



2025 Water & Sewer Rate Study

City of Cotati

Final Report

February 26, 2025



Mr. Craig Scott
Public Works Director / City Engineer
City of Cotati
201 West Sierra Ave.
Cotati, CA 94931



Re: 2025 Water and Sewer Rate Study

Dear Mr. Scott,

Hildebrand Consulting is pleased to present this 2025 Water and Sewer Rate Study (Study) for the water and Sewer Enterprises that were performed for the City of Cotati. We appreciate the fine assistance provided by you and all of the members of the City staff who participated in the Study.

If you or others at the City have any questions, please do not hesitate to contact me at:

mhildebrand@hildco.com
(510) 316-0621

We appreciate the opportunity to be of service to the City and look forward to the possibility of doing so again in the near future.

Sincerely,

A handwritten signature in blue ink that reads "Mark Hildebrand".

Mark Hildebrand
Hildebrand Consulting, LLC

Enclosure

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List of Acronyms

ADU	accessory dwelling unit
AWWA	American Water Works Association
CIP	capital improvement program
COSA	cost of service analysis
DCR	debt service coverage ratio
DU	dwelling unit
FY	fiscal year (which ends on June 30 for the City)
O&M	operations and maintenance
PayGo	“pay as you go” (i.e., cash financing for capital projects)
TGAL	thousand gallons

Section 1. INTRODUCTION AND SUMMARY

Hildebrand Consulting has been retained by the City of Cotati (City) to conduct an update to the financial plans and utility rates for the City’s Water and Sewer Enterprises. This report describes in detail the assumptions, procedures, and results of the Study, including conclusions and recommendations.

1.1 WATER AND SEWER UTILITY BACKGROUND

The City of Cotati is located in the County of Sonoma (County), approximately 8 miles south of the City of Santa Rosa. Cotati is within the nine-county San Francisco Bay Region. The City owns and operates a public drinking water system consisting of pipelines, wells, pumps, and tanks and is regulated by the State Water Resources Control Board Division of Drinking Water. In addition, the City owns and operates a public sewer collection system and sends wastewater to the City of Santa Rosa’s Regional Wastewater Treatment Plant for treatment and reuse (referred to as the “Subregional” system).

1.2 STUDY BACKGROUND

In 2022, the City of Cotati retained Hildebrand Consulting, LLC to prepare ten-year Water and Sewer Enterprise financial plans for the City’s water and sewer utilities (2022 Rate Study¹). Following that study, the City adopted new water and sewer rate schedules for a 5-year planning period with the last rate increase scheduled for May 15, 2026.

¹ *City of Cotati, 2022 Water and Sewer Rate Study – Final Report, May 4, 2022*

1.3 STUDY OBJECTIVES

The purpose of this Study is to develop new 10-year projections of operating and capital expenses in order to create financial plans, including new 5-year rate schedules, which will generate sufficient revenue to meet each Enterprise’s financial and service obligations for ongoing operation and maintenance, debt service, and capital improvements while maintaining prudent reserves.

1.4 STUDY METHODOLOGY

This Study applied methodologies that are aligned with industry standard practices for rate setting as laid out in the AWWA M1 Manual, and applicable law, including California Constitution Article XIII D, Section 6(b), commonly known as Proposition 218.

The Study began with a review of both utility enterprises’ current financial dynamics and latest available data for the utilities’ operations. Multi-year financial management plans were then developed to determine the level of annual rate revenue required to cover projected annual operating expenses, debt service (including coverage targets), and capital cost requirements while maintaining adequate reserves. This portion of the Study was conducted using MS Excel®-based financial planning models which were customized to reflect financial dynamics and latest available data for the City’s operations in order to develop a long-term financial management plan, inclusive of projected annual revenue requirements and corresponding annual rate adjustments.

While this Study did not include an update to the cost-of-service analysis (COSA), a comprehensive COSA was completed within the past 10 years as part of a 2017 study². We understand that the 2017 COSA was conducted based upon principles outlined by the AWWA, legal requirements (i.e., Proposition 218) and other generally accepted industry practices to develop rates that reflect the cost of providing service.

² City of Cotati, Water and Sewer Rate Study – Final Report, June 20, 2017, prepared by The Reed Group

1.5 SUMMARY OF FINDINGS AND RECOMMENDATIONS

This Study is recommending that a new schedule of water and sewer rates replace the schedules that were proposed by the 2022 Rate Study. The revisions to the rate schedules are necessary due to significant financial changes for both enterprises. The Water Enterprise is planning for higher capital spending than was anticipated by the 2022 Rate Study. The Sewer Enterprise is also planning for higher capital spending and has received lower rate revenue than had been anticipated by the 2022 Rate Study.

Section 2. WATER ENTERPRISE FINANCIAL PLAN

This section presents the financial plan for the City’s Water Enterprise, including a description of the source data, assumptions, and City’s financial policies. The City has provided recent actual spending data and budgeted financial information associated with operation of the Water Enterprise, including recent actual operating costs for FY 2023/24, budgeted operating costs for FY 2024/25, a multi-year capital improvement program (CIP), and outstanding debt service obligations. City staff also assisted in providing other assumptions and policies, such as reserve targets and escalation rates for operating costs (all of which are described in the following subsections).

The Water Enterprise’s rate revenue requirement is the amount of revenue needed from water rates to cover planned operating, maintenance, debt service, and capital program costs with consideration of other revenues and financial reserves.

The Water Enterprise 10-year Financial Plan was developed through several interactive work sessions with City staff. As a result of this process, the Study has produced a robust Financial Plan that will enable the City to meet its future revenue requirements and achieve financial performance objectives throughout the projection period while striving to limit rate increases.

2.1 WATER FUND STRUCTURE AND CASH FLOWS

The financial plan is an annual cash flow model. As a cash flow model, it differs from standard accounting income statements, and balance sheets. The financial plan models sources and uses of funds into, out of, and between the various funds and reserves of the Water Enterprise.

The financial plan model is based on the fund structures currently used by the City and incorporates reserve policies for specified purposes. The reserve structure includes an

Operating Reserve within the Water Operating Funds (Fund 401) and the Water Capital Fund (Fund 402) for the purpose of meeting water system capital improvement needs. Exhibit 1 includes a schematic diagram of the funds/reserves and major cash flows associated with the Water Enterprise financial plan model.

An understanding of the fund/reserve structure is helpful in understanding the financial plan worksheets that model estimated annual cash flows through the Water Enterprise from one year to the next. The fund/reserve structure is comprised of:

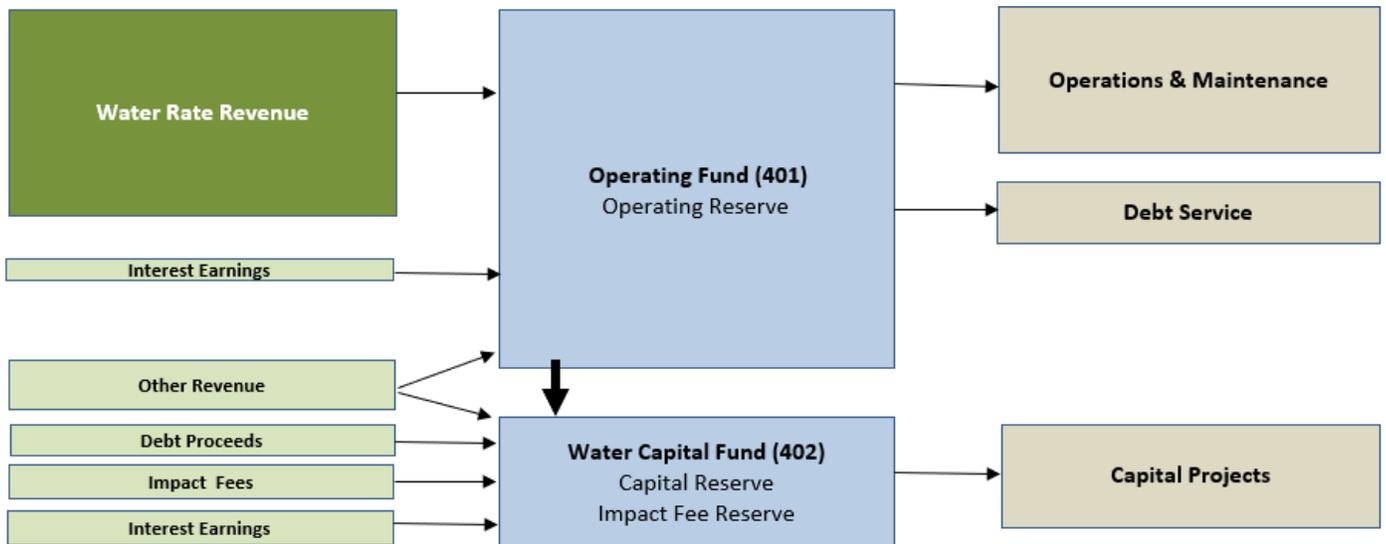
2.1.1 Water Operating Fund (Fund 401)

The Water Operating Fund (Fund 401) is the primary fund within the Enterprise. Most of the Water Enterprise’s revenues, including user rate revenues, flow into the Operating Fund and all operating and maintenance costs, including debt service payments, are paid out of this fund. Funds are also transferred from the Water Operating Fund to the Water Capital Fund to help pay for capital projects of the capital improvement program.

