



MONTECITO SANITARY DISTRICT

2026 Sewer Rate Study

Final Report

April 10, 2026

**MONTECITO SANITARY DISTRICT
2026 SEWER RATE STUDY**

FINAL REPORT

Prepared for:

Montecito Sanitary District
1042 Monte Cristo Lane
Montecito, CA 93108

Prepared by:

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RDN Project Number 398

April 10, 2026
Mr. John Weigold
General Manager
Montecito Sanitary District
1042 Monte Cristo Lane
Montecito, CA 93108



Subject: 2026 Sewer Rate Study

Dear Mr. Weigold,

Robert D. Niehaus, Inc. is pleased to provide this 2026 Sewer Rate Study (Study) report to the Montecito Sanitary District. This Study includes a financial plan to determine the revenue requirements for the next five years and a comprehensive review of the District's current rates based on the cost-of-service principles. We developed proposed rates for the next five years closely following Proposition 218 (Prop 218) requirements. This report outlines the approach, methodology, findings, and recommendations of the Study. The Study also includes a customer billing impact study. Each of the Study components has enhanced the defensibility and equitability of the proposed rates.

RDN utilized the District's billing records, accounting, operating and management records, capital plan, planning documents, and reserve policies. Based on the District provided data, key assumptions were made for the Study using appropriate resources and our econometric and finance expertise. We are confident that the rates and fees proposed in this report are cost-based and are fully compliant with Prop 218, Prop 26, and other legal requirements.

It has been an absolute pleasure and honor to work with your District. We thank you, Mr. Stephen Williams, and the District Board of Directors for the support provided during this Study.

Respectfully submitted,

A handwritten signature in blue ink that reads "Robert D. Niehaus".

Robert D. Niehaus, Ph.D.
Managing Director/Principal Economist

A handwritten signature in blue ink that reads "Anthony Elowsky".

Anthony Elowsky, M.A.
Project Manager

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EXECUTIVE SUMMARY

Study Overview

The Montecito Sanitary District (District) retained Robert D. Niehaus, Inc. (RDN) to develop a comprehensive Sewer Rate and Fee Study (Study), which includes financial planning, revenue requirements, cost of service, and rate-setting analyses. The Study's overall goal is to develop a financial plan to identify necessary revenue to meet the District's financial needs and propose rates and fees, which recover the costs from ratepayers commensurate with their service requirements. RDN collaborated with District staff to evaluate the District's financial stability, given the current and projected future financial conditions. RDN amended the current rates based on the cost of service (COS) analysis results to further improve equity and ensure compliance with Proposition 218 (Prop 218) requirements and other legal mandates. The main objective of this Study is to ensure that the District can accomplish the planned refurbishment of their wastewater treatment plant, with the associated cost of debt and increased operating expenses. Other objectives of the Study include:

1. Projecting account growth based on historical data and inputs from District staff for the study period (FY 2027 – FY 2031);
2. Developing a 10-year financial plan for the District to ensure financial sufficiency to fund day-to-day operation and maintenance, debt service requirements, and capital improvement and replacement projects while building up reserves to the District's target level;
3. Assessing wastewater treatment plant funding options and providing a financial plan which will fund necessary operating, capital, and debt requirements;
4. Estimating sewer flow by customer class based on the most recent available data;
5. Conducting a COS analysis to equitably allocate the costs of providing service to customers commensurate with their service requirements;
6. Designing rates based on the results of COS analysis to establish a strong nexus between costs and pricing of rates;
7. Conducting a rate comparison survey to assess how the proposed rates compare with current rates and other local agencies;
8. Developing an administrative record, which effectively communicates the findings of the Study.

Summary of Recommendations

RDN recommends the following changes and modifications to the current rates and fees based on the findings of the Study:

- Adopt the proposed financial plan which will allow the District to upgrade and maintain their Sewer Treatment Plant
 - Adjust revenues each year of the study period by 14.0 percent in July 2027, 14.0 percent in July 2028, 14.0 percent in July 2029, 14.0 percent in July 2030 and 14.0 percent in July 2031 to ensure compliance with planned debt issuance requirements by the end of the study period (FY 2031).
- Realign the cost allocation for customers based on the Cost of Service analysis.

Current Rates

The District currently bills customers based on customer class. Residential customers pay a fixed annual service charge that is assessed on their property tax bill. The annual charge varies by connection type: Single Family Dwelling or Condo/Second Dwelling Unit. As of July 2025, Single Family customers pay \$1,480 per account annually, while Condo and Second Dwelling Unit customers pay \$696 per unit, annually. Commercial customers are billed based on water use and sewage strength classification. The total annual commercial sewer service charge consists of two components: a Fixed Capacity Allocation Charge, based on the customer's historic maximum annual water use, and a Variable Charge, based on prior calendar year actual water use. Both charges are assessed per hundred cubic feet (HCF) of water and vary by sewage strength category (low, medium, or high). The current sewer rates are summarized in Table 1.

Table 1. Current Sewer Rates

Current Rates	
Residential Account	
Single Family Dwelling	\$1,480.00
Condo or Second Dwelling	\$696.00
Commercial Class	
Fixed Capacity Charge (\$/hcf)	
Low Strength	\$4.33
Medium Strength	\$10.32
High Strength	\$12.59
Variable Charge (\$/hcf)	
Low Strength	\$2.88
Medium Strength	\$3.96
High Strength	\$5.57

Proposed Rates

RDN recommends that the District maintain its existing sewer rate structure as described above. The recommended rates incorporate updated revenue requirements and cost allocations developed as part of this Study.

The proposed rates allow the District to maintain healthy reserve fund balances, meet planned debt service requirements, and complete necessary capital improvement projects over the five-year study period. In addition to the proposed revenue adjustments, the recommended rates reallocate the District's costs based on a detailed Cost of Service (COS) analysis. This analysis improves the equity of the rate structure by allocating District costs based on the relative demand each customer class places on the system. As a result, overall rate adjustments will vary by customer class.

The proposed annual revenue adjustments presented in this Study are 14.0 percent in FY 2027, 14.0 percent in FY 2028, 14.0 percent in FY 2029, 14.0 percent in FY 2030, and 14.0 percent in FY 2031. These adjustments allow the District to maintain financial stability while funding ongoing operations, capital improvements, and long-term system needs over the study period. Table 2 and Table 3 show the proposed revenue adjustments and rates for the study period, respectively.

Table 2. Proposed Revenue Adjustments

	FY 2027	FY 2028	FY 2029	FY 2030	FY 2031
Revenue Adjustment	14.0%	14.0%	14.0%	14.0%	14.0%

Table 3. Proposed Sewer Rates

Residential Account	FY 2027	FY 2028	FY 2029	FY 2030	FY 2031
Single Family Dwelling	\$1,650.93	\$1,882.06	\$2,145.55	\$2,445.93	\$2,788.36
Condo or Second Dwelling	\$766.20	\$873.47	\$995.76	\$1,135.17	\$1,294.09
Commercial Class	FY 2027	FY 2028	FY 2029	FY 2030	FY 2031
Fixed Capacity Charge (\$/hcf)					
Low Strength	\$4.90	\$5.59	\$6.37	\$7.26	\$8.28
Medium Strength	\$12.86	\$14.66	\$16.71	\$19.05	\$21.72
High Strength	\$15.15	\$17.27	\$19.69	\$22.45	\$25.59
Variable Charge (\$/hcf)					
Low Strength	\$3.47	\$3.96	\$4.51	\$5.14	\$5.86
Medium Strength	\$4.46	\$5.08	\$5.79	\$6.60	\$7.52
High Strength	\$6.70	\$7.64	\$8.71	\$9.93	\$11.32

