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REPORT

SEWER COST OF SERVICE & RATE STUDY

OCTOBER 2026



Prepared for:
Mr. Cástulo Estrada – Utilities Director
City of Coachella
53462 Enterprise Way
Coachella, CA 92236



900 Bestgate Road, Suite 402
Annapolis, MD 21401
Phone: (410) 266-9101

October 7, 2026

Mr. Cástulo Estrada
Utilities Director
City of Coachella
53462 Enterprise Way
Coachella, CA 92236

Subject: Coachella Sanitary District Cost of Service and Rate Study

Dear Mr. Estrada,

NewGen Strategies and Solutions, LLC is pleased to submit to the City of Coachella our report detailing our completed Sewer Cost of Service and Rate Study for the Coachella Sanitary District. This report summarizes our study's results regarding the forecasted costs of providing sewer collection and treatment service to the City's sewer customers and our recommendations for recovering those costs over the fiscal years 2027 through 2031. The rates described in our report are fair and equitable, align with Proposition 218 requirements, and will result in the sustainable operation of the City's sewer utility.

We appreciate the opportunity to provide our services to the City and would like to express our sincere appreciation to City staff. The dedication and assistance provided by City staff was essential to the completion of this study. It has been a distinct pleasure to work with the City of Coachella. Please contact us if you have any questions regarding our study or our recommendations.

Sincerely,

NewGen Strategies and Solutions, LLC

DocuSigned by:

C11651334F8F462...
Eric Callocchia
Partner

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EXECUTIVE SUMMARY

The City of Coachella (City) retained NewGen Strategies and Solutions, LLC (NewGen) to conduct a comprehensive cost of service and rate study for the Coachella Sanitary District (CSD), the wastewater enterprise administered by the City's Utilities Department. The study develops a five-year financial plan for fiscal years 2027 through 2031, allocates the cost of providing wastewater service among CSD's customer classes, and designs sewer rates that recover those costs in proportion to the cost of serving each class.

The objectives of the study are to confirm that CSD's rates recover the full cost of providing wastewater service, including operation and maintenance expense, capital expenditures, and debt service; to evaluate whether the existing customer class structure and rate structure remain appropriate; to develop rates that are proportionate to the cost of service and defensible under Proposition 218; and to deliver a financial planning and rate design model that City staff can maintain and update.

Financial Plan Results

Revenue under CSD's existing rates is approximately \$7,559,000 per year and, because no growth in accounts or billable flow is projected, does not increase over the study period. The utility's revenue requirement, by contrast, grows substantially. Operation and maintenance expense rises from approximately \$6,050,000 in fiscal year 2026 to \$9,476,000 in fiscal year 2031, driven by general cost escalation, the phased addition of 3.5 wastewater treatment operator positions and one SCADA and instrumentation technician position identified in the City's Utility Manpower Study, the salary adjustments arising from the City's compensation study, and the funding of \$500,000 per year of depreciation beginning in fiscal year 2027.

Rate-funded debt service is stable at approximately \$1,065,000 per year across five outstanding obligations, and no new debt is contemplated. The capital improvement program totals approximately \$6,389,000 over the study period but is almost entirely growth-related and is funded from connection fees, American Rescue Plan Act grant proceeds, and Clean Water State Revolving Fund grants. Only the SCADA System Upgrade, at \$300,000 in fiscal year 2027 and \$250,000 in fiscal year 2028, is funded from rates. The operating fund is nonetheless required to transfer approximately \$4,553,000 to the connection fee fund in fiscal years 2026 and 2027 to keep that fund solvent while the growth program is delivered. These transfers will be made from existing operating fund reserves and will have no impact on sewer ratepayers. The operating fund reserves will be replenished as future connection fee revenues materialize.

Under the recommended financial plan, the operating fund balance declines from approximately \$10,950,000 at the end of fiscal year 2026 to approximately \$6,700,000 at the end of fiscal year 2031, remaining above the minimum reserve requirement in every year. Debt service coverage measured on net revenue excluding the general government administrative transfer ranges from 2.49 to 4.38 times, comfortably above the 1.25 times target.

Proposed Rates and Bill Impacts

NewGen reviewed CSD's existing customer class structure and rate structure and concluded that both remain appropriate. CSD will continue to bill single family residential customers a flat monthly charge, and all other customers a fixed monthly charge that varies by meter size together with a class-specific



EXECUTIVE SUMMARY

volumetric charge per hundred cubic feet of metered water consumption. The proposed rates recalibrate the level of each charge to the cost of service.

The cost-of-service analysis found that single family residential, multi-family, and the medium and high strength commercial classes were not previously paying their full proportionate share of the cost of service, while commercial low strength and institutional customers were paying close to their share. As a result, first-year bill impacts vary by class even though the system-wide revenue adjustment is 5.3 percent. In fiscal year 2027 the single family residential monthly bill increases from \$49.74 to \$54.73, an increase of \$4.99 or 10.0 percent. Commercial high strength customers see the largest first-year increase, at 38.6 percent, followed by commercial medium strength customers at 18.9 percent and multi-family customers at 10.3 percent, while commercial low strength and institutional customers see increases of 2.2 and 1.8 percent respectively. After fiscal year 2028, annual increases converge to between 2.8 and 5.0 percent for all classes.

At existing rates, CSD's monthly residential bill of \$49.74 ranks seventh lowest among the 19 bills surveyed in Riverside County and the surrounding region and is approximately two percent below the survey average of \$50.78. Under the proposed rates, the fiscal year 2028 bill of \$60.21 would rank seventeenth among those bills, however the comparison doesn't account for the shifts in rates other municipalities will have to make by 2028.

Recommended Revenue Adjustments

No rate increase is recommended for fiscal year 2026. Beginning in fiscal year 2027, annual revenue adjustments of 5.3 percent, 9.8 percent, 6.8 percent, 4.8 percent, and 3.9 percent are recommended. Table ES-1 presents the recommended adjustments together with the resulting single family residential monthly bill.

Table ES-1 Recommended Revenue Adjustments and Single Family Residential Monthly Bill						
Description	FY 2026	FY 2027	FY 2028	FY 2029	FY 2030	FY 2031
Recommended Revenue Adjustment	0.0%	5.3%	9.8%	6.8%	4.8%	3.9%
Single Family Monthly Bill	\$49.74	\$54.73	\$60.21	\$63.23	\$66.38	\$68.32
\$ Change	--	\$4.99	\$5.47	\$3.02	\$3.16	\$1.94
% Change	--	10.0%	10.0%	5.0%	5.0%	2.9%

Recommendations

NewGen recommends that the City Council adopt the revenue adjustments presented in Table ES-1 and the corresponding rate schedule presented in Appendix A, and that it initiate the notice and public hearing process required by Proposition 218. NewGen further recommends that the City formally adopt the reserve policy applied in this study, being 90 days of operation and maintenance expense plus 30 days of capital spending; that it monitor connection fee revenue against the \$500,000 per year assumed in the financial plan, given the operating fund transfers the growth capital program requires; and that it review the financial plan annually using the model delivered with this study. Section 6 presents these recommendations fully.

Section 1

BACKGROUND AND SCOPE OF WORK

City of Coachella Background

The City of Coachella is located at the east end of the Coachella Valley in Riverside County, California, approximately 40 miles south of Palm Springs. Incorporated in 1946, Coachella encompasses approximately 30 square miles and is home to a population of roughly 43,000 residents. The surrounding area is characterized by agricultural land to the south, undeveloped land to the east and north, and urban growth to the west.

The City's wastewater utility service area encompasses approximately 32 square miles, with a sphere of influence covering approximately 53 square miles in the eastern Coachella Valley. Within that footprint, the City provides wastewater utility services to approximately 8,267 active residential and commercial customers. Water and Wastewater utility services are delivered through two entities administered by the City's Utilities Department: the City's Water Division formed in 1957 and later restructured as the Coachella Water Authority (CWA), which provides domestic water service, and the Coachella Sanitary District (CSD), formed in 1948, which provides wastewater collection, treatment, and disposal service. This report addresses the sewer (wastewater) utility operated by CSD.

Coachella Sanitary District

The Coachella Sanitary District was formed in 1948 and provides wastewater collection, treatment, and disposal service within the City's service area. CSD serves approximately 8,267 active service connections consisting of single family residential, multi-family and mobile home, commercial, and institutional customers.

Wastewater is conveyed to treatment through a collection system consisting of approximately 90 miles of pipeline, two sewage pump stations, and over 1,600 manholes. Flows are delivered to the District's wastewater treatment plant, which begins with a raw wastewater lift station and headworks facility that includes screenings and grit removal equipment. Treatment is provided through two separate secondary treatment process trains that include contact stabilization tanks, oxidation ditches, and disinfection facilities. Secondary effluent is disinfected with sodium hypochlorite and dechlorinated with sodium bisulfite before being discharged through an outfall into the Coachella Valley Stormwater Channel. The plant has a design flow of 4.5 million gallons per day (MGD).