Operating Reserve Target - The 2017 Study recommended that the City establish and maintain a minimum Water Operating reserve target equal to 33 percent of annual operating and maintenance costs, including debt service. The purpose of the Operating Reserve target is to have sufficient funds for unplanned operating and maintenance expenditures. The Operating Reserve target in fiscal year (FY) 2024/25 is \$728 thousand. The balance in the Water Operating Fund at the beginning of FY 2024/25 was about \$2,423,000, or about \$1,695,000 above the Operating Reserve target.

The balance in the Operating Fund in excess of the target amount for the Operating Reserve is shown in the financial plan as “Available Balance”. After all other obligations are met, the Available Balance is used to offset rate increases. The financial plan models generally seek to reduce any Available Balance over time.

Exhibit 1 – Water Enterprise – Schematic Diagram of Cash Flows



2.1.2 Water Capital Fund (Fund 402)

The Water Capital Fund is used to account for revenues and funds available for capital project expenditures. The capital fund is primarily funded through transfers from the Operating Fund for projects that rehabilitate aging infrastructure. Impact Fees, paid by new development (if and when new development occurs), are available to improve system capacity and help meet the capacity needs of new development. The financial plan models generally seek to maintain a positive balance in the capital funds while also covering the costs of planned capital improvement projects. This is achieved through annual transfers of funds from the operating fund to the capital fund of each utility.

This financial plan aims to maintain a target cash reserve level in the capital fund equal to average annual capital spending (currently about \$1.25 million).

2.2 WATER ENTERPRISE BEGINNING FUND BALANCES

The ending cash balance for FY 2023/24 was used to establish the FY 2024/25 beginning balance, as outlined in **Table 1**. It should be noted that the amount of cash that the Water Enterprise keeps in reserves is a product of its reserve policies (see Section 1.1).

Table 1: Water Enterprise FY 2024/25 Beginning Cash Balance

Water Operating Reserve	\$2,422,600
Water Capital Reserve	\$1,064,100
Total Water Reserves:	\$3,486,700

2.3 CUSTOMER GROWTH

Growth in the customer base affects both water demand as well as Impact Fee revenue. Estimated annual Impact Fee revenues are based on the applicable fees and the amount of new development activity. Impact Fee revenue accrues to the respective capital fund and is used to help fund planned capital improvement projects.

In recent years, developer impact fee³ revenues indicate that the City has had essentially no growth. Future growth will depend on many factors, including the economy. Based on recent Impact Fee revenues (minimal) and direction from City staff, this Study assumes that there will be no material growth over the next 10 years.

2.4 WATER ENTERPRISE RATE REVENUE

Rate revenue is the revenue generated from customers for water service. The City collects rate revenue from water customers based on a fixed monthly “Service Charge” (assessed based on meter size) and a water “Usage Rate” (applied to each thousand gallons (“TGAL”) of water use). Customers receive a monthly bill.

The Water Enterprise Financial Plan starts with FY 2024/25 budgeted rate revenues. Budgeted and projected rate revenues (including proposed rate adjustments) are listed in the first table in **Schedule W-2**. Water demands are assumed to remain constant over the planning period.

³ Development Impact Fees are one-time charges to new development to pay for capacity in the utility systems.

2.5 WATER ENTERPRISE NON-RATE REVENUES

In addition to rate revenue, the City receives additional “non-rate revenue” from sources such as miscellaneous service fees, developer Impact Fees, occasional grants, and interest revenue on investments. Projections of miscellaneous fee revenues were based on FY 2024/25 budgeted revenues. Future interest income was estimated based upon projected fund balances and assumed interest rate of 1.5 percent, which is consistent with the City’s recent historical interest earnings relative to its total reserve levels. Interest accrues to each of the funds. No Impact Fee revenue is assumed for the planning period.

Budgeted water rate and non-rate revenues are depicted in Figure 1 below and listed in detail in the first table in **Schedule W-2**.

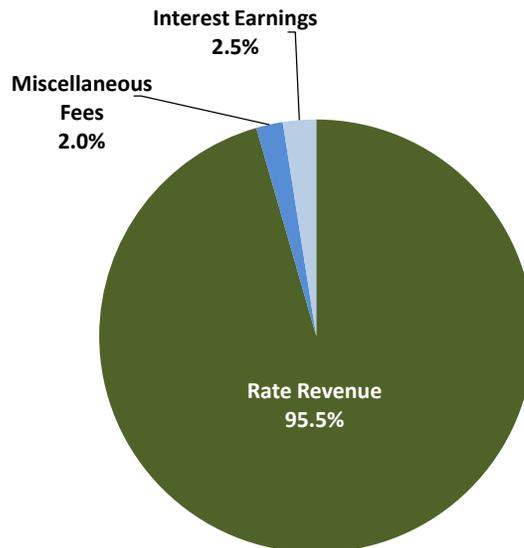


Figure 1: Water Enterprise Revenue Categories (FY 2024/25 budget)

2.6 FUTURE WATER USAGE

Water usage is integral to Water Enterprise finances since more than 50 percent of rate revenue is derived from the variable Usage Rate. While a reduction in water usage may have significant impacts on the Water Enterprise's rate revenue, this Study does not attempt to predict future water usage trends (given the fact that it is impossible to accurately predict whether a new drought will emerge). Rather, this Water Enterprise financial plan uses FY 2023/24 actual rate revenue as the basis for future rate revenue (and accounts for the 6 percent increase that was applied to those rates for FY 2024/25). In 2017 the City adopted Water Shortage Surcharges as a means to protect the Water Enterprise from the revenue volatility associated with droughts. While the current study does not propose to renew that policy, the City may wish to consider re-establishing Water Shortage Surcharges during the next rate study.

2.7 WATER ENTERPRISE OPERATING AND DEBT EXPENSES

The Water Enterprise's expenses include operating and maintenance expenses, debt service, and capital spending. Capital spending is addressed separately in Section 2.9. Future operating and maintenance expenses were projected based upon the budgeted expenditures from FY 2024/25 and adjusted for inflation (see Section 2.8).

Major budgeted expense categories for FY 2024/25 are depicted in Figure 2. The Water Enterprise does not have any existing debt aside for a CalPERS repayment plan.

Budgeted and projected operating and maintenance costs as well as debt service expenses are listed in **Schedule W-2**.

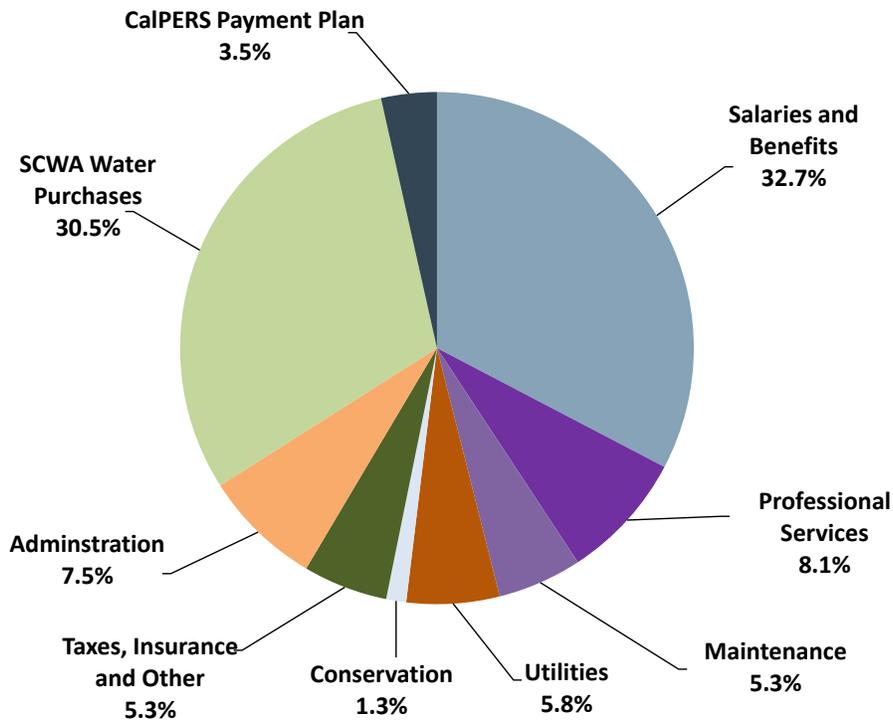


Figure 2: Water Enterprise Operating & Debt Expenses (FY 2024/25)

2.8 WATER UTILITY COST ESCALATION

Annual cost escalation factors for the various types of expenses were developed based upon a review of historical inflation trends, published inflation forecasts, industry experience, and discussions with City staff. During the projection period, the following escalation assumptions were made:

- Sonoma Water rates - 12.0 percent in FY 2025/26 and FY 2026/27 and 6.0 percent thereafter.
- Benefits – 4.0 percent per year
- Utilities and Fuel – 18 percent in FY 2025/26, then 8.0 percent for two years, then 5.0 percent thereafter

- Insurance – 15 percent in FY 2025/26, then 6 percent for three years, then 3 percent thereafter
- All other expenses - 3.0 percent per year

These inflation assumptions were discussed with City staff and are consistent with the assumptions used by other regional utilities and are reasonable for financial planning purposes.