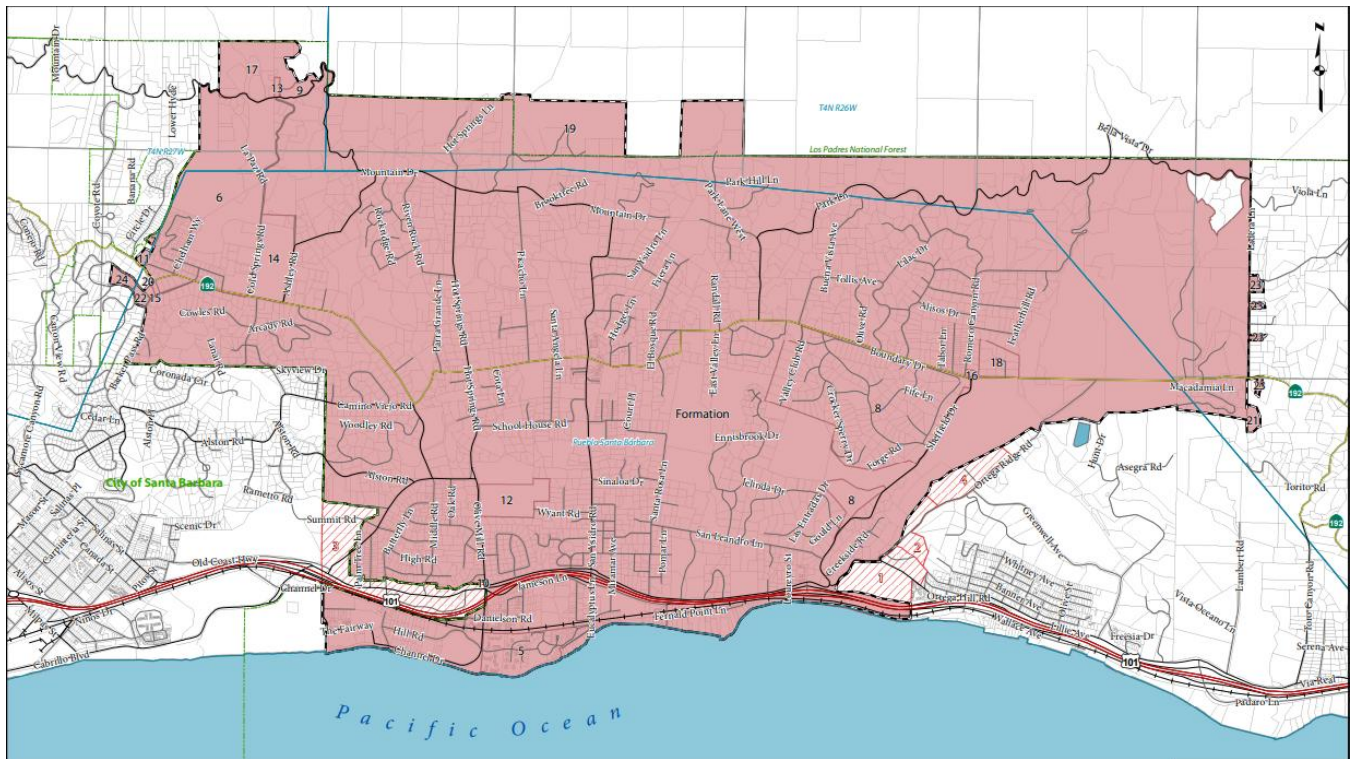
1 INTRODUCTION

The Montecito Sanitary District (MSD, District) provides wastewater collection, treatment, and disposal services to residents and businesses within the Montecito community in Santa Barbara County, California. The District operates and maintains the sewer collection system and wastewater treatment facilities necessary to safely convey and treat wastewater generated within its service area. Through these services, the District protects public health and the environment while complying with applicable state and federal regulatory requirements.

The District's sewer collection system serves residential, commercial, and institutional customers throughout the community. Wastewater collected through the system is conveyed to the District's treatment facilities where it is treated prior to disposal in accordance with regulatory standards. Maintaining this infrastructure requires ongoing investment in operations, maintenance, and capital improvements to ensure reliable service and regulatory compliance.

This Study evaluates the District's wastewater revenue requirements and rate structure to ensure sufficient funding for operations, capital improvements, and long-term system sustainability while equitably allocating costs among customer classes. Figure 1 shows the District service area in red.

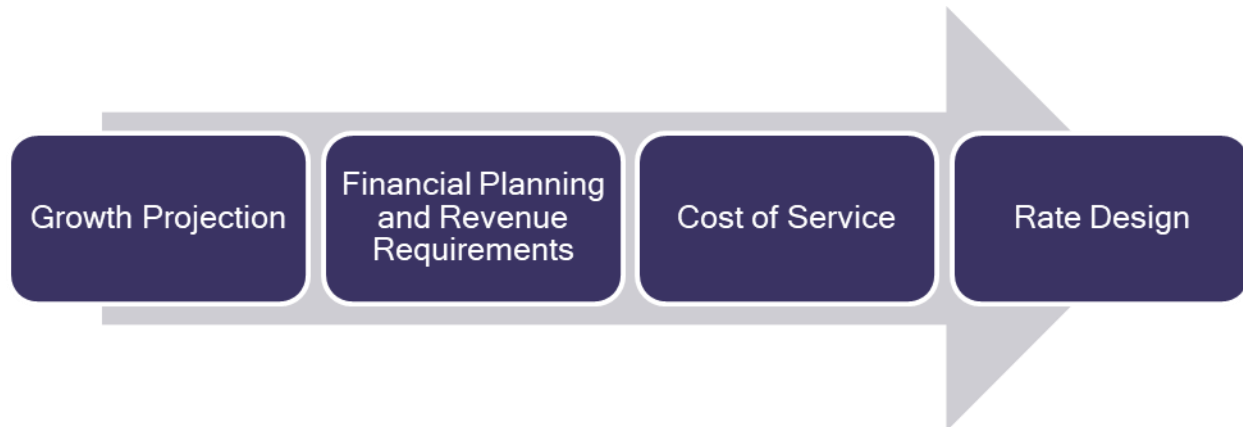
Figure 1. Montecito Sanitary District



1.1 Methodology

The sewer rates formulated in the Study were developed using principles set forth by the Water Environment Federation (WEF). RDN rate-making practices incorporate methods described in the WEF Financing and Charges for Sewer Systems Manual 27¹. Figure 2 presents the steps taken to develop the District's proposed rates.

Figure 2. Rate Study Process



1. **Growth Projection:** Project customer growth for FY 2026 and ten additional years, including the five-year study period, FY 2027 through FY 2031, using District historical billing data and local planning documents. Forecast revenues for the study period based on projected customer growth.
2. **Financial Planning/Revenue Requirements:** Develop a five-year financial plan based on the projected revenues and annual costs, which include both operating and non-operating expenses. The District's target reserve level is also to be considered part of the financial planning. Based on financial planning, revenue requirements and necessary revenue adjustments are determined for each year of the study period.
3. **Cost of Service (COS) Analysis:** Perform a COS analysis to allocate costs among the customers commensurate with their service requirements.
4. **Rate Design:** Design rates to equitably recover the rate revenue requirements from each customer class based on the proportional revenue requirements determined through the COS analysis.

1.2 Legal Framework

The primary goal of this study is to help the District establish rates that achieve the District's objectives of revenue stability, equitable cost recovery, and ratepayer affordability. This section of the report describes the legal framework considered in developing the rates to ensure that the calculated cost of service rates provide a fair and equitable allocation of costs to the different customer classes.

¹ Financing and Charges for Sewer Systems, WEF Manual of Practice Number 27, Water Environment Federation

California Constitution-Article XIII D, Section 6 (Proposition 218)

In November 1996, California voters passed Proposition 218, the “Right to Vote on Taxes Act.” This constitutional amendment protects taxpayers by limiting the methods by which local governments can create or increase taxes, fees, and charges without taxpayer consent. California courts have ruled that fees associated with providing sewer services are “property-related” and thus under the jurisdiction of Prop 218. The principal requirements for fairness of the fees related to public sewer service are as follows:

- Revenues derived from the fee or charge shall not exceed the funds required to provide the property-related service.
- Revenues derived by the fee or charge shall not be used for any other purpose other than that for which the charge was imposed.
- The amount of the fee or charge imposed upon any parcel shall not exceed the proportional cost of service attributable to the parcel.

The rates developed in this Report use a methodology to establish an equitable system of charges that recover the cost of providing service and fairly apportion costs to each customer as required by Proposition 218.

1.3 Key Assumptions

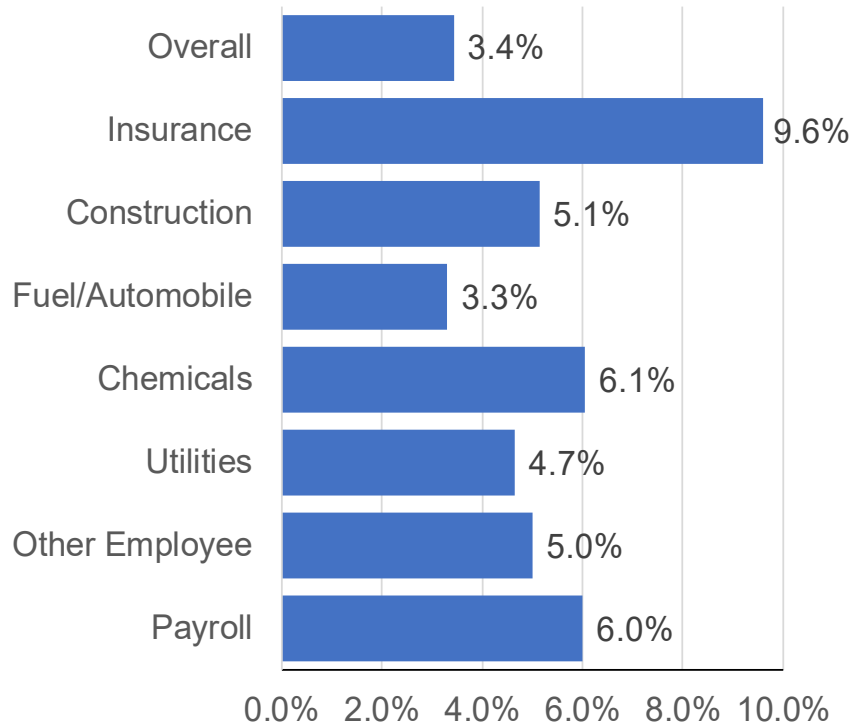
A test year, FY 2026, was selected for which costs are to be analyzed, and rates established for this study. The financial plan was built for the next 10 years, which includes the five-year study period, FY 2027 through FY 2031 with a detailed revenue adjustment plan. The District’s fiscal year starts on July 1 and ends on June 30.

