,679.13	\$5,971.57	\$6,783.43
8"	\$22.37	\$1,332.94	\$1,542.25	\$3,856.39	\$8,597.47	\$9,766.54
10"	\$22.37	\$2,145.40	\$2,482.62	\$6,210.98	\$13,849.41	\$15,732.92

Table 4-18. Existing Wastewater Per-Person Monthly Variable Rate

	Residential	Multi-family	Commercial 1	Commercial 2	Commercial 3	Commercial 4
\$/Per Person	\$5.97	\$5.97	n/a	n/a	n/a	n/a

4.3.2. Per-Person Wastewater Charge

As noted in Section 2.6, escalating wastewater treatment costs to meet regulatory and permit requirements along with capital infrastructure investments into the wastewater system are the primary reasons for the Wastewater System rate increases needed to fully recover revenue requirements. Typically, wastewater treatment costs are largely fixed and a common approach to recovering those costs from customers is to develop service charges based on meter size to reflect their proportional share of system capacity. In order to proportionally recover these costs from customers, the proposed wastewater rate structure continues the practice of decoupling the capacity and flow and strength components for Single-family Residential and Multi-family customers. Because the District does not meter household wastewater flows, and because outdoor water use is not separately metered for most residential households, the number of people per household from the water budget data reflects the best available data to calculate each household’s relative contribution to the wastewater system.

Single-family Residential and Multi-family Customer per Person Wastewater Charge Calculation

Based on the best cost data available, a percentage of the flow and strength related costs allocated to Single-family Residential and Multi-family Residential in Section 3.3 were assigned to the variable cost category to be recovered through the per person wastewater charge. In total \$12.0 million in costs are to be recovered from Single-family Residential and Multi-family Residential customers on a variable basis. The service area population estimate is based on projections developed by CDR and published in the District’s 2020 Urban Water Management Plan. The variable rate

of \$5.89 per-person (column c) is calculated by dividing the total variable costs allocated to Single-family Residential and Multi-family customers (column a) over the estimated service area population (column b).

Table 4-19: Per-Person Wastewater Charge Calculation

a	b	c=a÷b÷12
Variable Cost	Population	Calculated Rate
\$12,023,993	170,000 people	\$5.89/person/month

Wastewater Service Charge Calculation

The revenue requirements calculated in Table 3-37 that are not recovered from the per person wastewater charges are recovered from monthly fixed service charges. For each customer class, billing and other customer service-related costs are divided over the number of customer accounts and allocated equally to each account while the remaining revenue requirements are divided over the number of equivalent meters and allocated based on meter size.

4.3.3. Recommended Wastewater Rates

Based on the results of the COS analysis, the District has proposed the following wastewater rate schedule which consists of a wastewater service charge, charged to all customers based on meter size (see Table 4-20), and a per person charge, charged to Single-family Residential and Multi-family customers based on household size (see Table 4-21).

Table 4-20. Recommended Wastewater Service Charge for Single-family Residential Customers

Rates for Monthly Wastewater Service Charges (\$/Meter)				
	Effective Dates			
Meter Size	Jan 1, 2026	Jan 1, 2027	Jan 1, 2028	Jan 1, 2029
All Sizes	\$28.88	\$32.20	\$35.90	\$40.03

Rates for Monthly Wastewater Variable Charges (\$/Person)				
	Effective Dates			
	Jan 1, 2026	Jan 1, 2027	Jan 1, 2028	Jan 1, 2029
Monthly \$/Person	\$5.89	\$6.57	\$7.33	\$8.17

Table 4-21. Recommended Wastewater Service Charge for Multi-family Residential Customers

Rates for Monthly Wastewater Service Charges (\$/Meter)

Effective Dates				
Meter Size	Jan 1, 2026	Jan 1, 2027	Jan 1, 2028	Jan 1, 2029
5/8"	\$33.70	\$37.58	\$41.90	\$46.72
3/4"	\$33.70	\$37.58	\$41.90	\$46.72
1"	\$33.70	\$37.58	\$41.90	\$46.72
1.5"	\$100.85	\$112.44	\$125.37	\$139.79
2"	\$158.41	\$176.62	\$196.93	\$219.58
3"	\$340.70	\$379.88	\$423.56	\$472.27
4"	\$580.52	\$647.28	\$721.72	\$804.72
6"	\$1,204.10	\$1,342.57	\$1,496.97	\$1,669.12
8"	\$1,731.73	\$1,930.87	\$2,152.92	\$2,400.51
10"	\$2,787.00	\$3,107.51	\$3,464.87	\$3,863.33

Rates for Monthly Wastewater Variable Charges (\$/Person)

Effective Dates				
	Jan 1, 2026	Jan 1, 2027	Jan 1, 2028	Jan 1, 2029
Monthly \$/Person	\$5.89	\$6.57	\$7.33	\$8.17

Table 4-22 Recommended Wastewater Service Charge for Commercial 1 Customers

COMMERCIAL 1: Rates for Monthly Wastewater Service Charges (\$/Meter)

Effective Dates				
Meter Size	Jan 1, 2026	Jan 1, 2027	Jan 1, 2028	Jan 1, 2029
5/8"	\$35.72	\$39.83	\$44.41	\$49.51
3/4"	\$35.72	\$39.83	\$44.41	\$49.51
1"	\$35.72	\$39.83	\$44.41	\$49.51
1.5"	\$107.57	\$119.94	\$133.73	\$149.11
2"	\$169.16	\$188.62	\$210.31	\$234.49
3"	\$364.23	\$406.12	\$452.82	\$504.90
4"	\$620.87	\$692.26	\$771.88	\$860.64
6"	\$1,288.15	\$1,436.29	\$1,601.46	\$1,785.63
8"	\$1,852.75	\$2,065.82	\$2,303.39	\$2,568.28
10"	\$2,981.99	\$3,324.92	\$3,707.29	\$4,133.63

Table 4-23 Recommended Wastewater Service Charge for Commercial 2 Customers

COMMERCIAL 2: Rates for Monthly Wastewater Service Charges (\$/Meter)

Effective Dates				
Meter Size	Jan 1, 2026	Jan 1, 2027	Jan 1, 2028	Jan 1, 2029
5/8"	\$79.95	\$89.15	\$99.40	\$110.83
3/4"	\$79.95	\$89.15	\$99.40	\$110.83
1"	\$79.95	\$89.15	\$99.40	\$110.83
1.5"	\$255.01	\$284.33	\$317.03	\$353.49
2"	\$405.07	\$451.66	\$503.60	\$561.51
3"	\$880.33	\$981.57	\$1,094.45	\$1,220.31
4"	\$1,505.58	\$1,678.72	\$1,871.78	\$2,087.03
6"	\$3,131.32	\$3,491.42	\$3,892.94	\$4,340.62
8"	\$4,506.90	\$5,025.19	\$5,603.09	\$6,247.45
10"	\$7,258.14	\$8,092.82	\$9,023.50	\$10,061.20

Table 4-24 Recommended Wastewater Service Charge for Commercial 3 Customers

COMMERCIAL 3: Rates for Monthly Wastewater Service Charges (\$/Meter)

Effective Dates				
Meter Size	Jan 1, 2026	Jan 1, 2027	Jan 1, 2028	Jan 1, 2029
5/8"	\$154.86	\$172.67	\$192.52	\$214.66
3/4"	\$154.86	\$172.67	\$192.52	\$214.66
1"	\$154.86	\$172.67	\$192.52	\$214.66
1.5"	\$504.66	\$562.70	\$627.41	\$699.56
2"	\$804.53	\$897.05	\$1,000.22	\$1,115.24
3"	\$1,754.23	\$1,955.97	\$2,180.91	\$2,431.71
4"	\$3,003.66	\$3,349.08	\$3,734.22	\$4,163.65
6"	\$6,252.33	\$6,971.35	\$7,773.06	\$8,666.96
8"	\$9,001.12	\$10,036.25	\$11,190.42	\$12,477.32
10"	\$14,498.85	\$16,166.22	\$18,025.34	\$20,098.25

Table 4-25 Recommended Wastewater Service Charge for Commercial 4 Customers

COMMERCIAL 4: Rates for Monthly Wastewater Service Charges (\$/Meter)

Effective Dates				
Meter Size	Jan 1, 2026	Jan 1, 2027	Jan 1, 2028	Jan 1, 2029
5/8"	\$171.68	\$191.43	\$213.44	\$237.99
3/4"	\$171.68	\$191.43	\$213.44	\$237.99
1"	\$171.68	\$191.43	\$213.44	\$237.99
1.5"	\$560.74	\$625.22	\$697.12	\$777.29
2"	\$894.26	\$997.10	\$1,111.76	\$1,239.62
3"	\$1,950.52	\$2,174.83	\$2,424.94	\$2,703.81
4"	\$3,340.14	\$3,724.26	\$4,152.55	\$4,630.09
6"	\$6,953.35	\$7,752.99	\$8,644.58	\$9,638.71
8"	\$10,010.58	\$11,161.80	\$12,445.41	\$13,876.63
10"	\$16,125.21	\$17,979.61	\$20,047.27	\$22,352.70

5. CONCLUSION

This Report used methodologies aligned with industry-standard practices for rate setting as summarized by the AWWA and WEF and all applicable laws, including Proposition 218. The rate revenue adjustments recommended by the Long-Range Financial Plan (LRFP) for FY 2025-26 are included in rate recommendations presented in Chapter 4. As such, those recommended rates will need to be adjusted annually, as described in the LRFP and Section 2.9 of this report.

The District's Water Budget-Based Rate Structure (WBBRS) establishes equitable, proportionate rates on a parcel basis by identifying the costs to serve each individual parcel, including costs for water efficiency programs and developing alternative water supplies that are triggered by out-of-budget usage.

The rate adjustments will provide revenue stability and continue to recover costs equitably and proportionately from the appropriate customers. More importantly, it will allow the District to address the increasing imported water costs and fund critical investments in the District's infrastructure to ensure water, wastewater, and recycled water services.

APPENDIX A



LONG RANGE FINANCIAL PLAN REPORT

2025



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INTRODUCTION

As stewards of the Potable Water, Recycled Water, and Wastewater Systems, the Board of Directors (Board) of the Moulton Niguel Water District (MNWD or District) has established financial policies and objectives to ensure the District maintains a strong financial position while also ensuring high quality service to its customers and appropriate investments in critical system infrastructure. To fund these investments, the Board adopted a 4-year schedule of rates effective February 1, 2022 with the final adjustment going into effect on January 1, 2025. In the time since the current rates were adopted, the District has seen significant increases above forecasts for external costs such as imported water and utilities and identified a need for increased investment in infrastructure. Staff have closely tracked these cost increases to evaluate their impact on the District's financial health and presented an updated 10-year financial projection alongside the FY 2025-26 Budget. This updated Long-Range Financial Plan (LRFP) incorporates those updated financial projections and identifies strategies and actions that ensure sufficient financial resources are available for MNWD to achieve its mission. The LRFP forecasts operating budgets and incorporates the 10-year capital infrastructure plan to determine the financial impact of future operating and infrastructure investment needs and develop strategies to address those needs.

The LRFP projects financial and operational data of key aspects for the District such as rate revenue, non-operating revenue, water purchases, utilities, staffing, other miscellaneous revenues and expenses, rate-funded capital infrastructure expenditures (PAYGO), long-term investments, and debt service payments. This detailed information is linked to a summarized pro-forma income statement and balance sheet to illustrate the impact of ongoing and future changes to MNWD's operating cash, assets, liabilities, and fund balances. The long-range financial planning model also monitors potential impacts to any of the District's key financial ratios whenever major policy decisions are considered. Finally, the proposed financial plan is aligned with the District's financial policies through the 10-year horizon with respect to its debt service coverage ratio (DSCR)¹ and reserve policies.

District staff, in consultation with the Board and the District's Financial Advisor, inputs the broad-based planning parameters into the Long-Range Financial Planning model. The proprietary Long-Range Financial Planning model (10-Year Cash Flow Model or Model) is District built, owned, and operated. Updates are regularly made to the Model to reflect changes in existing assumptions and future outlooks to create adaptive financial management strategies. The long-range planning and annual operating and capital budgeting processes are interrelated and form a single planning and budgeting system.

The availability of funds required to finance the capital construction and day-to-day operations of the District is tracked through the Model. Capital typically spans a long-time horizon; hence, a 10-year plan enables the District to plan out the financing needs for future investments in capital infrastructure through internal reserves, grants, state loans, revenues, or bond issuances. The LRFP identifies the projected rate revenue adjustments and bond issuances required to maintain the long-term financial health of the District. The report includes detailed assumptions, analyses and plans driving these results.

The District has historically maintained a strong financial position based on conservative planning and budgeting, maintenance of adequate cash balances and solid debt service coverage. The District's debt obligations were reaffirmed at "AAA" by both, Fitch Ratings and S&P Global Ratings in February 2025.

¹ Debt Service Coverage Ratio (DSCR) is a measure of the cash flow available to pay current debt obligations.

GOALS & POLICIES

The District is a community oriented, performance driven agency dedicated to serving its customers and the environment with reliable, affordable, and high-quality water and wastewater services. The LRFP furthers these goals by identifying a financial strategy to fund critical operations and capital infrastructure while meeting the District's financial goals and policies that are detailed below.

Managing Water District Debt

The District utilizes debt as a tool to provide intergenerational equity between past, present, and future customers and to smooth out future rate adjustments to provide customers with incremental rate adjustments. The District strives to maintain a strong financial position through targeting a debt service coverage ratio (DSCR) above 1.75, which is included in the District's Debt Management Policy and updated as needed and reviewed annually during the budget process.

Reserve Policies

The Policy for Maintaining Water District Cash Reserve Funds mitigates risks associated with revenue and expense volatility and reduces potential unexpected and significant rate adjustments. The policy helps in maintaining the District's creditworthiness by providing adequate safeguards against economic uncertainty, natural disasters, extraordinary costs, or other emergency conditions. Reserves can be utilized when there are fluctuations in revenues such as reductions in property tax receipts, disasters or catastrophic events, losses not covered by insurance, compliance with bond covenants, and funding designated infrastructure replacement and refurbishment. The Policy is updated as needed and reviewed annually during the budget process.

Reserves

The District currently maintains the following reserves:

1. General Operating Reserve
2. Self-Insurance Reserve
3. Rate Stabilization Reserve
4. Emergency Reserve

General Reserves:

1. *General Operating Reserve*

This reserve is established to provide funding for sufficient liquidity and cash flow for operations on a day-to-day basis. Maintaining this reserve is key to managing routine delays between the payment of expenses and the receipt of revenues. The target balance in the General Operating Reserve is equal to three months of budgeted operating expenses, consistent with industry best practices for agencies with monthly rate revenue. The General Operating Reserve is maintained in the General Fund (Fund 1).

2. *Self-Insurance Reserve*

This reserve is used to provide funding for expenses incurred by the District for the deductible amounts on insurance claims for repairs to facilities by outside contractors and expenses related to the State Unemployment Insurance for unemployment claims made against the District. The target level of the Self Insurance Reserve is equal to five times the current Joint Powers Insurance Authority (JPIA) property insurance deductible (the current deductible is up to \$50,000). The Self Insurance Reserve is maintained in the Self-Insurance Fund (Fund 4).

3. *Rate Stabilization Reserve*

This reserve is used to provide funding to smooth out potential fluctuations in water service rates of the District that may result from changes in wholesale water rates or unanticipated reductions in non-rate revenue. The Rate Stabilization Reserve target level is set equal to 50% of the District’s ad valorem property tax revenue. The Rate Stabilization Reserve is maintained in the Rate Stabilization Fund (Fund 52).

4. *Emergency Reserve*

This reserve enables the District to quickly repair critical assets in the event of a natural disaster or facility failure. The target balance of the Emergency Reserve is equal to 2 % of the anticipated replacement costs of the District’s critical assets as outlined in current guidelines from the Federal Emergency Management Agency (FEMA). The Emergency Reserve is maintained in the General Fund (Fund 1).

Table 1. MNWD FY 2025-26 Reserve Targets

Type	Target
General Operating	\$ 23,790,101
Self-Insurance	\$ 250,000
Rate Stabilization	\$ 18,024,408
Emergency	\$ 35,300,000
Total Reserves	\$ 77,364,509

Financial Policies Overview

This section includes a summary of the District's financial policies. All financial policies are adopted by the Board and authorizes the General Manager to execute the policies as part of day-to-day operations to ensure the District's financial goals are achieved. The financial policy review and adoption by the Board occurs annually within the budget process, or as needed to provide timely updates as public agency laws or conditions change. All accounting and financial reporting systems are maintained in conformance with all state and federal laws, Generally Accepted Accounting Principles (GAAP), and standards of the Governmental Accounting Standards Board (GASB). The District is a proud recipient of the Government Finance Officers Association (GFOA) Distinguished Budget Presentation Award and the California Society of Municipal Finance Officers (CSMFO) Award in Budgeting.

