



2022 Water & Sewer Rate Study

City of Cotati

Final Report

May 4, 2022



May 4, 2022



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

Re: 2022 Water and Sewer Rate Study

Dear Mr. Scott,

Hildebrand Consulting is pleased to present this 2022 Water and Sewer Rate Study (Study) for the water and Sewer Enterprises that were performed for the City of Cotati. We appreciate the fine assistance provided by you and all of the members of the City staff who participated in the Study.

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

mhildebrand@hildco.com
(510) 316-0621

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

Sincerely,

A handwritten signature in blue ink, appearing to read 'M. Hildebrand', is located below the 'Sincerely,' text.

Mark Hildebrand
Hildebrand Consulting, LLC

Enclosure

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List of Acronyms

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

Section 1. INTRODUCTION AND SUMMARY

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

1.1 WATER AND SEWER UTILITY BACKGROUND

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

1.2 STUDY BACKGROUND

In 2017, the City of Cotati retained The Reed Group to prepare ten-year water and Sewer Enterprise financial plans and cost of service analyses for the City’s water and sewer utilities (2017 Study¹). Following that study, the City adopted new water and sewer rate schedules for a 5-year planning period through fiscal year 2021/22 (ending June 30, 2022).

In 2019, The Reed Group conducted an update to the Sewer Enterprise financial plan to ascertain whether a higher-than-expected cost for the Laguna Bypass Pipeline project (“P-1 project”) might impact the remaining years of the previously adopted 5-year

¹ *City of Cotati, Water and Sewer Rate Study – Final Report*, June 20, 2017, prepared by The Reed Group.

sewer rate plan. The financial plan update (dated April 15, 2019) found that an inter-fund loan would enable the existing sewer rate increases to be sufficient through fiscal year 2021/22.

In 2020, the City of Cotati retained Hildebrand Consulting (with The Reed Group as a subconsultant) to update both financial plans in order to ascertain whether the recommendations from the 2017 Water Enterprise financial plan and 2019 Sewer Enterprise update both remained valid. The 2020 update confirmed the sufficiency of the existing 5-year rate schedule, therefore no new changes to the 5-year rate schedule was made at that time.

1.3 STUDY OBJECTIVES

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

1.4 STUDY METHODOLOGY

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

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

operations in order to develop a long-term financial management plan, inclusive of projected annual revenue requirements and corresponding annual rate adjustments.

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

1.5 SUMMARY OF FINDINGS AND RECOMMENDATIONS

This Study found that most financial projections from the 2017 Study are relatively consistent with the actual expenses from the past 5 years and the projected expenses for the next 5 years. Some operating costs did increase more than anticipated by the 2017 Study, such as water purchase rates from Sonoma Water (which are expected to increase another 6.2 percent in FY 2023), utility costs, additional emergency operations costs, and increases in contract service costs. Despite these unexpected increases in costs, the Water Enterprise analysis has identified a financial strategy (that involves a near-term loan of \$927 thousand) that will limit water rate revenue increases. These rate increases are consistent with the rate increases that were projected for this period by the 2017 Study.

The Sewer Enterprise has experienced substantial increases in operating costs, primarily driven by increases in Subregional costs (wastewater treatment services) which increased significantly in 2019 when a new meter for measuring sewage sent to the Subregional wastewater treatment plant found significantly higher flows (35 percent higher) than historical readings. In addition to the higher wastewater flow readings, Subregional costs have been escalating, and are expected to continue escalating, as high as 6.8 percent per year (the 2017 Study had assumed annual cost escalation of 5 percent for Subregional costs). The Sewer Enterprise analysis has identified a financial strategy (that involves receiving a balloon payment from the

Water Enterprise for an existing internal loan as well as taking a \$750 thousand loan from the general fund).

Section 2. WATER ENTERPRISE FINANCIAL PLAN

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

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

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

2.1 WATER FUND STRUCTURE AND CASH FLOWS

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

The financial plan model is based on the fund structures currently used by the City and incorporates reserve policies for specified purposes. The reserve structure includes an Operating Reserve within the Water Operating Funds (Fund 401) and the Water Capital

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

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

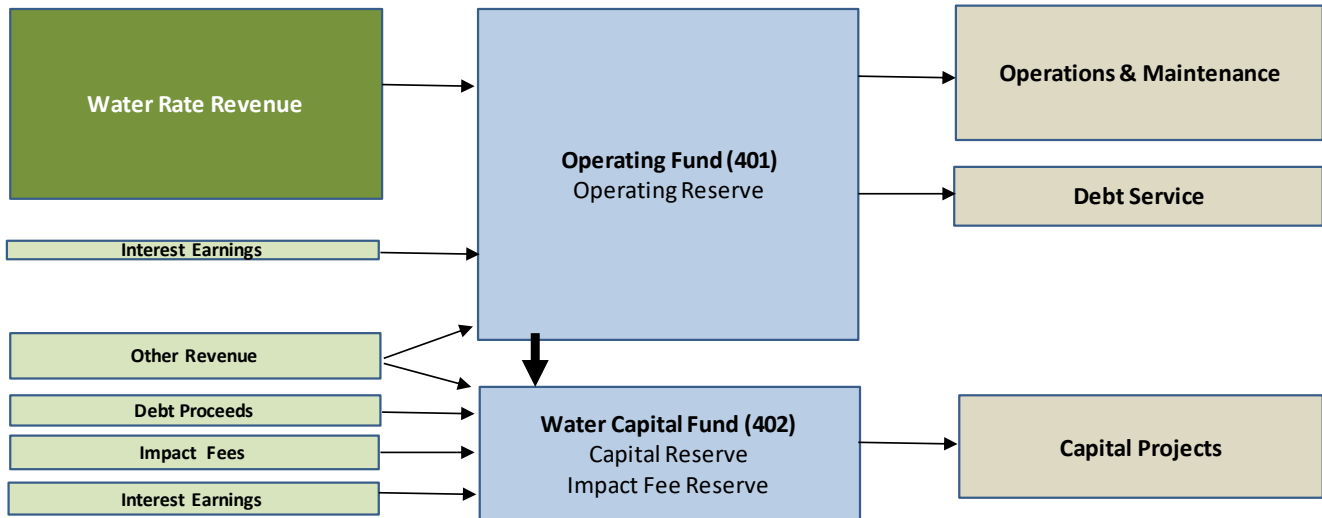
2.1.1 Water Operating Fund (Fund 401)

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

Water Operating Reserves – The 2017 Study recommended that the City establish and maintain Water Operating Reserves equal to 33 percent of annual operating and maintenance costs, including debt service. The purpose of the Operating Reserve is to provide working capital and funds for unplanned operating and maintenance expenditures. The balance in the Water Operating Fund at the beginning of fiscal year (FY) 2021/22 was about \$1,170,000, or about \$475,000 above the target Operating Reserve.

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

Exhibit 1 – Water Enterprise – Schematic Diagram of Cash Flows



2.1.2 Water Capital Fund (Fund 402)

The Water Capital Fund is used to account for revenues and funds available for capital project expenditures. Connection fees, paid by new development, are available to improve system capacity and help meet the capacity needs of new development. Transfers from the Operating Fund provide funds intended to rehabilitate and upgrade system capacity. The financial plan models generally seek to maintain a positive balance in the capital funds while also covering the costs of planned capital improvement projects. This is achieved through annual transfers of funds from the operating fund to the capital fund of each utility.

2.2 WATER ENTERPRISE BEGINNING FUND BALANCES

The ending cash balance for FY 2020/21 was used to establish the FY 2021/22 beginning balance, as outlined in **Table 1**. It should be noted that the amount of cash that the Water Enterprise keeps in reserves is a product of its reserve policies (see Section 2.1).

Table 1: Water Enterprise FY 2021/22 Beginning Cash Balance

Water Operating Reserve	\$1,172,000
Water Capital Reserve	\$832,000
Total Water Reserves:	\$2,004,000

2.3 CUSTOMER GROWTH

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

In recent years, developer impact fee² revenues indicate that the City has grown at a rate between 0.3 percent and 1.4 percent. Future growth will depend on many factors, including the economy. Based on direction from City staff, this Study assumes that the annual growth rate will average 0.45 percent for the next 10 years. This conservative assumption is due, in part, to the unknown impacts that the current Covid-19 pandemic may have on the economy.

2.4 WATER ENTERPRISE RATE REVENUE

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

² Development Impact Fees are one-time charges to new development to pay for capacity in the utility systems.

The Water Enterprise Financial Plan starts with FY 2021/22 budgeted rate revenues. Estimated future water demand and rate revenues include the small amount of customer growth (see Section 2.3) as well as the annual rate revenue adjustments proposed by this Study. Other than demand increases associated with customer growth, water demand is anticipated to remain constant. Budgeted and projected rate revenues (including proposed rate adjustments) are listed in the first table in **Schedule W-3**.