CSD is accounted for as a separate utility enterprise, distinct from the domestic water utility operated by the Coachella Water Authority, with both administered by the City's Utilities Department. Sewer operations are funded principally through user rates and charges supplemented by other operating income and interest earnings. Connection fees charged to new connections fund growth related capital expenditures. The revenue requirement recovered through sewer rates includes operation and maintenance expense, rehabilitation and betterment related capital expenditures, debt service on outstanding and any projected future obligations, revenue bond covenant coverage, and reserve funding requirements. As a California public agency, CSD's rates are subject to the substantive and procedural requirements of Proposition 218, which requires that charges to each parcel not exceed the proportional cost of providing service to that parcel.



Section 1

The City has also recently completed a Utility Manpower Study addressing appropriate staffing levels under optimal performance conditions, as well as a compensation study. The recommendations of both efforts are reflected in the sewer revenue requirement developed in this report.

Existing Rate Structure

As described in Section 2, CSD's existing rate structure consists of a flat monthly charge for single family residential customers and, for all other classes, a fixed monthly charge that varies by meter size together with a volumetric charge per HCF of metered water consumption. Volumetric charges are differentiated by customer class, which implicitly recognizes differences in wastewater strength among classes. NewGen reviewed this structure and concluded that it is sound, is consistent with cost-of-service principles, and is well understood by customers. No change to the form of the rate structure is recommended; the proposed rates recalibrate the level of each charge to the cost of service developed in Section 3.

Study Background

The City of Coachella engaged NewGen to conduct a comprehensive Sewer Cost of Service and Rate Study for the Coachella Sanitary District. The purpose of this study was to ensure that the City's sewer utility has sufficient, defensible funding to meet its operational, capital, and current debt service obligations, and that sewer rates are proportionate to the cost of providing service consistent with the requirements of Proposition 218.

The pressures driving the need for this study included, among other factors:

- General escalation in the costs of labor, materials, and administrative support
- The City's Utility Manpower Study recommendations, including the phased addition of 3.5 wastewater treatment operator positions and one SCADA and instrumentation technician position
- The salary adjustments recommended by the City's compensation study
- The need to fund capital asset replacement, including depreciation funding and the rate-funded SCADA System Upgrade
- The need to support the growth-related capital program delivered through the connection fee fund
- The requirement to maintain adequate reserves and meet existing debt service obligations

NewGen's analysis encompasses a five-year rate forecast period from fiscal year 2027 through fiscal year 2031, with recommended rates anticipated to take effect on January 1, 2027, following completion of the Proposition 218 noticing and public hearing process.

Study Process

The City retained NewGen Strategies and Solutions, LLC (NewGen) to conduct a comprehensive sewer cost of service and rate study for the Coachella Sanitary District. The objective of the study is to ensure that CSD accurately accounts for the true cost of providing wastewater service and that rates recover those costs, including operation and maintenance, capital, and debt service, in a manner that is proportionate to the cost of serving each customer class and defensible under Proposition 218. Analyses were developed for a five-year study period covering fiscal years 2027 through 2031, using generally accepted utility industry practices, including the procedures described in the Water Environment Federation's manual on Financing and Charges for Wastewater Systems.

NewGen's scope of work consisted of the following principal tasks:

- **Initial meetings and data collection.** Collect and review customer, financial, and operating data; reconcile billing data; identify and resolve master-meter and inactive account issues; and confirm through a project kick-off meeting that the study approach is consistent with the City's short- and long-term objectives.
- **Projection of revenues under existing rates.** Analyze historical customers by class and project accounts and billable volumes over the study period, recognizing population and growth projections, and project revenue under existing rates as well as other operating and interest income.
- **Development of revenue requirements and cash flow analyses.** Project operation and maintenance expense, routine capital expenditures, and major capital improvement program financing; project debt service and evaluate reserve funding adequacy; and prepare cash flow analyses identifying the timing and magnitude of any needed revenue adjustments, together with financial plan alternatives for the City's consideration.
- **Evaluation of customer classes.** Review existing customer class designations for appropriateness and equitability, recommend revisions as needed, and determine the usage and billing characteristics of each class.
- **Cost of service allocations.** Allocate test year costs of service to functional cost components recognizing cost-causative factors and develop class units of service, distribute costs to customer classes, and compare allocated class costs to revenues under existing rates to determine revenue adequacy by class.
- **Design of rates and charges.** Evaluate the existing rate structure and develop proposed sewer rates that recover the required revenue, reflect allocated costs of service by class, and do not exceed the proportional cost of service attributable to individual parcels.
- **Financial planning and rate design model.** Develop a user-friendly Microsoft Excel-based financial planning and rate design model, tailored to the utility's characteristics, that allows City staff to update projections, test "what-if" scenarios, and design rates on an annual basis, together with a user manual and a staff training session.
- **Deliverables.** Prepare a draft report, a final report, a calculation book supporting the proposed rates, the computer model, and accompanying user documentation.
- **Meetings and presentations.** Attend meetings and workshops at significant stages of the study to receive project direction, review progress, and present findings and recommendations to City staff, the City Council, and the public.

The remainder of this report presents the results of these analyses. Section 2 presents the financial plan and sewer revenue requirement, Section 3 presents the cost-of-service analysis and proposed rate design, Section 4 presents the cash flow and fund balance forecasts, Section 5 presents the resulting customer bill impacts, and Section 6 presents NewGen's findings, conclusions, and recommendations.

Section 2

REVENUE REQUIREMENTS

This section presents the financial plan developed for the Coachella Sanitary District (CSD) sewer utility for fiscal years 2027 through 2031. The financial plan projects the revenue that the utility must recover from sewer rates in each year of the study period in order to fund operation and maintenance expense, capital improvements, debt service, and reserve requirements. Amounts shown in the tables in this section are rounded. Calculations performed on the figures displayed, such as summing a column, may therefore differ slightly from the totals shown.

Financial Plan Approach

The financial plan is a multi-year projection of the sewer utility's revenues, expenses, capital expenditures, debt service, and fund balances. NewGen developed the plan using the cash basis method, under which the annual revenue requirement is the sum of the cash outlays the utility must make in each year, less revenues available from sources other than sewer rates. The cash basis method is widely used by California public wastewater utilities and is one of the two revenue requirement methodologies described in the Water Environment Federation's Manual of Practice No. 27, Financing and Charges for Wastewater Systems.

The analysis begins with the utility's adopted budget for fiscal year 2027 and escalates each revenue and expense category over the study period using category-specific escalation factors. Capital improvements are layered in according to the City's capital improvement program, and each project is assigned to a funding source. Existing debt service is taken from the amortization schedules for the utility's outstanding obligations. The resulting revenue requirement is compared to revenue available under existing rates, and the annual revenue adjustments necessary to meet the requirement, maintain the City's reserve targets, and satisfy debt service coverage obligations are identified.

Study Period and Key Assumptions

The study period covers fiscal years 2027 through 2031. Fiscal year 2025 serves as the test year for the cost-of-service analysis presented in Section 3. Test year revenues and expenses were escalated using the factors shown in Table 2-1. The factors are based on published economic indices and on input from City staff, and they are applied to individual budget line items according to the nature of each cost. The compensation study adjustment reflects the phased salary adjustments arising from the City's compensation study and is applied in addition to the general salary escalation factor.

Section 2

Table 2-1
Escalation Factors Applied to Test Year Costs

Escalation Factor	FY 2027	FY 2028	FY 2029	FY 2030	FY 2031
Salaries		3.2%	3.2%	3.2%	3.2%
Benefits		3.6%	3.6%	3.6%	3.6%
Compensation Study Adjustment		7.8%	3.2%	3.2%	3.2%
Chemicals	Based on Adopted Budget	3.4%	3.4%	3.4%	3.4%
Electricity		3.5%	3.5%	3.5%	3.5%
Supplies		3.6%	3.6%	3.6%	3.6%
Services		2.3%	2.3%	2.3%	2.3%
General Inflation		3.1%	3.1%	3.1%	3.1%
Government Administrative Fees		3.6%	3.6%	3.6%	3.6%

Table 2-2 summarizes the financial policies and planning assumptions applied in the financial plan. The City has not adopted a formal reserve policy for the sewer utility; the reserve targets shown were developed with City staff and are consistent with common practice among California wastewater utilities. No growth in customer accounts or billable flow is assumed over the study period, consistent with the utility's recent billing history.

