CITY OF San Diego

Wastewater Financial Plan, Cost of Service, and Rate Study

Report / December 4, 2024





December 4, 2024

Ms. Lisa Celaya Executive Assistant Director City of San Diego 9192 Topaz Way San Diego, CA 92123

Subject: Wastewater Cost of Service and Rate and Fee Study Report

Dear Ms. Celaya,

Raftelis is pleased to provide this Wastewater Cost of Service and Rate Study Report (Report) for the City of San Diego (City). The Water Cost of Service and Rate Study Report is provided under a separate cover.

The major objectives of the wastewater study included the following:

- Develop a financial plan forecast which maintains the financial health of the wastewater water utility. This forecast was developed to ensure that revenue from rates and other sources meet annual operating expenses, payments on existing and proposed debt service, provide funding for the capital improvement program, and satisfies debt service coverage and reserve targets.
- Develop a comprehensive cost of service analysis which determines the cost to provide wastewater service to each customer class.
- Develop cost of service-based rates which meet the City's policy objectives and comply with legal and statutory requirements.
- Update the rate model previously developed and in use by the City.

The Report summarizes the key findings and recommendations related to the development of the updated wastewater rates and fees.

It has been a pleasure working with you, and we thank you and the City staff for their support during this study.

Sincerely,

Tald Cistam

Todd Cristiano Vice President

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Executive Summary

Study Objectives

The City of San Diego (City) retained Raftelis to conduct a comprehensive cost of service and rate design analysis for its wastewater utility. The City's overall objectives for this study included:

- Develop a multi-year financial plan for FY 2026 through FY 2030 (study period)¹, for the Sewer Revenue Fund to ensure that revenues from rates, fees, and charges are sufficient to cover annual operating expenses, the capital improvement program net of bond and loan proceeds and meet the City's reserve and debt service coverage requirements
- Conduct a comprehensive cost of service (COS) for the wastewater utility to ensure that costs are equitably assigned to customer classes for the Study Period.
- Design rates for the Study Period to maintain fair and equitable cost recovery from each customer class.
- Comply with Proposition 218, Proposition 26, California Government Code Section 66013, and other regulatory requirements.
- Provide appropriate education and public outreach to the City Council, the general public, and other stakeholders to ensure the successful implementation of current and future rate cases.

Raftelis applied industry best practice cost of service methodologies supported by the Water Environment Federation (WEF) in its *Manual of Practice No. 27, Financing and Charges for Wastewater Systems, 4th Edition, 2018* (WEF Manual No. 27).

Study Findings and Recommendations

FINANCIAL PLAN

The Sewer Revenue Fund incurs all of the costs necessary to provide wastewater service and a portion of the costs necessary to provide recycled water service (the Water Revenue Fund also incurs costs to provide recycled water service). If the City's current wastewater rates approved with a 3% increase effective January 1, 2025 remain unchanged, projected rate revenues will be inadequate to meet the wastewater utility's annual revenue requirements throughout the period FY 2026 through FY 2029. Table 1 illustrates the recommended rate revenue adjustments. These adjustments are required to pay for future wastewater utility operations and maintenance expenses, fund the capital improvement program, provide adequate reserves, and satisfy debt service coverage requirements throughout the study period.

Year	Effective Date	% Rate Revenue Increase
FY 2026	January 1, 2026	7.00%
FY 2027	January 1, 2027	6.00%
FY 2028	January 1, 2028	8.00%
FY 2029	January 1, 2029	8.00%

Table 1: Projected Required Rate Revenue Adjustments

¹ The City's financial operations are reported on a fiscal year basis July 1 through June 30 and noted in this report as FY, which is the twelve months ending June 30.

COST-OF-SERVICE ANALYSIS

The cost-of-service analysis is a method of allocating the test year annual revenue requirement to customer classes based on the principle of cost causation. The test year is the year in which the cost-of-service rates will be effective. Customer classes are assigned costs to operate the system based on the demands they place on the system. The allocation processes used in the cost-of-service analysis consider the volume and strength of wastewater discharges and the number of customers in each customer class. As shown in Table 2, the total FY 2026 wastewater revenue requirement is approximately \$347.2 million. The projected revenues under the current rates total approximately \$324.5 million indicating a necessary increase of 7%.

FY 2026 Cost of Service	Revenue at Existing Rates	Required Change in Revenue Recovery from Existing Rates	Percentage Change in Revenue Recovery
\$136,927,392	\$127,281,665	\$9,645,727	7.6%
\$89,480,391	\$85,024,070	\$4,456,321	5.2%
\$107,807,733	\$100,609,530	\$7,198,203	7.2%
\$334,215,517	\$312,915,265	\$21,300,252	6.8%
\$7,125,477	\$5,815,306	\$1,310,171	22.5%
\$7,125,477	\$5,815,306	\$1,310,171	22.5%
\$4,153,123 \$4,153,123	\$4,102,862 \$4,102,862	\$50,261 \$50,261	<u>1.2%</u> 1.2%
\$1,724,767	\$1,670,196	\$54,571	3.3%
\$1,724,767	\$1,670,196	\$54,571	3.3%
\$347.218.883	\$324.503 629	\$22,715,254	7.0%
	FY 2026 Cost of Service \$136,927,392 \$89,480,391 \$107,807,733 \$334,215,517 \$7,125,477 \$7,125,477 \$7,125,477 \$4,153,123 \$4,153,123 \$4,153,123 \$4,153,123 \$4,153,123 \$4,153,123 \$4,153,123 \$4,153,123 \$4,153,123	FY 2026 Cost of ServiceRevenue at Existing Rates\$136,927,392\$127,281,665\$89,480,391\$85,024,070\$107,807,733\$100,609,530\$334,215,517\$312,915,265\$7,125,477\$5,815,306\$7,125,477\$5,815,306\$7,125,477\$5,815,306\$4,153,123\$4,102,862\$4,153,123\$44,102,862\$1,724,767\$1,670,196\$1,724,767\$1,670,196\$1,724,767\$1,670,196\$347,218,883\$324,503,629	FY 2026 Cost of ServiceRevenue at Existing RatesRequired Change in Revenue Recovery from Existing Rates\$136,927,392\$127,281,665\$9,645,727\$89,480,391\$85,024,070\$4,456,321\$107,807,733\$100,609,530\$7,198,203\$334,215,517\$312,915,265\$21,300,252\$7,125,477\$5,815,306\$1,310,171\$7,125,477\$5,815,306\$1,310,171\$4,153,123\$4,102,862\$50,261\$4,153,123\$4,102,862\$50,261\$1,724,767\$1,670,196\$54,571\$1,724,767\$1,670,196\$54,571\$347,218,883\$324,503,629\$22,715,254

Table 2: Test Year FY 2026 CostofService Summary (\$/millions)

WASTEWATER RATE DESIGN

In the development of wastewater rate schedules, a basic consideration is to establish proportional charges to customers commensurate with the cost of providing service. The cost-of-service analysis determines the cost of serving each customer class based on the service requirements (i.e., demands) they place on the wastewater utility system. The City's customer classes reflect groups of customers that have similar service characteristics.

The City has the following wastewater service customer classes: Single Family Residential, Multi-Family Residential, Commercial/Industrial, Other (Navy/Prisons), Trucked Waste and Imported Flows, and Stormwater Transportation. Tables 3 and 4 show a comparison of current and proposed service charges and current and proposed commodity rates for each of the customer classes. Service charges and commodity rates for the Other (Navy/Prisons) customer class are not shown in Tables 3 and 4 because these rates are set via a contractual arrangement. These contractual rates reflect the estimated costs that the Other (Navy/Prisons) customer class imposes on the City's sewer system based on the customer class's flow and strength loading characteristics.

Customer Class	Current FY 2025 (1)	Proposed FY 2026	Proposed FY 2027	Proposed FY 2028	Proposed FY 2029		
Single Family Residential	\$15.75	\$17.82	\$18.89	\$20.40	\$22.03		
Multi-Family Residential	\$15.75	\$17.82	\$18.89	\$20.40	\$22.03		
Commercial / Industrial	\$15.75	\$17.82	\$18.89	\$20.40	\$22.03		
(1) Council approved rates to be effective January 1, 2025							

Table 3: Current and Proposed Wastewater Monthly Service Charges

Table 4: Current and Proposed Wastewater Commodity Rates

		Current	Proposed	Proposed	Proposed	Proposed	
Customer Class	Unit	FY 2025 (1)	FY 2026	FY 2027	FY 2028	FY 2029	
Residential							
Single Family Residential	(\$ / HCF)(2)	\$5.33	\$5.58	\$5.92	\$6.39	\$6.90	
Multi-Family Residential	(\$ / HCF)	\$5.33	\$5.58	\$5.92	\$6.39	\$6.90	
Commercial / Industrial							
Flow Charges	(\$ / HCF)	\$3.56	\$3.96	\$4.20	\$4.54	\$4.90	
COD Charges	(\$ / lb)	\$0.23	\$0.22	\$0.23	\$0.25	\$0.27	
TSS Charges	(\$ / lb)	\$0.52	\$0.54	\$0.57	\$0.62	\$0.67	
Trucked Waste							
Flow Charges	(\$ / HCF)	\$3.49	\$3.81	\$4.03	\$4.36	\$4.70	
COD Charges	(\$ / lb)	\$0.23	\$0.22	\$0.23	\$0.25	\$0.27	
TSS Charges	(\$ / lb)	\$0.52	\$0.54	\$0.57	\$0.62	\$0.67	
Stormwater Transportation							
Flow	(\$ / HCF)	\$4.24	\$4.54	\$4.81	\$5.20	\$5.61	
(1) Council approved rates to be effective January 1, 2025							
(2) HCF is equal to hundred cubic feet							

RECYCLED WATER RATE DESIGN

The City collects revenues from the sale of recycled water for deposit in the Water Revenue Fund, which is used to pay for the cost of the recycled water distribution system, the operations and maintenance cost for tertiary treatment for recycled water, and then any remaining revenue is transferred to the Sewer Revenue Fund. Revenues from recycled water sales are highly dependent on weather patterns; thus, the City does not rely on it as a rate revenue. Recycled water revenues are considered other operating revenues.

The Sewer Revenue Fund incurs expenses to provide recycled water service. As part of this study, Raftelis developed the proposed recycled water rates shown in Tables 5 and 6. It is important to note that the recycled water rates shown below include both the recycled water costs incurred by the Sewer Revenue Fund and the Water Revenue Fund (i.e., the total recycled water revenue requirement).

	Current	Proposed	Proposed	Proposed	Proposed
Meter Size	FY 2025 (1)	FY 2026	FY 2027	FY 2028	FY 2029
5/8", 3/4"	\$21.14	\$30.10	\$31.91	\$34.46	\$37.22
1"	\$32.65	\$46.09	\$48.86	\$52.76	\$56.98
1.5"	\$61.42	\$86.04	\$91.20	\$98.50	\$106.38
2"	\$95.93	\$133.99	\$142.03	\$153.39	\$165.66
3"	\$205.23	\$285.82	\$302.97	\$327.21	\$353.38
4"	\$366.30	\$509.58	\$540.15	\$583.37	\$630.04
6"	\$751.73	\$1,045.00	\$1,107.70	\$1,196.32	\$1,292.02
8"	\$1,614.61	\$2,243.69	\$2,378.31	\$2,568.58	\$2,774.06
10"	\$2,419.97	\$3,362.48	\$3,564.23	\$3,849.37	\$4,157.32
12"	\$3,052.75	\$4,241.52	\$4,496.01	\$4,855.69	\$5,244.15
16"	\$4,490.89	\$6,239.35	\$6,613.71	\$7,142.81	\$7,714.23
((1) Council appro	oved rates to be	effective January	y 1, 2025	

Table 5: Current and Proposed Recycled Water Monthly Meter Service Charges

Table 6: Current and Proposed Recycled Water Commodity Rates							
Current Proposed FY Proposed FY Proposed FY Proposed FY							
Customer Class	FY 2025 (1)	2026	2027	2028	2029		
All Usage (\$/HCF) \$2.46 \$4.74 \$5.02 \$5.42 \$5.86							
(1) Council approved rates to be effective January 1, 2025							

Introduction

Study Background

The City of San Diego's wastewater utility system consists of two sub-systems: the Municipal sub-system and the Metropolitan sub-system. The Municipal sub-system is a sewage collection system for retail customers served within the City of San Diego. It consists of the piping and pumping systems required for the collection and conveyance of the wastewater generated in the City's municipal service area. The sewage collected by the Municipal sub-system is ultimately discharged into the Metropolitan sub-system. The Metropolitan sub-system is a regional sewage treatment and disposal system that serves the City of San Diego and 12 participating agencies that consist of other cities and wastewater districts in the County of San Diego. The City, as operator of the regional metropolitan wastewater system is the holder of three National Pollutant Discharge Elimination System (NPDES) permits. One NPDES permit is associated with the discharge of sewage from the Point Loma Wastewater Treatment Plant which includes flows received from the City's North City Water Reclamation Plant. The City also holds an NPDES permit for wastewater discharges from its South Bay Water Reclamation Plant. In May 2020, the Regional Water Quality Control Board adopted an order that granted an NPDES permit to the City of San Diego to add purified water to the Miramar Reservoir for Phase 1 of the Pure Water Program. This is the first NPDES permit issued for a reservoir augmentation project in the state of California.

The City accounts for the operation of its wastewater utility system through an enterprise fund known as the Sewer Revenue Fund, which is managed by the Public Utilities Department. The Sewer Revenue Fund is a self-supporting enterprise fund. This means that the cost of paying for annual wastewater operations and maintenance expenses, capital projects, and debt service is met through cash inflows from wastewater rates, capacity fees, miscellaneous revenues, and the proceeds from external debt financing. The Sewer Revenue Fund also incurs costs that are used to provide recycled water service.

Report Organization

Raftelis developed the FY 2026 wastewater revenue requirement, conducted a detailed customer class cost of service analysis, and designed wastewater rates and fees using the City's current wastewater rate structure. The revenue requirement analysis included calculating the revenue required from rates to meet the wastewater utility's projected FY 2026 expenditures, target reserve requirements, and debt service coverage requirements.

The wastewater cost of service analysis included a comprehensive review of customer wastewater flows and strength loadings to identify the proportional contribution to total wastewater system demands made by each type of customer. The components of the wastewater O&M revenue requirement were then assigned to the functional activities the costs were incurred to fund (e.g., treatment, engineering, customer service, etc.). The wastewater capital cost revenue requirement was assigned to functional activities based on the profile of existing and projected wastewater assets. These functionalized costs were then allocated to the demand parameters of wastewater flow, the strength loadings of chemical oxygen demand (COD), total suspended solids (TSS), and customer service components such as accounts/bills. The functionalized and allocated costs were distributed to customer classes based on their proportionate share of overall wastewater system demand. The estimated customer class cost of service serves as the basis for the wastewater rates presented in this report. This report contains the following sections:

- **Executive Summary**. Summarizes the study results for the wastewater financial plan, cost of service analysis and rate design.
- **<u>Study Background</u>**. Provides an overview and purpose of the study as well as key components of the study process.
- **Financial Plan**. Details the financial plan provided by the City, discussion of operating expenses, capital expenditures, debt service, reserve requirements, and debt service coverage requirements.
- **Cost of Service Analysis**. Details the process for functionalizing, allocating, and distributing the revenue requirement to customer classes.
- <u>**Rate Design**</u>. Details the rate design analysis.
- <u>**Recycled Water**</u>. Details the process of calculating cost of service recycled water rates.

Legal and Statutory Considerations

There are two Constitutional provisions that govern and impact water and wastewater rates - Article X, Section 2 (Article X) and Article XIII D, Section 6 (Article XIII D). In November 1996, California voters approved Proposition 218, which amended the California Constitution by adding Article XIII C and Article XIII D. Article XIII D placed substantive limitations on the use of the revenue collected from property-related fees and on the amount of the fee that may be imposed on each parcel. Additionally, it established procedural requirements for imposing new, or increasing existing, property-related fees. The California Supreme Court has determined that water and wastewater service fees are property-related fees.

These provisions require that a property-related fee must meet all of the following requirements:

- Revenues derived from the fee must not exceed the funds required to provide the property-related service;
- Revenues from the fee must not be used for any purpose other than that for which the fee is imposed;
- The amount of a fee imposed upon any parcel or person as an incident of property ownership must not exceed the proportional cost of the service attributable to the parcel;
- The fee may not be imposed for a service, unless the service is actually used by, or immediately available to, the owner of the property subject to the fee. A fee based on potential or future use of a service is not permitted, and stand-by charges must be classified as assessments subject to the ballot protest and proportionality requirements for assessments;
- No fee may be imposed for general governmental services, such as police, fire, ambulance, or libraries, where the service is available to the public in substantially the same manner as it is to property owners. The five substantive requirements in Article XIII D are structured to place limitations on (1) the use of the revenue collected from property-related fees and (2) the allocation of costs recovered by such fees to ensure that they are proportionate to the cost of providing the service attributable to each parcel.

For the City's wastewater service charges, this Rate Study was prepared to comply with the cost of service requirements of Article XIII D.

Rate Setting Process

REVENUE REQUIREMENTS

The Sewer Revenue Fund financial plan determines the test year revenue requirement. The study used the revenue requirements method for allocating costs of service. This methodology is consistent with industry standards as discussed in WEF Manual No. 27. The revenue requirements analysis is conducted because in order "to provide adequate service, every wastewater utility must receive sufficient annual revenue to ensure proper operations and

maintenance (O&M) of facilities, development and perpetuation of the physical condition of the system, compliance with regulatory requirements, and maintenance of the financial integrity of the utility."²

COST OF SERVICE

After determining a utility's revenue requirements, the next step in the rate study process is to determine the cost of serving each wastewater customer class. The wastewater cost of service analysis starts with a comprehensive review of customer contributed and billed wastewater flows and strength loadings to identify the proportional contribution to total wastewater system demands made by each customer class. The components of the wastewater O&M revenue requirement were then assigned to the functional activities the costs were incurred to fund (e.g., treatment, engineering, customer service, etc.). The wastewater capital cost revenue requirement was assigned to functional activities based on the profile of existing and projected wastewater assets. These functionalized costs were then allocated to the demand parameters of wastewater flow, the strength loadings of chemical oxygen demand (COD) and total suspended solids (TSS), and customer service activities such as accounts and bills. The functionalized and allocated costs were then distributed to customer classes based on their proportionate share of overall wastewater system demand. The estimated customer class cost of service serves as the basis for the wastewater rates presented in this report.

