FCS
a Bowman company

CITY OF PEORIA

Water and Wastewater Utilities Rate Study Update FINAL

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Contents

Introduction

In 2024, the City of Peoria ("the City") contracted with FCS to conduct a rate study for the water and wastewater utilities. The purpose of the study was to provide an updated rate forecast and financial plan targeting revenue sufficiency for upcoming capital infrastructure investments throughout the 2025-2029 forecast period. This report documents the results of the rate study update.

Approach

The methods used to complete the study are based on analytical principles that are generally accepted and widely followed throughout the industry – rates and charges should generate enough revenue to maintain self-supporting and financially viable utilities.

Throughout the study, FCS worked with the City to arrive at rate conclusions that meet forecasted utility financial obligations, achieve City goals and policies, and adhere to industry best practices. Meetings were held with City staff to validate input parameters, review interim findings, and receive policy direction.

Scope

The scope of the project included the following key elements:

- Update the forecast for operating revenues and expenses to reflect the most recently approved budgets. Incorporate the most recent capital plans identifying the capital projects required to maintain each system in good repair. Develop a capital funding analysis that balances available funding from rate revenue, reserve funds, contributions, and additional debt, if needed.
- Evaluate cash flow needs to meet existing and anticipated new annual debt service requirements and debt coverage requirements. Test the sufficiency of current revenues in meeting all annual obligations. Identify any projected shortfalls over the forecast period.
- Design a rate implementation strategy that meets the financial obligations over the multi-year planning horizon and provides a smooth and moderated impact to ratepayers.
- Evaluate existing rate structures for alignment with the City's current and/or recommended fiscal policies, ensuring they generate sufficient revenue to meet the revenue requirement forecast.

The methodology, key factors, conclusions, and recommendations for each of the key task areas of the study are summarized in this executive level report. The full rate study can be found in the detailed rate models provided to the City.

Rate Study Methodology

Rate Setting Principles and Methodology

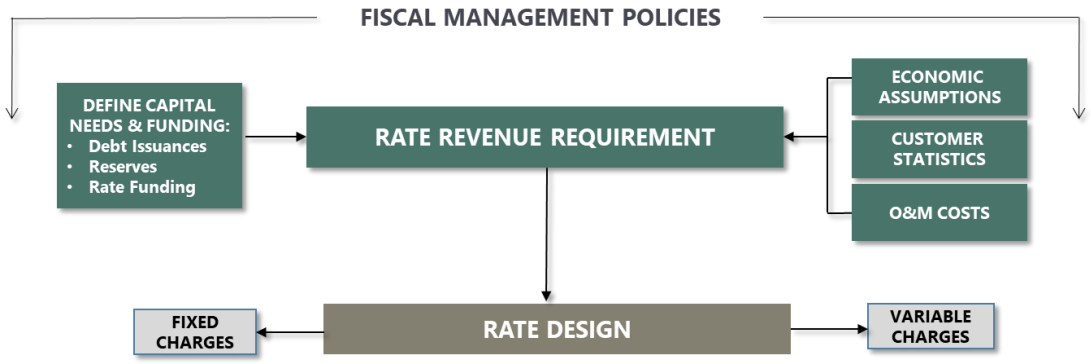
The methods used to establish user rates are based on principles that are generally accepted and widely followed throughout the industry. These principles are designed to produce rates that recover costs from each class of customer by setting the appropriate level of revenue to be collected from ratepayers and establishing a rate structure to collect those revenues.

The primary tasks of the rate study update are listed below:

- **Revenue Requirement Analysis**. This analysis identifies the total revenue requirement to fully fund each system on a standalone basis, considering operating and maintenance expenditures, capital funding needs, debt requirements, and fiscal policy objectives.
- **Rate Design Analysis**. This analysis includes the development of rates that generate sufficient revenue to meet each system's revenue requirement forecast and continue to address the City's pricing objectives (e.g. conservation and revenue stability).

Exhibit 1 illustrates the rate study process.

Exhibit 1. Overview of the Rate Study Process



Fiscal Policies

The foundation for evaluating utility revenue needs consists of a set of fiscal policies. These policies, which can address a variety of topics including cash management, capital funding strategy and financial performance, are intended to promote long-term financial viability for the City's utilities.

Reserves

Reserves are a key component of any utility financial strategy, as they provide the flexibility to manage variations in costs and revenues that could otherwise have an adverse impact on ratepayers. When evaluating fund reserve levels and objectives, it is important to recognize that the value of reserves lies in their potential use. A reserve strategy that deliberately avoids any use of reserves negates their purpose. Fluctuation of reserve levels may indicate that the system is working, while lack of variation over many years strongly suggests that the reserves are, in fact, unnecessary.

Principles of Sound Financial Management (PSFM)

The City's PSFM target combines multiple reserve targets to address financial stability. The combination of the following reserves creates the PFSM target:

- **Operating Reserve:** An operating reserve is designed to provide a liquidity cushion; it protects the utility from the risk of short-term variation in the timing of revenue collection or payment of expenses. Industry practice for utility operating reserves typically ranges from 30 days (8 percent) to 120 days (33 percent) of operating expenses, with the lower end more appropriate for utilities with stable revenue streams and the higher end of the range more appropriate for utilities with significant seasonal or consumption-based fluctuations.
- **Capital Reserve:** A capital reserve provides a source of emergency funding for unexpected asset failures or other unanticipated capital needs as well as additional security to meet debt service obligations. This capital reserve policy is not intended to guard against catastrophic system failure or extreme acts of nature. Given these different purposes, there are a variety of potential benchmarks for setting a minimum balance for this fund – options include a percentage (commonly 1 – 2 percent) of the original cost of fixed assets, a rolling multi-year average of capital costs, or an amount determined sufficient to fund an equipment or asset failure. The final target level should balance industry practice with the risk level of the City.
- **Debt Reserve:** A debt reserve is often established by bond covenants as a means of protecting against the risk of nonpayment. A common reserve requirement is one year's debt service payment. The balance held in reserve for a particular debt instrument may be used to make the final payment on that debt instrument. The City must continue to fully fund such reserves as required by bond covenant or loan agreement. Since the debt reserve provides a static reserve against inability to pay, it is unnecessary to maintain operating reserves against debt repayment. For future debt, the study assumes reserves are funded through new debt issuances, equal to one year's debt service payment. The City will determine final reserve levels required as new debt is issued.
- **Rate Stabilization Reserve:** A rate stabilization reserve is intended to be available to offset specific variations in revenues or expenses. Since a rate stabilization reserve is established and funded to meet a specific risk, such as the revenue loss related to reduced customer demand, this reserve can commonly be 5 – 15 percent of annual rate revenues. The reserve is established with specific rules and restrictions regarding contributions, withdrawals, and replenishment.

> ***Existing Policy:*** *The City's current policy (as identified in the City of Peoria's Principles of Sound Financial Management, Sections 12.04-12.07) is to maintain a target of 25 percent of O&M expenses, 2.0 percent of asset values, 50.0 percent of debt service and 5.0 percent of operating revenues for both the water and wastewater funds.*

Debt Management

Debt financing is a viable tool for capital funding. Compared with pay-as-you-go funding, debt smooths out the rate impact of a capital program by spreading costs over time. It also creates intergenerational equity – also referred to as "pay-as-you-use" because future customers who use the assets are the ones paying for them. However, debt should not be relied on too heavily as it carries the risk of default. Debt also reduces budget

flexibility – cash-funded capital projects can be delayed if there is a revenue shortfall, but once the utility has issued debt, the debt service needs to be paid in good times or bad. While debt is a useful part of the capital funding toolbox, it needs to be monitored to ensure that the system does not become too heavily dependent on it. Debt service coverage is a metric used to evaluate the City's debt level.

Debt Service Coverage

Debt service coverage is typically a requirement associated with revenue bonds and some State loans and is a financial measure assessing the ability to repay debt. A typical minimum coverage requirement for utility revenue bonds is 1.25. If the City issues debt, the coverage requirements essentially require that the City collect enough revenue to meet operating expenses and not only pay annual debt service but collect an additional 25.00 percent above the bonded debt service. The extra revenue is a cushion that assures bondholders that the City has the financial resources to meet its debt service obligations.

> ***Existing Policy:*** *The City's existing policy (as identified in the City of Peoria's Principles of Sound Financial Management, Section 12.03) aims to maintain coverage at a 2.00 ratio on all debt, not solely revenue bond debt. Achieving a debt service coverage level greater than the minimum required level is a positive signal to debt rating agencies and can result in more favorable terms when the City enters the market for new debt.*

System Reinvestment

A utility's infrastructure (e.g., storage reservoirs, treatment facilities, transmission/distribution pipes, etc.) is a critical element of serving the City's customers. Establishing a financial plan for the eventual replacement of these assets ensures system reliability and integrity. This practice is known as system reinvestment funding. In the absence of a formal asset management plan, target system reinvestment funding levels are commonly linked to annual depreciation expense. Depreciation expense is a measure of the decline in asset value associated with routine use of the system.

