

# City of Guadalupe, CA

Report

## Comprehensive Utility Rate Study





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# Section 1 – Executive Summary

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## 1.1 Introduction

Willdan Financial Services (Willdan) is pleased to submit to the City of Guadalupe (the “City”) the Water and Sewer Rate Study report (the “Report”) for your consideration. Willdan has completed the study of the City’s water and sewer rates and summarized the results of the investigations, analyses and conclusions in this Report.

The City owns and operates water and sewer facilities providing utility services to residential and nonresidential customers within its incorporated limits. During recent years, the City has focused a significant amount of attention and effort on strategic planning measures in all areas of utility operations to ensure that it remains prepared for the future. As part of its ongoing strategic planning efforts, the City has commissioned Willdan to perform a water and sewer rate study to analyze the revenue sources and expenditures of the utility system and provide recommendations for proposed rate and/or rate structure adjustments to meet the financial and administrative goals and objectives of the City. The primary objectives of the rate study include:

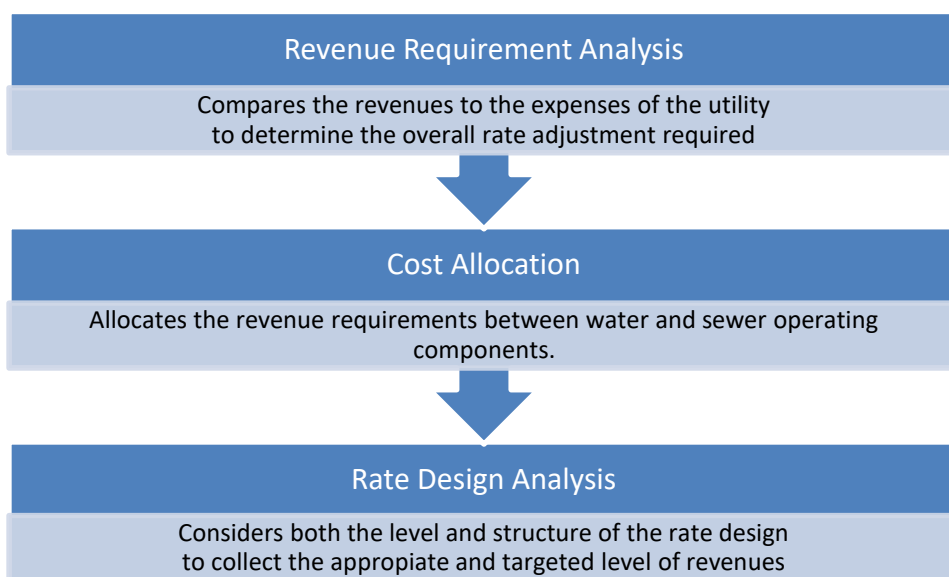
- Full cost recovery (i.e., operating costs, debt and other expenditure requirements);
- Cost-based rate structure;
- Consistency with American Water Works (“AWWA”) and Water Environment Federation (“WEF”) guidelines;
- Equity among customer classes;
- Administrative efficiency (i.e., easy to understand and implement); and
- 5-Year capital funding plan.

## 1.2 Overview of the Rate Study Process

The study develops water and sewer financial plans for the upcoming 5-year planning period and includes the development of projected rates to meet the financial needs of each utility system. Utility rates must be set at a level such that operating, maintenance, debt and capital expenses are funded with the revenues received from customers. In addition, the revenues generated from utility rates must only be used for this purpose and for each system separately. This is a significant point, as failure to achieve the needed revenues can lead to unacceptable service levels and inadequately maintained facilities. Therefore, a rate study typically consists of following three interrelated analyses:



- I. **Financial Planning/Revenue Requirement Analysis:** Creates a five-year plan to support an orderly, efficient program of on-going maintenance and operating costs, capital improvement and replacement activities, debt financing, and retirement of outstanding debt. In addition, the plan should fund and maintain appropriate reserve balances based on industry standards, as well as the City's fiscal policies and specific needs.
- II. **Cost Allocation:** Separates costs between the water and sewer operating systems to ensure that each system is recovering its allocated costs for providing service.
- III. **Rate Design:** Develops an equitable and proportionate fixed/variable schedule of rates for the City's customer base. The policy objectives are coordinated with financial objectives to achieve a balance between customer equity and financial stability goals. The balance of fixed and variable charges considers the need for a stable revenue source (the fixed charge) and the variable component of the rate structure such that customers placing higher costs on the system (through higher water and sewer use) incur a higher bill reflective of their impact on the system.



This rate study utilizes generally accepted rate-making principles and standards established by such industry experts as the AWWA in its "M1 - Principles of Water Rates Fees and Charges" manual and WEF in its "Financing and Charges for Sewer Systems, Manual of Practice No. 27". The principles established by these entities are used as guidelines in the development of the proposed rates for water and sewer. A discussion of some of the key principles of rate-making is presented in the following subsection of this Report.



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## 1.3 Summary of Proposed Rates

The rate study methodology applied in the development of updated water and sewer rates, and outlined in this Report, consisted of reviewing the historical operating results of the water and sewer utility systems, analyzing the budget to identify the net revenue requirements to be recovered from user rate revenues and revising the rates based on the applicable costs and expenditures to be recovered from user rates. The allocated revenue requirements were utilized in conjunction with the rate determinants and rate structure to develop proposed rates for water and sewer.

The findings and conclusions of the rate analysis, as well as the resulting revised rate recommendations, were utilized to develop a projection of future operating results for a 5-year planning period from fiscal year 2022 (beginning July 1, 2021) through fiscal year 2026 (ending June 30, 2026), herein referred to as the "Projection Period". The purpose for developing the 5-year projections is to demonstrate the financial capability of the water and sewer revenues to support system operations and fund planned capital improvements. The analyses, findings and accompanying recommendations are presented in the subsequent sections of the Report.

The water and sewer rate analyses described in the Report are performed based on the general guidelines of the defined objectives, as well as common industry standards for setting utility rates. In addition to focusing on these major objectives, the rate analyses performed herein will consider other factors in designing rates. As will be discussed in detail later in the Report, such other rate considerations generally include sensitivity to the impact on existing customers, the relative comparability with neighboring utilities, the City's existing rate structure, and the impact on future development. In accordance with discussions with the City, the proposed water and sewer rates have an assumed implementation effective February 1, 2022 (or other such date as determined by the City) for fiscal year 2021/22 (fiscal year 2022, herein referred to as the "Test Year") are provided in **Tables 1 and 2**, respectively.



**Table 1 – Proposed Water Rates**

Description	Rate
<b>Basic Rate <sup>(1)</sup>:</b>	
All Customers (Up to 500 Cubic Feet/Mo)	\$ 32.00
<b>Volumetric Rates Per 100 Cubic Feet</b>	
All Flow Over 500 Cubic Feet Per Month	\$ 5.34
<b>Notes:</b>	
(1) The basic rate includes 500 cubic feet of flow. All flow over 500 cubic feet is billed at \$5.34 per 100 cubic feet.	

**Table 2 – Proposed Sewer Rates**

Description	Rate
<b>Basic Rate:</b>	
Residential <sup>(1)</sup>	\$ 54.30
Commercial (Up to 500 Cubic Feet/Mo)	\$ 54.30
<b>Commercial Volumetric Rate Per 100 Cubic Feet <sup>(2)</sup>:</b>	
All Flow Over 500 Cubic Feet Per Month	\$ 2.29
<b>Notes:</b>	
(1) Residential Customers are billed a flat monthly fee regardless of usage.	
(2) For commercial customers, the basic rate includes 500 cubic feet of flow. All flow over 500 cubic feet is billed at \$2.29 per 100 cubic feet.	



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## Section 2 – Revenue Sufficiency Analysis

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### 2.1 Financial Planning Principles

While the individual rates for each of the utility systems vary based on a variety of factors, rates should be consistent with common rate-making principles within the utility industry. The guiding principle is that rates designed for utility service should provide a reasonable balance between several key factors. In general, utility rates should:

- Generate a stable revenue stream that, when combined with other sources of funds, is sufficient to meet the expenditure requirements and goals of the system;
- Be based upon the proportionate cost of providing the service and not exceed the cost of providing the service;
- Be equitable to generate revenue such that no customer class is unnecessarily burdened to the benefit of other customer classes;
- Be easy to understand by customers; and
- Be easy to administer by the utility.

