



2023 Wholesale Water Rate Study Report

January 8, 2024



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Donna Silva, Director of Finance
San Juan Water District
9935 Auburn Folsom Rd.
Granite Bay, CA 95746



Re: 2023 Wholesale Water Rate Study

Dear Ms. Silva,

Hildebrand Consulting is pleased to present this 2023 Wholesale Water Rate Study (Study) for the San Juan Water District (District). We appreciate the fine assistance provided by you and all of the members of the District staff who participated in the Study, as well as the input and guidance provided by the Board.

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

mhildebrand@hildco.com
(510) 316-0621

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

Sincerely,

A handwritten signature in blue ink, appearing to read 'M. Hildebrand', written in a cursive style.

Mark Hildebrand
Hildebrand Consulting, LLC

Enclosure

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List of Acronyms

AF	acre-feet (measure of water volume)
AWWA	American Water Works Association
CAFR	Comprehensive Annual Financial Report
CCF	hundreds of cubic feet (measure of water volume)
CIP	capital improvement program
COSA	cost of service analysis
CY	calendar year
DCR	debt service coverage ratio
FY	fiscal year (which ends on June 30 for the District)
O, M, R, & D	operation, maintenance, replacement, and debt
OPEB	Other Post-Employment Benefits
SJWD	San Juan Water District
SSWD	Sacramento Suburban Water District
UWMP	Urban Water Management Plan

Section 1. INTRODUCTION

The San Juan Water District (“SJWD” or “District”) retained Hildebrand Consulting, LLC. to update the District’s ten-year wholesale financial plan and develop recommendations for annually updating water rates for a five-year period from calendar year (CY) 2024 through 2028. The purpose of this Study was to ensure that the District’s wholesale water system continues to meet financial obligations for ongoing operation and maintenance, debt service, and capital improvements while maintaining prudent reserves. This report describes in detail the assumptions, procedures, and results of the Study, including conclusions and recommendations.

1.1 UTILITY BACKGROUND

The District is a community services district formed under Section 61000 et seq., Title 5, Division 3 of the California Government Code. The District provides both wholesale and retail water service. The wholesale area (which includes the District’s 17 square mile retail area) covers approximately forty-six square miles in northeastern Sacramento and southeastern Placer Counties. The District wholesales water to five “member agencies”: San Juan Water District Retail, Citrus Heights Water District, Fair Oaks Water District, Orangevale Water Company, and the City of Folsom (for its customers north of the American River).

The District’s existing water supply consists of three separate raw water contracts. The first source of water is a settlement contract with the U.S. Bureau of Reclamation (Reclamation) that provides, in perpetuity, for the delivery of 33,000 acre-feet of water from the American River based upon the District’s water rights, which date from 1853 and 1928. The second source is a repayment contract with Reclamation for 24,200 acre-feet of Central Valley Project water. The third source is a contract with Placer County Water Agency for up to 25,000 acre-feet of water. All sources of surface water are either

stored or flow through Folsom Lake and delivery is taken at Folsom Dam outlets, either by gravity or pumped by Reclamation’s Folsom Pumping Plant.

1.2 PROJECT BACKGROUND AND SUMMARY

The District’s last Wholesale Water rate study was conducted by The Reed Group in 2017 and the last rate adjustment was made in January of 2021.

The scope of this Study is to prepare a multi-year financial plan, review the allocation of costs to member agencies, and propose a 5-year rate schedule. The primary objectives of this Study are to:

- i. Develop a multi-year financial plan that integrates operational and capital project funding needs with a funding strategy.
- ii. Identify future annual adjustments to water rates to help ensure adequate revenues to meet the District’s ongoing financial obligations.
- iii. Update the cost of providing wholesale water service using methodologies that are consistent with industry guidelines.
- iv. Recommend specific updates to the District’s existing rate structures in order to ensure that the District is equitably recovering the cost of service and comports with industry standards¹ and California’s legal requirements.

One focus of this 2023 wholesale water financial plan is to help ensure adequate funding of the District’s wholesale capital improvement program (CIP). The CIP includes a \$23 million project to replace the cover and liner of the Hinkle Reservoir. The financial plan presented herein indicates the funding of the debt that was issued in 2023 to fund this

¹ As promulgated the American Water Work Association (AWWA) M1 Manual: Principles of Water Rates, Fees and Charges: Manual of Water Supply Practices M1, (7th edition), which documents many of the standards used by professionals in the utility rate-setting industry.

capital program. Based on financial plan analyses, all other planned capital improvement projects over the next 10 years can be funded on a pay-as-you-go basis.

In other respects, the wholesale financial plan provides a strategy for maintaining sufficient reserves to cash fund most capital projects in the future.

Wholesale water rate calculations were updated based on the revenue needs developed through the financial planning process. The cost allocation methodology used in the rate calculations is consistent with past studies, with the exception of the following modifications.

- 1) While the wholesale water rates will continue to include a uniform water usage charge and fixed service charge, this Study proposed to ensure that all of the District's fixed costs are recovered through the fixed service charges. This completes a shift in this direction that was started in the 2017 Wholesale Rate Study. Fixed costs are considered to be any cost that does not increase or decrease in direct response to increases or decreases in water deliveries. This Study has found that about 83 percent of the District's revenue requirements are fixed costs.
- 2) While the 2017 Wholesale Rate Study had a separate fixed charge for debt service obligations, this Study proposes to have all fixed costs paid by a single fixed charge (as has been the District's practice over the past few years).
- 3) While variable rates are clearly charged based on actual water deliveries to each member agency, the allocation of fixed costs has been a source of debate. The 2017 Wholesale Rate Study proposed to allocate fixed costs based primarily on the average water usage by each member agency over the previous 5 years. Since that time, the District has agreed to allocate fixed costs based on each agency's most recent five-year average water usage (a.k.a., "rolling 5-year average"). This Study proposes to allocate fixed costs based on each agency's average annual water usage over the past 10 years. A more detailed explanation is provided in Section 3.2).

Continuing with current practices, fixed service charges as well as capital facilities charges (see Section 4), will be billed to each member agency on a quarterly basis in advance, and water usage charges will be billed in arrears following the end of each quarter based on the actual water used during the quarter.

During the course of this Study, preliminary results and recommendations were presented to the District's Board of Directors. In addition, member agencies were provided with a 150-day period during which to comment on this report. This report reflects consideration of comments received from member agencies, new information that became available since prior drafts, as well as direction provided by the District's Board of Directors and staff.

1.3 STUDY METHODOLOGY

This Study applied methodologies that are aligned with industry standard practices for rate setting as laid out in the AWWA M1 Manual and all applicable law. The study began with a review of the District's current financial dynamics and latest available data for the District's operations. A multi-year financial management plan was then developed to determine the level of annual rate revenue required to cover projected annual operating expenses, debt service (including coverage targets), and capital cost requirements while maintaining adequate reserves. This portion of the Study was conducted using an MS Excel[®]-based financial planning model which was customized to reflect financial dynamics and latest available data for the District's operations in order to develop a long-term financial management plan, inclusive of projected annual revenue requirements and corresponding annual rate adjustments. The financial plan is a cash-flow model and differs from standard accounting income statements and balance sheets which include non-cash accounting such as depreciation expense.

Revenue requirements calculated for fiscal year ending June 2024 (FY 2023/24²) were then used to perform a detailed cost-of-service analysis (COSA). The COSA and rate structure design were conducted based upon principles outlined by the AWWA, legal requirements and other generally accepted industry practices to develop rates that reasonably reflect the cost of providing service.