Financial Planning

The District will continue to effectively utilize internally developed short-term financial planning tools, while emphasizing long-range financial planning. Staff maintain a monthly cash flow model to forecast temporal distributions of cash inflows and outflows to ensure sufficient liquid funds are available for ongoing expenses throughout the year. The Financial Planning Department receives monthly capital expense projections from the Engineering Department and updates the monthly cash flow model to identify potential cash flow constraints and to coordinate portfolio restructuring with the District's Investment Advisor when necessary. This proactive communication between Departments has allowed the District to maximize investment earnings as cash reserves are expended between planned bond issuances.

The LRFP aims to identify strategies and actions to ensure sufficient financial resources are available for the District to achieve its mission. The LRFP includes financial projections for operations and incorporates the capital improvement program to project future needs and assist in the development of strategies to address those needs. The District operating budget serves as a critical input into the long-term financial outlook for the District. Additionally, the District's 10-year cash flow summary provides long-term context for making near-term financial decisions.

Enterprise Funds - Rates

The District calculates potable water, recycled water, and wastewater rates at levels which, in addition to other revenues and available cash balances, fully recover the total direct and indirect costs of providing these services – including operations and maintenance, capital infrastructure investments, and debt service. The District will review and adjust enterprise fee and rate structures as required to ensure that they remain appropriate, equitable and reflect the true cost of service.

Article XIII D of Proposition 218 in California requires that fees for water and wastewater services meet strict cost-of-service requirements, including:

1. Revenues for the fee cannot exceed the cost to provide the service;
2. Revenues for the fee cannot be used for something other than what the fee was imposed for; and
3. Property owners must be able to use or have service immediately available to them

In addition to meeting the requirements of Prop. 218, the District's budget-based water rate structure is designed to encourage beneficial use of water and prevent the unreasonable use of water, consistent with California Constitution Article X Section 2:

“It is hereby declared that because of the conditions prevailing in this State the general welfare requires that the water resources of the State be put to beneficial use to the fullest extent of which they are capable, and that the waste or unreasonable use or unreasonable method of use of water be prevented, and that the conservation of such waters is to be exercised with a view to the reasonable and beneficial use thereof in the interest of the people and for the public welfare. [...]”

Capitalization & Surplus

The District maintains the Capitalization & Surplus policy to direct the types of costs that will be capitalized in accordance with GASB reporting requirements. This is also used as a guideline for budgeting purposes and the distinction of funding differences for operating and capital expenditures. Key policy specifications for capital assets include:

- The capital asset threshold is maintained at \$5,000 excluding service connections at \$3,000.
- Capital assets must have a minimum useful life of five years.
- Capital assets will be depreciated using the straight-line method and reported at historical value.
- Specific costs included in the reporting value, including fully burdened labor and indirect costs.
- Repairs and maintenance costs are classified as operating expenses.

Purchasing Services, Materials & Public Works Projects

The Purchasing Services, Materials & Public Works Projects Policy encourages transparency and sufficient fiscal controls on all purchases and sales to the extent required by law for Special Districts or as included in this policy. It delegates purchasing authority and maintains procurement limits and contract signature authority for the District.

Federal Grant Management

The Federal Grant Management Policy is intended to supplement the management and fiscal accountability of Federal Grants for the District. It requires procurement for services and materials included in Federal Grants to comply with the Uniform Guidance.

Maintaining Water District Investment Funds

The Investment Policy documents delegation and guidelines for the investment of public funds in accordance with California Government Code. The Board acts annually to delegate investments and cash management responsibilities and authority to the District Treasurer or designee. The District’s primary investment objective is to achieve a reasonable rate of return while minimizing the potential for losses arising from market changes or issuer default. Accordingly, the following factors are considered in determining individual investment placements:

1. Safety
2. Liquidity
3. Yield

MODELING ASSUMPTIONS

The District’s Ten-Year Cash Flow Model uses the most recent financial information, contract terms and the Board adopted budget to serve as the basis for future year projections. The District’s fiscal year (FY) starts July 1 of each year. For example, Fiscal Year 2025-26 goes from July 1, 2025 to June 30, 2026. The Model employs assumptions to calculate future year revenues, expenses, and cash balances. Model assumptions are reviewed as necessary and each time the Model is significantly updated. Unless more appropriate sources exist, the District utilizes inflation projections from the California Department of Finance for the Los Angeles region.

Staff and consultants reviewed and revised the Model assumptions for the 2025 Long-Range Financial Plan. The water purchase cost assumptions are detailed later in Table 5.

Inflation Assumptions – Expenses

Table 2: Inflation Factors – Expenses

Inflation Factors	FY 2025-26*	FY 2026-27	FY 2027-28	FY 2028-29	FY 2029-30	FY 2030-31	FY 2031-32	FY 2032-33	FY 2033-34	FY 2034-35
Operating Costs										
General	-	6.2%	5.8%	4.3%	7.1%	4.2%	4.9%	4.1%	4.6%	4.2%
Utilities	-	6.3%	8.7%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%
Chemicals	-	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%
Insurance	-	2.0%	1.8%	1.8%	1.8%	1.8%	1.8%	1.8%	1.8%	1.8%
Capital Costs										
District	-	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%

*FY 25-26 is based on the adopted budget and therefore not impacted by the inflationary assumptions used in the 2025 long-range financial planning methodology

Operating Costs Inflation Assumptions

Inflation assumptions for costs related to operating the Potable Water, Recycled Water, and Wastewater Systems have been grouped into four distinct categories to reflect the different nature of the underlying costs. Inflation assumptions for water purchase costs are discussed in detail in a subsequent section.

1. *Operations - General:*

As part of the annual budget process, District staff develop department-level cost projections based on their anticipated work activity, contract terms, and other sector-specific trends which are then aggregated into District-level budget forecasts. The inflationary factors shown in Table 2 represent the expected year-over-year change in costs associated with materials, regulatory compliance and reporting, consulting support, engineering studies, planned infrastructure maintenance and emergency repairs, as well as the staffing resources needed to support those functions. For other non-specific expenses, the general inflation assumption is based on blended Consumer Price Index (CPI) data for Commodities, Durables, and Non-Durables (less food & beverages) for the Los Angeles area provided by the California Department of Finance. District staff feel this level of inflation is appropriate given that other major or more volatile cost categories are specifically defined.

2. *Operations – Utilities:*

Electricity dominates the District's utility expenditure and electric utility rates are expected to rise approximately 5% based on the composite of the District's electricity providers. The higher 6.3% and 8.7% for FY 2026-27 and 2027-28, respectively, reflect additional utilities costs associated with new salinity management processes in recycled water production. Recognizing that utility rates in Southern California have risen substantially in recent years, the District actively seeks to explore opportunities for enhancing cost management. Multiple projects in the FY 25-26 Capital Improvement Plan (CIP) budget involve the replacement of mechanical equipment where the new equipment, such as pumps and generators, will have a higher efficiency factor than existing equipment and are expected to result in reduced electricity consumption associated with those assets. The test-year FY 25-26 budget included both the installation costs and the energy savings from the Micro-Hydro Turbine at Bridlewood FCF and Solar Panels at Headquarters Projects which will generate electricity to offset the impact of future electricity rate increases on total utilities' costs.

3. *Operations – Chemicals:*

The District has seen significant variability in chemicals costs associated with wastewater treatment at Plant 3A and the Regional Treatment Plant. Volatility in chemicals costs impacts the entire utility industry and given the exogenous nature of these costs, District staff have assumed a more conservative 5% annual inflationary rate.

4. *Operations – Insurance:*

Costs associated with *Operations – Insurance* consist of two categories:

- Premiums the District pays to insure its facilities and assets against damage or other loss. The District maintains several broad insurance policies through its membership with Association of California Water Agencies Joint Powers Insurance Authority (ACWA/JPIA). A hard excess insurance market has driven consecutive ACWA/JPIA rate increases in recent years for District insurance plans ranging from 10-20% each year. As a result, the premiums for insurance have increased substantially industry-wide, contributing to a 250% increase for the study base year compared to the adopted FY 2023-24 budget. This increase is largely believed to be a market correction and given JPIA's large risk-sharing pool and premiums-based incentives for reducing claims, inflation assumptions for all future years have been set equal to the general inflation assumption based on blended CPI data for Commodities, Durables, and Non-Durables (less food & beverages) for the Los Angeles area provided by the California Department of Finance as any future rate increases would likely be tied to new asset purchases.

- District’s contribution to employee welfare and safety-net programs, such as: Workers’ Compensation, Medicare, Federal Insurance Contributions Act (FICA), short and long-term disability, and State Unemployment Insurance. Workers’ Comp. premiums for District employees are based on a formula that accounts for several operational factors that are intended to capture the relative claim risk among the ACWA/JPIA member agencies and allocates the total pool premium accordingly. The “Experience Modification Rate” or “E-Mod” reflects an agencies overall level of safety and is adjusted up or down annually based on the number and severity of claims. The District places significant emphasis on worksite safety and training for field staff and as a result, the District’s E-Mod is 0.80, paying only 80% of the standard premium.

Capital Cost Inflation Assumptions

Costs for projects in the 10-year CIP are based on planning-level estimates which include contingencies that are intended to address assumptions about future materials and labor costs. Additionally, District staff have found that many construction projects often result in cost savings. Recognizing this, projected capital costs are not additionally inflated above levels already assumed in the developed estimates.

Inflation Assumptions – Revenues

Table 3: Inflation Factors – Revenues

Inflation Factors	FY 2025-26*	FY 2026-27	FY 2027-28	FY 2028-29	FY 2029-30	FY 2030-31	FY 2031-32	FY 2032-33	FY 2033-34	FY 2034-35
Revenue Assumptions										
General – Revenue	-	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Property Tax	-	3.6%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%
Investment Income	-	3.7%	3.7%	3.8%	3.9%	3.5%	3.5%	3.5%	3.5%	3.5%
Capacity Fees	-	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Property Lease Revenue	-	3.7%	3.7%	3.7%	3.7%	0.0%	0.0%	0.0%	0.0%	0.0%

*FY 25-26 is based on the adopted budget and therefore not impacted by the inflationary assumptions used in the 2025 long-range financial planning methodology

General – Revenue

Non-rate-related operating revenues are assumed not to increase above present values over the planning horizon of the Model. Staff considers this assumption both appropriate and conservative as the majority of these revenue sources are related to either: daily operations activity (e.g. sale of scrap metal or other materials), for which increases in revenue would likely be offset by increased cost of the underlying activity; or user fees related to customer service, which would only increase as a result of customer base growth or an active policy decision to increase the dollar amount of user fees.

Property Tax

Revenues from property tax are assumed to increase annually over the planning horizon of the Model. Property tax revenue for the District has continued to increase over the past four years. This has been a key component of the District's non-rate revenue base and is directly distributed back to customer bills, helping to maintain some of the lowest water bills in South Orange County. Local property tax forecasts suggest an approximate 4% increase year over year; however, a more conservative estimate of future growth is assumed in the Model to reflect the use of property tax revenues in the development of the District's tiered rate structure. Also, the District maintains a Rate Stabilization Reserve which reduces the financial exposure resulting from a sudden reduction in property tax revenue that would otherwise warrant an even more conservative estimate of future revenue.

Investment Income

The District maintains a diverse portfolio of investments to meet short-term liquidity, midterm cash-funded Capital Improvement Programs and long-term earnings. The 3.7% - 3.9% increase in investment returns projected for FY 2025-26 through FY 2029-30 is a result of the growth in returns on unrestricted cash balances as a higher percentage of capital expenditures are reimbursed from restricted bond proceeds which are then reinvested in short-term securities to meet construction cashflow needs. Efficient coordination between the District's Financial Planning, Accounting, and Engineering Departments has increased the accuracy of short-term and long-term cash flow forecasts, which has allowed the District's Investment Advisor to confidently restructure the District's investment portfolio to meet short-term liquidity needs and cash funded Capital Improvement Program costs while maintaining long-term earnings. With efficient management and vigilant monitoring of market conditions, the District has successfully leveraged recent short-term strategies and seen opportunities for higher earnings rates of over 4% in recent months, reflecting the District's proactive approach to optimizing financial performance. Investment income growth is reduced to 3.5% in subsequent years as a more conservative expectation of portfolio performance over the remainder of the planning horizon.

Capacity Fees

Annual capacity fee inflation assumptions are based on development forecasts maintained by the District's private development group and reflect anticipated development within the service area over a ten-year period. The District's private development group actively works with the District's local cities to develop its ten-year forecast.

Property Lease Revenue

The main source of revenue is from cell site carriers placing antennas and equipment on reservoir properties and other District locations. These communications facilities are distributed among 18 sites. Many cell carriers are merging and no longer need duplicative sites. However, due to the changes in license fees, revenues are projected at \$2.3M for FY 2025-26 and escalating based on contractual obligations to \$2.7M by FY 2029-30 which are then conservatively held fixed through the end of the planning horizon. The Model accounts for the contracted amounts from retained sites and the decommissioning of sites as lease contracts expire.

Water Supply Assumptions

The water supply portfolio used to project the cost of the water is based on available water deliveries from Baker Water Treatment Plant (Baker) and Diemer Treatment Plant from Metropolitan Water District of Southern

California (MWDSC). In addition, as a part of its Long-Range Water Reliability Plan, the District has evaluated other long-term projects to further reduce District demand of imported supplies. In FY 2016-17, Baker started operations and ramped up to full capacity in FY 2017-18. The Baker Water Treatment plant can provide the District with approximately 8,908 AF annually from treating raw MWDSC water. The District projects a sustained 6% for water losses (non-revenue water). Non-revenue water consists of water used at District operations facilities, water used for operational purposes such as fire hydrant testing, and water loss due to leaks. As part of its efforts to reduce costs from non-revenue water, the District has implemented several water loss control programs including full-time water loss detection crew, robust meter testing program, pressure reduction studies, and Advanced Metering Infrastructure-driven apparent loss detection.

The test-year FY 25-26 potable water demand is maintained at 22,444 AF (inclusive of water loss). Though customer water usage continues to be lower in the last two “wet” years (20,274 in CY 2023 and 21,300 in CY 2024), the test-year budget conservatively assumes demands representative of a typical year in case weather begins to revert to “dry” conditions that have increased potable water demands as high as 25,000 AF as recently as FY 20-21.

Table 4: Water Supply Portfolio

Water Supply Usage	FY 2025-26	FY 2026-27	FY 2028-29	FY 2030-31
Usage (AF)	21,075	21,075	21,075	21,075
Non-Revenue Water	6.1%	6.1%	6.1%	6.1%
Total Demand w/ Water Loss (AF)	22,444	22,444	22,444	22,444
Supply Portfolio				
Diemer Treatment Plant (AF)	13,536	13,536	13,536	13,536
Baker Treatment Plant (AF)	8,908	8,908	8,908	8,908

Table 5 below shows the projected supply cost rates with annual escalation factors ranging from as high as 11.7% in FY 2026-27 compared to the 5.6% ten-year average. In the Management of Financial Risk section of this document, the Model evaluates the impacts of additional increases in imported water costs should MWDSC increase its rates beyond the forecasts published in its FY 2024-25 & 2025-26 biennial budget. These scenarios provide bounds on how volatile cost trends could impact District finances, absent policy tools.

Table 5: Projected Rates and Charges

Projected Rates and Charges	FY 2025-26	FY 2026-27	FY 2027-28	FY 2028-29	FY 2029-30
MWDSC Treatment Variable Rate (\$/AF)*	\$1,455	\$1,614	\$1,775	\$1,877	\$1,949
MWDSC Untreated Variable Rate (\$/AF)*	\$960	\$1,070	\$1,231	\$1,331	\$1,401
Baker Variable Costs (\$/AF)	\$122	\$128	\$135	\$142	\$149
Baker Fixed Costs	\$957,134	\$1,004,990	\$1,055,240	\$1,108,002	\$1,163,402
MWDSC Readiness-to-Serve Charge*	\$2,073,574	\$2,172,841	\$2,724,324	\$3,066,243	\$3,220,658
MWDSC Capacity Charge*	\$556,524	\$579,552	\$767,619	\$905,791	\$1,032,448
MWDSC Annual Connection Charge	\$806,333	\$835,185	\$865,069	\$896,022	\$928,082

*MWDSC rates and charges shown are adjusted to an effective fiscal year rate based on adopted 10-year forecasts of MWDSC calendar year rates.