2.5 WATER ENTERPRISE NON-RATE REVENUES

In addition to rate revenue, the City receives additional “non-rate revenue” from sources such as miscellaneous service fees, developer Impact Fees, occasional grants, and interest revenue on investments. Projections of miscellaneous fee revenues were based on FY 2021/22 budgeted revenues. Future interest income was estimated based upon projected fund balances and assumed interest rate of 0.94 percent, which is consistent with the City’s historical interest earnings relative to its total reserve levels. Interest accrues to each of the funds.

Estimated future annual Impact Fee revenues were based on the applicable fees and the amount of new development activity. Impact Fee revenue accrues to the Water Capital Fund and is used to help fund planned capital improvement projects.

Budgeted water rate and non-rate revenues are depicted in Figure 1 below and listed in detail in the first table in **Schedule W-3**.

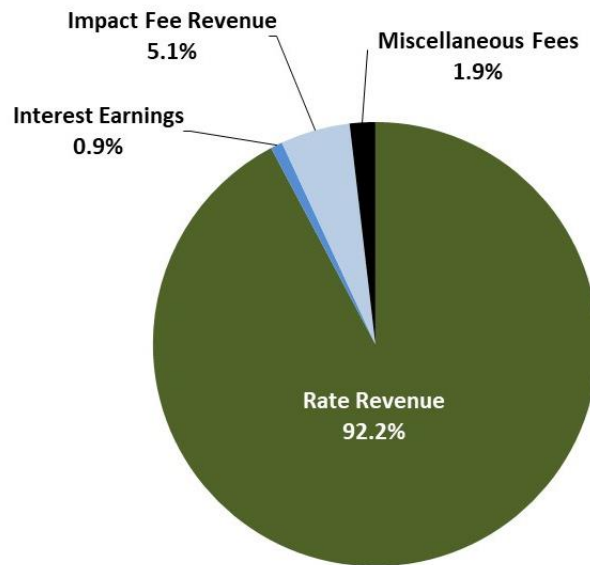


Figure 1: Water Enterprise Revenue Categories (FY 2021/22 budget)

2.6 FUTURE WATER USAGE

Water usage is integral to Water Enterprise finances since more than 57 percent of rate revenue is derived from the variable Usage Rate. Much like the 2017 Study was conducted on the heels of a historic drought, the City is currently experiencing a severe drought. Water usage in the second half of calendar year 2021 was measurably lower than the two preceding years, which has affected recent water rate revenue. That being said, given the fact that it is impossible to accurately predict whether the drought will persist, worsen, or improve, this Study does not attempt to predict future water usage trends. Rather, this Water Enterprise financial plan uses FY 2020/21 actual rate revenue as the basis for future rate revenue (note that FY 2020/21 was a relatively “normal” water usage period). In 2017 the City adopted Water Shortage Surcharges as a means to protecting the Water Enterprise from the revenue volatility associated with droughts. While the current study does not propose to renew that policy, the City may wish to consider re-establishing Water Shortage Surcharges during the next rate study.

2.7 WATER ENTERPRISE OPERATING AND DEBT EXPENSES

The Water Enterprise’s expenses include operating and maintenance expenses, debt service, and capital spending. Capital spending is addressed separately in Section 2.9. Future operating and maintenance expenses were projected based upon the budgeted expenditures from FY 2021/22 and adjusted for inflation (see Section 2.8).

Major budgeted expense categories for FY 2021/22 are depicted in Figure 2. The Water Enterprise does not have any existing “outside” debt but is currently repaying a loan to the Sewer Fund.

Budgeted and projected operating and maintenance costs as well as debt service expenses are listed in detail in **Schedule W-1**.

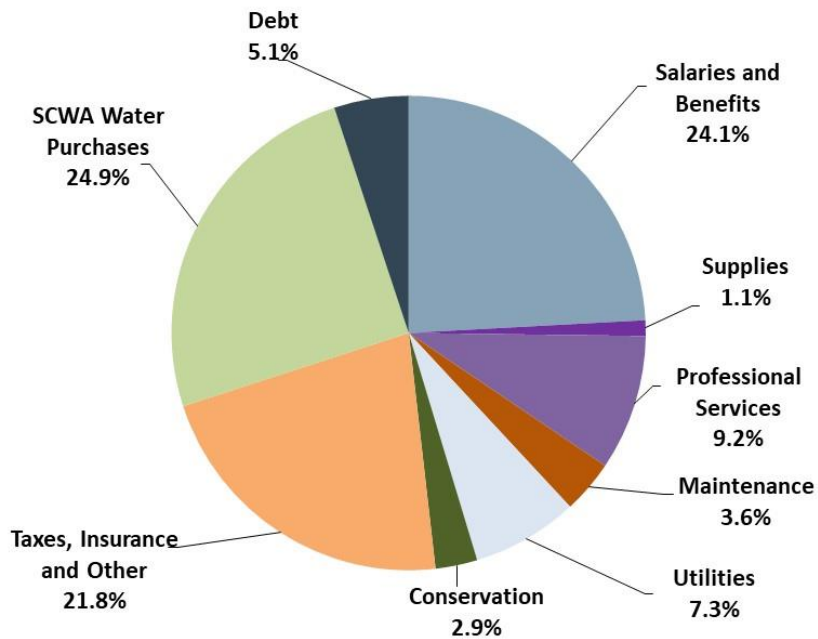


Figure 2: Water Enterprise Operating & Debt Expenses (FY 2021/22)

2.8 COST ESCALATION

Annual cost escalation factors for the various types of expenses were developed based upon a review of historical inflation trends, published inflation forecasts, industry experience, and discussions with City staff. During the projection period, most operating expenses are projected to increase at 3.0 percent per year. As an exception, the cost of purchasing imported water from Sonoma Water has been forecasted to increase by 6.16 percent in FY 2022/23 and 6.0 percent thereafter. These inflation assumptions were provided by City staff, are consistent with the assumptions used by other regional utilities and are reasonable for financial planning purposes.

2.9 WATER ENTERPRISE CAPITAL IMPROVEMENT PROGRAM

Figure 3 shows that from FY 2018/19 to FY 2021/22 the City has spent very little in capital projects to rehabilitate or improve the water system. Starting in FY 2022/23, the City plans to increase its annual capital spending significantly in order to pro-actively address the water system's rehabilitation needs associated with treatment facilities, pipes, water tanks, and other system facilities. Most significantly, the City plans to replace and upgrade the existing Cypress Storage Tank in FY2027/28 (at a cost of approximately \$2.3 million in 2022 dollars). This will increase annual capital spending from nearly zero in recent years to an average of almost \$800 thousand per year over the next 5 years. A detailed list of the requested capital projects and associated costs is provided in **Schedule W-2**.

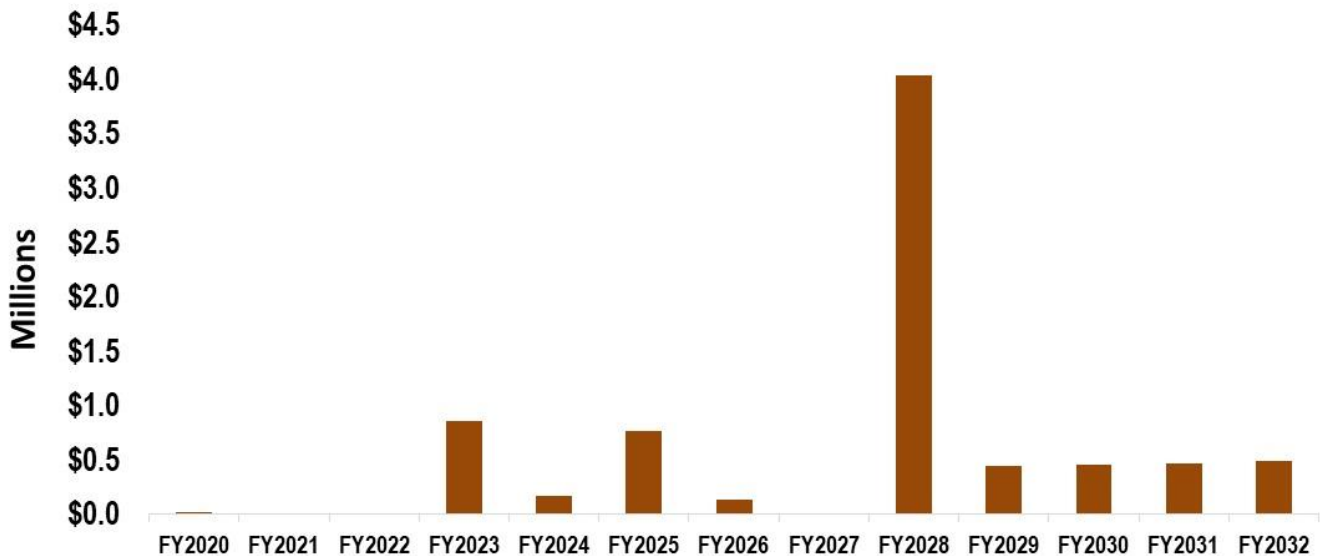


Figure 3: Water Enterprise Historic and Projected Capital Spending

2.10 WATER ENTERPRISE DEBT STRATEGY

As previously mentioned, the only Water Enterprise debt obligation is an internal loan from the Sewer Fund, which was originally meant to be paid off by 2030 at an interest rate of 1.5 percent. Given the Sewer Enterprise’s need for near-term cash (see Section 3), this Study recommends that the Water Enterprise settle that debt with the Sewer Fund in FY 2022/23. This balloon payment, however, will create a near-term cash deficit for the Water Fund. As such, this Study recommends that the Water Enterprise borrow \$927 thousand (borrowing source yet to be identified) to help finance the Water Enterprise’s near-term capital projects.