Particularly for utilities that do not already have an explicit system reinvestment policy in place, implementing a funding level based on full depreciation expense could significantly impact rates. An alternative benchmark is annual depreciation expense net of debt principal payments on outstanding debt. This approach recognizes that customers are still paying for certain assets through the debt component of their rate and intends to avoid simultaneously charging customers for an asset and its future replacement. The specific benchmark used to set system reinvestment funding targets is a matter of policy that must balance various objectives including managing rate impacts, keeping long-term costs down, and promoting "generational equity" (i.e. not excessively burdening current customers with paying for facilities that will serve a larger group of customers in the future).

> ***Future Policy Consideration:*** *The City does not have a formal policy regarding system reinvestment funding. This study does not incorporate dedicated system reinvestment funding but does assume that any cash above the minimum operating target balances is transferred to the capital fund as cash-funded capital. On average, the City is forecast to contribute $16.2 million annually in rate funded system reinvestment for the water utility and $7.5 annually for the wastewater utility. In the future, the City could look at aligning rate funded system*

reinvestment with a formal target like those discussed above to enhance dedicated repair and replacement funding through rates.

Revenue Requirement Analysis

A revenue requirement analysis forms the basis for a long-range financial plan and multi-year rate management strategy for each system. It also enables the City to set utility rate structures which fully recover the total cost of operating each system: capital improvement and replacement, operations, maintenance, general administration, fiscal policy attainment, cash reserve management, and debt repayment. Linking rate levels to a financial plan such as this helps to enable sound financial performance for the City's utility enterprise funds, as well as a clear and reasonable relationship between the costs imposed on utility customers and the costs incurred to provide the service.

A revenue requirement analysis includes the following core elements to form a complete portrayal of the utility's financial obligations.

- **Fiscal Policy Analysis**. Identifies formal and informal fiscal policies of the City to ensure that current policies are maintained, including reserve levels, capital/system replacement funding, and debt service coverage.
- **Capital Funding Plan**. Defines a strategy for funding the City's capital improvement/equipment replacement program, including an analysis of available resources from rate revenues, debt financing, and any special resources that may be readily available (e.g., grants, outside contributions, etc.).
- **Operating Forecast**. Identifies future annual non-capital costs associated with the operation, maintenance, and administration of each system.
- **Sufficiency Testing**. Evaluates the sufficiency of revenues in meeting all financial obligations, including any coverage requirements associated with long-term debt.
- **Strategy Development**. Designs a forward-looking strategy for adjusting rates to fully fund all financial obligations on a periodic or annual basis over the projections period.

Rate Design

The principal consideration of rate design is for the rate structure to generate sufficient revenues for the system which are reasonably commensurate with the cost of providing service. The pricing structure is largely dictated by the objectives of the system. Most rate designs consist of fixed and variable charges. Fixed charges typically attempt to cover costs of the system that do not vary while variable costs will fluctuate with a change in user demand.

Water Revenue Requirement

Introduction

The City of Peoria owns and operates its water system, which provides water to over 60,000 residential, multi-family, commercial, landscape and reclaimed water customers with the City's service area. The City's robust production and distribution system includes three water treatment plants, 37 groundwater wells and over 1,000 miles of transmission and distribution pipelines. Water resources are supplied through a diverse portfolio consisting of surface water from the Salt and Verde Rivers as well as the Colorado River, in addition to the numerous potable groundwater production wells. Peoria utilizes nearly 100 percent of its reclaimed water supply, either for non-potable reuse, recharge to offset groundwater pumping or for storage as long-term credits towards drought protection.

Revenue Requirement

A revenue requirement analysis forms the basis for a long-range financial plan and multi-year rate management strategy. The analysis is developed by completing an operating forecast that identifies future annual operating costs and a capital funding plan that defines a strategy for funding the capital improvement needs of the City.

Operating Forecast

The purpose of the operating forecast is to determine whether the existing rates and charges are sufficient to recover the costs the City incurs to operate and maintain the water system. The FY 2025 budget formed the baseline for this forecast. The operating forecast was developed through FY 2035 with the discussion below concentrating on the FY 2025 through FY 2029 study period. The following list highlights some of the key assumptions used in the development of the water utility operating forecast.

Reserves

- **Principle of Sound Financial Management Target.** A target of 25 percent of operating and maintenance expenses, 2 percent of asset values, 50 percent of annual debt service and 5 percent of rate revenues. ($30.0M in 2025, $39.7M in 2029)

Operating Revenue

- **Rate Revenue.** Based on actual detailed customer accounts and usage statistics from the City's billing system. Usage data from FY 2024 was used to project revenues for FY 2025 and thereafter. Due to the unpredictability of precipitation in the region, a historical review of precipitation and cooling degree days was reviewed, showing 2024 to be the second driest year on record over the last decade or more. With this in mind, demand growth was held flat when projecting FY 2025 revenues to represent more conservative demand per account levels.
- **Non-Rate Revenue.** Non-rate revenue consists of late fees, new service fees, water meter charges, disconnect/reconnect fees and other miscellaneous service revenues. In addition to these ongoing charges, non-rate revenues also include funds from the Central Arizona Water Conservation District New River Utility Company Long Term Storage Capacity (CAWCD NRUC LTSC) Sale. CAWCD NRUC LTSC funds are expected to contribute $2.8 million in FY 2025 and $2.0 million in FY 2026 before the agreement ends. All other non-rate revenues were forecast to increase with general cost inflation based on discussions with City staff.

- **Customer Growth.** Between FY 2025 and FY 2029, annual customer growth averages 2.25 percent annually, based on discussions with City staff and confirmed with a recent review of permit data from the City's planning department.
- **Interest Earnings.** 4.50 percent annually from FY 2025 and FY 2029. The projections are based on discussions with City staff and consistent with internal forecasting practices.

O&M Expenses

The operating and maintenance expenditure forecast largely relies on the City's FY 2025 budget. Each line item was adjusted annually by utilizing one of the following applicable factors:

- **General Cost Inflation.** Fluctuates from 2.4 percent to 2.2 percent annually from FY 2025 through FY 2029 based on the Congressional Budget Office's 10-year economic projections and discussions with City staff.
- **Construction Cost Inflation.** Begins FY 2025 at 4.5 percent, decreasing to 3.5 percent by FY 2029 based on internal forecasts from the City's engineering department.
- **Labor & Benefits Cost Inflation.** Labor cost inflation was assumed to be 5.0 percent per year in all years of the study period. Benefit cost inflation was assumed to be 4.5 percent per year for all years of the study period. Escalation was based on historical actuals and discussions with City staff.
- **Electricity Inflation.** 6.0 percent per year from FY 2025 through FY 2027, decreasing to 3.0 percent annually through FY 2029, based on discussions with City staff.
- **Chemical Inflation.** 6.00 percent annually for all years of the study period. Escalation was based on input from City staff.
- **Vehicle Costs Inflation.** 4.00 percent annually for all years of the study period. Escalation was based on input from City staff.
- **General Fund Service Charge Inflation**. 5.00 percent annually for all years of the study period, based on elevated spending in the City's general fund and input from City staff.
- **Water Acquisition Cost Inflation.** 5.00 percent annually for all years of the study period. Escalation was based on input from City staff.
- **System Supplies & Equipment Inflation.** 5.00 percent annually for all years of the study period. Escalation was based on input from City staff.
- **Water Supply Cost Inflation:**

  Capital Charge: This element of the water supply costs reflects the published Central Arizona Project (CAP) rates of $54 per acre-foot in FY 2025, increasing to $64 per acre-foot in FY 2027 before decreasing to $61 per acre-foot in FY 2029. The total capital charge fluctuates between $1.5M and $1.7M annually throughout the forecast period.

  Water Delivery Charge: This element of the water supply costs depends on the Lake Mead depth as a representation of drought severity in the region. Currently, CAP water delivery relies on a tiered rate system, the lower the lake depth, the more expensive the water rates. However, that structure will be ending in 2027, and a new structure has not been agreed upon yet. Due to the uncertainty in water pricing, to forecast water costs for this effort, guidance is taken from the Central Arizona Water Conservation District forecasts based on estimated water delivered. With an estimated delivery of 0.9 million acre feet, estimated costs are similar to existing Tier 3 rates, which are forecast to increase from $295 per acre foot in FY 2025 to $335 per acre foot by FY 2029. In addition, the City expects to draw their full allotment of water (34,121 acre feet) in FY 2025 and FY 2026, before implementing voluntary conservation measures and reducing the total draw by to 27,297 acre feet in FY 2027, increasing to

27,580 acre feet in FY 2028 and FY 2029 with a new lease from the White Mountain Apache Tribe. Total water delivery costs are forecast to increase from $9.8M in FY 2025 to $10.3M in FY 2026, before decreasing to $8.7M-$9.1M annually in FY 2027 and FY 2029 when voluntary conservation measures are implemented.

Salt River Project Costs: Based on input from City staff, costs related to the Salt River Supply increase by 6.00 percent annually. This water cost element comprises the per acre allotment purchased by the City and the O&M share of certain projects related to providing and storing water. Salt River project costs will increase from $633k in FY 2025 to $784k by FY 2029.