² Fiscal years are sometimes indicated by their ending years. For example, FY 2023/24, starts on July 1, 2023, and ends on June 30, 2024, can also be expressed as FY 2024.

Section 2. WHOLESALE FUND FINANCIAL PLAN

This section presents the Wholesale System’s 10-year Financial Plan, including a description of the source data, assumptions, and the District’s financial policies. The District provided historical and budgeted financial information, including historical and budgeted operating costs, a multi-year capital improvement program (CIP), and outstanding debt service obligations. District staff also assisted in providing other assumptions and policies, such as reserve targets and escalation rates for operating costs (all of which are described in the following subsections).

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

The financial plan reflects assumptions and estimates believed reasonable at the present time. However, conditions change. It is recommended that the District review its financial condition and scheduled rate adjustments as part of the annual budget process, as well as perform a more comprehensive financial plan and rate update every 3 to 5 years, as conditions dictate.

2.1 FUND STRUCTURE

The financial plan is an annual cash flow model. As a cash flow model, it differs from standard accounting income statements and balance sheets. The financial plan models sources and uses of funds into, out of, and between the two Wholesale Water funds: Wholesale Operating Fund (Fund 10) and Wholesale Capital Fund (Fund 11). The financial plan model is based on the Wholesale fund structure and reserve policies currently used by the District. Similarly, the Board has designated certain revenue streams to be accounted for within this fund and dedicated to the Capital Program and

the financial plan for this study has attempted to replicate those policies as best as possible.

The two funds serve the following purposes:

- **Wholesale Operating Fund (Fund 10)** – The Operating Fund is the primary fund within the Wholesale enterprise. Most Wholesale revenues, including rate revenues, flow into the Operating Fund and all operating and maintenance costs, including debt service payments, are paid out of this fund. In addition, the Operating Fund also supports part of the water enterprise’s capital improvement program. Funds are transferred from the Operating Fund to the Capital Fund (Fund 11), which processes the execution of all capital projects.
- **Wholesale Capital Fund (Fund 11)** – The Capital Fund is primarily supported by transfers from Fund 10, but also receives property tax revenue, connection fee revenue, and capital facility charge revenue (see Section 4). All capital projects are executed through this fund.

2.2 BEGINNING FUND BALANCES

The budgeted ending reserve balance for FY 2021/22 in the Wholesale Operating Fund was approximately \$2,054,000 while the ending reserve balance in the Wholesale Capital Fund was approximately \$18,784,000. These reserve balances were used to establish the “starting point” for the reserve levels for this 10-year financial plan. It should be noted that the amount of cash that the District keeps in reserves is a product of its reserve policies (see Section 2.9).

2.3 HISTORICAL AND FORECASTED WATER USAGE

Historical water usage by member agency by fiscal year is summarized in **Table 1** and in **Figure 1**. This data provides some context into the District’s recent water usage trend as well as context when addressing maximum annual water demands (see Section 3.2).

Table 1: Historical Annual Water Deliveries by Fiscal Year

	San Juan Water District (Retail)	Citrus Heights Water District	Fair Oaks Water District	Orange Vale Water Company	City of Folsom	Total
FY 2007	16,482	19,147	12,140	4,312	1,861	53,942
FY 2008	17,226	16,594	10,729	4,796	1,661	51,006
FY 2009	14,943	14,879	10,519	4,154	1,708	46,204
FY 2010	12,686	11,366	10,707	4,363	1,334	40,456
FY 2011	12,700	12,684	10,307	4,215	1,308	41,214
FY 2012	13,569	13,091	10,122	4,506	1,469	42,758
FY 2013	14,743	14,327	10,676	5,023	1,507	46,276
FY 2014	13,142	12,160	8,766	4,586	1,299	39,952
FY 2015	10,552	10,016	7,787	3,671	1,187	33,213
FY 2016	10,213	9,134	7,137	3,190	963	30,637
FY 2017	10,752	9,775	7,288	3,473	1,062	32,349
FY 2018	11,520	11,202	6,400	3,950	1,132	34,204
FY 2019	10,864	9,734*	6,394*	3,822	1,080	31,895
FY 2020	11,920	11,407	7,780	3,790	1,194	36,091
FY 2021	13,690	10,361	8,202	4,141	1,239	37,634
FY 2022	12,143	7,852	6,723	3,883	1,092	31,693

*FY 2018/19 surface water deliveries to CHWD & FOWD were reduced by 1,446 and 1,587 acre feet respectively, due to a groundwater substitution transfer that occurred.

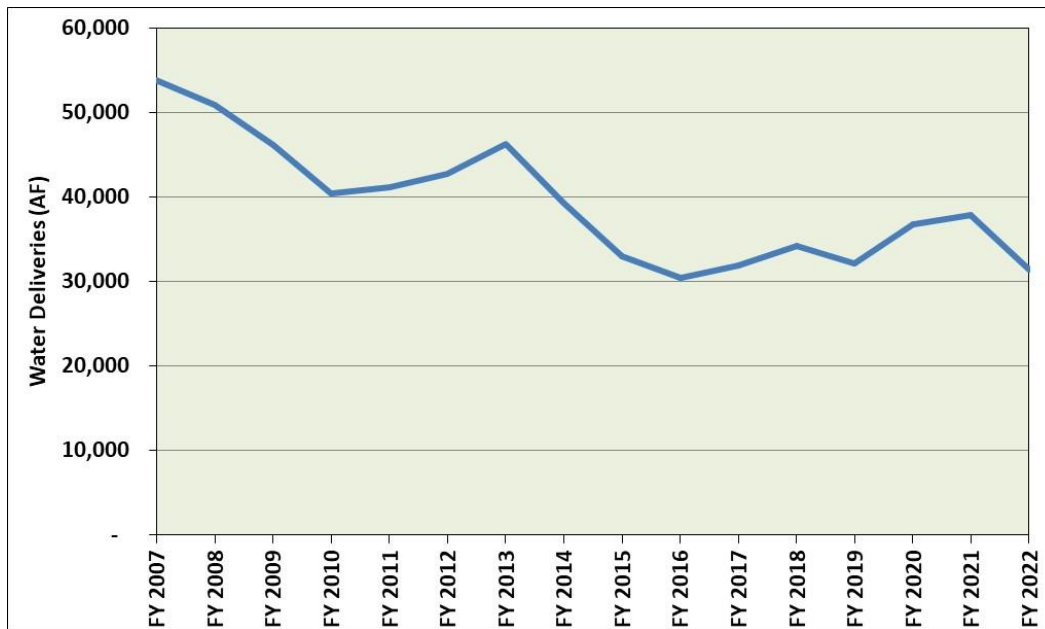


Figure 1: Historical and Projected Annual Water Deliveries

The Sacramento region has predominantly been in drought conditions over the past 10 years, interspersed with record rainfall years such as the current rain season. As such, it is difficult to predict the collective future water demands by the member agencies. This

Study relies on each member agencies’ respective 2020 Urban Water Management Plan (UWMP) to provide the best available forecast of future water usage. The UWMPs’ projections of water usage include assumptions regarding growth and future conservation trends. The projected water demands for calendar years 2025, 2030 and 2035 provided in **Table 2** considers both UWMP projections as well as (1) an assumption that Fair Oaks Water District will derive 30 percent of its water supply from local groundwater (based on a recent policy that was not considered in the UWMP) and (2) starting in CY 2025 Orangevale Water District will begin to derive 500 AF of water supply from a rehabilitated well.