Table 2-2
Financial Policies and Planning Assumptions

Policy or Assumption	Value
Debt Service Coverage Target	1.25x
Operating Reserve Target (Days Cash on Hand - O&M)	90 days
Capital Reserve Target (Days Cash on Hand - CIP)	30 days
Interest Earned on Investments	0.39%
Projected Debt - Interest Rate	4.0%
Projected Debt - Term of Issue	20 years
Annual Growth in Customer Accounts	0.0%
Annual Growth in Billable Flow	0.0%

Customer Accounts and Billable Flow

CSD serves 8,267 active accounts. For rate-setting purposes, customers are grouped into four billing categories: single family residential, multi-family and mobile home, commercial, and institutional. Commercial customers are further divided into low, medium, and high-strength subclasses for cost-of-service purposes, as described in Section 3. Single family residential accounts represent approximately 92 percent of all accounts. Table 2-3 presents accounts by class and meter size.

**Table 2-3
Customer Accounts by Class and Meter Size**

Meter Size	Single Family	Multi-Family/Mobile	Commercial	Institutional	Total
3/4-inch	7,619	34	92	8	7,753
1-inch	2	66	91	9	168
1 1/2-inch	-	58	70	1	129
2-inch	-	106	57	25	188
3-inch	-	8	3	1	12
4-inch	-	3	8	2	13
6-inch	-	-	3	-	3
8-inch	-	1	-	-	1
Total	7,621	276	324	46	8,267

Billable flow is measured in hundred cubic feet (HCF) of metered water consumption. Total billable flow is 1,296,229 HCF per year. Because no growth in consumption is projected, billable flow is held constant across the study period. Table 2-4 presents annual billable flow by customer class.

**Table 2-4
Annual Billable Flow by Customer Class**

Customer Class	Annual Billable Flow (HCF)	Percent of Total
Single Family	661,031	51.0%
Multi-Family/Mobile Units	270,573	20.9%
Commercial Low	189,733	14.6%
Commercial Medium	32,873	2.5%
Commercial High	38,268	3.0%
Institutional	103,751	8.0%
Total	1,296,229	100.0%

Revenue Under Existing Rates

CSD's existing sewer rates consist of a fixed monthly charge and, for all classes other than single family residential, a volumetric charge applied to metered water consumption. Single family residential customers pay a single flat monthly charge that recovers both the fixed and the volume-related cost of serving a typical residence; no separate volumetric charge is billed to that class. Fixed monthly charges for all other classes vary by meter size. The rates in effect for fiscal year 2026, which are the existing rates for purposes of this study, are presented in Table 2-5.

Section 2

Table 2-5
Existing Monthly Sewer Rates

Rate Component	Units	Existing Rate
Single Family	per account	\$49.74
Fixed Charge - 3/4-inch Meter	per account	\$24.08
Fixed Charge - 1-inch Meter	per account	\$40.11
Fixed Charge - 1 1/2-inch Meter	per account	\$80.24
Fixed Charge - 2-inch Meter	per account	\$128.39
Fixed Charge - 3-inch Meter	per account	\$256.76
Fixed Charge - 4-inch Meter	per account	\$401.19
Fixed Charge - 6-inch Meter	per account	\$802.36
Fixed Charge - 8-inch Meter	per account	\$1,283.78
Multi-Family/Mobile Units	per HCF	\$3.55
Commercial Low	per HCF	\$3.09
Commercial Medium	per HCF	\$4.00
Commercial High	per HCF	\$8.90
Institutional	per HCF	\$3.04

Revenue under existing rates was projected by applying the rates in Table 2-5 to the accounts and billable flow presented in Table 2-3 and Table 2-4. Because no growth in accounts or billable flow is projected, revenue under existing rates is constant across the study period at approximately \$7,559,000 per year, as shown in Table 2-6. Fixed charges account for \$5,225,000, or approximately 69 percent of rate revenue, and volumetric charges account for the remaining \$2,334,000.

Table 2-6
Projected Revenue Under Existing Rates (000's)

Revenue Source	FY 2026	FY 2027	FY 2028	FY 2029	FY 2030	FY 2031
Single Family	\$4,549	\$4,549	\$4,549	\$4,549	\$4,549	\$4,549
Multi-Family/Mobile Units	\$315	\$315	\$315	\$315	\$315	\$315
Commercial	\$302	\$302	\$302	\$302	\$302	\$302
Institutional	\$59	\$59	\$59	\$59	\$59	\$59
Total Fixed Charge Revenue	\$5,225	\$5,225	\$5,225	\$5,225	\$5,225	\$5,225
Multi-Family/Mobile Units	\$961	\$961	\$961	\$961	\$961	\$961
Commercial Low	\$586	\$586	\$586	\$586	\$586	\$586
Commercial Medium	\$131	\$131	\$131	\$131	\$131	\$131
Commercial High	\$341	\$341	\$341	\$341	\$341	\$341
Institutional	\$315	\$315	\$315	\$315	\$315	\$315
Total Volumetric Charge Revenue	\$2,334	\$2,334	\$2,334	\$2,334	\$2,334	\$2,334
Total Revenue Under Existing Rates	\$7,559	\$7,559	\$7,559	\$7,559	\$7,559	\$7,559

Operation and Maintenance Expense

Operation and maintenance (O&M) expense includes the administrative and operating costs of the sewer utility, depreciation funding, and the incremental personnel costs identified in the City's Utility Manpower Study and compensation study. Adopted FY 2027 operating and maintenance expenses were escalated using the factors presented in Table 2-1. Administration includes general and administrative costs allocated to the sewer utility, including the general government administrative fee. Operations includes the direct costs of operating the collection system and the wastewater treatment plant. Beginning in fiscal year 2027 the financial plan funds \$500,000 per year of depreciation in recognition of the utility's ongoing asset renewal obligation. Manpower study additions phase in 3.5 full-time equivalent Wastewater Treatment Operator I positions and one SCADA/Instrumentation Technician position between fiscal years 2027 and 2029. Projected O&M expense is presented in Table 2-7.

Section 2

Table 2-7
Projected Operation and Maintenance Expense (000's)

Category	FY 2026	FY 2027	FY 2028	FY 2029	FY 2030	FY 2031
Administration	\$3,085	\$3,134	\$3,536	\$3,902	\$4,248	\$4,400
Operations	\$2,965	\$3,582	\$3,695	\$3,812	\$3,932	\$4,057
Depreciation	\$0	\$500	\$500	\$500	\$500	\$500
Manpower Study Additions	\$0	\$169	\$294	\$488	\$503	\$519
Total O&M	\$6,050	\$7,386	\$8,025	\$8,702	\$9,184	\$9,476
\$ Change		\$1,336	\$639	\$677	\$482	\$292
% Change		22.08%	8.65%	8.44%	5.54%	3.18%

Debt Service

CSD has six outstanding debt obligations. Five are repaid from sewer rate revenue: the USDA Avenue 54 Wastewater loan, the Wastewater 2005B USDA loan, the Wastewater 2015A issue, the sanitary district's share of the 2023 Energy Improvement Lease, and the Series 2020 Pension Obligation Bonds. The sixth, the 2005 State Water Resources Control Board State Revolving Fund loan, is repaid from connection fees and reaches final maturity in fiscal year 2027. Rate-funded debt service is essentially level across the study period at approximately \$1,065,000 per year. No new debt issuance is assumed. Table 2-8 presents annual debt service by obligation.

Table 2-8
Existing Annual Debt Service (000's)

Obligation	FY 2026	FY 2027	FY 2028	FY 2029	FY 2030	FY 2031
USDA Avenue 54 Wastewater	\$116	\$115	\$113	\$117	\$115	\$113
Wastewater 2005B USDA	\$255	\$255	\$255	\$255	\$255	\$255
Wastewater 2015A	\$331	\$330	\$334	\$330	\$327	\$329
2023 Energy Improvement Lease	\$153	\$153	\$153	\$153	\$153	\$153
Pension Obligation, Series 2020	\$213	\$212	\$211	\$211	\$211	\$211
Total Rate-Funded Debt Service	\$1,069	\$1,065	\$1,067	\$1,065	\$1,061	\$1,061
2005 SWRCB Revolving Loan	\$1,505	\$1,505	\$0	\$0	\$0	\$0
Total Debt Service	\$2,574	\$2,570	\$1,067	\$1,065	\$1,061	\$1,061

Capital Improvement Program

The City provided a capital improvement program (CIP) totaling approximately \$6,389,000 over fiscal years 2026 through 2031. Project costs are stated in current dollars; no capital cost inflation was applied. The program is dominated by growth-related capacity and treatment projects, which are funded from the connection fee fund (Fund 360), American Rescue Plan Act (ARPA) grant proceeds, and a Clean Water State Revolving Fund (CWSRF) grant. The SCADA System Upgrade is the only non-growth renewal project funded from sewer rate revenue, at \$300,000 in fiscal year 2027 and \$250,000 in fiscal year 2028. Table 2-9 summarizes the capital improvement program by funding source.