Escalation Factors

The financial plan was built based on an assumption in the projected escalation of revenues and expenses associated with both operations and maintenance (O&M) and capital improvement projects (CIPs). Escalation factors were calculated for nine independent variables using historical Consumer Price Index (CPI) data from the Los Angeles-Long Beach-Riverside, CA between the year 2000 and the most current calendar year², and projections by the Federal Reserve Bank of St. Louis (FRED) Economic Research Division, Quarterly Census of Employment and Wages (QCEW), and Engineering News Record (ENR) Building Cost Index (BCI). All escalation factors were developed by calculating an average rate of change and projecting that rate into future years. Figure 3 displays the escalation factors estimated for the District for FY 2027.

² Bureau of Labor Statistics (2026) *Consumer Price Indices Los Angeles-Long Beach-Riverside, CA, Not Seasonally Adjusted*.

Figure 3. Expense Escalation Factors Estimated for MSD, FY 2027



Customer Growth

Customer growth projections were developed based on an analysis of historical billing records and long-term growth trends observed within the District. There are currently approximately 3,673 billed units connected to the District system, which includes residential and commercial customer accounts. In ten years, 3,759 units are projected. Over the 5-year planning period, 41 additional units are projected to join the system, approximately 8 per year. Table 4 shows the projected number of units by customer class during the rate setting period.

Table 4. Forecasted Customer Growth

Customer Class	FY 2026	FY 2027	FY 2028	FY 2029	FY 2030	FY 2031
Single Family	2,744	2,745	2,746	2,747	2,748	2,749
Condo or 2nd Dwelling	888	895	902	909	916	924
Low Strength Commercial	24	24	24	24	24	24
Medium Strength Commercial	14	14	14	14	14	14
High Strength Commercial	3	3	3	3	3	3
Total	3,673	3,681	3,689	3,697	3,705	3,714

Reserve Target

The District’s total reserve target for FY 2026 is \$3.4 million. Table 5 shows the targets for each reserve fund for FY 2026, as well as the reserve policy for each individual reserve. During the course of the current study, the District revised their reserve policy to include an emergency reserve for cases of severe equipment failure or other unanticipated events that impact sewer service operations. To supplement funds in times of emergency, the District will also pursue a line of credit (LOC) for an additional \$1,000,000.

Table 5. District Reserve Policies and FY 2026 Target

Reserve	Policy	FY 2026 Target
Operating Reserve	3 Months O&M Expenses	\$1,536,193
Capital Reserve	\$750k Balance	\$750,000
Emergency Reserve	\$1,150,000 Balance	\$1,150,000
Total		\$3,436,193

Debt Service

As part of the financial planning process, an analysis was completed which evaluated the customer impact of completing the Treatment Plant Upgrade with customer rate increases or with debt issuance. The District’s Board of Directors determined that debt financing would have the least impact on customer rates while spreading the cost of critical infrastructure between current and future customers, thus creating generational equity in system investment. RDN proposed a \$42.0 million debt issuance to cover capital costs. The projection assumed a 30-year repayment schedule at 5.0 percent interest, which will be issued in FY 2029, with a 1.0 percent issuance. If the District ultimately chooses this option, debt payments will begin in FY 2030. The proposed debt issuance also assumes that the District will maintain a debt service coverage ratio of 1.25 times revenue over operating expenses. Annual debt payments which result from the issuance average \$2.7 million per year. The financial plan in this report uses the proposed debt as the preferred scenario.

2 FINANCIAL PLAN

RDN built a 10-year financial model for the District’s sewer system to meet the system’s long-term financial goals. The detailed rate analysis was performed for the first five years.

2.1 Revenues

Based on the projected billing units, RDN conducted a revenue analysis using the current Sewer rates. The District currently collects revenues from Residential fixed annual charges, annual charges for Commercial customers based on historical water use, and other operating revenues. With no change to the current sewer rates, the District is expected to collect roughly \$6.5 million in rate revenues per year during the study period. Forecasted rate revenues by customer class are shown in Table 6.

Table 6. Projected Status Quo Rate Revenue, FY 2026 to FY 2031

Rate Revenue Category	FY 2026	FY 2027	FY 2028	FY 2029	FY 2030	FY 2031
Single Family	\$4,061,120	\$4,062,600	\$4,064,080	\$4,065,560	\$4,067,040	\$4,068,520
Condo or 2nd Dwelling	\$618,048	\$622,920	\$627,792	\$632,664	\$637,536	\$643,104
Low Strength Commercial	\$206,974	\$206,974	\$206,974	\$206,974	\$206,974	\$206,974
Medium Strength Commercial	\$1,464,208	\$1,464,208	\$1,464,208	\$1,464,208	\$1,464,208	\$1,464,208
High Strength Commercial	\$110,665	\$110,665	\$110,665	\$110,665	\$110,665	\$110,665
Total Rate Revenue	\$6,461,015	\$6,467,367	\$6,473,719	\$6,480,071	\$6,486,423	\$6,493,471

The revenue analysis also includes non-operating revenues such as property tax revenue, investments, and connection fees. These revenues average approximately \$1.0 million a year and are used to offset the revenue requirements that need to be recovered from customers’ rates. Additionally, the District received a FEMA reimbursement totaling \$1.6 million in FY 2026. This is a one-time reimbursement. Forecasted revenues by category are shown in Table 7.

Table 7. Projected Status Quo Revenue, FY 2026 to FY 2031³

Revenue Category	FY 2026	FY 2027	FY 2028	FY 2029	FY 2030	FY 2031
Rate Revenue	\$6,461,015	\$6,467,367	\$6,473,719	\$6,480,071	\$6,486,423	\$6,493,471
Other Operating Revenue	\$280,000	\$280,000	\$280,000	\$280,000	\$280,000	\$280,000
FEMA Reimbursement	\$1,614,297	\$0	\$0	\$0	\$0	\$0
Investment Revenue	\$415,000	\$264,783	\$162,471	\$13,217	\$433,745	\$0
Property Tax Revenue	\$828,500	\$845,070	\$861,971	\$879,211	\$896,795	\$914,731
Total Revenue	\$9,598,812	\$7,857,220	\$7,778,161	\$7,652,498	\$8,096,963	\$7,688,202

2.2 Operating and Maintenance (O&M) Expense

The District’s FY 2026 Budget anticipated approximately \$6.1 million in expenses classified as O&M expenses. The itemized O&M expenses were carefully reviewed by RDN and forecasted over the study period using the escalation factors discussed in the Key Assumptions section (Figure 3). On average, O&M Expenses are expected to increase by 5.3 percent annually through the study period. By FY 2031,

³ Investment revenues are based on the District available fund balances. Because the status quo financial plan projects a decrease in available balance, investment revenues will also decrease.

annual O&M expenses are projected to reach around \$7.9 million. O&M expenses by function are shown in Table 8.

Table 8. Operating Expense, FY 2026 to FY 2031⁴

Expense Category	FY 2026	FY 2027	FY 2028	FY 2029	FY 2030	FY 2031
Salaries and Benefits	\$3,778,172	\$4,010,260	\$4,254,313	\$4,503,704	\$4,767,793	\$5,037,985
Insurance	\$160,500	\$168,660	\$176,988	\$184,508	\$192,382	\$199,360
Maintenance and Repairs	\$188,000	\$195,877	\$204,097	\$211,556	\$219,289	\$227,306
Goods and Supplies	\$158,000	\$163,416	\$169,018	\$174,812	\$180,805	\$187,003
Professional Services	\$355,000	\$367,169	\$379,756	\$392,774	\$406,238	\$420,164
Administrative	\$342,600	\$354,344	\$366,491	\$379,055	\$392,049	\$405,488
Plant and Lab	\$775,000	\$812,789	\$852,549	\$894,324	\$938,288	\$984,519
Safety and Training	\$66,000	\$68,262	\$70,603	\$73,023	\$75,526	\$78,115
Utilities	\$321,500	\$336,452	\$352,100	\$368,476	\$385,613	\$402,177
Total Operating Expense	\$6,144,772	\$6,477,230	\$6,825,915	\$7,182,232	\$7,557,983	\$7,942,117

2.3 Capital Improvement Projects

In addition to the costs associated with daily operation and maintenance, the District estimates capital project spending averaging approximately \$12.0 million per year with no inflation adjustment for the study period. Major capital projects during the study period include Treatment Plant upgrades, sewer main upgrades, and Lift Station repair, among others. Table 9 shows the planned annual CIP expenses by project category for the study period.

Table 9. Planned Capital Expenditures by Category, FY 2026 to FY 2031

CIP Category	FY 2026	FY 2027	FY 2028	FY 2029	FY 2030	FY 2031
General	\$380,000	\$3,000,000	\$600,000	\$650,000	\$775,000	\$780,000
Mains	\$5,020,000	\$0	\$0	\$0	\$0	\$0
Sewer Line	\$2,387,000	\$1,200,000	\$4,600,000	\$2,100,000	\$2,225,000	\$2,125,000
Lift Stations	\$1,575,000	\$250,000	\$2,250,000	\$400,000	\$3,600,000	\$0
Plant	\$600,000	\$1,100,000	\$0	\$17,500,000	\$17,500,000	\$0
Meters	\$45,000	\$0	\$0	\$0	\$0	\$0
Total CIP	\$10,007,000	\$5,550,000	\$7,450,000	\$20,650,000	\$24,100,000	\$2,905,000

2.4 Debt Service and Coverage Ratio

The District currently has outstanding annual debt service payments of approximately \$918,000 per year. Outstanding debt includes the BONY S California Loan, which will be fully repaid in the outyear of the study period, FY 2031. Table 10 shows the annual debt service payment schedule by loan as well as the total debt service payment.