Table 5 (continued): Projected Rates and Charges

Projected Rates and Charges	FY 2030-31	FY 2031-32	FY 2032-33	FY 2033-34	FY 2034-35
MWDSC Treatment Variable Rate (\$/AF)*	\$2,031	\$2,101	\$2,191	\$2,271	\$2,354
MWDSC Untreated Variable Rate (\$/AF)*	\$1,475	\$1,538	\$1,599	\$1,659	\$1,723
Baker Variable Costs (\$/AF)	\$156	\$164	\$172	\$181	\$190
Baker Fixed Costs	\$1,221,572	\$1,282,651	\$1,346,783	\$1,414,122	\$1,484,828
MWDSC Readiness-to-Serve Charge*	\$3,275,806	\$3,408,162	\$3,551,548	\$3,816,259	\$3,968,910
MWDSC Capacity Charge*	\$1,120,724	\$1,205,162	\$1,255,057	\$1,312,629	\$1,365,134
MWDOC Annual Connection Charge	\$961,288	\$995,682	\$1,031,305	\$1,068,203	\$1,106,420

*MWDSC rates and charges shown are adjusted to an effective fiscal year rate based on adopted 10-year forecasts of MWDSC calendar year rates.

Utilizing all the factors detailed above results in the annual operating revenue requirement projections shown in Table 6. FY 2026-27 and beyond are projected based on the FY 2025-26 budget.

Table 6: Revenue Requirements

Projected Revenue Requirements	FY 2025-26	FY 2026-27	FY 2027-28	FY 2028-29	FY 2029-30
Potable	\$ 62,664,764	\$ 62,666,786	\$ 68,545,810	\$ 73,119,764	\$ 76,401,177
Recycled	\$ 8,313,604	\$ 8,703,702	\$ 9,210,765	\$ 9,759,155	\$ 10,186,455
Wastewater	\$ 31,416,125	\$ 32,760,778	\$ 35,017,281	\$ 37,097,021	\$ 38,679,077

Debt Financing Assumptions

In evaluating future financing needs, the Model makes assumptions on the initial and ongoing costs associated with issuing debt. Below in Table 7 are the projected terms for debt issuance mechanisms the District has historically implemented. These are based on conservative estimates of long-term trends. The District will work with its Financial Advisor and financing team to secure the optimum rates and terms at the time of issuance.

Table 7: Debt Mechanism

Debt Mechanism	Interest Rate	Term (Years)	Issuance Cost
Certificates of Participation	3.5%	30	\$250,000

REVENUE REQUIREMENTS & CURRENT REVENUE

Revenue Requirements

The revenue requirements for the District are composed of three components:

1. Annual operating costs that rise in proportion to specific inflators, outlined in Figure 1.
2. Capital infrastructure that are one-time expenses, such as new infrastructure or replacement of existing infrastructure; and,
3. Debt Service Payments.

Figure 1 below shows combined operating and capital revenue requirements for FY 2025-26, the first year of the model while Table 8 shows the summary of district-wide revenues, proposed debt issuances, and revenue requirements.

Figure 1: Current Revenue Requirements

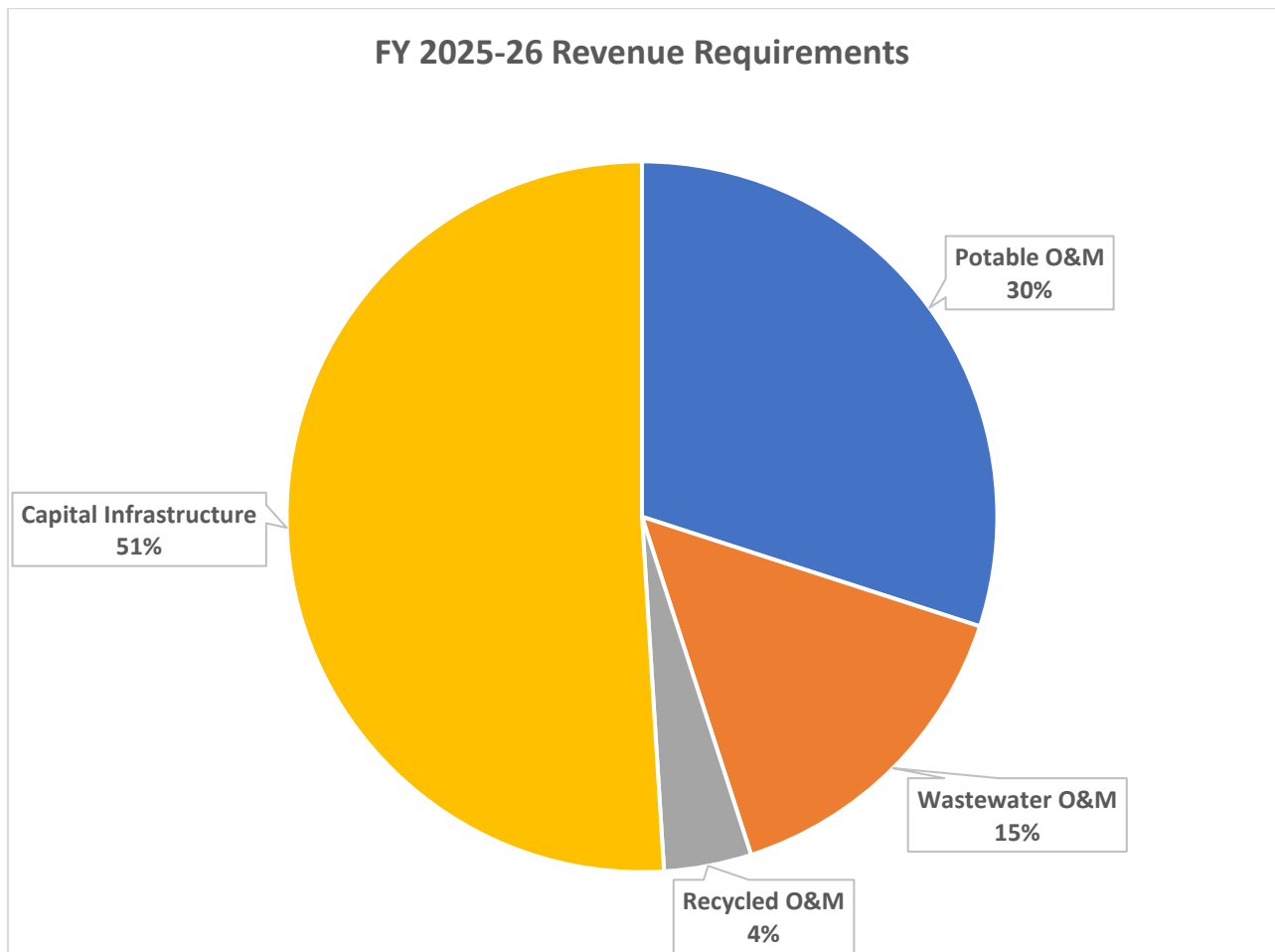


Table 8: Current Revenue and Revenue Requirements

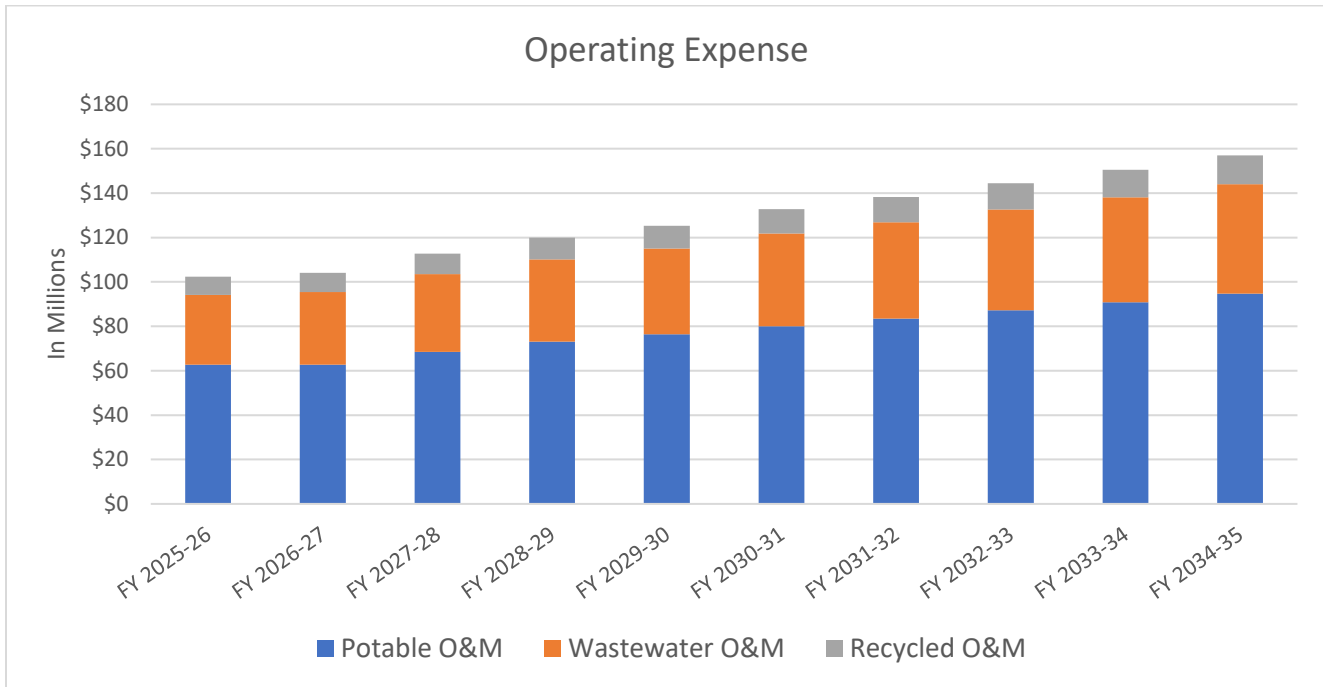
	<i>FY 2025-26</i>	<i>FY 2026-27</i>	<i>FY 2027-28</i>	<i>FY 2028-29</i>	<i>FY 2029-30</i>
Revenue					
Current Rate Revenue	\$74,672,959	\$74,740,026	\$74,807,093	\$74,874,161	\$74,941,228
Proposed Adjustments	\$3,775,208	\$3,540,358	\$3,909,949	\$4,326,635	\$4,797,141
Non-Rate Revenue	\$60,450,202	\$50,926,946	\$52,226,625	\$54,266,850	\$56,094,277
Bond Issuance	-	\$72,750,000	-	\$105,750,000	-
Revenue Requirements					
Debt Service	\$14,461,634	\$15,122,606	\$19,084,713	\$19,081,713	\$24,830,450
Operating Expenses	\$104,797,655	\$106,534,428	\$115,177,018	\$122,379,103	\$127,669,871
Capital Infrastructure Expenses	\$92,031,882	\$57,756,577	\$45,721,059	\$72,745,890	\$66,314,907

	<i>FY 2030-31</i>	<i>FY 2031-32</i>	<i>FY 2032-33</i>	<i>FY 2033-34</i>	<i>FY 2034-35</i>
Revenue					
Current Rate Revenue	\$75,008,295	\$75,075,362	\$75,142,429	\$75,209,496	\$75,276,564
Proposed Adjustments	\$5,311,618	\$5,884,218	\$6,522,256	\$7,219,395	\$7,994,935
Non-Rate Revenue	\$56,946,025	\$58,690,047	\$60,031,097	\$61,901,622	\$64,176,723
Bond Issuance	\$74,750,000	-	-	-	-
Revenue Requirements					
Debt Service	\$24,828,325	\$28,900,549	\$28,915,524	\$28,911,615	\$28,899,756
Operating Expenses	\$135,122,550	\$140,713,889	\$146,877,685	\$152,884,085	\$159,412,623
Capital Infrastructure Expenses	\$71,817,446	\$51,935,957	\$41,330,022	\$47,095,400	\$47,781,369

The following figures and charts will break down the overall revenues and revenue requirements into their components and the next section will show the plan moving forward. Operations and maintenance expenses in the Long-Range Financial Plan use budgeted expenses for FY 2025-26. Operating expenses for FY 2026-27 through FY 2034-35 are projected based on the inflation factors discussed in Modeling Assumptions.

Figure 2 depicts a breakdown of operating costs over the next 10 years for each of the Systems.

Figure 2: Operating Expenses by System



Operations and maintenance of the potable water system increase by 51% by FY 2034-35. The largest operating expense is water purchases, projected to increase 60% by FY 2034-35. Currently, the District purchases all its potable water supply from MWDSC via MWDOC. The purchase of imported water from MWDSC via MWDOC will have the largest impact on the potable water operating expenses in the planning horizon. This report assumes increases in MWDSC costs based on recent projections, shown in Table 5. However, there are potential projects and activities that MWDSC is considering, such as funding for the Delta Conveyance Project or Sites Reservoir, that are currently not accounted for within the projected MWDSC rates. In response, the District is including expenses to study and evaluate alternative water supplies and to reduce water loss within the system. Additionally, the potable water operating expenses reflect necessary increases to operation and maintenance expenses to continue to provide reliable and efficient water and fire protection services to customers.

The wastewater system operating expenses increase by 53% by FY 2034-35. Regulatory requirements, biosolid disposal expenses, staffing resources, and increased power and chemical costs are the primary drivers for the increase in the wastewater system operation and maintenance costs. The Board remains committed to providing for the safe collection, treatment and disposal of wastewater to protect the public health and environment. Additionally, nearly 15% of the District’s wastewater is treated via a neighboring agency contract provider. It is imperative that the District monitor the safe treatment and disposal of wastewater through the contract services to ensure compliance with all regulations and financial accountability for those services on behalf of the District’s customers.

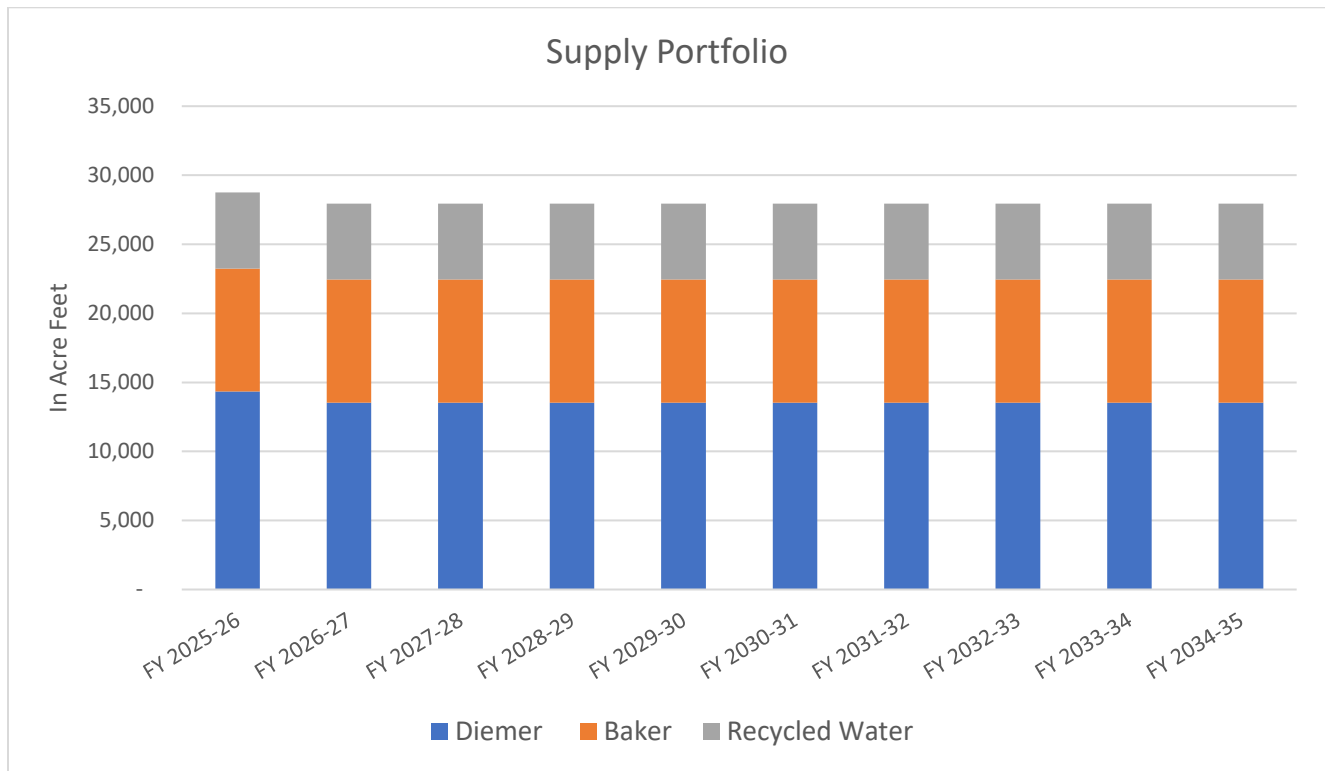
In FY 2025-26, Recycled water production is estimated to meet more than 20% of total water demand and is projected to remain constant through FY 2034-35. Operation and maintenance expenses of the recycled water system are expected to increase by 56% over that time frame. Increases to chemical costs will continue to be a key factor, as will increased power costs to meet regulatory requirements to produce recycled water.

The Model has the capability to analyze the financial impacts of a mixed portfolio with specified supply allocations based on projects such as expanded recycled water deliveries, emergency interconnections, or groundwater exchange programs as well as potential for direct portable reuse.