RATE DESIGN

The financial plan determines the test year revenue requirement, and the cost of service analysis allocates the revenue requirement to customer classes. The final step in a rate study is rate design. Rate design involves developing rates and charges that recover the cost of serving each customer class. The final rate recommendations made by Raftelis were based on the City's existing wastewater rate structures as updated to fund the utility's long-term projected costs of providing service, proportionally recover costs from all customers, and comply with the substantive requirements of Article XIII D.

Reliance on City Provided Data

During this project, the City (and/or its representatives) provided Raftelis with a variety of technical information, including cost and revenue data. Raftelis did not independently assess or test for the accuracy of such data – historic or projected. Raftelis has relied on this data in the formulation of our findings and subsequent recommendations, as well as in the preparation of this report. Raftelis also relied on cost allocation data provided by the City as needed to complete the cost of service analysis.

There are often differences between actual and projected data. Some of the assumptions used in this report will not be realized, and unanticipated events and circumstances may occur. Therefore, there are likely to be differences between the data or results projected in this report and actual results achieved, and those differences may be material. As a result, Raftelis takes no responsibility for the accuracy of data or projections provided by or prepared on behalf of the City, nor do we have any responsibility for updating this report for events occurring after the date of this report.

² Water Environment Federation, Financing and Charges for Wastewater Systems, Manual of Practice No. 27, (4th Edition, 2018).

Financial Plan

Introduction

The City accounts for the operation of its wastewater utility system through an enterprise fund known as the Sewer Revenue Fund, which is managed by the Public Utilities Department. The Sewer Revenue Fund is a self-supporting enterprise fund. This means that the cost of paying for annual wastewater operations and maintenance expenses, capital projects, and debt service is met through cash inflows from wastewater rates, capacity fees, miscellaneous revenues, and the proceeds from external debt financing. The Sewer Revenue Fund also incurs costs that are used to provide recycled water service.

Financial Plan and Revenue Requirement

For the first step in the study, we analyzed the wastewater system's past revenues and projected expenses to determine the total revenue requirements for the wastewater system in the test year. The total revenue requirement is the total receipts that the City must recover from its rates to pay all operating, capital, debt and reserve expenses during the test year. In preparing the financial plan and calculating the total revenue requirement, Raftelis reviewed the books, records, agreements, capital improvement programs, debt and reserve policies, customer sales, and financial projections for the City's wastewater system.

For the purposes of this study, wastewater utility financial information has been subdivided into two primary funds; operating and capital. Within each of these funds, the respective operating and capital costs of the Municipal and Metropolitan sub-systems were identified. The City provided separate financial forecasts for the operating and capital funds for the study period FY 2026 through FY 2029 to determine the adequacy of revenues under existing rates to meet revenue requirements.

Operating Fund

In the wastewater financial planning model, the operating fund is used to track projected funding for operating expenditures associated with the Municipal sub-system and the Metropolitan sub-system. Funding for Pure Water Program operating expenses is included within the Metropolitan sub-system.

BEGINNING FUND BALANCE

The wastewater operating fund's beginning balance was \$202.9 million at the start of FY 2025 (July 1, 2024). With the rate increases proposed in this Study, this fund's balance is projected to dip to around \$126.0 million at end of FY 2028 and then increase to \$242.2 million at the end of FY 2029 (June 30, 2029). Table 9 details the projected operating fund during the period FY 2025 through FY 2029.

Reserve Item	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029		
Beginning Balance (1)	\$202.9	\$284.4	\$349.8	\$467.1	\$126.0		
Net Cash Balance	\$81.4	\$65.4	\$117.3	(\$341.1)	\$116.2		
Other Sources / (Uses)	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0		
Ending Balance	\$284.4	\$349.8	\$467.1	\$126.0	\$242.2		
Days Cash on Hand (2)	305	356	450	118	221		
Interest Earnings on Operating Fund	\$3.8	\$11.1	\$12.3	\$8.9	\$5.5		
Unrestricted Funds							
Beginning Unrestricted Balance	\$35.9	\$127.8	\$185.8	\$340.2	\$14.1		
Net Cashflow Balance	\$81.4	\$65.4	\$117.3	(\$341.1)	\$116.2		
Other Sources / (Uses)	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0		
Transfers to / (from) Operating Fund	\$12.8	(\$7.4)	\$37.1	\$10.6	\$19.5		
Total Unrestricted Funds	\$130.1	\$185.8	\$340.2	\$9.7	\$149.8		
(1) Pending ACFR for FY 2024, subject to change							

Table 7: Operating Fund Detail (\$ millions)

TARGET RESERVES

The City maintains three different types of wastewater fund reserves: Emergency Operating, Emergency Capital, and Rate Stabilization. The City's goals with respect to the City Reserve Policy are to provide adequate cash balances to ensure that the City meets its cash flow obligations, maximizes earnings on investments, minimizes borrowing costs, and maintains the highest credit rating on its bonds and financial obligations. The City Reserve Policy requires maintenance of minimum balances that are based on the following requirements:

- Emergency Operating: 70 days of O&M excluding contingencies and debt service
- Emergency Capital: \$10,000,000
- Rate Stabilization: 5% of prior year operating revenue

The "Unrestricted Funds" shown in Table 9 reflect available operating funds after subtracting the reserves mandated by the City's reserve policy. Total unrestricted funds (operating funds in excess of City mandated reserves) are projected to start at \$130.1 million in FY 2025, dip to less than \$10 million in FY 2028, and return to \$149.8 million at the end of FY 2029.

REVENUES

Revenue of the wastewater utility is derived primarily from the rates paid by customers for wastewater service (sewer service charge revenue) and reimbursements from the agencies that participate in the regional wastewater treatment system operated by the City. A high-level summary of projected wastewater utility revenues is shown in Table 10. Sewer rate revenues projected from existing rates in FY 2025 represent approximately 70% of total revenue. Annual revenue from existing wastewater rates is projected to increase during the study period based on a projected growth rate in the number of accounts of 0.25% per year with no changes in the use per account. The reimbursement received from the 12 participating agencies who receive wholesale wastewater treatment services from the regional wastewater system operated by the City is projected to be \$99.2 million in FY 2025 and will increase throughout the study. Approximately 21% of total revenue in FY 2025 is provided by these reimbursements.

Revenue Source	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029	Tota1	% of Total
Sewer Service Charge Revenue							
Revenue from Existing Rates	\$322.9	\$324.5	\$325.6	\$326.8	\$328.1	\$1,628.0	64.6%
Revenue from Proposed Rate Adj.	\$0.0	\$11.4	\$33.2	\$58.7	\$89.9	\$193.2	7.7%
Total Rate Revenue	\$322.9	\$335.9	\$358.8	\$385.5	\$418.0	\$1,821.2	72.2%
Other Operating Revenues							
New Sewer Service Connections	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	0.0%
Maint & Operation Metro	\$99.2	\$102.2	\$105.2	\$108.4	\$111.6	\$526.5	20.9%
Other Sewer Treatment Plant Services	\$2.1	\$2.2	\$2.2	\$2.2	\$2.2	\$10.9	0.4%
Services Rendered Other Funds	\$6.5	\$5.9	\$5.9	\$5.9	\$5.9	\$30.2	1.2%
Total Other Operating Revenues	\$107.8	\$110.3	\$113.3	\$116.5	\$119.8	\$567.7	22.5%
Non-Operating Revenues							
Grant Assistance	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	0.0%
Land and Building Rentals	\$0.9	\$1.2	\$1.2	\$1.2	\$1.2	\$5.7	0.2%
Other Revenues	\$28.5	\$14.2	\$14.2	\$14.2	\$14.2	\$85.5	3.4%
Total Non-Operating Revenues	\$29.4	\$15.4	\$15.4	\$15.4	\$15.4	\$91.1	3.6%
Interest Earnings on Operating Fund	\$3.8	\$11.1	\$12.3	\$8.9	\$5.5	\$41.6	1.7%
Total Revenues	\$464.0	\$472.7	\$499.9	\$526.3	\$558.7	\$2,521.6	100.0%

Table 8: Revenue Summary (\$ millions)

Revenue Requirements

The revenue requirements of the wastewater utility include O&M, debt service, transfers to the capital improvement fund, and funding reserves.

OPERATIONS AND MAINTENANCE EXPENSES

O&M consists of the cost of personnel and materials to collect and treat wastewater on a routine basis. Since these costs are an annual obligation of the wastewater utility, they must be met from annual sewer service charge revenue. Table 11 provides a summary of projected O&M expenses for the Municipal and Metropolitan sub-systems. As shown in Table 11, for the period FY 2025 through FY 2029, approximately 35% of the actual and projected O&M expenses incurred by the wastewater utility are associated with the operation of the Municipal sub-system and approximately 65% are for the operation of the Metropolitan sub-system.

Operations and Maintenance Expenses	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029	Total	% of Total
Municipal Sub-System							
Department Management	\$11.5	\$11.9	\$12.2	\$12.5	\$12.8	\$60.9	3.3%
Customer Support Services	\$9.4	\$9.7	\$10.0	\$10.3	\$10.5	\$50.0	2.7%
Employee Services & Quality Assurance	\$4.8	\$4.9	\$5.1	\$5.2	\$5.3	\$25.3	1.4%
Engineering Program Management	\$8.8	\$9.1	\$9.3	\$9.6	\$9.8	\$46.7	2.5%
Environmental Monitoring & Technical Services	\$8.1	\$8.4	\$8.6	\$8.8	\$9.1	\$42.9	2.3%
Finance & Budget	\$5.1	\$5.3	\$5.4	\$5.6	\$5.7	\$27.0	1.4%
Innovation & Technology	\$3.5	\$3.6	\$3.7	\$3.8	\$3.9	\$18.3	1.0%
Pure Water Operations	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	0.0%
Water Systems Operations	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	0.0%
Wastewater Collection	\$61.4	\$63.4	\$65.2	\$67.0	\$68.8	\$325.8	17.5%
Wastewater Treatment and Disposal	\$1.6	\$1.7	\$1.7	\$1.8	\$1.8	\$8.7	0.5%
Water Distribution	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	0.0%
Water Meter Services	\$2.5	\$2.6	\$2.6	\$2.7	\$2.8	\$13.1	0.7%
Additional Budget Items	\$0.0	\$1.0	\$8.1	\$9.4	\$10.2	\$28.7	1.5%
Capital Related O&M (Baseline Muni)	\$0.0	\$0.3	\$0.5	\$0.5	\$0.3	\$1.6	0.1%
Total Municipal Sub-System	\$116.6	\$121.7	\$132.5	\$137.2	\$140.9	\$649.0	34.8%
Metropolitan Sub-System							
Department Management	\$11.8	\$12.2	\$12.5	\$12.9	\$13.1	\$62.4	3.3%
Customer Support Services	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	0.0%
Employee Services & Quality Assurance	\$7.8	\$8.1	\$8.3	\$8.6	\$8.8	\$41.6	2.2%
Engineering Program Management	\$6.6	\$6.9	\$7.0	\$7.2	\$7.4	\$35.2	1.9%
Environmental Monitoring & Technical Services	\$22.9	\$23.7	\$24.2	\$24.8	\$25.4	\$121.1	6.5%
Finance & Budget	\$4.4	\$4.6	\$4.7	\$4.8	\$4.9	\$23.5	1.3%
Innovation & Technology	\$6.3	\$6.5	\$6.7	\$6.9	\$7.1	\$33.6	1.8%
Pure Water Operations	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	0.0%
Recycled Water	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	0.0%
Pure Water	\$9.3	\$9.5	\$9.8	\$10.1	\$10.3	\$49.0	2.6%
Water Systems Operations	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.1	0.0%
Wastewater Collection	\$28.1	\$28.0	\$28.8	\$29.8	\$30.8	\$145.5	7.8%
Wastewater Treatment and Disposal	\$121.9	\$125.9	\$129.5	\$133.3	\$137.0	\$647.6	34.7%
Water Distribution	\$3.0	\$3.1	\$3.2	\$3.3	\$3.4	\$16.2	0.9%
Water Meter Services	\$1.6	\$1.7	\$1.7	\$1.8	\$1.8	\$8.7	0.5%
Additional Budget Items	\$0.0	\$6.5	\$9.5	\$8.3	\$8.3	\$32.6	1.7%
Capital Related O&M (PWNC)	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	0.0%
Capital Related O&M (PWCE)	\$0.0 \$0.0	\$0.0 \$0.0	\$0.0	\$0.0	\$0.0	\$0.0	0.0%
Capital Related Or M (DWD2)	\$0.0 \$0.0	\$0.0 \$0.0	\$0.0 \$0.0	\$0.0 \$0.0	\$0.0 \$0.0	\$0.0	0.0%
Capital Related O&M (Paraline Matra)	\$0.0 \$0.0	\$0.0	\$0.0 \$0.0	\$0.0	\$0.0 \$0.0	\$0.0	0.0%
Capital Kelated O&M (Baseline Metro)	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	0.0%
Total Metropolitan Sub-System	\$223.9	\$236.7	\$246.2	\$251.8	\$258.4	\$1,217.0	65.2%
Total Operations and Maintenance	\$340.5	\$358.4	\$378.7	\$389.0	\$399.3	\$1,865.9	100.0%

Table 9: Operations and Maintenance Expense Summary (\$ millions)

DEBT SERVICE

The wastewater utility funds its capital program using a variety of external debt instruments. Table 12 provides a summary of projected debt service payments for the Municipal and Metropolitan sub-systems. As shown in Table 12, the vast majority of all projected debt service expenditures are associated with existing outstanding debt financing.

Debt Service	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029	Total	% of Total
Existing Debt Service							
Municipal Sub-System	1						
Revenue Bonds	\$51.3	\$46.6	\$44.1	\$47.3	\$47.3	\$236.5	35.1%
SRF Loans	\$1.5	\$1.5	\$1.6	\$1.6	\$1.6	\$7.9	1.2%
Municipal Sub-System Existing Debt Service	\$52.8	\$48.2	\$45.7	\$48.9	\$48.9	\$244.3	36.2%
Metropolitan Sub-System							
Revenue Bonds	\$52.1	\$38.6	\$40.4	\$20.3	\$20.3	\$171.6	25.5%
SRF Loans	\$8.4	\$7.0	\$17.4	\$31.9	\$31.9	\$96.7	14.3%
Metropolitan System Existing Debt Service	\$60.5	\$45.7	\$57.8	\$52.2	\$52.2	\$268.3	39.8%
Total Existing Debt Service	\$113.2	\$93.8	\$103.5	\$101.0	\$101.1	\$512.6	76.0%
Proposed Debt Service							
Municipal Sub-System							
New Revenue Bonds	\$0.0	\$14.1	\$26.6	\$26.6	\$39.9	\$107.2	15.9%
Municipal Sub-System Proposed Debt Service	\$0.0	\$14.1	\$26.6	\$26.6	\$39.9	\$107.2	15.9%
Metropolitan Sub-System							
New Revenue Bonds	\$0.0	\$0.0	\$11.0	\$11.0	\$18.9	\$40.9	6.1%
Metropolitan System Proposed Debt Service	\$0.0	\$0.0	\$11.0	\$11.0	\$18.9	\$40.9	6.1%
Total Proposed Debt Service	\$0.0	\$14.1	\$37.6	\$37.6	\$58.8	\$148.1	22.0%
Transfers from Reserve (final pmt)	(\$1.4)	\$0.0	(\$13.7)	\$0.0	\$0.0	(\$15.1)	-2.2%
Less: Interest Earnings on Debt Service Reserve (Note 1)	(\$0.4)	(\$0.3)	(\$0.4)	(\$0.3)	(\$0.4)	(\$1.7)	-0.3%
Total Debt Service	\$111.5	\$107.7	\$127.0	\$138.3	\$159.5	\$674.1	100.0%

Table 10: Debt Service Summary (\$ millions)

PAYGO CAPITAL TRANSFERS

Transfers of cash to the capital fund from the operating fund are used to partially pay for the City's wastewater capital improvement program. The use of operating cash flows (i.e., cash generated primarily from rate revenues) to fund capital improvements is referred to as pay-as-you-go or "PAYGO" funding. These transfers vary each year based on the number of projects funded and the type of funding used for each project. Table 13 summarizes the projected transfers of cash to/from the wastewater operating fund to pay for capital improvement projects during the period FY 2025 through FY 2029.

The negative values shown in Table 13 reflect transfers from the operating fund to pay for capital improvements (i.e., transfers out) during those years in which projected capital improvement expenditures are greater than other funding sources. A positive value indicates that projected sources of funding exceed project capital improvement program expenditures. For example, the positive value of \$75.5 million for Pure Water in FY 2026 reflects projected receipt of SRF loan proceeds in excess of actual projected FY 2026 Pure Water capital improvement program expenditures. Note that proceeds from bonds, SRF loans and grants are distributed on a reimbursement basis which may include both prior year and current year capital improvement program expenditures.