Table 10. Current Debt Service Payment Schedule, FY 2026 to FY 2031

Description	Category	FY 2026	FY 2027	FY 2028	FY 2029	FY 2030	FY 2031
BONY S California	Principal	\$735,000	\$775,000	\$820,000	\$855,000	\$880,000	\$905,000
BONY S California	Interest	\$177,325	\$139,575	\$99,700	\$66,375	\$40,350	\$13,575
Current Debt Service Payment		\$912,325	\$914,575	\$919,700	\$921,375	\$920,350	\$918,575

⁴ Operating categories taken from FY 2025-26 Proposed Operating Budget

As part of the financial planning process, an analysis was completed which evaluated the customer impact of completing the Treatment Plant Upgrade with customer rate increases or with debt issuance. The District's Board of Directors determined that debt financing would have the least impact on customer rates while spreading the cost of critical infrastructure between current and future customers, thus creating generational equity in system investment. The proposed \$42.0 million debt issuance assumed a 30-year issuance at 5.0 percent interest and will be issued in FY 2029, with a 1.0 percent issuance fee and payments beginning in FY 2030. Table 11 shows the District's annual debt payments resulting from the proposed issuance and the current debt payments shown in Table 10.

Table 11. Proposed Debt Service Payment Schedule, FY 2026 to FY 2031

Description	Category	FY 2026	FY 2027	FY 2028	FY 2029	FY 2030	FY 2031
BONY S California	Principal	\$735,000	\$775,000	\$820,000	\$855,000	\$880,000	\$905,000
BONY S California	Interest	\$177,325	\$139,575	\$99,700	\$66,375	\$40,350	\$13,575
Treatment Plant Issuance	Principal	\$0	\$0	\$0	\$0	\$632,160	\$642,768
Treatment Plant Issuance	Interest	\$0	\$0	\$0	\$0	\$2,100,000	\$2,089,392
Current Debt Service Payment		\$912,325	\$914,575	\$919,700	\$921,375	\$3,652,510	\$3,650,735

Generally, as a condition of debt issuance, a coverage requirement for revenues to exceed operating expenses is included in debt covenants. The District policy, and standard for municipal loans, is a debt service coverage requirement of 125 percent, or 1.25 times the operating expenses. Maintaining a healthy debt coverage ratio will help the District maintain a high credit rating and allow the District to issue debt at lower rates. Table 12 shows the debt service coverage ratio based on the proposed debt issuance and the revenues and expenses under current rates.

Table 12. Projected Debt Service Coverage, FY 2026 to FY 2031

Category	FY 2026	FY 2027	FY 2028	FY 2029	FY 2030	FY 2031
Total Revenue	\$9,598,812	\$7,857,220	\$7,778,161	\$7,652,498	\$8,096,963	\$7,688,202
Total Operating Expenses	\$6,144,772	\$6,477,230	\$6,825,915	\$7,182,232	\$7,557,983	\$7,942,117
Total Debt Service	\$912,325	\$914,575	\$919,700	\$921,375	\$3,652,510	\$3,650,735
Debt Service Coverage Ratio	3.79	1.51	1.04	0.51	0.15	(0.07)

2.5 Reserve Policy

The District must maintain an appropriate reserve balance to ensure that day-to-day operations will continue during emergencies and guarantee the future stability of the system. As part of this rate study plan, RDN recommends that the District's financial goal be to build an appropriate level of cash reserves for each reserve fund included in the financial plan. The District adheres to the following reserve policies:

Operating Reserve: 3 months of budgeted Operating and Maintenance (O&M) expense.

Capital Reserve: balance of \$750,000.

Emergency Reserve: balance of \$1,150,000

The reserve target at the end of the study period reaches \$3.9 million. Table 13 shows the District's reserve targets for FY 2026 through FY 2031 based on the current reserve policy. In order to supplement the reserves in times of emergency, the District will also maintain \$1.0 million LOC.

Table 13. District Reserve Target, FY 2026 to FY 2031

Reserve Fund	FY 2026	FY 2027	FY 2028	FY 2029	FY 2030	FY 2031
Operating Reserve	\$1,536,193	\$1,619,308	\$1,706,479	\$1,795,558	\$1,889,496	\$1,985,529
Capital Reserve	\$750,000	\$750,000	\$750,000	\$750,000	\$750,000	\$750,000
Emergency Reserve	\$1,150,000	\$1,150,000	\$1,150,000	\$1,150,000	\$1,150,000	\$1,150,000
Total Reserve Target	\$3,436,193	\$3,519,308	\$3,606,479	\$3,695,558	\$3,789,496	\$3,885,529

2.6 Status Quo Financial Proforma

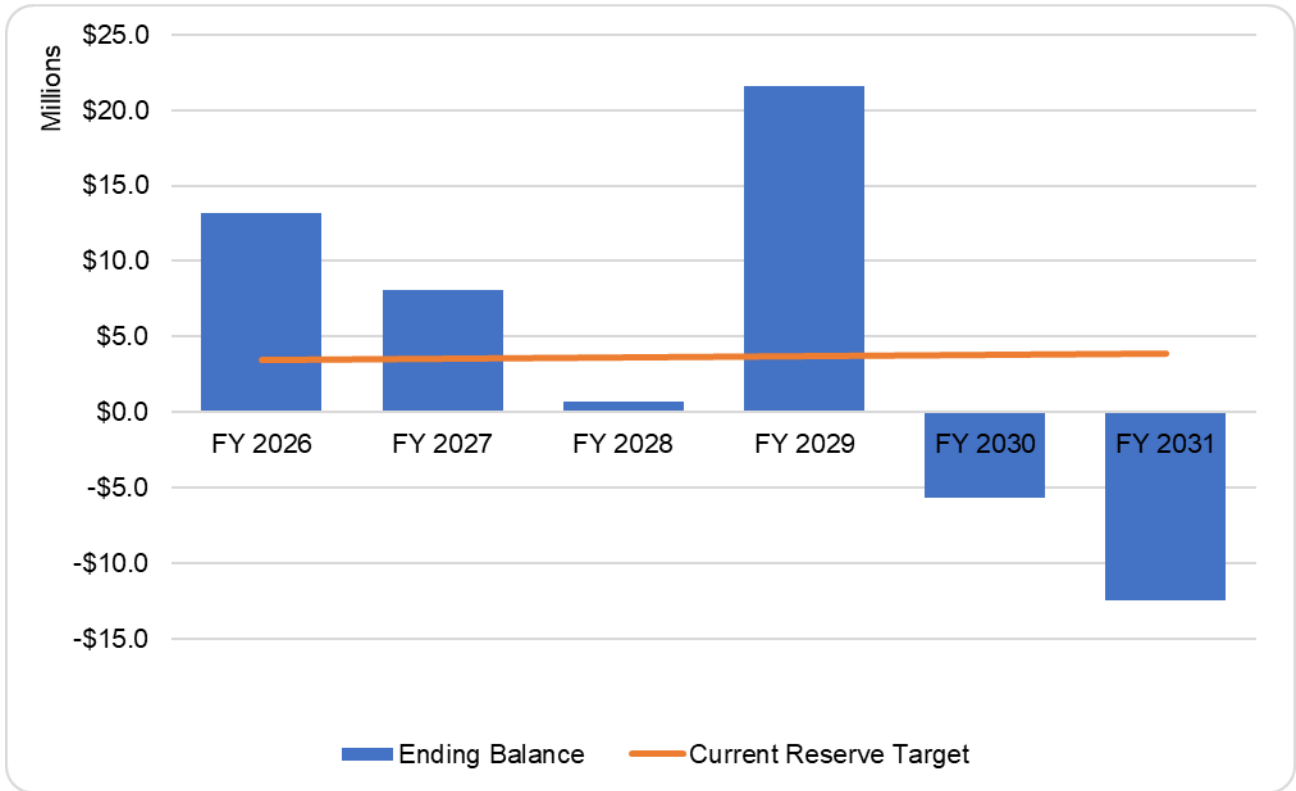
The District currently has a projected opening cash balance of \$20.6 million for FY 2026. Table 14 shows the status quo financial proforma with no revenue adjustments and the resulting balances based on the revenues and expenses outlined in the above sections. With no revenue adjustments, the District will have negative net income each fiscal year, which will cause reserves to fall below target levels beginning in FY 2028.