Striking the appropriate balance between the principles of rate-making is the result of a detailed process of evaluation of revenue requirements, and how those translate into the rate design alternatives which meet legal requirements and the specific objectives of the utility under the circumstances in which it operates.

### 2.2 Existing Rates

The City has established user rates that are applied to the retail customers (residential and non-residential) of the system. The rates charged for water and sewer service are approved by the City Council and are not subject to administrative review or approval by any other local or state agency. The City has historically adjusted rates, as necessary, to provide for recovery of financial obligations including operating expenses, debt service, capital expenditures and any other expenses and transfers.

The existing water rates consist of 1) a monthly basic rate that designates the minimum amount a customer will pay, and 2) a volumetric rate per 100 cubic feet (CF) based upon the amount of monthly metered water usage. All customers pay the same monthly basic rate regardless of the size of the metered connection. The monthly basic rate also includes 600 CF of flow. The volumetric rates apply a uniform rate structure such that the rate per CF is the same for all units of flow over 600 CF. The existing rates for water service are provided in **Table 3**.



**Table 3 – Water Existing Rates**

Description	Rate
<b>Basic Rate <sup>(1)</sup>:</b>	
All Customers (Up to 600 Cubic Feet/Mo)	\$ 31.07
<b>Volumetric Rates Per 100 Cubic Feet:</b>	
All Flow Over 600 Cubic Feet Per Month	\$ 5.18
<b>Notes:</b>	
(1) The basic rate includes 600 cubic feet of flow. All flow over 600 cubic feet is billed at \$5.18 per 100 cubic feet.	

The existing sewer rates consist of 1) a monthly basic rate (fixed charge) that designates the minimum amount a customer will pay, and 2) a volumetric rate per 100 CF based upon the amount of monthly metered water usage. The monthly basic rate is constant regardless of the size of the water-metered connection. For residential customers, the charge is a flat monthly fee with no additional volumetric charges. The monthly service charge for commercial customers includes a 500 CF monthly usage allowance. For flows that exceed the monthly usage allowance, the volumetric rates utilize a uniform rate structure such that the rate per 100 CF remains constant for all levels of metered usage. The existing rates for sewer service are provided in **Table 4**.

**Table 4 – Sewer Existing Rates**

Description	Rate
<b>Basic Rate:</b>	
Residential <sup>(1)</sup>	\$ 52.72
Commercial (Up to 500 Cubic Feet/Mo)	\$ 52.72
<b>Commercial Volumetric Rate Per 100 Cubic Feet <sup>(2)</sup>:</b>	
All Flow Over 500 Cubic Feet Per Month	\$ 2.22
<b>Notes:</b>	
(1) Residential Customers are billed a flat monthly fee regardless of usage.	
(2) For commercial customers, the basic rate includes 500 cubic feet of flow. All flow over 500 cubic feet is billed at \$2.22 per 100 cubic feet.	





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## 2.3 Revenue Sufficiency Process

In evaluating whether the existing rates will generate sufficient revenue to meet the expenditure requirements of the water and sewer systems, the annual expenditures required (herein referred to as the "Revenue Requirements") must be developed. The Revenue Sufficiency Analysis compares the forecasted revenues of each system under its existing rates (including customer growth) to the projected Revenue Requirements.

### 2.3.1 Test Year Revenue Requirements

The rate analysis performed herein utilizes the City's preliminary budget for fiscal year 21/22 (the "Budget" for fiscal year ending June 30, 2022) as the basis for developing the Revenue Requirements to be recovered from user rates over the Projection Period. The Budget, as prepared by the City, has certain expenditures that are allocated between identifiable water and sewer components, as well as expenditures that are associated with the combined system operations. In developing the rate analysis, certain adjustments are made such that the expenditures are categorized into either Operating and Maintenance (O&M) expenses or Non-Operating expenses. The O&M expenses are primarily those ongoing costs for labor, materials, supplies, services, etc., required to manage and operate the utility system on a day-to-day basis while maintaining a dependable level of service. The estimated O&M requirements are generally a function of a budgetary process and are directly related to the level of service provided to customers of the utility system. The non-operating expenses include such items as debt service, capital outlay and any other expenses & transfers. The Budget also identifies estimated revenues to be derived from sources other than the retail water and sewer user rates. Such other revenue sources include connection fees, penalty fees and various other miscellaneous service charges. The revenues generated from the other sources are applied to the gross Revenue Requirements to reduce the amount of revenues required from user rates. The result is the net Revenue Requirement.

In performing the rate analysis, each of the budgeted expenditures and revenues are allocated between water and sewer on a line-item basis. The allocations are based on such factors as revenues (water vs. sewer), specific system identification, capital expenditures and combined expenditure results (e.g., total O&M allocated to water vs. sewer).

The proposed water and sewer rates developed in the Report are designed for assumed implementation for fiscal year 2021/22 (the Test Year as previously defined). The projected Test Year Revenue Requirements are estimated by utilizing the adjusted Budget, actual debt service requirements as provided in the applicable debt service schedules, using capital outlay estimates as provided by the City, and tying non-operating transfers to revenues or O&M expenses as applicable. The Test Year Revenue Requirements that are used for developing the user rates proposed herein are summarized in **Table 5**.



**Table 5 – Test Year Revenue Requirements – FY 2022**

Description	Water	Wastewater	Total
Total O&M	\$ 1,926,400	\$ 1,085,980	\$ 3,012,380
Debt Service	88,177	59,853	148,030
Other Expenditures & Transfers	812,690	1,373,108	2,185,798
<b>Gross Requirement</b>	<b>\$ 2,827,267</b>	<b>\$ 2,518,941</b>	<b>\$ 5,346,208</b>
Less Other Revenues	(276,510)	(624,750)	(901,260)
<b>Net Requirement</b>	<b>\$ 2,550,757</b>	<b>\$ 1,894,191</b>	<b>\$ 4,444,948</b>

## 2.3.2 Projected Revenue Requirements

As previously discussed, the estimated Revenue Requirements for the Test Year are developed utilizing the Budget as a basis. The Revenue Requirements for the Test Year and the remainder of the Projection Period are developed by escalating the budgeted costs on a line-item basis in accordance with assumed future activities and events that may impact the system. The costs associated with certain operating expenses that are typically more variable in nature, such as chemicals and electrical power, are escalated pursuant to various factors based on a combination of estimated customer and/or flow growth and assumed inflationary forces. Personnel related costs such as employee salaries and benefits are generally escalated based on assumed labor escalator factors that, over the Projection Period, include adjustments in pay and incremental addition of employees as necessary. Certain expenses that do not generally vary with system growth (e.g., telephones, publications, training, etc.) are assumed to either escalate based only on inflation or remain relatively constant. Materials, supplies, general repair and maintenance expenses generally increase from current levels based on inflationary factors that directly impact the water and sewer industry. Such factors are derived on a composite basis from historical analyses of price indices used by many utilities for financial forecasting. Line-item budgeted costs are also evaluated to make determinations as to whether they are recurring or one-time, and adjustments made accordingly.

The projected Revenue Requirements developed herein also include debt service payments from outstanding debt obligations. The required annual payments for the existing debt are based on debt service schedules for each utility system as provided by the City. Based on discussions with staff, it is anticipated that no new debt will be issued during the Projection Period to fund projects included in the City's Capital Improvement Program (CIP). The current CIP is provided in **Table 6**.



**Table 6 – Capital Improvement Program Funding Summary**

Description	Projected for Fiscal Year Ending June 30				
	2022	2023	2024	2025	2026
<b>Water:</b>					
Debt Funded Projects	\$ -	\$ -	\$ -	\$ -	\$ -
Cash Funded Projects	1,100,000	570,000	-	800,000	1,300,000
Grant Funded Projects	-	-	-	-	-
<b>Subtotal</b>	<b>\$ 1,100,000</b>	<b>\$ 570,000</b>	<b>\$ -</b>	<b>\$ 800,000</b>	<b>\$ 1,300,000</b>
<b>Wastewater:</b>					
Debt Funded Projects	\$ -	\$ -	\$ -	\$ -	\$ -
Cash Funded Projects	2,595,821	2,465,000	1,295,000	-	-
Grant Funded Projects	302,000	-	-	-	-
<b>Subtotal</b>	<b>\$ 2,897,821</b>	<b>\$ 2,465,000</b>	<b>\$ 1,295,000</b>	<b>\$ -</b>	<b>\$ -</b>
<b>Combined:</b>					
Debt Funded Projects	\$ -	\$ -	\$ -	\$ -	\$ -
Cash Funded Projects	3,695,821	3,035,000	1,295,000	800,000	1,300,000
Grant Funded Projects	302,000	-	-	-	-
<b>Total Combined CIP</b>	<b>\$ 3,997,821</b>	<b>\$ 3,035,000</b>	<b>\$ 1,295,000</b>	<b>\$ 800,000</b>	<b>\$ 1,300,000</b>

The projected Revenue Requirements for water and sewer over the entire Projection Period are provided in **Tables 7 and 8**.