PAYGO Transfers In / (Out)	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029	Total	% of Total
Municipal Sub-System	\$83.4	\$57.8	(\$9.0)	(\$222.3)	\$88.7	(\$1.4)	-5.1%
Metropolitan Sub-Sytem	\$21.3	(\$74.4)	\$85.2	(\$123.3)	\$37.6	(\$53.6)	-195.0%
Pure Water (Metropolitan Sub-System)	(\$35.3)	\$75.5	\$46.9	\$5.5	(\$10.0)	\$82.5	300.1%
Total Metropolitan Sub-system	(\$14.0)	\$1.1	\$132.1	(\$117.8)	\$27.6	\$28.9	105.1%
Total Transfers	\$69.4	\$58.8	\$123.1	(\$340.2)	\$116.3	\$27.5	100.0%

Table 11: PAYGO Transfers to Fund Capital Projects (\$ millions)

OPERATING FUND FINANCIAL PLAN

The outcome of the financial planning process is a projection of the amount of rate revenues required from the provision of wastewater service. For the wastewater utility, revenues under existing rates are inadequate to sustain minimum reserve and debt service coverage targets during the period FY 2025 through FY 2029. Table 14 provides a summary of the revenue adjustments and resulting financial plan for the operating fund.

Financial Plan Component	EV 2025	FV 2026	FV 2027	FV 2028	FY 2029
Annual Revenue Adjustment	0.0%	7.0%	6.0%	8.0%	8.0%
Cumulative Revenue Adjustment	0.0%	7.0%	13.4%	22.5%	32.3%
	01070		2012/0		02.070
Revenue					
Revenue from Existing Rates	\$322.9	\$324.5	\$325.6	\$326.8	\$328.1
Revenue from Proposed Rate Adjustments	\$0.0	\$11.4	\$33.2	\$58.7	\$89.9
Total Rate Revenue	\$322.9	\$335.9	\$358.8	\$385.5	\$418.0
Other Operating Revenue	\$107.8	\$110.3	\$113.3	\$116.5	\$119.8
Total Operating Revenue	\$430.8	\$446.1	\$472.2	\$502.0	\$537.8
Non-Operating Revenue	\$29.4	\$15.4	\$15.4	\$15.4	\$15.4
Interest Earnings on Operating Fund	\$3.8	\$11.1	\$12.3	\$8.9	\$5.5
Total Revenue	\$464.0	\$472.7	\$499.9	\$526.3	\$558.7
Expenditures					
O&M Expenses	\$340.5	\$358.4	\$378.7	\$389.0	\$399.3
Debt Service	\$111.5	\$107.7	\$127.0	\$138.3	\$159.5
PAYGO Transfers	(\$69.4)	(\$58.8)	(\$123.1)	\$340.2	(\$116.3)
Total Expenditures	\$382.6	\$407.2	\$382.6	\$867.5	\$442.5
Net Cash Flow	\$81.4	\$65.4	\$117.3	(\$341.1)	\$116.2
Beginning Cash Reserves	\$202.9	\$284.4	\$349.8	\$467.1	\$126.0
Ending Cash Reserves	\$284.4	\$349.8	\$467.1	\$126.0	\$242.2
Senior Debt Service Coverage	1.82	2.16	2.56	2.58	2.98
Aggregate Debt Service Coverage	1.38	1.30	1.37	1.35	1.36

Table 12: Operating Fund Financial Plan Summary (\$ millions)

Capital Fund

In the wastewater financial planning model, the capital fund (referenced in the paragraph above) tracks projected funding for capital improvement program expenditures associated with the Municipal and Metropolitan subsystems. Funding for Pure Water Program capital projects is included as part of the Metropolitan sub-system.

SOURCES OF FUNDS

The City funds wastewater capital improvement program expenditures through a combination of sources, including cash transfers from the operating fund, revenue bond proceeds, state revolving fund loans, and grants. Table 7 shows the detailed projected funding for capital improvement program expenditures for the period FY 2025 through FY 2029.

Table 13: Capital Funding Summary (\$ millions)

Summary of All Funding	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029	Total
Total All CIP Expenditures	\$476.2	\$329.2	\$370.1	\$415.3	\$258.6	\$1,849.3
Grants	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
SRF Loans	\$223.1	\$130.0	\$84.2	\$40.1	\$18.9	\$496.2
Commercial Paper	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
Bonds	\$300.0	\$225.0	\$375.0	\$0.0	\$320.0	\$1,220.0
Capacity Fees	\$22.5	\$33.0	\$34.0	\$35.0	\$36.1	\$160.6
Cash	(\$69.4)	(\$58.8)	(\$123.1)	\$340.2	(\$116.3)	(\$27.5)
Total All CIP Funding	\$476.2	\$329.2	\$370.1	\$415.3	\$258.6	\$1,849.3

Funding Detail	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029	Total
Muni Subsystem CIP Expenditures	\$165.1	\$211.2	\$260.2	\$275.1	\$159.0	\$1,070.6
Grants	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
SRF Loans	\$4.5	\$11.0	\$17.3	\$17.7	\$11.7	\$62.2
Commercial Paper	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
Revenue Bonds	\$221.5	\$225.0	\$200.0	\$0.0	\$200.0	\$846.5
Capacity Fees	\$22.5	\$33.0	\$34.0	\$35.0	\$36.1	\$160.6
Cash	(\$83.4)	(\$57.8)	\$9.0	\$222.3	(\$88.7)	\$1.4
Muni Subsystem CIP Funding	\$165.1	\$211.2	\$260.2	\$275.1	\$159.0	\$1,070.6

Funding Detail	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029	Total
Metro Subsystem CIP Expenditures	\$50.0	\$74.4	\$89.8	\$123.3	\$82.4	\$420.0
Grants	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
SRF Loans	\$0.4	\$0.0	\$0.0	\$0.0	\$0.0	\$0.4
Commercial Paper	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
Bonds	\$78.5	\$0.0	\$175.0	\$0.0	\$120.0	\$373.5
Capacity Fees	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
Cash	(\$28.9)	\$74.4	(\$85.2)	\$123.3	(\$37.6)	\$46.1
Metro Subsystem CIP Funding	\$50.0	\$74.4	\$89.8	\$123.3	\$82.4	\$420.0

Funding Detail	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029	Total
Pure Water CIP Expenditures	\$261.1	\$43.6	\$20.0	\$16.9	\$17.2	\$358.8
Grants	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
SRF Loans	\$218.2	\$119.0	\$66.9	\$22.3	\$7.2	\$433.7
Commercial Paper	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
Bonds	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
Capacity Fees	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
Cash	\$42.9	(\$75.5)	(\$46.9)	(\$5.5)	\$10.0	(\$75.0)
Pure Water CIP Funding	\$261.1	\$43.6	\$20.0	\$16.9	\$17.2	\$358.8

USES OF FUNDS

The City's wastewater capital improvement program for the period FY 2025 through FY 2029 totals \$1,849.3 million. Projects include both expansion-related infrastructure designed to accommodate growth and repair and replacement projects designed to ensure the service quality provided by existing infrastructure. Pure Water projects total \$358.8 million for the period FY 2025 through FY 2029 and represent 19% of the total wastewater utility capital program. Pure Water projects will be funded through a combination of cash reserves and state revolving fund loans. The detailed capital improvement program project listing is contained in Appendix A. Table 8 summarizes the capital improvement program by sub-system and facility type.

Project	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029	Total
Municipal Subsystem CIP Expenditures		•				
Sewer Treatment Plants	\$0.0	\$0.0	\$0.1	\$0.3	\$0.5	\$0.9
Trunk Sewers	\$35.1	\$59.7	\$56.7	\$63.8	\$27.9	\$243.3
Muni Pump Station	\$1.0	\$2.4	\$6.8	\$14.2	\$14.7	\$39.1
Sewer Pipelines	\$127.0	\$130.5	\$167.2	\$161.5	\$96.8	\$683.0
Miscellaneous Projects	\$1.9	\$18.7	\$29.4	\$35.3	\$19.2	\$104.3
Total Municipal Subsystem	\$165.1	\$211.2	\$260.2	\$275.1	\$159.0	\$1,070.6
Metropolitan Subsystem CIP Expenditures						
Sewer Treatment Plants	\$40.8	\$33.4	\$20.2	\$24.4	\$21.0	\$139.8
Trunk Sewers	\$0.0	\$2.8	\$7.8	\$20.2	\$3.3	\$34.0
Large Sewer Pump Station	\$8.8	\$28.6	\$34.8	\$39.3	\$32.8	\$144.3
SDG&E Relocation Advance	(\$7.5)	\$0.0	\$0.0	\$0.0	\$0.0	(\$7.5)
Recycled Water	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
Miscellaneous Projects	\$8.0	\$9.6	\$27.0	\$39.4	\$25.4	\$109.3
Total Metropolitan Subsystem	\$50.0	\$74.4	\$89.8	\$123.3	\$82.4	\$420.0
Pure Water CIP Expenditures						
Pure Water - North City	\$245.9	\$41.4	\$18.1	\$9.9	\$2.9	\$318.2
Pure Water - Demo Facility	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
Pure Water - Central Facility	\$15.2	\$2.2	\$1.9	\$7.0	\$14.3	\$40.6
Total All Pure Water	\$261.1	\$43.6	\$20.0	\$16.9	\$17.2	\$358.8
Total All CIP Expenditures	\$476.2	\$329.2	\$370.1	\$415.3	\$258.6	\$1,849.3

Table 14: Capital Improvement Program Summary (\$ millions)

Cost of Service

Introduction

The cost-of-service process is used to assign costs to each customer class based on their proportionate share of total system wastewater demands. The starting point for the cost-of-service analysis is the revenue requirement from rates developed as part of the financial planning process. Table 15 provides a summary of the revenue requirement from rates for the period FY 2025 through FY 2029. As shown in Table 15, the test year FY 2026 revenue requirement from rates is \$347.2 million. This amount of costs serves as the basis for the cost-of-service study and proposed FY 2026 rates developed by Raftelis. A detail of the FY 2026 revenue requirement is provided later in this section.

Revenue Requirement Component	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029
O&M Expenses	\$340.5	\$358.4	\$378.7	\$389.0	\$399.3
Debt Service Expenditures	\$111.5	\$107.7	\$127.0	\$138.3	\$159.5
PAYGO Transfers	(\$69.4)	(\$58.8)	(\$123.1)	\$340.2	(\$116.3)
Annualized Change in Cash Reserves	\$81.4	\$76.8	\$127.7	(\$326.3)	\$132.3
Total Gross Revenue Requirement	\$464.0	\$484.0	\$510.3	\$541.2	\$574.8
Less: Revenue Requirement Offsets					
Other Operating Revenues	\$107.8	\$110.3	\$113.3	\$116.5	\$119.8
Non-Operating Revenues	\$29.4	\$15.4	\$15.4	\$15.4	\$15.4
Interest Earnings on Operating Fund	\$3.8	\$11.1	\$12.3	\$8.9	\$5.5
Total Revenue Requirement Offsets	\$141.1	\$136.8	\$141.0	\$140.8	\$140.7
Net Revenue Requirement from Rates	\$322.9	\$347.2	\$369.3	\$400.3	\$434.1
Annual Rate Revenue Adjustment	0.0%	7.0%	6.0%	8.0%	8.0%
Cumulative Rate Revenue Adjustment	0.0%	7.0%	13.4%	22.5%	32.3%

Table 15: Summary of Projected Revenue Requirement from Rates (\$ millions)

The first step in the cost-of-service process is to assign the revenue requirement to specific functional categories. The components of the wastewater O&M revenue requirement are then assigned to the functional activities the costs were incurred to fund (e.g., treatment, engineering, customer service, etc.). The wastewater capital cost revenue requirement was assigned to functional activities based on the profile of existing and projected wastewater assets. These functionalized costs are then allocated to the specific types of demand (demand parameters) they are used to meet (e.g., flow, COD and TSS strength loadings, customer service). Finally, the costs are allocated to customer classes based on their respective units of service (e.g., HCF of flow, pounds of COD and TSS, and number of customer accounts). The cost-of-service process consists of the following nine steps:

- Determine the revenue from existing rates that will be earned during the test year
- Determine test year revenue requirement (the amount of rate revenue that must be paid by customers to fund the cost of providing wastewater service)
- Functionalize revenue requirement
- Allocate functionalized costs to demand parameters
- Determine system units of service
- Determine unit cost of service
- Determine customer class units of service

- Distribute costs to customer classes
- Design rates to recover class cost of service and total revenue requirement

PROJECTED FY 2026 REVENUE AT EXISTING RATES

The projected FY 2026 wastewater revenue that will be earned under the City's current FY 2025 wastewater rates was developed using detailed billing records provided by the City. Table 16 shows these projected revenues for those customer classes and/or services that must pay sewer service charges based on their actual proportional contribution of system wastewater volumes and strength loadings.

Customer Class/Type	FY26 Revenue at Existing FY25 Rates
Wastewater Customer Classes	
Single Family Residential	\$127,281,665
Multi-Family Residential	\$85,024,070
Non-Residential	\$100,609,530
Subtotal	\$312,915,265
Other (Navy, Prisons)	\$5,815,306
Subtotal	\$5,815,306
Trucked Waste and Imported Flows	\$4,102,862
Subtotal	\$4,102,862
Stormwater Transportation	\$1,670,196
Subtotal	\$1,670,196
Total Wastewater Revenues from Rates	
and Charges	\$324,503,629

Table 16: Projected FY 2026 Wastewater Revenue at Existing FY 2025 Rates

TEST YEAR FY 2026 REVENUE REQUIREMENT

Raftelis conducted a cost-of-service study and developed proposed rates and charges for FY 2026. Thus, FY 2026 is referred to as the COS study "test year." As noted previously, the starting point for the cost-of-service analysis is the development of the revenue requirement from rates. Table 17 provides details of the FY 2026 test year revenue requirements, with amounts shown for both the Metropolitan and Municipal sub-systems. Note that the total system net revenue requirement from rates shown in Table 17 is \$347.2 million. This amount can be directly traced to Table 15 (Summary of Projected Revenue Requirement from Rates).

	Mu	nicipal Sub-System		Metro	opolitan Sub-Syste	em
Revenue Requirement Component	Operating	Capital	Total	Operating	Capital	Total
O&M						
Department Management	\$11,861,600		\$11,861,600	\$12,159,200		\$12,159,200
Customer Support Services	\$9,739,100		\$9,739,100	\$0		\$0
Employee Services & Quality Assurance	\$4,925,900		\$4,925,900	\$8,106,800		\$8,106,800
Engineering Program Management	\$9,097,700		\$9,097,700	\$6,860,400		\$6,860,400
Environmental Monitoring & Technical Services	\$8,370,800		\$8,370,800	\$23,659,000		\$23,659,000
Finance & Budget	\$5,266,900		\$5,266,900	\$4,581,200		\$4,581,200
Innovation & Technology	\$3,569,600		\$3,569,600	\$6.547.900		\$6.547,900
Pure Water Operations	\$0		\$0	\$0		\$0
Recycled Water	\$0		\$0	\$0		\$0
Pure Water	\$0		\$0	\$9.540.900		\$9.540.900
Water Systems Operations	\$0		\$0	\$17,000		\$17,000
Long Range Planning	\$0		\$0	\$0		\$0
Wastewater Collection	\$63 443 900		\$63 443 900	\$27 986 100		\$27 986 100
Wastewater Treatment and Disposal	\$1,695,500		\$1,695,500	\$125,909,700		\$125,909,700
Water Distribution	\$1,000,000		\$0	\$3 144 900		\$3 144 900
Water Meter Services	\$2 553 100		\$2 553 100	\$1,687,200		\$1,687,200
Additional Budget Items	\$967.528		\$967.528	\$6 454 304		\$6 454 304
Total O&M	\$121 491 628	\$0	\$121 491 628	\$236 654 604	\$0	\$236 654 604
Tour out	\$121,171,020	<i>\$</i> 0	<i><i><i><i>ϕ</i></i>121, 171,020</i></i>	\$200,00 1,00 1	ψŪ	\$250,051,001
Debt Service						
Existing		\$48 167 329	\$48 167 329		\$45 658 832	\$45 658 832
Proposed		\$14,094,997	\$14 094 997		\$0	\$0
Interest Earnings on Debt Service Reserve		(\$85,566)	(\$85,566)		(\$166.675)	(\$166.675)
Total Debt Service	\$0	\$62,176,760	\$62,176,760	\$0	\$45,492,157	\$45,492,157
		,	,		, . ,	, . ,
Total Expense Items Before Transfers	\$121,491,628	\$62,176,760	\$183,668,388	\$236,654,604	\$45,492,157	\$282,146,761
-			, ,			
Less: PAYGO CIP Transfer In		\$57,766,728	\$57,766,728		\$1.061.923	\$1.061.923
Add: Change in Cash Reserves	\$20.090.057	\$10.281.652	\$30.371.709	\$39.133.597	\$7.522.658	\$46.656.255
Gross Revenue Requirement from Rates	\$141,581,684	\$14,691,684	\$156,273,369	\$275,788,201	\$51,952,893	\$327,741,093
1	. , ,	. , ,	. , ,	. , ,	. , ,	. , ,
Revenue Requirement Offsets	`			`		
-						
Other Operating Revenues						
New Sewer Service Connections	\$1,655		\$1,655			
Maint & Operation Metro			\$0	\$102,150,250		\$102,150,250
Other Sewer Treatment Plant Services	\$2,184,276		\$2,184,276			\$0
Services Rendered Other Funds	\$2,046,315		\$2,046,315	\$3,876,592		\$3,876,592
Total Other Operating Revenues	\$4,232,246	\$0	\$4,232,246	\$106,026,842	\$0	\$106,026,842
	. , -					
Non-Operating Revenues	\$13,143,334		\$13,143,334	\$2,294,613	\$0	\$2,294,613
Interest Earnings on Operating Fund	\$3,764,887		\$3,764,887	\$7,333,657		\$7,333,657
Total Revenue Requirement Offsets	\$21,140,467	\$0	\$21,140,467	\$115,655,112	\$0	\$115,655,112
·			, ,	, ,		
Net Revenue Requirement from Rates	\$120,441,217	\$14,691,684	\$135,132,901	\$160,133,089	\$51,952,893	\$212,085,982
-			Total System N	Jet Revenue Require	ement from Rates	\$347 218 883

Table 17: FY 2026 Revenue Requirement Detail

REVENUE REQUIREMENT COST ALLOCATIONS

The underlying principle in cost allocation is to convert the test year revenue requirement into costs that best reflect the cost associated with customer demands placed on the wastewater system. Those costs are proportionately allocated to customer classes based on their respective customer service characteristics. This process is accomplished through the assignment of the revenue requirement to functional components, the allocation of these functional costs to demand parameters reflecting customer usage characteristics, and the distribution of costs to customer classes. This section of the revenue requirement cost allocation process.