In the most recent complete calendar year (CY 2022), the District provided 31,693 AF to its member agencies (see Table 2). The forecast numbers in Table 2 represent an overall increase in total water demand of 2.4 percent per year between 2022 and 2025, an overall increase of 0.3 percent per year between 2025 and 2030 and an overall increase of water usage of just over 0.1 percent between 2030 and 2035. This Study uses these water usage trend projections in applicable analysis.

Table 2: Projected Annual Water Deliveries

	San Juan Water District (Retail)	Citrus Heights Water District	Fair Oaks Water District	Orange Vale Water Company	City of Folsom	Total
FY 2022¹	12,143	7,852	6,723	3,883	1,092	31,693
FY 2023¹	11,194	7,595	4,732	3,760	1,045	28,327
FY 2024³	11,229	8,713	5,612	3,700	1,025	30,279
CY 2025²	11,300	10,949	7,372	3,200	1,123	33,944
CY 2026³	11,320	11,014	7,383	3,220	1,124	34,061
CY 2027³	11,340	11,079	7,395	3,240	1,125	34,179
CY 2028³	11,360	11,145	7,407	3,260	1,126	34,298
CY 2029³	11,380	11,211	7,418	3,281	1,127	34,417
CY 2030²	11,400	11,273	7,430	3,300	1,128	34,531
CY 2031³	11,380	11,326	7,455	3,300	1,122	34,582
CY 2032³	11,360	11,379	7,480	3,300	1,115	34,634
CY 2033³	11,340	11,432	7,505	3,300	1,109	34,686
CY 2034³	11,320	11,486	7,530	3,300	1,103	34,738
CY 2035²	11,300	11,537	7,554	3,300	1,096	34,787

¹ Based on actual flows

² Based on 2020 UWMP projections and other assumptions (see text)

³ Inferred based on other values in table (see text).

2.4 RATE REVENUE

Rate revenue is the revenue collected from member agencies for wholesale water service. The District collects rate revenue on a quarterly basis from member agencies in the form of Water Usage Rates and a Quarterly Service Charge. The financial plan starts with rate revenue levels that were budgeted for FY 2023/24. Budgeted and projected rate revenues (including proposed rate adjustments) are listed in **Schedule 1**.

2.5 NON-RATE REVENUES

In addition to rate revenue, the District receives “non-rate revenue” from sources such as miscellaneous operating revenue, property taxes, connection fees, treat-and-wheel rates (see Section 5), miscellaneous water sales to other entities (namely Granite Bay Golf Course), capital facility fees (see Section 4), and Hinkle pumping surcharges (see Section 6), and interest revenue on investments. Projections for miscellaneous operating revenue, property taxes, and connection fees were based on FY 2023/24 budgeted revenues. The least predictable source of revenue is the treat-and-wheel rates paid by SSWD, due to the highly variable amount of water purchased by SSWD from one year to the next. Over the past 10 years, SSWD has purchased as much as 13,600 AF and as little zero AF. Due to this variability, and no minimum purchase requirement for SSWD, it is very difficult to predict how much water SSWD will purchase going forward. Given the uncertainty of this source of revenue, the financial plan assumes no revenue from SSWD after FY 2023/34. Prior wholesale financial plans have excluded this revenue source for the same reason.

Future annual interest income was calculated based upon projected fund balances and assumed interest rate of 1.0 percent, which is consistent with the District’s historical interest earnings relative to its total reserve levels. Property tax revenue is forecasted to increase by 2 percent per year. Budgeted non-rate revenues are depicted in **Figure 2** below and listed in detail in **Schedule 1**.

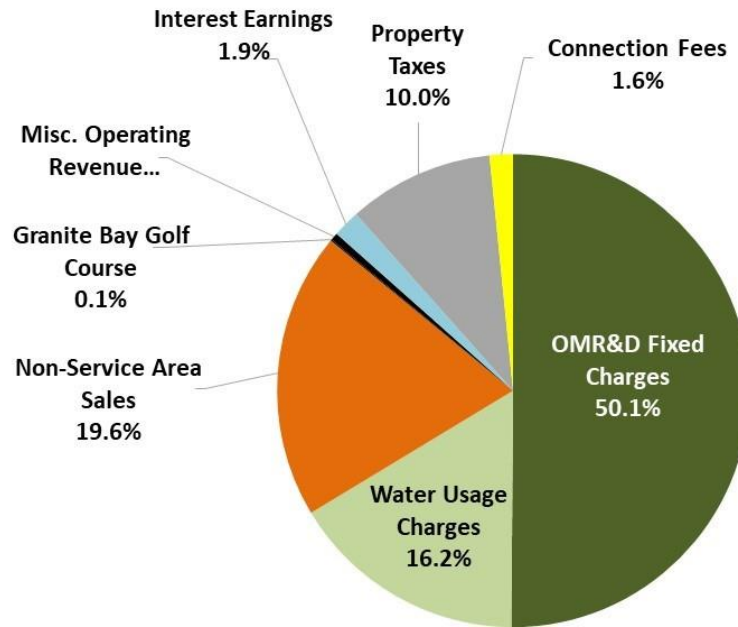


Figure 2: Revenue Categories (FY 2022/23 Mid-Year Estimate)

2.6 CURRENT AND PROJECTED OPERATING EXPENSES

The District’s expenses include operating and maintenance expenses, debt service, and capital spending. Debt service expenses are addressed in Section 2.10 and capital spending is addressed in Section 2.8.

Future operating and maintenance expenses were projected based upon the budgeted expenditures for FY 2023/24 and adjusted for inflation. There was one exception of the carry-over of the FY 2023/24 budget to FY 2024/25: the “one-time” \$500 thousand cost for environmental review for the Warren Act contract renewal in the FY 2023/24 Source of Supply budget was not repeated in subsequent years.

Major budgeted expense categories are depicted in **Figure 3**. Projected operating and maintenance costs are listed in detail in **Schedule 1**. This schedule specifically breaks out the costs of energy, chemical and maintenance since these variable expenses are a key topic of discussion in the proposed rate structure modifications (see Section 3).

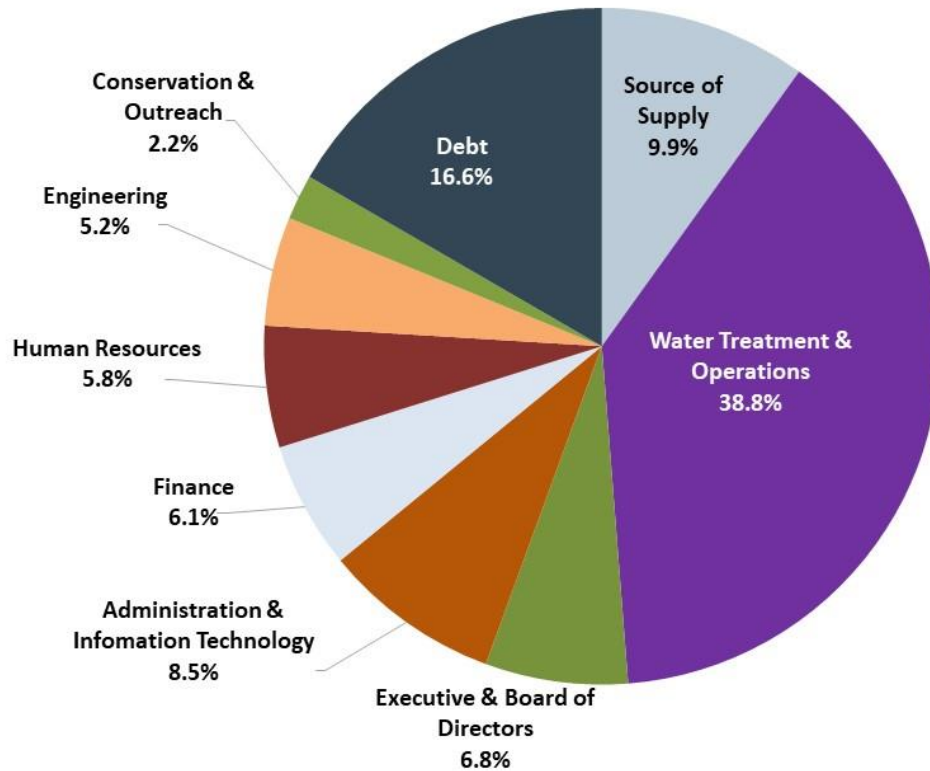


Figure 3: Operating Expense Categories (FY 2022/23 Mid-Year Estimates)