2.9 WATER CAPITAL IMPROVEMENT PROGRAM

Figure 3 shows that from FY 2022/23 to FY 2023/24 the City has spent very little in capital projects to rehabilitate or improve the water system (an average of \$460 thousand per year). Starting in FY 2024/25, the City plans to increase its annual capital spending significantly in order to proactively address the water system’s rehabilitation needs associated with treatment facilities, pipes, water tanks, and other system facilities. Most significantly, the City plans to replace and upgrade the existing Cypress Storage Tank in FY2027/28 (at a cost of approximately \$2.8 million in 2025 dollars). This will increase annual capital spending to an average of nearly \$1.3 million per year over the next 10 years. A detailed list of the requested capital projects and associated costs is provided in **Schedule W-1**.

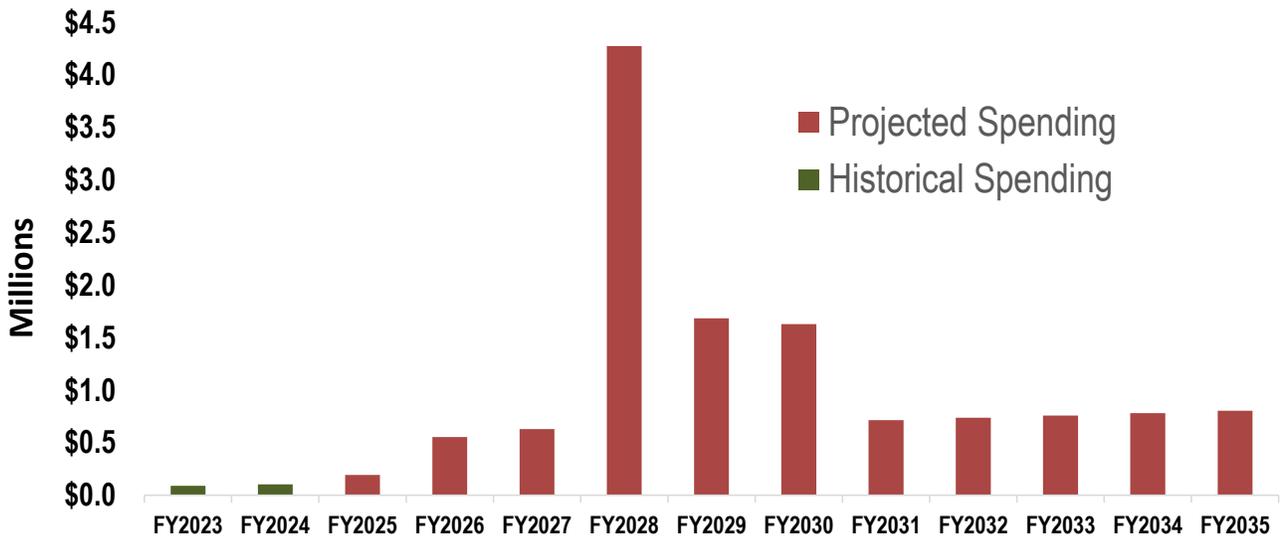


Figure 3: Water Enterprise Capital Spending

2.10 WATER ENTERPRISE DEBT STRATEGY

In order to meet the cash flow requirements associated with the near-term “spike” in capital spending, this Study recommends that the Water Enterprise borrow \$7.4 million in two separate loans (\$5.0 million immediately and \$2.4 million in FY 2028/29. This financial plan assumes that the debt will carry an interest rate of 5.0 percent and a repayment period of 20 years. The form of debt (bond, bank note, subsidized loan, etc.) has not yet been identified.

One of the requirements associated with debt financing is to maintain rates and other water system revenues at levels sufficient to meet debt service coverage requirements (DCR). Water system net revenues (i.e., revenues after paying all operating costs) must be maintained at a DCR level that is at least 1.20 times annual debt service. Based on published guidance from Fitch Ratings, utility systems with *midrange* financial profiles should maintain a DCR greater than 1.50 times annual debt service. **Schedule W-2** shows that the proposed financial plan maintains a DCR of at least 1.32 (and usually higher).

2.11 PROPOSED WATER RATE REVENUE INCREASES

All of the above information was entered into a financial planning model to produce a 10-year projection of the sufficiency of current rate revenues to meet projected financial requirements and determine the level of rate revenue increases necessary in each year of the projection period.

Based upon the previously discussed financial data, assumptions, policies, and debt strategy, this Study proposes a 5-year schedule of annual rate adjustments as shown in **Figure 4**. The rate schedules associated with these rate adjustments have been provided as **Schedule W-3**.

The numbers provided in the first table in **Schedule W-2** (cash flow proforma for the Water Operating Fund) are summarized graphically in Figure 4, which shows the Operating Fund target reserves being met throughout the planning period. Schedule W-2 shows the cash flow with each of the Water Enterprise's funds and the projected transfers between the Water Operating Fund and the Water Capital Fund.

After the final recommended increase in FY 2029/30, it is anticipated (barring unforeseen emergencies or changes in infrastructure/operational needs) that the rate revenue increases will need to continue as shown in Schedule W-2. These levelized rate increases will ultimately allow the Water Enterprise to cash-finance its capital program rather than seek internal and external loans.

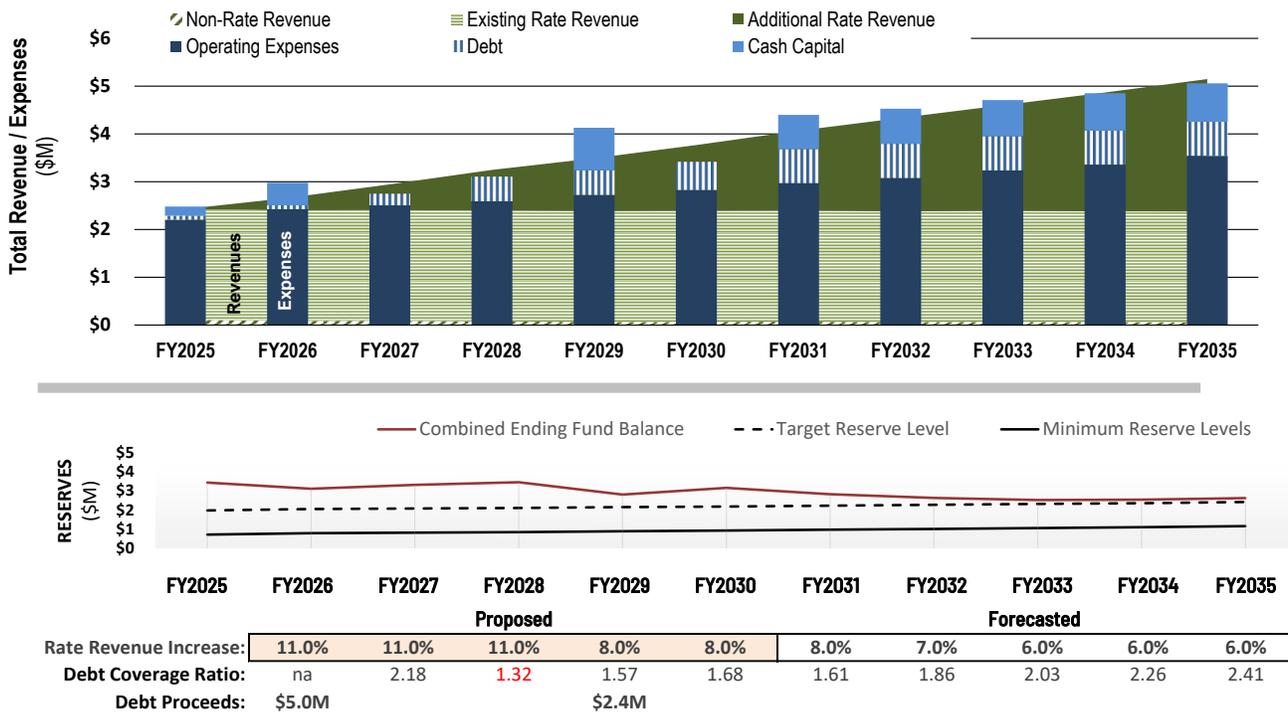


Figure 4: Water Enterprise Cash Flow Projection with Recommended Rate Increases and Debt Issuances

In addition to typical cost inflation which results in higher costs every year, the following summarizes the changes in costs facing the Water Enterprise that are driving the need for the proposed rate increases:

- The cost of purchasing imported water from Sonoma Water has increase significantly over the past three years and is forecasted to continue increasing significantly. These costs represent approximately 1/4 of the water utility operating budget.
- Utility and insurance costs have also increased significantly and are expected to continue rising.
- The City has identified more capital spending needs that were not identified in previous financial plans.