ASSIGNMENT OF COSTS TO FUNCTIONS

Wastewater systems are comprised of several facilities (unit processes or functions) that are designed and operated to collect, convey and treat the wastewater discharges of customers. The separation of costs into functional

components provides a means for distributing costs to customer classes based on their respective proportional cost responsibility in the system. Table 18 provides a summary of key functional cost components for the City's wastewater utility system. These functional cost components were used to functionalize the O&M and capital cost components for both the Municipal and Metropolitan sub-systems of the City's wastewater utility.

O&M Functions	Capital Cost Functions
Engineering	Large Sewer Pump Station
General and Administrative	Muni Pump Station
Operational Support	Miscellaneous Projects
Quality Control	Smart Metering
Transmission	Pipelines
Treatment and Disposal	Sewer Treatment Plants
Customer	Trunk Sewers
Recycled Water	Pure Water
	Recycled Water

Table 18: Functional Cost Components

Table 19 shows the assignment of O&M costs to functions for both the Municipal and Metropolitan sub-systems. The functionalization developed for O&M costs was based on consultations with Public Utilities Department staff and reflects their best estimate of the functional justification for the incurrence of each major O&M line item.

Note that the total functionalized FY 2026 O&M costs assigned for the Municipal sub-system total \$141.6 million. This value can be seen in Table 17 (line labeled Gross Revenue Requirement from Rates). This amount reflects total Municipal sub-system O&M costs of \$121.5 million plus the allocation of \$20.1 million associated with the FY 2026 change in cash reserves.

Similarly, the total functionalized FY 2026 O&M costs assigned for the Metropolitan sub-system are \$275.8 million. This amount can also be seen in Table 17 (line labeled Gross Revenue Requirement from Rates). This amount reflects total Metropolitan sub-system O&M costs of \$236.7 million plus the allocation of \$39.1 million associated with the FY 2026 change in cash reserves.

O&M Function	Municipal Sub-System	Metropolitan Sub-System
Engineering		
Environmental Support	\$2,057,964	\$1,119,100
Program Management & Review	\$8,300,236	\$19,336,399
Subtotal	\$10,358,200	\$20,455,499
General and Administrative		
Business Support Admin	\$20,202,426	\$28,828,359
Operating Division Admin	\$13,134,058	\$10,722,581
Subtotal	\$33,336,484	\$39,550,940
Operational Support		
Central Support Comnet/Comc	\$143,104	\$5,482,417
Operational Support	\$2,099,814	\$5,385,490
Subtoal	\$2,242,917	\$10,867,907
Quality Control		
Industrial Permitting and Compliance	\$8,549,799	\$30,337
Marine Biology & Ocean Operations	\$0	\$10,984,783
Sewage Testing and Control	\$313,178	\$707,037
Wastewater Chemistry Services	\$559,783	\$12,675,434
Subtotal	\$9,422,760	\$24,397,592
Transmission		
Main Cleaning	\$19,097,979	\$0
Other Muni Agencies	\$4,379,493	\$0
Other Pump Stations	\$1,269,197	(\$364,804)
Pipeline Maintenance & Repair	\$20,147,307	\$0
Pump Station 1	\$0	\$16.084.618
Pump Station 2	\$0	\$16.087.918
Sewer Pump Stations	\$18.607.543	\$0
WWC Engineering & Planning	\$4,234,736	\$0
Subtotal	\$67,736,255	\$31,807,732
Treatment and Disposal		
Cogen Facilities	\$0	\$628,176
GUF	\$0	\$896,185
MBC	\$0	\$22.772.477
NCWRP	\$0	\$24.854.362
PTLWWTP	\$0	\$47,234,360
SBWRP	\$334	\$8,869,018
WWTD Plant Engineering	\$0	\$17.400.557
Subtotal	\$334	\$122,655,136
Customer		
Meters and Services	\$2.975.285	\$0
Billing	\$15.463.944	\$7.630.749
Subtotal	\$18,439,229	\$7,630,749
Recycled	\$45 505	\$18,422,646
Subtotal	\$45,505	\$18,422,646
	<u> </u>	**** ***
Total Functionalized O&M	\$141,581,684	\$275,788,201

Table 19: Functional Assignment of FY 2026 O&M Costs

Table 20 shows the functional assignment of FY 2026 revenue requirement offsets (i.e., revenue items that reduce the revenue requirement from rates). The functionalization developed for revenue requirement offsets was based on consultations with the Public Utilities Department staff and reflects their best estimate of the functional justification for each line item. The most significant of these is the \$102 million reimbursement the participating agencies provide to the City of San Diego for the operation of the regional wastewater treatment system. As shown in Table 20, this item is recorded in the Metropolitan sub-system. Note that the total functionalized revenue requirement offset assigned for the Municipal sub-system is \$21.1 million. This value can seen in Table 17 (line labeled Total Revenue Requirement Offset). Similarly, the total functionalized revenue requirement offset assigned for the Metropolitan sub-system is \$21.7 million. This amount can also be seen in Table 17.

Revenue Requirement Offsets	Municipal Sub-System	Metropolitan Sub-System
Other Operating Revenues		
New Sewer Service Connections	\$1,655	\$0
Maint & Operation Metro	\$0	\$102,150,250
Other Sewer Treatment Plant Services	¢ 400, 404	¢0
Sewer Service (SSC)-Navy	\$492,494	\$0
Sewerage Treatment Services	\$983,048	\$0
M & O Irunk Sewers Muni	\$708,734	\$0
Services Rendered Other Funds		
Reimbursements Between Funds/Depts	\$1,200,682	\$2,801,592
Other Services To Outside	\$0	\$1,075,000
Transport Charge Muni System	\$735,633	\$0
Service To Other Depts	\$110,000	\$0
Non Operating Percenter		
Sale Of Elec/Cas Eng Generated	02	٥\$
Hydroelectric Eac Cogenration	\$0	\$0 \$0
Grant Assistance	\$0	\$0 \$0
Grant Assistance	\$ 0	\$0
Land and Building Rentals		
Telecom Lease	\$50,000	\$0
Other Revenues		
IWCP Notice of Violation Fees	\$0	\$40.000
IWCP Industrial User Discharge Permit Fees	\$0	\$1,954,613
IWCP Trucked Waste & Permet Fees	\$0	\$0
Revenue from Small Projects	\$27,000	\$0
Other Sewer Revenue	\$11,918,000	\$0
Expenditure Refund of Prior Year	\$0	\$0
Revenue Otherwise Unclassified	\$0	\$0
Repair Damages Recovered	\$0	\$0
Transfers From Other Funds	\$0	\$0
Intra-Ent Tranfer In to Fund 700089	\$0	\$0
Interest Earnings on Operating Fund	\$3,764,887	\$7,333,657
Total Revenue Requirement Offsets	\$21,140,467	\$115,655,112

Table 20: Functional Assignment of FY 2026 Revenue Requirement Offsets

Table 21 shows the FY 2026 functional allocation of the capital cost revenue requirement for the Municipal and Metropolitan sub-systems. The asset allocation percentages shown in Table 21 reflect the profile of existing

wastewater utility assets as of June 30, 2023 coupled with the functional profile of projected capital improvement program expenditures during the five-year period FY 2025 through FY 2029. Existing assets and projected capital expenditures for the Pure Water Program are included in the functionalized asset percentage of the Metropolitan sub-system. Note that the total functionalized capital costs assigned to the Municipal sub-system total \$14.7 million. This value can also be seen in Table 17 (line labeled Gross Revenue Requirement from Rates). Similarly, the total functionalized capital costs assigned for the Metropolitan sub-system are approximately \$52.0 million. This amount can also be seen in Table 17.

	Municipal	Sub-System	Metropolitar	Sub-System
Capital Infrrastructure Function	Asset Percentage	Amount	Asset Percentage	Amount
Large Sewer Pump Station	0.1%	\$14,587	11.2%	\$5,831,153
Muni Pump Station	2.2%	\$330,313	0.0%	\$0
Miscellaneous Projects	0.6%	\$85,921	4.1%	\$2,108,944
Smart Metering	0.1%	\$10,150	0.0%	\$0
Pipelines	92.3%	\$13,563,165	0.0%	\$0
Sewer Treatment Plants	0.0%	\$0	58.9%	\$30,623,150
Trunk Sewers	4.7%	\$687,547	23.0%	\$11,935,645
PW-CF	0.0%	\$0	0.0%	\$0
PW-Demo	0.0%	\$0	0.0%	\$0
PW-NC	0.0%	\$0	2.8%	\$1,454,002
Recycled Water	0.0%	\$0	0.0%	\$0
Total Capital Cost Revenue Req.	100.0%	\$14,691,684	100.0%	\$51,952,893

Table 21: Functional Assignment of FY 2026 Capital Costs

ALLOCATION OF FUNCTIONALIZED COSTS TO DEMAND PARAMETERS

Wastewater utility systems are designed and operated to meet three primary types of customer demands: the volume of customer wastewater discharges (flow), the strength of customer wastewater discharges (COD and TSS), and customer service-related demands such as meter reading and billing and collection. Once costs have been assigned to functions, they can be allocated to specific demand parameters. The demand parameters used in the allocation of the City's functionalized FY 2026 revenue requirement for both the Municipal and Metropolitan sub-systems include:

VOLUME-RELATED COSTS

- Flow: Varies directly with the quantity of customer wastewater discharges reaching a wastewater treatment facility.
- COD: Varies directly with the strength of customer wastewater discharges as measured by the metric Chemical Oxygen Demand (COD). COD is a measurement of the amount of oxygen required to dissolve organic matter contained in customer wastewater discharges.
- TSS: Varies directly with the strength of customer wastewater discharges reaching a wastewater treatment facility as measured by the metric Total Suspended Solids (TSS). TSS is a measurement of organic solids contained in customer wastewater discharges.

CUSTOMER-RELATED COSTS

These costs include both meter-related costs and services, as well as billing and customer support. Meter costs reflect the wastewater utility's proportionate share of costs incurred by the water utility's construction maintenance function that are beneficial to wastewater customers. Meter costs also include the wastewater utility's proportionate share of capital expenditures made by the City to install an automated meter reading system. These costs are appropriately shared with the City's water utility because wastewater customer units of service reflect billed water

consumption. Lastly, meter costs also include the allocation of capital costs associated with sewer pipelines, trunk sewers, and municipal pump stations. These costs reflect the fact that the City's wastewater collection and conveyance system must stand ready to meet the instantaneous wastewater discharges imposed by customers. Such costs are, for the most part, fixed in nature and do not vary with the volume of customer wastewater discharges. For this reason, they have been allocated to meter costs, which are recovered from all customers through a fixed monthly meter service charge. Billing and collection costs include billing, customer service, and customer accounting.

RECYCLED WATER COSTS

Recycled water costs are costs incurred by the City's water and wastewater utilities to provide recycled water service. They include the cost of providing tertiary level wastewater treatment at the City's North City and South Bay Water Reclamation Facilities and debt service related to the recycled water distribution system, in addition to depreciation expenses.

SUMMARY OF FY 2026 ALLOCATIONS TO DEMAND PARAMETERS

Table 22 shows the percentages used to allocate Municipal sub-system O&M costs to demand parameters. These percentages were determined based on consultations with the Public Utilities Department staff.

Table 22: Allocation Percentages for Municipal Sub-System O&M Costs

	FY 2026 Allocation of Municipal Sub-System O&M to Demand Parameters								
		Volume-Related			-Related				
				Meters and					
Function	FLOW	COD	TSS	Services	Billing	Recycled	Tota		
Engineering									
Environmental Support	45.30%	24.60%	30.10%				100.0		
Program Management & Review	45.30%	24.60%	30.10%				100.0		
General and Administrative									
Business Support Admin	71.71%	5.03%	6.18%	2.75%	14.29%	0.04%	100.0		
Operating Division Admin	71.71%	5.03%	6.18%	2.75%	14.29%	0.04%	100.0		
Operational Support							1		
Central Support Comnet/Comc	45.30%	24.60%	30.10%				100.0		
Operational Support	45.30%	24.60%	30.10%				100.0		
1 11				1			1		
Duality Control							1		
Industrial Permitting and Compliance	45.30%	24.60%	30.10%	1			100.0		
Marine Biology & Ocean Operations	30.00%	30.00%	40.00%				100.0		
Sewage Testing and Control	45.30%	24.60%	30.10%				100.0		
Wastewater Chemistry Services	30.00%	30.00%	40.00%				100.0		
Fransmission							1		
Main Cleaning	100.00%						100.0		
Other Muni Agencies	100.00%						100.0		
Other Pump Stations	100.00%						100.0		
Pipeline Maintenance & Renair	100.00%						100.0		
Pump Station 1	100.00%						100.0		
Pump Station 2	100.00%						100.0		
Sewer Pump Stations	100.00%			1			100.0		
WWC Engineering & Planning	100.00%						100.0		
wweeling a raining	100.0070						100.0		
Freatment and Disposal									
MBC	0.00%	50.00%	50.00%				100.0		
NCWRP	75.00%	15.00%	10.00%				100.0		
PTI WWTP	35 40%	20 30%	35 30%				100.0		
SBWPP	75.00%	15.00%	10.00%				100.0		
WWTD Plant Engineering	15.00%	24 60%	30 10%				100.0		
w w 1D Flant Engineering	45.5070	24.0070	50.1070				100.0		
listomer							1		
<u>Motors and Somilage</u>				100.000/			100.0		
Rilling				100.00%	100.00%		100.0		
Dining					100.00%		100.0		
D 1 1						100.000/	100.0		
Recycled				<u> </u>		100.00%	100.0		

Table 23 shows the dollar allocations for FY 2026 Municipal sub-system O&M costs to demand parameters based on the allocation percentages shown in Table 22. Note that the total O&M costs shown in Table 23 sum to \$141.6 million. This amount is also shown in Table 19 (Functional Assignment of FY 2026 O&M Costs).

	FY 2026 Allocation of Municipal Sub-System O&M to Demand Parameters							
		Volume-Related		(Customer-Rela	ited		
				Meters and		Readiness to Serve		
Function	FLOW	COD	TSS	Services	Billing	Allocation	Recycled	Total
Engineering								
Environmental Support	\$932,257	\$506,259	\$619,447	\$0	\$0	\$0	\$0	\$2,057,964
Program Management & Review	\$3,760,007	\$2,041,858	\$2,498,371	\$0	\$0	\$0	\$0	\$8,300,236
	\$4,692,265	\$2,548,117	\$3,117,818	\$0	\$0	\$0	\$0	\$10,358,200
General and Administrative								
Business Support Admin	\$14,488,101	\$1,016,820	\$1,247,593	\$555,295	\$2,886,125	\$0	\$8,493	\$20,202,426
Operating Division Admin	\$9,419,045	\$661,058	\$811,088	\$361,010	\$1,876,336	\$0	\$5,521	\$13,134,058
	\$23,907,146	\$1,677,878	\$2,058,681	\$916,304	\$4,762,461	\$0	\$14,014	\$33,336,484
Operational Support								
Central Support Comnet/Comc	\$64,826	\$35,204	\$43,074	\$0	\$0	\$0	\$0	\$143,104
Operational Support	\$951,216	\$516,554	\$632,044	\$0	\$0	\$0	\$0	\$2,099,814
	\$1,016,042	\$551,758	\$675,118	\$0	\$0	\$0	\$0	\$2,242,917
Quality Control								
Industrial Permitting and Compliance	\$3,873,059	\$2,103,250	\$2,573,489	\$0	\$0	\$0	\$0	\$8,549,799
Marine Biology & Ocean Operations	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Sewage Testing and Control	\$141,870	\$77,042	\$94,267	\$0	\$0	\$0	\$0	\$313,178
Wastewater Chemistry Services	\$167,935	\$167,935	\$223,913	\$0	\$0	\$0	\$0	\$559,783
	\$4,182,864	\$2,348,227	\$2,891,669	\$0	\$0	\$0	\$0	\$9,422,760
Transmission								
Main Cleaning	\$19,097,979	\$0	\$0	\$0	\$0	\$0	\$0	\$19,097,979
Other Muni Agencies	\$4.379.493	\$0	\$0	\$0	\$0	\$0	\$0	\$4.379.493
Other Pump Stations	\$1,269,197	\$0	\$0	\$0	\$0	\$0	\$0	\$1,269,197
Pipeline Maintenance & Repair	\$20,147,307	\$0	\$0	\$0	\$0	\$0	\$0	\$20,147,307
Pump Station 1	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Pump Station 2	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Sewer Pump Stations	\$18 607 543	\$0	\$0	\$0	\$0	\$0	\$0	\$18 607 543
WWC Engineering & Planning	\$4 234 736	\$0	\$0	\$0	\$0	\$0	\$0	\$4 234 736
in the Engineering of Lumining	\$67,736,255	\$0	\$0	\$0	\$0	\$0	\$0	\$67,736,255
Treatment and Disposal	\$07,700,200	40	40	φo	<i>0</i>	φo	<i>\$</i> 0	\$07,700,200
MBC	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
NCWRP	\$0 \$0	\$0 \$0	\$0 \$0	0¢ 02	\$0 \$0	\$0 \$0	\$0 \$0	\$0 \$0
PTIWWTP	\$0 \$0	\$0 \$0	\$0 \$0	\$0 \$0	\$0 \$0	\$0 \$0	\$0 \$0	\$0 \$0
SBWRP	\$251	\$50	\$33 \$33	0¢ 02	\$0 \$0	\$0 \$0	\$0 \$0	\$334
WWTD Plant Engineering	\$251	\$50 \$0	\$0 \$0	\$0 \$0	\$0 \$0	\$0 \$0	\$0 \$0	\$004 \$0
w w 1D I lant Engineering	\$0 \$251	\$0	\$0 \$33	\$0 \$0	\$0	\$0 \$0	\$0 \$0	\$0
Customer	\$231	\$50	\$55	\$ 0	<i>\$</i> 0	фU	φŪ	\$554
Motors and Samilaas	\$0	\$0	¢0	\$2 075 285	\$0	¢0.	¢0	\$2 075 285
Rilling	\$0 \$0	\$0 \$0	\$U	\$2,975,285	\$U \$15 462 044	\$0 \$0	\$0 \$0	\$2,973,203
ышпд	\$0	\$0 \$0	\$U \$0	\$U \$2,075,285	\$15,463,944	\$0	\$U \$0	\$15,465,944
	\$0	\$0	\$0	\$2,975,285	\$15,405,944	\$U	\$0	\$18,439,229
Recycled	\$0	\$0	\$0	\$0	\$0	\$0	\$45,505	\$45.505
	\$0	\$0	\$0	\$0	\$0	\$0	\$45,505	\$45,505
	40	<i>ç</i> 0	ç0	<i>\$</i> 0	40	ψŪ	- 10,000	+ 10,000
Total	\$101,534,821	\$7,126,030	\$8,743,320	\$3,891,589	\$20,226,405	\$0	\$59,519	\$141,581,684
	71.71%	5.03%	6.18%	2.75%	14.29%	0.00%	0.04%	100.00%
·					, •			

Table 23: FY 2026 Dollar Allocations of Municipal Sub-System O&M Costs

Table 24 shows the percentages used to allocate Metropolitan sub-system O&M costs to demand parameters. These percentages were determined based on consultations with the Public Utilities Department staff.