Table 14. Financial Proforma with no Revenue Adjustments

	FY 2026	FY 2027	FY 2028	FY 2029	FY 2030	FY 2031
Cash Position Opening Balance	\$ 20,624,148	\$ 13,158,862	\$ 8,074,277	\$ 656,823	\$ 21,555,715	\$ (5,657,815)
Revenues						
Sewer Rate Revenue	\$ 6,461,015	\$ 6,467,367	\$ 6,473,719	\$ 6,480,071	\$ 6,486,423	\$ 6,493,471
Adjusted Sewer Rate Revenue	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Other Operating Revenue	\$ 280,000	\$ 280,000	\$ 280,000	\$ 280,000	\$ 280,000	\$ 280,000
Non-Operating Revenue	\$ 1,614,297	\$ -	\$ -	\$ -	\$ -	\$ -
Investment Revenue	\$ 415,000	\$ 264,783	\$ 162,471	\$ 13,217	\$ 433,745	\$ -
Property Tax Revenue	\$ 828,500	\$ 845,070	\$ 861,971	\$ 879,211	\$ 896,795	\$ 914,731
Total Revenues	\$ 9,598,812	\$ 7,857,220	\$ 7,778,161	\$ 7,652,498	\$ 8,096,963	\$ 7,688,202
Total Operating Expenses	\$ 6,144,772	\$ 6,477,230	\$ 6,825,915	\$ 7,182,232	\$ 7,557,983	\$ 7,942,117
Net Operating Revenue	\$3,454,040	\$1,379,990	\$952,246	\$470,267	\$538,980	\$ (253,915)
Current Debt Service	\$ 912,325	\$ 914,575	\$ 919,700	\$ 921,375	\$ 920,350	\$ 918,575
Proposed Debt Service	\$ -	\$ -	\$ -	\$ -	\$ 2,732,160	\$ 2,732,160
Total Debt Service	\$ 912,325	\$ 914,575	\$ 919,700	\$ 921,375	\$ 3,652,510	\$ 3,650,735
Net Revenues Before CIP	\$ 2,541,715	\$ 465,415	\$ 32,546	\$ (451,108)	\$ (3,113,530)	\$ (3,904,651)
Capital Expenditure	\$ 10,007,000	\$ 5,550,000	\$ 7,450,000	\$ 20,650,000	\$ 24,100,000	\$ 2,905,000
Debt	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Debt New	\$ -	\$ -	\$ -	\$ 42,000,000	\$ -	\$ -
Cash	\$ 10,007,000	\$ 5,550,000	\$ 7,450,000	\$ (21,350,000)	\$ 24,100,000	\$ 2,905,000
Net Income	\$ (7,465,285)	\$ (5,084,585)	\$ (7,417,454)	\$ 20,898,892	\$ (27,213,530)	\$ (6,809,651)
Ending Balance	\$ 13,158,862	\$ 8,074,277	\$ 656,823	\$ 21,555,715	\$ (5,657,815)	\$ (12,467,466)

Figure 4 displays the expected ending fund balances under the status quo financial plan. Under the status quo financial plan, the District will remain solvent through FY 2029 due to the issuance of debt proceeds for the Treatment Plant upgrade. However, the last two years of the study period project a negative cash balance for the District. A new financial plan was developed in order to maintain sufficient revenue to fund operations, ongoing maintenance and repair, and to maintain a sufficient debt service coverage ratio. The following section details the proposed financial plan inputs and results.

Figure 4. Status Quo Reserve Fund Balances



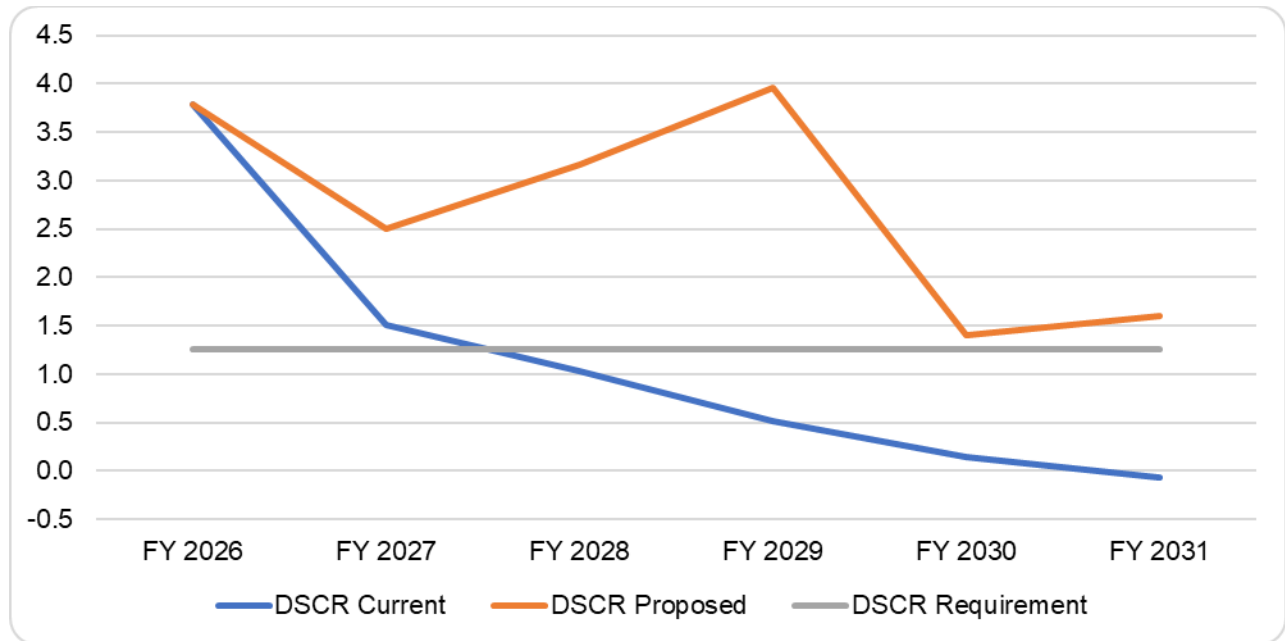
2.7 Proposed Financial Plan Proforma

Based on the projected total revenue and necessary costs to be recovered during the study period, RDN built a financial plan that will generate sufficient revenues for the day-to-day operation and annual PAYGO and make appropriate contributions to reserves. The District currently has a projected beginning cash balance of \$20.6 in FY 2026. Table 15 shows the proposed financial plan through the study period under the proposed rate plan. By adopting this plan, the District will maintain debt service coverage ratios (Figure 5) and fund balance needs (Figure 6) throughout the study period.

Table 15. Proposed Financial Plan Pro Forma⁵

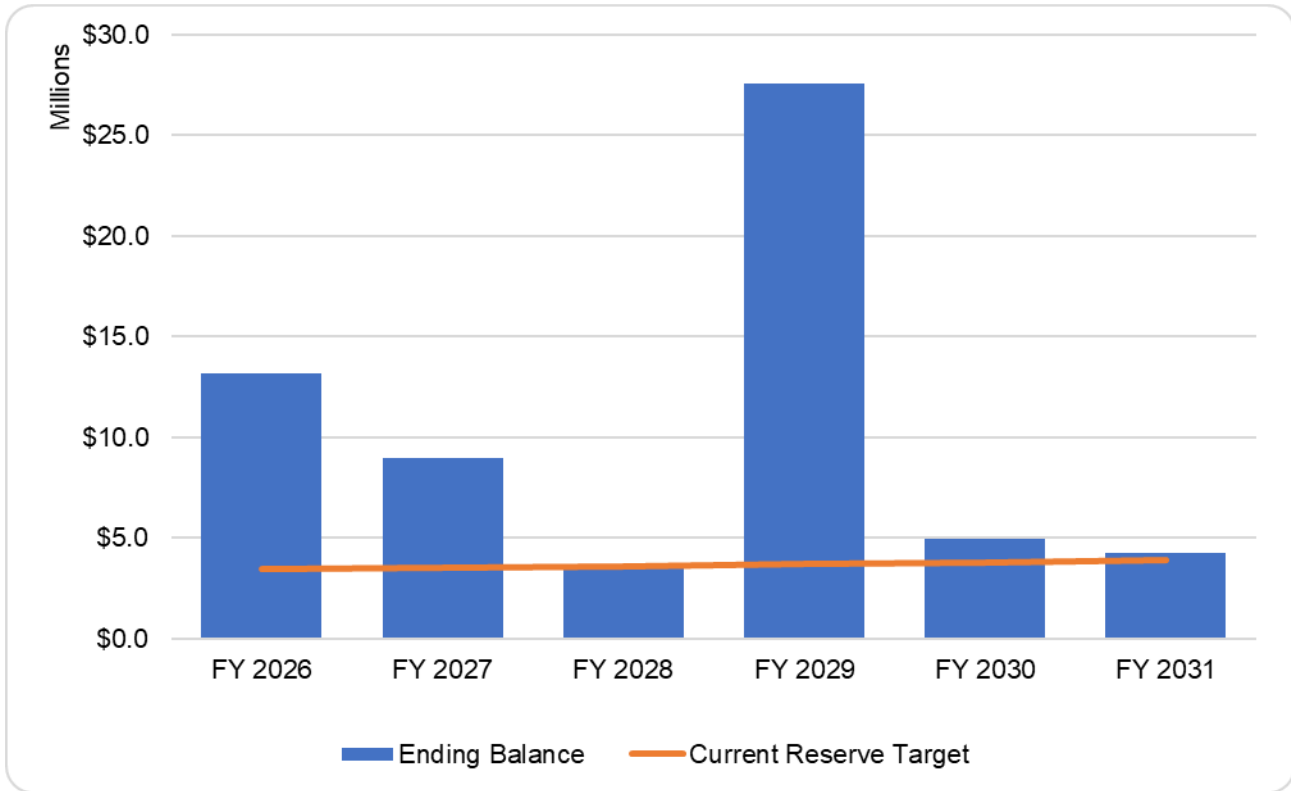
Rate Increase	14.0%		14.0%		14.0%	
Rate Month Implemented	1-Jul		1-Jul		1-Jul	
	FY 2026	FY 2027	FY 2028	FY 2029	FY 2030	FY 2031
Cash Position Opening Balance	\$ 20,624,148	\$ 13,158,862	\$ 8,979,709	\$ 3,520,000	\$ 27,596,944	\$ 4,973,863
Revenues						
Sewer Rate Revenue	\$ 6,461,015	\$ 6,467,367	\$ 6,473,719	\$ 6,480,071	\$ 6,486,423	\$ 6,493,471
Adjusted Sewer Rate Revenue	\$ -	\$ 905,431	\$ 1,939,526	\$ 3,120,439	\$ 4,468,887	\$ 6,009,153
Other Operating Revenue	\$ 280,000	\$ 280,000	\$ 280,000	\$ 280,000	\$ 280,000	\$ 280,000
Non-Operating Revenue	\$ 1,614,297	\$ -	\$ -	\$ -	\$ -	\$ -
Investment Revenue	\$ 415,000	\$ 264,783	\$ 180,690	\$ 70,830	\$ 555,307	\$ 100,084
Property Tax Revenue	\$ 828,500	\$ 845,070	\$ 861,971	\$ 879,211	\$ 896,795	\$ 914,731
Total Revenues	\$ 9,598,812	\$ 8,762,651	\$ 9,735,907	\$ 10,830,551	\$ 12,687,412	\$ 13,797,439
Total Operating Expenses	\$ 6,144,772	\$ 6,477,230	\$ 6,825,915	\$ 7,182,232	\$ 7,557,983	\$ 7,942,117
Net Operating Revenue	\$ 3,454,040	\$ 2,285,421	\$ 2,909,991	\$ 3,648,319	\$ 5,129,429	\$ 5,855,322
Current Debt Service	\$ 912,325	\$ 914,575	\$ 919,700	\$ 921,375	\$ 920,350	\$ 918,575
Proposed Debt Service	\$ -	\$ -	\$ -	\$ -	\$ 2,732,160	\$ 2,732,160
Total Debt Service	\$ 912,325	\$ 914,575	\$ 919,700	\$ 921,375	\$ 3,652,510	\$ 3,650,735
Net Revenues Before CIP	\$ 2,541,715	\$ 1,370,846	\$ 1,990,291	\$ 2,726,944	\$ 1,476,919	\$ 2,204,586
Capital Expenditure	\$ 10,007,000	\$ 5,550,000	\$ 7,450,000	\$ 20,650,000	\$ 24,100,000	\$ 2,905,000
Debt Proceeds Proposed	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Debt Proceeds New	\$ -	\$ -	\$ -	\$ 42,000,000	\$ -	\$ -
Cash	\$ 10,007,000	\$ 5,550,000	\$ 7,450,000	\$ (21,350,000)	\$ 24,100,000	\$ 2,905,000
Net Income	\$ (7,465,285)	\$ (4,179,154)	\$ (5,459,709)	\$ 24,076,944	\$ (22,623,081)	\$ (700,414)
Ending Balance	\$ 13,158,862	\$ 8,979,709	\$ 3,520,000	\$ 27,596,944	\$ 4,973,863	\$ 4,273,449