Annual cost escalation factors for various types of expenses were developed based upon a review of historical inflation trends, published inflation forecasts, industry experience, and discussions with District staff regarding recent trends. During the projection period, inflation is projected to increase by 4 percent in FY 2024/25, and 3 percent thereafter. Construction costs are projected to increase by 3 percent per year for the study period.

2.7 EXISTING DEBT EXPENSES

The Wholesale enterprise’s current debt obligations include a 2017 refunding revenue bond and a 2022 refunding private placement loan. A portion of these debt obligations is shared with the Retail enterprise (Wholesale is responsible for 60 percent of the 2017 debt and 64.81 percent of the 2022 debt). In FY 2022/23, the Wholesale portion of annual

debt service on the 2017 bonds totals about \$581,000 and about \$937,200 for the 2022 loan. While the cost of the Wholesale debt is allocated among the member agencies as described in Section 3, the City of Folsom is also directly responsible for a portion of the 2022 refunding loan.

In addition to the above debt, the District has recently received a loan for the Hinkle Reservoir cover replacement project, as detailed in Section 2.9.

2.8 CAPITAL IMPROVEMENT PROGRAM

The District has developed a 2022 Master Plan that describes the capital projects and spending that is necessary in order to pro-actively address water system rehabilitation needs associated with aging pipes, pump stations, water tanks, and other system deficiencies. Over the past seven years, the District has spent an average of approximately \$3.1 million per year in capital reinvestment projects. The Wholesale 2022 Master Plan calls for a slight increase in the average annual capital spending (to \$3.4 million) with the exception of a single outlier project: the Hinkle Reservoir Cover & Liner Replacement project in 2024 for \$23.1 million dollars. A detailed list of capital projects and associated costs is provided in **Schedule 2**. Notable projects include Filter Channel Lining/Underdrain Inspection (\$3.3 million), Administration/FO/Engineering Building Improvement/Replacement (Wholesale portion \$3.2 million), Reline 60" Pipe from Filters to Inlet Structure (\$1.8 million), Hinkle Reservoir Temporary Tanks, Piping, & Electrical (\$1.6 million), Powdered Activated Carbon System (\$1.5 million), and Drying Bed Improvements (\$1.2 million).

2.9 DEBT STRATEGY

While the District typically tries to cash-finance capital projects whenever possible, there are instances when debt financing is appropriate. Such instances are typified by abnormally large spikes in capital spending, such as the Hinkle Reservoir cover replacement project. Such spikes in capital spending can either be addressed by drawing down existing reserves or by issuing new debt.

Dating back to the 2017 Wholesale Rate Study, the District has planned to debt-finance the Hinkle Reservoir cover replacement project. In fact, the District has already adopted a “Hinkle Reservoir debt service charge” which is designed to pay for the debt service associated with the project³. **Figure 4** shows how this debt strategy effectively “shaves” the spike in capital spending created by the Hinkle Reservoir project, and subsequently mitigates the need for cash in the immediate future.

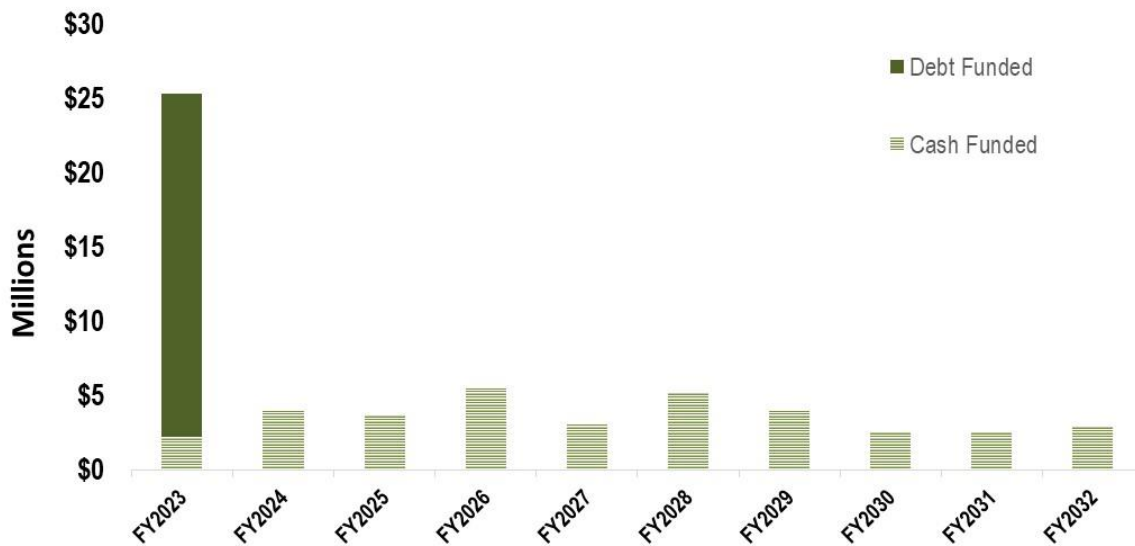


Figure 4: Forecasted Capital Spending with Debt Strategy

This Study accounts for the fact that the District has received a loan through the State of California’s Drinking Water Revolving Loan Fund (SRF) with a repayment period of 30-years, a fixed interest rate of 1.2 percent and no issuance costs⁴. The total proposed debt principal amounts to \$23.12 million.

³ The existing Hinkle Reservoir debt service charge, which has not actually been collected from member agencies, will be superseded by the recommendations of this Study.

⁴ These assumptions were provided by District staff. Hildebrand Consulting is not a financial advisor and cannot provide guidance to the District regarding topics such as future interest rates for bonds.

Table 3 summarizes some of the details of the proposed new debt issues, including the timing and the ensuing annual debt service.

Table 3: Summary of Proposed Debt Issue

Total Loan Issue	\$23,120,600
Interest Rate on Borrowings	1.2%
Debt Maturity (years)	30
First Full Payment Year	FY 2024
First Year of Interest Payments	FY 2023
Approx. Annual Debt Payments	\$922,281

2.10 DEBT SERVICE COVERAGE

The District’s 2017 bond requires the District to maintain a debt service coverage ratio (DCR) of at least 1.15. The DCR is calculated based on the combined financial capacity of both San Juan Water District’s Retail enterprise and Wholesale enterprise. Based on published guidance from Fitch Ratings, utility systems with *midrange* financial profiles should maintain a DCR greater than 1.5 times annual debt service. The new Hinkle loan (see Section 2.7) requires that the District maintain a minimum DCR of 1.2. This financial plan estimates that a DCR of at least 2.14 will be maintained throughout the planning period.