The supply portfolio presented below is the base case used unless specified in each scenario.

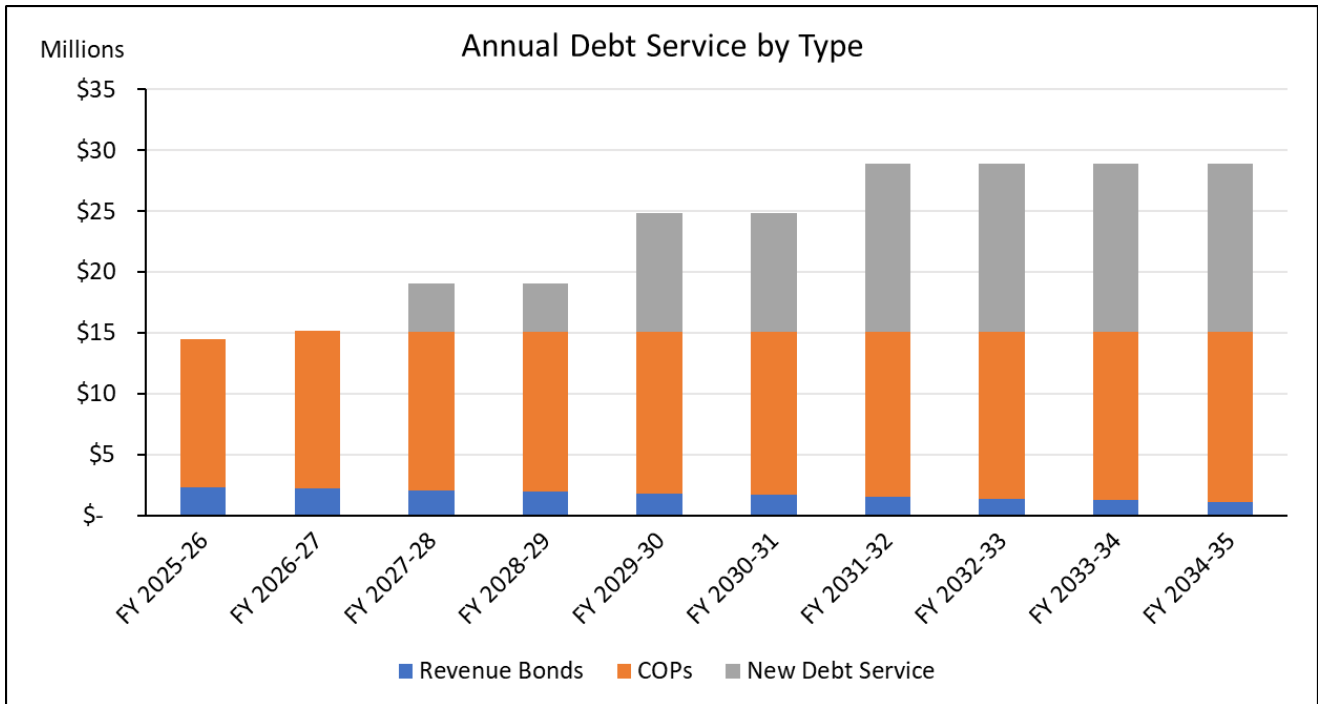
Figure 3 shows the base case forecast water supply portfolio. The overall demand will remain consistent at 28,000 AF beginning FY 26-27.

Figure 3: Supply Portfolio



The financial plan includes the existing debt service schedules and projected issuances intended to smooth out large, expected capital infrastructure project costs over the life of the assets. Figure 4 provides a breakdown of existing debt service by issuance type in addition to new debt service from the projected issuances of \$72.8 million in FY 2026-27, \$105.8 million in FY 2028-29, and \$74.8 million in FY 2030-31 to fund capital expenditures and smooth rate adjustments in the term.

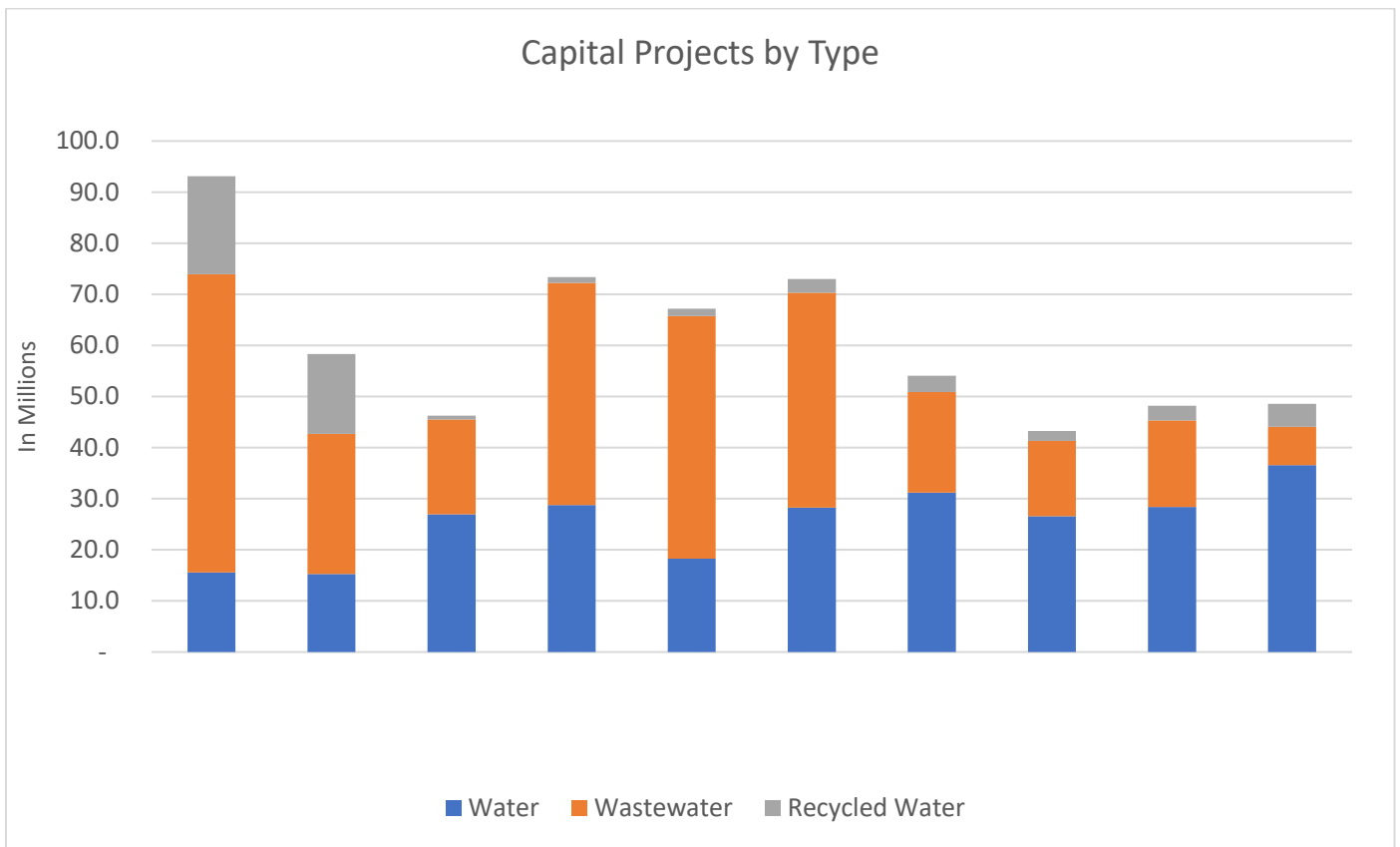
Figure 4: Debt Service Summary



Investments in critical infrastructure projected for Fiscal Years 2025-26 through 2034-35 are from the District’s Capital Financing Plan. Major upgrades are necessary for the District’s two primary wastewater treatment plants to replace critical equipment and ensure on-going regulatory compliance. Replacement and rehabilitation of key pump stations serving both the wastewater collection system and potable water system are necessary during the planning horizon. These facilities will protect public health by safely conveying wastewater to treatment facilities and ensure the reliable delivery of potable water for customers and fire protection. Additionally, the District is investing in large regional capital projects to enhance the reliability of the potable water system during emergencies and disasters. Over the next 10 years, the District has an expected CIP financing plan of approximately \$595 million. While the District reviews its 10 Year CIP annually, on-going operations, maintenance, and regular condition assessments of the District’s infrastructure may require updates to the CIP which may necessitate changes in the schedule of investments.

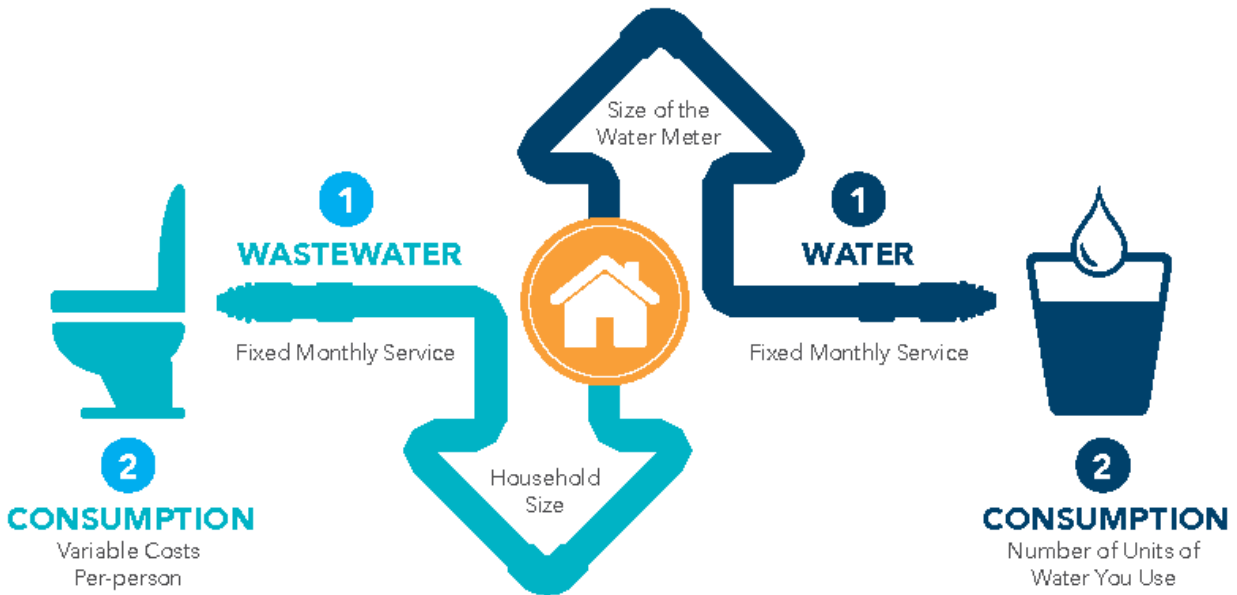
Figure 5 provides a summary of the major capital expenses in the District’s 2026 Capital Financing Plan.

Figure 5: Capital Projects Summary



Current Revenues

The two largest sources of revenue are rate revenues from the three systems (water, recycled water, and wastewater) and ad valorem property tax. Rate revenues for both water and wastewater are composed of fixed and variable charges (except Fire Protection, which is fixed charge only). Each type and class are defined below.



Water Rates

The fixed fee for providing water service to customers is based on the size of the water meter. Table 9 lists the fixed, monthly service charge for all account class in 2025.

Table 9: Fixed Monthly Water Service Charges Effective January 1, 2025 (\$/Meter)

Meter Size	Single-family Residential	Multi-family Residential	Commercial	Potable Irrigation	Recycled Irrigation	Fire Protection*
5/8"	\$10.54	\$10.97	\$3.98	\$17.03	\$17.03	\$5.95
3/4"	\$10.54	\$10.97	\$3.98	\$17.03	\$17.03	\$5.95
1"	\$10.54	\$10.97	\$3.98	\$17.03	\$17.03	\$5.95
1.5"	\$35.11	\$23.50	\$13.27	\$56.75	\$56.75	\$19.82
2"	\$56.18	\$34.24	\$21.24	\$90.80	\$90.80	\$31.71
2.5"	-	-	-	-	-	\$50.52
3"	\$122.92	\$68.26	\$46.46	\$198.64	\$198.64	\$69.36
4"	\$210.71	\$113.01	\$79.65	\$340.52	\$340.52	\$118.90
6"	\$438.98	\$229.37	\$165.94	\$709.42	\$709.42	\$247.71
8"	\$632.12	\$327.83	\$238.96	\$1,021.56	\$1,021.56	\$356.71
10"	\$1,018.42	\$524.75	\$384.99	\$1,645.85	\$1,645.85	\$574.70

Fire Protection Water Service Charges are only assessed as fixed charge, based on connection size

The variable fee is based on the amount of water used by the class type.

1. Residential: Single Family and Multi-Family

The current water volumetric rate structure is composed of five tiers. Table 10 shows the tiered rates for residential accounts, effective January 1, 2025.

Table 10: Residential Tier Width Rates Effective January 1, 2025 (\$/hcf)

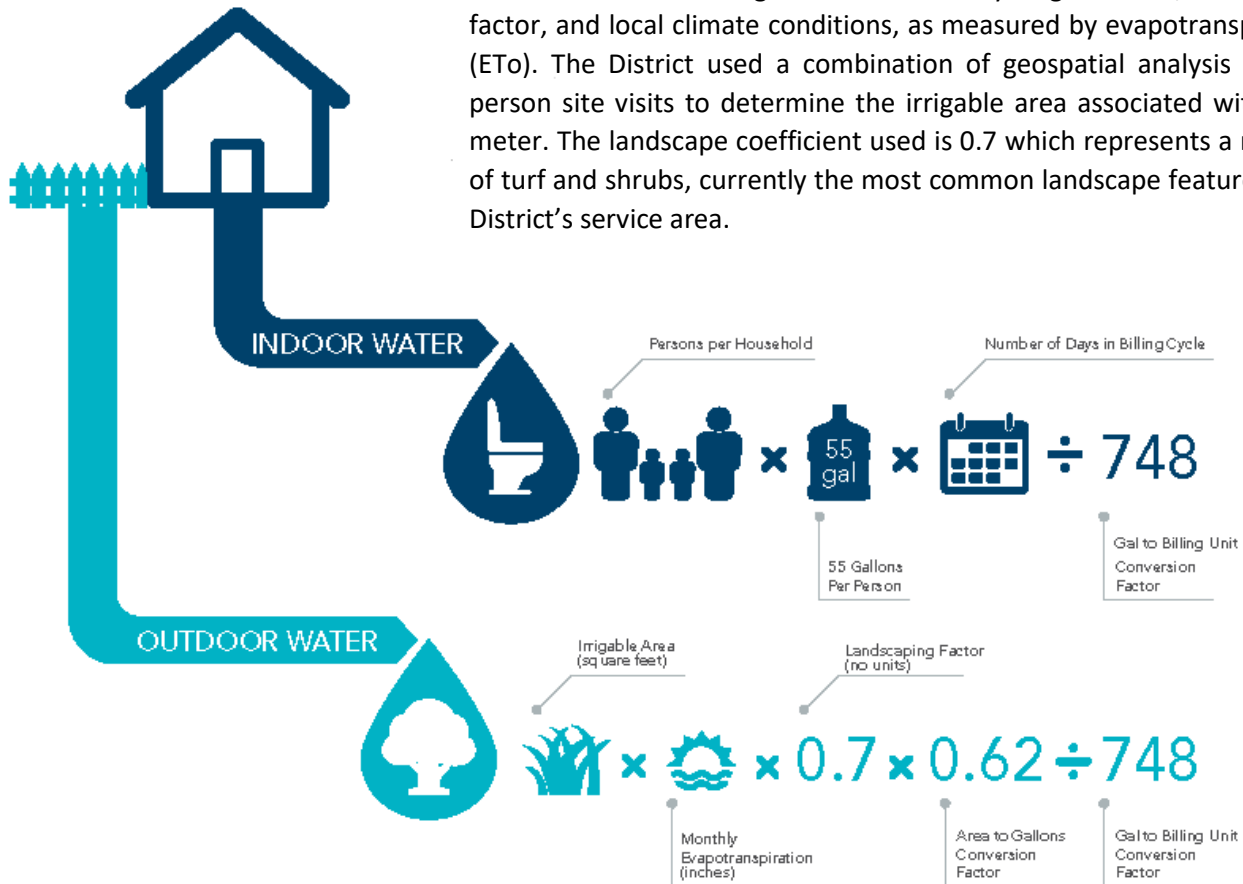
Tier	Allocation	Rate (per hcf)
1	Indoor Water Budget	\$2.38
2	Outdoor Water Budget	\$2.70
3	101-125% Total Water Budget	\$4.36
4	126-150% Total Water Budget	\$7.15
5	Over 150% Total Water Budget	\$11.04

Tier 1 = Indoor Water Budget

The indoor water budget is determined by first allocating 55 gallons per capita per day (GPCD) for efficient indoor use, multiplying that allocation by the number of days in the billing cycle and the number of people in the household. The conversion factor converts from gallons to hundred cubic feet (hcf), which is the billing unit (BU). Customers report the number of people in their household when activating an account, but the median household is 4 people for single family and 2-3 people for multi-family housing.