Underground Storage Costs: Costs related to underground storage are made up of three storage agreements: ongoing agreements with the Central Arizona Project (CAP) and the New River Aqua Fria Underground Storage Project (NAUSP), and a temporary arrangement to store water in the Tucson area and in preparation for water shortages. Cost and volumes vary for each agreement and are based on internal city forecasts. The total storage charges are forecast at $341k in FY 2025, decreasing to $193k in FY 2027 with the end to the temporary storage agreement. Costs are expected to increase to $204k by FY 2029.

Pyramid Peak Inflation: Based on City staff input, costs related to the Pyramid Peak wholesale water purchases are expected to increase 9.0 percent annually in FY 2026 and FY 2027, before stepping down to 8.0 percent in FY 2028 and 7.0 percent by FY 2029. Total Pyramid peak costs increase from $2.8M in FY 2025 to $3.8 M by FY 2029.

The summation of the five cost elements above represents the total water supply cost forecast. The combination of inflationary assumptions, purchased water cost increases and voluntary demand reductions results in a relatively stable water supply cost forecast. In total water supply costs increase 3.2 percent from FY 2025 to FY 2029, or 0.8 percent annually. On average, water supply costs represent 39 percent of the water utility's operating expenses.

- **Realization Factor:** Based on historical to actual expense performance, the forecast for FY 2026 forward will include a 98.5 percent realization factor applied to all operating expenses and a 70.0 percent realization factor applied to all capital expenses. The thirty percent of unspent capital projects are carried over to the following year.
- **Additional O&M Expenses.** While the FY 2025 budgeted expenses were used as the basis to forecast future expenses, the following incremental expenses were added for the study period:
  - » **Full-Time Equivalent (FTE) Additions.** Two new FTE additions are projected in FY 2026 and are assumed to add $240k in salary and benefit expenses to the operating forecast. In FY 2027 three new FTEs are assumed to be added with an estimated impact of $769k in salary and benefit expenses. For the remainder of the forecast period, two new FTEs are assumed to be added annually with an estimated impact of $150k (in current dollars) per FTE.
  - » **Supplemental Expenses.** Additional departmental budgetary requests ranging from new vehicles, additional electricity and chemical costs, one-time employee costs and other program expenses are forecasted to add $2.0 million in expenses in FY 2026, decreasing to $977k in FY 2027 as one-time expenses are incurred. FY 2027 supplemental expense levels will be on-going and will increase by inflationary factors through FY 2029.

- » **Franchise Fees.** The City will implement a franchise fee that will be assessed at 2.0 percent of gross water revenues, with a ceiling of $1.5 million. This additional expense will add $1.38 million in FY 2026, increasing to $1.43 million by FY 2029.
- » **Advance Water Purification Reserve Funding.** In preparation for future water purification-oriented capital expenditures, the City will create a reserve and divert 0.50% of annual revenue generated from future rate increases from both water and sewer utilities, beginning in FY 2026. A total of $3.6M is forecast to be generated by FY 2029.

Debt Obligations

- **Existing Debt.** Existing debt ranges from $10.8 million in FY 2025 to $9.1 million by FY 2029. The City has two outstanding revenue bonds and four outstanding Water Infrastructure Financing Authority (WIFA) loans:
  - Series 2020 W/WW Refund Revenue Bond, with payments averaging $2.7 million annually through FY 2028, decreasing to $626k in FY 2029 and will be paid in full in FY 2030.
  - Series 2022 W/WW Revenue Bond has payments averaging $1.05 million annually through FY 2029.
  - The remaining four WIFA loans total $6.8 million in annual payments in FY 2025, increasing to an average of $7.4 million from FY 2026 through FY 2029.
- **New Debt.** Two (2) revenue bonds totaling $91 million are forecast to fund the capital plan, the first in FY 2027 and the second in FY 2029. Each revenue bond is forecasted for a term of 20 years, an interest rate of 5.0 percent and an issuance cost of 1.0 percent. New debt service payments are forecasted to begin in FY 2027 at $2.9 million, increasing to $8.0 million in FY 2029 and will remain at that level for the study period. A coverage requirement of 2.0 is assumed for all existing and new debt.

System Reinvestment

System reinvestment funding provides a long-term and sustainable funding source to support system integrity, repairs, and replacement. This study does not incorporate dedicated system reinvestment funding but does assume that any cash above the minimum operating target balances is transferred to the capital fund as cash-funded capital. On average, the City is forecast to contribute $16.2 million annually in rate funded system reinvestment, which is approximately 84 to 102 percent of annual depreciation values.

Capital Funding Plan

The water utility anticipates $315 million in capital costs throughout the ten-year period (adjusted for inflation), with $201.5 million in planned spending through FY 2029. Major projects in the ten-year period include the New Verde Space Storage Capacity ($55.3 million), Aqua Fria West Wellfield ($28.1 million), and the Zone 2/3 Booster Station ($15.8 million).

Funding for the capital plan comes from different sources:

- Cash balances (including interest) and rate-funded capital – Cash balances and rate-funded capital include the beginning capital fund balance, any cash flow from the operating fund above what is needed to meet the operating fund reserve target and available cash after meeting the principles of sound financial management (PSFM) reserve target. Cash balances and rate-funded capital are forecast to fund $112.5 million of the capital plan through FY 2029, about 56 percent of total capital expenditures in the rate-setting forecast period.

- Revenue bond proceeds –two revenue bond issuances are forecasted during the study period, $33.0 million in FY 2027 and $58.0 million in FY 2029. Revenue bond proceeds are forecasted to fund the remaining 44 percent of the capital plan in the study forecast period.

Exhibit 2 provides a summary of the funding sources for the capital expenditures. The full capital plan can be found in the detailed rate model provided to the City.

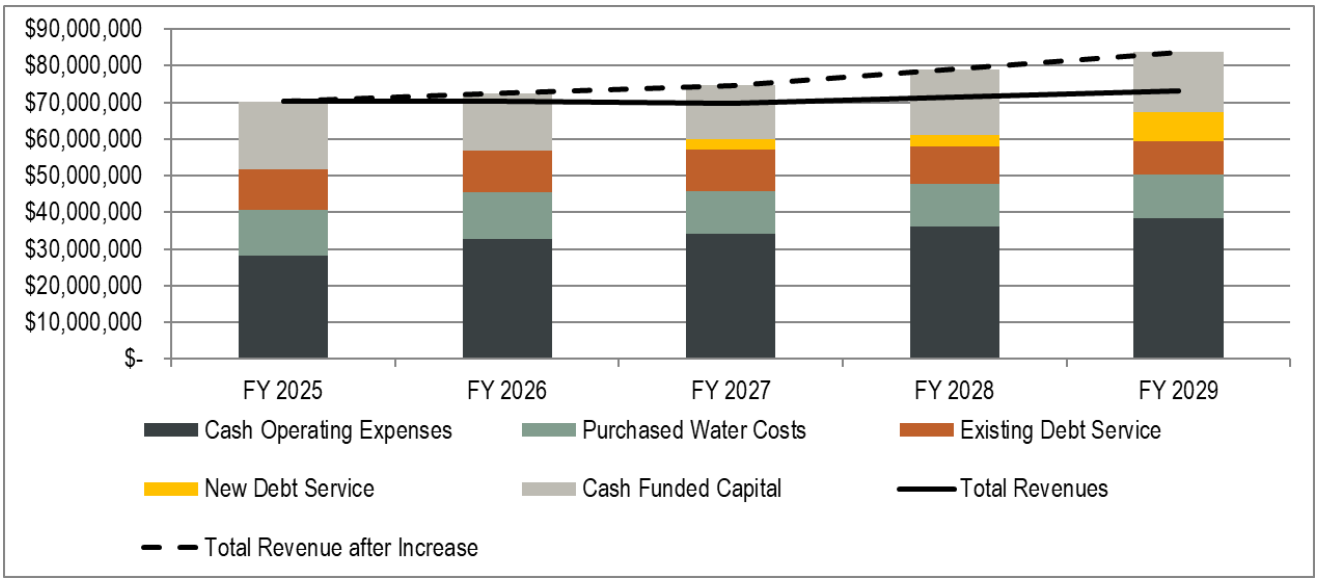
Exhibit 2. Water Capital Funding Summary

Funding Summary	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029	FY 2030-FY 2034	Total
Total Capital Costs	**$ 13,945,460**	**$ 51,570,646**	**$ 32,383,993**	**$ 47,625,545**	**$ 56,024,346**	**$ 113,296,740**	**$ 314,846,729**
Funding Sources							
Cash Balances and Rate Funded Capital	$ 13,945,460	$ 51,570,646	-	$ 47,009,537	$ -	$ 104,321,086	216,846,729
Revenue Bond Proceeds	-	-	32,383,993	616,007	56,024,346	8,975,654	98,000,000
Total Capital Funding	**$ 13,945,460**	**$ 51,570,646**	**$ 32,383,993**	**$ 47,625,545**	**$ 56,024,346**	**$ 113,296,740**	**$ 314,846,729**

Summary of Revenue Requirement

The operating forecast components of O&M expenses, debt service and rate funded capital come together to form the multi-year revenue requirement. The revenue requirement compares the overall revenue available to the water system to the expenses to evaluate the sufficiency of rates on an annual basis. **Exhibit 3** provides a summary of the water system revenue requirement findings.