2.11 RESERVE POLICIES

Reserve policies are cash balances targets that are retained for specific cash flow needs. The target for reserves is an important component when developing a multi-year financial plan and maintaining prudent reserves is an essential component of any sound financial management strategy. Utilities rely on reserves for financial stability; credit rating agencies evaluate utilities in part on their adherence to formally adopted reserve targets; and lending agencies require utilities to maintain specific debt reserves for outstanding loans. The target levels of the policies below are consistent with 1) the District’s established policies and practices; 2) the findings of reserve studies conducted by the AWWA; 3) a healthy level of reserves for a utility per the evaluation criteria

published by rating agencies (e.g., Fitch, Moody’s, and Standard & Poor’s); and 4) Hildebrand Consulting’s industry experience for similar systems.

The following recommended reserve policies are based on Board-approved policies (Policy FIN 5.9) which were last updated in 2018 (after the 2017 Wholesale Rate Study). The policy recommendations are intended to help the District mitigate and manage financial risk while meeting service and financial obligations.

Wholesale Operating Reserve - The purpose of the Operating Reserve is to provide sufficient funds (working capital) for operations of the District. The reserve will be maintained in an amount equal to at least 20 percent of the annual operating expenditures (excluding depreciation). This amounts to about \$1.70 million in FY 2023/24.

Wholesale Capital Reserve - The purpose of the Capital Reserve is to accumulate funds necessary to pay for the replacement of the District’s aged assets and to fund new Wholesale assets as deemed necessary by the District’s Master Plan. As written, the District’s reserve policy has two components:

- 1) The sum of all annual revenue sources into this reserve should be at least equal to the amount of annual depreciation for Wholesale’s fixed assets.
- 2) The balance of the reserve should be equal to the accumulated depreciation for existing Wholesale assets, adjusted for inflation. If the reserve balance is below this threshold, the District will work towards increasing the reserve balance or designate certain large capital replacement projects to be funded by the issuance of debt.

The purpose of the second component is to avoid and/or minimize the future issuance of debt for capital asset replacement.

In addition to the reasons for the capital reserve cited by the District’s policy, the “cushion” provided by working capital reserves allows the District to draw down on reserves during above-average capital spending years and build the reserve back up during subsequent years. In reviewing the District’s 2021/22 Comprehensive Annual

Financial Report (CAFR), the Wholesale enterprise's accumulated depreciation is approximately \$43 million. While the District's long-term goal of creating such healthy reserves is commendable, it is not reasonable to achieve such reserve levels within the next ten years. As such, this Report recommends a Capital Reserve target equal to 10-year average annual capital spending levels (excluding the Hinkle Reservoir cover replacement project as an outlier) as an interim goal. This equates to a reserve target of \$3.6 million.

Hinkle Debt Reserve – The terms of the Hinkle Reservoir SRF loan (see Section 2.9) requires the District to set aside a cash reserve equal to one year of debt service for the loan (\$922 thousand).

Target Reserves vs. Minimum Reserves – When discussing the three reserve policies above, it is important to discern between two types of reserve policies. A *minimum* reserve policy refers to a reserve level that the District should never *plan* to draw down. Such reserves (such as the Operating Reserve and the Hinkle Debt Reserve) should only be drawn down in the event of an unforeseen circumstance. On the other hand, *target* reserves (such as the Capital reserve) are designed to be drawn down and built up over the course of a planning period. The purpose of such a reserve is to give the District financial flexibility, not to create restrictions on minimum levels.

It should be noted that a series of reserves that existed during the 2017 Wholesale Rate Study are no longer used by the District, including the Rate Stabilization Reserve, the Compensation Absence Reserve, the PERS Stabilization Reserve and the Delta / Water Rights Reserve.

2.12 PROPOSED RATE REVENUE INCREASES

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

Based upon the previously discussed financial data, assumptions, policies, and debt strategy, this Study proposes a 5-year schedule of annual rate adjustments as detailed in **Table 4**.

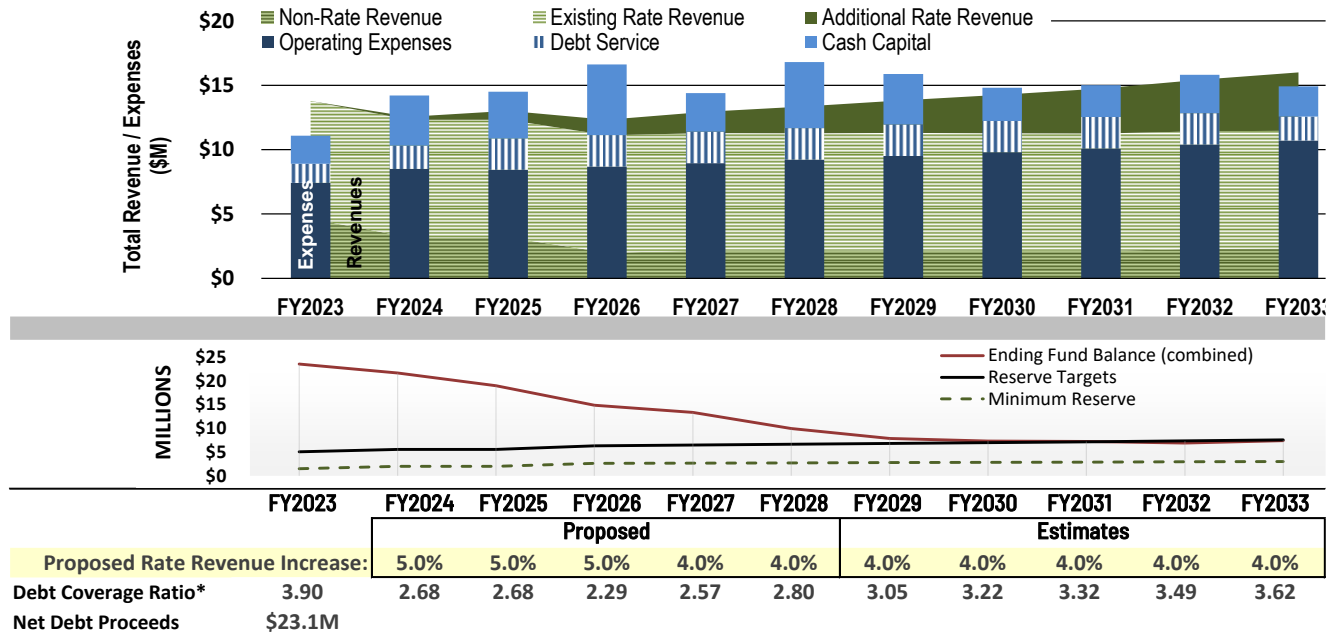
It is important to understand three important complexities with respect to the percentages shown in Table 4.

- 1) While Table 4 shows a 5 percent increase in rates in FY 2023/34, the *actual* change to the District’s adopted rates will be significantly lower because the Table 4 percentages *are relative to the revenue that the District has **actually** collected* from member agencies. While the Hinkle Reservoir Debt Service Charge was previously adopted by the District, the member agencies have not yet been asked to pay that charge. As is detailed in Section 3, the Hinkle Reservoir Debt Service Charge will be replaced by a revised rate schedule which will ultimately yield rates that are lower than a 5 percent increase to member agencies.
- 2) In addition to the above, the relative change in the rates paid by member agencies will also differ slightly among the member agencies due to the fact that any time there is an update to the cost allocation data, each rate payer will be affected differently.
- 3) The rate increases will happen at the midpoint of each fiscal year; therefore, the revenue increase will only be effective for half of the year. This means that the District’s revenue increase in Fiscal Year 2023/24 will only be 2.5 percent.