Figure 5. Debt Service Coverage Ratio Under Status Quo and Proposed Financial Plan



⁵ Projected revenues collected due to the proposed revenue adjustment are shown in the Adjusted Sewer Rate Revenue line.

Figure 6. Fund Balances Under Proposed Rate Adjustments



2.8 Revenue Requirements

Table 16 displays the District’s revenue requirements for FY 2026. The total expense is offset by other operating revenues and non-operating revenues to compute a pure portion of revenue requirements that need to be recovered from customers’ rates. RDN proposes annual revenue adjustments of 14.0 percent to reach the financial goals set by the District. The recommended adjustments will balance the budget and fund debt service requirements through the study period.

Table 16. Revenue Requirements for the Cost of Service Analysis

Revenue Requirement	FY 2026
Operating Expense	\$6,144,772
Debt Service	\$912,325
Rate Funded CIP	\$10,007,000
Other Operating Revenue	(\$280,000)
Non-Operating Revenue	(\$1,614,297)
Property Tax Revenue	(\$828,500)
Investment Revenue	(\$415,000)
Net Balance From Operations	(\$7,465,285)
Rate Revenue Requirement	\$6,461,015

3 COST OF SERVICE ANALYSIS

The purpose of a Cost of Service (COS) analysis is to allocate costs among customers commensurate with their service requirements. The Sewer system’s COS analysis utilizes a three-step approach to allocate costs equitably among customers. These steps include 1) functionalization of costs, 2) cost classification, and 3) cost allocation to customers. Provided below is a detailed discussion of the Sewer COS analysis conducted for the District and the specific steps taken for the analysis.

3.1 Functionalization of Costs

The functions included in a Sewer study are:

- **Operations** – costs associated with the day-to-day operations of the sewer system
- **Treatment** - the costs associated with the treatment of sewer represented by the following categories:
 - Bio-Oxygen Demand (BOD)
 - Total Suspended Solids (TSS)
- **Customer Service** – costs to provide billing and customer service
- **Collection** – costs associated with the collection and transmission of sewer flow
- **Administrative and General** – costs not directly related to the other operating functions

RDN carefully distributed each of the O&M expenses and the asset items into the District’s sewer system functions. Table 17 and Table 18 show the allocation of the operating budget and the District’s sewer assets to the standard sewer functions, respectively.

Table 17. Percentage of Operating Costs Allocated to Standard Functions

O&M Expense		
O&M Category	Allocation	Percentage
Operations	\$593,500	9.7%
BOD	\$497,500	8.1%
TSS	\$497,500	8.1%
Customer	\$130,000	2.1%
Collection	\$165,600	2.7%
Admin and General	\$4,260,672	69.3%
Total O&M	\$6,144,772	100.0%

Table 18. Percentage of Assets Allocated to Standard Functions

Non-Operating Expense		
Category	Allocation	Percentage
Operations	\$3,215,356	9.1%
BOD	\$1,748,212	4.9%
TSS	\$1,748,212	4.9%
Customer	\$0	0.0%
Collection	\$27,967,395	79.0%
Admin and General	\$714,380	2.0%
Total Assets	\$35,393,554	100.0%

Once costs were functionalized, RDN further classified costs into service categories (cost causative components). The cost causative components include:

- **Sewer Flow** – costs associated with the transmission of sewer flow
- **Customer Service** – costs to provide billing and customer service
- **Treatment** - the costs associated with the treatment of Sewer represented by the following categories:
 - Bio-Oxygen Demand (BOD)
 - Total Suspended Solids (TSS)

Table 19 and Table 20 show the percentage of the functionalized operating costs and asset values allocated to cost causative components, respectively. Administrative and general costs are allocated based on the percentage of costs allocated to each component based on the total cost of the other categories.

Table 19. Percent of Operating Costs Allocated to Cost Causative Components

Category	Allocation	Flow	BOD	TSS	Customer Service
Operations	\$593,500	0.0%	0.0%	0.0%	100.0%
BOD	\$497,500	0.0%	100.0%	0.0%	0.0%
TSS	\$497,500	0.0%	0.0%	100.0%	0.0%
Customer	\$130,000	0.0%	0.0%	0.0%	100.0%
Collection	\$165,600	100.0%	0.0%	0.0%	0.0%
Admin and General	\$4,260,672	8.8%	26.4%	26.4%	38.4%
Total Allocation		8.8%	26.4%	26.4%	38.4%

Table 20. Percent of Asset Values Allocated to Cost Causative Components

Category	Allocation	Flow	BOD	TSS	Customer Service
Operations	\$3,215,356	100.0%	0.0%	0.0%	0.0%
BOD	\$1,748,212	0.0%	100.0%	0.0%	0.0%
TSS	\$1,748,212	0.0%	0.0%	100.0%	0.0%
Customer	\$0	0.0%	0.0%	0.0%	100.0%
Collection	\$27,967,395	100.0%	0.0%	0.0%	0.0%
Admin and General	\$714,380	89.9%	5.0%	5.0%	0.0%
Total Allocation		89.9%	5.0%	5.0%	0.0%

Table 21 shows the revenue requirements allocated based on the percentages shown above. The total allocation is used to distribute other revenues and net balances.

Table 21. Revenue requirements allocated to Cost Components

Category	Allocation	Flow	BOD	TSS	Customer Service
O&M Revenue Requirements	\$6,144,772	\$540,085	\$1,622,538	\$1,622,538	\$2,359,611
Percent		8.8%	26.4%	26.4%	38.4%
Non-Operating Revenue Requirements	\$10,919,325	\$9,818,417	\$550,454	\$550,454	\$0
Percent		89.9%	5.0%	5.0%	0.0%
Total Allocation	\$17,064,097	60.7%	12.7%	12.7%	13.8%

Table 22 shows the results of the cost of service analysis. The total rate revenue requirements are allocated to cost components that will be used to complete the rate design.

Table 22. Total Cost of Service Allocated to Cost Components

Category	Total	Flow	BOD	TSS	Customer Service
O&M Revenue Requirements	\$6,144,772	\$540,085	\$1,622,538	\$1,622,538	\$2,359,611
Non-Operating Revenue Requirements	\$10,919,325	\$9,818,417	\$550,454	\$550,454	\$0
Total	\$17,064,097	\$10,358,502	\$2,172,992	\$2,172,992	\$2,359,611
Total Allocation		60.7%	12.7%	12.7%	13.8%
Other Operating Revenue	(\$280,000)	(\$169,970)	(\$35,656)	(\$35,656)	(\$38,718)
Non-Operating Revenue	(\$2,857,797)	(\$1,734,782)	(\$363,920)	(\$363,920)	(\$395,174)
Net Balance From Operations	(\$7,465,285)	(\$4,531,688)	(\$950,651)	(\$950,651)	(\$1,032,294)
Rate Revenue Requirement	\$6,461,015	\$3,922,061	\$822,765	\$822,765	\$893,424

3.2 Allocation to Units

In developing equitable rate structures, revenue requirements are allocated to customers commensurate with customer demand and services rendered. First, an overall number of units was determined for each cost component.