In addition to this new loan, it will be necessary to issue new debt to fund the New Cypress Storage Tank project (project T-1), the Cypress Tank Booster Tanks (project BP-1), and the Cypress Tank New Water Main (project P-3) in 2028. The total debt issue is expected to be \$3.4 million (after cost escalation, issuance costs, etc.) and assumed have an interest rate of 2.0 percent (per City staff) and repayment period of 20 years. The form of debt (bond, bank note, subsidized loan, etc.) has not yet been identified.

One of the requirements associated with debt financing is to maintain rates and other water system revenues at levels sufficient to meet debt service coverage requirements (DCR). Water system net revenues (i.e., revenues after paying all operating costs) must be maintained at a DCR level that is at least 1.20 times annual debt service. Based on published guidance from Fitch Ratings, utility systems with *midrange* financial profiles should maintain a DCR greater than 1.50 times annual debt service. The Water Enterprise doesn't currently have a formal DCR since its only debt is an internal loan (which is treated as an operating expense for purposes of calculating DCR). **Schedule W-3** shows that the proposed financial plan maintains a DCR of at least 1.90 (and usually higher).

2.11 PROPOSED WATER RATE REVENUE INCREASES

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

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

The numbers provided in the first table in **Schedule W-3** (cash flow proforma for the Water Operating Fund) are summarized graphically in Figure 4, which shows the Operating Fund target reserves being met through-out the planning period. Schedule W-3 shows the cash flow with each of the Water Enterprise's funds and the projected transfers between the Water Operating Fund and the Water Capital Fund.

After the final recommended increase in FY 2026/27, it is anticipated (barring unforeseen emergencies or changes in infrastructure/operational needs) that the rate revenue increases will need to continue as shown in Schedule W-3. These levelized rate

increases will ultimately allow the Water Enterprise to cash-finance its capital program rather than seek internal and external loans.

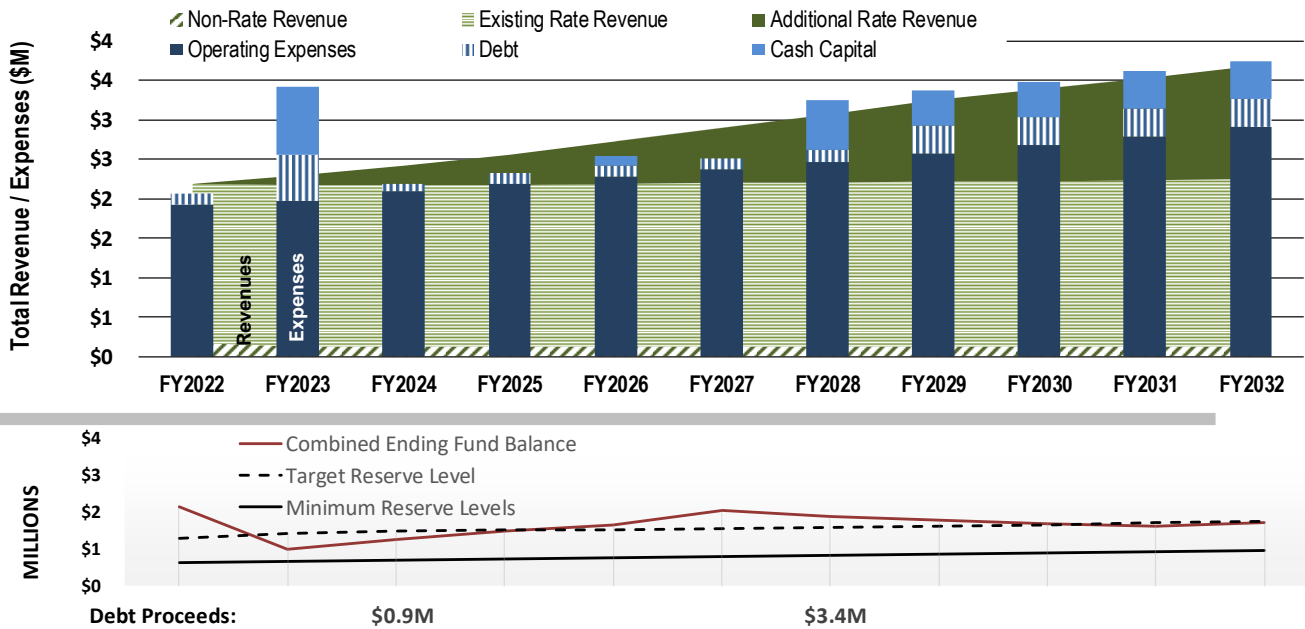


Figure 4: Water Enterprise Cash Flow Projection with Recommended Rate Increases and Debt Issuances

In addition to general inflation which results in higher costs every year, the following summarizes the changes in costs facing the Water Enterprise that weren't fully accounted for during the 2017 Study:

- The cost of purchasing imported water from Sonoma Water is forecasted to increase by 6 percent per year. These costs represent approximately 1/4 of the water utility operating budget.
- Additional operating cost have been identified associated with the new emergency operations center (EOC) and vehicle replacements.
- Utility costs have increased significantly in part due to increases in PG&E rates and in part due to an increase in groundwater pumping.

- The on-going Covid-19 pandemic has had an unprecedented impact to the economy, affecting both inflation as well as water sales.

It is recommended that the City continue to closely monitor the financial condition of the water utility on an annual basis. In particular, the City should track changes in economic conditions due to the Covid-19 pandemic, in rate revenue due to drought, in water purchase costs from Sonoma Water, or in development activity.

Section 3. SEWER ENTERPRISE FINANCIAL PLAN

This section presents the 2022 Financial Plan for the City’s Sewer Enterprise, including a description of the source data, assumptions, and City’s financial policies. The City has provided Sewer Enterprise actual spending data for FY 2020/21 and budgeted financial information for FY 2021/22, including recent actual operating costs, budgeted operating costs, and a multi-year CIP. City staff also assisted in confirming other assumptions and policies, such as reserve targets and escalation rates for operating costs (all of which are described in the following subsections).

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

3.1 SEWER FUND STRUCTURE AND CASH FLOWS

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

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

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

3.1.1 Sewer Operating Fund (Fund 404)

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

Sewer Operating Reserves – The 2017 Study recommended that the City establish and maintain Sewer Operating Reserves equal to 33 percent of annual operating and maintenance costs, including debt service (a target of about \$1.0 million for FY 2021/22). The purpose of the Operating Reserve is to provide working capital and funds for unplanned operating and maintenance expenditures. The balance in the Sewer Operating Fund at the beginning of the current fiscal year (FY 2021/22) was about \$3,155,000, or about \$2.15 million above the target Operating Reserve.

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

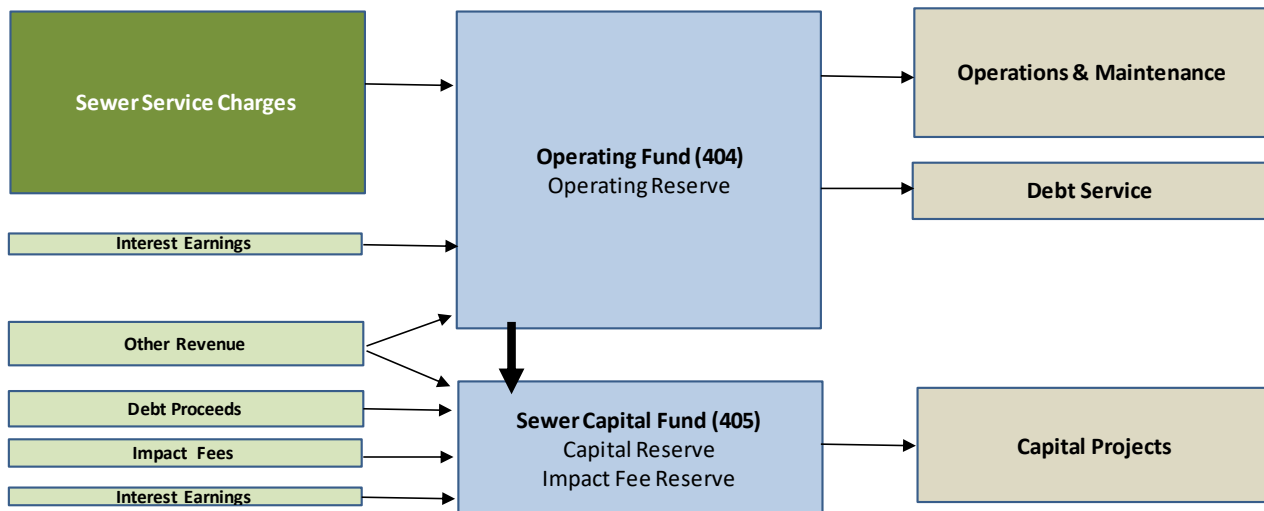


Exhibit 2 – Sewer Enterprise – Schematic Diagram of Cash Flows

3.1.2 Sewer Capital Fund (Fund 405)

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

3.2 SEWER FINANCIAL PLAN ASSUMPTIONS

This update to the Sewer Enterprise financial plan reflects the FY 2021/22 budget and financial conditions as of the beginning of the fiscal year. The financial plan also reflects the Sewer Enterprise's debt service obligations and capital improvement program, as identified by City staff, during the planning period that extends through FY 2031/32.