Revenue Requirements

Table 2-9
Capital Improvement Program by Funding Source (000's)

Funding Source	FY 2026	FY 2027	FY 2028	FY 2029	FY 2030	FY 2031	Total
Sewer Rate Revenue (Fund 361)	\$0	\$300	\$250	\$0	\$0	\$0	\$550
Connection Fee Cash (Fund 360)	\$443	\$2,500	\$115	\$0	\$0	\$0	\$3,058
ARPA Grant Proceeds	\$1,110	\$0	\$0	\$0	\$0	\$0	\$1,110
Clean Water State Revolving Fund	\$1,671	\$0	\$0	\$0	\$0	\$0	\$1,671
Total CIP	\$3,224	\$2,800	\$365	\$0	\$0	\$0	\$6,389

Table 2-10 presents the capital improvement program by individual project. Because the great majority of the program is growth-related and is funded from connection fees, and grant proceeds rather than from rates, the CIP has a limited direct effect on the sewer revenue requirement. Its principal effect on rates is indirect, through the operating fund transfers to the connection fee fund that are required in fiscal years 2026 and 2027 to keep that fund solvent while the growth program is delivered.

Table 2-10
Capital Improvement Program by Project, FY 2026 through 2031 (000's)

Project	FY 2026	FY 2027	FY 2028	FY 2029	FY 2030	FY 2031	Total
Shady Lane and Amezcua Septic to Sewer Conversion (S-15)	\$1,671	\$0	\$0	\$0	\$0	\$0	\$1,671
Avenue 52 Extension to Jackson Capacity Improvements (S-27)	\$17	\$0	\$0	\$0	\$0	\$0	\$17
Avenue 51 Extension to Jackson Capacity Improvements (S-28)	\$17	\$0	\$0	\$0	\$0	\$0	\$17
CSD Headworks Screening Improvements (S-29)	\$1,518	\$0	\$0	\$0	\$0	\$0	\$1,518
Avenue 50, Coronado to Harrison Capacity Improvements (S-19)	\$0	\$500	\$0	\$0	\$0	\$0	\$500
Avenue 54 Upsizing	\$0	\$2,000	\$0	\$0	\$0	\$0	\$2,000
E4 Frederick Street to Julia Drive to Westfield Way Pipe Replacement	\$0	\$0	\$0	\$0	\$0	\$0	\$0
SCADA System Upgrade (S-30)	\$0	\$300	\$250	\$0	\$0	\$0	\$550
E5 Airport Boulevard Pipe Replacement	\$0	\$0	\$115	\$0	\$0	\$0	\$115
E6 Van Buren Street to Avenue 54 Pipe Replacement	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Total Capital Improvement Program	\$3,224	\$2,800	\$365	\$0	\$0	\$0	\$6,389

Section 2

Sewer Revenue Requirement

The sewer revenue requirement is the amount that must be recovered from sewer rates in each year of the study period. It is developed by adding operation and maintenance expense, rate-funded debt service, and rate-funded capital improvements, deducting miscellaneous revenues available from sources other than rates, adding the transfers to the connection fee fund required to deliver the growth-related capital program, and adjusting for the planned use of operating reserves and for transfers received from the connection fee fund. Table 2-11 presents the resulting revenue requirement.

Table 2-11
Sewer Revenue Requirement (000's)

Description	FY 2026	FY 2027	FY 2028	FY 2029	FY 2030	FY 2031
Operation and Maintenance Expense	\$6,050	\$7,386	\$8,025	\$8,702	\$9,184	\$9,476
Existing Debt Service (Rate Funded)	\$1,069	\$1,065	\$1,067	\$1,065	\$1,061	\$1,061
Rate Funded Capital Improvements	\$0	\$300	\$250	\$0	\$0	\$0
Total Revenue Requirements	\$7,119	\$8,751	\$9,341	\$9,767	\$10,245	\$10,537
Less: Miscellaneous Revenues	(\$217)	(\$395)	(\$220)	(\$219)	(\$219)	(\$220)
Net Revenue Requirement	\$6,902	\$8,355	\$9,121	\$9,549	\$10,026	\$10,317
Transfers to Connection Fee Fund	\$1,107	\$3,445	\$0	\$0	\$0	\$0
Total Revenue Needed	\$8,009	\$11,801	\$9,121	\$9,549	\$10,026	\$10,317
(Use of)/Addition to Operating Reserves	(\$450)	(\$3,843)	\$2	\$286	\$261	\$354
Less: Transfers In from Connection Fee Fund	\$0	\$0	(\$385)	(\$500)	(\$500)	(\$500)
Revenue Required from Rates	\$7,559	\$7,957	\$8,738	\$9,334	\$9,787	\$10,171

Note: In fiscal years 2027 through 2029, (Use of)/Addition to Operating Reserves differs from Net Cash Flow in Table 4-2 by the transfers to the capital fund of approximately \$690,000, \$425,000, and \$200,000, respectively. These transfers are funded from operating fund reserves and are not included in the revenue requirement.

Section 3

COST OF SERVICE ANALYSIS AND RATE DESIGN

This section presents the cost-of-service analysis and the rate design developed from it. The cost-of-service analysis distributes the sewer revenue requirement developed in Section 2 among the utility's customer classes in proportion to the cost of serving each class. The resulting unit costs of service are then used to design the proposed sewer rates. As in Section 2, amounts shown in the tables in this section are rounded, and calculations performed on the figures displayed may differ slightly from the totals shown.

Proposition 218

As a California public agency, CSD's sewer rates are property-related fees subject to Article XIII D, Section 6 of the California Constitution, adopted as Proposition 218. Proposition 218 requires, among other things, that revenues derived from the fee not exceed the funds required to provide the service, that revenues not be used for any purpose other than that for which the fee was imposed, and that the amount of the fee imposed upon any parcel not exceed the proportional cost of the service attributable to that parcel. The cost-of-service methodology applied in this study, which follows the Water Environment Federation's Manual of Practice No. 27, is designed to satisfy these requirements by deriving each charge from the unit cost of the specific service provided.

Scope and Applicability

Article XIII D applies to “property-related fees and charges,” defined as any levy other than an ad valorem tax, special tax, or assessment imposed by an agency upon a parcel or upon a person as an incident of property ownership. Water, sewer, and solid waste service charges have been explicitly recognized by both the California Legislature and the courts as property-related fees subject to Article XIII D's requirements.

The provisions of Proposition 218 apply to all local agencies, as defined to include any county, city, city and county, school district, special district, authority, agency, and any other municipal public corporation or district. As the wastewater enterprise administered by the City, CSD is fully subject to the requirements of Article XIII D in setting and adjusting its sewer service rates and charges.

Substantive Rate-Setting Requirements

Article XIII D, Section 6 establishes five substantive legal requirements that property-related fees and charges must satisfy. These requirements define the constitutional bounds of lawful rate-setting authority:

- Revenues shall not exceed the funds required to provide the property-related service. The total revenue collected from a fee or charge may not exceed the reasonable cost of providing the service for which the fee is imposed. This is commonly referred to as the “revenue sufficiency” or “cost-of-service” requirement.
- Revenues shall not be used for any purpose other than that for which the fee or charge was imposed. Rate revenues collected from sewer customers must be dedicated exclusively to the

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provision of wastewater service and may not be diverted to general fund purposes or unrelated programs.

- The amount of a fee or charge imposed upon any parcel or person shall not exceed the proportional cost of the service attributable to the parcel. Individual rates must bear a reasonable relationship to the cost of serving each class of customer or parcel. This “proportionality” requirement underlies the cost-of-service methodology used in a properly structured rate study.
- No fee or charge may be imposed for a service unless that service is used by, or immediately available to, the owner of the property in question. Rates may not be imposed on parcels that have no access to or use of the service.
- No fee or charge may be imposed for general governmental services including, but not limited to, police, fire, ambulance, or library services, where the service is available to the general public in substantially the same manner as it is to property owners. Sewer rates are tied to a specific wastewater service provided to each connected parcel and are not implicated by this provision under normal circumstances.

These substantive requirements are central to the analytical framework of any rate study conducted under California law, and they directly inform the cost-of-service and rate design methodologies employed in this report.