**Table 7 – Water Revenue Requirements for the Projection Period**

Description	Projected for Fiscal Year Ending June 30,				
	2022	2023	2024	2025	2026
Total O&M	\$ 1,926,400	\$ 1,830,947	\$ 1,879,122	\$ 1,942,055	\$ 2,000,102
Debt Service	88,177	88,263	88,327	88,154	88,184
Other Expenditures & Transfers	812,690	1,020,933	1,087,624	1,099,832	1,116,456
<b>Gross Requirement</b>	<b>\$ 2,827,267</b>	<b>\$ 2,940,143</b>	<b>\$ 3,055,073</b>	<b>\$ 3,130,041</b>	<b>\$ 3,204,742</b>
Less Other Revenues	(276,510)	(276,510)	(276,510)	(276,510)	(276,510)
<b>Net Requirement</b>	<b>\$ 2,550,757</b>	<b>\$ 2,663,633</b>	<b>\$ 2,778,563</b>	<b>\$ 2,853,531</b>	<b>\$ 2,928,232</b>

**Table 8 – Sewer Revenue Requirements for the Projection Period**

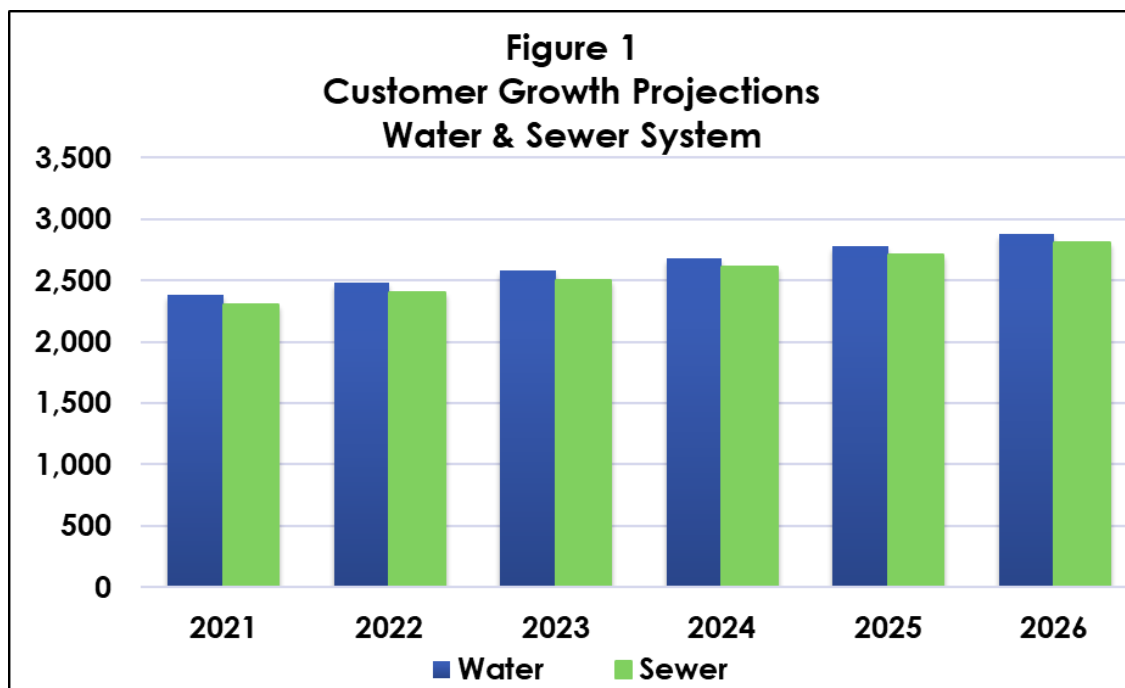
Description	Projected for Fiscal Year Ending June 30,				
	2022	2023	2024	2025	2026
Total O&M	\$ 1,085,980	\$ 1,121,144	\$ 1,157,485	\$ 1,195,049	\$ 1,233,871
Debt Service	59,853	60,260	60,598	60,103	60,334
Other Expenditures & Transfers	1,373,108	1,463,182	1,557,977	1,625,274	1,693,129
<b>Gross Requirement</b>	<b>\$ 2,518,941</b>	<b>\$ 2,644,586</b>	<b>\$ 2,776,060</b>	<b>\$ 2,880,426</b>	<b>\$ 2,987,334</b>
Less Other Revenues	(624,750)	(624,750)	(624,750)	(624,750)	(624,750)
<b>Net Requirement</b>	<b>\$ 1,894,191</b>	<b>\$ 2,019,836</b>	<b>\$ 2,151,310</b>	<b>\$ 2,255,676</b>	<b>\$ 2,362,584</b>



## 2.4 Customer Review

The rate study performed herein is reliant upon a historical review of system customer information. The existing utility customer base and historical growth trends provide a basis for projecting future customer growth and associated revenues generated by the water and sewer systems.

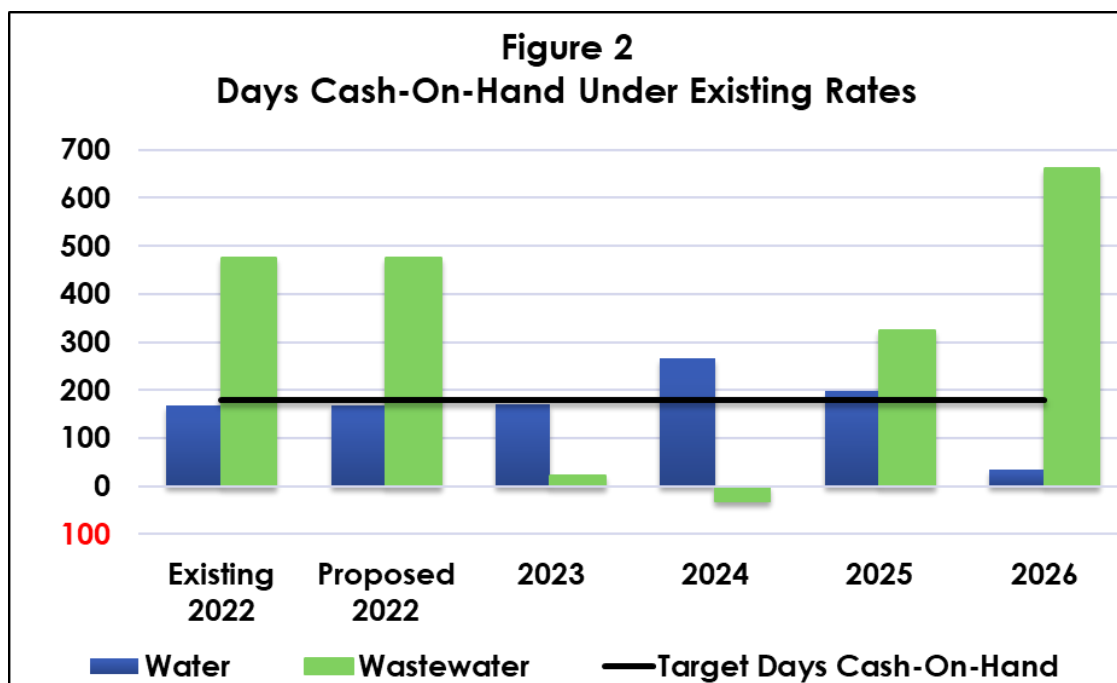
A customer account is representative of a single physical connection to the water and/or sewer system regardless of the size of the meter, the number of dwelling units or the amount of flow. The City provided recent customer data that acted as the basis for assumed future customer accounts. Growth assumptions were developed based on discussions with City staff and then were used to project the average number of accounts/users for the Test Year plus the remaining years of the Projection Period. The existing and projected average customer accounts are summarized in **Figure 1**.