The process used to update the financial plan involved estimating future revenues and expenditures based on estimates of future conditions using the FY 2021/22 budget, existing debt service schedules and a capital improvement plan provided by City staff. The financial plan is based on the best available information and reasonable assumptions; future estimates have been reviewed with staff and are believed to be reasonable.

3.3 SEWER ENTERPRISE BEGINNING FUND BALANCES

The ending cash balance for FY 2020/21 was used to establish the FY 2021/22 beginning balance, as shown in **Table 2**. It should be noted that the amount of cash that the Sewer Enterprise keeps in reserves is a product of its reserve policies (see Section 3.1).

Table 2: Sewer Enterprise FY 2021/22 Beginning Cash Balance

Sewer Operating Reserve	\$3,155,000
Sewer Capital Reserve	\$286,000
<hr/>	
Total Sewer Reserves:	\$3,441,000

3.4 CUSTOMER GROWTH

As explained in more detail in Section 2.3, this Study assumes that the annual growth rate will average 0.45 percent for the next 10 years.

3.5 SEWER ENTERPRISE RATE REVENUE

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

The Sewer Enterprise Financial Plan starts with FY 2021/22 budgeted rate revenues. Estimated future sewer production and rate revenues include the small amount of customer growth (see Section 3.4) as well as the annual rate revenue adjustments proposed by this Study. Other than demand increases associated with customer growth, sewer production is anticipated to remain constant. Budgeted and projected rate revenues (including proposed rate adjustments) are listed in the first table in **Schedule S-3**.

3.6 SEWER ENTERPRISE NON-RATE REVENUES

In addition to rate revenue, the City receives additional “non-rate revenue” from sources such as miscellaneous service fees, developer Impact Fees, occasional grants, and interest revenue on investments. Projections of miscellaneous fee revenues were based on FY 2021/22 budgeted revenues. Future interest income was estimated based upon projected fund balances and assumed interest rate of 0.94 percent, which is consistent with the City’s historical interest earnings relative to its total reserve levels. Interest accrues to each of the funds.

Estimated future annual Impact Fee revenues were based on the applicable fees and the amount of new development activity. Impact Fee revenue accrues to the Sewer Capital Fund and is used to help fund planned capital improvement projects.

Budgeted sewer rate and non-rate revenues are depicted in **Figure 5** below and listed in detail in the first table in **Schedule S-3**.

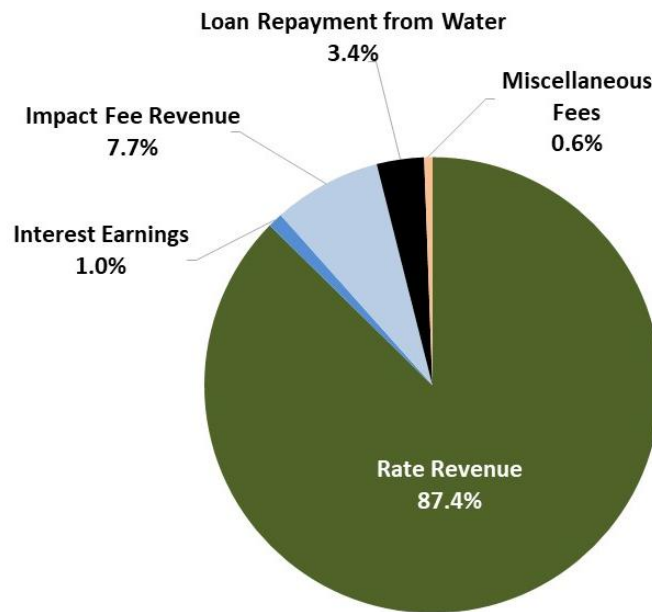


Figure 5: Sewer Enterprise Revenue Categories (FY 2021/22 budget)

3.7 SEWER ENTERPRISE OPERATING AND DEBT EXPENSES

The Sewer Enterprise’s expenses include operating and maintenance expenses, debt service (for an internal loan), and capital spending. Capital spending is addressed separately in Section 3.9. Future operating and maintenance expenses were projected based upon the budgeted expenditures from FY 2021/22 and adjusted for inflation (see Section 3.8). A significant portion of the operating costs are driven by Subregional costs, which have been increasing significantly and are expected to continue to increase (see Section 3.8). Additional costs that were not considered during the 2019 financial plan update include vehicle replacement costs and emergency operations center (EOC) costs.

The Sewer fund’s current debt obligations consist of an internal loan from the In-Lieu Housing Fund (\$1 million over 20 years at 3 percent for the P-1 project) and the Sewer fund’s responsible to pay a portion of Santa Rosa Subregional system debt. At present, Cotati’s share of annual Subregional debt service is about \$867,000. For purposes of calculating debt coverage ratio, all of the above debt obligations are treated as operating costs.

Major budgeted expense categories for FY 2021/22 are depicted in **Figure 6**. Budgeted and projected operating and maintenance costs as well as debt service expenses are listed in detail in **Schedule S-1**.

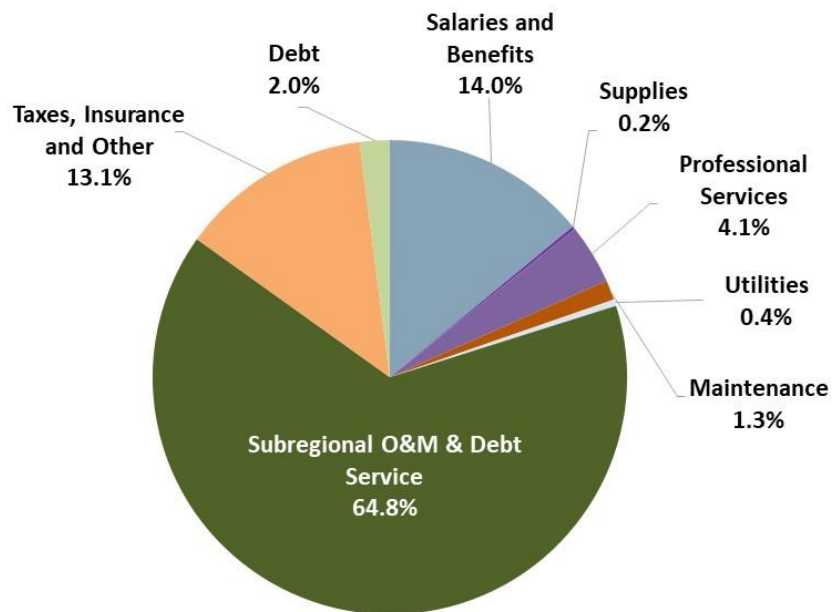


Figure 6: Sewer Enterprise Operating & Debt Expenses (FY 2021/22)

3.8 SEWER UTILITY COST ESCALATION

Annual cost escalation factors for the various types of expenses were developed based upon a review of historical inflation trends, published inflation forecasts, industry experience, and discussions with City staff. During the projection period, most operating expenses are projected to increase at 3.0 percent per year. As an exception, the Subregional wastewater treatment costs have been forecasted to increase by 6.8 percent in FY 2022/23, 6.0 percent for the subsequent three years, and 5.0 percent thereafter. The City receives wastewater treatment and disposal service from the City of Santa Rosa’s “Subregional” wastewater treatment system. The Subregional costs include components for operation and maintenance, debt service, and cash-funded capital improvements. A new sewer meter

(installed in 2018) which measures the City’s wastewater flow to the Subregional system has registered flow rates that are about 35% higher than was assumed during the 2017 Study. This has resulted in an additional increase in operating and maintenance (O&M) charges from the Subregional system for wastewater treatment and disposal (in addition to the increase in Subregional rates).

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

3.9 SEWER ENTERPRISE CAPITAL IMPROVEMENT PROGRAM

Figure 7 shows that from FY 2018/19 to FY 2021/22 the City has spent an average of about \$300 thousand per year for capital projects to rehabilitate or improve the sewer system. The forecasted average from FY 2022/23 through FY 2031/32 is a moderate increase to \$400 thousand per year. This increase in annual capital spending is intended to progressively increase the City’s re-investment in sewer system infrastructure. While the annual capital spending needs are forecasted to be “lumpy,” the spending is relatively smoothed out across the 10 year planning period. A detailed list of the requested capital projects and associated costs is provided in **Schedule S-2**.