Table 4: Recommended Water Rate Revenue Increase

Fiscal Year	Rate Implementation Date	Proposed Rate Revenue Adjustment
2023/24	January 1, 2024	5.0%
2024/25	January 1, 2025	5.0%
2025/26	January 1, 2026	5.0%
2026/27	January 1, 2027	4.0%
2027/28	January 1, 2028	4.0%

The numbers provided in **Schedule 1** (cash flow proformas) are summarized graphically in **Figure 5**.



* Combined ratio for Funds 10, 11, 50 and 55

Figure 5: Financial Projection with Recommended Rate Revenue Increases

It is important to understand that the rate revenue increases that are being proposed are only slightly higher than assumed inflation rates (see Section 2.6). The projected rate increases after FY 2027/28 shown in Figure 5 are only estimates to demonstrate that, based on current forecasts, larger rate increases are not anticipated for that time period.

This financial plan has been developed based on a number of assumptions. It is understood that actual results (such as water usage or inflation) may deviate materially from the projections shown in this report. While it is recommended that the Board adopt the 5-year rate schedule (as shown in Schedule 3), it is also recommended that the District actively monitor the state of reserves over the course of the next 5 years. In the event that reserve levels fall short of projections, it may be necessary to consider higher rate increases than recommended by this report. Conversely, if reserve levels

begin to build materially higher than projected by this report, the Board may decide to modify some of the rate increases that had previously been adopted.

Section 3. COST OF SERVICE & RATE STRUCTURE

The Cost-of-Service analysis (COSA) evaluates the cost of providing water and allocates those costs to rate structure components to ensure the proposed rates are aligned with the costs to provide service. The COSA is performed in order to comply with applicable law, which requires the wholesale water rates to not exceed the reasonable costs of providing the service.

Upon completion of the COSA, a rate structure analysis was performed to evaluate rate structure modifications and calculate specific rate schedules for implementation starting in CY 2024. The complete schedule of proposed rates for CY 2024 through CY 2028 as detailed in **Schedule 3**.

The rate structure proposed by this Study is designed to:

- ▶ Fairly and equitably recover costs through rates
- ▶ Conform to accepted industry practice and legal requirements
- ▶ Provide fiscal stability and recovery of system fixed costs

The wholesale water rates proposed herein were calculated using the same general rate methodology originally developed by the District in 1998 and updated several times since then. The wholesale water rates include a uniform water usage rate applicable to each acre-foot (AF) of water deliveries⁵, a fixed quarterly service charge (which now included debt service costs), and quarterly capital facilities charges (applicable to only some wholesale member agencies and related to specific limited-benefit capital improvement projects, see Section 4).

⁵ The City of Folsom pays an additional usage rate for the Hinkle Pumping Surcharge (see Section 6).

3.1 CURRENT RATES

Current wholesale water rates are presented in **Table 5** for reference purposes. The water rates were last adjusted in January 2023, which was done to re-allocate fixed costs among member agencies based on their most recent water usage, with no change in the total amount of the overall rate revenue received by SJWD.

Table 5: Current Wholesale Rate Schedule

Calendar Year	2023
San Juan Water District	
Water Usage Rate (\$/AF)	\$81.14
Quarterly Fixed Charge	\$578,808.35
Quarterly Hinkle Reservoir Debt Charge ¹	\$133,920.00
Total Quarterly Charge	\$712,728.35
Citrus Heights Water District	
Water Usage Rate (\$/AF)	\$81.14
Quarterly Fixed Charge	\$533,570.81
Quarterly Hinkle Reservoir Debt Charge ¹	\$125,550.00
Total Quarterly Charge	\$659,120.81
Fair Oaks Water District	
Water Usage Rate (\$/AF)	\$81.14
Quarterly Fixed Charge	\$366,991.51
Quarterly Hinkle Reservoir Debt Charge ¹	\$96,255.00
Total Quarterly Charge	\$463,246.51
Orange Vale Water Company	
Water Usage Rate (\$/AF)	\$81.14
Quarterly Fixed Charge	\$189,735.60
Quarterly Hinkle Reservoir Debt Charge ¹	\$46,035.00
Total Quarterly Charge	\$235,770.60
City of Folsom	
Water Usage Rate (\$/AF)	\$81.14
Hinkle Pump Station Surcharge (\$/AF) (2)	\$102.00
Quarterly Fixed Charge	\$56,139.74
Quarterly Hinkle Reservoir Debt Charge ¹	\$12,555.00
Direct Portion of 2022 Refunding Loan ² (Quarterly)	\$18,476.96
Total Quarterly Charge	\$87,171.70
Sacramento Suburban Water District	
Treat and Wheel Rate (\$/AF) (3)	\$220.16

¹ Adopted charge in anticipation of debt for the Hinkle Reservoir Rehabilitation Project. Charges have not yet been assessed.

² Unique charge to the City of Folsom

3.2 ALLOCATION OF COSTS AND PROPOSED RATES

The process for calculating water rates involves (a) determining the annual water rate revenue requirements (as detailed in Section 2) then (b) allocating those costs to each member agency based on actual water deliveries, historical water deliveries, and the number of retail connections of each member agency. This analysis is often called the cost-of-service analysis, or COSA. This Study allocated costs using the District’s broad (departmental) cost classifications, including source of supply, water treatment and operations, executive and board of directors, administration and information technology, finance and purchasing, human resources, engineering, water conservation and outreach, debt service, and cash-funded capital expenses (see Table 7). Non-rate revenues and changes in the operating fund balance were also factors in determining the annual revenue requirement.

While this Study proposes a methodology for allocating costs that is consistent with the methodology employed in the 2017 Wholesale Water Rate Study, this Study proposes to further increase the percentage of revenue that is collected through fixed charges. The 2017 study began a shift towards recovering more fixed costs through fixed charges, and this current Study proposes to complete the shift by recovering all fixed costs through fixed charges. There are a number of reasons why fixed costs are best recovered with a fixed revenue source, particularly for a wholesale agency with only five member agencies. Fixed costs are (by definition) a certainty for the wholesaler and therefore it stands to reason that those same costs should also be a certainty for the member agencies. Furthermore, recovering fixed costs through a fixed charge provides financial stability to the District as well as all member agencies. Consistent with legal requirements, it is “reasonable” that a wholesale agency require its member agencies to support the wholesaler’s fixed financial obligations through fixed charges.

The following describes the allocation of costs shown in Table 7.

- 1) **Variable costs** are allocated based on actual water deliveries to the member agencies. For the purpose of this Study, variable costs are defined as those costs that change as a *direct result of increased or decreased water deliveries*. These costs include

energy (electricity & fuel), chemicals, water purchase costs and some variable maintenance expenses. These costs will ultimately be paid by member agencies based on actual water deliveries during a given payment period. For the purpose of this Study, it was assumed that the projected water delivery *totals* for FY 2024 represent an average year for the next five years (note that the relative amount used by each respective member agency during that fiscal year does not affect the calculations).

- 2) **Most fixed costs** are proposed to be allocated to the respective member agencies based on their *respective annual water deliveries averaged over the past 10 years*. These fixed costs include most labor, benefits, administration, maintenance, Board, and debt service expenses of the wholesale water system. The 2017 Wholesale Rate Study allocated such costs based on *average annual water usage over the 5-year period that immediately preceded the study*. Since the adoption of the rate structure in 2017, the District changed its policy and currently allocates fixed costs based on a *rolling five-year average* of water usage. However, that approach has resulted in increased financial uncertainty for member agencies and an extra administrative burden for the District.