## 2.5 Financial Projections Under Existing Rates

The projected customers are applied to the average revenues per account based on the existing rates to develop a projection of user rate revenues under the existing rates. The revenues are then compared to the projected revenue requirements/expenditures to determine if rate adjustments are needed. Based on this comparison, it is projected that both the water and sewer utility systems cannot meet their projected financial obligations at the existing rates. As such, without rate adjustments, the system will not be able to fund the total revenue requirements associated with its operations and capital programs. The need for rate adjustments is driven primarily by the need to maintain sufficient days cash-on-hand while funding capital projects that are anticipated to be funded with cash reserves. A graphical illustration of the projected days cash-on-hand under the existing rates is provided in **Figure 2** for water and sewer, respectively.



Since it is projected that the utility systems will not meet their respective financial and capital requirements without rate adjustments, the analysis developed herein proposes manageable annual adjustments that will address the financial objectives of both utilities and mitigate the impacts of rate shock on system customers. The proposed rates and projected financial results are addressed in the subsequent sections of this Report.



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## Section 3 – Proposed Test Year Rates

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### 3.1 General

The methodology used to calculate the water and sewer rates proposed herein applies the projected customers to the average revenues per account based on the existing rates as adjusted for the proposed percentage rate adjustments to develop a projection of user rate revenues under the proposed rates (separately for water and sewer). Then, the projected revenues are compared to the estimated Test Year revenue requirements and the water and/or sewer rates are adjusted on a percentage basis as necessary to generate the revenues sufficient to meet the revenue needs of the utility system. In addition, there are other factors that must be considered in designing rates in order to satisfy the City's objectives. Such other rate considerations include, but are not limited to:

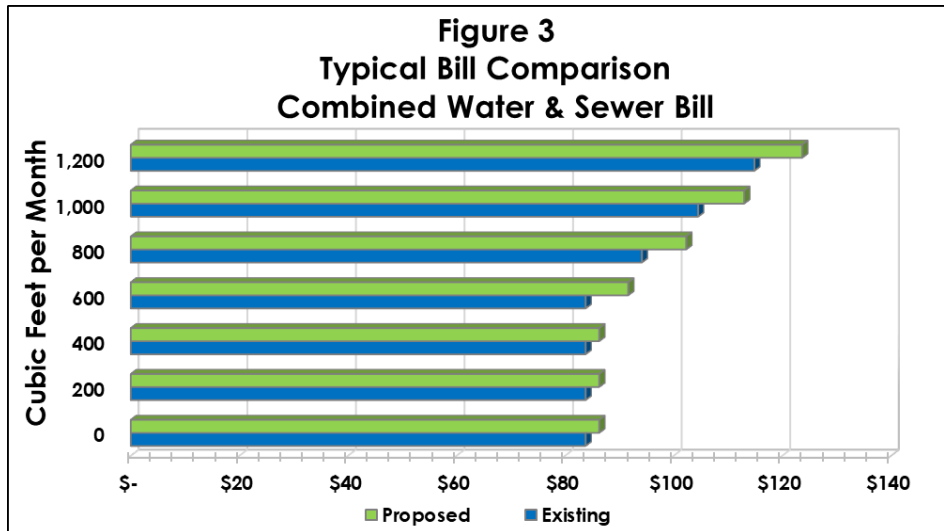
1. **Sensitivity to existing customers** - the proposed rates must consider the impact on existing customers and avoid putting an inequitable financial burden on any particular customer class.
2. **Comparability with neighboring utilities** - the proposed rates should consider, and be relatively comparable to, the rates and charges applied to customers of neighboring utilities of relatively similar size for similar service.
3. **Existing rate structure** - the proposed rates must consider the logistics and cost/benefit implications of instituting significant changes to the existing rates and rate structure.
4. **Economic development** - the proposed rates must consider the potential for future development within the City's service area and ensure that the rates do not make it cost-prohibitive for future development.

The proposed rates developed herein utilize these considerations, as well as discussions with the City staff, professional judgment, and prior experience with comparable utility systems. When reviewing potential rate structure options in conjunction with the need for additional revenues, it was determined that existing rate structure will be maintained at this time.

In conjunction with the existing rate structure, the proposed water and sewer rates for the upcoming fiscal year are composed of two rate components consisting of a monthly basic rate (fixed charge) and volumetric rates. The proposed water and sewer rates for the Test Year were provided at the beginning of this Report in **Tables 1 and 2**, respectively.



## 3.2 Typical Monthly Bill Comparison



In addition to reviewing the effect that a change in the rates will have on the system revenues, it is also important for utility management to understand the impact that a change will have on the existing customers. **Tables 9, 10 and 11** provide a comparison of several typical

monthly bills at various flow levels for water and sewer, as well as the combined utility bills under the existing and proposed rates. A graphical illustration of the typical bill comparison is provided in **Figure 3** for a residential customer with both water and sewer service. Based on the proposed rates, a typical customer with monthly flow of 800 CF (approximately 6,000 gallons) per month will experience an increase of **\$8.17** in their combined water and sewer bill.

**Table 9 – Residential Water Rate Impact**

Description	Monthly Flow	Monthly Charges		\$ Amount Difference
		Existing	Proposed	
<b>Residential</b>				
5/8 Inch x 3/4 Inch	0	\$ 31.07	\$ 32.00	\$ 0.93
5/8 Inch x 3/4 Inch	100	\$ 31.07	\$ 32.00	\$ 0.93
5/8 Inch x 3/4 Inch	200	\$ 31.07	\$ 32.00	\$ 0.93
5/8 Inch x 3/4 Inch	300	\$ 31.07	\$ 32.00	\$ 0.93
5/8 Inch x 3/4 Inch	400	\$ 31.07	\$ 32.00	\$ 0.93
5/8 Inch x 3/4 Inch	500	\$ 31.07	\$ 32.00	\$ 0.93
5/8 Inch x 3/4 Inch	600	\$ 31.07	\$ 37.34	\$ 6.27
5/8 Inch x 3/4 Inch	700	\$ 36.25	\$ 42.68	\$ 6.43
5/8 Inch x 3/4 Inch	800	\$ 41.43	\$ 48.02	\$ 6.59
5/8 Inch x 3/4 Inch	1,000	\$ 51.79	\$ 58.70	\$ 6.91
5/8 Inch x 3/4 Inch	1,200	\$ 62.15	\$ 69.38	\$ 7.23
5/8 Inch x 3/4 Inch	1,400	\$ 72.51	\$ 80.06	\$ 7.55
5/8 Inch x 3/4 Inch	1,600	\$ 82.87	\$ 90.74	\$ 7.87
5/8 Inch x 3/4 Inch	1,800	\$ 93.23	\$ 101.42	\$ 8.19
5/8 Inch x 3/4 Inch	2,000	\$ 103.59	\$ 112.10	\$ 8.51



**Table 10 – Residential Sewer Rate Impact**

Description	Monthly Flow	Monthly Charges		\$ Amount Difference
		Existing	Proposed	
<b>Residential</b>				
5/8 Inch x 3/4 Inch	0	\$ 52.72	\$ 54.30	\$ 1.58
5/8 Inch x 3/4 Inch	100	\$ 52.72	\$ 54.30	\$ 1.58
5/8 Inch x 3/4 Inch	200	\$ 52.72	\$ 54.30	\$ 1.58
5/8 Inch x 3/4 Inch	300	\$ 52.72	\$ 54.30	\$ 1.58
5/8 Inch x 3/4 Inch	400	\$ 52.72	\$ 54.30	\$ 1.58
5/8 Inch x 3/4 Inch	500	\$ 52.72	\$ 54.30	\$ 1.58
5/8 Inch x 3/4 Inch	600	\$ 52.72	\$ 54.30	\$ 1.58
5/8 Inch x 3/4 Inch	700	\$ 52.72	\$ 54.30	\$ 1.58
5/8 Inch x 3/4 Inch	800	\$ 52.72	\$ 54.30	\$ 1.58
5/8 Inch x 3/4 Inch	1,000	\$ 52.72	\$ 54.30	\$ 1.58
5/8 Inch x 3/4 Inch	1,200	\$ 52.72	\$ 54.30	\$ 1.58
5/8 Inch x 3/4 Inch	1,400	\$ 52.72	\$ 54.30	\$ 1.58
5/8 Inch x 3/4 Inch	1,600	\$ 52.72	\$ 54.30	\$ 1.58
5/8 Inch x 3/4 Inch	1,800	\$ 52.72	\$ 54.30	\$ 1.58
5/8 Inch x 3/4 Inch	2,000	\$ 52.72	\$ 54.30	\$ 1.58