Exhibit 3. Water Revenue Requirement Forecast FY 2025-FY 2029



Summary of water utility revenue requirement:

- In FY 2025, current rate levels are sufficient to meet existing annual financial obligations.
- During the FY 2026 – FY 2029 study period, existing revenues are sufficient to cover O&M expenses, water purchases, and existing and new proposed debt service but begin to fall short of funding full rate funded capital needs.

- Beginning in FY 2026, existing revenues would fall short of meeting the need for rate funded capital expenditures. This deficiency is forecasted at $2.3 million in FY 2026 and would grow to $11.8 million by FY 2029 if no rate action is taken.
- In addition to existing capital funding needs, the water utility will begin funding an advanced water purification reserve by diverting 0.50% of revenue generated through future rate increases beginning in FY 2026. The reserve is forecast to generate $3.7M from FY 2026 through FY 2029.
- To meet the projected financial obligations of the water utility, rate increases are proposed at 3.5 percent annually from FY 2026 through FY 2029.
- Operating reserve targets and Principles of Sound Financial Management targets are met in all years of the study period.
- Total water debt service coverage is forecasted to remain above 2.0 in all years of the forecast, starting FY 2025 at 2.73, falling to a low of 2.01 in FY 2029 with the second new debt issuance.

Cost of Service

A cost-of-service analysis determines the equitable recovery of costs from customers according to unique demands each customer class places on the system. There are three fundamental steps to allocating the annual revenue requirement to customer classes and developing the final rates – 1) allocate utility assets and total utility costs by function, 2) develop customer-specific allocation factors and 3) allocate costs to customer classes. The methodology used conforms to industry standards as identified by the American Water Works Association (AWWA) Principles of Water Rates, Fees and Charges, M1 Manual.

A detailed cost of service analysis was performed during the 2021 rate study process. The results of that analysis showed most customer classes were in alignment with their allocated cost of service with the exception of the reclaimed and non-potable customer classes. Similar results are seen with the updated costs from the City's FY 2025 budget. The City recognizes the subsidy for providing reclaimed and non-potable water service to its customers. The current subsidy provides an incentive to connect to the relatively new service provided and the City will revisit these results in future years as the reclaimed water system expands. The FY 2026 rate increase as well as future rate increases will be applied equally to each rate class.

Rate Design

The principal objective of the rate design stage is to implement water rate structures that collect the appropriate level of revenue.

Establishing rates is a blend of "art" and "science" and especially so when it comes to the rate levels and structures. Several variables must be balanced to arrive at optimal rates. The results of the revenue requirement analysis were used to forecast the rate levels needed to recover the projected revenue from customers.

Existing Water Rates

The existing water structure includes a fixed monthly charge, and a variable consumption charge billed per thousand gallons (kgals) of water use. The fixed rate depends on the customer's meter size for all customer classes, except multi-residential and residential care customers. For the multi-residential and residential care classes, the same fixed charges per account and per unit are applied, regardless of meter size. The variable

charges are tier based for single-family, commercial, and landscape customers, with the tier thresholds differing by class. The multi-residential, residential care, non-potable, and reclaimed water customers are charged a flat rate per kgal for all usage over 1,000 gallons.

Exhibit 4 provides a summary of the existing monthly water utility rates.

Exhibit 4. Existing Monthly Water Rates

Residential	FY 2025
Base Charge	
5/8" or 3/4"	$ 21.24
1"	$ 25.96
1.5"	$ 43.41
2"	$ 62.46
3"	$ 113.33
4"	$ 170.50
6"	$ 329.21
8"+	$ 519.76
Usage Charge (in gallons)	
1,000-4,000	$ 1.53
5,000-10,000	$ 4.08
11,000-20,000	$ 5.80
20,000+	$ 6.42

Landscape	FY 2025
Base Charge	
5/8" or 3/4"	$ 21.24
1"	$ 25.96
1.5"	$ 43.41
2"	$ 62.46
3"	$ 113.33
4"	$ 170.50
6"	$ 329.21
8"+	$ 519.76
Usage Charge (in gallons)	
1,000-50,000	$ 4.08
50,000+	$ 5.80

Multi-Residential & Residential Care	FY 2025
Base Charge	
5/8" or 3/4"	$ 11.06
1"	$ 11.06
1.5"	$ 11.06
2"	$ 11.06
3"	$ 11.06
4"	$ 11.06
6"	$ 11.06
8"+	$ 11.06
Usage Charge (in gallons)	
1,000+	$ 4.08
Capacity Charge (per unit)	$ 6.10

Non-Potable & Reclaimed	FY 2025
Base Charge	
5/8" or 3/4"	$ 21.24
1"	$ 25.96
1.5"	$ 43.41
2"	$ 62.46
3"	$ 113.33
4"	$ 170.50
6"	$ 329.21
8"+	$ 519.76
Usage Charge (in gallons)	
1,000+	$ 1.87

Commercial/Industrial	FY 2025
Base Charge	
5/8" or 3/4"	$ 21.24
1"	$ 25.96
1.5"	$ 43.41
2"	$ 62.46
3"	$ 113.33
4"	$ 170.50
6"	$ 329.21
8"+	$ 519.76
Usage Charge (in gallons)	
1,000-10,000	$ 1.53
11,000-50,000	$ 4.08
50,000+	$ 5.80

Hydrants	FY 2025
Base Charge	
5/8" or 3/4"	$ 113.33
1"	$ 113.33
1.5"	$ 113.33
2"	$ 113.33
3"	$ 113.33
4"	$ 113.33
6"	$ 113.33
8"+	$ 113.33
Usage Charge (in gallons)	
1,000+	$ 5.80

Proposed Water Rates

The analysis in this financial plan indicates the need for 3.5 percent annual rate increases from FY 2026 through FY 2029, to cover all costs and meet fiscal targets. No rate structure changes are proposed during the rate setting period; therefore, rate increases will be applied equally to fixed and variable rate components. **Exhibit 5** provides a summary of the existing and proposed rates for the study period.

Exhibit 5. Existing and Proposed Monthly Water Rates (FY 2025 – FY 2029)