It is recommended that the City continue to closely monitor the financial condition of the water utility on an annual basis. In particular, the City should track changes in rate revenue due to drought, in water purchase costs from Sonoma Water, and revenue from development activity.

Section 3. SEWER ENTERPRISE FINANCIAL PLAN

3.1 SEWER FUND STRUCTURE AND CASH FLOWS

The financial plan is an annual cash flow model. As a cash flow model, it differs from standard accounting income statements, and balance sheets. The financial plan models sources and uses of funds into, out of, and between the various funds and reserves of the sewer utility.

The financial plan model is based on the fund structures currently used by the City and incorporates reserve policies for specified purposes. The reserve structure includes an Operating Reserve within the Sewer Operating Funds (Fund 404), as well as the Sewer Capital Funds (Fund 405) for the purpose of meeting sewer system capital improvement needs of the capital program. Exhibit 2 includes a schematic diagram of the funds/reserves and major cash flows associated with the Sewer Enterprise financial plan model.

An understanding of the fund/reserve structure is helpful in understanding the financial plan worksheets that model estimated annual cash flows through the sewer utility from one year to the next. The fund/reserve structure is comprised of:

3.1.1 Sewer Operating Fund (Fund 404)

The Sewer Operating Fund (Fund 404) is the primary fund within the utility. Most of the Sewer Enterprise's revenues, including user rate revenues, flow into the Operating Fund and all operating and maintenance costs, including debt service payments, are paid out of this fund. Funds are also transferred from the Sewer Operating Fund to the Sewer Capital Fund to help pay for capital projects of the capital improvement program.

Sewer Operating Reserves – The 2017 Study recommended that the City establish and maintain Sewer Operating Reserves equal to 33 percent of annual operating and maintenance costs, including debt service (a target of about \$1.2 million for FY 2024/25). The purpose of the Operating Reserve is to provide working capital and funds for unplanned operating and maintenance expenditures. The balance in the Sewer Operating Fund at the beginning of the

current fiscal year (FY 2024/25) was about \$2.75 million, or about \$1.55 million above the target Operating Reserve.

As explained in Section 2.1.1, the balance in the Operating Fund in excess of the target amount for the Operating Reserve is shown in the financial plan as “Available Balance.”

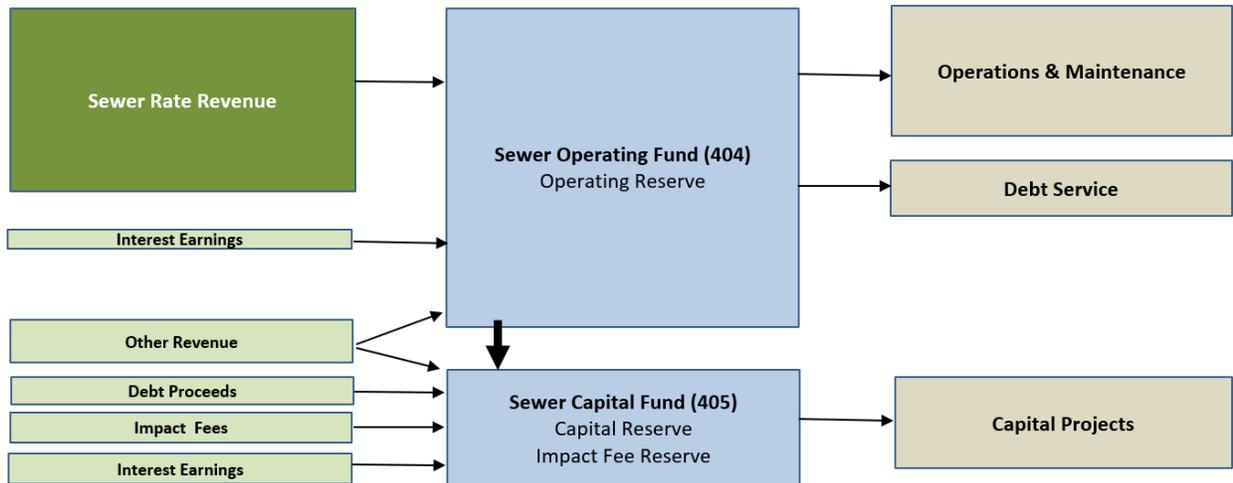


Exhibit 2 – Sewer Enterprise – Schematic Diagram of Cash Flows

3.1.2 Sewer Capital Fund (Fund 405)

The Sewer Capital Fund is used to account for revenues and funds available for capital project expenditures. The capital fund is primarily funded through transfers from the Operating Fund for projects that rehabilitate aging infrastructure. Impact fees, paid by new development (if and when development occurs), are available to improve system capacity and help meet the capacity needs of new development. The financial plan models generally seek to maintain a positive balance in the capital funds while also covering the costs of planned capital improvement projects. This is achieved through annual transfers of funds from the operating fund to the capital fund of each utility. A portion of Sewer Impact Fee revenue (when available) is transferred from the Sewer Capital Fund to the Sewer Operating Fund to help pay Subregional debt service.

This financial plan aims to maintain a target cash reserve level in the capital fund equal to average annual capital spending (currently about \$400 thousand).

3.2 SEWER ENTERPRISE BEGINNING FUND BALANCES

The ending cash balance for FY 2023/24 was used to establish the FY 2024/25 beginning balance, as shown in **Table 2**. It should be noted that the amount of cash that the Sewer Enterprise keeps in reserves is a product of its reserve policies (see Section 3.1).

Table 2: Sewer Enterprise FY 2024/25 Beginning Cash Balance

Sewer Operating Reserve	\$2,750,000
Sewer Capital Reserve	\$127,000
Total Sewer Reserves:	\$2,877,000

3.3 CUSTOMER GROWTH

As explained in more detail in Section 2.3, this Study assumes that no material growth will occur during the planning period.

3.4 SEWER ENTERPRISE RATE REVENUE

Rate revenue is the revenue generated from customers for sewer service. The City collects rate revenue from sewer customers based on a fixed monthly “Service Charge” (assessed based on meter size) and a sewer “Usage Rate” (applied to each TGAL of water use). Residential customers without separate irrigation meters will be charged based on the lesser of the estimated actual use (based on average monthly winter water usage) and the actual water usage for that month. All other customers will have sewer service charges based on the metered water consumption from all sources except those sources that are not discharged to the city sewer as determined by the City Engineer. Customers receive a monthly bill.

The Sewer Enterprise Financial Plan starts with FY 2024/25 budgeted rate revenues. Budgeted and projected rate revenues (including proposed rate adjustments) are listed in the first table in **Schedule S-2**. Sewer production is assumed to remain constant over the planning period.

3.5 SEWER ENTERPRISE NON-RATE REVENUES

In addition to rate revenue, the City receives additional “non-rate revenue” from sources such as miscellaneous service fees, developer Impact Fees, occasional grants, and interest revenue on investments. Projections of miscellaneous fee revenues were based on FY 2024/25 budgeted revenues. Future interest income was estimated based upon projected fund balances and assumed interest rate of 1.5 percent, which is consistent with the City’s recent historical interest earnings relative to its total reserve levels. Interest accrues to each of the funds. No Impact Fee revenue is assumed for the planning period.

Budgeted sewer rate and non-rate revenues are depicted in **Figure 5** below and listed in detail in the first table in **Schedule S-2**.

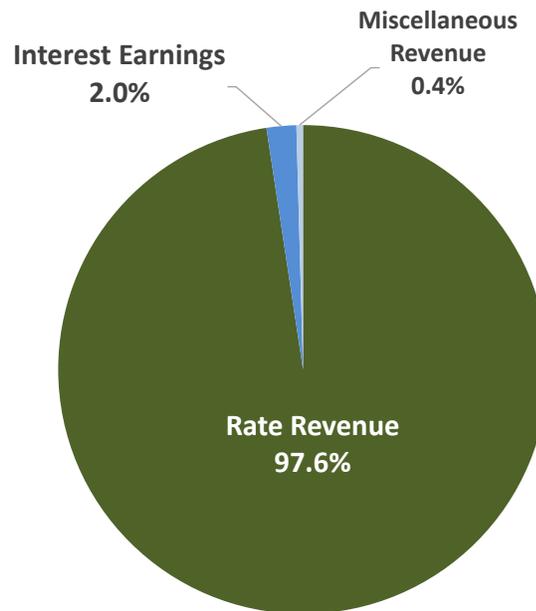


Figure 5: Sewer Enterprise Revenue Categories (FY 2024/25 budget)

3.6 SEWER ENTERPRISE OPERATING AND DEBT EXPENSES

The Sewer Enterprise’s expenses include operating and maintenance expenses, debt service, and capital spending. Capital spending is addressed separately in Section 3.8. Future operating and maintenance expenses were projected based upon the budgeted expenditures from FY 2024/25 and adjusted for inflation (see Section 3.7). A significant portion of the operating costs are driven by Subregional costs, which have been increasing significantly and are expected to continue to increase (see Section 3.7).