The rate study presented in this report has been designed and conducted in full compliance with the requirements of Article XIII D of the California Constitution. The cost-of-service analysis allocates costs in a manner consistent with the proportionality requirement; rate revenues are structured to fund only those services provided to ratepayers; and the proposed rates do not exceed the reasonable cost of providing sewer service. Prior to adoption of any rates recommended herein, the City will conduct the required Proposition 218 noticing and protest hearing process in accordance with applicable law, providing all affected parcel owners not less than 45 days’ written notice and the opportunity to file written protests.

Wastewater Cost of Service Process

The cost-of-service analysis follows the procedures described in the Water Environment Federation's Manual of Practice No. 27, Financing and Charges for Wastewater Systems, and proceeds in four steps.

Step 1: Functionalization of Costs

First, the revenue requirement is functionalized, meaning that each cost is assigned to the function of the utility that gives rise to it: treatment, collection, customer service, or meters and services.

Step 2: Allocation of Functionalized Costs to Cost Components

Second, functionalized costs are allocated to cost causation components. Treatment costs are allocated among flow, biochemical oxygen demand (BOD), and total suspended solids (TSS), because the cost of treating wastewater is driven by the volume of flow and by the strength of that flow. Collection, customer service, and meters and services costs are recovered through fixed charges.

Step 3: Development of Units of Service

Third, units of service are developed for each customer class, measuring each class's contribution to flow, strength, bills, and metered capacity.

Step 4: Distribution of Costs to Customer Classes

Fourth, the cost of each component is divided by the corresponding units of service to derive unit costs, which are then applied to each class to determine its proportionate share of the revenue requirement.

This approach satisfies the substantive requirement of Proposition 218 that the charge imposed on any parcel not exceed the proportional cost of the service attributable to that parcel, because each class pays only for the flow, strength, bills, and capacity it actually places on the system.

Test Year and Functionalization

Fiscal year 2025 was used as the test year for functionalizing costs. Test year expenses of \$8,086,745 were assigned to the four functional categories using cost-causative factors developed with City staff. Sanitation department labor was distributed among the functions based on the share of staff time devoted to each. Capital assets were distributed between treatment and collection based on the net book value of the assets serving each function. Costs that are fixed with respect to both flow and strength were divided evenly between customer service and meters and services. The resulting functionalization is presented in Table 3-1.

Table 3-1
Functionalized Test Year Cost of Service, Fiscal Year 2025

Cost Category	Treatment	Collection	Customer Service	Meters & Services	Total
Administration	\$3,248,428	\$653,752	\$939,740	\$444,216	\$5,286,136
Operations	\$1,733,276	\$348,825	\$481,487	\$237,022	\$2,800,609
Total Test Year	\$4,981,703	\$1,002,577	\$1,421,227	\$681,238	\$8,086,745
Percent of Total	61.6%	12.4%	17.6%	8.4%	100.0%

The functional methodology used for the test year was then applied to the net revenue requirement for each year of the study period developed in Section 2. This creates some variation in the percentage allocation each year due to the variation in the cost of each functional component each year. Table 3-2 presents the functionalized cost of service to be recovered from rates each year.

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Table 3-2
Functionalized Cost of Service Recovered from Rates

Functional Category	FY 2026	FY 2027	FY 2028	FY 2029	FY 2030	FY 2031
Treatment	\$4,333,477	\$5,208,141	\$5,529,003	\$5,720,302	\$6,008,550	\$6,178,190
Collection	\$775,623	\$922,631	\$1,063,547	\$1,133,936	\$1,244,900	\$1,284,497
Customer Service	\$1,226,618	\$1,548,316	\$1,722,378	\$1,833,317	\$1,886,278	\$1,941,476
Meters & Services	\$565,787	\$676,407	\$806,296	\$861,159	\$886,658	\$913,061
Total	\$6,901,505	\$8,355,496	\$9,121,223	\$9,548,714	\$10,026,386	\$10,317,224

Customer Class Evaluation

CSD currently bills four customer groupings: single family residential, multi-family and mobile home, commercial, and institutional. For cost-of-service purposes the commercial grouping is further divided into three strength categories, reflecting the substantial differences in the concentration of BOD and TSS discharged by different types of commercial establishment. NewGen reviewed the existing class designations and concluded that they remain appropriate and equitable, and no changes to the class structure are recommended. The six resulting cost-of-service classes are single family, multi-family and mobile units, commercial low strength, commercial medium strength, commercial high strength, and institutional.

Wastewater strength assumptions by class were carried forward from the 2017 Sanitation Rate Study and are presented in Table 3-3. Single family and multi-family customers are assumed to discharge domestic strength wastewater of 175 mg/L BOD and 175 mg/L TSS. Commercial high strength customers, which include restaurants and similar food service establishments, are assumed to discharge 976 mg/L BOD and 624 mg/L TSS.

Table 3-3
Assumed Wastewater Strength by Customer Class

Customer Class	BOD (mg/L)	TSS (mg/L)
Single Family	175	175
Multi-Family/Mobile Units	175	175
Commercial Low	139	103
Commercial Medium	180	280
Commercial High	976	624
Institutional	130	100

Units of Service

Units of service measure each customer class's contribution to the cost drivers of the system. Four units of service are used. Billed volume is metered water consumption, which is the basis on which volumetric charges are levied. Contributed volume is billed volume grossed up by an inflow and infiltration factor of 14.68 percent, which reconciles total billed volume of 1,296,229 HCF to the 1,486,455 HCF of flow actually received at the treatment plant. BOD and TSS loadings in pounds are calculated by applying each class's assumed strength from Table 3-3 to its contributed volume. Table 3-4 presents units of service by customer class.

Table 3-4
Units of Service by Customer Class

Customer Class	Billed Volume (HCF)	Contributed Volume (HCF)	BOD (lbs.)	TSS (lbs.)
Single Family	661,031	758,039	828,052	828,052
Multi-Family/Mobile Units	270,573	310,281	338,938	338,938
Commercial Low	189,733	217,577	188,780	139,887
Commercial Medium	32,873	37,697	42,356	65,886
Commercial High	38,268	43,884	267,352	170,930
Institutional	103,751	118,977	96,546	74,266
Total	1,296,229	1,486,455	1,762,023	1,617,960

Both Customer service costs and Meters and services costs are recovered on the basis of meter equivalent units (MEUs), which scale each meter size by its hydraulic capacity relative to a 3/4-inch meter. Table 3-5 presents meter equivalent units by class.

Table 3-5
Share of Meter Equivalent Units by Customer Class

Customer Class	Annual MEUs	Share of MEUs
Single Family	91,468	76.6%
Multi-Family/Mobile Units	13,032	10.9%
Commercial	12,532	10.5%
Institutional	2,436	2.0%
Total	119,468	100.0%

Allocation of Costs to Customer Classes

Treatment costs are allocated among flow, BOD, and TSS using factors developed from the design and operating characteristics of the treatment plant. Table 3-6 presents the allocation of fiscal year 2027 treatment costs to the three cost components.

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Table 3-6
Allocation of Treatment Costs to Cost Components, Fiscal Year 2027

Cost Component	Allocation Factor	Allocated Cost
Flow	35.7%	\$1,859,306
BOD	30.2%	\$1,572,859
TSS	34.1%	\$1,775,976
Total Treatment Cost	100.0%	\$5,208,141

Unit costs of service are derived by dividing the cost of each component by the corresponding units of service. Table 3-7 presents the resulting unit costs for fiscal year 2027. These unit costs are the foundation of the proposed rates: each class is charged the flow, BOD, and TSS unit costs applicable to the volume and strength it contributes, together with the fixed unit costs applicable to its bills and metered capacity.

Table 3-7
Unit Costs of Service, Fiscal Year 2027

Cost Component	Allocated Cost	Units of Service	Unit of Measure	Unit Cost
Flow	\$1,859,306	1,296,229	per HCF	\$1.43
BOD	\$1,572,859	1,762,023	per pound	\$0.89
TSS	\$1,775,976	1,617,960	per pound	\$1.10
Collection	\$922,631	119,468	per MEU	\$7.72
Customer Service	\$1,548,316	119,468	per MEU	\$12.96
Meters & Services	\$676,407	119,468	per MEU	\$5.66

Rate Design Methodology

Fixed monthly charges recover collection, customer service, and meters and services costs. The customer service, collection, and meters and services unit costs are each charged per meter equivalent unit, so that a customer with a larger meter, and therefore a larger claim on system capacity, pays proportionately more. Meter equivalent unit ratios are based on the safe maximum operating capacity of each meter size as published by the American Water Works Association, expressed relative to a 3/4-inch meter. Table 3-8 presents the ratios.