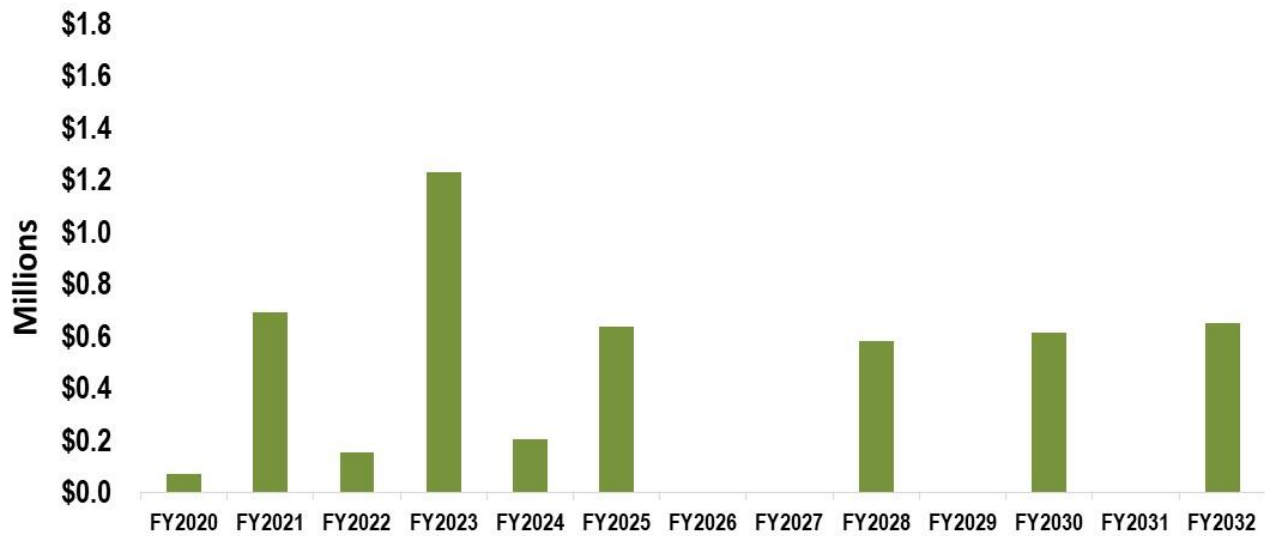


Figure 7: Sewer Enterprise Historic and Projected Capital Spending

3.10 SEWER ENTERPRISE DEBT STRATEGY

The Sewer Enterprise is facing a small “spike” in capital spending in FY2022/23. As such, this financial plan proposes to borrow \$750 thousand from the general fund to be repaid over a 20 year period at an interest rate of 2.0 percent (based on the current interest rate of 1.9 percent for LAIF).

3.11 PROPOSED SEWER RATE REVENUE INCREASES

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

Based on the previously discussed financial data, assumptions, policies, and PayGo strategy, this Study proposes a 5-year schedule of annual rate adjustments as shown in **Schedule S-4**.

The numbers provided in the first table in **Schedule S-3** (cash flow proforma for the Sewer Operating Fund) are summarized graphically in Figure 8, which shows the Operating Fund target reserves being met through-out the planning period. Schedule S-3 shows the cash flow

with each of the Sewer Enterprise’s funds and the projected transfers between the Sewer Operating Fund and the Sewer Capital Fund.

Figure 8 shows that the beginning combined cash balance in the Sewer Operating Fund and Sewer Capital Fund at the beginning of FY 2021/22 was more than twice the target levels, but those reserves are declining rapidly over the next couple years as Subregional costs increase and capital spending increases.

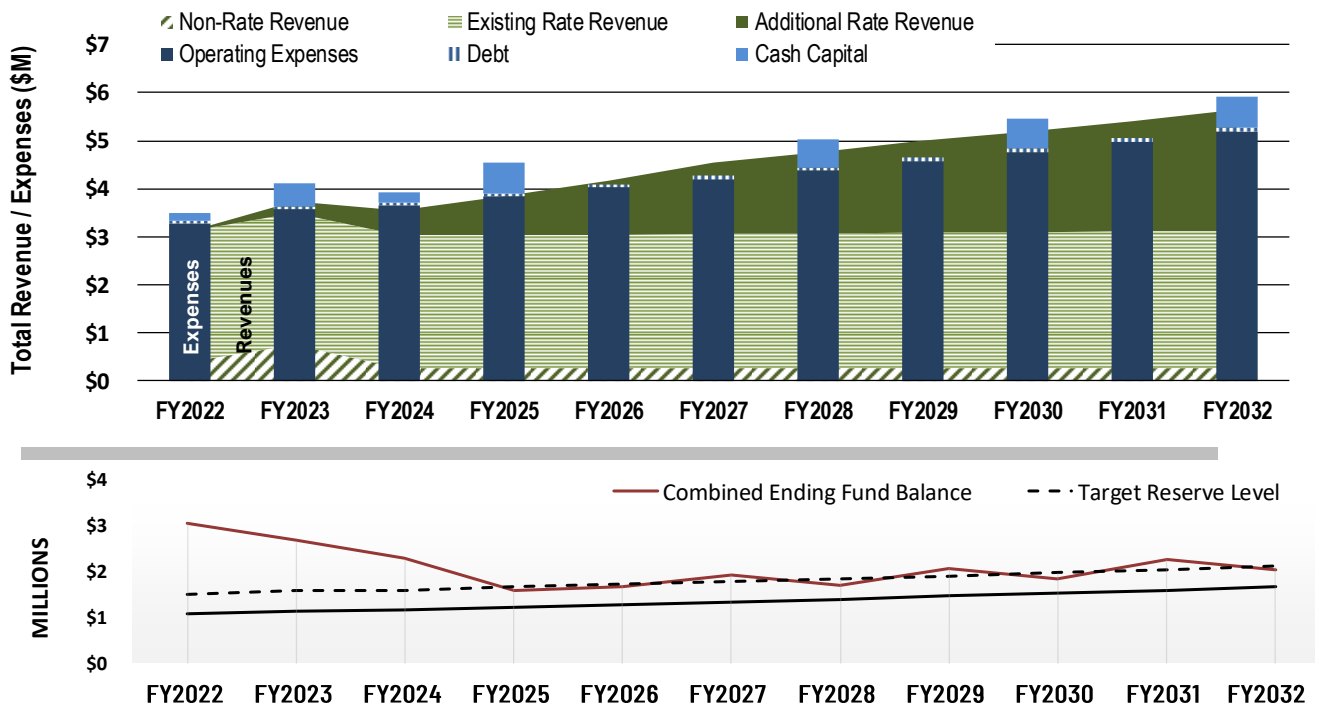


Figure 8: Sewer Enterprise Cash Flow Projection with Recommended Rate Increases

It is important to note that the 2017 Study had already anticipated that rate increases during the next 5 years would need to be about 6 percent. The following describes some of the

changes in costs facing the Sewer Enterprise that weren't fully accounted for during the 2017 Study:

- The costs of Subregional wastewater treatment have materially increased recently due to both a new (2018) sewer flow meter which attributes more flows to Cotati as well as higher-than-forecasted annual rate increases
- The Subregional rates are expected to continue to increase at a rate that is higher than was anticipated by the 2017 rate study (see Section 3.8).
- Additional operating cost have been identified associated with the new emergency operations center (EOC) and vehicle replacements.
- The on-going Covid-19 pandemic has had an unprecedented impact to the economy, affecting both inflation as well as water sales.

Schedule S-3 shows the cash flow with each of the Sewer Enterprise's fund and the projected transfers between the Sewer Operating Fund and the Sewer Capital Fund.

It is recommended that the City continue to closely monitor the financial condition of the sewer utility on an annual basis. In particular, changes in sewer rate revenues due to fallout from the Covid-19 pandemic or changes in Subregional costs could alter the utility's financial situation.

