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Contracts are a non-personnel expense category that includes the cost of professional consultant fees, general government services billing, rent, city services billings, fleet vehicle usage and assignment fees, contractual services, and other contractual expenses. Table 5.5 displays the FY 2021 unaudited actuals and projections through FY 2027 for the Contracts category.

Table 5.5 - Baseline Contracts (\$ in Millions)							
	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027
Growth Rate	N/A	23%	1.6%	1.2%	1.3%	2.0%	2.5%
Projection	\$81.9	\$100.4	\$102.0	\$103.2	\$104.5	\$106.6	\$109.3

The Contracts category includes various components that have different applicable growth rates. Growth rates for each category are based on historical analysis and other adjustments based on known and anticipated events, including prior critical strategic expenditures and anticipated contract expirations. Historically, PUD's actual operating expenditures have been lower than budgeted amounts; expenses in FY 2022 and FY 2023 have incorporated this trend into the forecast. The growth from FY 2021 to FY 2022 is partially due to several new additions in FY 2022 to address condition assessments and fund more proactive maintenance at critical wastewater facilities, including the Metropolitan Biosolids Center and PLWTP.

## Critical Strategic Expenditures

Table 5.6 - Critical Strategic Expenditure - Contracts (\$ in Millions)					
Request	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027
Pure Water Phase 1- Operations	\$657,034	\$1,377,068	\$5,886,267	\$5,886,267	\$657,034
Pure Water Phase 2- Program Management	\$1,000,000	\$3,000,000	\$3,000,000	\$3,000,000	\$3,000,000
PLWTP Road Erosion Monitoring	\$2,860,000	\$1,360,000	\$1,360,000	\$360,000	\$0
<b>Total Expense</b>	<b>\$4,517,034</b>	<b>\$5,737,068</b>	<b>\$10,246,267</b>	<b>\$9,246,267</b>	<b>\$3,657,034</b>

Table 5.6 identifies increased contractual expenditures in several areas. Significant expenditures are associated with increased support for Phase 1 of the Pure Water Program as it comes online, program

management for Phase 2 and traffic control and monitoring due to erosion along the roadway to the PLWTP.

## Information Technology

The Information Technology category includes both discretionary expense and non-discretionary allocations. The Information Technology category includes the costs related to hardware and software maintenance, help desk support, and other information technology (IT) services. Table 5.7 displays the FY 2021 unaudited actuals and projections through FY 2027 for the Information Technology category.

Table 5.7 - Baseline Information Technology (\$ in Millions)							
	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027
YOY Growth	N/A	122%	3.1%	1.1%	1.1%	2.0%	2.0%
Projection	\$6.7	\$15.0	\$15.4	\$15.6	\$15.8	\$16.1	\$16.4

The projections include estimates of IT costs and systems critical to treatment plant. Expenditures were inflated by 2% to account for potential cost increases in IT services and hardware/software products. The majority of the growth is seen in centralized IT costs maintained by the Department of IT, which had several large contracts re-procured in FY 2022 resulting in higher rates moving forward. The growth from FY 2021 to FY 2022 looks especially high due to the higher central Department of IT costs in FY 2022 and spending in FY 2021 that was lower than historical levels by the Department of IT.

## Critical Strategic Expenditures

No new critical strategic expenditures were identified in the Information Technology expenditures category.

## Energy & Utilities

The Energy & Utilities category includes costs for electricity, water services, fuel, and other utility and energy expenses. Table 5.9 displays the FY 2021 unaudited actuals and projections through FY 2027 for the Energy & Utilities category.

Table 5.9 - Baseline Energy & Utilities (\$ in Millions)							
	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027
YOY Growth	N/A	0%	14.2%	0.4%	0.4%	0.4%	0.5%
Projection	\$20.0	\$19.9	\$22.7	\$22.8	\$22.9	\$23.0	\$23.1

The Energy & Utilities category includes various costs including prior critical strategic expenditures. Each cost component (electricity, natural gas, gasoline, etc.) has a different applicable rate, that considered base increases in the expenditure categories., which is consistent method used in the cost of service process.