**Table 3-8
Meter Equivalent Unit Ratios**

Meter Size	Capacity (gpm)	Meter Equivalent Units
3/4-inch	30	1.00
1-inch	50	1.67
1 1/2-inch	100	3.33
2-inch	160	5.33
3-inch	300	10.00
4-inch	500	16.67
6-inch	1,000	33.33
8-inch	1,600	53.33

The fixed monthly charge for a given meter size is therefore the sum of the customer service, collection, and meters and services unit costs, \$12.96, \$7.72, and \$5.66 per MEU respectively, multiplied by the meter equivalent units for that size. For a 3/4-inch meter in fiscal year 2027 this produces a charge of \$26.34 per month.

Volumetric charges recover treatment costs. The volumetric rate for each class is the sum of the flow unit cost, which is the same for every class, plus class-specific BOD and TSS charges derived by applying the BOD and TSS unit costs to the pounds of each constituent contributed per HCF of billed volume. For multi-family and mobile home customers in fiscal year 2027 this produces \$1.43 for flow, \$1.12 for BOD, and \$1.38 for TSS, for a total volumetric rate of \$3.93 per HCF.

Single family residential customers are billed a single flat monthly charge with no volumetric component, because the City does not bill that class on metered consumption. The single family charge is therefore the fixed charge applicable to a 3/4-inch meter plus the class volumetric rate applied to average single family consumption of 7.23 HCF per month. For fiscal year 2027 this produces a charge of \$54.73 per month.

Proposed Sewer Rates

Table 3-9 presents the proposed fixed monthly charges and Table 3-10 the proposed volumetric charges, alongside the existing fiscal year 2026 rates. No change is proposed for fiscal year 2026. The proposed rates recover the cost of service developed in this section and, because each charge is derived from the unit cost of the service actually provided, do not exceed the proportional cost of service attributable to any parcel.

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Table 3-9
Proposed Fixed Monthly Charges

Rate Component	FY 2026 (Existing)	FY 2027	FY 2028	FY 2029	FY 2030	FY 2031
Single Family	\$49.74	\$54.73	\$60.21	\$63.23	\$66.38	\$68.32
3/4-inch Meter	\$24.08	\$26.34	\$30.07	\$32.05	\$33.63	\$34.65
1-inch Meter	\$40.11	\$43.91	\$50.11	\$53.41	\$56.05	\$57.74
1 1/2-inch Meter	\$80.24	\$87.82	\$100.23	\$106.82	\$112.10	\$115.49
2-inch Meter	\$128.39	\$140.51	\$160.37	\$170.91	\$179.37	\$184.78
3-inch Meter	\$256.76	\$263.45	\$300.68	\$320.45	\$336.31	\$346.46
4-inch Meter	\$401.19	\$439.08	\$501.14	\$534.09	\$560.52	\$577.43
6-inch Meter	\$802.36	\$878.16	\$1,002.28	\$1,068.18	\$1,121.04	\$1,154.85
8-inch Meter	\$1,283.78	\$1,405.05	\$1,603.65	\$1,709.09	\$1,793.66	\$1,847.76

Table 3-10
Proposed Volumetric Charges (\$ per HCF)

Customer Class	FY 2026 (Existing)	FY 2027	FY 2028	FY 2029	FY 2030	FY 2031
Multi-Family/Mobile Units	\$3.55	\$3.93	\$4.17	\$4.31	\$4.53	\$4.66
Commercial Low	\$3.09	\$3.13	\$3.32	\$3.44	\$3.61	\$3.72
Commercial Medium	\$4.00	\$4.78	\$5.08	\$5.26	\$5.52	\$5.68
Commercial High	\$8.90	\$12.57	\$13.35	\$13.81	\$14.51	\$14.92
Institutional	\$3.04	\$3.05	\$3.24	\$3.35	\$3.52	\$3.62

Section 4

CASH FLOW AND FUND BALANCE FORECASTS

Recommended Financial Plan

The recommended financial plan closes the gap between revenue under existing rates and the revenue requirement developed above. No revenue adjustment is required in fiscal year 2026; existing rates recover the fiscal year 2026 requirement. Substantial adjustments are required in fiscal years 2027 and 2028 to absorb the step increase in operation and maintenance expense associated with the manpower study positions, depreciation funding, and escalating administrative costs, and to fund the operating transfers to the connection fee fund. Adjustments moderate to between 3.9 and 6.8 percent per year thereafter. The recommended adjustments are modeled as taking effect as presented in Table 4-1.

Table 4-1

Recommended Annual Revenue Adjustments

Description	FY 2026	FY 2027	FY 2028	FY 2029	FY 2030	FY 2031
Date Effective	N/A	1/1/2027	1/1/2028	1/1/2029	1/1/2030	1/1/2031
Recommended Revenue Adjustment	0.0%	5.3%	9.8%	6.8%	4.8%	3.9%
Revenue Required from Rates (000's)	\$7,559	\$7,957	\$8,738	\$9,334	\$9,787	\$10,171

Table 4-2 presents the projected cash flow of the sewer operating fund under the recommended rates. The fund draws down materially in fiscal years 2026 and 2027, when the transfers to the connection fee fund are required, declines modestly in fiscal year 2028, and returns to positive net cash flow from fiscal year 2029. The plan also includes transfers to the capital fund of approximately \$690,000, \$425,000, and \$200,000 in fiscal years 2027, 2028, and 2029, respectively. The ending fund balance remains above the minimum reserve requirement in every year of the study period.



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Table 4-2
Projected Cash Flow Under Recommended Rates (000's)

Description	FY 2026	FY 2027	FY 2028	FY 2029	FY 2030	FY 2031
Beginning Operating Fund Balance	\$11,399	\$10,950	\$6,416	\$5,993	\$6,079	\$6,339
Rate Revenue	\$7,559	\$7,957	\$8,738	\$9,334	\$9,787	\$10,171
Miscellaneous Revenues	\$217	\$395	\$220	\$219	\$219	\$220
Transfers In from Connection Fee Fund	\$0	\$0	\$385	\$500	\$500	\$500
Total Revenues	\$7,777	\$8,353	\$9,343	\$10,053	\$10,506	\$10,891
Operation and Maintenance Expense	\$6,050	\$7,386	\$8,025	\$8,702	\$9,184	\$9,476
Debt Service	\$1,069	\$1,065	\$1,067	\$1,065	\$1,061	\$1,061
Rate Funded Capital Improvements	\$0	\$300	\$250	\$0	\$0	\$0
Transfers Out to Connection Fee Fund	\$1,107	\$3,445	\$0	\$0	\$0	\$0
Transfer to Capital Fund	\$0	\$690	\$425	\$200	\$0	\$0
Total Expenditures	\$8,226	\$12,886	\$9,766	\$9,967	\$10,245	\$10,537
Net Cash Flow	(\$450)	(\$4,533)	(\$423)	\$86	\$261	\$354
Ending Operating Fund Balance	\$10,950	\$6,416	\$5,993	\$6,079	\$6,339	\$6,693

Reserves and Financial Policies

The City does not have a formally adopted reserve policy for the sewer utility. For purposes of this study, a minimum operating reserve target of 90 days of operation and maintenance expense plus 30 days of capital spending was applied, consistent with common practice among California wastewater utilities and with the targets shown in Table 2-2. The utility begins the study period with a substantial unrestricted fund balance of approximately \$11,399,000. That balance is drawn down over the study period to fund the transfers to the connection fee fund and the capital fund described above but remains above the minimum requirement in every year. Table 4-3 compares the projected ending operating fund balance to the minimum reserve requirement under the recommended financial plan.

Table 4-3
Reserve Requirement and Projected Operating Fund Balance (000's)

Description	FY 2026	FY 2027	FY 2028	FY 2029	FY 2030	FY 2031
Projected Ending Fund Balance	\$10,950	\$6,416	\$5,993	\$6,079	\$6,339	\$6,693
Minimum Reserve Requirement	\$1,496	\$1,825	\$1,983	\$2,150	\$2,269	\$2,341
Balance Over/(Under) Requirement	\$9,454	\$4,591	\$4,010	\$3,929	\$4,071	\$4,353

Debt Service Coverage Ratio

The Debt Service Coverage Ratio (DSCR) measures a utility’s ability to meet its annual debt obligations from operating revenues. It is calculated as:

Net Revenues Available for Debt Service ÷ Total Annual Debt Service Requirements

Net revenues are determined by taking total operating revenues and subtracting operation and maintenance expenses (excluding the general government administrative transfer in CSD’s case). The resulting figure represents the cash available to cover principal and interest payments on outstanding debt.

Table 4-4 presents projected debt service coverage under the recommended rates. Excluding the general government administrative transfer, coverage ranges from 2.49 to 4.38 times and exceeds the 1.25 times target in every year. The general government administrative transfer is a discretionary payment to the City's General Fund rather than a cost of providing wastewater service, and is customarily excluded from the coverage calculation.