Tier 2 = Outdoor Water Budget

The outdoor water budget is determined by irrigable area, landscaping factor, and local climate conditions, as measured by evapotranspiration (ET_o). The District used a combination of geospatial analysis and in-person site visits to determine the irrigable area associated with each meter. The landscape coefficient used is 0.7 which represents a mixture of turf and shrubs, currently the most common landscape feature in the District's service area.



2. Commercial & Irrigation

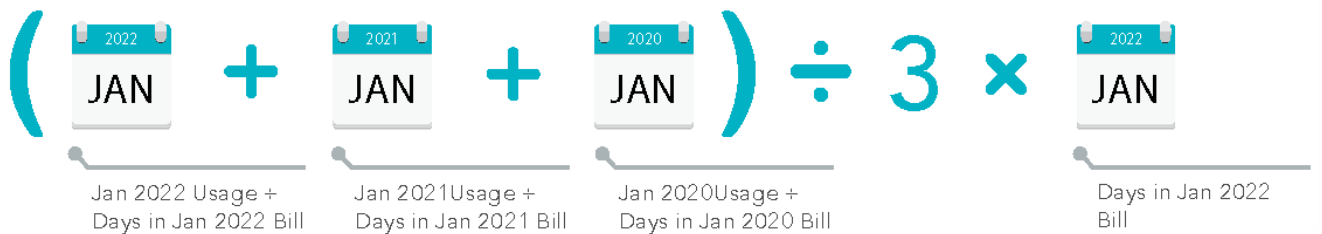
The current water volumetric rate structure for commercial and irrigation is composed of four tiers. Table 11 shows the tiered rates for commercial and irrigation accounts, effective January 1, 2025.

Table 11: Commercial and Irrigation Tier Width Rates Effective January 1, 2025 (\$/hcf)

		Commercial	Potable Irrigation	Recycled Irrigation
Tier	Allocation			
1	Total Water Budget	\$2.70	\$2.70	\$1.89
2	101-125% Total Water Budget	\$4.36	\$4.36	\$3.37
3	126-150% Total Water Budget	\$7.15	\$7.15	\$6.16
4	Over 150% Total Water Budget	\$11.04	\$11.04	\$10.05

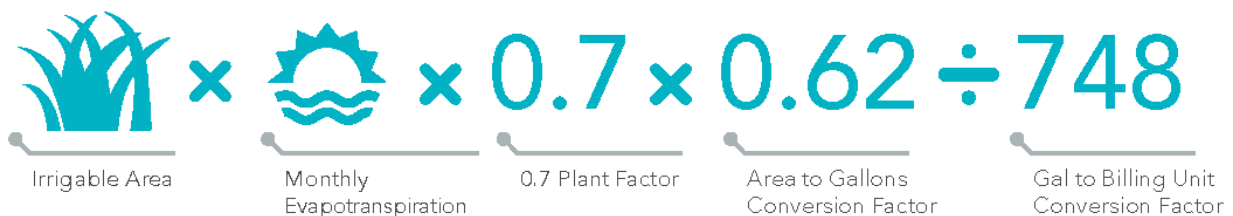
Commercial Accounts

To determine the total water budget for commercial meters, the District uses a rolling average of the current month's usage and the respective monthly usage from the past two years to determine the total water budget (with a minimum budget of one billing unit). This 3-year rolling monthly average accounts for typical monthly usage for commercial customers as well as for potential increases in business activity or recent efficiency improvements that may have occurred within the current month.



Irrigation Accounts (Potable and Recycled Water)

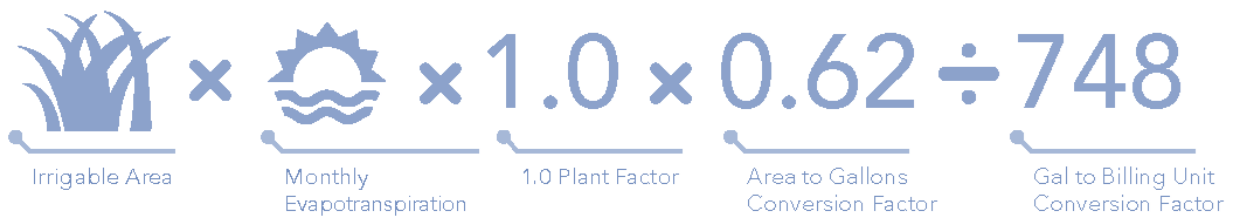
For all **potable water** irrigation meters, total water budget is calculated as follows:



Total water budgets for areas irrigated with **recycled water** are calculated similarly to potable irrigation budgets; however, budgets for recycled irrigation have a higher landscape factor to account for the additional salinity of recycled water.



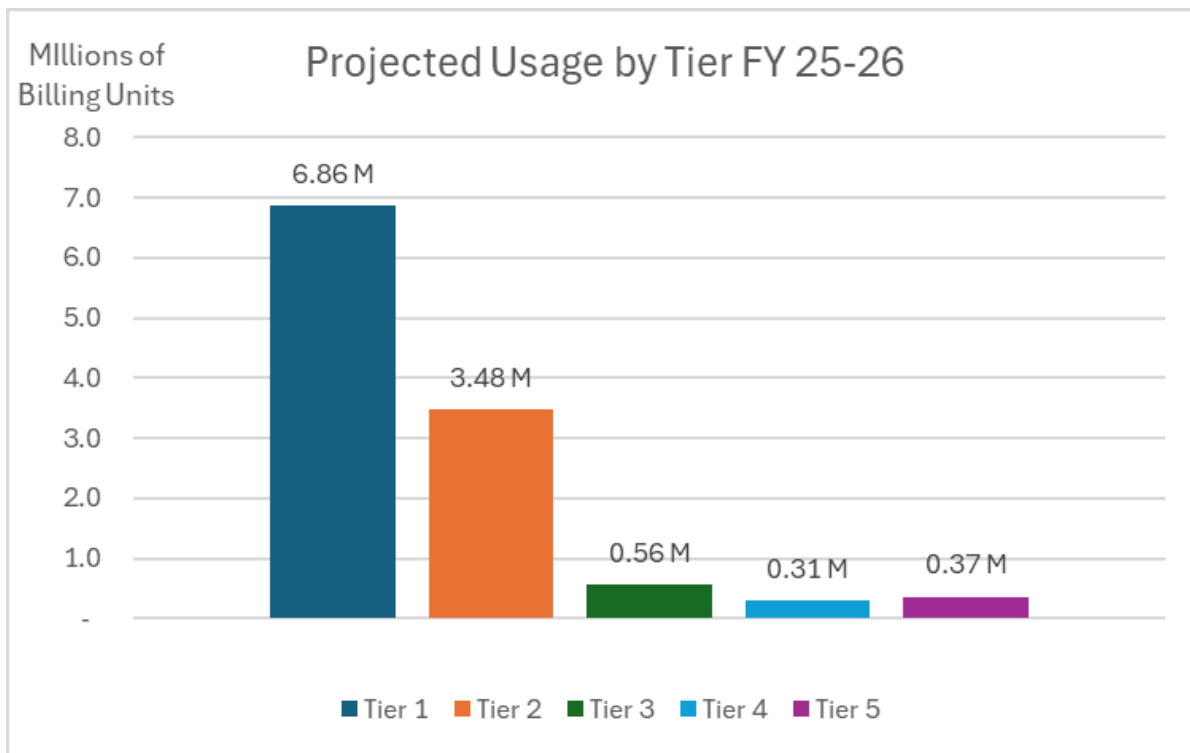
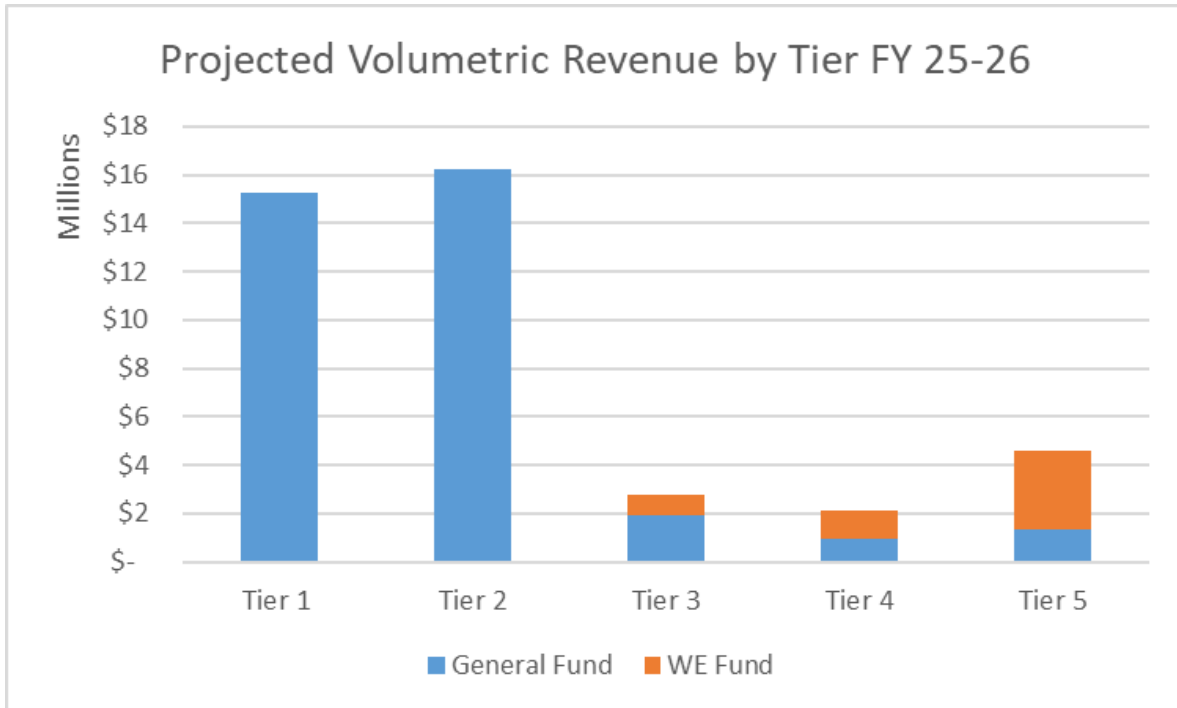
The same calculation applies to total water budgets for potable water **and** recycled water for areas defined as public spaces which includes public parks, but with a landscape factor of 1.0.



Using water in excess of a customer’s individually calculated water budget results in higher rates, increasing up to \$11.04 per hcf in the highest tier. For Recycled customers, usage above the basic use allocation results in an increase up to \$10.05 in the highest tier. The revenue derived from out-of-budget usage goes to fund conservation and water efficiency programs, education, outreach, and program administration. In addition, the water efficiency revenue can be used to study and/or construct new water supply projects.

Figure 6 presents the projected revenue share and usage for FY 2025-26 that will be received from each of the water budget tiers based on FY 2024-25 baseline usage levels and no assumed rate structure changes.

Figure 6: Projected Volumetric Revenue and Usage by Tier



Wastewater Rates

The wastewater system has two customer groupings: residential customers and commercial customers. Residential customers are billed per person, and a monthly charge of \$22.37 and multi-family customers are billed based on meter size as shown in Table 12.

Table 12: Monthly Wastewater Service Charges Effective January 1, 2025 (\$/Meter)

	Residential	Multi-Family	Commercial 1	Commercial 2	Commercial 3	Commercial 4
Per Person	\$5.97	\$5.97	-	-	-	-
5/8"	\$22.37	\$25.62	\$29.11	\$67.68	\$146.70	\$166.18
3/4"		\$25.62	\$29.11	\$67.68	\$146.70	\$166.18
1"		\$25.62	\$29.11	\$67.68	\$146.70	\$166.18
1.5"		\$77.32	\$88.95	\$217.50	\$480.86	\$545.80
2"		\$121.63	\$140.24	\$345.93	\$767.33	\$871.24
3"		\$261.98	\$302.68	\$752.67	\$1,674.57	\$1,901.90
4"		\$446.62	\$516.39	\$1,287.77	\$2,868.13	\$3,257.82
6"		\$926.72	\$1,072.07	\$2,679.13	\$5,971.57	\$6,783.43
8"		\$1,332.94	\$1,542.25	\$3,856.39	\$8,597.47	\$9,766.54
10"		\$2,145.40	\$2,482.62	\$6,210.98	\$13,849.41	\$15,732.92

Commercial customers are assigned to one of the four classes below based on the type of commercial activity and the strength of the wastewater that they discharge into the system. Typical users within the four subclasses generally include, but are not limited to, the following:

COMMERCIAL CLASS 1	COMMERCIAL CLASS 2
banks, car washes, churches, department & retail stores, laundromats, professional offices, schools and colleges	beauty and barber shops, hospital and convalescent facilities, repair shops, service stations and veterinary hospitals
COMMERCIAL CLASS 3	COMMERCIAL CLASS 4
hotels with dining facilities, markets with garbage disposals, mortuaries, and fast-food restaurants	restaurants, automobile steam-cleaning facilities, and bakeries

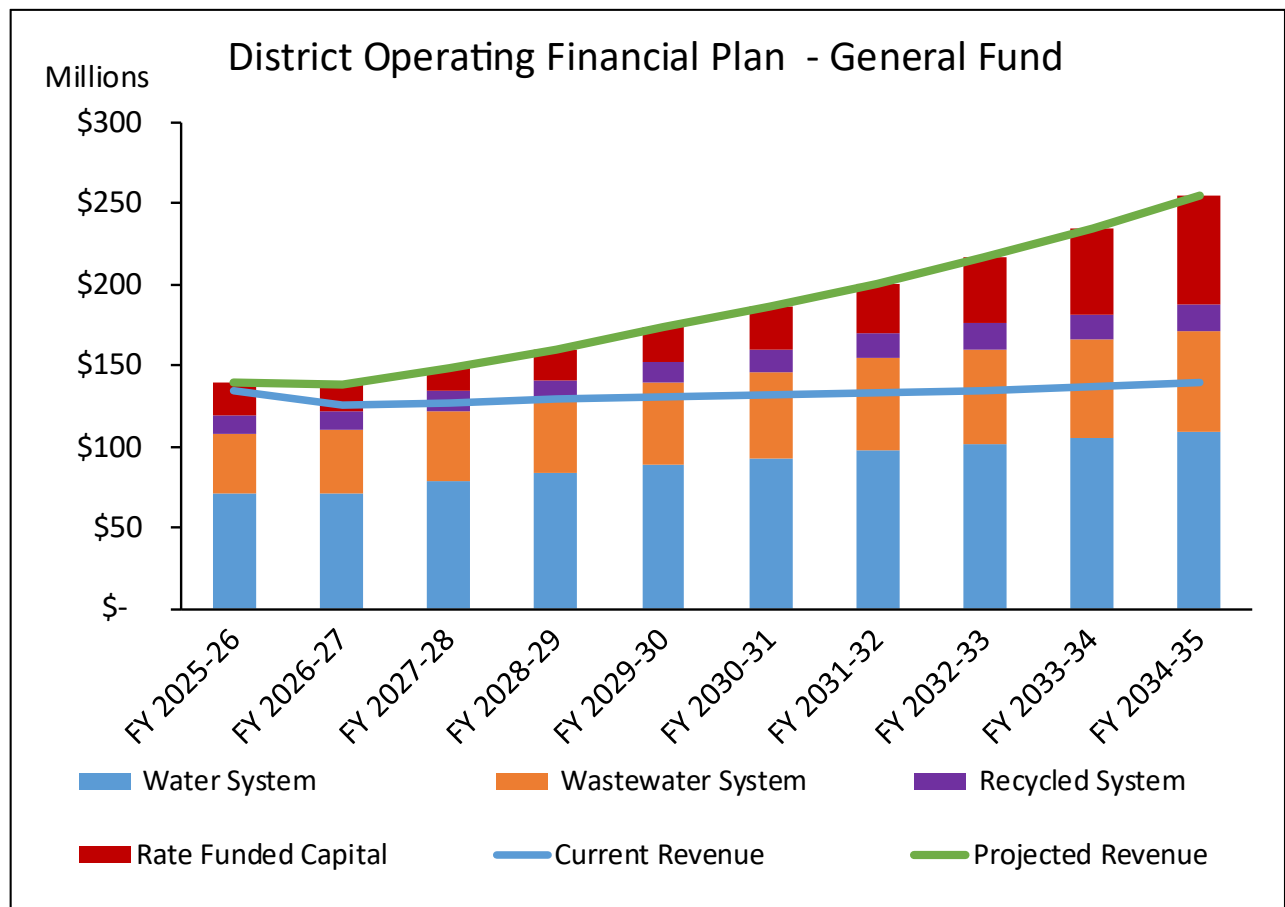
PROPOSED FINANCIAL PLAN

The LRFPI incorporates both the test year (FY 2025-26) revenue requirements and assumed inflationary factors for projecting future operating costs as well as the proposed capital infrastructure plan. The District is currently planning to draw down cash reserves to target reserve levels adopted in the District’s Reserve Policy in order to fund capital improvement projects in the near future while structuring rate adjustments and debt financing to maintain cash balances at targeted reserve levels in the future.