### Critical Strategic Expenditures

Table 5.10 - Critical Strategic Expenditures - Energy & Utilities (\$ in Millions)					
Request	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027
Pure Water Phase 1- Operations	\$0	\$0	\$416,434	\$4,164,343	\$4,164,343
<b>Total Expense</b>	<b>\$0</b>	<b>\$0</b>	<b>\$416,434</b>	<b>\$4,164,343</b>	<b>\$4,164,343</b>

Table 5.10 identifies increased energy and utility expenditures for the Wastewater System. Contractual Energy. Expenditures for Pure Water are necessary as new and expanding Pure Water facilities come online and include expenditures for the Morena pump station, North City Water Reclamation Plant, and the Metropolitan Biosolids Center.

### Other Expenditures

Expenses included in this category are transfers to other funds, capital expenses, and other miscellaneous expenditures. Debt service obligations, including bond and State Revolving Fund (SRF) loan payments, are excluded from this category and are discussed in detail within the Wastewater System Capital Improvements Program section of this report. Table 5.11 displays the FY 2021 unaudited actuals and projections through FY 2027 for the Other Expenditures category.

Table 5.11 - Baseline Other Expenditures (\$ in Millions)							
	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027
YOY Growth	N/A	8%	(16.8%)	0.0%	0.0%	0.0%	0.0%
Projection	\$6.1	\$6.6	\$5.5	\$5.5	\$5.5	\$5.5	\$5.5

No growth rate was applied to Other Expenditures as the expenses in this category do not typically recur on an annual basis. The FY 2022 projection is based on the FY 2022 Adopted Budget which contained several one-time capital expenses that are not expected to be re-occurring

### Critical Strategic Expenditures

No new critical strategic expenditures were identified in the other expenditures' category.

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## Reserves Contributions

The City has established accounts within the Sewer Revenue Fund for three reserve funds: The Emergency Operating Reserve (Operating Reserve), the Rate Stabilization Fund Reserve (Rate Stabilization Fund), and the Emergency Capital Reserve (Capital Reserve). The Department operates these reserve funds in accordance with the City's reserve policy. At the end of FY 2022, the Sewer Revenue Fund is estimating total reserves of approximately \$152.2 million. Table 5.13 details reserve targets and projected funding levels. Reserves are projected to be fully funded throughout the PUD Outlook period. The Sewer Fund's Rate Stabilization Fund is funded above targeted levels; it is being used to mitigate the need for sudden or dramatic rate increases over the PUD Outlook period.

<b>Table 5.13 - Reserve Target Levels and Estimated Funding Levels</b>						
<b>(\$ in Millions)</b>						
	<b>FY</b>	<b>FY</b>	<b>FY</b>	<b>FY</b>	<b>FY</b>	<b>FY</b>
	<b>2022</b>	<b>2023</b>	<b>2024</b>	<b>2025</b>	<b>2026</b>	<b>2027</b>
Operating Reserve Target (\$)	\$54.1	\$55.6	\$56.9	\$58.5	\$61.4	\$62.8
Operating Reserve Level (\$)	\$54.1	\$55.6	\$56.9	\$58.5	\$61.4	\$62.8
Rate Stabilization Fund Target (\$)	\$18.1	\$19.8	\$18.8	\$19.4	\$19.9	\$20.6
Rate Stabilization Fund Level (\$)	\$89.1	\$50.7	\$45.8	\$33.1	\$38.7	\$27.6
Capital Reserve Target (\$)	\$10.0	\$10.0	\$10.0	\$10.0	\$10.0	\$10.0
Capital Reserve Level (\$)	\$10.0	\$10.0	\$10.0	\$10.0	\$10.0	\$10.0

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## Wastewater System Capital Improvements Program

The Wastewater System CIP is established to address current and future system needs in a cost-effective manner. The program’s principal drivers are:

- implementation of the Pure Water Program;
- improving infrastructure to reduce emergency spills and repairs;
- improving process technology;
- expansion of the Wastewater System to accommodate growth; and
- ongoing replacement and rehabilitation of 45 miles of sewer pipelines each year.

Infrastructure improvements generally consist of wastewater treatment plants, pipelines, pump stations, and projects required by or related to applicable State and Federal regulations and orders. The Wastewater System’s CIP for this PUD Outlook period includes improvements to the Wastewater System infrastructure, as well as Phase 1 and Phase 2 of the multi-year Pure Water Program.

Table 6.1 shows categories of projects with the estimated cost of expenditures contained in the CIP for the period of FY 2023 through FY 2027.