	FY 2026 Allocation of Metropolitan Sub-System O&M to Demand Parameter								
	V	olume-Relate	ed	Customer					
				Meters and					
Function	FLOW %	COD %	TSS %	Services	Billing	Recycled	Total		
Engineering									
Environmental Support	45.30%	24.60%	30.10%				100.00%		
Program Management & Review	45.30%	24.60%	30.10%				100.00%		
		l					_		
General and Administrative							_		
Business Support Admin	43.74%	21.23%	24.00%	0.00%	3.23%	7.80%	100.00%		
Operating Division Admin	43.74%	21.23%	24.00%	0.00%	3.23%	7.80%	100.00%		
On and in a 1 Comment							_		
Operational Support	45.200/	24.60%	20.10%				100.000/		
Central Support Connet/Come	45.30%	24.60%	30.10%				100.00%		
Operational Support	45.30%	24.60%	30.10%				100.00%		
Quality Control							-		
Industrial Permitting and Compliance	45.30%	24.60%	30.10%				100.00%		
Marine Biology & Ocean Operations	30.00%	30.00%	40.00%				100.00%		
Sewage Testing and Control	45.30%	24.60%	30.10%				100.00%		
Wastewater Chemistry Services	30.00%	30.00%	40.00%				100.00%		
Transmission									
Main Cleaning	100.00%						100.00%		
Other Muni Agencies	100.00%						100.00%		
Other Pump Stations	100.00%						100.00%		
Pipeline Maintenance & Repair	100.00%						100.00%		
Pump Station 1	100.00%						100.00%		
Pump Station 2	100.00%						100.00%		
Sewer Pump Stations	100.00%						100.00%		
WWC Engineering & Planning	100.00%						100.00%		
							_		
Treatment and Disposal			10.0001				-		
Cogen Facilities	0.00%	40.00%	60.00%				100.00%		
GUF	0.00%	40.00%	60.00%				100.00%		
MBC	0.00%	50.00%	50.00%				100.00%		
NCWRP	75.00%	15.00%	10.00%				100.00%		
PILWWIP	35.40%	29.30%	35.30%				100.00%		
SBWRP	75.00%	15.00%	10.00%				100.00%		
WWTD Plant Engineering	45.30%	24.60%	30.10%						
Customer							-		
Meters and Services				100.00%			100.00%		
Billing				100.0070	100.00%		100.00%		
					100.0070		100.0070		
							-		
Recycled						100.00%	100.00%		

Table 24: Allocation Percentages for Metropolitan Sub-System O&M Costs

Table 25 shows the dollar allocations of the FY 2026 Metropolitan sub-system O&M costs to demand parameters based on the allocation percentages shown in Table 24. Note that the total O&M costs shown in Table 25 sum to \$275.8 million. This amount is also shown in Table 19 (Functional Assignment of FY 2026 O&M Costs).

Table 25: FY 2026 Dollar Allocations of	of Metropolitan Sub-S	ystem O&M Costs
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	FY 2026 Allocation of Metropolitan Sub-System O&M to Demand Param						
	1	olume-Related		Customer	Related		
				Meters and			
Function	FLOW	COD	TSS	Services	Billing	Recycled	Total
Engineering							
Environmental Support	\$506,952	\$275,299	\$336,849	\$0	\$0	\$0	\$1,119,100
Program Management & Review	\$8,759,389	\$4,756,754	\$5,820,256	\$0	\$0	\$0	\$19,336,399
	\$9,266,341	\$5,032,053	\$6,157,105	\$0	\$0	\$0	\$20,455,499
General and Administrative	¢10 (00 007	¢< 101.050	* < 010 040	*0	¢001 101	**	****
Business Support Admin	\$12,608,927	\$6,121,059	\$6,919,042	\$0	\$931,191	\$2,248,141	\$28,828,359
Operating Division Admin	\$4,689,835	\$2,276,701	\$2,573,507	\$0	\$346,352	\$836,186	\$10,722,581
	\$17,298,762	\$8,397,760	\$9,492,549	\$0	\$1,277,543	\$3,084,327	\$39,550,940
Operational Support	¢2 402 525	¢1 240 475	¢1 <50 200	¢0.	¢O	¢O	¢5 400 417
Central Support Comnet/Comc	\$2,483,535	\$1,348,675	\$1,650,208	\$U ©0	\$0 \$0	\$0 ¢0	\$5,482,417
Operational Support	\$2,439,627	\$1,324,831	\$1,621,032	\$0	\$U \$0	\$U \$0	\$5,385,490
Quality Control	\$4,925,162	\$2,675,505	\$5,271,240	\$0	\$0	\$U	\$10,867,907
La destrict Demoitting and Compliance	¢12 742	\$7.462	¢0 122	¢0.	¢O	¢O	¢20.227
Maxina Permitting and Compliance	\$13,743	\$7,403 \$2,205,425	\$9,152	\$U ©0	\$0 \$0	\$U \$0	\$30,337
Servege Testing and Control	\$3,293,433	\$5,295,455	\$4,393,913 \$212,919	\$0 \$0	\$U	\$0 \$0	\$10,964,765
Sewage Testing and Control	\$320,288	\$175,951	\$212,818	\$U ©0	\$0 \$0	\$U \$0	\$707,037
wastewater Chemistry Services	\$3,802,030	\$3,802,030	\$3,070,174	\$U\$U	\$U	\$U	\$12,075,434
T	\$7,432,096	\$7,279,459	\$9,080,037	\$0	\$0	\$0	\$24,597,592
Main Classing	¢0	¢O	¢O	¢O	¢O	¢O	¢0
Other Muni Agencies	\$0 \$0	\$U \$0	\$0 \$0	\$0 \$0	\$U \$0	\$0 \$0	\$0 \$0
Other Pump Stations	(\$364.804)	\$0 \$0	\$0 \$0	\$0 \$0	0¢ 0	\$0 \$0	۵۵ (\$364 804)
Dineline Maintenance & Denair	(\$304,804)	\$0 \$0	\$0 \$0	\$0 \$0	0¢ 0	\$0 \$0	(\$304,804)
Pump Station 1	\$U \$16.084.618	\$0 \$0	\$0 \$0	\$0 \$0	0¢ 0	\$0 \$0	۵۵ ¢16 094 619
Pump Station 2	\$16,084,018	\$0 \$0	\$0 \$0	\$0 \$0	υ¢ \$0	\$0 \$0	\$16,084,018
Sewer Pump Stations	\$10,087,918	\$0 \$0	\$0 \$0	\$0 \$0	υ¢ \$0	\$0 \$0	\$10,087,918
WWC Engineering & Planning	\$0 \$0	\$0 \$0	\$0 \$0	\$0 \$0	υ¢ \$0	\$0 \$0	\$0 \$0
w w C Engineering & Flamming	\$31 807 732	30 \$0	<u>\$0</u>	\$0 \$0	<u>ئو</u> 0\$	\$0 \$0	\$31 807 732
Treatment and Disposal	\$51,807,752	φŪ	\$ 0	фU	\$U	фU	\$51,807,752
Cogen Facilities	\$0	\$251 270	\$376.906	\$0	\$0	\$0	\$628 176
GUF	\$0	\$358.474	\$537 711	\$0 \$0	\$0 \$0	\$0 \$0	\$896 185
MBC	\$0	\$11 386 239	\$11 386 239	\$0 \$0	\$0 \$0	\$0 \$0	\$22 772 477
NCWRP	\$18 640 772	\$3 728 154	\$2 485 436	\$0 \$0	\$0 \$0	\$0 \$0	\$24,854,362
PTI WWTP	\$16,720,963	\$13,839,668	\$16 673 729	\$0 \$0	\$0 \$0	\$0 \$0	\$47,234,360
SBWRP	\$6 651 764	\$1,330,353	\$886 902	\$0 \$0	\$0 \$0	\$0 \$0	\$8 869 018
WWTD Plant Engineering	\$7 882 452	\$4,280,537	\$5 237 568	\$0 \$0	\$0 \$0	\$0 \$0	\$17,400,557
W W ID I lant Engineering	\$49 895 951	\$35 174 695	\$37 584 490	\$0 \$0	\$0	\$0	\$122 655 136
Customer	\$17,070,701	\$55,171,675	<i>\$67,561,170</i>	ψ0	40	40	\$122,000,100
Meters and Services	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Billing	\$0	\$0	\$0	\$0	\$7.630.749	\$0	\$7.630.749
	\$0	\$0	\$0	\$0	\$7.630.749	\$0	\$7.630.749
		4.5			47,000,000		
Recycled	\$0	\$0	\$0	\$0	\$0	\$18.422.646	\$18,422,646
	\$0	\$0	\$0	\$0	\$0	\$18,422,646	\$18,422,646
Total	\$120,624,044	\$58,557,471	\$66,191,420	\$0	\$8,908,293	\$21,506,973	\$275,788,201
	43.74%	21.23%	24.00%	0.00%	3.23%	7.80%	100.00%

Table 26 shows the percentages used to allocate Municipal sub-system revenue requirement offsets to demand parameters. These percentages were determined based on consultations with the Public Utilities Department staff.

	Volume-Related			Custo <u>mer</u>	-Related		
.		005	770.0	Meters and	ווית		T (1
Function Other Operating Percenses	FLOW	COD	155	Services	Billing	Recycled	Total
New Service Connections				100.000/			100.000
New Sewer Service Connections				100.0070			100.007
Other Sewer Treatment Plant Services							
Sewer Service (SSC)-Navy	45.30%	24.60%	30.10%				100.00%
Sewerage Treatment Services	45.30%	24.60%	30.10%				100.00%
M & O Trunk Sewers Muni	100.00%						100.00%
Services Rendered Other Funds							
Revenue from Other Agencies							
Reimbursements Between Funds/Depts	71.71%	5.03%	6.18%	2.75%	14.29%	0.04%	100.00%
Transport Charge Muni System	100.00%		-				100.00%
Service To Other Depts	71.71%	5.03%	6.18%	2.75%	14.29%	0.04%	100.00%
Land and Building Rentals							
Telecom Lease	86.48%	6.07%	7.45%				100.00%
Other Revenues							
IWCP Trucked Waste & Permet Fees	86.48%	6.07%	7.45%				100.00%
Revenue from Small Projects	86.48%	6.07%	7.45%				100.00%
Other Sewer Revenue	45.30%	24.60%	30.10%				100.00%
Expenditure Refund of Prior Year	45.30%	24.60%	30.10%				100.00%
Revenue Otherwise Unclassified					100.00%		100.00%
Repair Damages Recovered	45.30%	24.60%	30.10%		0.00%		100.00%
Transfers From Other Funds	45.30%	24.60%	30.10%		0.00%		100.00%
Intra-Ent Tranfer In to Fund 700089	45.30%	24.60%	30.10%		0.00%		100.00%
Transfers From Governmental Funds							0.00%
Fleet Services Additional Vehicle Purchases	45.30%	24.60%	30.10%		0.00%		100.00%
Rental Of Non-Agricultural Land							0.00%
Interest Earnings on Operating Fund	71.71%	5.03%	6.18%	2.75%	14.29%	0.04%	100.00%

Table 26: Allocation Percentages for Municipal Sub-System Revenue Requirement Offsets

Table 27 shows the dollar allocations of the FY 2026 Municipal sub-system revenue requirement offsets to demand parameters based on the allocation percentages shown in Table 26. Note that the total revenue requirement offsets shown in Table 27 sum to \$21.1 million. This amount is also shown in Table 17 (line labeled Total Revenue Requirement Offsets).

Table 27: FY 2026 Dollar Allocations for Municipal Sub-System Revenue Requirement Offsets

	FY 2026 Allocation of Municipal Sub-System Rev Offsets to Demand Parameters									
	V	olume-Related	or manierpar o	Customer-l	Related	inuno i urume				
Function	FLOW	COD	TSS	Meters and Services	Billing	Recycled	Total			
Other Operating Revenues										
New Sewer Service Connections	\$0	\$0	\$0	\$1,655	\$0	\$0	\$1,655			
Other Sewer Treatment Plant Services										
Sewer Service (SSC)-Navy	\$223,100	\$121,154	\$148,241	\$0	\$0	\$0	\$492,494			
Sewerage Treatment Services	\$445,321	\$241,830	\$295,898	\$0	\$0	\$0	\$983,048			
M & O Trunk Sewers Muni	\$708,734	\$0	\$0	\$0	\$0	\$0	\$708,734			
Services Rendered Other Funds										
Revenue from Other Agencies										
Reimbursements Between Funds/Depts	\$861,065	\$60,432	\$74,148	\$33,003	\$171,530	\$505	\$1,200,682			
Transport Charge Muni System	\$735,633	\$0	\$0	\$0	\$0	\$0	\$735,633			
Service To Other Depts	\$78,886	\$5,536	\$6,793	\$3,024	\$15,715	\$46	\$110,000			
Land and Building Rentals										
Telecom Lease	\$43,242	\$3,035	\$3,724	\$0	\$0	\$0	\$50,000			
Other Revenues										
IWCP Trucked Waste & Permet Fees	\$0	\$0	\$0	\$0	\$0	\$0	\$0			
Revenue from Small Projects	\$23,350	\$1,639	\$2,011	\$0	\$0	\$0	\$27,000			
Other Sewer Revenue	\$5,398,854	\$2,931,828	\$3,587,318	\$0	\$0	<u>\$</u> 0	\$11,918,000			
Expenditure Refund of Prior Year	\$0	\$0	\$0	\$0	\$0	\$0	\$0			
Revenue Otherwise Unclassified	\$0	\$0	\$0	\$0	\$0	\$0	\$0			
Repair Damages Recovered	\$0	\$0	\$0	\$0	\$0	\$0	\$0			
Transfers From Other Funds	\$0	\$0	\$0	\$0	\$0	\$0	\$0			
Intra-Ent Tranfer In to Fund 700089	\$0	\$0	\$0	\$0	\$0	\$0	\$0			
Transfers From Governmental Funds	\$0	\$0	\$0	\$0	\$0	\$0	\$0			
	\$0	\$0	\$0	\$0	\$0	\$0	\$0			
Rental Of Non-Agricultural Land	\$0	\$0	\$0	\$0	\$0	\$0	\$0			
Interest Earnings on Operating Fund	\$2,699,976	\$189,493	\$232,499	\$103,484	\$537,853	\$1,583	\$3,764,887			
Total	\$12,211,276	\$3,624,646	\$4,436,149	\$141,165	\$725,098	\$2,134	\$21,140,467			
	57.76%	17.15%	20.98%	0.67%	3.43%	0.01%	100.00%			

Table 28 shows the percentages used to allocate Metropolitan sub-system revenue requirement offsets to demand parameters. These percentages were determined based on consultations with the Public Utilities Department staff.

Table 28: Allocation Percentages for Metropolitan Sub-System Revenue Requirement Offsets

	FY 2026	FY 2026 Allocation of Metropolitan Sub-System Rev. Offsets to Demand Par							
	V	olume-Relate	ed	Custome	r-Related				
Functional Component	FLOW %	COD %	TSS %	Meters and Services	Billing	Recycled	Total		
Other Operating Revenues									
Maint & Operation Metro	45.30%	24.60%	30.10%				100.00%		
Services Rendered Other Funds									
Reimbursements Between Funds/Depts	49.16%	23.86%	26.98%				100.00%		
Other Services To Outside	49.16%	23.86%	26.98%				100.00%		
IWCP Notice of Violation Fees					100.00%		100.00%		
IWCP Industrial User Discharge Permit Fees	45.30%	24.60%	30.10%				100.00%		
Interest Earnings on Operating Fund	43.74%	21.23%	24.00%	0.00%	3.23%	7.80%	100.00%		

Table 29 shows the dollar allocations of the FY 2026 Metropolitan sub-system revenue requirement offsets to demand parameters based on the allocation percentages shown in Table 28. Note that the total revenue requirement offsets shown in Table 29 sum to \$115.7 million. This amount is also shown in Table 17 (line labeled Total Revenue Requirement Offsets).