SCHEDULES

- Schedule W-1: Water Enterprise Projected Operating and Debt Expenses
- Schedule W-2: Water Utility Capital Spending Request
- Schedule W-3: Water Utility Cash Flow Pro Formas
- Schedule W-4: 5-Year Schedule of Proposed Water Rates
- Schedule S-1: Sewer Enterprise Projected Operating and Debt Expenses
- Schedule S-2: Sewer Enterprise Capital Spending Request
- Schedule S-3: Sewer Enterprise Cash Flow Pro Formas
- Schedule S-4: 5-Year Schedule of Proposed Sewer Rates

Schedule W-1 – Water Operating Fund Budgeted and Projected Operating and Debt Expense

	FY2022/23	FY2023/24	FY2024/25	FY2025/26	FY2026/27	FY2027/28	FY2028/29	FY2029/30	FY2030/31	FY2031/32
1 Wages and Salaries	\$418,300	\$430,800	\$443,700	\$457,000	\$470,700	\$484,900	\$499,400	\$514,400	\$529,800	\$545,700
2 Incentives	11,400	11,800	12,100	12,500	12,900	13,300	13,700	14,100	14,500	14,900
3 Fringe Benefits	3,200	3,300	3,400	3,500	3,700	3,800	3,900	4,000	4,100	4,200
4 Leave	62,100	64,000	65,900	67,900	69,900	72,000	74,200	76,400	78,700	81,100
5 Deductions	146,300	55,700	57,400	59,100	60,900	62,700	64,600	66,600	68,600	70,600
6 Insurance	123,300	127,000	130,800	134,700	138,800	142,900	147,200	151,600	156,200	160,900
7 Tax	7,300	7,500	7,700	8,000	8,200	8,400	8,700	9,000	9,200	9,500
8 Payouts	18,700	19,300	19,800	20,400	21,100	21,700	22,300	23,000	23,700	24,400
9 Materials and Supplies	22,700	23,300	24,000	24,800	25,500	26,300	27,100	27,900	28,700	29,600
10 Contract Supplies	151,400	155,900	160,600	165,400	170,400	175,500	180,700	186,200	191,800	197,500
11 Legal	20,000	20,600	21,200	21,800	22,500	23,200	23,900	24,600	25,300	26,100
12 Utilities	154,500	107,800	111,000	114,300	117,800	121,300	124,900	128,700	132,500	136,500
13 Repair and Maintenance	76,700	79,000	81,400	83,900	86,400	89,000	91,600	94,400	97,200	100,100
14 Other Expenses	146,500	150,900	155,400	160,100	164,900	169,800	174,900	180,200	185,600	191,100
15 Enterprise	61,000	62,900	64,700	66,700	68,700	70,700	72,900	75,100	77,300	79,600
16 Emergency Operations	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000
17 Sonoma Water Purchases	546,200	772,000	818,300	867,400	919,400	974,600	1,033,000	1,095,000	1,160,700	1,230,400
18 Interfund Loan Payments to Sewer	502,000	0	0	0	0	0	0	0	0	0
19 CalPERS Payment Plan	80,000	80,000	80,000	80,000	80,000	80,000	80,000	80,000	80,000	80,000
20 New Internal Loan Repayment	0	0	61,000	61,000	61,000	61,000	61,000	61,000	61,000	61,000
21 New Debt Service	0	0	0	0	0	0	209,000	209,000	209,000	209,000
Total	\$2,561,600	\$2,181,800	\$2,328,400	\$2,418,500	\$2,512,800	\$2,611,100	\$2,923,000	\$3,031,200	\$3,143,900	\$3,262,200

Schedule W-2 – Water Enterprise Capital Spending Projections

Year	Project Name	Cost *
2023	Well 1A/3 Treatment Facilities Rehabilitation	\$115,000
2023	P-1: Portal Street, Mercantile, Aaron Main Replacement	\$608,900
2023	SCADA	\$130,000
2024	P-5: Sycamore Lane Water Main Replacement	\$155,600
2025	West Sierra Tank Recoating	\$722,500
2026	Distribution System Monitoring	\$119,000
2028	P-3, 4: Cypress Tank New Water Main	\$552,000
2028	T-1: New Cypress Storage Tank	\$2,320,000
2028	BP-1: Cypress Tank Booster Pumps	\$609,000
Total:		\$5,332,000

* Expressed in 2022 dollars

Schedule W-3 – Water Enterprise Cash Flow Pro Formas (1 of 2)

WATER OPERATING FUND (Fund 401)

	Budget FY2022	Forecast FY2023	Forecast FY2024	Forecast FY2025	Forecast FY2026	Forecast FY2027	Forecast FY2028	Forecast FY2029	Forecast FY2030	Forecast FY2031	Forecast FY2032
1 Rate Revenue Increase:		6.00%	6.00%	6.00%	6.00%	6.00%	6.00%	6.00%	4.00%	4.00%	4.00%
Rate Revenue											
2 Water Rate Revenue	\$2,025,000	\$2,025,000	\$2,156,000	\$2,295,000	\$2,443,000	\$2,601,000	\$2,769,000	\$2,947,000	\$3,137,000	\$3,276,000	\$3,553,000
3 Change due to growth & use		\$9,000	\$10,000	\$10,000	\$11,000	\$12,000	\$12,000	\$13,000	\$14,000	\$15,000	\$16,000
4 Increase due to rate adjustments		\$122,000	\$129,000	\$138,000	\$147,000	\$156,000	\$166,000	\$177,000	\$125,000	\$131,000	\$142,000
Non-Rate Revenues											
5 Miscellaneous Fees	\$39,000	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
6 Interest Earnings	\$11,000	\$12,000	\$9,000	\$6,000	\$7,000	\$8,000	\$10,000	\$13,000	\$10,000	\$10,000	\$11,000
7 Total Revenue	\$2,075,000	\$2,168,000	\$2,304,000	\$2,449,000	\$2,608,000	\$2,777,000	\$2,957,000	\$3,150,000	\$3,286,000	\$3,432,000	\$3,722,000
O&M Costs											
8 Salaries and Benefits	\$499,000	\$514,000	\$529,000	\$545,000	\$561,000	\$578,000	\$596,000	\$613,000	\$632,000	\$651,000	\$670,000
9 Supplies	\$22,000	\$23,000	\$23,000	\$24,000	\$25,000	\$26,000	\$26,000	\$27,000	\$28,000	\$29,000	\$30,000
10 Professional Services	\$191,000	\$171,000	\$176,000	\$182,000	\$187,000	\$193,000	\$199,000	\$205,000	\$211,000	\$217,000	\$224,000
11 Maintenance	\$75,000	\$77,000	\$79,000	\$81,000	\$84,000	\$86,000	\$89,000	\$92,000	\$94,000	\$97,000	\$100,000
12 Utilities	\$150,000	\$155,000	\$108,000	\$111,000	\$114,000	\$118,000	\$121,000	\$125,000	\$129,000	\$133,000	\$137,000
13 Conservation	\$59,000	\$61,000	\$63,000	\$65,000	\$67,000	\$69,000	\$71,000	\$73,000	\$75,000	\$77,000	\$80,000
14 Taxes, Insurance and Other	\$411,000	\$423,000	\$341,000	\$351,000	\$362,000	\$373,000	\$384,000	\$395,000	\$407,000	\$420,000	\$432,000
15 Emergency operations	\$0	\$10,000	\$10,000	\$10,000	\$10,000	\$10,000	\$10,000	\$10,000	\$10,000	\$10,000	\$10,000
16 SCWA Water Purchases	\$515,000	\$546,000	\$772,000	\$818,000	\$867,000	\$919,000	\$975,000	\$1,033,000	\$1,095,000	\$1,161,000	\$1,230,000
17 Total Operating Expenses	\$1,922,000	\$1,980,000	\$2,101,000	\$2,187,000	\$2,277,000	\$2,372,000	\$2,471,000	\$2,573,000	\$2,681,000	\$2,795,000	\$2,913,000
Debt and Transfers											
18 Interfund Loan Payments to Sewer	\$104,500	\$502,000	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
19 CalPERS Payment Plan	\$40,000	\$80,000	\$80,000	\$80,000	\$80,000	\$80,000	\$80,000	\$80,000	\$80,000	\$80,000	\$80,000
20 New Internal Loan Repayment	\$0	\$0	\$0	\$61,000	\$61,000	\$61,000	\$61,000	\$61,000	\$61,000	\$61,000	\$61,000
21 New Debt Service	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$209,000	\$209,000	\$209,000	\$209,000
21 Transfer Out to Capital Fund	\$0	\$0	\$0	\$0	\$0	\$0	\$400,000	\$300,000	\$200,000	\$300,000	\$500,000
22 Total Debt and Transfers	\$144,500	\$582,000	\$80,000	\$141,000	\$141,000	\$141,000	\$541,000	\$650,000	\$550,000	\$650,000	\$850,000
23 Total Revenue Requirement	\$2,066,500	\$2,562,000	\$2,181,000	\$2,328,000	\$2,418,000	\$2,513,000	\$3,012,000	\$3,223,000	\$3,231,000	\$3,445,000	\$3,763,000
24 Beginning Year Balance	\$1,172,000	\$1,181,000	\$787,000	\$910,000	\$1,031,000	\$1,221,000	\$1,485,000	\$1,430,000	\$1,357,000	\$1,412,000	\$1,399,000
25 Surplus/(Shortfall)	\$8,500	(\$394,000)	\$123,000	\$121,000	\$190,000	\$264,000	(\$55,000)	(\$73,000)	\$55,000	(\$13,000)	(\$41,000)
26 End of Year Balance	\$1,180,500	\$787,000	\$910,000	\$1,031,000	\$1,221,000	\$1,485,000	\$1,430,000	\$1,357,000	\$1,412,000	\$1,399,000	\$1,358,000
27 Operating Reserve Minimum Level	\$634,000	\$653,000	\$693,000	\$722,000	\$751,000	\$783,000	\$815,000	\$849,000	\$885,000	\$922,000	\$961,000
28 Available Balance	\$546,500	\$134,000	\$217,000	\$309,000	\$470,000	\$702,000	\$615,000	\$508,000	\$527,000	\$477,000	\$397,000

Schedule W-3 – Water Enterprise Cash Flow Pro Formas (2 of 2)

WATER CAPITAL FUND (Fund 402)