Table 4-4
Projected Debt Service Coverage (000's)

Description	FY 2026	FY 2027	FY 2028	FY 2029	FY 2030	FY 2031
Net Revenue Available for Debt Service	\$2,663	\$4,202	\$4,286	\$4,325	\$4,422	\$4,647
Rate-Funded Debt Service	\$1,069	\$1,065	\$1,067	\$1,065	\$1,061	\$1,061
Debt Service Coverage, Excluding Transfer	2.49	3.94	4.02	4.06	4.17	4.38

Section 5

CUSTOMER BILL IMPACTS

This section presents the effect of the proposed rates on customer bills. Bills are shown for a typical customer in each class, based on the average monthly water consumption and meter size for that class. Individual customers with consumption or meter sizes different from the class average will experience different impacts.

Single Family Residential Bill Impacts

Single family residential customers are billed a flat monthly charge that does not vary with consumption or meter size, so the bill impact for that class is the same for every account. The monthly bill increases from \$49.74 under existing rates to \$54.73 in fiscal year 2027, an increase of \$4.99 or 10.0 percent. The large first two years of increases reflect the cost-of-service analysis presented in Section 3, which found that single family customers were not previously paying their full proportionate share of the cost of service. This cost adjustment has been spread over several years to lessen the impact while drawing down on the existing fund balance. Increases in the remaining years of the study period are more modest, ranging from \$1.94 to \$3.16 per month, or between 2.9 and 5.0 percent. Table 5-1 presents the single family residential monthly bill over the study period.

Table 5-1

Single Family Residential Monthly Bill

Description	FY 2026 (Existing)	FY 2027	FY 2028	FY 2029	FY 2030	FY 2031
Monthly Bill	\$49.74	\$54.73	\$60.21	\$63.23	\$66.38	\$68.32
\$ Change	-	\$4.99	\$5.47	\$3.02	\$3.16	\$1.94
% Change	-	10.0%	10.0%	5.0%	5.0%	2.9%

Other Customer Class Bill Impacts

Table 5-2 presents the monthly bill for a typical customer in each class at average consumption for that class. Bills for classes other than single family residential consist of the fixed monthly charge applicable to the customer's meter size plus the class volumetric charge applied to metered consumption.

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Table 5-2
Monthly Bill by Customer Class at Average Use

Customer Class (Meter Size)	Average Monthly HCF	FY 2026	FY 2027	FY 2028	FY 2029	FY 2030	FY 2031
Single Family (3/4-inch)	7.23	\$49.74	\$54.73	\$60.21	\$63.23	\$66.38	\$68.32
Multi-Family/Mobile Units (2-inch)	101	\$486.94	\$537.19	\$581.49	\$606.61	\$637.02	\$655.35
Commercial Low (3/4-inch)	66	\$228.02	\$233.05	\$249.50	\$259.07	\$272.10	\$279.85
Commercial Medium (1 1/2-inch)	286	\$1,224.24	\$1,456.20	\$1,552.91	\$1,609.76	\$1,690.78	\$1,738.73
Commercial High (2-inch)	157	\$1,525.69	\$2,114.56	\$2,256.03	\$2,339.08	\$2,456.80	\$2,526.51
Institutional (2-inch)	218	\$791.11	\$805.57	\$866.41	\$901.38	\$946.64	\$973.72

Table 5-3 presents the corresponding percentage change in the monthly bill for each class. First-year impacts vary considerably by class because the proposed rates realign each class with its cost of service. Commercial high-strength customers see the largest first-year increase, at 38.6 percent, followed by commercial medium strength customers at 18.9 percent, reflecting the strength-based allocation of treatment costs described in Section 3. Commercial low strength and institutional customers see the smallest first-year increases, at 2.2 and 1.8 percent respectively. After fiscal year 2028, annual increases converge to between 2.8 and 5.0 percent for all classes.

Table 5-3
Percent Change in Monthly Bill by Customer Class

Customer Class	FY 2027	FY 2028	FY 2029	FY 2030	FY 2031
Single Family	10.0%	10.0%	5.0%	5.0%	2.9%
Multi-Family/Mobile Units	10.3%	8.2%	4.3%	5.0%	2.9%
Commercial Low	2.2%	7.1%	3.8%	5.0%	2.8%
Commercial Medium	18.9%	6.6%	3.7%	5.0%	2.8%
Commercial High	38.6%	6.7%	3.7%	5.0%	2.8%
Institutional	1.8%	7.6%	4.0%	5.0%	2.9%

Regional Rate Comparison

To place the proposed rates in context, NewGen surveyed the monthly residential sewer bills of 18 other water and wastewater agencies in Riverside County and the surrounding region. Bills are compared at monthly usage of 6,732 gallons, equivalent to approximately 9 HCF. The survey reflects rates in effect at the time of this study and does not account for rate increases those agencies may adopt during CSD's study period. Table 5-4 presents the results.

Table 5-4
Regional Monthly Residential Sewer Bill Comparison

Agency	Monthly Bill
City of Ridgecrest	\$31.52
Coachella Valley Water District	\$33.87
City of Blythe	\$36.57
City of San Jacinto (EMWD)	\$38.97
Desert Water Agency (Treatment from CVWD)	\$39.99
Eastern Municipal Water District (Average)	\$46.06
City of Coachella (FY 2026)	\$49.74
City of Corona	\$50.01
Rancho Water District	\$50.27
Jurupa Community Services District (WRCWRA)	\$50.66
Jurupa Community Services District (Riverside)	\$50.66
City of Banning	\$51.35
Mission Springs Water District	\$53.75
City of Hemet (Treatment by EMWD)	\$53.98
Valley Sanitary District	\$54.35
City of Beaumont	\$56.51
City of Norco	\$58.48
City of Coachella (Estimated FY 2028)	\$60.21
Temescal Valley Water District	\$75.70
Elsinore Valley Water District	\$81.31
Survey Average (Excluding Coachella)	\$50.78

CSD's existing fiscal year 2026 residential bill of \$49.74 ranks seventh lowest among the 19 bills shown and is approximately two percent below the survey average of \$50.78 for the 18 other agencies. Under the proposed rates, the fiscal year 2028 residential bill of \$60.21 would rank seventeenth, approximately 19 percent above the current survey average. This comparison should be interpreted with caution. Sewer rates reflect each agency's own service area characteristics, treatment obligations, capital needs, and debt position, and a comparison of rate levels is not a substitute for the cost-of-service analysis presented in Section 3.

Section 6

FINDINGS, CONCLUSIONS, AND RECOMMENDATIONS

This report presents a comprehensive cost of service and rate study for the Coachella Sanitary District covering fiscal years 2027 through 2031. The study finds that the sewer utility's existing rates, which generate approximately \$7,559,000 per year, are sufficient to meet the utility's obligations in fiscal year 2026 but fall materially short thereafter as operation and maintenance expense grows, the recommendations of the Utility Manpower Study and compensation study are implemented, and the operating fund is called upon to support the growth-related capital program delivered through the connection fee fund.

Findings

- **Existing rates are sufficient only in fiscal year 2026.** Revenue under existing rates is approximately \$7,559,000 per year and, with no growth in accounts or billable flow projected, remains flat over the study period. Existing rates recover the fiscal year 2026 revenue requirement but fall materially short thereafter.
- **Operation and maintenance expense is the principal cost driver.** Operation and maintenance expense rises from approximately \$6,050,000 in fiscal year 2026 to \$9,476,000 in fiscal year 2031, driven by general cost escalation, the positions identified in the Utility Manpower Study, the salary adjustments arising from the compensation study, and depreciation funding.
- **Debt service is stable, and capital needs are largely funded from non-rate sources.** Rate-funded debt service is approximately \$1,065,000 per year across five outstanding obligations, and no new debt is contemplated. The capital improvement program totals approximately \$6,389,000 over the study period, is almost entirely growth-related, and is funded from connection fees, American Rescue Plan Act grant proceeds, and Clean Water State Revolving Fund grants. Only the SCADA System Upgrade is funded from rates.
- **The operating fund must support the connection fee fund.** The operating fund is required to transfer approximately \$4,553,000 to the connection fee fund in fiscal years 2026 and 2027 to keep that fund solvent while the growth-related capital program is delivered.
- **Reserves and debt service coverage remain adequate under the recommended plan.** The operating fund balance declines from approximately \$10,950,000 at the end of fiscal year 2026 to approximately \$6,700,000 at the end of fiscal year 2031, remaining above the minimum reserve requirement in every year. Debt service coverage, measured on net revenue excluding the general government administrative transfer, ranges from 2.49 to 4.38 times against a 1.25 times target.
- **Several classes are not paying their full proportionate share.** The cost-of-service analysis found that single family residential, multi-family, and the medium and high strength commercial classes were not previously paying their full proportionate share of the cost of service, while commercial low strength and institutional customers were paying close to their share. The existing customer class structure remains appropriate, and no changes are recommended.