**Table 11 – Residential Combined Rate Impact**

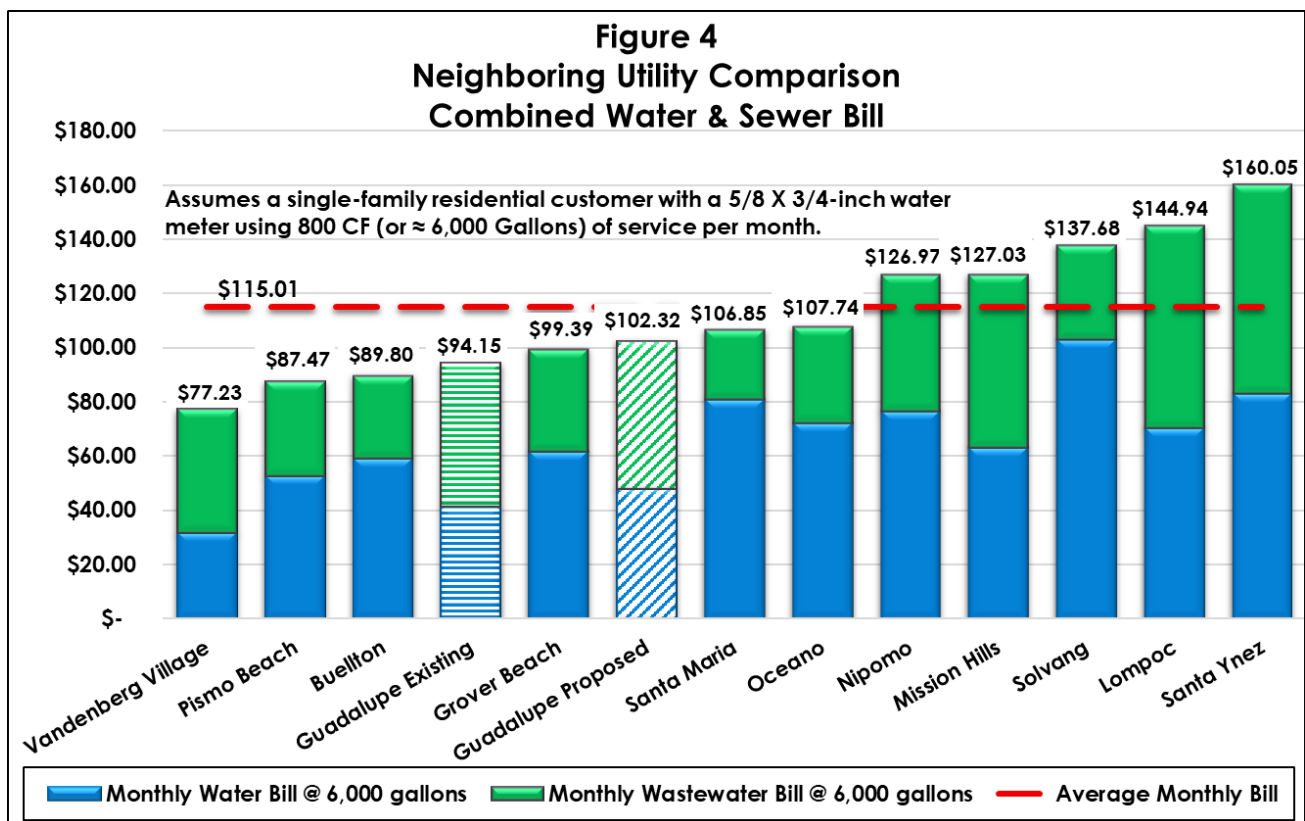
Description	Monthly Flow	Monthly Charges		\$ Amount Difference
		Existing	Proposed	
<b>Residential</b>				
5/8 Inch x 3/4 Inch	0	\$ 83.79	\$ 86.30	\$ 2.51
5/8 Inch x 3/4 Inch	100	\$ 83.79	\$ 86.30	\$ 2.51
5/8 Inch x 3/4 Inch	200	\$ 83.79	\$ 86.30	\$ 2.51
5/8 Inch x 3/4 Inch	300	\$ 83.79	\$ 86.30	\$ 2.51
5/8 Inch x 3/4 Inch	400	\$ 83.79	\$ 86.30	\$ 2.51
5/8 Inch x 3/4 Inch	500	\$ 83.79	\$ 86.30	\$ 2.51
5/8 Inch x 3/4 Inch	600	\$ 83.79	\$ 91.64	\$ 7.85
5/8 Inch x 3/4 Inch	700	\$ 88.97	\$ 96.98	\$ 8.01
5/8 Inch x 3/4 Inch	800	\$ 94.15	\$ 102.32	\$ 8.17
5/8 Inch x 3/4 Inch	1,000	\$ 104.51	\$ 113.00	\$ 8.49
5/8 Inch x 3/4 Inch	1,200	\$ 114.87	\$ 123.68	\$ 8.81
5/8 Inch x 3/4 Inch	1,400	\$ 125.23	\$ 134.36	\$ 9.13
5/8 Inch x 3/4 Inch	1,600	\$ 135.59	\$ 145.04	\$ 9.45
5/8 Inch x 3/4 Inch	1,800	\$ 145.95	\$ 155.72	\$ 9.77
5/8 Inch x 3/4 Inch	2,000	\$ 156.31	\$ 166.40	\$ 10.09





### 3.3 Rate Comparison with Other Utilities

In order to provide the City with additional insight regarding the proposed rate levels, the analysis includes a comparison of both the existing and proposed user rates relative to the user rates imposed by other water and sewer utility systems located in same region of California. A summary analysis is provided comparing the cost of monthly water and sewer service for a typical residential customer (assumed to have a 5/8 x 3/4-inch water meter) calculated under the existing and proposed rates of the City with those of the other utilities. The rates utilized for the other neighboring utilities shown were in effect as of May 2021 and are exclusive of local taxes, outside surcharges, franchise fees, regulatory fees or other rate adjustments. A summary comparison with other utilities for a residential customer using 800 CF (approximately 6,000 gallons) per month is illustrated in **Figure 4**.



It should be noted that when making comparisons for water and sewer service, several factors have an effect on the level of rates and charges. Such factors may include:

- 1) Terms of wholesale service agreements;
- 2) Time since last rate update for comparison providers;



- 
- 3) Level of treatment required before the distribution of water to the ultimate customers;
  - 4) Level of treatment and effluent disposal methods of sewer service;
  - 5) Anticipated capital improvement programs and capital financing methods;
  - 6) Plant capacity utilization, age of facilities, and assistance in construction by federal or state grants, connection fees, developer contributions, etc.;
  - 7) General Fund and/or administrative fee transfers made by other systems which may account for differences in the level of rates charged; and
  - 8) Bond covenants and funding requirements of the rates.

For the utilities included in the rate comparisons, no analysis has been performed with consideration to the above-mentioned factors as they relate to the reported water and sewer rates currently being charged.



## Section 4 – Projected Operating Results

### 4.1 General

As a conclusion to the study, individual proforma operating statements are developed for both the water and sewer systems, together with a combined proforma of the collective operations. The statements summarize the projected financial results based on the system revenues, expenses and other revenue requirements anticipated in future years. The individual operating statements cover the 5-fiscal year Projection Period through June 30, 2026 and are prepared on a cash-flow basis. In addition, the individual statements provide the applicable annual percentage rate adjustments necessary to meet the projected revenue requirements. The annual rate adjustments are considered separately for both water and sewer and further separated by the base charge and volumetric rate components. The following discussions describe the development of the major components of the projected operating results.

### 4.2 Projected Revenues

The projected revenues from Water Sales and Sewer Charges are based on a combination of growth in the number of customers and the applicable percentage rate adjustments currently planned by the City to maintain debt service coverages and fund balance (liquidity) levels. Projected customers are based on growth expectation provided by the City's planning department.

The methodology used to calculate the water and sewer rates proposed herein applies the projected customers to the average revenues per account based on the existing rates as adjusted for the proposed percentage rate adjustments to develop a projection of user rate revenues under the proposed rates (separately for water and sewer). The revenues for the Projection Period are estimated separately for both water and sewer. The resulting revenues are then compared to the projected revenue requirements (i.e., O&M expenses, debt service, capital outlay, transfers, etc.) in each fiscal year in order to determine if the revenues are sufficient to satisfy the expenditure needs of the system. To the extent that there are revenue shortfalls, the water and/or sewer rates are adjusted on a percentage basis as necessary to generate the required level of revenues. The projected water, sewer and combined revenues are provided in **Table 12**.