	Budget FY 2022	Forecast FY 2023	Forecast FY 2024	Forecast FY 2025	Forecast FY 2026	Forecast FY 2027	Forecast FY 2028	Forecast FY 2029	Forecast FY 2030	Forecast FY 2031	Forecast FY 2032
1 Beginning Balance	\$832,000	\$952,600	\$220,600	\$335,700	\$451,900	\$439,200	\$556,300	\$434,600	\$409,700	\$271,600	\$218,200
Revenues											
2 Transfer in from Operating Fund	\$0	\$0	\$0	\$0	\$0	\$0	\$400,000	\$300,000	\$200,000	\$300,000	\$500,000
3 Impact Fee Revenue	\$111,000	\$111,000	\$111,000	\$111,000	\$111,000	\$111,000	\$111,000	\$111,000	\$111,000	\$111,000	\$111,000
4 Miscellaneous Fees	\$1,700	\$2,000	\$2,000	\$2,000	\$2,000	\$2,000	\$2,000	\$2,000	\$2,000	\$2,000	\$2,000
5 Interest Earnings	\$7,900	\$9,000	\$2,100	\$3,200	\$4,300	\$4,100	\$5,300	\$4,100	\$3,900	\$2,600	\$2,100
6 Total Revenues	120,600	122,000	115,100	116,200	117,300	117,100	518,300	417,100	316,900	415,600	615,100
Capital Spending											
7 TOTAL CAPITAL SPENDING	\$0	\$854,000	\$160,000	\$767,000	\$130,000	\$0	\$4,035,000	\$442,000	\$455,000	\$469,000	\$483,000
8 Debt Funded Capital	\$0	\$0	\$160,000	\$767,000	\$0	\$0	\$3,396,000	\$0	\$0	\$0	\$0
9 Cash Funded Capital Projects	\$0	\$854,000	\$0	\$0	\$130,000	\$0	\$640,000	\$442,000	\$455,000	\$469,000	\$483,000
10 Capital Spending	-	854,000	-	-	130,000	-	640,000	442,000	455,000	469,000	483,000
11 Surplus/(Shortfall)	120,600	(732,000)	115,100	116,200	(12,700)	117,100	(121,700)	(24,900)	(138,100)	(53,400)	132,100
12 Capital Reserve Ending Balance ¹	\$952,600	\$220,600	\$335,700	\$451,900	\$439,200	\$556,300	\$434,600	\$409,700	\$271,600	\$218,200	\$350,300

¹ Includes Impact Fee reserve

Debt Coverage Calculations (combines both funds)

1 Revenue Available for Debt Service	\$18,100	(\$383,000)	\$127,100	\$126,200	\$196,300	\$270,100	\$352,300	\$442,100	\$469,900	\$500,600	\$672,100
2 Total Yearly Parity Debt Payment	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$209,000	\$209,000	\$209,000	\$209,000
3 Debt Coverage Ratio	na	na	na	na	na	na	na	2.12	2.25	2.40	3.22

Schedule W-4 – Five-Year Schedule of Proposed Water Rates

	Proposed Water Rates ²					
	Current	2022	2023	2024	2025	2026
<i>Bi-Monthly Service Charge</i>						
3/4" meter	\$47.63	\$50.49	\$53.52	\$56.73	\$60.13	\$63.74
1" meter	\$77.87	\$82.54	\$87.49	\$92.74	\$98.30	\$104.20
1 1/2" meter	\$152.77	\$161.94	\$171.66	\$181.96	\$192.88	\$204.45
2" meter	\$243.01	\$257.59	\$273.05	\$289.43	\$306.80	\$325.21
3" meter	\$453.71	\$480.93	\$509.79	\$540.38	\$572.80	\$607.17
4" meter	\$754.66	\$799.94	\$847.94	\$898.82	\$952.75	\$1,009.92
<i>Water Usage Rates (\$/TGAL)</i>						
Residential						
Tier 1 (0 to 10 TGAL) ¹	\$4.06	\$4.30	\$4.56	\$4.83	\$5.12	\$5.43
Tier 2 (10 to 20 TGAL)	\$5.21	\$5.52	\$5.85	\$6.20	\$6.57	\$6.96
Tier 3 (over 20 TGAL)	\$6.49	\$6.88	\$7.29	\$7.73	\$8.19	\$8.68
Multi-Family, Non-Resid., & Irrigation						
All Water Usage	\$4.51	\$4.78	\$5.07	\$5.37	\$5.69	\$6.03

¹ "TGAL" means thousand gallons

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

Schedule S-1 – Sewer Enterprise Budgeted and Projected Operating and Debt Expense

	FY2022/23	FY2023/24	FY2024/25	FY2025/26	FY2026/27	FY2027/28	FY2028/29	FY2029/30	FY2030/31	FY2031/32
1 Wages and Salaries	\$392,000	\$403,800	\$415,900	\$428,400	\$441,300	\$454,500	\$468,100	\$482,200	\$496,600	\$511,500
2 Incentives	11,400	11,800	12,100	12,500	12,900	13,300	13,700	14,100	14,500	14,900
3 Fringe Benefits	3,200	3,300	3,400	3,500	3,700	3,800	3,900	4,000	4,100	4,200
4 Leave	58,800	60,600	62,400	64,200	66,200	68,200	70,200	72,300	74,500	76,700
5 Deductions	139,200	53,500	55,100	56,700	58,400	60,200	62,000	63,800	65,800	67,700
6 Insurance	117,500	121,000	124,700	128,400	132,200	136,200	140,300	144,500	148,800	153,300
7 Tax	6,900	7,100	7,300	7,500	7,800	8,000	8,200	8,500	8,700	9,000
8 Payouts	17,800	18,300	18,900	19,400	20,000	20,600	21,200	21,900	22,500	23,200
9 Materials and Supplies	7,200	7,400	7,600	7,900	8,100	8,400	8,600	8,900	9,100	9,400
10 Contract Supplies	97,900	100,800	103,800	106,900	110,200	113,500	116,900	120,400	124,000	127,700
11 Legal	18,700	19,200	19,800	20,400	21,000	21,600	22,300	23,000	23,700	24,400
12 Utilities	15,900	16,400	16,900	17,400	17,900	18,400	19,000	19,600	20,200	20,800
13 Repair and Maintenance	46,700	48,100	49,500	51,000	52,500	54,100	55,700	57,400	59,100	60,900
14 Other Expenses	147,100	151,600	156,100	160,800	165,600	170,600	175,700	181,000	186,400	192,000
15 Enterprise (Subregional)	1,413,700	1,498,500	1,588,400	1,683,700	1,767,900	1,856,300	1,949,100	2,046,600	2,148,900	2,256,300
16 EOC (emergency operations)	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000
17 Debt Service (Subregional)	945,600	1,002,400	1,062,500	1,126,300	1,182,600	1,241,700	1,303,800	1,369,000	1,437,400	1,509,300
18 In-Lieu Housing Debt Service	67,500	67,500	67,500	67,500	67,500	67,500	67,500	67,500	67,500	67,500
19 CalPERS Payment Plan	76,200	76,200	76,200	76,200	76,200	76,200	76,200	76,200	76,200	76,200
Total	\$3,593,300	\$3,677,500	\$3,858,100	\$4,048,700	\$4,222,000	\$4,803,100	\$4,892,400	\$4,990,900	\$5,298,000	\$5,715,000

Schedule S-2 – Sewer Enterprise Capital Spending Request (current dollars)

Fiscal Year	Project	Cost (2022 dollars)
2021/22	West Sierra Avenue Sewer Replacement – Design	\$ 156,000
2022/23	West Sierra Avenue Sewer Replacement – Construction	\$ 1,100,000
2022/23	Sewer SCADA	\$ 130,000
2023/24	Cypress Avenue Sewer Repairs – Design	\$ 200,000
2024/25	Cypress Avenue Sewer Repairs – Construction	\$ 600,000
2027/28	Sewer Repairs – TBD	\$ 500,000
2029/30	Sewer Repairs – TBD	\$ 500,000
2031/32	Sewer Repairs – TBD	\$ 500,000

Schedule S-3 – Sewer Enterprise Cash Flow Pro Formas (1 of 2)

SEWER OPERATING FUND (404)