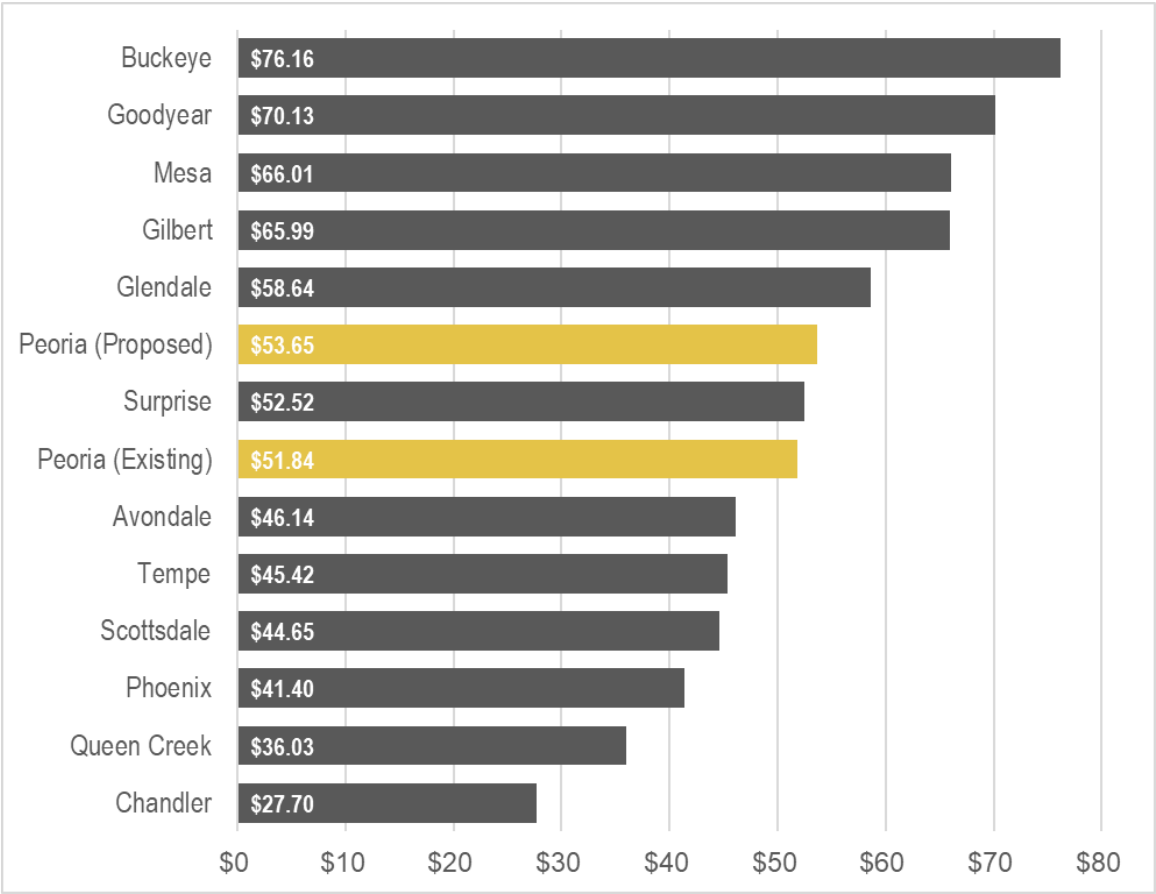
Residential	Existing FY 2025	Proposed FY 2026	FY 2027	FY 2028	FY 2029
Base Charge					
5/8" or 3/4"	$ 21.24	$ 21.98	$ 22.75	$ 23.55	$ 24.37
1"	$ 25.96	$ 26.87	$ 27.81	$ 28.78	$ 29.79
1.5"	$ 43.41	$ 44.93	$ 46.50	$ 48.13	$ 49.81
2"	$ 62.46	$ 64.65	$ 66.91	$ 69.25	$ 71.67
3"	$ 113.33	$ 117.30	$ 121.40	$ 125.65	$ 130.05
4"	$ 170.50	$ 176.47	$ 182.64	$ 189.04	$ 195.65
6"	$ 329.21	$ 340.73	$ 352.66	$ 365.00	$ 377.78
8"+	$ 519.76	$ 537.95	$ 556.78	$ 576.27	$ 596.44
Usage Charge (in gallons)					
1,000-4,000	$ 1.53	$ 1.58	$ 1.64	$ 1.70	$ 1.76
5,000-10,000	$ 4.08	$ 4.22	$ 4.37	$ 4.52	$ 4.68
11,000-20,000	$ 5.80	$ 6.00	$ 6.21	$ 6.43	$ 6.66
20,000+	$ 6.42	$ 6.64	$ 6.88	$ 7.12	$ 7.37
Multi-Residential & Residential Care	**FY 2025**	**FY 2026**	**FY 2027**	**FY 2028**	**FY 2029**
Base Charge					
5/8" or 3/4"	$ 11.06	$ 11.45	$ 11.85	$ 12.26	$ 12.69
1"	$ 11.06	$ 11.45	$ 11.85	$ 12.26	$ 12.69
1.5"	$ 11.06	$ 11.45	$ 11.85	$ 12.26	$ 12.69
2"	$ 11.06	$ 11.45	$ 11.85	$ 12.26	$ 12.69
3"	$ 11.06	$ 11.45	$ 11.85	$ 12.26	$ 12.69
4"	$ 11.06	$ 11.45	$ 11.85	$ 12.26	$ 12.69
6"	$ 11.06	$ 11.45	$ 11.85	$ 12.26	$ 12.69
8"+	$ 11.06	$ 11.45	$ 11.85	$ 12.26	$ 12.69
Usage Charge (in gallons)					
1,000+	$ 4.08	$ 4.22	$ 4.37	$ 4.52	$ 4.68
Capacity Charge (per unit)	$ 6.10	$ 6.31	$ 6.53	$ 6.76	$ 7.00
Commercial/Industrial	**FY 2025**	**FY 2026**	**FY 2027**	**FY 2028**	**FY 2029**
Base Charge					
5/8" or 3/4"	$ 21.24	$ 21.98	$ 22.75	$ 23.55	$ 24.37
1"	$ 25.96	$ 26.87	$ 27.81	$ 28.78	$ 29.79
1.5"	$ 43.41	$ 44.93	$ 46.50	$ 48.13	$ 49.81
2"	$ 62.46	$ 64.65	$ 66.91	$ 69.25	$ 71.67
3"	$ 113.33	$ 117.30	$ 121.40	$ 125.65	$ 130.05
4"	$ 170.50	$ 176.47	$ 182.64	$ 189.04	$ 195.65
6"	$ 329.21	$ 340.73	$ 352.66	$ 365.00	$ 377.78
8"+	$ 519.76	$ 537.95	$ 556.78	$ 576.27	$ 596.44
Usage Charge (in gallons)					
1,000-10,000	$ 1.53	$ 1.58	$ 1.64	$ 1.70	$ 1.76
11,000-50,000	$ 4.08	$ 4.22	$ 4.37	$ 4.52	$ 4.68
50,000+	$ 5.80	$ 6.00	$ 6.21	$ 6.43	$ 6.66

Landscape	Existing FY 2025	Proposed FY 2026	FY 2027	FY 2028	FY 2029
Base Charge					
5/8" or 3/4"	$ 21.24	$ 21.98	$ 22.75	$ 23.55	$ 24.37
1"	$ 25.96	$ 26.87	$ 27.81	$ 28.78	$ 29.79
1.5"	$ 43.41	$ 44.93	$ 46.50	$ 48.13	$ 49.81
2"	$ 62.46	$ 64.65	$ 66.91	$ 69.25	$ 71.67
3"	$ 113.33	$ 117.30	$ 121.40	$ 125.65	$ 130.05
4"	$ 170.50	$ 176.47	$ 182.64	$ 189.04	$ 195.65
6"	$ 329.21	$ 340.73	$ 352.66	$ 365.00	$ 377.78
8"+	$ 519.76	$ 537.95	$ 556.78	$ 576.27	$ 596.44
Usage Charge (in gallons)					
1,000-50,000	$ 4.08	$ 4.22	$ 4.37	$ 4.52	$ 4.68
50,000+	$ 5.80	$ 6.00	$ 6.21	$ 6.43	$ 6.66
Non-Potable & Reclaimed	**FY 2025**	**FY 2026**	**FY 2027**	**FY 2028**	**FY 2029**
Base Charge					
5/8" or 3/4"	$ 21.24	$ 21.98	$ 22.75	$ 23.55	$ 24.37
1"	$ 25.96	$ 26.87	$ 27.81	$ 28.78	$ 29.79
1.5"	$ 43.41	$ 44.93	$ 46.50	$ 48.13	$ 49.81
2"	$ 62.46	$ 64.65	$ 66.91	$ 69.25	$ 71.67
3"	$ 113.33	$ 117.30	$ 121.40	$ 125.65	$ 130.05
4"	$ 170.50	$ 176.47	$ 182.64	$ 189.04	$ 195.65
6"	$ 329.21	$ 340.73	$ 352.66	$ 365.00	$ 377.78
8"+	$ 519.76	$ 537.95	$ 556.78	$ 576.27	$ 596.44
Usage Charge (in gallons)					
1,000+	$ 1.87	$ 1.94	$ 2.00	$ 2.07	$ 2.15
Hydrants	**FY 2025**	**FY 2026**	**FY 2027**	**FY 2028**	**FY 2029**
Base Charge					
5/8" or 3/4"	$ 113.33	$ 117.30	$ 121.40	$ 125.65	$ 130.05
1"	$ 113.33	$ 117.30	$ 121.40	$ 125.65	$ 130.05
1.5"	$ 113.33	$ 117.30	$ 121.40	$ 125.65	$ 130.05
2"	$ 113.33	$ 117.30	$ 121.40	$ 125.65	$ 130.05
3"	$ 113.33	$ 117.30	$ 121.40	$ 125.65	$ 130.05
4"	$ 113.33	$ 117.30	$ 121.40	$ 125.65	$ 130.05
6"	$ 113.33	$ 117.30	$ 121.40	$ 125.65	$ 130.05
8"+	$ 113.33	$ 117.30	$ 121.40	$ 125.65	$ 130.05
Usage Charge (in gallons)					
1,000+	$ 5.80	$ 6.00	$ 6.21	$ 6.43	$ 6.66

Rate Survey

Exhibit 6 compares the City's monthly rate with the 2025 rates of other jurisdictions. Note that each jurisdiction has a unique set of geographic traits, customers, and system characteristics, each of which can significantly impact rates. Bill calculations assume 10 kgals of monthly water usage.

Exhibit 6. Residential Monthly Water Rate Survey (10,000 Gallons of Usage, ¾" Meters)



Meter and Service Fees

In addition to monthly water and wastewater rates, the utility also has miscellaneous service fees. These are administrative fees that are applied for initiation of utility service or deposits for renter-occupied locations as well as punitive fees for late payments or meter tampering. The schedule of miscellaneous service fees will increase based on the system average increase for the water utility and rounded to the nearest full dollar. Existing and proposed fees are shown in **Exhibit 7** below.