**Table 12 – Projected User Rate Revenues**

Description	Projected Fiscal Year Ending June 30,					
	Existing 2022	Proposed 2022	2023	2024	2025	2026
Water Sales	\$ 2,474,234	\$ 2,550,757	\$ 2,663,633	\$ 2,778,563	\$ 2,853,531	\$ 2,928,232
Wastewater Sales	1,839,000	1,894,191	2,019,836	2,151,310	2,255,676	2,362,584
Combined	<b>\$ 4,313,234</b>	<b>\$ 4,444,948</b>	<b>\$ 4,683,469</b>	<b>\$ 4,929,873</b>	<b>\$ 5,109,207</b>	<b>\$ 5,290,816</b>



The projected revenues include the annual water and sewer rate adjustments anticipated for the remaining years of Projection Period beyond the Test Year. The projected annual rate adjustments are provided in **Table 13**.

**Table 13 – Anticipated Rate Increases**

Fiscal Year	Water	Sewer
2022	3.00%	3.00%
2023	3.00%	3.00%
2024	3.00%	3.00%
2025	1.50%	1.50%
2026	1.50%	1.50%

The proposed user rates from which the projected operating results are developed for the entire 5-fiscal year Projection Period are provided in **Tables 14 and 15**.

**Table 14 – Proposed Monthly Water Rates**

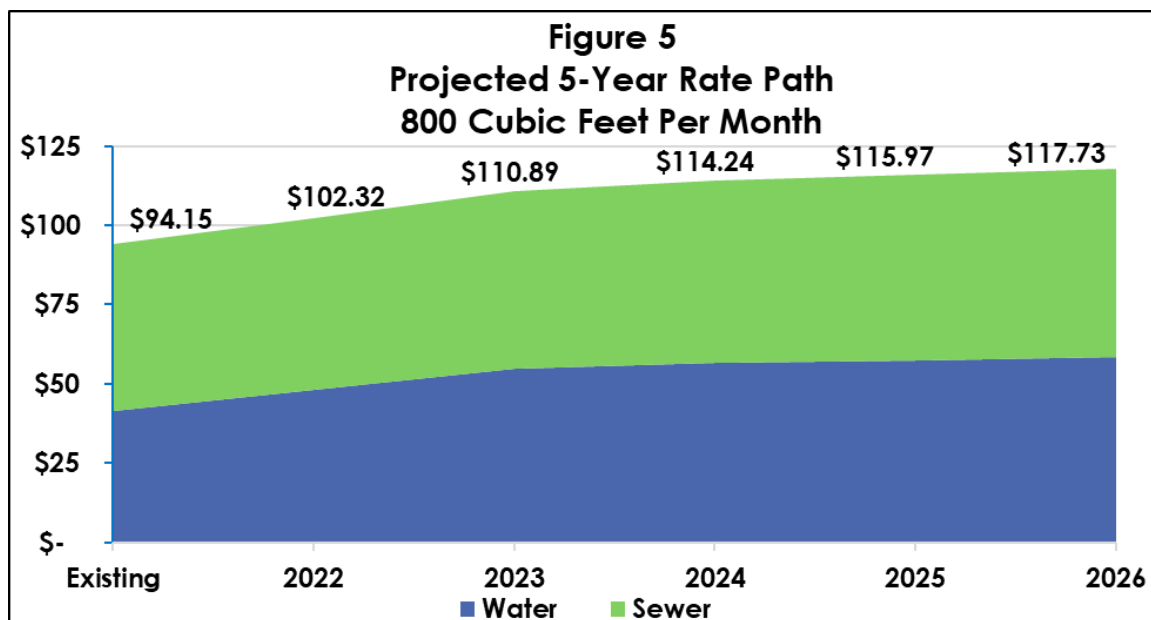
Description	Existing Rates	Projected For Calendar Year Ending December 31:		
		2022	2023	2024
<b>Basic Rate <sup>(1)</sup>:</b>				
All Customers	\$ 31.07	\$ 32.00	\$ 32.96	\$ 33.95
<b>Volumetric Rates Per 100 Cubic Feet <sup>(2)</sup>:</b>				
All Flow	\$ 5.18	\$ 5.34	\$ 5.50	\$ 5.67
<b>Notes:</b>				
(1) The existing basic rate includes 600 cubic feet of flow. Based on discussions with staff, the flow amount included in the basic rate will be reduced to 500 cubic feet of flow for calendar year 2022 and further reduced to 400 cubic feet of flow for calendar year 2023.				
(2) All flow will be billed at a uniform rate for every 100 cubic feet of flow metered over the allocated amount of flow included in the basic rate.				

**Table 15 – Proposed Monthly Sewer Rates**

Description	Existing Rates	Projected For Calendar Year Ending December 31:		
		2022	2023	2024
<b>Basic Rate:</b>				
Residential <sup>(1)</sup>	\$ 52.72	\$ 54.30	\$ 55.93	\$ 57.61
Commercial <sup>(2)</sup>	\$ 52.72	\$ 54.30	\$ 55.93	\$ 57.61
<b>Commercial Volumetric Rate Per 100 Cubic Feet <sup>(3)</sup>:</b>				
All Flow	\$ 2.22	\$ 2.29	\$ 2.36	\$ 2.43
<b>Notes:</b>				
(1) Residential customers are billed a flat monthly fee regardless of usage.				
(2) The existing basic rate includes 500 cubic feet of flow. Based on discussions with staff, the flow amount included in the basic rate will remain at 500 cubic feet of flow for calendar year 2022 and further reduced to 400 cubic feet of flow for calendar year 2023.				
(3) For Commercial customers, all flow will be billed at a uniform rate for every 100 cubic feet of water flow metered over the allocated amount of flow included in the basic rate.				



The projected user rates provided herein for the periods beyond the Test Year are intended for strategic planning purposes and to provide the City with the estimated future rates that may be needed to satisfy the projected cash flow requirements. The rates are developed in accordance with the assumed customer, flow, expenditure and revenue estimates projected in this rate study. It is important to note that, since it is necessary to utilize a number of assumptions to develop the projected operating results, to the extent that actual customers, flows and/or system expenditures differ from those assumed herein, additional rate adjustments may be required. For informative purposes, a calculation of the typical monthly bill for a representative inside City residential customer based on the projected rates, as well as the accompanying change in the monthly bill for each year of the Projection Period is included herein. An illustration of the projected typical bill rate path is provided in **Figure 5**.



### 4.3 Debt Service Coverage

The combined operating statement also includes a calculation of the annual debt service coverage. Debt service coverage is generally viewed as an indicator of the financial strength of the utility. The debt service coverage ratio is broadly calculated by dividing the net revenues by the annual debt service requirement. For the purpose of the debt service coverage calculation developed herein, the net revenues consist of the total operating revenues (user rate revenues plus other revenues) less the O&M expenses. In accordance with the requirements of the outstanding loan requirements, the City must maintain coverage of at least 120% (1.20 times) of the debt service requirements. Assuming this will be the required coverage amount for any anticipated new debt, the pro-forma operating



statements indicate that the combined water and sewer system is expected to exceed the minimum level of debt service coverage in each fiscal year of the Projection Period. It is important to note that the coverage results are provided for informative purposes only and not intended as a legally supportable calculation for representation to bondholders. The debt service coverage for the combined enterprise system over the projection period is provided in **Table 16**.

**Table 16 – Combined Enterprise System Projected Debt Service Coverage**

Fiscal Year	Total Indebtedness	
	Projected	Minimum
2022	15.77	1.20
2023	17.73	1.20
2024	18.76	1.20
2025	19.38	1.20
2026	19.92	1.20

## 4.4 Summary of Projected Operating Results

The cash-flow statements developing the projected operating results are summarized in **Tables 17, 18** and **19** for water, sewer and the combined systems, respectively. Regarding the goals for cashflow and liquidity, the projected days cash-on-hand are graphically illustrated in **Figure 6** for water, sewer and the combined systems, respectively. The results demonstrate that the proposed rates and charges along with the other system revenues and estimated future rate adjustments are anticipated to be sufficient to satisfy the projected revenue requirements and capital needs of the combined utility system.