Table 6.1 - Summary of Projected CIP Projects Fiscal Year 2023-2027 (\$ in Millions)								
Wastewater CIP Projects	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027	Outlook Total
Pure Water Program	\$14.1	\$210.9	\$242.8	\$109.8	\$42.6	\$11.4	\$16.2	\$422.8
Trunk Sewers	\$3.2	\$10.0	\$51.2	\$44.8	\$37.5	\$51.7	\$12.6	\$197.8
Municipal Pump Station	\$3.1	\$0.2	\$0.1	\$0.1	\$0.1	\$0.1	\$0.1	\$0.4
Sewer Pipelines	\$65.9	\$75.1	\$68.4	\$88.4	\$99.9	\$48.7	\$53.0	\$358.3
Miscellaneous Projects	\$1.9	\$7.1	\$14.0	\$17.6	\$30.3	\$37.8	\$15.5	\$115.3
SDG&E Relocation	\$0.0	\$28.4	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
Sewer Treatment Plants	\$3.2	\$29.0	\$32.4	\$25.2	\$12.9	\$2.1	\$0.4	\$73.0
Large Sewer Pump Station	\$10.3	\$9.6	\$6.3	\$3.7	\$7.6	\$8.4	\$4.0	\$30.0
Recycled Water	\$0.0	\$0.4	\$0.4	\$0.4	\$0.4	\$0.4	\$0.4	\$1.9
<b>Total</b>	<b>\$101.7</b>	<b>\$370.6</b>	<b>\$415.6</b>	<b>\$289.9</b>	<b>\$231.2</b>	<b>\$160.6</b>	<b>\$102.1</b>	<b>\$1,199.5</b>

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## Capital Improvements Program (CIP) Financing Plan

Table 6.2 below describes the projected sources of funds to finance the Water System CIP during the PUD Outlook Period for FY 2023 through FY 2027; FY 2021 and FY 2022 activity are provided for reference and are not a part of the PUD Outlook Period.

PUD anticipates incurring approximately \$476 million of additional debt obligations for the Baseline Wastewater System CIP and \$436.1 million of additional obligations for the Pure Water CIP over the PUD Outlook period. Additional amounts will be funded with capacity fee revenue and cash. Although grant funding is currently not reflected during the PUD Outlook period, the Department is actively applying for additional grant funding and continually searching for new grant opportunities. Any grant funding awarded will be used to offset cash funding. Please note fiscal years that show the use of negative cash reflect reimbursement of prior cash expenditures from grant, bonds, or loans.

Table 6.2 - Revenues Sources for the Wastewater Capital Improvement Program								
(\$ in Millions)								
Revenue Sources	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027	OUTLOOK TOTAL
<b>Pure Water CIP</b>								
SRF Loans	\$0.0	\$210.2	\$226.2	\$139.7	\$57.2	\$11.8	\$1.2	\$436.1
Grants	\$0.0	\$12.9	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
Capacity Fees/Cash	\$14.1	(\$12.2)	\$16.6	(\$29.9)	(\$14.6)	(\$0.5)	\$15.1	(\$13.3)
<b>Total</b>	<b>\$14.1</b>	<b>\$210.9</b>	<b>\$242.8</b>	<b>\$109.8</b>	<b>\$42.6</b>	<b>\$11.4</b>	<b>\$16.2</b>	<b>\$422.8</b>
<b>Baseline CIP</b>								
Revenue Bonds	\$0.0	\$150.0	\$0.0	\$110.0	\$120.0	\$0.0	\$0.0	\$230.0
SRF Loans	\$8.2	\$4.6	\$27.2	\$20.0	\$39.8	\$113.5	\$45.5	\$246.0
Grants	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
Capacity Fees/Cash	\$79.3	\$5.1	\$145.7	\$50.1	\$28.9	\$35.7	\$40.3	\$300.6
<b>Total</b>	<b>\$87.6</b>	<b>\$159.7</b>	<b>\$172.8</b>	<b>\$180.1</b>	<b>\$188.6</b>	<b>\$149.2</b>	<b>\$85.9</b>	<b>\$776.7</b>
<b>Total Funding</b>	<b>\$101.7</b>	<b>\$370.6</b>	<b>\$415.6</b>	<b>\$289.9</b>	<b>\$231.2</b>	<b>\$160.6</b>	<b>\$102.1</b>	<b>\$1,199.5</b>

The City anticipates financing all (approximately \$655 million) of the Wastewater System's portion of Pure Water Phase 1 through low-interest State Revolving Fund (SRF) loans which will provide funding through FY 2027. The SRF proceeds will reimburse not only projected expenditures for FY 2023 through FY 2027, but also expenditures from prior years. Because SRF loans are provided on a reimbursable basis, cash is initially used to fund construction before reimbursements are received; this is reflected in the Table 6.2 by negative cash values for Pure Water financing in FY 2024 through FY 2026.