Exhibit 7. Existing and Proposed Meter and Service Fees (FY 2025 – FY 2029)

Description	Existing FY 2025	Proposed FY 2026	FY 2027	FY 2028	FY 2029
Utility Service Initiation Fee	$61.00	$63.00	$65.00	$68.00	$70.00
Same Day Service Fee	$61.00	$63.00	$65.00	$68.00	$70.00
Late Fee		1.5% of balance with min. of $2.00			
Delinquent Bill Processing Fee	$61.00	$63.00	$65.00	$68.00	$70.00
Processing Fee for Issuance of Notice of Disconnection	$2.00	$2.00	$2.00	$2.00	$2.00
Meter or Service Tampering Fee	$92.00	$95.00	$99.00	$102.00	$106.00
Field Trip Service Fee	$61.00	$63.00	$65.00	$68.00	$70.00
Non-owner Occupied Utility Service Deposit (Water)	$275.00	$285.00	$295.00	$305.00	$316.00
Non-owner Occupied Utility Service Deposit (Non -Water)	$104.00	$108.00	$111.00	$115.00	$119.00
Commerical and Multi-Residential Utility Service Deposit	$275.00	$285.00	$295.00	$305.00	$316.00
Hydrant Meter Service Deposit	$2,832.00	$2,931.00	$3,034.00	$3,140.00	$3,250.00
Lock Replacement Fee	$24.00	$25.00	$26.00	$27.00	$28.00
Certified Letter Fee	$18.00	$19.00	$19.00	$20.00	$21.00
Lien Filing Fee	$30.00	$31.00	$32.00	$33.00	$34.00
ADOR Tax Refund Offset Fee	$30.00	$31.00	$32.00	$33.00	$34.00

Summary

The analysis described above concludes the rate study for the water utility. Rate increases are proposed at 3.5 percent annually from FY 2026 through FY 2029. The proposed annual rate increases will allow the City to keep pace with forecasted operating costs, meet Operating and Principles of Sound Financial Management targets while completing the planned capital program utilizing a mix of rate and revenue bond funding. No rate structure changes are planned at this time and the suggested rate increases will be applied equally to fixed and variable rate components.

We recommend that the City revisit the study findings during each budget cycle to check that the assumptions used are still appropriate and no significant changes have occurred that would alter the results of the study. The City should use the study findings as a living document, continuously comparing the study outcomes to actual revenues and expenses. Any significant or unexpected changes will require adjustments to the rate strategy proposed.

Wastewater Utility

Introduction

The City of Peoria operates a wastewater utility responsible for collecting, transporting and treating residential, multi-family and commercial wastewater. The City's wastewater collection system is currently composed of four wastewater treatment plants (Quintero, Butler, Beardsley & Jomax), 13 lift stations and nearly nine miles of force mains and over 600 miles of gravity sewer mains to collect and transport wastewater. The four wastewater treatment facilities provide reclaimed water for a variety of purposes: to customers for irrigation, to recharge and offset groundwater pumping, and for storage as long-term credits towards drought protection.

Revenue Requirement

Similar to the water utility, a revenue requirement was completed for the wastewater utility and forms the basis for the long-range financial plan and multi-year financial management strategy.

Operating Forecast

The purpose of the operating forecast is to determine whether the existing rates and charges are sufficient to recover the costs the City incurs to operate and maintain the wastewater system. The FY 2025 budget formed the baseline for this forecast. The operating forecast was developed through 2035 with the discussion below concentrating on the FY 2025 through FY 2029 study period. The following list highlights some of the key assumptions used in the development of the wastewater utility operating forecast.

Reserves

- **Principle of Sound Financial Management Target.** A target of 25 percent of operating and maintenance expenses, 2 percent of asset values, 50 percent of annual debt service and 5 percent of rate revenues. ($17.4M in 2025, $23.0M in 2029)

Operating Revenue

- **Rate Revenue.** Based on actual detailed customer accounts and flow statistics from the City's billing system. Usage data from FY 2024 was used to project revenues for FY 2025 and thereafter.
- **Customer Growth.** Between FY 2025 and FY 2029, annual customer growth averages 2.25 percent annually, based on discussions with City staff and confirmed with a recent review of permit data from the City's planning department.
- **Interest Earnings.** 4.50 percent annually from FY 2025 and FY 2029. The projections are based on discussions with City staff and consistent with internal forecasting practices.

O&M Expenses

The operating and maintenance expenditure forecast largely relies on the City's FY 2025 budget. The line items in the budget are then adjusted each year by utilizing one of the following applicable factors:

- **General Cost Inflation.** Fluctuates from 2.4 percent to 2.2 percent annually from FY 2025 through FY 2029 based on the Congressional Budget Office's 10-year economic projections and discussions with City staff.
- **Construction Cost Inflation.** Begins FY 2025 and 4.5 percent, decreasing to 3.5 percent by FY 2029 based on internal forecasts from the City's engineering department.

- **Labor & Benefits Cost Inflation.** Labor cost inflation was assumed to be 5.0 percent per year in all years of the study period. Benefit cost inflation was assumed to be 4.5 percent per year for all years of the study period. Escalation was based on historical actuals and discussions with City staff.
- **Electricity Inflation.** 6.0 percent per year from FY 2025 through FY 2027, decreasing to 3.0 percent annually through FY 2029, based on discussions with City staff.
- **Chemical Inflation.** 6.00 percent annually for all years of the study period. Escalation was based on input from City staff.
- **Vehicle Costs Inflation.** 4.00 percent annually for all years of the study period. Escalation was based on input from City staff.
- **General Fund Service Charge Inflation**. 5.00 percent annually for all years of the study period, based on elevated spending in the City's general fund and input from City staff.
- **System Supplies & Equipment Inflation.** 5.00 percent annually for all years of the study period. Escalation was based on input from City staff.
- **Realization Factor:** Based on historical to actual expense performance, the forecast for FY 2026 forward will include a 98.5 percent realization factor applied to all operating expenses and a 60.0 percent realization factor applied to all capital expenses. The forty percent of unspent capital projects are carried over to the following year.
- **Additional O&M Expenses.** While the FY 2025 budgeted expenses were used as the basis to forecast future expenses, the following incremental expenses were added for the study period:
  - » **Full-Time Equivalent (FTE) Additions.** Three new FTE additions are projected in FY 2026 and are assumed to add $369k in salary and benefit expenses to the operating forecast. From FY 2027 through FY 2029, two new FTEs are assumed to be added annually with an estimated impact of $150k (in current dollars) per FTE.
  - » **Supplemental Expenses.** Additional departmental budgetary requests ranging from new vehicles, additional electricity and chemical costs, one-time employee costs and other program expenses are forecasted to add $1.2 million in expenses in FY 2026, decreasing to $838k in FY 2027 as one-time expenses are incurred. FY 2027 supplemental expense levels will be on-going and will increase by inflationary factors through FY 2029.
  - » **Advance Water Purification Reserve Funding.** In preparation for future water purification-oriented capital expenditures, the City will create a reserve and divert 0.50% of annual revenue generated from future rate increases from both water and sewer utilities, beginning in FY 2026. A total of $1.6M is forecast to be generated by FY 2029.

Debt Obligations

- **Existing Debt.** The wastewater utility currently has three outstanding debt issues resulting in annual debt service of $4.4 million in FY 2025, decreasing to $2.0 million by FY 2029. The debt issues are broken down as follows:
  - Series 2020 W/WW Refund Revenue Bond with payments of $2.98 million annually from FY 2025 to FY 2027, dropping to $639k in FY 2029 and will be paid in full in FY 2030.
  - Series 2022 W/WW Refund Revenue Bond with payments averaging $1.1 million annually for each year of the forecast period.
  - WIFA 2009 Beardsley WRF loan with payments averaging $290,000 from FY 2025 to FY 2029.

- **New Debt.** A total of $70.0 million in new debt issuances have been forecasted throughout the study period in three separate issuances. The first issuance is $20.0 million in FY 2026, followed by $17.0 million in FY 2027 and $33.0 million in FY 2028. All issuances have conservatively been assumed to be revenue bonds, with an interest rate of 5.0 percent, an issuance cost of 1.0 percent, term of 20 years, and coverage requirement of 2.00. New debt service payments are forecasted to begin at $1.6 million annually in FY 2026, increasing to $5.7 million annually after the third issuance in FY 2028.

System Reinvestment

System reinvestment funding provides a long-term and sustainable funding source to support system integrity, repairs, and replacement. This study does not incorporate dedicated system reinvestment funding but does assume that any cash above the minimum operating target balances is transferred to the capital fund as cash-funded capital. On average, the City is forecast to contribute $7.5 million annually in rate funded system reinvestment, which is approximately 45 to 76 percent of annual depreciation values.

Capital Funding Plan

The wastewater utility anticipates $218.9 million in capital costs throughout the ten-year period (adjusted for inflation), with $119.3 million in planned spending through FY 2029. Major projects in the ten-year period include the Jomax Reclamation Facility Expansion ($50.0 million), Lone Mountain Parkway CAP Canal ($20.3 million), and the Beardsley Reclamation Facility Recharge Basins ($15.6 million).