The Sewer fund’s current debt obligations consist of an internal loan from the In-Lieu Housing Fund (\$1 million over 20 years at 3 percent for the P-1 project) and the Sewer fund’s responsible to pay a portion of Santa Rosa Subregional system debt. At present, Cotati’s share of annual Subregional debt service is about \$776,000. For purposes of calculating debt coverage ratio, all of the above debt obligations are treated as operating costs.

Major budgeted expense categories for FY 2024/25 are depicted in **Figure 6**. Budgeted and projected operating and maintenance costs as well as debt service expenses are listed in **Schedule S-2**.

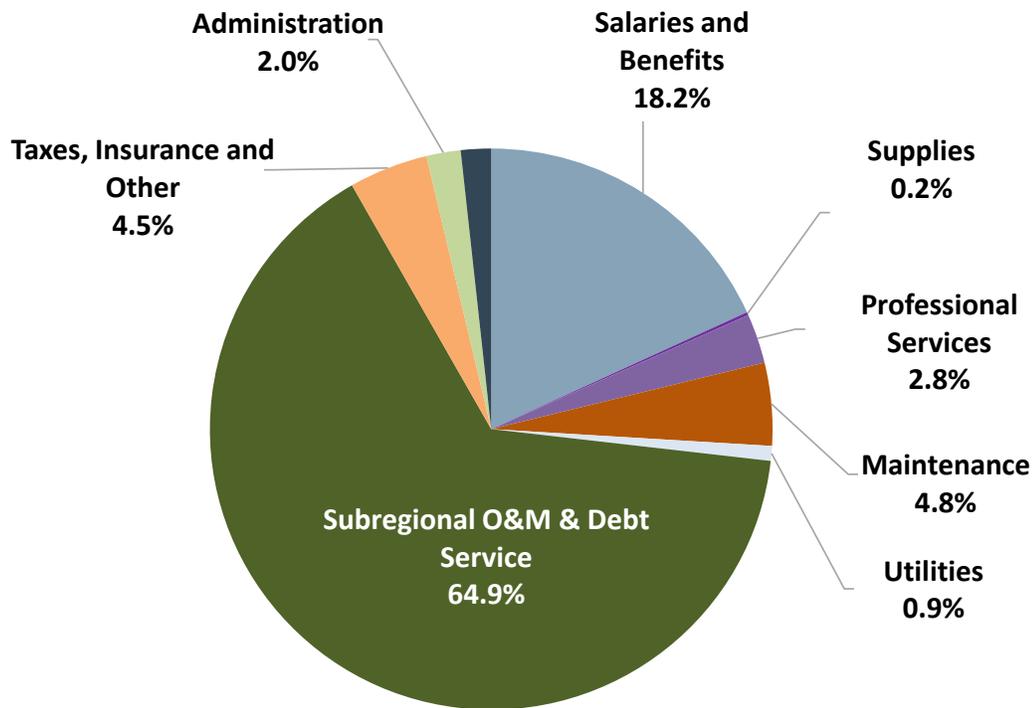


Figure 6: Sewer Enterprise Operating & Debt Expenses (FY 2024/25)

3.7 SEWER UTILITY COST ESCALATION

Annual cost escalation factors for the various types of expenses were developed based upon a review of historical inflation trends, published inflation forecasts, industry experience, and discussions with City staff. During the projection period, the following escalation assumptions were made:

- Subregional Wastewater Treatment - 6.0 percent in FY 2025/26 and predominantly 3.0 percent thereafter.
- Benefits – 4.0 percent per year
- Utilities and Fuel – 18 percent in FY 2025/26, then 8.0 percent for two years, then 5.0 percent thereafter

- Insurance – 15 percent in FY 2025/26, then 6 percent for three years, then 3 percent thereafter
- All other expenses - 3.0 percent per year

These inflation assumptions were provided by City staff, are consistent with the assumptions used by other regional utilities and are reasonable for financial planning purposes.

3.8 SEWER CAPITAL IMPROVEMENT PROGRAM

Figure 7 shows that in FY 2022/23 and FY 2023/24 the City has spent an average of about \$740 thousand per year for capital projects to rehabilitate or improve the sewer system. The forecasted average from FY 2024/25 through FY 2034/35 is \$606 thousand per year. A detailed list of the requested capital projects and associated costs is provided in **Schedule S-1**.

The forecasted capital spending is materially different from the capital spending that was forecasted by the 2022 Rate Study. The spending that is currently forecasted to occur between FY 2024/25 through FY 2031/32 is \$4.2 million whereas the 2022 Rate Study forecasted that the spending would only be \$2.1 million during the same period (a 100 percent increase). This increase in annual capital spending is the primary driver for the proposed increase in sewer rates. These capital projects are proposed to be paid with cash (not debt) since there is no spike in spending, rather the increase in capital spending represent a “new normal” which is more appropriate to fund with cash.

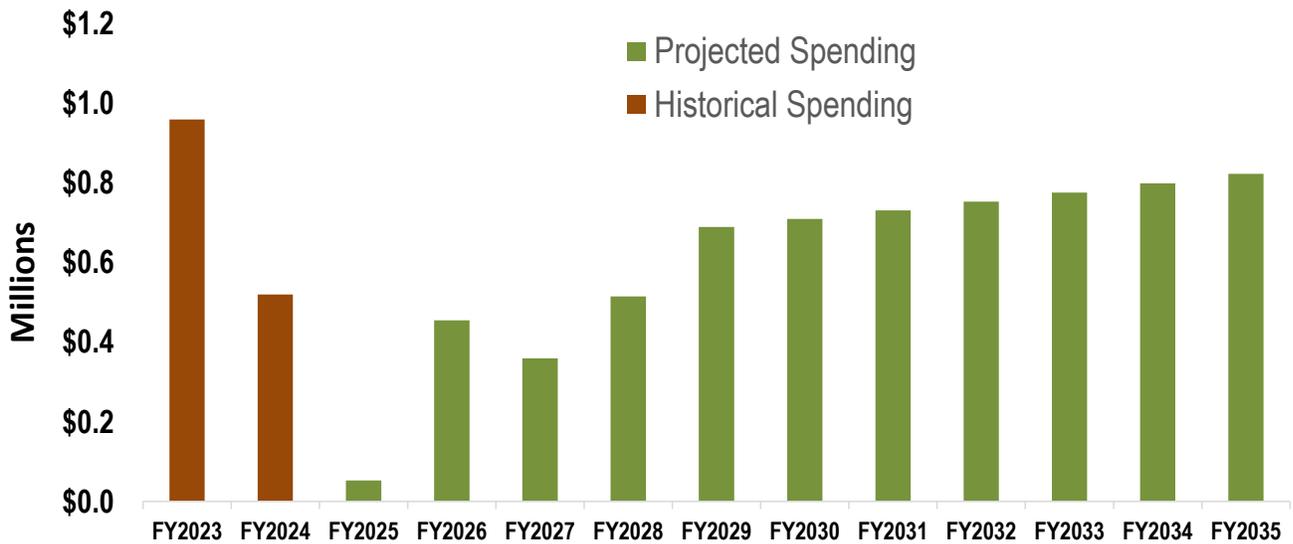


Figure 7: Sewer Enterprise Capital Spending

3.9 PROPOSED SEWER RATE REVENUE INCREASES

All of the above information was entered into a financial planning model to produce a 10-year projection of the sufficiency of current rate revenues to meet projected financial requirements and determine the level of rate revenue increases necessary in each year of the projection period.

Based on the previously discussed financial data, assumptions, policies, and PayGo strategy, this Study proposes a 5-year schedule of annual rate adjustments as shown in **Schedule S-3**.

The numbers provided in the first table in **Schedule S-2** (cash flow proforma for the Sewer Operating Fund) are summarized graphically in **Figure 8**, which shows that the beginning cash balance in the Sewer Operating Fund and Sewer Capital Fund for FY 2024/25 was about twice the target levels, but those reserves are drawn down quickly over the next couple years as a result of increases in operating costs and capital spending. This results in Operating Fund temporarily not meeting its minimum reserve target until FY 2030/31. In the event that sewer expenses exceed the forecasts, the Sewer Enterprise may need to borrow cash from the Water

Enterprise in the interim. Schedule S-2 shows the cash flow for both of the Sewer Enterprise’s funds.