This Study recommends that the District allocate its fixed costs to member agencies based on actual water deliveries averaged over a longer time period because the District's infrastructure investment and operational requirements (which drive fixed costs) are based on meeting its member agencies' historical water needs. In other words, the size (and therefore costs) of the District's water infrastructure, and its operations as a whole, is predominantly influenced by past decisions to meet member agencies' total water demands⁶. Using historical water demands are accepted industry metrics for allocating fixed costs amongst customers. This concept is identical to the commonly used and standard approach for retail water rate setting, which allocates fixed costs to retail customers based on the capacity of their meter (regardless of how often that full capacity is actually used by the customer).

⁶ The District has planned, constructed, and operated its treatment and conveyance facilities to maintain sufficient capacity to meet the historical water demands of water users in the member agencies' service areas, as per Wholesale Water Supply Agreements with member agencies.

Consistent with the previous discussion regarding fixed versus variable revenue, the use of a short-term metric to allocate fixed costs (such as using a rolling five-year average, as has been the District’s recent practice) is both inequitable (because recent actual water usage does not affect fixed costs that are based on long-term infrastructure investments) and creates financial uncertainty and rate volatility for the member agencies. To further underline this last point, the exercise of allocating fixed costs to member agencies is a “zero sum game,” meaning that when one member agency pays less the others must pay more because the fixed costs need to come from somewhere. Under the current practice, when one member agency uses relatively less water, more fixed costs are necessarily shifted to the other agencies even if their water usage remains consistent. This creates both financial uncertainty for the member agencies and an arguable inequity (since current water deliveries does not directly affect the District’s ongoing fixed costs).

As mentioned above, the current practice of using a rolling five-year average creates an additional administrative burden for the District in addition to the financial uncertainty for the member agencies. It is recommended that the District update the ten-year average only when updating the wholesale financial plan or about every five years.

- 3) **Some specific customer-related fixed costs** are allocated to the respective member agencies based on their respective number of retail customers. This is limited to costs that are driven by the number of individual retail customers that are served. These costs are limited to conservation and outreach costs.

Table 6 presents the metrics that are used for allocating costs to the member agencies. These include projected water demands (from FY 2024 as previously explained), average annual water deliveries over the past 10 years, and number of retail accounts.

Table 6: Cost Allocation Metrics

Wholesale Customer	Annual Water Use		Number of Customers (Accounts)
	Variable Costs	Fixed Costs	
	Projection for FY 2024 (AF)	10-Year Average (AF)	
San Juan WD - RSA	11,229	11,950	10,967
Citrus Heights WD	8,713	10,600	19,845
Fair Oaks WD	5,612	7,720	14,174
Orange Vale WC	3,700	3,950	5,621
City of Folsom	1,025	1,180	1,076
Totals	30,279	35,400	51,684

Table 7 show the departmental costs being allocated to one of the three types of costs described above (Variable, District fixed, or Customer-related fixed). Miscellaneous revenues and the use of reserves are credited entirely to the District-fixed costs category. Note that costs and revenues in Table 7 are taken from FY 2024, which is intended to be a representative year of costs and revenues. For this reason, the Miscellaneous Revenue in Table 7 excludes the budgeted revenue from SSWD for FY 2024, which results in a larger Use of Cash Reserves than indicated in the financial plan (Section 2). This deviation from the financial plan assumptions does not change the calculated rate for member agencies since the Miscellaneous Revenues and Use of Cash Reserves affect the rates identically.

The lower portion of Table 7 shows how the costs in each category are summed and then expressed as unit costs by dividing the sum total by the applicable metric. For example, the total variable costs are \$1,603,700 and the unit cost is \$52.96 per AF after dividing those costs by 30,279 AF.

Table 7: Cost Allocation Steps

		District Variable Costs	District Fixed Costs	Customer-Related Fixed Costs
	Total Costs (FY 2024)	30,279 AF	Units of Service 35,400 AF	51,684 Accounts
1				
2	Cost Category			
3	Source of Supply	\$490,700	\$874,200	
4	Water Treatment & Operations	\$1,113,000	\$2,796,700	
5	Executive & Board of Directors		\$657,000	
6	Administration & Info. Tech.		\$921,000	
7	Finance & Purchasing		\$533,200	
8	Human Resources		\$476,800	
9	Engineering		\$473,400	
10	Conservation & Outreach			\$170,700
11	Existing Debt Service		\$1,518,200	
12	Hinkle Reservoir Debt Service		\$280,000	
13	Capital Outlay		\$3,909,000	
14	Offsetting Miscellaneous Revenues	-\$1,799,400	-\$1,799,400	
15	Use of Cash Reserves	-\$2,821,300	-\$2,821,300	
16	Total Revenue Requirement	\$1,603,700	\$7,818,800	\$170,700
17	Unit Costs of Service	\$52.96 per actual AF	\$220.87 per AF (10-Year Average)	\$3.30 per account

Table 8 summarizes the proposed rate for the member agencies based on the unit rates shown at the bottom of **Table 9** and the average maximum water demands associated with each member agency. The Quarterly O, M, R, & D Service Charge (operation, maintenance, replacement, and debt) includes both the District fixed costs and the Customer-base fixed costs. Note that Table 8 separates the 2019 Hinkle Debt Service Charge from the O, M, R, & D Service Charge for demonstration purposes only. Going forward the District will combine the two charges (as shown in Schedule 3).

Table 8: Proposed Rates for CY 2024

Member Agencies	Quarterly Charges		
	O, M, R, & D Service Charges	Hinkle Debt Charges	Total Quarterly Charges
San Juan Water District	\$645,275	\$23,625	\$668,900
Citrus Heights Water District	\$580,725	\$20,950	\$601,675
Fair Oaks Water District	\$422,725	\$15,275	\$438,000
Orange Vale Water Company	\$214,925	\$7,800	\$222,725
City of Folsom	\$63,725	\$2,325	\$66,050

Notes:

2023 Hinkle Debt Service Charge is shown separately for transparency only, the adopted rate schedule will include all debt in the the O, M, R, & D Service Charge. Capital facilities charges are not shown. City of Folsom is also subject to a pumping surcharge and an additional debt service charge.

Table 9 has been provided as an *estimate* of the total costs to each member agency in CY 2024. Only an estimate can be provided since the actual Usage charge will depend on actual usage by each respective member agency. As with Table 8, the 2019 Hinkle Debt Service Charge has been broken out from the O, M, R, & D Service Charge for demonstration purposes only.