General Fund Summary

Figure 7 is the operating financial plan that breaks down the major component costs and compares the proposed revenue stream to the status quo.

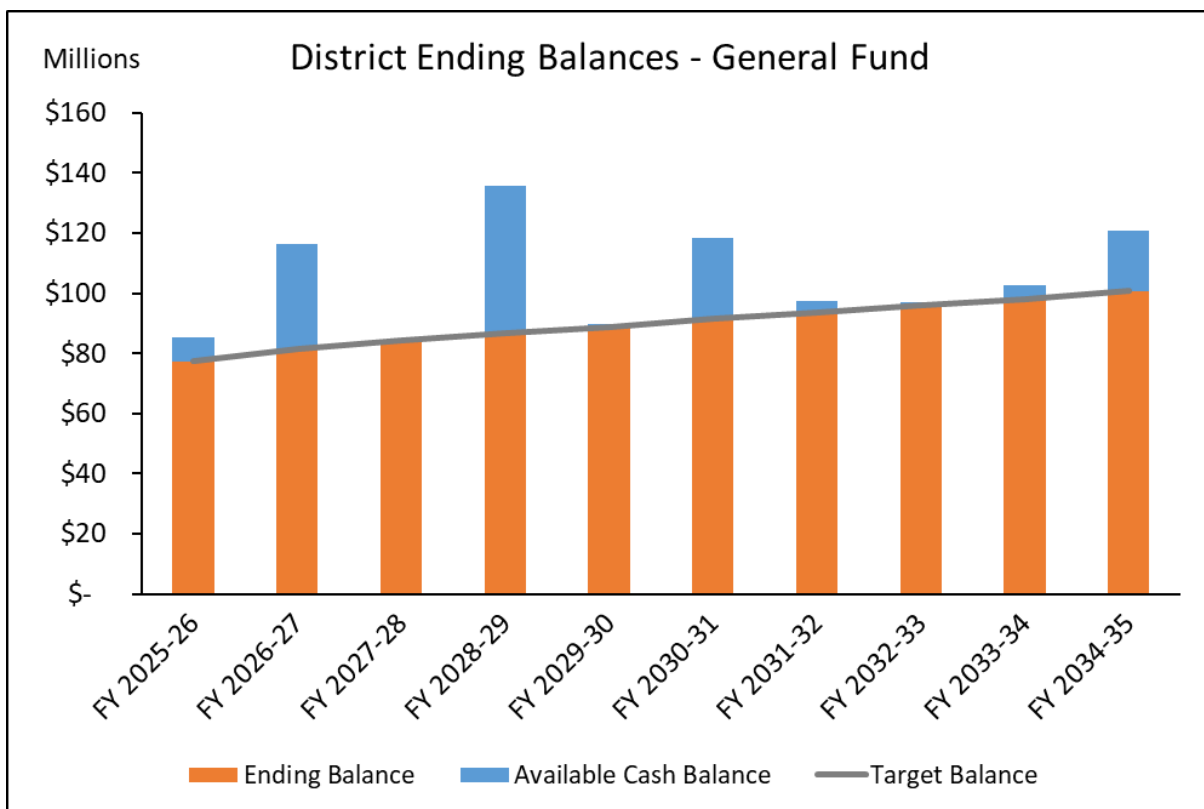
Figure 7: General Fund – District Operating Plan



Rate Funded Capital is total revenue, net of operating and debt-service related expenses that are largely used to cash-fund the Capital Improvement Plan. These funds can also be used to replenish reserve funds if they drop below target levels, either because the reserves were utilized or the reserve targets were increased. The proposed revenue requirements equate to a 12% revenue adjustment on January 1, 2026 and 10% for each subsequent year through 2035. If the proposed revenue adjustments are not implemented, current revenue would fail to meet operating costs by FY 2027-28. When structuring future rate adjustments and debt issuance, the District should be cognizant of the impacts to the debt coverage ratio relative to the Board-adopted policy minimum of 1.75x.

In addition, the proposed rate revenue adjustments along with proposed bond issuances provide adequate cash balances to meet the current reserve policy cash requirements. Projected available cash balances and reserve cash balances are shown in Figure 8. Available cash balances will be used to cash fund capital projects and provide additional policy options and the ability to meet unforeseen risks.

Figure 8: Gen. Fund – District Ending Balances



As shown in Figure 9, timing anticipated debt issuances driven by the construction of various capital projects and historically lower interest rates presents a unique opportunity for the District to minimize financing costs over the life of the issuance.

The proposed 2025 financial plan proposes an average 10% rate adjustment to make critical investments for future operational continuity while providing for inter-generational equity amongst today’s customers and the rate payers of tomorrow. The District also maintains debt coverage ratios above the Board approved 1.75x for all ten years.

Figure 9: Gen. Fund – District Revenue Adjustments

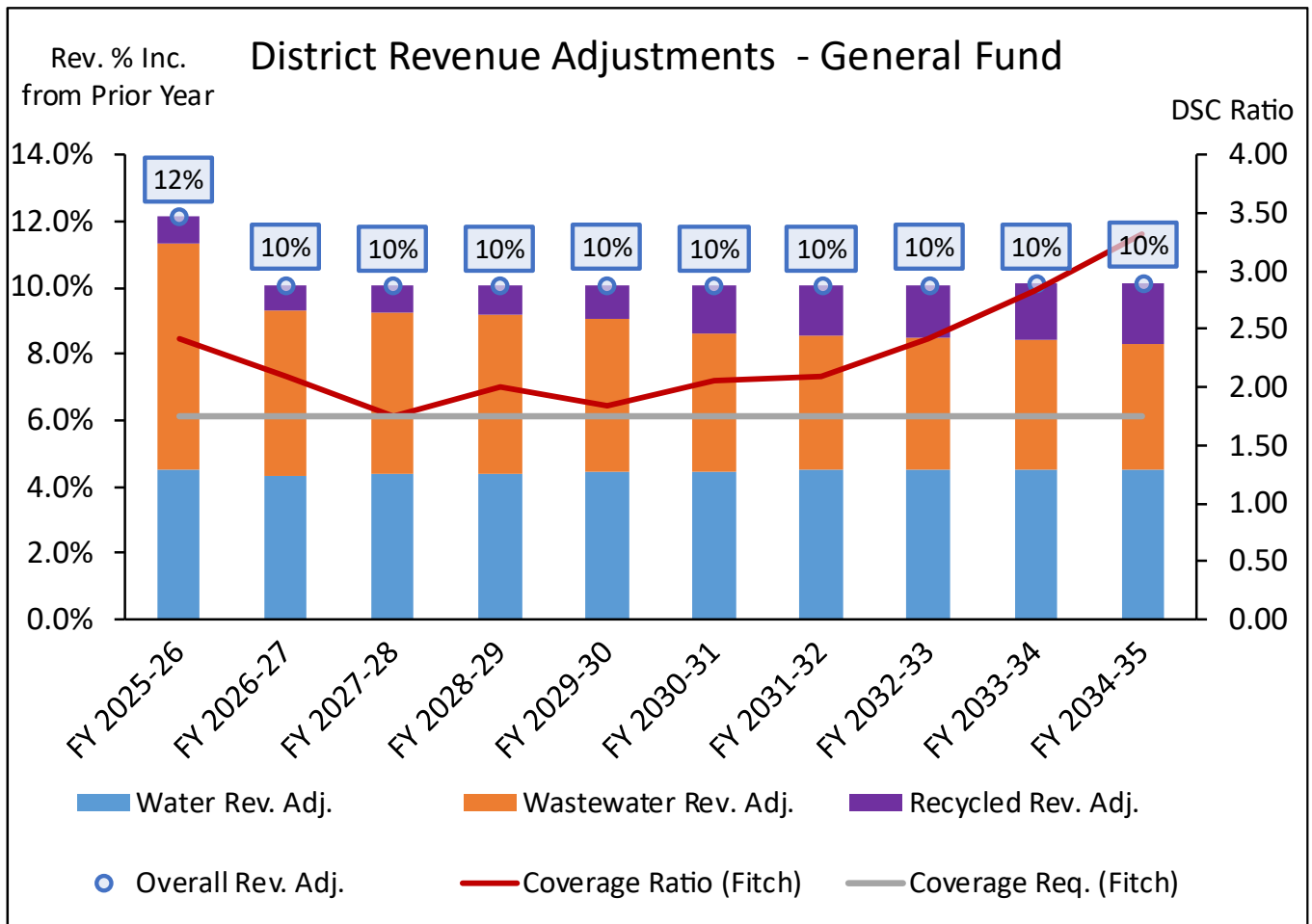


Table 13 below, the Pro-Forma, shows the overall revenues, operating expenses, debt service, capital infrastructure expenses, and fund balances for the General Fund. Ending cash balances are broken down by funds allocated to meet specific reserve requirements per the District’s reserve policy and available cash for capital projects.

Table 13: Proforma

MNWD Overall General Fund Pro-Forma										
	FY 2025-26	FY 2026-27	FY 2027-28	FY 2028-29	FY 2029-30	FY 2030-31	FY 2031-32	FY 2032-33	FY 2033-34	FY 2034-35
General Fund Revenues - District										
Potable Water Sales	\$ 37,871,128	\$ 40,490,403	\$ 44,122,219	\$ 48,058,918	\$ 52,322,814	\$ 56,938,835	\$ 61,946,054	\$ 67,393,597	\$ 73,320,187	\$ 79,767,947
Sewer Sales	\$ 34,892,924	\$ 39,734,063	\$ 44,374,480	\$ 49,556,709	\$ 55,343,999	\$ 61,561,225	\$ 68,133,474	\$ 75,407,183	\$ 83,457,199	\$ 92,366,355
Recycled Water Sales	\$ 6,510,322	\$ 7,125,946	\$ 7,805,162	\$ 8,581,122	\$ 9,489,041	\$ 10,711,180	\$ 12,344,635	\$ 14,227,192	\$ 16,396,839	\$ 18,897,357
Other Operating Revenue	\$ 337,393	\$ 495,013	\$ 558,950	\$ 558,950	\$ 558,950	\$ 558,950	\$ 558,950	\$ 558,950	\$ 558,950	\$ 558,950
Property Tax	\$ 37,100,874	\$ 38,396,908	\$ 39,815,023	\$ 41,208,548	\$ 42,650,848	\$ 44,143,627	\$ 45,688,654	\$ 47,287,757	\$ 48,942,829	\$ 50,655,828
Investment Income	\$ 4,398,261	\$ 3,664,050	\$ 3,663,265	\$ 4,115,749	\$ 4,315,197	\$ 3,580,485	\$ 3,712,787	\$ 3,342,407	\$ 3,429,090	\$ 3,844,374
Property Lease	\$ 2,333,568	\$ 2,420,691	\$ 2,511,159	\$ 2,605,100	\$ 2,702,650	\$ 2,702,650	\$ 2,702,650	\$ 2,702,650	\$ 2,702,650	\$ 2,702,650
Misc. Non-Operating Revenue	\$ 16,256,095	\$ 4,993,797	\$ 5,171,372	\$ 5,271,646	\$ 5,359,776	\$ 5,451,909	\$ 5,511,316	\$ 5,606,725	\$ 5,706,392	\$ 5,809,368
Connection Fees	\$ 24,012	\$ 956,487	\$ 506,857	\$ 506,857	\$ 506,857	\$ 506,857	\$ 506,857	\$ 506,857	\$ 506,857	\$ 506,857
Total Revenues	\$ 139,724,576	\$ 138,277,357	\$ 148,528,486	\$ 160,463,600	\$ 173,250,132	\$ 186,155,719	\$ 201,105,377	\$ 217,033,318	\$ 235,020,992	\$ 255,109,685
District General Fund Revenue Requirements										
Operating Expenses										
Potable O&M	\$ 62,664,764	\$ 62,666,786	\$ 68,545,810	\$ 73,119,764	\$ 76,401,177	\$ 80,072,417	\$ 83,542,948	\$ 87,262,823	\$ 90,884,225	\$ 94,780,948
Recycled O&M	\$ 8,313,604	\$ 8,703,702	\$ 9,210,765	\$ 9,759,155	\$ 10,186,455	\$ 10,891,870	\$ 11,377,495	\$ 11,900,634	\$ 12,409,640	\$ 12,973,541
Wastewater O&M	\$ 33,819,288	\$ 35,163,940	\$ 37,420,443	\$ 39,500,183	\$ 41,082,239	\$ 44,158,263	\$ 45,793,446	\$ 47,714,227	\$ 49,590,220	\$ 51,658,134
Subtotal O&M Expense	\$ 104,797,655	\$ 106,534,428	\$ 115,177,018	\$ 122,379,103	\$ 127,669,871	\$ 135,122,550	\$ 140,713,889	\$ 146,877,685	\$ 152,884,085	\$ 159,412,623
Debt Service										
Existing	\$ 14,461,634	\$ 15,122,606	\$ 15,115,606	\$ 15,112,606	\$ 15,097,981	\$ 15,095,856	\$ 15,090,231	\$ 15,105,206	\$ 15,101,297	\$ 15,089,438
Proposed	\$ -	\$ -	\$ 3,969,107	\$ 3,969,107	\$ 9,732,468	\$ 9,732,468	\$ 13,810,318	\$ 13,810,318	\$ 13,810,318	\$ 13,810,318
Subtotal Debt Service Expense	\$ 14,461,634	\$ 15,122,606	\$ 19,084,713	\$ 19,081,713	\$ 24,830,450	\$ 24,828,325	\$ 28,900,549	\$ 28,915,524	\$ 28,911,615	\$ 28,899,756
Total Revenue Requirement (Non-CIP)	\$ 119,259,289	\$ 121,657,034	\$ 134,261,732	\$ 141,460,816	\$ 152,500,321	\$ 159,950,874	\$ 169,614,438	\$ 175,793,209	\$ 181,795,700	\$ 188,312,379
Net Change in General Fund before CIP	\$ 20,465,287	\$ 16,620,323	\$ 14,266,754	\$ 19,002,783	\$ 20,749,811	\$ 26,204,844	\$ 31,490,939	\$ 41,240,109	\$ 53,225,291	\$ 66,797,307
Capital and Ending Balances										
Capital Expenses (CIP + Outlays)	\$ 92,911,882	\$ 58,256,577	\$ 46,221,059	\$ 73,245,890	\$ 66,814,907	\$ 72,317,446	\$ 52,435,957	\$ 41,830,022	\$ 47,595,400	\$ 48,281,369
Bond Proceeds	\$ -	\$ 72,750,000	\$ -	\$ 105,750,000	\$ -	\$ 74,750,000	\$ -	\$ -	\$ -	\$ -
Beginning Balance	\$ 157,616,487	\$ 85,169,891	\$ 116,283,637	\$ 84,329,332	\$ 135,836,225	\$ 89,771,129	\$ 118,408,528	\$ 97,463,509	\$ 96,873,596	\$ 102,503,488
Ending Balance (Includes Interest)	\$ 85,169,891	\$ 116,283,637	\$ 84,329,332	\$ 135,836,225	\$ 89,771,129	\$ 118,408,528	\$ 97,463,509	\$ 96,873,596	\$ 102,503,488	\$ 121,019,426
Reserve Balance	\$ 77,364,509	\$ 81,382,061	\$ 84,251,766	\$ 86,749,050	\$ 88,792,892	\$ 91,402,451	\$ 93,572,799	\$ 95,913,300	\$ 98,242,436	\$ 100,731,070
Future Capital Improvement Projects	\$ 7,805,382	\$ 34,901,576	\$ 77,566	\$ 49,087,175	\$ 978,238	\$ 27,006,076	\$ 3,890,710	\$ 960,297	\$ 4,261,052	\$ 20,288,356
Debt Coverage Ratio	2.42	2.10	1.75	2.00	1.84	2.06	2.09	2.43	2.84	3.31