	FY	2026 Allocation	of Metropolita	n Sub-System Re	ev. Offsets to De	mand Paramete	rs
	Volume-Related			Custome	r-Related		
Functional Component	FLOW	COD	TSS	Meters and Services	Billing	Recycled	Total
Other Operating Revenues							
Maint & Operation Metro	\$46,274,063	\$25,128,962	\$30,747,225	\$0	\$0	\$0	\$102,150,250
Services Rendered Other Funds							
Reimbursements Between Funds/Depts	\$1,377,248	\$668,591	\$755,753	\$0	\$0	\$0	\$2,801,592
Other Services To Outside	\$528,464	\$256,545	\$289,990	\$0	\$0	\$0	\$1,075,000
IWCP Notice of Violation Fees	\$0	\$0	\$0	\$0	\$40,000	\$0	\$40,000
IWCP Industrial User Discharge Permit Fees	\$885,439	\$480,835	\$588,338	\$0	\$0	\$0	\$1,954,613
Interest Earnings on Operating Fund	\$3,207,590	\$1,557,138	\$1,760,138	\$0	\$236,886	\$571,905	\$7,333,657
Total Non-Rate Revenues	\$52,408,705	\$28,165,871	\$34,231,745	\$0	\$276,886	\$571,905	\$115,655,112
	45.31%	24.35%	29.60%	0.00%	0.24%	0.49%	100.00%

Table 29: FY 2026 Dollar Allocations for Metropolitan Sub-System Revenue Requirement Offsets

Table 30 shows the percentages used to allocate Municipal sub-system capital costs to demand parameters. These percentages were determined based on consultations with the Public Utilities Department staff. Note the allocation of the capital costs associated with municipal pump stations, sewer pipelines, and trunk sewers to the customer-related demand parameter. As explained previously, these costs reflect the fact that the City's wastewater collection and conveyance pipelines must stand ready to meet the instantaneous wastewater discharges imposed by customers. Pipeline costs are fixed in nature do not vary with the volume of customer wastewater discharges. For this reason, they have been considered a customer-related cost that is allocated to the monthly service charge as part of the rate design process.

Table 30: Allocation Percentages for Municipal Sub-System Capital Costs

	TV 0026 0/ All-section of Marining Contest Contest Contest Demond Department										
		FY 2026 % Allo	cation of Municip	al Sub-System Ca	pital Costs to Den	nand Parameters					
			Volume-Related		Custome	er-Related					
Function	Total	FLOW %	COD %	TSS %	Meters and Services	Billing	Recycled				
Large Sewer Pump Station	100%	100.00%									
Muni Pump Station	100%	100.00%									
Miscellaneous Projects	100%	100.00%									
Smart Metering	100%					100.00%					
Pipelines	100%	33.33%			66.67%						
Sewer Treatment Plants	100%	100.00%									
Trunk Sewers	100%	100.00%									

Table 31 shows the dollar allocation of the FY 2026 Municipal sub-system capital costs based on the percentage allocations shown in Table 30. Note that the total capital costs shown in Table 31 sum to \$14.7 million. This amount is also shown in Table 21 (Functional Assignment of FY 2026 Capital Costs).

		FY 2026 \$ Alloc	ation of Municipa	l Sub-System Car	oital Costs to Dem	and Parameters	
			Volume-Related		Custome		
Function	Total	FLOW	COD	TSS	Meters and Services	Billing	Recycled
Large Sewer Pump Station	\$14,587	\$14,587	\$0	\$0	\$0	\$0	\$0
Muni Pump Station	\$330,313	\$330,313	\$0	\$0	\$0	\$0	\$0
Miscellaneous Projects	\$85,921	\$85,921	\$0	\$0	\$0	\$0	\$0
Smart Metering	\$10,150	\$0	\$0	\$0	\$0	\$10,150	\$0
Pipelines	\$13,563,165	\$4,521,055	\$0	\$0	\$9,042,110	\$0	\$0
Sewer Treatment Plants	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Trunk Sewers	\$687,547	\$687,547	\$0	\$0	\$0	\$0	\$0
Total	\$14,691,684	\$5,639,424	\$0	\$0	\$9,042,110	\$10,150	\$0
Total %	100.0%	38.4%	0.0%	0.0%	61.5%	0.1%	0.0%

Table 31: FY 2026 Dollar Allocation for Municipal Sub-System Capital Costs

Table 32 shows the percentages used to allocate Metropolitan sub-system capital costs to demand parameters. These percentages were determined based on consultations with the Public Utilities Department staff.

Table 32: Allocation Percentages for Metropolitan Sub-System Capital Costs

	FY 2026 % Allocation of Metropolitan Sub-System Capital Costs to Demand Parameters										
			Volume-Related		Customer-	Related					
					Meters and						
Function	Total	FLOW %	COD %	TSS %	Services	Billing	Recycled				
Large Sewer Pump Station	100%	55.54%	21.90%	22.11%			0.456%				
Muni Pump Station	100%	55.54%	21.90%	22.11%			0.456%				
Miscellaneous Projects	100%	55.54%	21.90%	22.11%			0.456%				
Smart Metering	0%										
Pipelines	100%	55.54%	21.90%	22.11%			0.456%				
Sewer Treatment Plants	100%	55.54%	21.90%	22.11%			0.456%				
Trunk Sewers	100%	55.54%	21.90%	22.11%			0.456%				
PW-CF	100%	55.54%	21.90%	22.11%			0.456%				
PW-Demo	100%	55.54%	21.90%	22.11%			0.456%				
PW-NC	100%	55.54%	21.90%	22.11%			0.456%				
Recycled Water	100%	0.00%					100.00%				

Table 33 shows the dollar allocation of the FY 2026 Metropolitan sub-system capital costs based on the percentage allocations shown in Table 33. Note that the total capital costs shown in Table 33 sum to \$52.0 million. This amount is also shown in Table 21 (Functional Assignment of FY 2026 Capital Costs).

Table 33: FY 2026 Dollar Allocations for Metropolitan Sub-System Capital Costs

		FY 2026 \$ Alle	ocation of Metropolit	an Sub-System Capita	1 Costs to Demand	Parameters	
			Volume-Related		Customer	-Related	
					Meters and		
Function	Total	FLOW	COD	TSS	Services	Billing	Recycled
Large Sewer Pump Station	\$5,831,153	\$3,238,657	\$1,276,879	\$1,289,046	\$0	\$0	\$26,570
Muni Pump Station	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Miscellaneous Projects	\$2,108,944	\$1,171,320	\$461,807	\$466,207	\$0	\$0	\$9,610
Smart Metering	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Pipelines	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Sewer Treatment Plants	\$30,623,150	\$17,008,280	\$6,705,716	\$6,769,616	\$0	\$0	\$139,539
Trunk Sewers	\$11,935,645	\$6,629,128	\$2,613,612	\$2,638,518	\$0	\$0	\$54,386
PW-CF	\$0	\$0	\$0	\$0	\$0	\$0	\$0
PW-Demo	\$0	\$0	\$0	\$0	\$0	\$0	\$0
PW-NC	\$1,454,002	\$807,561	\$318,391	\$321,425	\$0	\$0	\$6,625
Recycled Water	\$0	\$0	\$0	\$0	\$0	\$0	\$0
SDG&E Relocation	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Readiness-to-Serve Adj.	\$0	\$0	\$0	\$0	\$0	\$0	
Total	\$51,952,893	\$28,854,946	\$11,376,405	\$11,484,812	\$0	\$0	\$236,731
Total %	100.0%	55.5%	21.9%	22.1%	0.0%	0.0%	0.5%

Table 34 shows a final summary of the FY 2026 revenue requirement allocations discussed in this section of the report. The total allocated revenue requirement sums to approximately \$347.2 million. This corresponds to the

revenue requirement from rates developed in the financial plan and referenced in several tables in this report (see Table 15, Summary of Projected Revenue Requirement from Rates and Table 17, FY 2026 Revenue Requirement Detail). Second, based on the allocations developed in consultation with the Public Utilities Department staff, approximately \$21.2 million of this revenue requirement is associated with costs that are related to the provision of recycled water service and are used as part of the recycled water revenue requirements in the recycled water section of this report.

Summary of Allocated Revenue Requirement Components										
			Volume		Customer					
Revenue Requirement Component	Total	FLOW	COD	TSS	Meters	Billing	Recycled			
Municipal Sub-System O&M	\$141,581,684	\$101,534,821	\$7,126,030	\$8,743,320	\$3,891,589	\$20,226,405	\$59,519			
Municipal Sub-System Capital Costs	\$14,691,684	\$5,639,424	\$0	\$0	\$9,042,110	\$10,150	\$0			
Less: Municipal Sub-System Rev. Req. Offsets	\$21,140,467	\$12,211,276	\$3,624,646	\$4,436,149	\$141,165	\$725,098	\$2,134			
Total Municipal Sub-Sytem	\$135,132,901	\$94,962,969	\$3,501,384	\$4,307,171	\$12,792,534	\$19,511,458	\$57,385			
Metropolitan Sub-System O&M	\$275,788,201	\$120,624,044	\$58,557,471	\$66,191,420	\$0	\$8,908,293	\$21,506,973			
Metropolitan Sub-System Capital Costs	\$51,952,893	\$28,854,946	\$11,376,405	\$11,484,812	\$0	\$0	\$236,731			
Less: Metropolitan Sub-System Rev. Req. Offsets	\$115,655,112	\$52,408,705	\$28,165,871	\$34,231,745	\$0	\$276,886	\$571,905			
Total Metropolitan Sub-Sytem	\$212,085,982	\$97,070,284	\$41,768,005	\$43,444,487	\$0	\$8,631,407	\$21,171,798			
Combined O&M	\$417,369,885	\$222,158,865	\$65,683,502	\$74,934,741	\$3,891,589	\$29,134,697	\$21,566,492			
Combined Captial Costs	\$66,644,577	\$34,494,369	\$11,376,405	\$11,484,812	\$9,042,110	\$10,150	\$236,731			
Less: Combined Revenue Requirement Offsets	\$136,795,579	\$64,619,981	\$31,790,517	\$38,667,894	\$141,165	\$1,001,984	\$574,039			
Combined Net Rev. Req. from Raates	\$347,218,883	\$192,033,253	\$45,269,389	\$47,751,659	\$12,792,534	\$28,142,864	\$21,229,183			

Table 34: Summary of FY 2026 Revenue Requirement Allocations

UNITS OF SERVICE DETERMINATION

The next step in the cost of service study process is to determine the total system and customer class units of service. The units of service are used in the allocation of costs to customer classes and the eventual determination of test year rates and charges as part of the rate design process. The process of determining the units of service involves developing estimates, in consultation with Public Utilities Department staff, of the projected test year contributed units of service (i.e., wastewater flowing to treatment plants), billed units of service, return flows, strength loadings, and inflow and infiltration volumes. Table 35 shows the volume and strength loading inputs used to determine the units of service for test year FY 2026.

The units of service shown in Table 35 for Single Family Residential and Multi-Family Residential customers reflect a 95% return flow factor. Additionally, the billed sewer commodity rate for Single Family Residential customers is based on their lowest water usage during a winter monitoring period. Water consumption during the winter months typically reflects the highest percentage of water returned to the sewer system and is associated with non-discretionary indoor activities such as showers, clothes washing, and toilet flushing. Thus, it is assumed that 95% of this usage returns to the City's sewer system and only 5% is lost to factors such as outdoor usage or evaporation. Although the costs allocated to Single Family Residential customers in the cost of service process are based on the units of service associated with 95% return flow assumption, it is important to note that the \$/HCF rates they pay are calculated based on 100% of their their lowest water consumption during the winter monitoring period.

Also, the City currently imposes a 20 HCF cap on the billed sewer volumes for Single Family Residential customers. This means that if a customer's lowest water consumption during the winter monitoring period exceeds 20 HCF, they are not billed for any amounts in excess of the 20 HCF cap. The City maintains this policy because Single Family Residential customers with such a high level of water consumption during the winter monitoring period are invariably using the water for activities that do not create return flows to the sewer system and do not impose a cost on the City's sewer infrastructure (e.g., outdoor irrigation). Raftelis recommends no change in this policy.

Table 35: FY 2026 Flow and Volume Loadings Used to Determine Units of Service

				Estim at ed		Estimated	
				Weighted		Weighted	
			Est. Test Year	Test Year		Test Year	
	Estimated Test-	Test-Year Flow	Flow for Plant	COD	Estim at ed	TSS	Estim ated Test
	Year Billed	Used in Plant	B alance Analysis	Strength	Test COD	Strength	Year TSS
Customer Class	Flow (HCF)	Balance (HCF)	(MGD)	(mg/L)	Pounds	(mg/L)	Pounds
Single Family Residential (Note 1)	15,675,585	14,891,806	30.52	692	64,328,354	287	26,679,534
Multi-Family Residential Note 2)	14,912,490	14,166,866	29.03	692	61,196,819	287	25,380,762
Commercial / Industrial (Note 3)	17,844,497	17,844,497	36.57	703	78,278,485	276	30,755,654
Total Retail	48,432,572	46,903,168	96.12	696	203,803,658	283	82,815,950
Other (Navy, Prisons)(Note 4)	1,384,271	1,384,271	2.84	414	3,577,425	183	1,581,326
Total Other (Navy, Prisons)	1,384,271	1,384,271	2.84	414	3,577,425	183	1,581,326
Trucked Waste (Note 5)	77,552	77,552	0.16	7,855	3,802,538	9,448	4,574,009
Imported Flows (Note 5)	133,681	133,681	0.27	100	83,448	50	41,724
Total Trucked Waste	211,233	211,233	0.43	2,947	3,885,987	3,500	4,615,733
Stormwater Transportation (Note 6)	380,022	380,022	0.78	320	759,115	88	208,757
Total Stormwater Transportation	380,022	380,022	0.78	320	759,115	88	208,757
Total Billed Flow	50,408,099	48,878,695	100.17	695	212,026,185	292	89,221,765
Estimated Inflow/Infiltration (Note 7)	5,040,810	4,887,869	10.02	276	8,421,271	154	4,698,825
Total Estimated I/I	5,040,810	4,887,869	10.02	276	8,421,271	154	4,698,825
Estimated Contributed Flow	55,448,908	53,766,564	110	657	220,447,456	280	93,920,591

<u>Note 1</u>: Single Family Residential test-year flows are based on FY24 billed volumes reduced to reflect a 95% return flow factor. Actual FY24 billed volumes reflect a customer's lowest winter water consumption. Note that there is a 20 HCF cap on billed volumes for each account. Under the cap, customers are not billed for any amounts in excess of the 20 HCF cap. Test year COD and TSS mg/L strength loadings were provided by Public Utilities Department staff.

Note 2: Multi-Family Residential test-year units flows are based on FY24 billed volumes reduced to reflect a 95% return flow factor. Test year COD and TSS mg/L strength loadings were provided by Public Utilities Department staff.

Note 3: Commercial/Industrial test year flows for FY24 reflect actual meter water consumption <u>after</u> being adjusted for estimated return flows in the City's billing system. Test year COD and TSS mg/L strength loadings were based on the average of estimated strength poundages for FY24.

Note 4: Other (Navy/Prisons) test year flow are based on projected FY26 levels. Test year COS and TSS mg/L strength loadings are based on actual FY23 sampled loadings.

Note 5: Test Year flows for Trucked Waste and Imported Flows (Groundwater Discharges) are based on projected FY26 billed flows. Test year COD and TSS mg/L strength loadings are based on data provided by the Public Utilities Department staff.

Note 6: Dry-Weather Stormwater Transportation test year flow were developed in consultation with Public Utilities Department staff. Test year COD and TSS mg/L strength loadings are based on those specified in the contract between the Public Utilities Department and the City of San Diego's Transportation and Storm Water Department.

Note 7: The estimate of Inflow and Infiltration was provided by the Public Utilities Department Staff. It is equivalent to 10.0% of the total volumes specified in the analysis.

ALLOCATION OF INFLOW AND INFILTRATION (I/I)

After determining the test year contributed units of service which are summarized in Table 35, the next step in the cost of service process is the determination of how inflow and infiltration (I/I) volumes and associated strength loadings should be allocated to each customer class. Inflow is water introduced into the wastewater collection and conveyance system through direct connections such as manhole covers. Infiltration is groundwater entering the wastewater collection system through leaky sewer pipelines. I/I volumes and related strength loadings are allocated to customers because there is a cost to collect and treat the I/I received at the wastewater treatment plant and this cost must be borne by the customers whose rates pay for the wastewater utility system.

There is no industry standard one-size-fits-all approach for the allocation of I/I in every situation. Methods for allocating I/I to customer classes range from relying entirely on the proportionate share of contributed volume from each customer class (100% volume) to relying entirely on the proportionate share of customer accounts/wastewater service connections (100% accounts). For this study, Raftelis has allocated I/I to customer classes based 67% on accounts and 33% on contributed volumes. Our rationale for this approach is that the majority of infiltration entering the wastewater system is from leaky connections from service lines that connect to individual customer premises. Approximately 84% of the customer accounts on the City's wastewater system are associated with the Single Family Residential customer class. Allocating I/I on a basis that emphasizes accounts (67%) over volumes (33%) more closely ties to the cost of service standard of cause causation. Note that Raftelis did not allocate any I/I to the Trucked Waste or Stormwater Transportation customer classes. This is because trucked waste discharges bypass the wastewater collection and conveyance system and Stormwater Transportation volumes reflect dry-weather flows.

Table 36 shows a detail of the FY 2026 allocation of I/I to each customer class.