As noted in the discussion of the Water System CIP, SRF loans are one of the least expensive sources of financing available to the City. If the City is not awarded the SRF loans projected over this PUD

Outlook period, it will need to seek financing sources that carry higher interest rates. Such financing sources could impact the schedule of projected CIP projects.

The City anticipates financing approximately \$246.0 million of the Wastewater System baseline CIP with SRF loans in FY 2023 through FY 2027. This includes approximately \$5.8 million from existing SRF loans which the City has already secured, and \$240.2 million from loans for which the City has applied or is in the process of applying. Additionally, the City anticipates financing approximately \$230.0 million of the Wastewater System Baseline CIP through revenue bonds over the same period. It is expected that a total of \$300.6 million will come from capacity fees and cash on a pay-as-you-go-basis.

### Debt Service Coverage Ratio

Similar to the Water System, as the Wastewater System makes use of various financing instruments to fund its capital program, it is important that it maintain good financial metrics to ensure its creditworthiness and its ability to issue debt at advantageous terms. One of the key components to measuring the Wastewater System’s credit quality is its debt service coverage ratio (DSCR). The DSCR is a measure of a system’s ability to make payments on its existing and projected debt service and compares the system’s net operating revenues against its debt service payments.

While variations in revenues and expenditures will result in varying DSCRs in given years, the Department generally targets a DSCR of 1.5x, a financial target that gives the Wastewater system the ability to maintain high credit quality leading to continued low borrowing rates. Additionally, the Department’s bond covenants require it to maintain a DSCR of 1.2x for its senior debt and 1.1x for its aggregate debt. Table 6.3 displays the FY 2021 unaudited DSCR and projections through FY 2027.

<b>Table 6.3 - Estimated Debt Service Coverage Ratios (\$ in Millions)</b>						
	<b>FY 2022</b>	<b>FY 2023</b>	<b>FY 2024</b>	<b>FY 2025</b>	<b>FY 2026</b>	<b>FY 2027</b>
Net System Revenues	\$146.9	\$158.6	\$133.5	\$145.5	\$124.8	\$156.3
Debt Service	\$105.1	\$116.1	\$100.1	\$106.3	\$89.2	\$107.7
<b>Debt Service Coverage Ratio</b>	<b>1.40 x</b>	<b>1.37 x</b>	<b>1.33 x</b>	<b>1.37 x</b>	<b>1.40 x</b>	<b>1.45 x</b>

During the PUD Outlook period the debt service peaks in FY 2023, reflecting the first debt service payments for the bond issuance planned in the latter half of FY 2022. Debt service continues to decline as the City approaches payback of the 2015 sewer bonds through FY 2027 and then trends upwards as debt service on SRF loans for Pure Water Phase 1 become due with substantial completion of the project. The changes in net system revenue are discussed in the expenditure and revenues sections of this report.



## Wastewater System Revenues

The following section provides details of revenue projections for the Sewer Revenue Funds. The primary revenue sources of the Wastewater System are generated from wastewater service charges, capacity fees, interest earnings from the investments of available funds, and revenues from the Participating Agencies. This section will discuss in detail each revenue category and will include a description of the revenue source, projected growth rates, and a discussion of future revenue streams and how they impact the Wastewater System.

### Sewer Service Charges

**Background.** PUD manages and operates the Wastewater System with funds derived primarily from service charges that are deposited in the Sewer Revenue Funds and are used for the operation, maintenance and capital improvements of the Metropolitan Sub-System and the Municipal Sub-System.

The City establishes fees based upon the costs incurred by the City to collect, treat and discharge wastewater and covering debt service on capital improvements.