Funding for the capital plan comes from different sources:

- Cash balances (including interest) and rate-funded capital – Cash balances and rate-funded capital include the beginning capital fund balance, any cash flow from the operating fund above what is needed to meet the operating fund reserve target and available cash after meeting the principles of sound financial management (PSFM) reserve target. Cash balances and rate-funded capital are forecast to fund $49.3 million of the capital plan through FY 2029, about 41 percent of total capital expenditures in the rate-setting forecast period.
- Revenue bond proceeds –Three revenue bond issuances are forecast during the study period, $20.0 million in FY 2026, $17.0 million in FY 2027 and $33.0 million in FY 2028. Revenue bond proceeds are forecasted to fund the remaining 59 percent of the capital plan in the study forecast period.

Exhibit 8 provides a summary of the funding sources for the capital expenditures. The full capital plan can be found in the detailed rate model provided to the City.

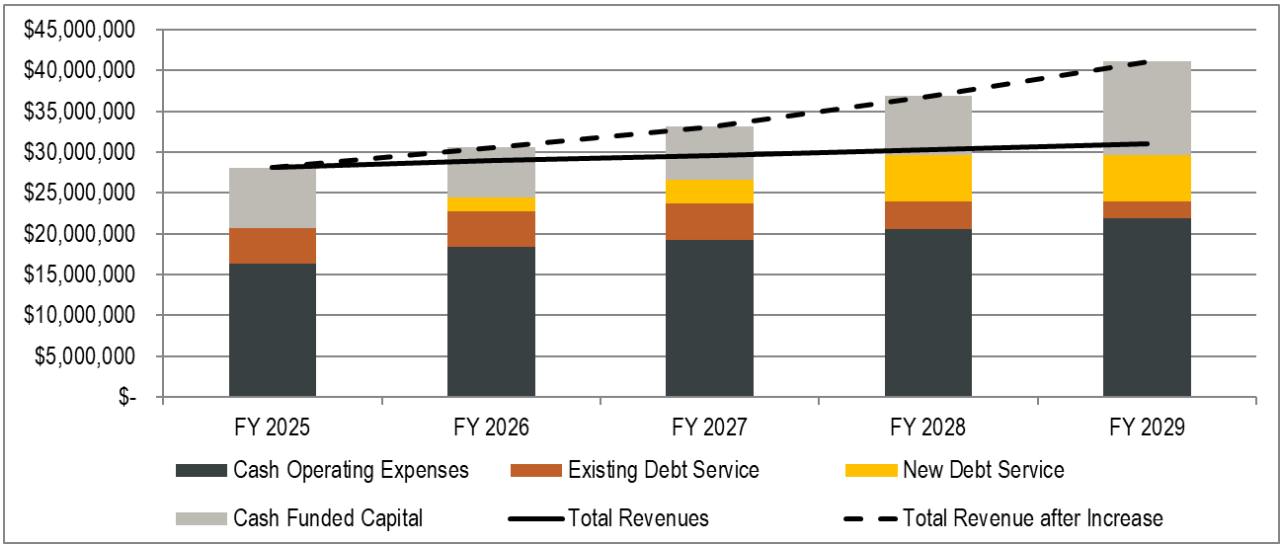
Exhibit 8. Wastewater Capital Funding Summary

Funding Summary	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029	FY 2030-FY 2034	Total
Total Capital Costs	**$ 24,789,121**	**$ 19,353,416**	**$ 23,410,629**	**$ 29,611,911**	**$ 22,086,319**	**$ 99,678,637**	**$ 218,930,032**
Funding Sources							
Cash Balances and Rate Funded Capital	$ 24,789,121	$ -	$ 5,764,045	$ -	$ 18,698,230	$ 59,678,637	108,930,032
Revenue Bond Proceeds	-	19,353,416	17,646,584	29,611,911	3,388,089	40,000,000	110,000,000
Total Capital Funding	**$ 24,789,121**	**$ 19,353,416**	**$ 23,410,629**	**$ 29,611,911**	**$ 22,086,319**	**$ 99,678,637**	**$ 218,930,032**

Summary of Revenue Requirement

The operating forecast components of O&M expenses, debt service and rate funded capital come together to form the multi-year revenue requirement. The revenue requirement compares the overall revenue available to the wastewater system to the expenses to evaluate the sufficiency of rates on an annual basis. **Exhibit 9** provides a summary of the wastewater system revenue requirement findings.

Exhibit 9. Wastewater Revenue Requirement Forecast FY 2025 – FY 2029



Summary of wastewater utility revenue requirement:

- In FY 2025, current rate levels are sufficient to meet existing annual financial obligations.
- During the FY 2026 – FY 2029 study period, existing revenues are sufficient to cover O&M expenses and existing and new proposed debt service but begin to fall short of funding full rate funded capital needs.
- Beginning in FY 2026, existing revenues would fall short of meeting the need for rate funded capital expenditures. This deficiency is forecasted at $1.7 million in FY 2026 and would grow to $10.1 million by FY 2029 if no rate action is taken.
- In addition to existing capital funding needs, the wastewater utility will begin funding an advanced water purification reserve by diverting 0.50% of revenue generated through future rate increases beginning in FY 2026. The reserve is forecast to generate $1.6M from FY 2026 through FY 2029.
- To meet the projected financial obligations of the wastewater utility, rate increases are proposed at 5.75 percent annually in FY 2026 and FY 2027, increasing to 9.00 percent annually in FY 2028 and FY 2029.
    - Planning for elevated rate increases in FY 2028 and FY 2029 is consistent with a broader utility financial management strategy, recognizing that the solid waste utility will be implementing more impactful rate changes, the wastewater utility plans to phase-in their increases to mitigate combined utility bill impacts to the City's customers.
- Operating reserve targets and Principles of Sound Financial Management targets are met in most years of the forecast. Reserves are forecast to fall to 74 percent of target levels in FY 2025, prior to noted debt issuances, before rebuilding to target levels, ending FY 2029 at 99.4 percent of target.

- Total wastewater debt service coverage is forecasted to dip below the 2.0 target in FY 2027, reaching a low of 1.87 (or 94 percent of target) in FY 2028 with the third debt issuance, before rebuilding to end FY 2029 at 2.66.

Cost of Service

A cost-of-service analysis determines the equitable recovery of costs from customers according to unique demands each customer class places on the system. Similar to the water utility, the cost-of-service allocation process for the wastewater utility involves three steps - 1) allocate total utility assets and costs by function, 2) develop customer-specific allocation factors and 3) allocate costs to customer classes.

A detailed cost of service analysis was performed during the 2021 rate study process. The results of that analysis showed cost imbalances, with higher strength waste customers needing to increase to meet their allocated cost of service. While the City recognizes the potential imbalance, cost of service shifts were not incorporated at this time. The data relied on for commercial strength levels is not based on actual sampling data from the City's customers but instead based on industry data available. Before implementing cost of service shifts, more specific sampling data should be performed to ensure strength assumptions are in alignment with actual concentrations observed.

Rate Design

As discussed in the water utility section, the principal objective of the rate design stage is to implement wastewater rate structures that collect the appropriate level of revenue.

Establishing rates is a blend of "art" and "science" and especially so when it comes to the rate levels and structures. Several variables must be balanced to arrive at optimal rates. The results of the revenue requirement analysis were used to forecast the rate levels needed to recover the projected revenue from customers.

Existing Wastewater Rates

The existing wastewater structure is composed of a fixed monthly charge and a variable charge billed per thousand gallons (kgals) of flow contribution. For all customer classes, with the exception of multi-residential and residential care customers, the fixed rate is charged to each customer dependent on the customer's meter size. For the multi-residential and residential care classes the same fixed charge per account and capacity charge per unit are applied, regardless of meter size. The variable charges are the same for all classes and are based on the winter average usage during the months of December, January, February and March. In addition to the monthly fixed and variable rates, each customer is charged an Environmental Mandate (EPA) fee based on the customer's assigned EPA class. Residential customers are charged a fixed fee per account for this fee, while non-residential customers are charged a variable rate per kgal of flow contributed. Charges for non-residential customers increase as the assumed strength of influent increases.

Exhibit 10 provides a summary of the existing wastewater utility rates. Customers are assessed the rates on a monthly basis.

Exhibit 10. Existing Monthly Wastewater Rates

Residential	FY 2025
Base Charge	
5/8" , 3/4", 1"	$ 10.84
1.5"	$ 25.95
2"	$ 38.95
3"	$ 73.68
4"	$ 112.68
6"	$ 221.01
8"+	$ 351.05
Usage Charge (in gallons)	
All Usage (winter average)	$ 2.36

Commercial/Industrial	FY 2025
Base Charge	
5/8" or 3/4"	$ 10.84
1"	$ 14.05
1.5"	$ 25.95
2"	$ 38.95
3"	$ 73.68
4"	$ 112.68
6"	$ 221.01
8"+	$ 351.05
Usage Charge (in gallons)	
All Usage	$ 2.36

Residential Care / Multi-Residential	FY 2025
Base Charge	
5/8" or 3/4"	$ 4.30
1"	$ 4.30
1.5"	$ 4.30
2"	$ 4.30
3"	$ 4.30
4"	$ 4.30
6"	$ 4.30
8"+	$ 4.30
Usage Charge (in gallons)	
All Usage	$ 2.36
Capacity Charge (per unit)	$ 3.90

Environmental Charges - EPA Mandate	FY 2025
EPA 1 - Commercial (large industrial)	$ 0.82
EPA 2 - Commercial (medium industrial)	$ 0.62
EPA 3 - Commercial (w/grease traps)	$ 0.42
EPA 4 - Commercial (w/o grease traps)	$ 0.21
EPA 5 - Residential	$ 0.95

Proposed Wastewater Rates

The analysis in this financial plan indicates the need for 5.75 percent annual rate increases in FY 2026 and FY 2027, followed by 9.00 percent annual rate increases in FY 2028 and FY 2029, to cover all costs and meet fiscal targets. No rate structure changes are proposed during the rate setting period, therefore, rate increases will be applied equally to fixed and variable rate components. **Exhibit 11** provides a summary of the proposed rates for the study period.