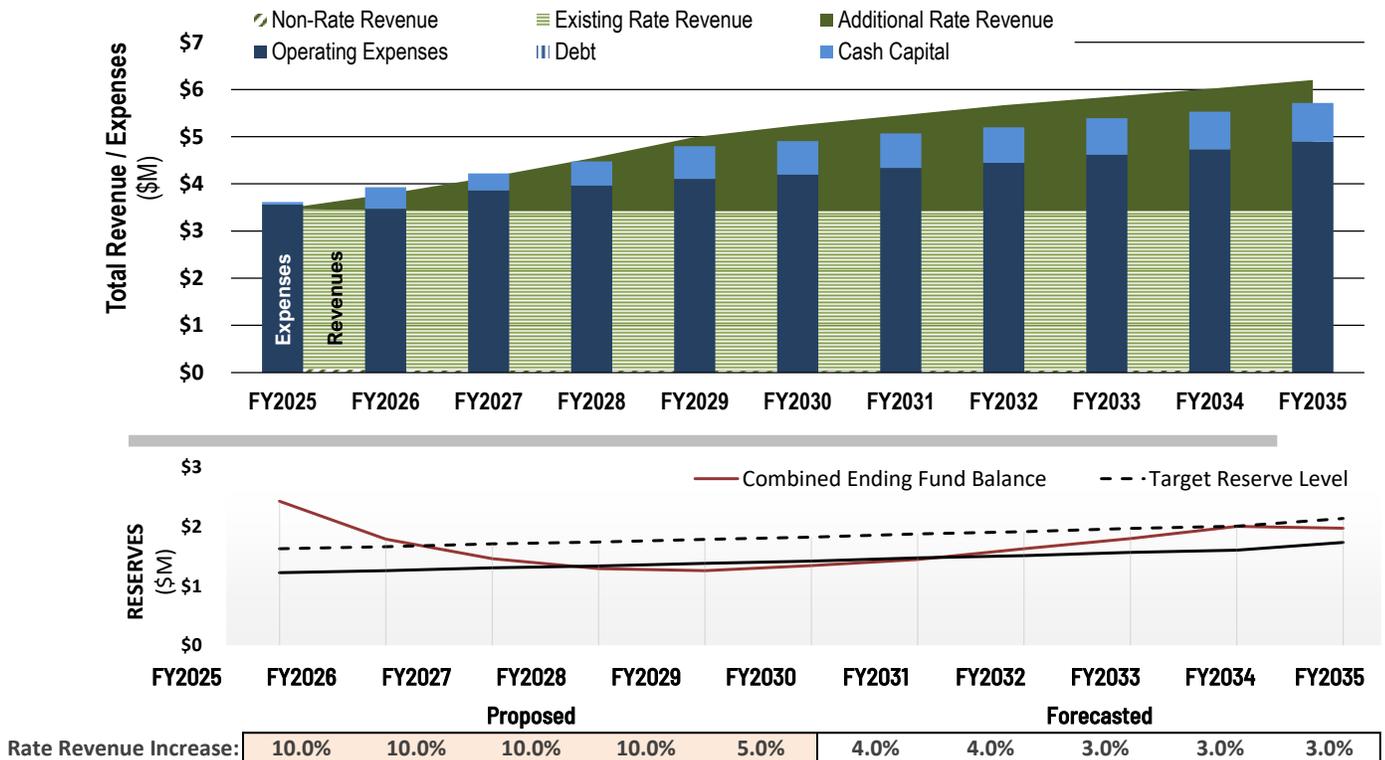


Figure 8: Sewer Enterprise Cash Flow Projection with Recommended Rate Increases

It is important to note that the 2022 Rate Study had already anticipated that rate increases over the next two years would need to be 9 percent. The following describes some of the changes in costs facing the Sewer Enterprise that weren’t fully accounted for during the 2022 Rate Study:

- As previously discussed, annual capital spending is forecasted to be twice as high as was forecasted by the 2022 Rate Study
- Current usage revenue is 12 percent lower than previously anticipated due to a decrease in water usage

Schedule S-2 shows the cash flow with each of the Sewer Enterprise’s fund and the projected transfers between the Sewer Operating Fund and the Sewer Capital Fund.

It is recommended that the City continue to closely monitor the financial condition of the sewer utility on an annual basis.

SCHEDULES

- Schedule W-1: Water Utility Capital Spending Request**
- Schedule W-2: Water Utility Cash Flow Pro Formas**
- Schedule W-3: 5-Year Schedule of Proposed Water Rates**
- Schedule S-1: Sewer Enterprise Capital Spending Request**
- Schedule S-2: Sewer Enterprise Cash Flow Pro Formas**
- Schedule S-3: 5-Year Schedule of Proposed Sewer Rates**

Schedule W-1 – Water Enterprise 5-Year Capital Spending Projections

	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029	FY 2030	Total
1 Well 1A/Well 3 Treatment Renewal and Replacement		\$150,000					\$150,000
2 Well 2 Renewal/Remediation	\$60,000	\$175,000					\$235,000
3 Water and Sewer Renewal and Replacement		\$150,000					\$150,000
4 Distribution System Monitoring							\$0
5 Well No. 4							\$0
6 West Sierra Tank Recoating					\$838,000		\$838,000
7 BP-1: Cypress Tank Booster Pumps			\$226,000	\$600,000			\$826,000
8 T-1: New Cypress Storage Tank			\$226,000	\$2,600,000			\$2,826,000
9 P-5: Sycamore Lane Water Main Replacement					\$650,000		\$650,000
10 P-3, 4: Cypress Tank New Water Main		\$80,000	\$180,000	\$950,000			\$1,210,000
11 P-1: Portal Street, Mercantile, Aaron Main Replacement					\$100,000	\$1,490,000	\$1,590,000
12 SCADA Water	\$53,000						\$53,000
13 Well 3 Emergency Repairs	80000						80000
14 Total Capital Spending (FY 2025 dollars)	\$193,000	\$555,000	\$632,000	\$4,150,000	\$1,588,000	\$1,490,000	\$8,608,000

Schedule W-2 – Water Enterprise Cash Flow Pro Formas (1 of 2)

WATER OPERATING FUND (Fund 401)

	Budget FY2025	Forecast FY2026	Forecast FY2027	Forecast FY2028	Forecast FY2029	Forecast FY2030	Forecast FY2031	Forecast FY2032	Forecast FY2033	Forecast FY2034	Forecast FY2035	
1	Rate Revenue Increase:		11.00%	11.00%	11.00%	8.00%	8.00%	8.00%	7.00%	6.00%	6.00%	
Rate Revenue												
2	Water Rate Revenue	\$2,319,000	\$2,319,000	\$2,574,000	\$2,857,000	\$3,171,000	\$3,425,000	\$3,699,000	\$3,995,000	\$4,275,000	\$4,532,000	\$4,804,000
3	Change due to growth & use		\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
4	Increase due to rate adjustments		\$255,000	\$283,000	\$314,000	\$254,000	\$274,000	\$296,000	\$280,000	\$257,000	\$272,000	\$288,000
Non-Rate Revenues												
5	Miscellaneous Fees	\$41,500	\$41,900	\$42,300	\$42,800	\$43,200	\$43,600	\$44,100	\$44,500	\$44,900	\$44,900	\$44,900
6	Interest Earnings	\$60,000	\$35,000	\$38,000	\$26,000	\$13,000	\$15,000	\$19,000	\$9,000	\$15,000	\$8,000	\$3,000
7	Total Revenue	\$2,420,500	\$2,650,900	\$2,937,300	\$3,239,800	\$3,481,200	\$3,757,600	\$4,058,100	\$4,328,500	\$4,591,900	\$4,856,900	\$5,139,900
O&M Costs												
8	Salaries and Benefits	\$747,000	\$772,400	\$798,700	\$825,900	\$854,000	\$883,100	\$913,300	\$944,500	\$976,700	\$1,010,200	\$1,044,700
9	Professional Services	\$184,500	\$280,200	\$212,500	\$187,900	\$211,100	\$199,400	\$225,400	\$211,500	\$240,400	\$224,400	\$266,200
10	Maintenance	\$121,500	\$87,900	\$90,500	\$93,200	\$96,000	\$98,900	\$101,800	\$104,900	\$108,000	\$111,300	\$114,600
11	Utilities	\$133,600	\$157,700	\$170,300	\$183,900	\$193,100	\$202,800	\$212,900	\$223,600	\$234,800	\$246,500	\$258,800
12	Conservation	\$28,800	\$29,700	\$30,600	\$31,500	\$32,400	\$33,400	\$34,400	\$35,400	\$36,500	\$37,600	\$38,700
13	Taxes, Insurance and Other	\$121,800	\$137,500	\$145,000	\$153,000	\$161,500	\$166,300	\$171,300	\$176,500	\$181,800	\$187,200	\$192,800
14	Adminstration	\$171,100	\$176,300	\$181,600	\$187,000	\$192,600	\$198,400	\$204,400	\$210,500	\$216,800	\$223,300	\$230,000
15	SCWA Water Purchases	\$697,300	\$781,000	\$874,700	\$927,200	\$982,800	\$1,041,800	\$1,104,300	\$1,170,600	\$1,240,800	\$1,315,200	\$1,394,200
16	Total Operating Expenses	\$2,205,600	\$2,422,700	\$2,503,900	\$2,589,600	\$2,723,500	\$2,824,100	\$2,967,800	\$3,077,500	\$3,235,800	\$3,355,700	\$3,540,000
Debt and Transfers												
17	CalPERS Payment Plan	\$80,000	\$80,000	\$80,000	\$80,000	\$80,000	\$80,000	\$80,000	\$80,000	\$80,000	\$80,000	\$80,000
18	New Debt Service		\$0	\$165,000	\$436,000	\$436,000	\$511,000	\$633,000	\$633,000	\$633,000	\$633,000	\$633,000
Transfer to Sewer Fund												
19	Transfer Out to Capital Fund		\$1,000,000	\$1,000,000	\$0	\$0	\$1,000,000	\$0	\$1,000,000	\$1,000,000	\$0	\$1,000,000
20	Total Debt and Transfers	\$80,000	\$1,080,000	\$1,245,000	\$516,000	\$516,000	\$1,591,000	\$713,000	\$1,713,000	\$1,713,000	\$713,000	\$1,713,000
21	Total Revenue Requirement	\$2,285,600	\$3,502,700	\$3,748,900	\$3,105,600	\$3,239,500	\$4,415,100	\$3,680,800	\$4,790,500	\$4,948,800	\$4,068,700	\$5,253,000
22	Beginning Year Balance	\$2,423,000	\$2,557,900	\$1,706,100	\$894,500	\$1,028,700	\$1,270,400	\$612,900	\$990,200	\$528,200	\$171,300	\$959,500
23	Surplus/(Shortfall)	\$134,900	(\$851,800)	(\$811,600)	\$134,200	\$241,700	(\$657,500)	\$377,300	(\$462,000)	(\$356,900)	\$788,200	(\$113,100)
24	End of Year Balance	\$2,557,900	\$1,706,100	\$894,500	\$1,028,700	\$1,270,400	\$612,900	\$990,200	\$528,200	\$171,300	\$959,500	\$846,400
25	<i>Operating Reserve Minimum Level</i>	\$728,000	\$799,000	\$826,000	\$855,000	\$899,000	\$932,000	\$979,000	\$1,016,000	\$1,068,000	\$1,107,000	\$1,168,000
26	<i>Available Balance</i>	\$1,829,900	\$907,100	\$68,500	\$173,700	\$371,400	(\$319,100)	\$11,200	(\$487,800)	(\$896,700)	(\$147,500)	(\$321,600)