Sewer service charges are based on the characteristics of the wastewater discharged by each wastewater user. All wastewater users are charged based upon the amount of flow, and the solids and organic material which they discharge into the Sewer System. As sewage discharge is not metered, water consumption is used to approximate each customer's sewage flow.

Sewer service charge revenues are comprised of two parts: a base fee and a sewer service charge (flow charge). The base fee is a fixed service fee charged to all customers to recover certain fixed and indirect costs. The flow charge is based on the amount (flow) and strength of the wastewater discharged to the system and incorporates allowances for system return that differs by customer class. This adjustment factor recognizes that not all water consumed discharges to the Wastewater System. The flow charge for both Single Family Residential (SFR) and Multi-Family Residential (MFR) customers include a 95% return to sewer factor, while Commercial/Industrial (C/I) customers average between a 73% and 79% return to sewer factor, which varies depending on the type of business. Additionally, the flow charge for SFR customers is based on the least amount of water used during the previous winter and includes a water usage cap of 20 HCF.

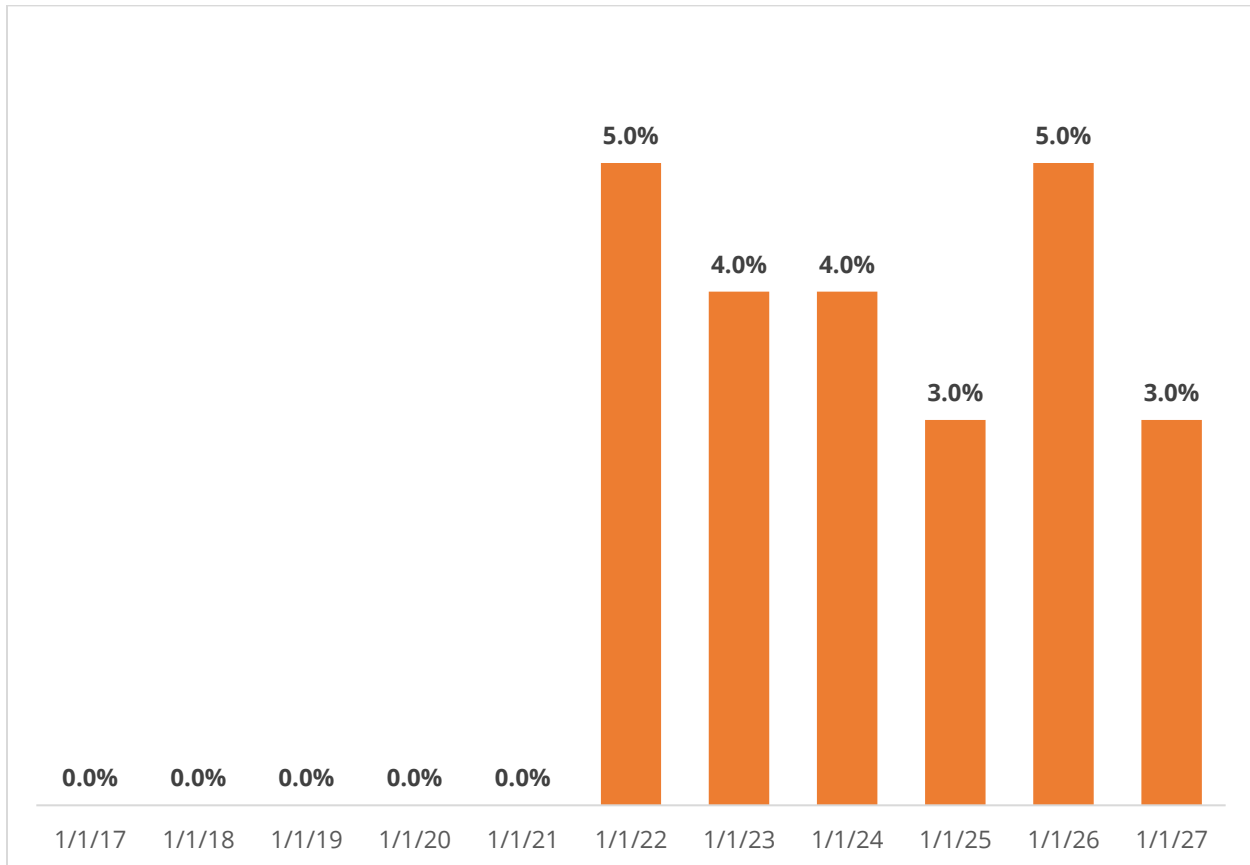
**Wastewater Service Charge Rate Increases** The City Council approved the Department's Wastewater Rate Case in September of 2021 (the 2021 Rate Case). The 2021 Rate Case covers increases for four years from January 1, 2022 to January 1, 2025 and was based on comprehensive forecasted annual operations and maintenance costs and projected capital expenditures. The 2021 Rate Case included a maximum rate increases of 5.0% on January 1, 2022, 4.0% on January 1, 2023, 4.0% on January 1, 2024, and 3.0% on January 1, 2025. This was the first wastewater rate increase in over 10 years.