RDN completed a sewer mass balance-based flow to the treatment plant to determine flows and TSS and BOD volumes for each customer class. The District provided monthly and annual influent flow data, totaling 277.23 million gallons (MG) of sewer collected annually. The mass balance assumed around 2.7 percent of the total influent consisted of inflow and infiltration (I&I), which refers to clear water (stormwater or groundwater) that enters sanitary sewer systems through cracked pipes or leaky joints. The remaining flow was attributed to District customers.

Commercial customer flows were derived using actual water use data, assuming a 70 percent, 90 percent, and 90 percent water return to sewer rate for Low Strength, Medium Strength, and High Strength commercial customers, respectively. Residential customer sewer flows were determined by subtracting Commercial customer flow and inflow estimates from the total wastewater flows reported by the District. Table 23 shows the total sewer flow per day for fiscal year 2025 as well as annual sewer flow for each customer class.

Table 23. Total Plant Sewer Flows

Customer Class	Sewer Flow (gallons)	Gallons per day (million)	Annual Flow (hcf)
Single Family	173,343,395	0.47	231,743
Condo or 2nd Dwelling	19,965,793	0.05	26,692
Low Strength Commercial	12,138,095	0.03	16,227
Medium Strength Commercial	60,526,066	0.17	80,917
High Strength Commercial	3,776,652	0.01	5,049
Inflow	7,480,000	0.02	10,000
Total	277,230,000	0.76	370,628

As part of the Mass Balance analysis, wastewater strength ratios were also estimated to allocate costs for each customer class. The average strength of flow to the plant is around 352 milligrams per liter BOD, and 397 milligrams per liter of TSS. The strength ratios for BOD and TSS for each customer class are shown in Table 24 and displayed in milligrams per liter (mg/L).

Table 24. Sewer Strength Classification by Customer Class

Customer Class	BOD	TSS
Single Family	280	280
Condo or 2nd Dwelling	280	280
Low Strength Commercial	140	140
Medium Strength Commercial	600	800
High Strength Commercial	1,000	1,000

Total proportional strength contribution for each customer class was determined by multiplying the total customer class sewer flow by strength in milligrams per liter. This total was converted to pounds per year by customer class. Table 25 shows the total strength contributions by customer class, and the District-wide BOD and TSS contributions.

Table 25. Strength Contribution by Customer Class

Customer Class	BOD	TSS
Single Family	4,051	4,051
Condo or 2nd Dwelling	467	467
Low Strength Commercial	142	142
Medium Strength Commercial	3,031	4,041
High Strength Commercial	315	315
Total	8,005	9,016

Table 26 shows the total functional units allocated to each customer class, which is used as the unit to divide the total costs allocated to each sewer function.

Table 26. Cost of Service Units

Customer Class	Flow	LBS/Year BOD	LBS/Year TSS	Customers
Single Family	231,743	4,051	4,051	2,744
Condo or 2nd Dwelling	26,692	467	467	888
Low Strength Commercial	16,227	142	142	24
Medium Strength Commercial	80,917	3,031	4,041	14
High Strength Commercial	5,049	315	315	3
Total	360,628	8,005	9,016	3,673

Costs allocated to each cost component were divided by the number of units to determine a unit cost, shown in Table 27.

Table 27. Cost of Service Unit Cost

Customer Class	Total	Flow	BOD	TSS	Customers
Rate Revenue Requirement	\$6,461,015	\$3,922,061	\$822,765	\$822,765	\$893,424
Units		360,628	8,005	9,016	3,673
Unit Cost		\$10.88	\$102.78	\$91.26	\$243.24

The final step in the cost of service analysis is to allocate costs to each customer class. This is done by multiplying the unit cost for each function, as shown in Table 27, by the corresponding number of service units attributed to each customer class (Table 26). Table 28 presents the resulting cost allocations by customer class, which form the basis for the sewer rate calculations discussed in the next section.

Table 28. Cost of Service Allocated to Customer Class

Customer Class	Total	Flow	BOD	TSS	Customers
Single Family	\$3,973,809	\$2,520,346	\$416,332	\$369,678	\$667,453
Condo or 2nd Dwelling	\$596,826	\$290,295	\$47,953	\$42,580	\$215,998
Low Strength Commercial	\$209,841	\$176,483	\$14,576	\$12,943	\$5,838
Medium Strength Commercial	\$1,563,738	\$880,026	\$311,507	\$368,799	\$3,405
High Strength Commercial	\$116,801	\$54,911	\$32,395	\$28,765	\$730

4 RATE DESIGN

The District’s current rate structure varies by customer class. Residential customers are assessed a fixed annual service charge on their property tax bill, with charges differentiated by connection type. Commercial customers are billed based on both water use and sewage strength classification, with total charges consisting of a fixed component associated with capacity and a variable component based on actual usage. Based on its review, RDN recommends that the District maintain this existing rate structure, as it appropriately reflects differences in customer characteristics and cost drivers, while maintaining compliance with Proposition 218.

4.1 Residential Rates Derivation

Residential rates are derived by dividing the total costs to be recovered by the number of Residential connections. The calculation used to determine the number of bills in a year is shown in Table 29.

Table 29. Count of Bill Calculation

Customer Class	Cost Allocation	Customers	Annual Charge
Single Family	\$3,973,809 ÷	2,744 =	\$1,448.18
Condo or 2nd Dwelling	\$596,826 ÷	888 =	\$672.10

To produce the proposed rate structure, the cost of service based rates are multiplied by the proposed annual revenue adjustment. Table 30 shows the proposed fixed charges for the study period. The proposed Fixed charges should be implemented on July 1, or the beginning of the respective fiscal year.

Table 30. Proposed Residential Fixed Charges (per year)

Revenue Adjustment	14.0%	14.0%	14.0%	14.0%	14.0%
Customer Class	FY 2027	FY 2028	FY 2029	FY 2030	FY 2031
Single Family	\$1,650.93	\$1,882.06	\$2,145.55	\$2,445.93	\$2,788.36
Condo or 2nd Dwelling	\$766.20	\$873.47	\$995.76	\$1,135.17	\$1,294.09

4.2 Commercial Rates Derivation

Commercial sewer customers are billed based on both water usage and the strength classification of their wastewater discharges. The total annual sewer service charge for commercial accounts is comprised of two components: (1) a Fixed Capacity Allocation Charge and (2) a Variable Usage Charge. The Fixed Capacity Allocation Charge is determined based on the customer’s historic maximum annual water use and reflects the system capacity reserved to serve that customer. The Variable Usage Charge is based on the customer’s actual water use during the prior calendar year. Both components are calculated on a per hundred cubic feet (HCF) basis and are differentiated by sewage strength category, low, medium, or high, to account for variations in treatment requirements and associated costs.

The Strength and Customer cost categories were fully allocated to the Fixed Capacity Charge. Flow-related costs were allocated between the Fixed Capacity Charge and the Variable Usage Charge, with 60 percent of Flow costs assigned to the Fixed Capacity Charge for Low and Medium strength customers and 40 percent assigned for High strength customers. The remaining Flow costs are recovered through the Variable Usage Charge. Table 31 shows the allocation of Commercial Flow costs. The flow cost

allocation is then added to the strength and customer costs to complete the allocation between the Fixed Capacity Charge and Variable Usage Charge (Table 32).

Table 31. Allocation of Commercial Flow Costs

Customer Class	Flow Costs	Percent to Fixed	Fixed Charge Basis	Percent to Variable	Variable Charge Basis
Low Strength Commercial	\$176,483	60%	\$105,890	40%	\$70,593
Medium Strength Commercial	\$880,026	60%	\$528,015	40%	\$352,010
High Strength Commercial	\$54,911	40%	\$21,964	60%	\$32,947

Table 32. Allocation of Commercial Costs

Customer Class	Total Cost Allocation	Fixed Allocation Capacity	Variable Usage Charge
Low Strength Commercial	\$209,841	\$139,247	\$70,593
Medium Strength Commercial	\$1,563,738	\$1,211,727	\$352,010
High Strength Commercial	\$116,801	\$83,854	\$32,947

Once costs were allocated between Fixed and Variable rate components, the total costs for each customer class were divided by the units of service for each charge to derive the rate per hcf for Commercial customers.

Table 33. Aggregate Customer Class and Applicable Water Use Calculation

Customer Class	Cost Allocation	Sewer Flow Units	Unit Rate
Low Strength Commercial			
Fixed Allocation Capacity	\$139,247 ÷	32,381 =	\$4.30
Variable Usage Charge	\$70,593 ÷	23,182 =	\$3.05
Medium Strength Commercial			
Fixed Allocation Capacity	\$1,211,727 ÷	107,381 =	\$11.28
Variable Usage Charge	\$352,010 ÷	89,908 =	\$3.92
High Strength Commercial			
Fixed Allocation Capacity	\$83,854 ÷	6,308 =	\$13.29
Variable Usage Charge	\$32,947 ÷	5,610 =	\$5.87

To produce the proposed rate structure, the cost of service based rates are multiplied by the proposed annual revenue adjustment. Table 34 shows the proposed variable charges for the study period. The proposed charges should be implemented on July 1, or the beginning of the respective fiscal year.