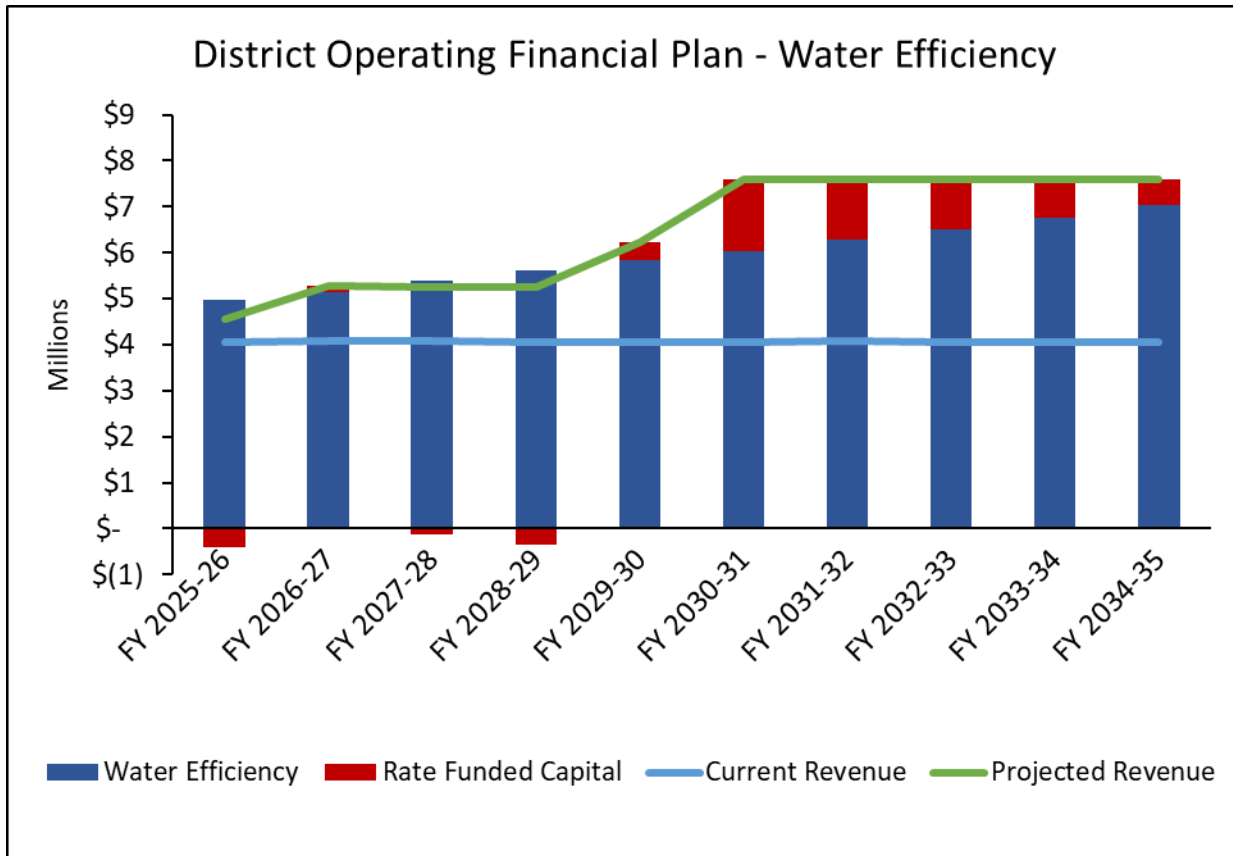
Water Efficiency (WE) Fund Summary

Since its implementation in 2011, the District's water budget-based rate structure has served as a critical component of its demand management efforts and ultimately its expanded supply reliability. The underlying rationale of any water budget-based rate structure is that customers who use water inefficiently (i.e., in excess of their calculated water budgets) place greater demands on the District's water and recycled water systems and supplies than those customers who use water efficiently (i.e., within their calculated water budgets). Due to the higher demand, and consequently higher cost, that inefficient usage places on the District's water and recycled water systems, water usage in excess of a customer's allocated budget is subject to higher rates. The District maintains a strong cost nexus between increasing marginal supply costs and increasing rates by investing the incremental rate difference in alternative water supply programs, rebates, and demand management measures to increase efficient uses of water and offset supply reliability impacts from inefficient water use.

By establishing the Water Efficiency Fund (Fund 6), the District can clearly delineate the costs associated with providing continued service to its customers from those costs that could have otherwise been avoided had all customers stayed within budget. The resulting tiered rate structure creates a strong price signal to customers who may have inadvertently exceeded their budgets, and any revenues collected are immediately reinvested in programs and rebates to help those same customers get back into budget. Throughout historic droughts, the District has maintained that "it's not about using less water, it's about wasting less water", and customers have responded not only by becoming more efficient, but also by an unprecedented level of rebate program participation. The test year budget for water efficiency rebates has been reduced to reflect an adjustment in scope for the NatureScape turf removal program. This program has been transformed into the Residential NatureScape Garden Design Program to better align with the evolving needs of our customers. This strategic change was prompted by the District's remarkable achievement of surpassing the goals set by the previous turf removal program, which saw the removal of 7 million square feet of turf and the installation of 130 California native landscapes. It is important to emphasize that this budget reduction does not signify a decrease in our commitment to water use efficiency. Rather, it signifies a strategic realignment of the program to cater to customers who have not yet participated, ensuring that our efforts remain aligned with our overarching objectives. The financial plan for Fund 6 has been adjusted accordingly.

Figure 10 below is the Water Efficiency operating financial plan that breaks down the major cost components and compares the proposed revenue stream to the status quo.

Figure 10: WE – District Operating Plan

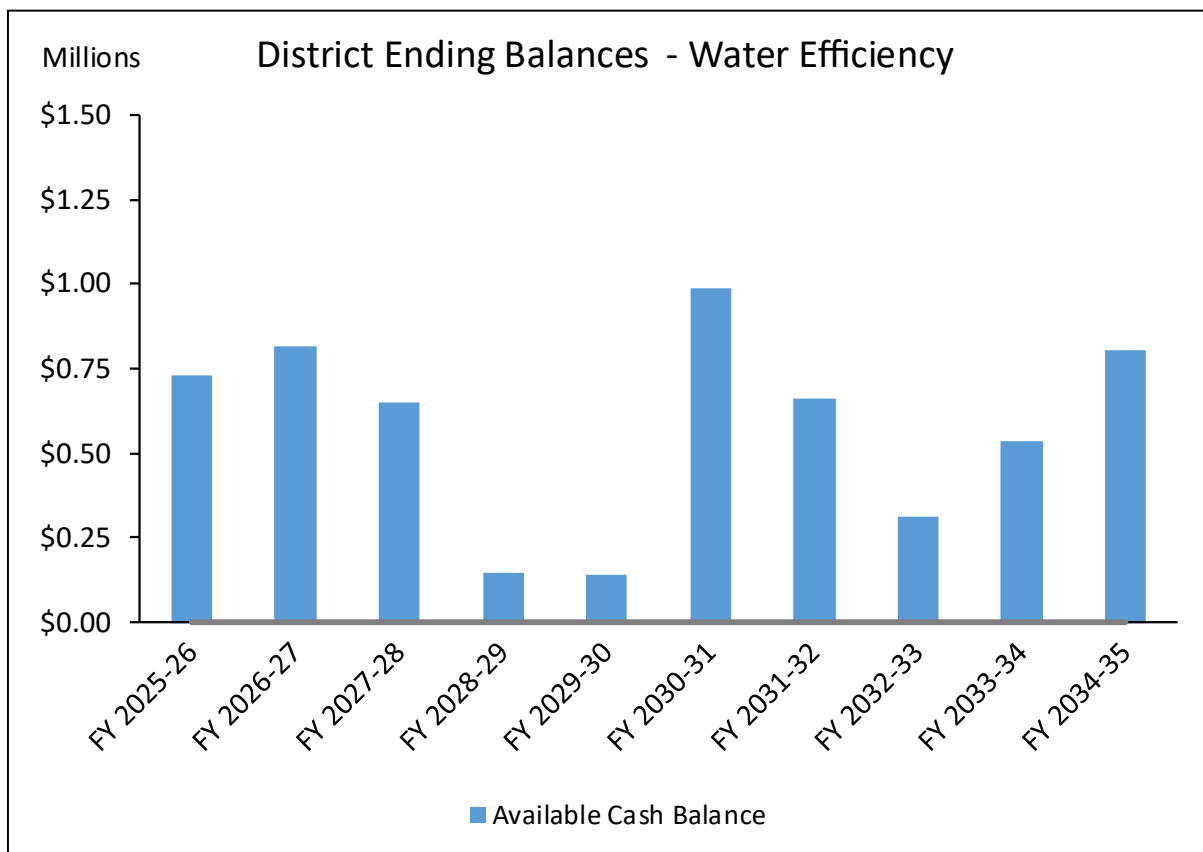


In addition to the costs associated with the ongoing management of the District’s water efficiency programs, a portion of the capital costs associated with future water supply reliability enhancement projects have been allocated to the Water Efficiency Fund. There is a natural nexus between efficient water use and long-term supply reliability, as any reductions in inefficient water use decrease the size, and ultimately cost, of future supply reliability projects. Conversely, continued inefficient water use would otherwise necessitate more costly reliability projects: the costs of which should be recovered from inefficient usage. The District has identified \$7.4 million in total capital projects costs in the next ten years, including:

- Low Resolution Meter Replacement
- Recycled Water Retrofit Program
- Recycled Water Main Pipeline Replacements:
 - Cabot Road to Galvin pump station
 - Crown Valley Reservoir to Cabot Rd.

The District’s continued investment in efficiency efforts and rebate programs and its future supply reliability investments will draw down current Water Efficiency fund balances within a year without an adjustment in rate revenue or a new bond issuance. Based on the revenue requirements and increased spenddown rate of Water efficiency fund balances, District staff is proposing a one-time adjustment to its Water Efficiency surcharges as part of the recommended four-year rate structure, specifically a total annual increase of \$0.93 per average billing unit in additional revenue requirements. This strategy is sufficient to avoid a negative fund balance in any one year of the financial planning period but will require a similar adjustment in the first year of the next rate cycle (FY 2029-30) and will draw the fund down over the 10-year planning horizon. Staff consider the proposed funding strategy optimal as FY 2028-29 would coincide with the District’s 2029 Long-Range Financial Plan at which point Fund 6 revenue requirements would be re-evaluated. The proposed plan addresses program changes that have occurred since the development of the 2021 Long-Range Financial Plan.

Figure 11: WE – District Ending Balances



MANAGEMENT OF FINANCIAL RISK

In evaluating the robustness of the District's proposed financial plan, the Model may be used to test the sensitivity of the key assumptions. Two assumptions were tested:

- Scenario 1:
Assume MWDSC rate increases beyond what is planned in the 2025 Long Range Financial Plan and understand the sensitivity for every additional 5% increase
- Scenario 2:
Assume an additional \$150M in CIP expenditure beginning in FY 2030-31 through FY 2034-35

Scenario 1: Increased Cost of Water

Due to the District's reliance on imported water to meet potable water demands, increases in the MWDSC rates necessitate a proportionate increase in the District's rate revenue requirements. Historically, the District has included pass-through provisions for wholesale cost increases in its rate notices; however, these provisions have only recently been utilized in response to abrupt increases in MWDSC rates which would have otherwise had a significant impact on the District's finances. It should be noted that the most recent rate forecast increases from MWDSC were largely attributable to unanticipated operational costs increases and below-forecasted levels of water sales. The increased rate forecasts also did not include potential construction costs for multiple large-scale reliability projects, including PURE Water and the Delta Conveyance Project, either of which would further increase MWDSC rate forecasts, absent changes to its rate structure. Given the large share of revenue requirements that imported water costs account for, District staff performed a sensitivity analysis to illustrate the impacts of additional MWDSC rate increases on the MNWD financial plan. Table 14 assumes MWDSC's rates increase an additional 5% above forecast each year for Treated and Untreated imported water

Table 14: Sensitivity of 5% Increase on Treated and Untreated Water

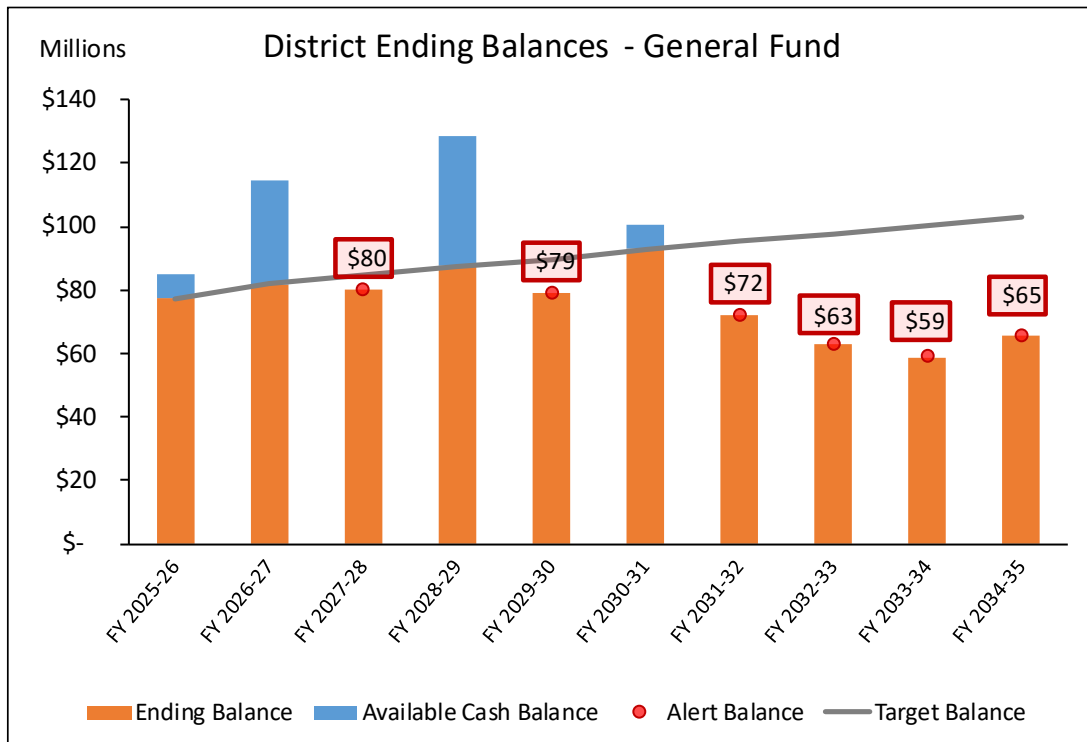
	FY 2025-26	FY 2026-27	FY 2027-28	FY 2028-29	FY 2029-30	FY 2030-31	FY 2031-32	FY 2032-33	FY 2033-34	FY 2034-35
Treated Water Expense (in Millions)										
Current	\$ 24.2	\$ 25.2	\$ 27.9	\$ 29.6	\$ 30.8	\$ 32.0	\$ 33.2	\$ 34.5	\$ 35.8	\$ 37.1
Assumed	\$ 24.8	\$ 26.5	\$ 29.4	\$ 31.4	\$ 32.8	\$ 34.3	\$ 35.8	\$ 37.4	\$ 39.1	\$ 41.5
Incremental Cost	\$ 0.6	\$ 1.3	\$ 1.5	\$ 1.8	\$ 2.0	\$ 2.3	\$ 2.6	\$ 2.9	\$ 3.2	\$ 4.4
Untreated Water Expense (in Millions)										
Current	\$ 14.6	\$ 15.8	\$ 17.6	\$ 18.8	\$ 19.7	\$ 20.5	\$ 21.3	\$ 22.1	\$ 22.9	\$ 23.7
Assumed	\$ 15.0	\$ 16.4	\$ 18.4	\$ 19.8	\$ 20.8	\$ 21.8	\$ 22.8	\$ 23.7	\$ 24.8	\$ 26.2
Incremental Cost	\$ 0.3	\$ 0.6	\$ 0.8	\$ 0.9	\$ 1.1	\$ 1.3	\$ 1.4	\$ 1.6	\$ 1.9	\$ 2.5
Total Imported Water Incremental Expense (in Millions)	\$ 0.9	\$ 1.9	\$ 2.3	\$ 2.7	\$ 3.1	\$ 3.5	\$ 4.0	\$ 4.5	\$ 5.1	\$ 6.9

Table 15: 10-Year Imported Water Cost Increases per 5% MWDSC Rate Increase

Additional Annual Increase in MWDSC Rates	Increase in 10-Year Water Purchase Costs (In Millions)
5%	\$ 34.9
10%	\$ 69.9
15%	\$ 104.8
20%	\$ 139.8
25%	\$ 174.7

Table 15 shows the incremental increase in 10-Year imported water purchase costs for every 5% increase in MWDSC rates above published forecasts. Considering only an additional 5% increase above forecasted MWDSC rates, the District’s costs for imported water increases \$34.9 million over the planning horizon. To account for this increase in supply costs, the District must effectively offset the extra expense with an increase in revenues. One recommendation to make the District’s LRFPP more robust to fluctuations in supply costs is for the Board of Directors to re-adopt the pass-through provision currently in place to account for any MWDSC rate increases or newly imposed charges in excess of those currently forecasted. AB 3030 allows water and wastewater agencies to adjust rates based on changes to wholesale or inflation in future years outside of the Prop. 218 process, subject to 30 days of notice to all customers.