#### **Assumed Rate Increase on January 1, 2022**

Based on projected expenditure and revenue needs, this PUD Outlook maintains the rate increases included in the 2021 Rate Case and assumes the first increase will be implemented at the maximum

level of 5.0%. This is consistent with the Department’s proposal as presented to City Council in September 2021, which discussed the importance on the first year of rate increases to the Wastewater System’s long-term financial health. The PUD Outlook currently assumes the maximum 4% increase is implemented on January 1, 2023. The Department will include in the FY 2023 Budget presentation the level of rate increase assumed for January 2023

**Figure 7.1 – Wastewater Rate Increases assumed in the Outlook.**



**Forecast** Table 7.2 displays the FY 2021 unaudited actuals and projections through FY 2027 for wastewater sewer service charge revenue. This revenue source represents approximately 71% of the Sewer Revenue Funds’ overall revenue receipts. The forecast assumes a 0.25% increase in accounts and reflects rate increases beginning January 1, 2022 and each January thereafter

Table 7.2 - Sewer Service Charge Revenue (\$ in Millions)							
	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027
YOY Growth	N/A	1.9%	1.9%	4.1%	3.6%	4.3%	6.1%
Projection	\$276.7	\$281.8	\$287.3	\$299.2	\$310.1	\$323.5	\$343.2

**Economic Trends.** Overall demand for sewer services closely tracks with population growth and overall water use. The demand for sewer services within the City’s service area is projected to increase moderately as the population continues to grow and development expands. The average demand over the last five years has not grown significantly, with some small growth in demand largely caused by increases in population.

**Sensitivity Analysis.** While these projections represent PUD’s best estimate of wastewater revenues throughout the PUD Outlook period, actual results will depend on the factors discussed above. The impact in revenue from potential rate increases ranges from \$2.9 to \$3.4 million for each percent added or subtracted from projected rate increases depending on the year in which sewer service charges are adjusted.

### Wastewater Capacity Charges

**Background.** Capacity charges are development fees with in permits for new or expanded wastewater connections and are based on an estimate of the increase in wastewater discharge as measured by equivalent dwelling units (EDU). Capacity charge proceeds are used to construct, improve and expand the Wastewater System to accommodate the additional impacts of such added dwellings or commercial or industrial units.

As with water capacity charges, wastewater capacity charges can be applied only for the purpose of paying costs associated with capital expansion, bonds, contracts, or other indebtedness of the Wastewater System related to expansion. Because capacity charges are primarily collected on new construction within the City, revenues obtained from such charges vary based upon construction activity.

In September 2021, the City Council approved raising the capacity charge to \$5,154 per EDU, which was estimated to provide for full cost recovery for Wastewater System expansion projects.