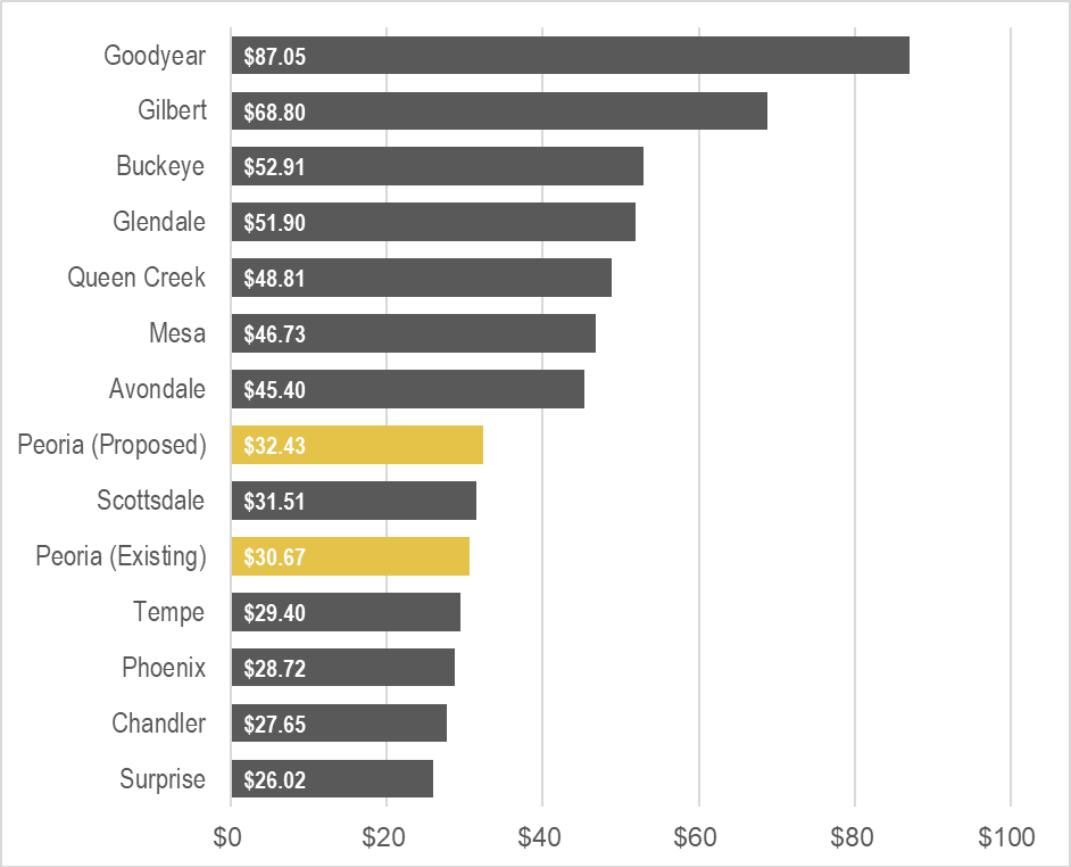
Exhibit 11. Existing and Proposed Monthly Wastewater Rates

Residential	Existing	Proposed			
	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029
Base Charge					
5/8" , 3/4", 1"	$ 10.84	$ 11.46	$ 12.12	$ 13.21	$ 14.40
1.5"	$ 25.95	$ 27.44	$ 29.02	$ 31.63	$ 34.48
2"	$ 38.95	$ 41.19	$ 43.56	$ 47.48	$ 51.75
3"	$ 73.68	$ 77.92	$ 82.40	$ 89.81	$ 97.90
4"	$ 112.68	$ 119.16	$ 126.01	$ 137.35	$ 149.71
6"	$ 221.01	$ 233.72	$ 247.16	$ 269.40	$ 293.65
8"+	$ 351.05	$ 371.24	$ 392.58	$ 427.91	$ 466.43
Usage Charge (in gallons)					
All Usage (winter average)	$ 2.36	$ 2.50	$ 2.64	$ 2.88	$ 3.14
Commercial/Industrial	**FY 2025**	**FY 2026**	**FY 2027**	**FY 2028**	**FY 2029**
Base Charge					
5/8" or 3/4"	$ 10.84	$ 11.46	$ 12.12	$ 13.21	$ 14.40
1"	$ 14.05	$ 14.86	$ 15.71	$ 17.13	$ 18.67
1.5"	$ 25.95	$ 27.44	$ 29.02	$ 31.63	$ 34.48
2"	$ 38.95	$ 41.19	$ 43.56	$ 47.48	$ 51.75
3"	$ 73.68	$ 77.92	$ 82.40	$ 89.81	$ 97.90
4"	$ 112.68	$ 119.16	$ 126.01	$ 137.35	$ 149.71
6"	$ 221.01	$ 233.72	$ 247.16	$ 269.40	$ 293.65
8"+	$ 351.05	$ 371.24	$ 392.58	$ 427.91	$ 466.43
Usage Charge (in gallons)					
All Usage	$ 2.36	$ 2.50	$ 2.64	$ 2.88	$ 3.14
Residential Care / Multi-Residential	**FY 2025**	**FY 2026**	**FY 2027**	**FY 2028**	**FY 2029**
Base Charge					
5/8" or 3/4"	$ 4.30	$ 4.55	$ 4.81	$ 5.24	$ 5.71
1"	$ 4.30	$ 4.55	$ 4.81	$ 5.24	$ 5.71
1.5"	$ 4.30	$ 4.55	$ 4.81	$ 5.24	$ 5.71
2"	$ 4.30	$ 4.55	$ 4.81	$ 5.24	$ 5.71
3"	$ 4.30	$ 4.55	$ 4.81	$ 5.24	$ 5.71
4"	$ 4.30	$ 4.55	$ 4.81	$ 5.24	$ 5.71
6"	$ 4.30	$ 4.55	$ 4.81	$ 5.24	$ 5.71
8"+	$ 4.30	$ 4.55	$ 4.81	$ 5.24	$ 5.71
Usage Charge (in gallons)					
All Usage	$ 2.36	$ 2.50	$ 2.64	$ 2.88	$ 3.14
Capacity Charge (per unit)	$ 3.90	$ 4.12	$ 4.36	$ 4.75	$ 5.18
Environmental Charges - EPA Mandate	**FY 2025**	**FY 2026**	**FY 2027**	**FY 2028**	**FY 2029**
EPA 1 - Commercial (Industrial)	$0.82/kgal	$0.87/kgal	$0.92/kgal	$1.00/kgal	$1.09/kgal
EPA 2 - Commercial (High)	$0.62/kgal	$0.66/kgal	$0.69/kgal	$0.76/kgal	$0.82/kgal
EPA 3 - Commercial (Medium)	$0.42/kgal	$0.44/kgal	$0.47/kgal	$0.51/kgal	$0.56/kgal
EPA 4 - Commercial (Low)	$0.21/kgal	$0.22/kgal	$0.23/kgal	$0.26/kgal	$0.28/kgal
EPA 5 - Residential - (Standard)	$0.95/kgal	$1.00/account	$1.06/account	$1.16/account	$1.26/account

Rate Survey

Exhibit 12 compares the City's monthly rate with the 2025 rates of other jurisdictions. Note that each jurisdiction has a unique set of geographic traits, customers, and system characteristics, each of which can significantly impact rates. Bill calculations assume 8 kgals of monthly wastewater flow contribution.

Exhibit 12. Residential Monthly Wastewater Rate Survey (8,000 Gallons of Flow)



Summary

The analysis described above concludes the rate study for the wastewater utility. Rate increases are proposed at 5.75 percent annually FY 2026 and FY 2027, followed by 9.00 percent annually in FY 2028 and FY 2029. The proposed annual rate increases will allow the City to keep pace with forecasted operating costs, meet Operating and Principles of Sound Financial Management targets while completing the planned capital program utilizing a mix of rate and revenue bond funding. No rate structure changes are planned at this time and the suggested rate increases will be applied equally to fixed and variable rate components.

We recommend that the City revisit the study findings during each budget cycle to check that the assumptions used are still appropriate and no significant changes have occurred that would alter the results of the study. The City should use the study findings as a living document, continuously comparing the study outcomes to actual revenues and expenses. Any significant or unexpected changes will require adjustments to the rate strategy proposed.