Figure 12: General Fund – District Ending Balances (Increased Supply Costs)



This shortfall could potentially be offset using the District’s rate stabilization reserve, though doing so would reduce the District’s ability to respond to other unexpected crises and would trigger replenishment provisions required by the District’s bond covenants.

Scenario 2: Increased CIP Spending

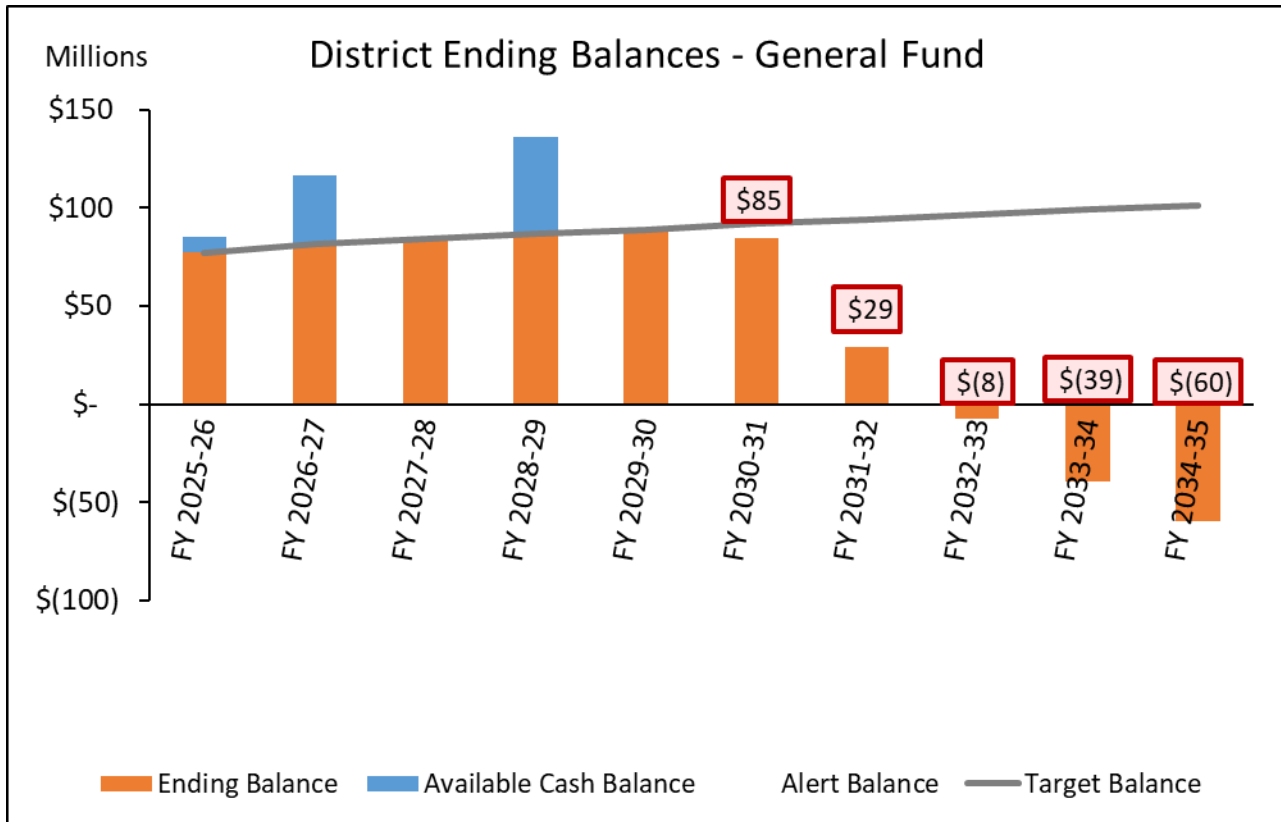
Repair and replacement cost contained in the CIP represents \$510 million out of the \$594 million adopted 10-year CIP budget. The District has been proactive in the maintenance of its infrastructure and developed its 10-year CIP budget to continue that trend; however, given potential changes to regulatory requirements or increased needs to address replacement and rehabilitation programs, there may be additional infrastructure costs that were not previously identified. To better understand the District’s ability to absorb potential infrastructure costs, a scenario was evaluated in which an additional \$150 million of project costs were added to the 10-year CIP budget.

The status quo scenario retains the following adjustments as identified in the General Fund Financial Plan but assumes that no other corrective actions are taken:

- Proposed 12% annual revenue adjustments in FY 2025-26 and 10% for each subsequent year (2027-2035)
- Bond issuances of \$73 million in FY 2026-27, \$106 million in FY 2028-29, and \$75 million in FY 2030-31

The additional CIP and impacts to ending fund balances can be seen in Figure 13 and 14, respectively.

Figure 13: Additional CIP Impacts to Ending Balances



Without corrective action, the District's General Fund ending balances would drop below reserve targets by FY 2030-31. The District could address this deficit by issuing additional debt. By increasing the proposed issuance in FY 2030-31 to \$145 million and issuing an additional \$81 million in debt in FY 2032-33, ending balances will stay above identified reserve targets through FY 2033-34 as seen in Figure 15. This response complies with the District's policy of a 1.75 debt service coverage ratio, which is maintained above the 1.25 debt service coverage ratio that is required by existing bond covenants.

Figure 14: Additional General Fund CIP

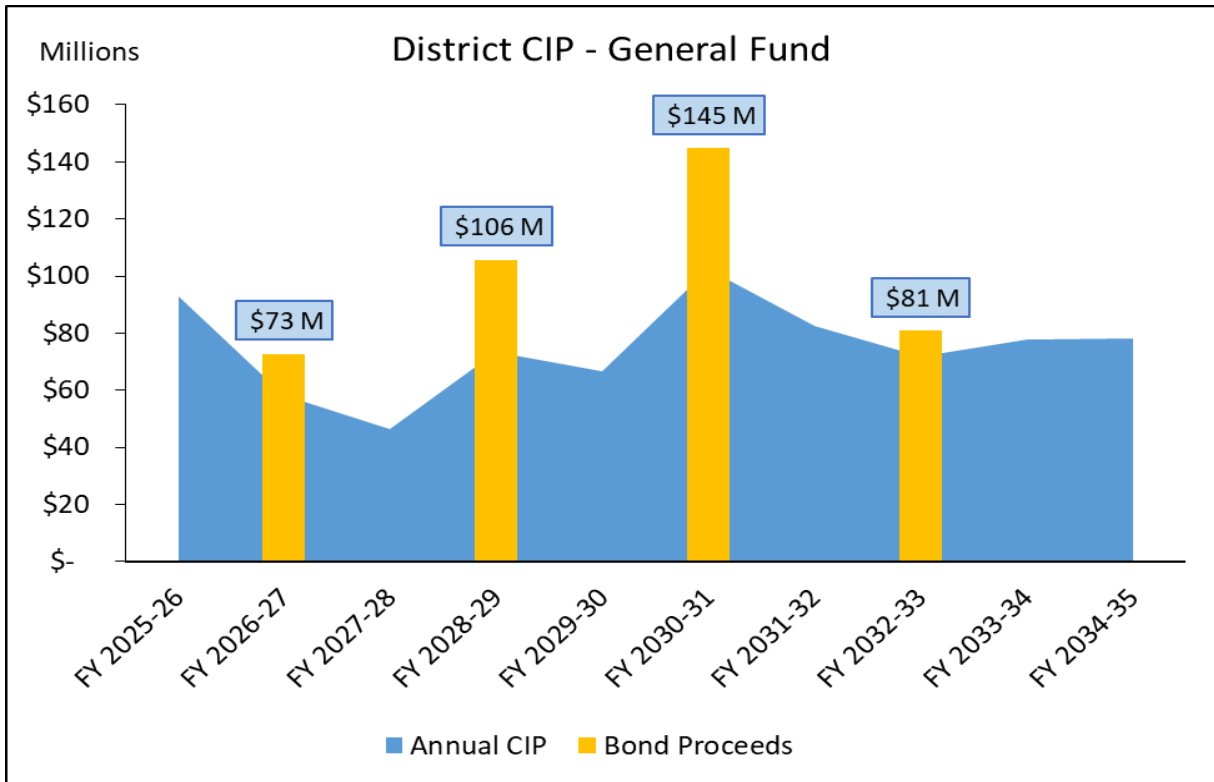
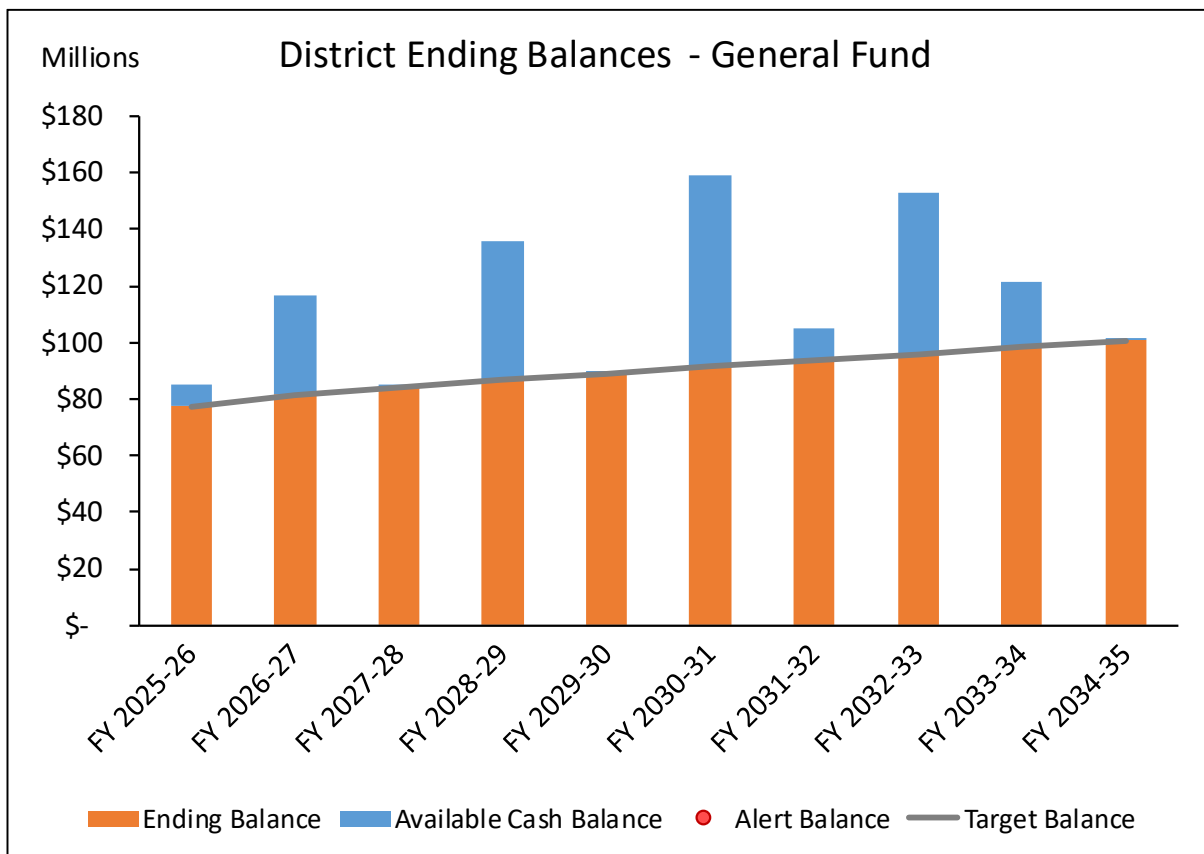


Figure 15: Additional Debt Issuance Impact on Ending Balance



FINANCIAL MANAGEMENT TOOLS

The District has several tools that it may utilize when considering revenue requirements and the need to periodically adjust rate revenues. Each of the components outlined below are reviewed on a periodic basis and updated, if necessary, to reflect changes to District operations, the economy, or the environment.

Financial Policies

The District proactively manages its financial policies as part of its ongoing fiduciary responsibility. Any revision to current financial policies will change the District's cash and investments portfolios which will result in adjustments to future revenue requirements.

Operational Efficiencies

The District is continually looking for ways to create operational efficiencies while maintaining a high level of service. An effort is underway to integrate the District's numerous data streams into a single unified framework to drive efficient management of resources. The Building a Leading Utility Ecosystem (BLUE) initiative will help to inform water loss control programs, energy management, condition-based maintenance, and asset management tools intended to maximize the value of District resources. An example use case is pairing water system supply data from SCADA with water delivery data from AMI to create targeted areas to prioritize our proactive water loss detection team's efforts.

Energy Management

Recognizing that utility rates in Southern California have risen substantially in recent years, the District actively seeks to explore opportunities for enhancing cost management. Multiple projects in the FY 25-26 CIP budget involve the replacement of mechanical equipment where the new equipment, such as pumps and generators, will have a higher efficiency factor than existing equipment and are expected to result in reduced electricity consumption associated with those assets. The test-year FY 25-26 budget included both the installation costs and the energy savings from the Micro-Hydro Turbine at Bridlewood FCF and Solar Panels at Headquarters Projects which will generate electricity to offset the impact of future electricity rate increases on total utilities' costs.

Cooperative Agreements

The District continually looks for ways to save rate payers money by mitigating the effects of future cost increases. This can be achieved in part by seeking out cooperative agreement opportunities for both capital and operational needs. The District coordinates with neighboring agencies on capital projects that may bring additional regional water reliability benefits and cost sharing. The District also looks to find operational cost savings by participating in shared service opportunities with other local agencies. Additionally, the District regularly engages with regional, statewide, and international partners to share information and improve operational best management practices to increase operational efficiencies and effective project implementation.

Outside Funding Sources

The District is continually monitoring markets and the industry to identify any applicable outside funding sources that may be relevant to District capital improvements or operations, such as grant funding opportunities or low-rate debt. For example, the District recently received over \$11 million in grants awarded by FEMA through its Hazard Mitigation program to fund the replacement of the Regional Lift Station pipelines and Building Resilient Infrastructure and Communities program to support the OASIS Water Resources Center planning studies. The District is also frequently monitoring economic markets to realize savings on current debt obligations.

Rates And Fees

The District can use its rate structure to determine if sufficient revenues are generated from each system and if cost recovery from variable or fixed revenue components remains aligned with variable or fixed costs. In addition to system rate revenue, staff anticipate conducting a study to update the District's capacity and demand offset fees. While the District is substantially built-out, the District has noted an increased interest from developers in converting commercial properties to higher-density residential housing. An updated capacity and demand offset fee study will ensure the District's customers are recovering the appropriate fees that are reflective of the use and potential demand placed on the existing system infrastructure. The District will also periodically review its miscellaneous fees and charges to determine applicability and adjustments needed to recover the cost of operation applicable to the fees.

CONCLUSIONS & RECOMMENDATIONS

As the District continues its focus on investing in critical system infrastructure to ensure reliable and effective service to its customers, the LRFP, in conjunction with other long-term planning efforts, identifies future resource needs and provides a roadmap for actions that can be taken to meet those needs. Cost increases to purchase imported water from MWDSC via MWDOC and the District’s investment in crucial infrastructure to provide reliable water, wastewater, and fire protection services are driving the increasing revenue requirements in this updated LRFP. Currently, the District is evaluating the rate structures for all three enterprise systems. The updated Model provides the ability to evaluate the outputs of these operational drivers in addition to changes in financial determinants such as usage. By integrating the multitude of long-term planning efforts with current financial information, the Model serves as a tool for the District to create adaptive management strategies as major assumptions fluctuate.

To maintain District financial stability based on expected future expenditures and revenues, the following overall adjustments to General Fund rate revenue are suggested in Table 16:

Table 16: Gen. Fund Revenue Adjustments

General Fund Revenue Adjustments		
Implementation Day & Month	Implementation Year	Revenue Adjustment
January 1	FY 2025-26	12%
January 1	FY 2026-27	10%
January 1	FY 2027-28	10%
January 1	FY 2028-29	10%
January 1	FY 2029-30 – FY 2034-35	10%*

*Projected adjustment outside of the 2025 Cost of Service Rate Study period (FY2025-26 to FY2028-29)

The revenue adjustments in Table 16 represent needed additional revenues to collect through rates; however, these adjustments could be offset by growth in non-rate revenues beyond baseline assumptions. The District will diligently monitor the major variables that impact recommendations such as Capital Improvement Plan (budgeting and spending), credit markets, water usage (distribution and conservation), and MWDSC and MWDOC wholesale rate adjustments.

The proposed revenue adjustments maintain the District’s debt coverage ratio above the Board-adopted 1.75x coverage ratio target. In addition, the revenue generated meets funding requirements of the Ten-Year Capital Financing Plan with the caveat that the Financial Plan assumes a \$73 million debt issuance in FY 2026-27, a \$106 million issuance in FY 2028-29, and a \$75 million issuance in FY 2030-31. Lastly, the Financial Plan fully fund reserves at target levels and maintains available cash balances to hedge risk exposure for the District.