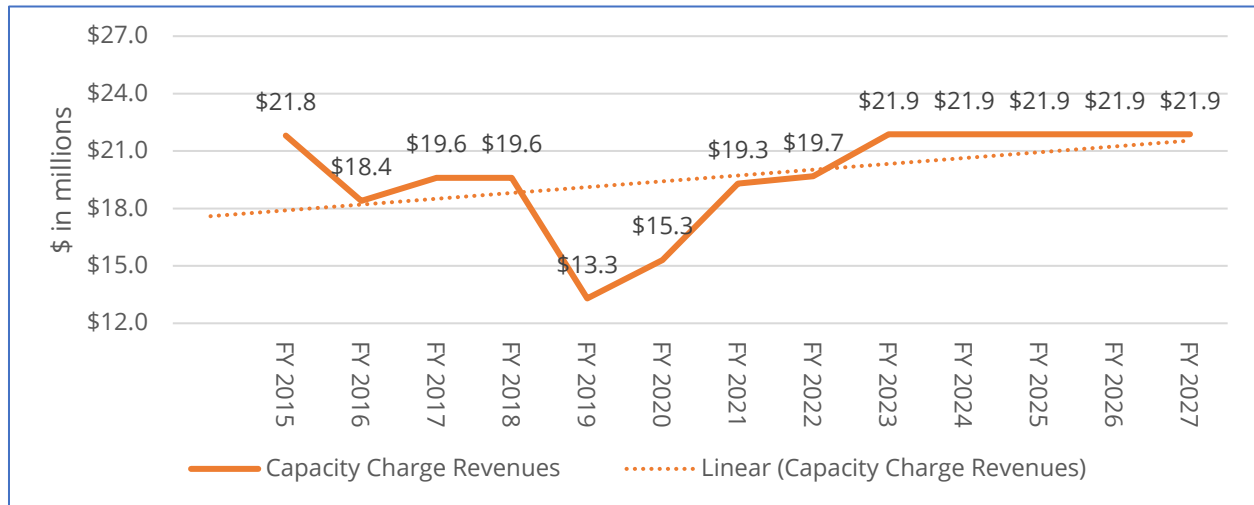
**Forecast.** Table 7.3 displays the FY 2021 unaudited actuals and projections through FY 2027 for wastewater capacity charge revenue. This revenue source represents approximately 5% of the Wastewater System’s overall revenue receipts.

Table 7.3 - Capacity Charge Revenue (\$ in Millions)							
	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027
YOY Growth	N/A	2.1%	11.1%	0.0%	0.0%	0.0%	0.0%
Projection	\$19.3	\$19.7	\$21.9	\$21.9	\$21.9	\$21.9	\$21.9

Projected revenues for wastewater capacity charges use conservative growth estimates based on trends from FY 2016 through FY 2021. Average wastewater capacity fee revenue between FY 2015 and FY 2021 was approximately \$18.2 million. Capacity fee projections of \$21.9 million over the PUD

Outlook period are based on this average and take into account the 25% increase in capacity fee charges scheduled to go into effect on January 1, 2022.

**Figure 7.4 - Sewer Capacity Charge Revenue Forecast**



**Economic Trends.** As previously mentioned, wastewater capacity charges are primarily based on new wastewater connections related to new construction and are directly influenced by population growth and residential and commercial development. As discussed in the Water Capacity Charges section of this report, the City of San Diego's population has grown by approximately 7% between the 2000 Census and the 2010 Census for an aggregate increase of 84,000. As population continues to increase in the region, the demand for housing and business creation is also expected to increase proportionate to population demands. Projections mirror those of Water Capacity Charges by remaining flat. For a more detailed discussion on population and housing growth, refer to the Water Capacity Charges section of this report.

## Other Revenue

The primary component of the Other Revenue category is revenue received from Participating Agencies (PAs) for use of the City's wastewater treatment system. As discussed earlier, PAs are other cities and districts that collect wastewater from their customers and send it to the City's wastewater treatment facilities. Each PA pays for its actual impact on the Wastewater System based on a measurement of the strength and flow of wastewater. Revenue from the PAs averages \$80.1 million per year over the PUD Outlook period and represents approximately 75% of revenues in the Other Revenue category. The Other Revenue category also includes revenue received for the sale of recycled water, interest on pooled investments, reimbursements from services provided to other City departments/funds, grants revenue, and other miscellaneous revenues.

Table 7.5 displays the FY 2021 unaudited actuals and projections through FY 2027 for the Other Revenue category.

Table 7.5 - Other Revenue Projections (\$ in Millions)							
	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027
YOY Growth	N/A	23.5%	(19.0%)	2.4%	1.3%	1.1%	0.7%
Projection	\$103.2	\$127.4	\$103.2	\$105.7	\$107.1	\$108.3	\$109.0

The increase in FY 2022 is the projected receipt of \$25 million in funding from SB 129 for expenses related to Phase 1 of the Pure Water project. Also, the increase in FY 2024 and onward over the FY 2021 activity reflects new revenue associated with the sale of recycled water from the North City Water Reclamation Plant and increased rates charged on recycled water sales.