Schedule W-2 – Water Enterprise Cash Flow Pro Formas (2 of 2)
WATER CAPITAL FUND (Fund 402)

	Budget FY 2025	Forecast FY 2026	Forecast FY 2027	Forecast FY 2028	Forecast FY 2029	Forecast FY 2030	Forecast FY 2031	Forecast FY 2032	Forecast FY 2033	Forecast FY 2034	Forecast FY 2035
1 Beginning Balance	\$1,064,000	\$878,100	\$1,409,900	\$2,416,700	\$2,423,600	\$1,541,400	\$2,548,400	\$1,839,700	\$2,109,600	\$2,357,500	\$1,582,600
Revenues											
2 Transfer in from Operating Fund	\$0	\$1,000,000	\$1,000,000	\$0	\$0	\$1,000,000	\$0	\$1,000,000	\$1,000,000	\$0	\$1,000,000
3 Impact Fee Revenue	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
4 Miscellaneous Fees	\$6,700	\$6,800	\$6,800	\$6,900	\$7,000	\$7,000	\$7,100	\$7,200	\$7,300	\$7,300	\$7,300
5 Interest Earnings	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
6 Total Revenues	6,700	1,006,800	1,006,800	6,900	7,000	1,007,000	7,100	1,007,200	1,007,300	7,300	1,007,300
Capital Spending											
7 TOTAL CAPITAL SPENDING	\$192,600	\$555,000	\$631,000	\$4,274,500	\$1,684,900	\$1,628,200	\$715,800	\$737,300	\$759,400	\$782,200	\$805,700
8 Debt Funded Capital	\$0	\$80,000	\$631,000	\$4,274,500	\$795,700	\$1,628,200	\$0	\$0	\$0	\$0	\$0
9 Cash Funded Capital Projects	\$192,600	\$475,000	\$0	\$0	\$889,200	\$0	\$715,800	\$737,300	\$759,400	\$782,200	\$805,700
10 Capital Spending	192,600	475,000	-	-	889,200	-	715,800	737,300	759,400	782,200	805,700
11 Surplus/(Shortfall)	(185,900)	531,800	1,006,800	6,900	(882,200)	1,007,000	(708,700)	269,900	247,900	(774,900)	201,600
12 Capital Reserve Ending Balance	\$878,100	\$1,409,900	\$2,416,700	\$2,423,600	\$1,541,400	\$2,548,400	\$1,839,700	\$2,109,600	\$2,357,500	\$1,582,600	\$1,784,200
13 <i>Capital Reserve Target Level</i>	\$1,257,000	\$1,257,000	\$1,257,000	\$1,257,000	\$1,257,000	\$1,257,000	\$1,257,000	\$1,257,000	\$1,257,000	\$1,257,000	\$1,257,000
14 <i>Available Balance</i>	(\$378,900)	\$152,900	\$1,159,700	\$1,166,600	\$284,400	\$1,291,400	\$582,700	\$852,600	\$1,100,500	\$325,600	\$527,200

Schedule W-3 – Five-Year Schedule of Proposed Water Rates ²

	Current	June 2025	June 2026	June 2027	June 2028	June 2029
Monthly Service Charge						
3/4" meter	\$28.37	\$31.49	\$34.95	\$38.79	\$41.89	\$45.24
1" meter	\$46.37	\$51.47	\$57.13	\$63.41	\$68.48	\$73.96
1 1/2" meter	\$90.98	\$100.99	\$112.10	\$124.43	\$134.38	\$145.13
2" meter	\$144.72	\$160.64	\$178.31	\$197.92	\$213.75	\$230.85
3" meter	\$270.19	\$299.91	\$332.90	\$369.52	\$399.08	\$431.01
4" meter	\$449.41	\$498.85	\$553.72	\$614.63	\$663.80	\$716.90
Water Usage Rates (\$/TGAL)						
Single Family						
Tier 1 (0 to 5 TGAL) ¹	\$4.83	\$5.36	\$5.95	\$6.60	\$7.13	\$7.70
Tier 2 (5 to 10 TGAL)	\$6.20	\$6.88	\$7.64	\$8.48	\$9.16	\$9.89
Tier 3 (over 10 TGAL)	\$7.73	\$8.58	\$9.52	\$10.57	\$11.42	\$12.33
Multi-Family, Non-Resid., & Irrigation						
All Water Usage	\$5.37	\$5.96	\$6.62	\$7.35	\$7.94	\$8.58

¹ "TGAL" means thousand gallons

² New rates implemented on the June 15th of the indicated year

Schedule S-1 – Sewer Enterprise 5-Year Capital Spending Projections

	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029	FY 2030	Total
1 Sewer Renewal and Replacement (R&R) Master Plan		\$70,000					\$70,000
2 Sewer Collection System R&R		\$90,000	\$175,000	\$500,000	\$500,000	\$500,000	\$1,765,000
3 Sewer Lift Stations R&R		\$110,000			\$150,000	\$150,000	\$410,000
4 SCADA Sewer	\$53,000						\$53,000
5 Sewer Lift Station Emergency Generator Project		\$185,000	\$185,000				\$370,000
6 Total Capital Spending (FY 2025 dollars)	\$53,000	\$455,000	\$360,000	\$500,000	\$650,000	\$650,000	\$2,668,000

Schedule S-2 – Sewer Enterprise Cash Flow Pro Formas (1 of 2)

SEWER OPERATING FUND (404)