Table 34. Proposed Commercial Charges (per hcf)

Revenue Adjustment	14.0%	14.0%	14.0%	14.0%	14.0%
Commercial Class	FY 2027	FY 2028	FY 2029	FY 2030	FY 2031
Fixed Capacity Charge (\$/hcf)					
Low Strength	\$4.90	\$5.59	\$6.37	\$7.26	\$8.28
Medium Strength	\$12.86	\$14.66	\$16.71	\$19.05	\$21.72
High Strength	\$15.15	\$17.27	\$19.69	\$22.45	\$25.59
Variable Charge (\$/hcf)					
Low Strength	\$3.47	\$3.96	\$4.51	\$5.14	\$5.86
Medium Strength	\$4.46	\$5.08	\$5.79	\$6.60	\$7.52
High Strength	\$6.70	\$7.64	\$8.71	\$9.93	\$11.32

4.3 Rate Comparison

Under the proposed rates, single family residences will see an annual bill increase of \$170.93 in FY 2027, which calculates to approximately \$14.24 per month. Multi-family and second dwellings will see an annual increase of \$70.20, or \$5.85 per month. For commercial customers, the total rate increase will be based on their total water use as well as their maximum water use. Table 35 shows the average maximum water use (fixed capacity charge basis) and average annual use (variable charge basis) for each commercial customer class.

Table 35. Average Max and Annual Use by Customer Class (hcf)

Customer Class	Average Max Use	Average Annual Use
Low Strength Commercial	1,349	966
Medium Strength Commercial	7,670	6,422
High Strength Commercial	2,103	1,870

Table 36 shows the current and proposed annual bill for the average commercial customer under each strength category. The average customer does not reflect any specific customer, and impacts will vary based on total and maximum water use characteristics of each customer.

Table 36. Current and Proposed Bill for Average Commercial Customers

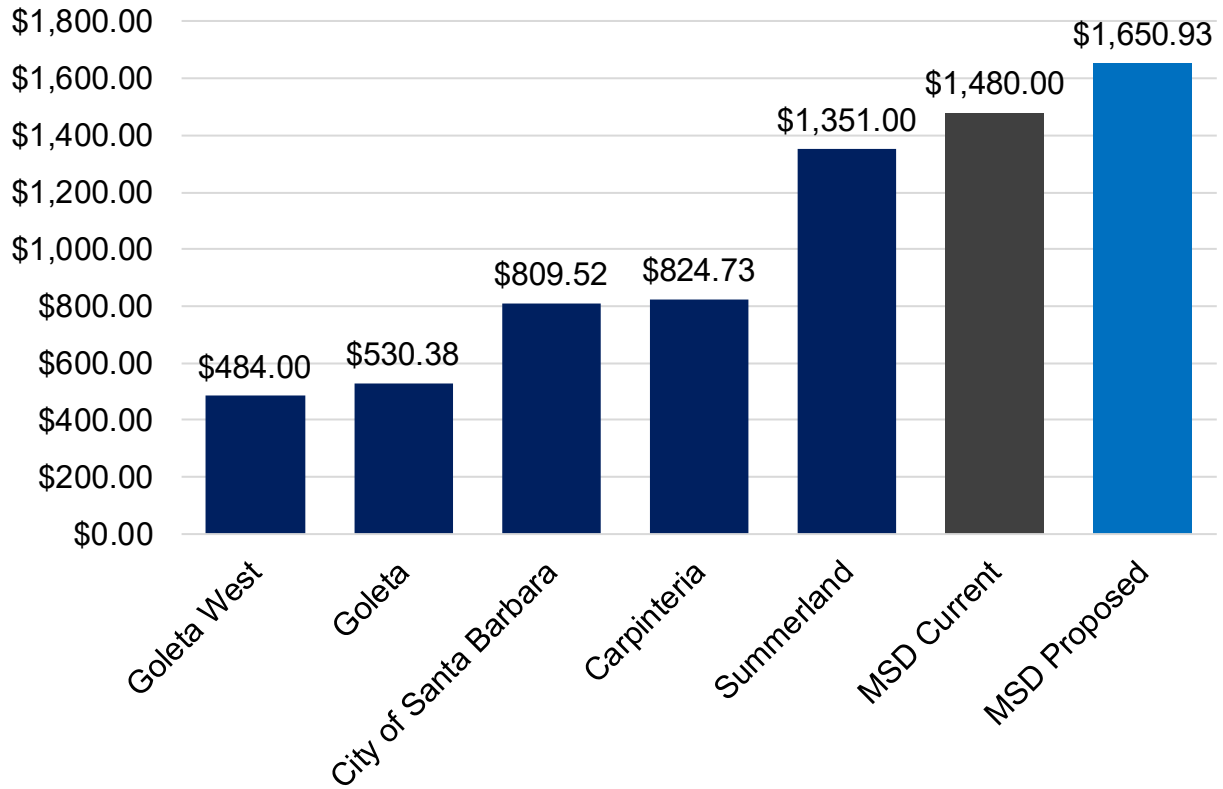
Customer Class	Current Bill	Proposed Bill	Difference
Low Strength Commercial	\$8,623.91	\$9,962.85	\$1,338.94
Medium Strength Commercial	\$104,586.26	\$127,279.24	\$22,692.98
High Strength Commercial	\$36,888.47	\$44,384.40	\$7,495.93

As part of the rate study process, RDN also reviewed sewer rates for agencies surrounding the MSD service area. RDN surveyed five local agencies to compare how MSD's current and proposed rates align with local trends. Of the agencies surveyed, MSD currently has and will maintain the highest rate for single family residential customers. Figure 7 shows the current and proposed rates for Montecito Sanitary District's single family residential customers compared to five other local agencies.

It is important to note that there are significant differences in the rates and operating structures of sewer providers in the neighboring communities to Montecito Sanitary District. Some of the differences are because of administrative paradigms, which are unique to each agency. For example, capital investment needs are unique to each agency. Furthermore, customer rates can be affected by the availability of

outside funding sources such as grants, property taxes, and transfers. Finally, the rate structure itself may influence which types of users pay a larger proportion of costs.

Figure 7. Local Rate Comparison



5 CONCLUSION

RDN recommends the following changes and modifications to the current rates and fees based on the findings of the Study:

- Adopt the proposed financial plan which will allow the District to upgrade and maintain their Sewer Treatment Plant
 - Adjust revenues each year of the study period by 14.0 percent in July 2027, 14.0 percent in July 2028, 14.0 percent in July 2029, 14.0 percent in July 2030 and 14.0 percent in July 2031 to ensure compliance with planned debt issuance requirements by the end of the study period (FY 2031).
- Realign the cost allocation for customers based on the Cost of Service analysis.

Proposed Sewer Rates

RDN recommends that the District maintain its existing sewer rate structure as described above. The recommended rates incorporate updated revenue requirements and cost allocations developed as part of this Study.

The proposed rates allow the District to maintain healthy reserve fund balances, meet planned debt service requirements, and complete necessary capital improvement projects over the five-year study period. In addition to the proposed revenue adjustments, the recommended rates reallocate the District's costs based on a detailed Cost of Service (COS) analysis. This analysis improves the equity of the rate structure by allocating District costs based on the relative demand each customer class places on the system. As a result, overall rate adjustments will vary by customer class.

The proposed annual revenue adjustments presented in this Study are 14.0 percent in FY 2027, 14.0 percent in FY 2028, 14.0 percent in FY 2029, 14.0 percent in FY 2030, and 14.0 percent in FY 2031. These adjustments allow the District to maintain financial stability while funding ongoing operations, capital improvements, and long-term system needs over the study period. Table 37 and Table 38 show the proposed revenue adjustments and rates for the study period, respectively.

Table 37. Proposed Revenue Adjustments

	FY 2027	FY 2028	FY 2029	FY 2030	FY 2031
Revenue Adjustment	14.0%	14.0%	14.0%	14.0%	14.0%

Table 38. Proposed Sewer Rates

Residential Account	FY 2027	FY 2028	FY 2029	FY 2030	FY 2031
Single Family Dwelling	\$1,650.93	\$1,882.06	\$2,145.55	\$2,445.93	\$2,788.36
Condo or Second Dwelling	\$766.20	\$873.47	\$995.76	\$1,135.17	\$1,294.09
Commercial Class	FY 2027	FY 2028	FY 2029	FY 2030	FY 2031
Fixed Capacity Charge (\$/hcf)					
Low Strength	\$4.90	\$5.59	\$6.37	\$7.26	\$8.28
Medium Strength	\$12.86	\$14.66	\$16.71	\$19.05	\$21.72
High Strength	\$15.15	\$17.27	\$19.69	\$22.45	\$25.59
Variable Charge (\$/hcf)					
Low Strength	\$3.47	\$3.96	\$4.51	\$5.14	\$5.86
Medium Strength	\$4.46	\$5.08	\$5.79	\$6.60	\$7.52
High Strength	\$6.70	\$7.64	\$8.71	\$9.93	\$11.32