**Table 17 – Water System Projected Operating Results**

Description	Projected Fiscal Year Ending June 30, (1,000s)					
	Existing 2022	Proposed 2022	2023	2024	2025	2026
<b>Revenues:</b>						
Water Sales	\$ 2,474	\$ 2,551	\$ 2,664	\$ 2,779	\$ 2,854	\$ 2,928
Other Revenues	277	277	277	277	277	277
<b>Total Revenues</b>	<b>\$ 2,751</b>	<b>\$ 2,827</b>	<b>\$ 2,940</b>	<b>\$ 3,055</b>	<b>\$ 3,130</b>	<b>\$ 3,205</b>
O&M Expenses	(1,926)	(1,926)	(1,831)	(1,879)	(1,942)	(2,000)
<b>Net Income Available For Debt</b>	<b>\$ 824</b>	<b>\$ 901</b>	<b>\$ 1,109</b>	<b>\$ 1,176</b>	<b>\$ 1,188</b>	<b>\$ 1,205</b>
<b>Debt Service:</b>						
Parity Debt	\$ 88	\$ 88	\$ 88	\$ 88	\$ 88	\$ 88
Subordinated Debt	-	-	-	-	-	-
<b>Total Debt Service</b>	<b>\$ 88</b>	<b>\$ 88</b>	<b>\$ 88</b>	<b>\$ 88</b>	<b>\$ 88</b>	<b>\$ 88</b>
<b>Balance After Debt Service</b>	<b>\$ 736</b>	<b>\$ 813</b>	<b>\$ 1,021</b>	<b>\$ 1,088</b>	<b>\$ 1,100</b>	<b>\$ 1,116</b>
<b>Other Expenditures &amp; Transfers:</b>						
Capital Outlay	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Transfer In	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Transfer Out	\$ (316)	\$ (316)	\$ (325)	\$ (335)	\$ (345)	\$ (355)
<b>Total Other Expenditures &amp; Transfers</b>	<b>\$ (316)</b>	<b>\$ (316)</b>	<b>\$ (325)</b>	<b>\$ (335)</b>	<b>\$ (345)</b>	<b>\$ (355)</b>
<b>Net Results</b>	<b>\$ 421</b>	<b>\$ 497</b>	<b>\$ 696</b>	<b>\$ 753</b>	<b>\$ 755</b>	<b>\$ 761</b>
<b>Fund Balance Activity:</b>						
Beginning Balance	\$ 1,562	\$ 1,562	\$ 959	\$ 1,085	\$ 1,837	\$ 1,792
Operating Balance	421	497	696	753	755	761
Transfer to Capital	(1,100)	(1,100)	(570)	-	(800)	(1,300)
<b>Ending Fund Balance</b>	<b>\$ 882</b>	<b>\$ 959</b>	<b>\$ 1,085</b>	<b>\$ 1,837</b>	<b>\$ 1,792</b>	<b>\$ 1,254</b>
<b>Debt Service Coverage</b>	<b>9.35</b>	<b>10.22</b>	<b>12.57</b>	<b>13.31</b>	<b>13.48</b>	<b>13.66</b>



**Table 18 – Sewer System Projected Operating Results**

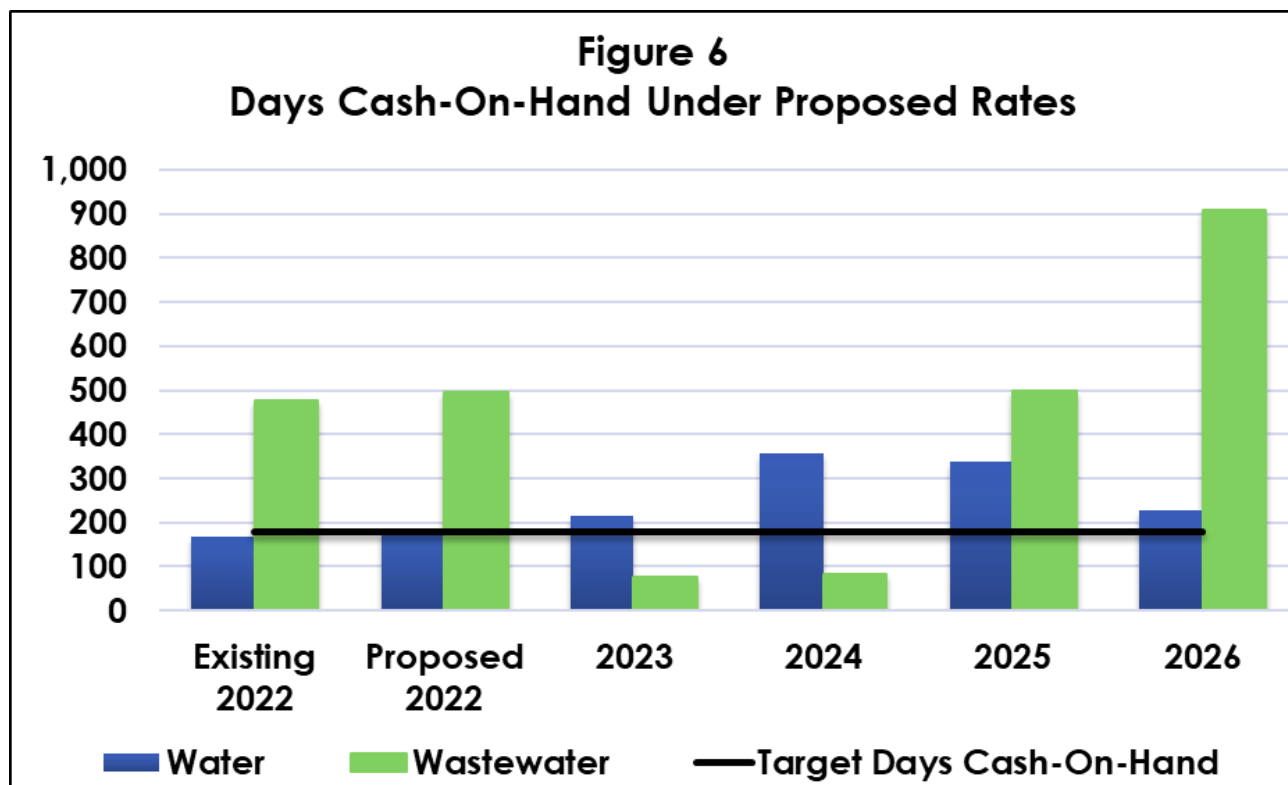
Description	Projected Fiscal Year Ending June 30, (1,000s)					
	Existing 2022	Proposed 2022	2023	2024	2025	2026
<b>Revenues:</b>						
Sewer Sales	\$ 1,839	\$ 1,894	\$ 2,020	\$ 2,151	\$ 2,256	\$ 2,363
Other Revenues	625	625	625	625	625	625
<b>Total Revenues</b>	<b>\$ 2,464</b>	<b>\$ 2,519</b>	<b>\$ 2,645</b>	<b>\$ 2,776</b>	<b>\$ 2,880</b>	<b>\$ 2,987</b>
O&M Expenses	(1,086)	(1,086)	(1,121)	(1,157)	(1,195)	(1,234)
<b>Net Income Available For Debt</b>	<b>\$ 1,378</b>	<b>\$ 1,433</b>	<b>\$ 1,523</b>	<b>\$ 1,619</b>	<b>\$ 1,685</b>	<b>\$ 1,753</b>
<b>Debt Service:</b>						
Parity Debt	\$ 60	\$ 60	\$ 60	\$ 61	\$ 60	\$ 60
Subordinated Debt	-	-	-	-	-	-
<b>Total Debt Service</b>	<b>\$ 60</b>	<b>\$ 60</b>	<b>\$ 60</b>	<b>\$ 61</b>	<b>\$ 60</b>	<b>\$ 60</b>
<b>Balance After Debt Service</b>	<b>\$ 1,318</b>	<b>\$ 1,373</b>	<b>\$ 1,463</b>	<b>\$ 1,558</b>	<b>\$ 1,625</b>	<b>\$ 1,693</b>
<b>Other Expenditures &amp; Transfers:</b>						
Capital Outlay	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Transfer In	-	-	-	-	-	-
Transfer Out	(227)	(227)	(233)	(240)	(248)	(255)
<b>Total Other Expenditures &amp; Transfers</b>	<b>\$ (227)</b>	<b>\$ (227)</b>	<b>\$ (233)</b>	<b>\$ (240)</b>	<b>\$ (248)</b>	<b>\$ (255)</b>
<b>Net Results</b>	<b>\$ 1,091</b>	<b>\$ 1,147</b>	<b>\$ 1,230</b>	<b>\$ 1,318</b>	<b>\$ 1,378</b>	<b>\$ 1,438</b>
<b>Fund Balance Activity:</b>						
Beginning Balance	\$ 2,920	\$ 2,920	\$ 1,470	\$ 235	\$ 258	\$ 1,635
Operating Balance	1,091	1,147	1,230	1,318	1,378	1,438
Transfer to Capital	(2,596)	(2,596)	(2,465)	(1,295)	-	-
<b>Ending Fund Balance</b>	<b>\$ 1,415</b>	<b>\$ 1,470</b>	<b>\$ 235</b>	<b>\$ 258</b>	<b>\$ 1,635</b>	<b>\$ 3,073</b>
<b>Debt Service Coverage</b>	<b>23.02</b>	<b>23.94</b>	<b>25.28</b>	<b>26.71</b>	<b>28.04</b>	<b>29.06</b>