	Budget FY2025	Forecast FY2026	Forecast FY2027	Forecast FY2028	Forecast FY2029	Forecast FY2030	Forecast FY2031	Forecast FY2032	Forecast FY2033	Forecast FY2034	Forecast FY2035
1 Rate Revenue Increase:		10.00%	10.00%	10.00%	10.00%	5.00%	4.00%	4.00%	3.00%	3.00%	3.00%
Rate Revenue											
2 Sewer Rate Revenue	\$3,385,300	\$3,385,300	\$3,724,000	\$4,096,000	\$4,506,000	\$4,957,000	\$5,205,000	\$5,413,000	\$5,630,000	\$5,799,000	\$5,973,000
3 Change due to growth & use		\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
4 Increase due to rate adjustments		\$339,000	\$372,000	\$410,000	\$451,000	\$248,000	\$208,000	\$217,000	\$169,000	\$174,000	\$179,000
Non-Rate Revenues											
5 Interest Earnings	\$60,000	\$34,000	\$16,000	\$1,000	\$6,000	\$15,000	\$12,000	\$9,000	\$7,000	\$21,000	\$21,000
6 Operating Revenue/Fees	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
7 Total Revenue	\$3,445,300	\$3,758,300	\$4,112,000	\$4,507,000	\$4,963,000	\$5,220,000	\$5,425,000	\$5,639,000	\$5,806,000	\$5,994,000	\$6,173,000
O&M Costs											
8 Salaries and Benefits	\$701,000	\$722,000	\$744,000	\$766,000	\$789,000	\$813,000	\$837,000	\$862,000	\$888,000	\$915,000	\$942,000
9 Supplies	\$7,000	\$8,000	\$8,000	\$8,000	\$8,000	\$8,000	\$9,000	\$9,000	\$9,000	\$10,000	\$10,000
10 Professional Services	\$110,000	\$101,000	\$134,000	\$107,000	\$128,000	\$113,000	\$137,000	\$120,000	\$146,000	\$128,000	\$166,000
11 Maintenance	\$184,000	\$133,000	\$137,000	\$141,000	\$145,000	\$150,000	\$154,000	\$159,000	\$164,000	\$169,000	\$174,000
12 Utilities	\$33,000	\$39,000	\$42,000	\$46,000	\$48,000	\$50,000	\$53,000	\$56,000	\$58,000	\$61,000	\$64,000
13 Subregional O&M & Debt Service	\$2,507,000	\$2,634,000	\$2,713,000	\$2,794,000	\$2,878,000	\$2,965,000	\$3,074,000	\$3,166,000	\$3,261,000	\$3,359,000	\$3,671,000
14 Taxes, Insurance and Other	\$99,000	\$102,000	\$105,000	\$108,000	\$111,000	\$115,000	\$118,000	\$122,000	\$125,000	\$129,000	\$133,000
15 Administration	\$76,000	\$79,000	\$81,000	\$84,000	\$86,000	\$89,000	\$91,000	\$94,000	\$97,000	\$100,000	\$103,000
16 Total Operating Expenses	\$3,717,000	\$3,818,000	\$3,964,000	\$4,054,000	\$4,193,000	\$4,303,000	\$4,473,000	\$4,588,000	\$4,748,000	\$4,871,000	\$5,263,000
Debt and Transfers											
17 In-Lieu Housing Debt Service	\$67,000	\$67,000	\$67,000	\$67,000	\$67,000	\$67,000	\$67,000	\$67,000	\$67,000	\$67,000	\$67,000
18 CalPERS Payment Plan	\$76,200	\$76,200	\$76,200	\$76,200	\$76,200	\$76,200	\$76,200	\$76,200	\$76,200	\$76,200	\$76,200
19 Transfer Out to (in from) Capital Fund	\$80,000	\$1,000,000	\$1,000,000	\$0	\$0	\$1,000,000	\$1,000,000	\$1,000,000	\$0	\$1,000,000	\$1,000,000
20 Total Debt and Transfers	\$223,200	\$1,143,200	\$1,143,200	\$143,200	\$143,200	\$1,143,200	\$1,143,200	\$1,143,200	\$143,200	\$1,143,200	\$1,143,200
21 Total Revenue Requirement	\$3,940,200	\$4,961,200	\$5,107,200	\$4,197,200	\$4,336,200	\$5,446,200	\$5,616,200	\$5,731,200	\$4,891,200	\$6,014,200	\$6,406,200
22 Beginning Year Balance	\$2,750,000	\$2,255,100	\$1,052,200	\$57,000	\$366,800	\$993,600	\$767,400	\$576,200	\$484,000	\$1,398,800	\$1,378,600
23 Surplus/(Shortfall)	(\$494,900)	(\$1,202,900)	(\$995,200)	\$309,800	\$626,800	(\$226,200)	(\$191,200)	(\$92,200)	\$914,800	(\$20,200)	(\$233,200)
24 End of Year Balance	\$2,255,100	\$1,052,200	\$57,000	\$366,800	\$993,600	\$767,400	\$576,200	\$484,000	\$1,398,800	\$1,378,600	\$1,145,400
25 <i>Operating Fund Reserve Target</i>	\$1,227,000	\$1,260,000	\$1,308,000	\$1,338,000	\$1,384,000	\$1,420,000	\$1,476,000	\$1,514,000	\$1,567,000	\$1,607,000	\$1,737,000
26 <i>Available Balance</i>	\$1,028,100	(\$207,800)	(\$1,251,000)	(\$971,200)	(\$390,400)	(\$652,600)	(\$899,800)	(\$1,030,000)	(\$168,200)	(\$228,400)	(\$591,600)

Schedule S-2 – Sewer Enterprise Cash Flow Pro Formas (2 of 2)

SEWER CAPITAL FUND (405)

	Budget FY 2025	Forecast FY 2026	Forecast FY 2027	Forecast FY 2028	Forecast FY 2029	Forecast FY 2030	Forecast FY 2031	Forecast FY 2032	Forecast FY 2033	Forecast FY 2034	Forecast FY 2035
1 Beginning Balance	\$127,000	\$177,000	\$740,000	\$1,406,000	\$928,000	\$268,000	\$578,000	\$871,000	\$1,146,000	\$403,000	\$627,000
Revenues											
2 Transfer In from Operating Fund	\$80,000	\$1,000,000	\$1,000,000	\$0	\$0	\$1,000,000	\$1,000,000	\$1,000,000	\$0	\$1,000,000	\$1,000,000
3 Impact Fee Revenue	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
4 Miscellaneous Fees	\$15,000	\$15,000	\$15,000	\$16,000	\$16,000	\$16,000	\$16,000	\$16,000	\$16,000	\$17,000	\$17,000
5 Interest Earnings	\$8,000	\$3,000	\$11,000	\$21,000	\$14,000	\$4,000	\$9,000	\$13,000	\$17,000	\$6,000	\$9,000
Transfer in from Operating Fund											
6 Total Revenues	\$103,000	\$1,018,000	\$1,026,000	\$37,000	\$30,000	\$1,020,000	\$1,025,000	\$1,029,000	\$33,000	\$1,023,000	\$1,026,000
Capital Spending											
7 TOTAL CAPITAL SPENDING	\$53,000	\$455,000	\$360,000	\$515,000	\$690,000	\$710,000	\$732,000	\$754,000	\$776,000	\$799,000	\$823,000
8 Debt Funded Capital	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
9 Cash Funded Capital Projects	\$53,000	\$455,000	\$360,000	\$515,000	\$690,000	\$710,000	\$732,000	\$754,000	\$776,000	\$799,000	\$823,000
10 Capital Spending	\$53,000	\$455,000	\$360,000	\$515,000	\$690,000	\$710,000	\$732,000	\$754,000	\$776,000	\$799,000	\$823,000
11 Surplus/(Shortfall)	50,000	563,000	666,000	(478,000)	(660,000)	310,000	293,000	275,000	(743,000)	224,000	203,000
12 Capital Reserve Ending Balance	\$177,000	\$740,000	\$1,406,000	\$928,000	\$268,000	\$578,000	\$871,000	\$1,146,000	\$403,000	\$627,000	\$830,000
<i>Capital Reserve Target</i>	\$404,000	\$404,000	\$404,000	\$404,000	\$404,000	\$404,000	\$404,000	\$404,000	\$404,000	\$404,000	\$404,000
<i>Available Balance</i>	(\$227,000)	\$336,000	\$1,002,000	\$524,000	(\$136,000)	\$174,000	\$467,000	\$742,000	(\$1,000)	\$223,000	\$426,000

Schedule S-3 – Five-Year Schedule of Proposed Sewer Rates²

	Current	June 2025	June 2026	June 2027	June 2028	June 2029
Monthly Service Charge						
3/4" meter	\$53.25	\$58.58	\$64.44	\$70.88	\$77.97	\$81.87
1" meter	\$87.71	\$96.48	\$106.13	\$116.74	\$128.41	\$134.83
1 1/2" meter	\$173.12	\$190.43	\$209.47	\$230.42	\$253.46	\$266.13
2" meter	\$276.01	\$303.61	\$333.97	\$367.37	\$404.11	\$424.32
3" meter	\$516.28	\$567.91	\$624.70	\$687.17	\$755.89	\$793.68
4" meter	\$859.42	\$945.36	\$1,039.90	\$1,143.89	\$1,258.28	\$1,321.19
Sewer Usage Rates (\$/TGAL) ¹						
All Customers	\$12.43	\$13.67	\$15.04	\$16.54	\$18.19	\$19.10

¹ Residential customers without separate irrigation meters will be charged based on the lesser of the estimated water use (based on average monthly winter water usage from the previous year) and the actual water usage for that billing period. All other customers will have sewer service charges based on the metered water consumption from all sources except those sources that are not discharged to the city sewer as determined by the City Engineer.

² New rates implemented on the June 15th of the indicated year