	FY 2026 Allocation of I/I Units										
	Estimated Test	Estimated Test	Estimated Test	Estimated Test	Estimated Test	Estimated Test					
	Year Flow	Year Flow	Year COD	Year COD	Year TSS	Year TSS					
Allocation of I/I	(MGD)	(HCF)	Strength (mg/L)	Pounds	Strengh (mg/L)	Pounds					
Estimated I/I	10.02	4,887,869		8,421,271		4,698,825					
Amount Allocated on Accounts	6.71	3,274,873		5,642,252		3,148,213					
Amount Allocated on Flow	3.31	1,612,997	_	2,779,020		1,550,612					
Total	10.02	4,887,869	276.00	8,421,271	154.00	4,698,825					
I/I Allocated on Accounts											
Single Family Residential	5.62	2 7/13 137		1 726 129		2 637 043					
Multi-Family Residential	0.71	3/15 920		595 984		332 542					
Commercial / Industrial	0.71	185 637		319 832		178 457					
Other (Navy Prisons)	0.00	178		307		170,437					
Trucked Waste and Imported Flows	0.00	0		0		0					
Stormwater Transportation	0.00	Ŭ		Ŭ Ŭ							
Total I/I Allocated on Accounts	6.71	3.274.873		5.642.252		3.148.213					
		-, - ,		- , - , -		-, -, -					
I/I Allocated on Volume											
Single Family Residential	1.02	497,447		857,047		478,208					
Multi-Family Residential	0.97	473,231		815,326		454,928					
Commercial / Industrial	1.22	596,079		1,026,979		573,025					
Other (Navy, Prisons)	0.09	46,240		79,667		44,452					
Trucked Waste and Imported Flows	0.00	0		0		0					
Stormwater Transportation	0.00	0		0		0					
Total I/I Allocated on Volume	3.31	1,612,997		2,779,020		1,550,612					
Allocated I/I Reconciliation											
Single Family Residential	6.64	3,240,584		5,583,176		3,115,251					
Multi-Family Residential	1.68	819,151		1,411,309		787,470					
Commercial / Industrial	1.60	781,716		1,346,812		751,482					
Other (Navy, Prisons)	0.10	46,418		79,974		44,623					
Trucked Waste and Imported Flows	0.00	0		0		0					
Stormwater Transportation	0.00	0	074.00	0 401 071	154.00	0					
Total Allocated 1/1	10.02	4,887,869	276.00	8,421,271	154.00	4,698,825					

Table 36: Detail FY 2026 Allocation of I/I to Customer Classes

Allocation of I/I Between Accounts & Volume	
% of I/I Allocated on Accounts	67.00%
% of I/I Allocated on Flow	33.00%

Table 37 shows a summary of the units of service used in the calculation of the unit cost of service for each demand parameter.

FY 20	FY 2026 Billed Units of Service									
	Cillad Units o	f Sorrigo								
Customer Class		Flow (HCF)	COD Pounds	TSS Dounds						
Single Family Desidential		15 675 585	COD Founds	1551001105						
Multi Family Residential		14 012 400								
Commercial / Industrial		14,912,490	78 278 485	30 755 654						
Other (Navy, Prisons)		1 38/ 271	70,270,405	50,755,054						
Trucked Waste and Imported Flows		1,304,271								
Stormuster Transportation		211,255								
Total		50 408 099	78 278 485	30 755 654						
Total		50,400,099	70,270,405	50,755,054						
FY 2026	Return Flow	Units of Serv	vice							
Customer Class		Flow (HCF)	COD Pounds	TSS Pounds						
Single Family Residential		14,891,806	64,328,354	26,679,534						
Multi-Family Residential		14.166.866	61.196.819	25,380,762						
Commercial / Industrial		17.844.497	78.278.485	30,755,654						
Other (Navy, Prisons)		1.384.271	3.577.425	1.581.326						
Trucked Waste and Imported Flows		211,233	3.885.987	4,615,733						
Stormwater Transportation		380.022	759,115	208.757						
Total	48.878.695	212.026.185	89.221.765							
		, ,	, ,	, ,						
FY 2026 .	Units of Ser	vice								
Customer Class		Flow (HCF)	COD Pounds	TSS Pounds						
Single Family Residential		3,240,584	5,583,176	3,115,251						
Multi-Family Residential		819,151	1,411,309	787,470						
Commercial / Industrial		781,716	1,346,812	751,482						
Other (Navy, Prisons)		46,418	79,974	44,623						
Trucked Waste and Imported Flows		0	0	0						
Stormwater Transportation		0	0	0						
Total		4,887,869	8,421,271	4,698,825						
FY 2	026 Total Un	its of Service								
Customer Class		Flow (HCF)	COD Pounds	TSS Pounds						
Single Family Residential		18,132,390	69,911,531	29,794,785						
Multi-Family Residential		14,986,017	62,608,128	26,168,231						
Commercial / Industrial		18,626,213	79,625,297	31,507,136						
Other (Navy, Prisons)		1,430,690	3,657,399	1,625,949						
Trucked Waste and Imported Flows		211,233	3,885,987	4,615,733						
Stormwater Transportation		380,022	759,115	208,757						
Total		53,766,564	220,447,456	93,920,591						
			Flores							
EV 2026 Accounts	Accounts	S/EDUS	FIOW	Dercentage						
SFR	231 214	83 76%	14 891 806	30.84%						
MFR 201,214 0.157		10 56%	14 166 866	20 3/10/2						
Non-Residential	15 647	5 67%	17 8/1 /07	36 05%						
Other (Navy Prisons)	15,047	0.01%	1 38/ 271	2 8 70/2						
Trucked Waste and Imported Flowe	0	0.0170	1,504,271	2.0770						
Stormwater Transportation	0	0.00%	0	0.0070						
Total	276.033	100.00%	48.287.440	100.00%						

Table 37: Summary of FY 2026 Units of Service

UNIT COST OF SERVICE

Having established the units of service for each customer class, the next step in the cost of service process is to calculate the unit cost of service for each demand parameter. Table 39 shows a detail of the unit cost of service calculation. As shown in Table 38, the estimated FY 2026 unit cost of service for the volume-related demand parameters of flow, COD and TSS are: \$3.80/HCF for flow, \$0.22/pound for COD, and \$0.54/pound for TSS.

	FY 2026 Unit Cost of Service Calculation										
		Volume-Related		Custome	r-Related						
	Flow	COD	TSS								
				Meters and							
	Total Flow	Total COD	Total TSS	Service							
Customer Class	HCF/Year	Lbs/Year	Lbs/Year	Accounts	Bills						
Net Revenue Requirement from Rates	\$204,538,891	\$48,217,434	\$50,861,354	\$13,625,613	\$29,975,591						
Single Family Residential	14,891,806	64,328,354	26,679,534	231,214	2,774,568						
Multi-Family Residential	14,166,866	61,196,819	25,380,762	29,157	349,884						
Commercial / Industrial	17,844,497	78,278,485	30,755,654	15,647	187,764						
Subtotal	46,903,168	203,803,658	82,815,950	276,018	3,312,216						
Other (Navy, Prisons)	1,384,271	3,577,425	1,581,326	15	180						
Subtotal	1,384,271	3,577,425	1,581,326	15	180						
Trucked Waste and Imported Flows	211,233	3,885,987	4,615,733	0	0						
Subtotal	211,233	3,885,987	4,615,733	0	0						
Stormwater Transportation	380,022	759,115	208,757	0	0						
Subtotal	380,022	759,115	208,757	0	0						
I/I (Total)	4,887,869	8,421,271	4,698,825								
Total Contributed Units	53,766,564	220,447,456	93,920,591	276,033	3,312,396						
Unit Cost of Service (Net	\$3.80	\$0.22	\$0.54	\$49.36	\$9.05						

Table 38: FY 2026 Unit Cost of Service Calculation

DISTRIBUTION OF COSTS TO CUSTOMER CLASSES

The first step in the distribution of costs to customer classes is to multiply the units of service for each customer class (Table 37) by the unit cost of service (Table 38) results in the determination of the test year FY 2026 customer class cost of service. Table 39 shows a detail of this calculation for FY 2026 *before* the allocation of I/I to each customer class. The total calculated COS for wastewater customer classes is \$347.2 million. In contrast, the total FY26 revenue requirement is \$346.6 million as shown, for example. in Tables 2, 15 and 34. The difference of approximately \$21.2 million is associated with the costs that have been allocated to recycled customers (Table 34).

FY 2026 Class Cost of Service Before Allocation of I/I (Net of Recycled)										
			Volume-Related		Customer	r-Related				
Customer Class	Total Calculated COS	Flow	COD	TSS	Meters and Services	Billing				
Single Family Residential	\$121,691,353	\$56,651,443	\$14,070,238	\$14,447,921	\$11,413,246	\$25,108,506				
Multi-Family Residential	\$85,629,041	\$53,893,623	\$13,385,292	\$13,744,589	\$1,439,255	\$3,166,282				
Commercial / Industrial	\$104,132,392	\$67,884,078	\$17,121,484	\$16,655,285	\$772,371	\$1,699,174				
Subtotal	\$311,452,787	\$178,429,144	\$44,577,014	\$44,847,794	\$13,624,873	\$29,973,962				
Other (Navy, Prisons)	\$6,907,235	\$5,266,048	\$782,473	\$856,344	\$740	\$1,629				
Subtotal	\$6,907,235	\$5,266,048	\$782,473	\$856,344	\$740	\$1,629				
Trucked Waste and Imported Flows	\$4,153,123	\$803,575	\$849,964	\$2,499,584	\$0	\$0				
Subtotal	\$4,153,123	\$803,575	\$849,964	\$2,499,584	\$0	\$0				
Stormwater Transportation	\$1,724,767	\$1,445,680	\$166,038	\$113,049	\$0	\$0				
Subtoal	\$1,724,767	\$1,445,680	\$166,038	\$113,049	\$0	\$0				
Total Allocated I/I	\$22,980,971	\$18,594,445	\$1,841,945	\$2,544,582						
Net Revenue Requirement	\$347,218,883	\$204,538,891	\$48,217,434	\$50,861,354	\$13,625,613	\$29,975,591				

Table 39: FY 2026 Wastewater Customer Class Cost of Service - Before I/I Allocation

The final step in the determination of the customer class COS is to allocate I/I costs to each class. As noted previously in this report, Raftelis has allocated I/I to customer classes based 67% on accounts and 33% on contributed volumes. Table 40 shows this calculation.

Table 40: FY 2026 Wastewater Customer Class Cost of Service - After I/I Allocation

FY 2026 Class Cost of Service After Allocation of I/I (Net of Recycled)											
			Volume-	Related		(Customer-Relate	đ			
	Total Calculated		I/I Allocated			Meters and	I/I Allocated				
Customer Class	COS	Flow	on Flow	COD	TSS	Services	on Accounts	Billing			
Single Family Residential	\$136,926,885	\$56,651,629	\$2,338,821	\$14,070,284	\$14,447,968	\$11,413,283	\$12,897,268	\$25,107,631			
Multi-Family Residential	\$89,480,565	\$53,893,801	\$2,224,966	\$13,385,336	\$13,744,634	\$1,439,260	\$1,626,397	\$3,166,172			
Commercial / Industrial	\$107,808,024	\$67,884,301	\$2,802,553	\$17,121,541	\$16,655,340	\$772,374	\$872,800	\$1,699,115			
Subtota1	\$334,215,474	\$178,429,732	\$7,366,340	\$44,577,161	\$44,847,942	\$13,624,918	\$15,396,465	\$29,972,917			
Other (Navy, Prisons)	\$7,125,500	\$5,266,066	\$217,406	\$782,476	\$856,347	\$740	\$837	\$1,629			
Subtota1	\$7,125,500	\$5,266,066	\$217,406	\$782,476	\$856,347	\$740	\$837	\$1,629			
Trucked Waste and Imported Flows	\$4,153,136	\$803,577	\$0	\$849,966	\$2,499,593	\$0	\$0	\$0			
Subtotal	\$4,153,136	\$803,577	\$0	\$849,966	\$2,499,593	\$0	\$0	\$0			
Stormwater Transportation	\$1,724,772	\$1,445,685	\$0	\$166,038	\$113,050	\$0	\$0	\$0			
Subtoal	\$1,724,772	\$1,445,685	\$0	\$166,038	\$113,050	\$0	\$0	\$0			
Net Revenue Requirement	\$347,218,883	\$185,945,059	\$7,583,746	\$46,375,641	\$48,316,932	\$13,625,658	\$15,397,302	\$29,974,546			
		\$288,221,378				\$58,997,505					

CLASS COST OF SERVICE VERSUS REVENUES AT EXISTING RATES

Table 41 provides a comparison of the estimated FY 2026 cost of service for each customer class versus the projected revenues that would be earned if existing rates remain in place. The percentage change in revenue recovery compared to revenues at existing rates is shown in the last column.

Table 41: Comparison of FY 2026 Customer Class Cost of Service to Revenue at Existing Rates

FY 2026	Cost of Service vs.	Revenue at Existing R	lates	
			Required Change in	Percentage
	FY 2026 Cost of	Revenue at Existing	Revenue Recovery	Change in
Customer Class	Service	Rates	from Existing Rates	Revenue Recovery
Wastewater Net Revenue Requirement	\$347,218,883			
wastewater Customer Classes				
Single Family Residential	\$136,927,392	\$127,281,665	\$9,645,727	7.6%
Multi-Family Residential	\$89,480,391	\$85,024,070	\$4,456,321	5.2%
Non-Residential	\$107,807,733	\$100,609,530	\$7,198,203	7.2%
Total Regular Wastewater Service	\$334,215,517	\$312,915,265	\$21,300,252	6.8%
Other (Navy, Prisons)	\$7,125,477	\$5,815,306	\$1,310,171	22.5%
Total Other (Navy, Prisons)	\$7,125,477	\$5,815,306	\$1,310,171	22.5%
Trucked Weste	¢4 152 102	\$4 102 862	¢50.261	1 20/
	\$4,155,125	\$4,102,802	\$50,201	1.270
Total Trucked Waste	\$4,153,123	\$4,102,862	\$50,261	1.2%
Stormwater Transportation	\$1,724,767	\$1,670,196	\$54,571	3.3%
Total Stormwater Transportation	\$1,724,767	\$1,670,196	\$54,571	3.3%
Total Wastewater Service	\$347,218,883	\$324,503,629	\$22,715,254	7.00%

Rate Design

Introduction

This section of the report discusses the development of a schedule of sewer service charges for the City's customer classes. The proposed sewer service charges are an outcome of the comprehensive analysis of customer flows and strength loadings completed in the cost of service analysis. Raftelis recommends no changes to the City's existing rate structures. Note that the City's proposed FY 2026 wastewater rate revenue increase of 7.0% is anticipated to become effective on January 1, 2026.

PROPOSED RATES - MONTHLY SERVICE CHARGE

Table 42 shows the detailed calculation of the proposed FY 2026 monthly service charge for retail customers. The monthly service charge is calculated using the customer-related costs presented in the Wastewater Customer Class Cost of Service – After I/I Allocation Table in the previous section. Note that the calculated monthly service charge of \$17.82 is \$2.07 higher (13.1%) than the FY 2025 monthly service charge of \$15.75. This proposed service charge is based on the identification of costs in the FY 2026 revenue requirement that can reasonably be considered appropriate for fixed revenue recovery. The proposed monthly service charge of \$17.82 results in projected FY26 revenue recovery being approximately 17% fixed and 83% variable in nature. The current (FY 2025) revenue recovery profile is approximately 17% fixed and 83% variable. There is no industry standard level of fixed revenue recovery that is appropriate for all sewer utilities. In general, sewer utilities are exposed to less rate revenue volatility than water utilities which often earn a significant amount of revenue from outdoor irrigation demands that can fluctuate in response to seasonal weather conditions.

FY 2026 Meter Service Charge for SFR, MFR and Commercial/Industrial											
						Projected Test-					
	Meters and	Readiness to		I/I Accounts	Total Customer	Year Bills for	FY 2026	FY 2025			
	Services Revenue	Serve Revenue	Billing Revenue	Revenue	Revenue	Fixed Charge	Calculated	Service		%	
Customer Class	Requirement	Requirement	Requirement	Requirement	Requirement	Calculation	Service Charge	Charge	\$ Difference	Difference	
Single Family Residential	\$11,413,246	\$0	\$25,108,506	\$12,897,226	\$49,418,978	2,774,568	\$17.82	\$15.75	\$2.07	13.1%	
Multi-Family Residential	\$1,439,255	\$0	\$3,166,282	\$1,626,391	\$6,231,929	349,884	\$17.82	\$15.75	\$2.07	13.1%	
Commercial / Industrial	\$772,371	\$0	\$1,699,174	\$872,797	\$3,344,342	187,764	\$17.82	\$15.75	\$2.07	13.1%	
Subtotal	\$13,624,873	\$0	\$29,973,962	\$15,396,414	\$58,995,249	3,312,216					
Other (Navy, Prisons)	\$740	\$0	\$1,629	\$837	\$3,206	180	\$17.82	\$15.75	\$2.07	13.1%	
Subtotal	\$740	\$0	\$1,629	\$837	\$3,206	180					
TOTAL	\$13,625,613	\$0	\$29,975,591	\$15,397,251	\$58,998,455	3,312,396	\$17.82	\$15.75	\$2.07	13.1%	

Table 42: Detail of Proposed FY 2026 Monthly Service Charges

PROPOSED COMMODITY RATES

Tables 43 through 46 below provide a detail of the commodity rates for the City's wastewater customers. Note that no detail is provided for the Other (Navy/Prisons) customer class. Although a revenue requirement for this customer class was calculated as part of the COS study (\$7.1 million as shown in Table 41), this customer class is not shown because these rates are set via a contractual arrangement.

Table 43 shows a detail of the calculation of proposed commodity rates (\$/HCF) for Single Family Residential and Multi-Family Residential customers. As shown in the calculation, there is a significant increase in the amount of revenue that must be recovered from Single Family Residential customers and a decrease in the amount of revenue that must be recovered from Multi-Family Residential customers. As is the case for all proposed FY 2026 customer class rates, this outcome reflects updated cost allocations, the results of which are summarized in Table 40, updated volume and strength loadings (Table 35), updated units of service calculation (Table 37), and an updated unit cost of service calculation (Table 38).