Section 6

- **Bill impacts are concentrated in the first years of the plan.** The single family residential monthly bill increases from \$49.74 to \$54.73 in fiscal year 2027, an increase of \$4.99 or 10.0 percent. First-year increases for other classes range from approximately 2 percent for commercial low strength and institutional customers to 38.6 percent for commercial high strength customers. After fiscal year 2028, annual increases converge to between 2.8 and 5.0 percent for all classes.
- **Regional comparison.** At existing rates, CSD's monthly residential bill of \$49.74 ranks seventh lowest among the 19 bills surveyed and is approximately two percent below the survey average of \$50.78. Under the proposed rates, the fiscal year 2028 bill of \$60.21 would rank seventeenth, although the survey does not account for rate increases other agencies may adopt during the study period.

Conclusions

The recommended revenue adjustments are sufficient to fund the sewer utility. Over the fiscal year 2027 through 2031 forecast period, the recommended adjustments generate revenue adequate to cover operation and maintenance expense, existing debt service, and rate-funded capital improvements, support the required transfers to the connection fee fund, and maintain the operating fund above its minimum reserve requirement in every year.

The proposed rates are cost-based and defensible under Proposition 218. Rates were derived by functionalizing the revenue requirement, allocating functionalized costs to flow, strength, and fixed cost components, and distributing those costs to customer classes in proportion to the flow, strength, bills, and metered capacity each class places on the system. As a result, the proposed rates do not exceed the proportional cost of service attributable to any parcel.

The first-year bill increases reflect realignment to cost of service. The larger increases for single family residential, multi-family, and medium and high strength commercial customers reflect those classes moving to their full proportionate share of the cost of service. The adjustment has been spread over several years, drawing down the existing fund balance, to lessen the impact on customers.

Recommendations

Based on the findings and conclusions above, NewGen recommends that the City take the following actions:

- **Adopt the recommended revenue adjustments.** The financial plan requires no rate increase in fiscal year 2026, followed by adjustments of 5.3 percent in fiscal year 2027, 9.8 percent in fiscal year 2028, 6.8 percent in fiscal year 2029, 4.8 percent in fiscal year 2030, and 3.9 percent in fiscal year 2031. These adjustments fund the utility's full revenue requirement, maintain the operating fund above its minimum reserve requirement in every year of the study period, and support the transfers to the connection fee fund required in fiscal years 2026 and 2027.
- **Adopt the proposed rate schedule.** The proposed rates presented in Section 3 and Appendix A recover the cost of service allocated to each customer class. Because each charge is derived from the unit cost of the service actually provided, the proposed rates do not exceed the proportional cost of service attributable to any parcel and are consistent with the requirements of Proposition 218.

Findings, Conclusions, and Recommendations

- **Recognize the first-year realignment of class bills.** The cost-of-service analysis found that single family residential, multi-family, and the medium and high strength commercial classes were not previously paying their full proportionate share, and those classes bear first-year increases of 10.0, 10.3, 18.9, and 38.6 percent respectively. Commercial low strength and institutional customers bear first-year increases of approximately 2 percent. After fiscal year 2028 annual increases converge to between 2.8 and 5.0 percent for all classes.
- **Formally adopt a reserve policy.** The financial plan applies an operating reserve target of 90 days of operation and maintenance expense plus 30 days of capital spending, developed with City staff. The City has not formally adopted a reserve policy for the sewer utility. NewGen recommends that the City Council adopt the policy applied in this study so that future rate setting proceeds against an approved financial target.
- **Monitor debt service coverage.** Measured on net revenue excluding the general government administrative transfer, projected coverage ranges from 2.49 to 4.38 times and comfortably exceeds the 1.25 times target in every year.
- **Monitor the connection fee fund.** The growth-related capital program is funded principally from connection fees, ARPA grant proceeds, and Clean Water State Revolving Fund grant proceeds. The connection fee fund nonetheless requires operating fund transfers totaling approximately \$4,553,000 in fiscal years 2026 and 2027. If connection fee revenue falls short of the \$500,000 per year assumed in the financial plan, or if the growth capital program accelerates, additional operating fund support will be required and the recommended revenue adjustments should be revisited.
- **Update the study periodically.** NewGen recommends that the City review the financial plan annually using the Excel model delivered with this study, and that a full cost of service study be conducted at least every five years, or sooner if customer growth, regulatory obligations, or the capital program change materially.

Appendix A

Proposed Sewer Rate Schedule

This appendix presents the complete schedule of proposed sewer rates for fiscal years 2026 through 2031. Fiscal year 2026 rates are the rates currently in effect; no adjustment is proposed for that year. All charges are stated per month.

Table A-1
Proposed Sewer Rate Schedule, Fiscal Years 2026 through 2031

Rate Component	FY 2026	FY 2027	FY 2028	FY 2029	FY 2030	FY 2031
Fixed Monthly Charges						
Single Family (per account)	\$49.74	\$54.73	\$60.21	\$63.23	\$66.38	\$68.32
3/4-inch Meter	\$24.08	\$26.34	\$30.07	\$32.05	\$33.63	\$34.65
1-inch Meter	\$40.11	\$43.91	\$50.11	\$53.41	\$56.05	\$57.74
1 1/2-inch Meter	\$80.24	\$87.82	\$100.23	\$106.82	\$112.10	\$115.49
2-inch Meter	\$128.39	\$140.51	\$160.37	\$170.91	\$179.37	\$184.78
3-inch Meter	\$256.76	\$263.45	\$300.68	\$320.45	\$336.31	\$346.46
4-inch Meter	\$401.19	\$439.08	\$501.14	\$534.09	\$560.52	\$577.43
6-inch Meter	\$802.36	\$878.16	\$1,002.28	\$1,068.18	\$1,121.04	\$1,154.85
8-inch Meter	\$1,283.78	\$1,405.05	\$1,603.65	\$1,709.09	\$1,793.66	\$1,847.76
Volumetric Charges (\$ per HCF)						
Multi-Family/Mobile Units	\$3.55	\$3.93	\$4.17	\$4.31	\$4.53	\$4.66
Commercial Low	\$3.09	\$3.13	\$3.32	\$3.44	\$3.61	\$3.72
Commercial Medium	\$4.00	\$4.78	\$5.08	\$5.26	\$5.52	\$5.68
Commercial High	\$8.90	\$12.57	\$13.35	\$13.81	\$14.51	\$14.92
Institutional	\$3.04	\$3.05	\$3.24	\$3.35	\$3.52	\$3.62

Appendix B

Capital Improvement Program Detail

This appendix presents the capital improvement program by individual project, fiscal year, and funding source. Amounts are shown in thousands of dollars and are stated in current dollars; no capital cost inflation was applied. A dash indicates no expenditure in that year.

Table B-1
Capital Improvement Program by Project and Fiscal Year (000's)

Project	Funding Source	FY 2026	FY 2027	FY 2028	FY 2029	FY 2030	FY 2031	Total
Shady Lane and Amezcua Septic to Sewer Conversion (S-15)	CWSRF Grant	\$1,671	--	--	--	--	--	\$1,671
Avenue 52 Extension to Jackson Capacity Improvements (S-27)	Connection Fees	\$17	--	--	--	--	--	\$17
Avenue 51 Extension to Jackson Capacity Improvements (S-28)	Connection Fees	\$17	--	--	--	--	--	\$17
CSD Headworks Screening Improvements (S-29)	Connection Fees / ARPA	\$1,518	--	--	--	--	--	\$1,518
Avenue 50, Coronado to Harrison Capacity Improvements (S-19)	Connection Fees	--	\$500	--	--	--	--	\$500
Avenue 54 Upsizing	Connection Fees	--	\$2,000	--	--	--	--	\$2,000
E4 Frederick Street to Julia Drive to Westfield Way	Connection Fees / ARPA	--	--	--	--	--	--	\$0
SCADA System Upgrade (S-30)	Sewer Rates	--	\$300	\$250	--	--	--	\$550
E5 Airport Boulevard Pipe Replacement	Connection Fees	--	--	\$115	--	--	--	\$115
E6 Van Buren Street to Avenue 54 Pipe Replacement	Connection Fees	--	--	--	--	--	--	\$0
Total Capital Improvement Program		\$3,224	\$2,800	\$365	\$0	\$0	\$0	\$6,389

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THANK YOU!

900 Bestgate Road, Ste 402, Annapolis,
MD 21401
Phone: (443) 951-4207
Email: ecallocchia@newgenstrategies.net
www.newgenstrategies.net