	Budget FY2022	Forecast FY2023	Forecast FY2024	Forecast FY2025	Forecast FY2026	Forecast FY2027	Forecast FY2028	Forecast FY2029	Forecast FY2030	Forecast FY2031	Forecast FY2032	
1	Rate Revenue Increase:		9.00%	9.00%	9.00%	9.00%	9.00%	5.00%	5.00%	4.00%	4.00%	
Rate Revenue												
2	Sewer Rate Revenue	\$2,722,000	\$2,722,000	\$2,979,000	\$3,260,000	\$3,568,000	\$3,905,000	\$4,274,000	\$4,507,000	\$4,752,000	\$4,963,000	\$5,184,000
3	Change due to growth & use		\$12,000	\$13,000	\$15,000	\$16,000	\$18,000	\$19,000	\$20,000	\$21,000	\$22,000	\$23,000
4	Increase due to rate adjustments		\$245,000	\$268,000	\$293,000	\$321,000	\$351,000	\$214,000	\$225,000	\$190,000	\$199,000	\$207,000
Non-Rate Revenues												
5	Interest Earnings	\$30,000	\$25,000	\$19,000	\$15,000	\$14,000	\$12,000	\$13,000	\$14,000	\$16,000	\$17,000	\$19,000
6	Total Revenue	\$2,752,000	\$3,004,000	\$3,279,000	\$3,583,000	\$3,919,000	\$4,286,000	\$4,520,000	\$4,766,000	\$4,979,000	\$5,201,000	\$5,433,000
O&M Costs												
7	Salaries and Benefits	\$469,000	\$483,000	\$498,000	\$513,000	\$528,000	\$544,000	\$560,000	\$577,000	\$594,000	\$612,000	\$631,000
8	Supplies	\$7,000	\$7,000	\$7,000	\$8,000	\$8,000	\$8,000	\$8,000	\$9,000	\$9,000	\$9,000	\$9,000
9	Professional Services	\$137,000	\$117,000	\$120,000	\$124,000	\$127,000	\$131,000	\$135,000	\$139,000	\$143,000	\$148,000	\$152,000
10	Maintenance	\$45,000	\$47,000	\$48,000	\$50,000	\$51,000	\$53,000	\$54,000	\$56,000	\$57,000	\$59,000	\$61,000
11	Utilities	\$15,000	\$16,000	\$16,000	\$17,000	\$17,000	\$18,000	\$18,000	\$19,000	\$20,000	\$20,000	\$21,000
12	Subregional O&M & Debt Service	\$2,165,000	\$2,359,000	\$2,501,000	\$2,651,000	\$2,810,000	\$2,950,000	\$3,098,000	\$3,253,000	\$3,416,000	\$3,586,000	\$3,766,000
13	Taxes, Insurance and Other	\$399,000	\$411,000	\$333,000	\$343,000	\$353,000	\$364,000	\$375,000	\$386,000	\$398,000	\$410,000	\$422,000
14	Emergency operations	\$0	\$10,000	\$10,000	\$10,000	\$10,000	\$10,000	\$10,000	\$10,000	\$10,000	\$10,000	\$10,000
15	Total Operating Expenses	\$3,237,000	\$3,450,000	\$3,533,000	\$3,716,000	\$3,904,000	\$4,078,000	\$4,258,000	\$4,449,000	\$4,647,000	\$4,854,000	\$5,072,000
Debt and Transfers												
16	In-Lieu Housing Debt Service	\$67,500	\$67,500	\$67,500	\$67,500	\$67,500	\$67,500	\$67,500	\$67,500	\$67,500	\$67,500	\$67,500
17	CalPERS Payment Plan	\$38,100	\$76,200	\$76,200	\$76,200	\$76,200	\$76,200	\$76,200	\$76,200	\$76,200	\$76,200	\$76,200
18	New Loan from General Fund	\$0	\$49,000	\$49,000	\$49,000	\$49,000	\$49,000	\$49,000	\$49,000	\$49,000	\$49,000	\$49,000
19	Transfers In from Capital Fund for Debt	(\$45,700)	(\$41,500)	(\$45,700)	(\$45,700)	(\$45,700)	(\$45,700)	(\$45,700)	(\$45,700)	(\$45,700)	(\$45,700)	(\$45,700)
20	Transfer Out to (in from) Capital Fund	\$0	\$0	\$0	(\$100,000)	\$0	\$0	\$0	\$0	\$0	\$0	\$250,000
21	Total Debt and Transfers	\$59,900	\$151,200	\$147,000	\$47,000	\$147,000	\$147,000	\$147,000	\$147,000	\$147,000	\$147,000	\$397,000
22	Total Revenue Requirement	\$3,296,900	\$3,601,200	\$3,680,000	\$3,763,000	\$4,051,000	\$4,225,000	\$4,405,000	\$4,596,000	\$4,794,000	\$5,001,000	\$5,469,000
23	Beginning Year Balance	\$3,155,000	\$2,610,000	\$2,012,800	\$1,611,800	\$1,431,800	\$1,299,800	\$1,360,800	\$1,475,800	\$1,645,800	\$1,830,800	\$2,030,800
24	Surplus/(Shortfall)	(\$544,900)	(\$597,200)	(\$401,000)	(\$180,000)	(\$132,000)	\$61,000	\$115,000	\$170,000	\$185,000	\$200,000	(\$36,000)
25	End of Year Balance	\$2,610,100	\$2,012,800	\$1,611,800	\$1,431,800	\$1,299,800	\$1,360,800	\$1,475,800	\$1,645,800	\$1,830,800	\$2,030,800	\$1,994,800
26	<i>Operating Fund Reserve Target</i>	\$1,068,000	\$1,139,000	\$1,166,000	\$1,226,000	\$1,288,000	\$1,346,000	\$1,405,000	\$1,468,000	\$1,534,000	\$1,602,000	\$1,674,000
27	<i>Available Balance</i>	\$1,542,100	\$873,800	\$445,800	\$205,800	\$11,800	\$14,800	\$70,800	\$177,800	\$296,800	\$428,800	\$320,800

Schedule S-3 – Sewer Enterprise Cash Flow Pro Formas (2 of 2)

SEWER CAPITAL FUND (405)

	Budget FY 2022	Forecast FY 2023	Forecast FY 2024	Forecast FY 2025	Forecast FY 2026	Forecast FY 2027	Forecast FY 2028	Forecast FY 2029	Forecast FY 2030	Forecast FY 2031	Forecast FY 2032
1 Beginning Balance	\$286,000	\$448,200	\$664,700	\$674,500	\$153,600	\$363,900	\$576,400	\$211,000	\$422,400	\$21,000	\$230,900
Revenues											
2 Impact Fee Revenue	\$238,600	\$216,500	\$238,600	\$238,600	\$238,600	\$238,600	\$238,600	\$238,600	\$238,600	\$238,600	\$238,600
3 Loan Repayment from Water	\$104,500	\$502,000	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
4 Miscellaneous Fees	\$18,100	\$15,300	\$15,400	\$15,600	\$15,700	\$15,900	\$16,000	\$16,200	\$16,400	\$16,500	\$16,500
5 Interest Earnings	\$2,700	\$4,200	\$7,500	\$7,600	\$1,700	\$3,700	\$5,700	\$2,300	\$4,300	\$500	\$2,500
6 Total Revenues	\$363,900	\$738,000	\$261,500	\$261,800	\$256,000	\$258,200	\$260,300	\$257,100	\$259,300	\$255,600	\$257,600
Capital Spending											
7 TOTAL CAPITAL SPENDING	\$156,000	\$1,230,000	\$206,000	\$637,000	\$0	\$0	\$580,000	\$0	\$615,000	\$0	\$652,000
8 Debt Funded Capital	\$0	\$750,000	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
9 Cash Funded Capital Projects	\$156,000	\$480,000	\$206,000	\$637,000	\$0	\$0	\$580,000	\$0	\$615,000	\$0	\$652,000
10 Transfer Out to Operating Fund for Debt	\$45,700	\$41,500	\$45,700	\$45,700	\$45,700	\$45,700	\$45,700	\$45,700	\$45,700	\$45,700	\$45,700
11 Transfer out (in) from Operating Fund	\$0	\$0	\$0	\$100,000	\$0	\$0	\$0	\$0	\$0	\$0	(\$250,000)
12 Capital Spending	\$201,700	\$521,500	\$251,700	\$782,700	\$45,700	\$45,700	\$625,700	\$45,700	\$660,700	\$45,700	\$447,700
13 Surplus/(Shortfall) ¹	162,200	216,500	9,800	(520,900)	210,300	212,500	(365,400)	211,400	(401,400)	209,900	(190,100)
14 Capital Reserve Ending Balance ¹	\$448,200	\$664,700	\$674,500	\$153,600	\$363,900	\$576,400	\$211,000	\$422,400	\$21,000	\$230,900	\$40,800

¹ Includes Impact Fee reserve

Schedule S-4 – Five-Year Schedule of Proposed Sewer Rates

	Proposed Sewer Rates ²					
	Current	2022	2023	2024	2025	2026
<i>Bi-Monthly Service Charge</i>						
3/4" meter	\$82.23	\$89.63	\$97.70	\$106.49	\$116.07	\$126.52
1" meter	\$135.45	\$147.64	\$160.93	\$175.41	\$191.20	\$208.41
1 1/2" meter	\$267.36	\$291.42	\$317.65	\$346.24	\$377.40	\$411.37
2" meter	\$426.26	\$464.62	\$506.44	\$552.02	\$601.70	\$655.85
3" meter	\$797.31	\$869.07	\$947.29	\$1,032.55	\$1,125.48	\$1,226.77
4" meter	\$1,327.26	\$1,446.71	\$1,576.91	\$1,718.83	\$1,873.52	\$2,042.14
<i>Sewer Usage Rates (\$/TGAL) ¹</i>						
All Customers	\$9.60	\$10.46	\$11.40	\$12.43	\$13.55	\$14.77

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

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