FY 2026 Single Family and Multi-Family Residential Flow Based Charges										
					Total		FY 2026			
				I/I Volume	Volumetric	Projected Test-	\$/HCF	FY 2025		
	Flow Revenue	COD Revenue	TSS Revenue	Revenue	Revenue	Year Billable	Calculated	\$/HCF		%
Customer Class	Requirement	Requirement	Requirement	Requirement	Requirement	Units of Service	Charge	Charge	\$ Difference	Difference
Single Family	\$56,651,443	\$14,070,238	\$14,447,921	\$2,338,813	\$87,508,414	15,675,585	\$5.5830	\$5.3320	\$0.2510	4.7%
Multi Family	\$53,893,623	\$13,385,292	\$13,744,589	\$2,224,959	\$83,248,463	14,912,490	\$5.5830	\$5.3320	\$0.2510	4.7%
TOTAL	\$110,545,066	\$27,455,530	\$28,192,509	\$4,563,772	\$170,756,877	30,588,075				

Table 43: Detail Proposed FY 2026 Residential Commodity Rates

Table 44 shows the calculation of proposed FY 2026 commodity rates for the Commercial/Industrial customer class. As shown in Table 44, both flowbased and strength-based commodity rates decline. As is the case for all proposed FY 2026 customer class rates, this outcome reflects updated cost allocations, the results of which are summarized in Table 40, updated volume and strength loadings (Table 35), updated units of service calculation (Table 37), and an updated unit cost of service calculation (Table 38).

Table 44: Detail of Proposed FY 2026 Commercial / Industrial Commodity Rates

FY 2026 Commercial Flow and Strength Charges										
		Flow and Strength	I/I Volume		Projected Test-	FY 2026				
		Revenue	Revenue	Total Revenue	Year Billable	Calculated				
Commercial/Industrial		Requirement	Requirement	Requirement	Units of Service	Charges	Current Charges	\$ Difference	% Difference	
Flow Charges	(\$ / HCF)	\$67,884,078	\$2,802,544	\$70,686,622	17,844,497	\$3.9620	\$3.5550	\$0.4070	11.4%	
COD Charges	(\$ / 1b)	\$17,121,484		\$17,121,484	78,278,485	\$0.2190	\$0.2320	(\$0.0130)	-5.6%	
TSS Charges	(\$ / 1b)	\$16,655,285		\$16,655,285	30,755,654	\$0.5420	\$0.5220	\$0.0200	3.8%	
TOTAL		\$101,660,847	\$2,802,544	\$104,463,391						

Table 45 shows the calculation of the proposed FY 2026 commodity rates (\$/HCF and \$/lb.) for trucked waste and imported flows.

FY 2026 Trucked Waste									
			Projected Test-	FY 2026					
		Revenue	Year Billable	Calculated	Current				
Flow Based Charges		Requirement	Units of Service	Charges	Charges	\$ Difference	% Difference		
Flow Charges	(\$ / HCF)	\$803,575	211,233	\$3.8050	\$3.4930	\$0.3120	8.9%		
COD Charges	(\$ / lb)	\$849,964	3,885,987	\$0.2190	\$0.2320	(\$0.0130)	-5.6%		
TSS Charges	(\$ / 1b)	\$2,499,584	4,615,733	\$0.5420	\$0.5220	\$0.0200	3.8%		
TOTAL		\$4,153,123							

Table 45: Detail of Proposed FY 2026 Trucked Waste and Imported Flows Rates

Table 46 shows the calculation of proposed commodity rates (\$/HCF) for dry weather stormwater transportation service. Rates for this non-operating service are established by a contract between the Public Utilities Department and the City's Transportation and Stormwater Department.

Table 46: Detail of Proposed FY 2026 Stormwater Transportation

FY 2026 Stormwater Transportation									
			Projected Test-						
			Year Billable	FY 2026					
		Revenue	Units of Service	Calculated \$/HCF					
Flow Based Charges		Requirement	(HCF)	Charge	Current Charges	\$ Difference	% Difference		
Flow Charges	(\$ / HCF)	\$1,445,680							
COD Charges	(\$ / lb)	\$166,038							
TSS Charges	(\$ / lb)	\$113,049							
TOTAL		\$1,724,767	380,022	\$4.5390	\$4.2420	\$0.2970	7.0%		

PROJECTED RATES

Table 47 provides a summary of the projected wastewater service rates for the period FY 2026 though FY 2029. The projected rates for FY 2027 through FY 2029 are based on the proposed FY 2026 cost of service rates increased on the same percentage basis as the overall systemwide percentage revenue increases specified in Table 1, Projected Required Rate Revenue Adjustments.

Table 47: Proposed Wastewater Rates for FY 2026 – FY 2029

FY 2026 Wastewater Rate Summary									
FY 2026 Wastewater Service Charges (\$/month)									
		Current	Proposed						
Customer Class		FY 2025 (1)	FY 2026	\$ Diff	% Diff				
Single Family Residential	\$/Month	\$15.75	\$17.82	\$2.07	13.1%				
Multi-Family Residential	\$/Month	\$15.75	\$17.82	\$2.07	13.1%				
Commercial / Industrial	\$/Month	\$15.75	\$17.82	\$2.07	13.1%				

FY 2	026 Wastewater	Commodity a	nd Strength	Charges	
Customer Class		Current FY 2025 (1)	Proposed FY 2026	\$ Diff	% Diff
Residential					
Single Family Residential	(\$ / HCF)	\$5.332	\$5.583	\$0.251	4.7%
Multi-Family Residential	(\$ / HCF)	\$5.332	\$5.583	\$0.251	4.7%
Commercial / Industrial					
Flow Charges	(\$ / HCF)	\$3.555	\$3.962	\$0.407	11.4%
COD Charges	(\$ / lb)	\$0.232	\$0.219	(\$0.013)	-5.6%
TSS Charges	(\$ / lb)	\$0.522	\$0.542	\$0.020	3.8%
Trucked Waste					
Flow Charges	(\$ / HCF)	\$3.493	\$3.805	\$0.312	8.9%
COD Charges	(\$ / lb)	\$0.232	\$0.219	(\$0.013)	-5.6%
TSS Charges	(\$ / lb)	\$0.522	\$0.542	\$0.020	3.8%
Stormwater Transportation					
Flow	(\$ / HCF)	\$4.242	\$4.539	\$0.297	7.0%
(1) (Council approved	rates to be effe	ctive January	1, 2025	I

Rate Projection for FY 2026 - FY 2029

FY 2026 - FY 2029 Wastewater Service Charges (\$/Month)								
Current	Proposed	Proposed	Proposed	Proposed				
FY 2025 (1)	FY 2026	FY 2027	FY 2028	FY 2029				
\$15.75	\$17.82	\$18.89	\$20.40	\$22.03				
\$15.75	\$17.82	\$18.89	\$20.40	\$22.03				
\$15.75	\$17.82	\$18.89	\$20.40	\$22.03				

FY2026 - FY2029 Wastewater Commodity and Strength Charges								
Current FY 2025 (1)	Proposed FY 2026	Proposed FY 2027	Proposed FY 2028	Proposed FY 2029				
\$5.3320	\$5.583	\$5.918	\$6.391	\$6.903				
\$5.3320	\$5.583	\$5.918	\$6.391	\$6.903				
#2.5550	#2.0/2	# 4 0 00	¢ 4 50 ¢	# 4 000				
\$3.5550	\$3.962	\$4.200	\$4.536	\$4.899				
\$0.2320	\$0.219	\$0.232	\$0.251	\$0.271				
\$0.5220	\$0.542	\$0.575	\$0.620	\$0.670				
\$3 4930	\$3 805	\$4 033	\$4,356	\$4 704				
\$0.2320	\$0.219	\$0.232	\$0.251	\$0.271				
\$0.5220	\$0.542	\$0.575	\$0.620	\$0.670				
\$4.2420	\$4.539	\$4.811	\$5.196	\$5.612				
	(1) Council appro	ved rates to be eff	ective January 1, 2	2025				

Recycled Water

Introduction

Recycled water is produced at the North City Plant and the South Bay Plant. The North City Plant operates at an average flow rate of approximately 16 million gallons per day (mgd) and produces approximately 7 mgd of recycled water for distribution to customers through the Northern Water Distribution System. It also uses approximately 1 mgd of recycled water for plant processes. The South Bay Plant operates at an average flow rate of approximately 7 mgd and produces approximately 3 mgd of recycled water.

The City is committed to maximizing recycling and beneficial reuse and is expanding the North City Plant's total wastewater treatment capacity up to 52 mgd with the implementation of the Pure Water Program. Advanced water purification technology will be used to produce potable water from recycled water already treated to Title 22 specifications under the California Code. The Pure Water Program is also expected to reduce flows into the Point Loma Plant, which would reduce the TSS discharged and recycle a valuable and limited resource that is currently discharged to the Pacific Ocean.

The City collects revenues from the sale of recycled water for deposit in the Water Revenue Fund, which is used to pay for the cost of the recycled water distribution system, the operations and maintenance cost for tertiary treatment for recycled water, and then any remaining revenue is transferred to the Sewer Revenue Fund. Revenues from recycled water sales are highly dependent on weather patterns; thus, the City does not rely on it as a rate revenue. Recycled water revenues are considered other operating revenues.

The City provides recycled water service to 794 customers who use approximately 4.36 million HCF annually. The costs incurred to provide recycled water service are accounted for in both the Water Revenue Fund and the Sewer Revenue Fund. A small portion of billing and collection costs related to recycled water customers is also incurred by the wastewater utility. The recycled water transmission and distribution system has an annual depreciation just under \$1.0 million. As part of the wastewater COS, Raftelis developed proposed FY 2026 rates for the recycled water system that are discussed in this section of the report.

RECYCLED SYSTEM REVENUE REQUIREMENT

Table 48 details the calculation of the FY 2026 recycled water revenue requirement which is estimated to be \$22.2 million. Of this amount, approximately \$21.2 million was identified as part of the wastewater cost of service process. This amount reflects the best estimate of FY 2026 Sewer Revenue Fund costs that are incurred to assist in the provision of recycled water service. The remaining FY 2026 recycled revenue requirement is associated with the annual depreciation of the recycled water transmission and distribution assets.

FY 2026 Rec	ycled Revenue Requirement Components	
Revenue Requirement Component	Cost Description	FY 2026
Metro Subsystem & Muni Subsystem O&M		
Metro O&M - Treatment	Wastewater Treatment	\$12,457,183
	Water	\$3,664,983
	Water Meter	\$1,966,218
Metro O&M - Water System Operations	Water Systems Operations	\$17,000
Metro O&M for Billing	Customer Support Services	\$0
Metro Addl Budget Items	Personnel	\$317,261
General and Administrative	Business Support Admin	\$2,248,141
General and Administrative	Operating Division Admin	\$836,186
Muni O&M for Billing	Customer Support Services	\$59,519
Metro Capital	Recycled Share of Metro Capital Revenue Requirment based on Recycled Debt Service as % of Total Non-	\$236,731
	Recycled Share of Muni Capital Revenue Requirment based on Recycled Debt Service as % of Total Non-	
Muni Capital	Recyled Debt Service	\$0
Total Gross Wastewater Costs Allocated to Recycled		\$21,803,222
Non-Rate Revenue Offsets		
Metro Non-Rate Revenue Offset	Recycled Allocation of Operating Fund Interest Earnings	\$571,905
Muni Non-Rate Revenue Offset	Recycled Allocation of Various Muni O&M Offsets	\$2,134
Total Net Wastewater Costs Allocated to Recycled		\$21,229,183
Other Recycled Costs		
Estimated repair and replacemen costs		
for recyced water assets	Recycled Data Inputs Workshweet & Asset Listing	\$990,699
Total Recycled Net Revenue Requirement from Rates		\$22,219,882

Table 48: Test Year FY 2026 Recycled Water Revenue Requirement

RECYCLED WATER MONTHLY SERVICE CHARGES

Table 49 details the revenue requirement components for the FY 2026 recycled water monthly service charge calculation. To arrive at this revenue requirement, 25% of the debt service used to finance the recycled water transportation and distribution system was allocated to the meters and service demand parameter. This recognizes that the transportation and distribution system must stand ready to meet the instantaneous peak demands of recycled water customers. Because the debt service costs do not vary with consumption, they are conceptually suitable for recovery through the monthly service charge.

FY 2026 Calculation of Recycled Monthly Service Charge Unit Cost					
Billing Component	FY 2026				
Billing Component					
Amount Identified as Billing in Wastewater COS Allocations	\$59,519				
Number of Accounts	810				
Annual Unit Cost per Account	\$73.49				
Unit Cost per Bill (12 Bills per Year)	\$6.12				
Meter Capacity Component					
Fixed Recycled Water Costs and Depreciation	\$6,100,763				
Percentage Allocated to Meter Service Charge	25.00%				
Amount Allocated to Meter Service Charge	\$1,525,191				
Equivalent Meters	5,302				
Annual Unit Cost per Equivalent Meter	\$287.69				
Unit Cost per Equivalent Meter (12 Bills per Year)	\$23.97				

Table 49: FY 2026 Recycled Water Monthly Service Charge Unit Cost

Table 50 details the calculation of the proposed FY 2026 monthly service charge for recycled water. As shown in Table 50, the proposed FY 2026 service charge for a 3/4" meter increases from \$21.14 to \$30.10.

Table 50: Proposed FY 2026 Recycled Water Monthly Service Charges

FY 2026 Meter Service Charge Calculation									
Meter Size	Meter Flow Rate Equivalency	Monthly Capacity Component	Monthly Billing Component	Calculated Meter Charge	Current Meter Service Charge	Change - \$	Change - %		
5/8", 3/4"	1.00	\$23.97	\$6.12	\$30.10	\$21.14	\$8.96	42.4%		
1"	1.67	\$39.96	\$6.12	\$46.09	\$32.65	\$13.44	41.2%		
1.5"	3.33	\$79.91	\$6.12	\$86.04	\$61.42	\$24.62	40.1%		
2"	5.33	\$127.86	\$6.12	\$133.99	\$95.93	\$38.06	39.7%		
3"	11.67	\$279.70	\$6.12	\$285.82	\$205.23	\$80.59	39.3%		
4"	21.00	\$503.45	\$6.12	\$509.58	\$366.30	\$143.28	39.1%		
6"	43.33	\$1,038.87	\$6.12	\$1,045.00	\$751.73	\$293.27	39.0%		
8"	93.33	\$2,237.57	\$6.12	\$2,243.69	\$1,614.61	\$629.08	39.0%		
10"	140.00	\$3,356.35	\$6.12	\$3,362.48	\$2,419.97	\$942.51	38.9%		
12"	176.67	\$4,235.39	\$6.12	\$4,241.52	\$3,052.75	\$1,188.77	38.9%		
16"	260.00	\$6.233.22	\$6.12	\$6.239.35	\$4,490,89	\$1.748.46	38.9%		

Table 51 shows the calculation of the FY 2026 revenue requirement for recycled water commodity charges. As shown in this table, of the total FY 2026 recycled revenue requirement of \$22.2 million, approximately \$20.6 million is recovered through commodity rates.

FY 2026 Commodity Rate Calculation					
Component	FY 2026				
Total Revenue Requirement	\$22,219,882				
Less: Meter Service Charge Revenue Recovery	\$1,584,757				
Net Volumetric Revenue Requirement	\$20,635,125				
Projected Test-Year Sales (AF)	10,000				
Gallons	3,258,510,000				
HCF	4,356,006				
Unit Cost per HCF	\$4.74				

Table 51: FY 2026 Recycled Water Commodity Revenue Requirement

Table 52 compares the proposed FY 2026 recycled water commodity rate of \$4.74 per HCF to the FY 2025 rate of \$2.46 per HCF which is a \$2.28 increase.

FY 2026 Commodity Rate (\$/HCF)							
		FY 2026					
	Current	Calculated					
Customer Class	FY 2025 (1)	Charge	Change - \$	Change - %			
All Consumption	\$2.46	\$4.74	\$2.28	92.6%			
(1) Council approved rates to be effective January 1.2025							

Table 52: Proposed FY 2026 Recycled Water Commodity Rate

Table 53 provides a summary of the projected recycled water service rates for FY 2026 and a projection of recycled water rates through FY 2029. The projected rates for FY 2027 through FY 2029 are based on FY 2026 cost of service rates increased on the same percentage basis as the overall systemwide percentage revenue increase specified in Table 1, Projected Rate Revenue Adjustments.

Table 53: Proposed Recycled Water Rates FY 2026 - FY 2029

Rate Projection for FY26 - FY29

FY 2026 Recycled Water Monthly Service Charges (\$/month)		FY 2026 - FY 2029 Recycled Water Monthly Service Charges (\$/Month)					
		Current	Proposed	Proposed	Proposed	Proposed	
Meter Size		FY 2025 (1)	FY 2026	FY 2027	FY 2028	FY 2029	
5/8", 3/4"	\$/Month	\$21.14	\$30.10	\$31.91	\$34.46	\$37.22	
1"	"	\$32.65	\$46.09	\$48.86	\$52.76	\$56.98	
1.5"	"	\$61.42	\$86.04	\$91.20	\$98.50	\$106.38	
2"	"	\$95.93	\$133.99	\$142.03	\$153.39	\$165.66	
3"	"	\$205.23	\$285.82	\$302.97	\$327.21	\$353.38	
4"		\$366.30	\$509.58	\$540.15	\$583.37	\$630.04	
6"	"	\$751.73	\$1,045.00	\$1,107.70	\$1,196.32	\$1,292.02	
8"		\$1,614.61	\$2,243.69	\$2,378.31	\$2,568.58	\$2,774.06	
10"	"	\$2,419.97	\$3,362.48	\$3,564.23	\$3,849.37	\$4,157.32	
12"	"	\$3,052.75	\$4,241.52	\$4,496.01	\$4,855.69	\$5,244.15	
16"		\$4,490.89	\$6,239.35	\$6,613.71	\$7,142.81	\$7,714.23	

FY 2026 Recycled Water Commodity Rates		FY2026 - FY2029 Recycled Water Commodity Rates				
		Current	Proposed	Proposed	Proposed	Proposed
Customer Class		FY 2025 (1)	FY 2026	FY 2027	FY 2028	FY 2029
All Consumption (\$ /	HCF)	\$2.46	\$4.74	\$5.02	\$5.42	\$5.86
(1) Council approved rates to be effective January 1, 2025						