**Table 19 – Combined System Projected Operating Results**

Description	Projected Fiscal Year Ending June 30, (1,000s)					
	Existing 2022	Proposed 2022	2023	2024	2025	2026
<b>Description</b>						
Water Sales	\$ 2,474	\$ 2,551	\$ 2,664	\$ 2,779	\$ 2,854	\$ 2,928
Wastewater Sales	1,839	1,894	2,020	2,151	2,256	2,363
Combined	<b>\$ 4,313</b>	<b>\$ 4,445</b>	<b>\$ 4,683</b>	<b>\$ 4,930</b>	<b>\$ 5,109</b>	<b>\$ 5,291</b>
Other Revenues	901	901	901	901	901	901
<b>Total Revenues</b>	<b>\$ 5,214</b>	<b>\$ 5,346</b>	<b>\$ 5,585</b>	<b>\$ 5,831</b>	<b>\$ 6,010</b>	<b>\$ 6,192</b>
O&M Expenses	(3,012)	(3,012)	(2,952)	(3,037)	(3,137)	(3,234)
<b>Net Income For Debt</b>	<b>\$ 2,202</b>	<b>\$ 2,334</b>	<b>\$ 2,633</b>	<b>\$ 2,795</b>	<b>\$ 2,873</b>	<b>\$ 2,958</b>
<b>Debt Service:</b>						
Parity Debt	\$ 148	\$ 148	\$ 149	\$ 149	\$ 148	\$ 149
Subordinated Debt	-	-	-	-	-	-
<b>Total Debt Service</b>	<b>\$ 148</b>	<b>\$ 148</b>	<b>\$ 149</b>	<b>\$ 149</b>	<b>\$ 148</b>	<b>\$ 149</b>
<b>Balance After Debt</b>	<b>\$ 2,054</b>	<b>\$ 2,186</b>	<b>\$ 2,484</b>	<b>\$ 2,646</b>	<b>\$ 2,725</b>	<b>\$ 2,810</b>
<b>Other Expenditures &amp; Transfers:</b>						
Capital Outlay	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Transfer In	-	-	-	-	-	-
Transfer Out	(542)	(542)	(558)	(575)	(592)	(610)
<b>Total Other Expenditures &amp; Transfers</b>	<b>\$ (542)</b>	<b>\$ (542)</b>	<b>\$ (558)</b>	<b>\$ (575)</b>	<b>\$ (592)</b>	<b>\$ (610)</b>
<b>Net Results</b>	<b>\$ 1,512</b>	<b>\$ 1,644</b>	<b>\$ 1,926</b>	<b>\$ 2,070</b>	<b>\$ 2,133</b>	<b>\$ 2,199</b>
<b>Fund Balance Activity:</b>						
Beginning Balance	\$ 4,481	\$ 4,481	\$ 2,429	\$ 1,320	\$ 2,095	\$ 3,428
Operating Balance	1,512	1,644	1,926	2,070	2,133	2,199
Transfer to Capital	(3,696)	(3,696)	(3,035)	(1,295)	(800)	(1,300)
<b>Ending Fund Balance</b>	<b>\$ 2,297</b>	<b>\$ 2,429</b>	<b>\$ 1,320</b>	<b>\$ 2,095</b>	<b>\$ 3,428</b>	<b>\$ 4,327</b>
<b>Debt Coverage</b>	<b>14.88</b>	<b>15.77</b>	<b>17.73</b>	<b>18.76</b>	<b>19.38</b>	<b>19.92</b>





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## Section 5 – Conclusions and Recommendations

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### 5.1 General Disclaimer

In the development of the proposed user rates and charges, certain historical reviews and analyses have been performed, together with the application of assumptions based on prudent financial, operational and ratemaking relationships. The cost criteria and customer usage characteristics associated with general ratemaking procedures are representative of averages and are not intended as indicators of any individual customer.

In the preparation of the rate study, certain assumptions have been made with respect to conditions that may occur in the future. While it is believed that these assumptions are reasonable for the purpose of this update, they are dependent upon future events and actual conditions may differ from those assumed. In addition, the study has used and relied upon certain information that was provided by other parties not associated with Willdan. Such information includes, among other things, the City's audited financial statements, annual operating budgets, periodic reports, and other information and data provided by the City, its independent auditors, and other sources. While the sources are believed to be reliable, there has been no independent verification of the information and no assurances are offered with respect thereto. To the extent that future conditions differ from those assumed herein or provided by others, the actual results may vary from those projected.

### 5.2 Conclusions

As previously addressed, the purpose of this study is to provide a review of the City's existing utility rates to determine if rate adjustments are necessary to meet the budgeted and/or projected financial needs in future years. This Report is the result of the collaborative efforts of representatives from both the City and Willdan. City staff was diligent and cooperative in their efforts to ensure the availability and quality of source data on financial and operating matters. Based on the reviews, analyses and assumptions discussed herein, it is concluded that:

1. The proposed user rates and charges are anticipated to generate sufficient revenues to meet the revenue requirements of the system based upon the projected expenditures, transfers, customers and billable flows estimated for the Test Year. The proposed rates are based on an assumed implementation date of February 1, 2022 (or other such date as determined by the City). To the extent that the implementation date is postponed, additional rate adjustments and/or appropriations from existing reserves may be necessary.
2. The estimated revenues and resulting rate adjustments for the remaining years of the Projection Period beyond the Test Year are developed based on the



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customer growth assumptions generated from discussions with City staff. If the customer growth projections are not realized, additional rate adjustments may be necessary.

3. Customer account growth for the water and sewer systems is projected based on discussions with the City staff regarding developer activity and anticipated construction. For the purpose of the analyses developed herein, it is assumed that both the water and sewer systems will grow by 100 customers per year during the Projection Period. If it turns out that this assumption is too conservative and additional customers connect to the system, the resulting revenues could be higher than projected.
4. Future capital improvement projects are assumed to occur as reported by the City in its CIP. To the extent that the timing of such projects may change from that estimated herein, the cost of such projects and resulting impact on future rates and charges may vary from those indicated.
5. The proposed rates and rate structure are consistent with industry standards for rate-setting practices, comply with Proposition 218 and conform to the City's financial policies with respect to:
  - a. Equitably recovering costs;
  - b. Recovering revenue from system users in a manner that is proportional to the cost of serving them;
  - c. Recovering costs in a manner such that customers do not pay more than their cost of service; and
  - d. Generating sufficient revenue to recover system revenue requirements, fund capital needs and meet reserve requirements.
6. The City is currently in the process of integrating a new customer billing system that will improve the availability of historical customer and flow data. Once the new customer billing system is in place and there is detailed data available, the City should consider working with Willdan to review potential data output and perform test analyses to confirm reliability and workability of the data.



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## 5.3 Recommendations

Based on the reviews, analyses and assumptions addressed herein, as well as the resulting conclusions provided above, it is respectfully recommended that the City:

1. Adopt the proposed water and sewer rates.
2. Enact the proposed rates to become effective as of February 1, 2022 (or other such date as determined by the City). Based on the timing of the project and the required public hearing notice procedures, it is expected that the effective date will occur as anticipated.
3. Readdress the study when more detailed historical customer data is available and ensure costs are being recovered consistent with cost-of-service principles and customer characteristics.

We appreciate the opportunity to be of service to the City in this engagement. In addition, we would like to thank City staff for the valuable assistance provided during the completion of the rate study.

Respectfully Yours,

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