Table 9: Estimated Total Costs to Member Agencies for CY 2024 ¹

Wholesale Customers	Usage Rates	District Fixed Cost Charge	Customer-Related Fixed Charge	2023 Hinkle Debt Service Fixed Charge	Total Estimated Annual Costs	
					(\$)	(%)
Unit Costs of Service -->	\$52.96 per actual AF	\$212.96 per peak AF	\$3.30 per account	\$7.91 per peak AF		
San Juan Water District (Retail)						
Units of Service	11,229	11,950	10,967	11,950		
Allocation of Costs	\$594,700	\$2,544,900	\$36,200	\$94,500	\$3,270,300	34.1%
Citrus Heights Water District						
Units of Service	8,713	10,600	19,845	10,600		
Allocation of Costs	\$461,400	\$2,257,400	\$65,500	\$83,800	\$2,868,100	29.9%
Fair Oaks Water District						
Units of Service	5,612	7,720	14,174	7,720		
Allocation of Costs	\$297,200	\$1,644,100	\$46,800	\$61,100	\$2,049,200	21.4%
Orange Vale Water Company						
Units of Service	3,700	3,950	5,621	3,950		
Allocation of Costs	\$196,000	\$841,200	\$18,500	\$31,200	\$1,086,900	11.3%
City of Folsom						
Units of Service	1,025	1,180	1,076	1,180		
Allocation of Costs	\$54,300	\$251,300	\$3,600	\$9,300	\$318,500	3.3%
Totals:	\$1,603,600	\$7,538,900	\$170,600	\$279,900	\$9,593,000	100%

¹ The costs in this table are only estimated because the variable costs assume the water usage as projected for CY 2025. Actual variable costs for each member agency will depend on actual water usage. The fixed costs are accurate for CY 2024. Some bottom-line totals do not match Table 8 totals due to rounding.

Section 4. CAPITAL FACILITY CHARGES

In 2015, the District adopted a system of capital facilities charges related to a small number of planned wholesale capital improvement projects that benefit some, but not all, of the wholesale customers. The charges help to ensure equitable and timely cost recovery for these projects and recover the costs for projects with unique cost sharing attributes. The capital facilities charges recover costs through fixed quarterly charges over a five-year period.

The capital facility charges adopted in 2017 have all been paid off. Going forward, the only new project that is a candidate for a capital facility charge is the Hazel Ave 12-inch transmission main replacement project, of which this Study assumes that Orangevale Water Company will be responsible for \$330,000. **Table 10** presents an updated capital facilities charge schedule. The start date of this project has not yet been finalized; therefore, the repayment schedule has been expressed as Year 1 through Year 5. “Year 1” will occur during the fiscal year when the design costs are first incurred. If the cost of the project deviates from the current projection of \$330,000, the true-up for the final costs will occur in Year 5.

Table 10: Capital Facility Charge Schedule for Orangevale Water Company

Year 1	\$66,000
Year 2	\$66,000
Year 3	\$66,000
Year 4	\$66,000
Year 5*	\$66,000
Total:	\$330,000

* Subject to change pending true-up of final project costs.

Section 5. TREAT-AND-WHEEL RATES

In October 1994, the District amended an agreement with the Northridge Water District (now Sacramento Suburban Water District, or SSWD) concerning the diversion, treatment, and conveyance of water. Under this agreement, the District agreed to use available surplus capacity to treat and wheel surface water through the wholesale water system to SSWD, upon SSWD's request. The agreement contemplates the delivery of SSWD's own water (or water obtained by SSWD), herein referred to as "SSWD water," or surplus District water, as conditions and circumstances may dictate. Such conditions may include (but are not limited to) Water Forum Agreement conditions. At present, it is generally SSWD water that is moved through the District's wholesale water facilities for delivery to SSWD at the westerly terminus of the cooperative transmission pipeline at C-Bar-C Park.

The relevant section of the 1994 agreement provides the following language for charging SSWD for water deliveries:

4. Payment for Use of Surplus Capacity or Surplus Water. San Juan's charge to Northridge for use of Surplus Capacity in San Juan's Facilities to deliver Surplus Water or Northridge Water shall be at the same average wholesale water rate it charges to San Juan's Member Districts, plus a charge to cover the pro rata cost of treating water to be delivered to Northridge to the extent treatment costs are not included in the wholesale water rate. The charge for using Surplus Capacity to divert, treat, and deliver Northridge Water shall not include the cost-of-water component of San Juan's wholesale water rate, but may include the cost to San Juan to obtain Surplus Water specifically for the purpose of making it available for delivery to Northridge.

In 2017 the District and SSWD signed an updated agreement which included the following language in Section 4, Paragraph 2:

“Effective January 1, 2017, utilizing the current structure of SJWD's Wholesale Financial Plan and Water Rate Study, SSWD's per acre foot cost of water shall be the total average cost of service for the Wholesale entity, less the burdened Cost of Supply, with the sum divided by the estimated annual water use of the wholesale customer entities.”

The following calculation methodology for determining an appropriate treat-and-wheel water rate for SSWD is proposed based on guidance provided by the 2017 agreement:

$$\text{SSWD Rate: } \frac{\text{SJWD Wholesale Revenue Requirement} - \text{Burdened Source of Supply Costs}}{\text{Estimated Annual SJWD Water Deliveries}}$$

Below the rate has been updated with cost data and water usage assumptions found in Section 3.2.

$$\text{SSWD Rate: } \frac{\$9,593,200 - \$1,546,758}{30,279 \text{ AF}} = \$265.74 / \text{AF}$$

The Revenue Requirement value comes from Row 16 of Table 7 and the water delivery value comes from Table 6. The Burdened Source of Supply Cost comes from the following Table 11, which also uses values from Table 7. In the top half of the table the operating costs are categorized as either Supply Costs or Non-Supply costs and then the totals are compared and expressed as percentages (see Row 6). These percentages are then applied to the Administrative Costs and Miscellaneous Revenues in the lower half of the table to calculate the Net Administrative Costs, which are added to the supply operating costs to calculate the total Burdened Source of Supply Cost (Row 13). This method of calculating the burdened costs is called the “indirect allocation method” and uses the relative value of dollars on the operating side to determinate how to allocate administrative costs.

Table 11: Calculation of Burdened Source of Supply Cost

Cost Category		Total Cost	District Supply Costs	District Non-Supply Costs
OPERATING COSTS				
1	Source of Supply	\$1,364,900	\$1,364,900	
2	Water Treatment & Operations	\$3,909,700		\$3,909,700
3	Engineering	\$473,400		\$473,400
4	Conservation & Outreach	\$170,700		\$170,700
5	Total Operating Only	\$5,918,700	\$1,364,900	\$4,553,800
6			23%	77%
ADMINISTRATIVE COSTS AND MISCELLANEOUS REVENUES*				
7	Executive & Board of Directors	\$657,000	\$151,510	\$505,490
8	Administration & Info. Tech.	\$921,000	\$212,390	\$708,610
9	Finance & Purchasing	\$533,200	\$122,960	\$410,240
10	Human Resources	\$476,800	\$109,954	\$366,846
11	Miscellaneous Non-Rate Revenue	-\$1,799,400	-\$414,956	-\$1,384,444
12	Net Administrative Costs	\$788,600	\$181,858	\$606,742
13	Total Burdened Costs	\$6,707,300	\$1,546,758	\$5,160,542

* Allocated to Supply vs. Non-Supply Category based on percentages from Row 6

The proposed rate is lower than the effective per-acre-foot rates paid by member agencies in part because the District is simply treating water that is owned by SSWD and therefore all costs of water supply have been removed from the rate.

Based on the proposed overall wholesale water rate increases for 2024 through 2028 from the financial plan model, future SSWD treat-and-wheel water rates would increase as shown in **Table 12**.

Table 12: Recommended Water Rate Revenue Increase

Calendar Year	Rate per AF
2024	\$265.74
2025	\$279.03
2026	\$292.98
2027	\$304.70
2028	\$316.89

Occasionally the District delivers District-owned water to SSWD, rather than SSWD water. In such situations, there is a separate negotiated rate that may or may not incorporate this treat-and-wheel rate. Calculating that particular rate is done by the District on an annual basis and is outside of the scope of this study.

Section 6. HINKLE PUMPING SURCHARGE

The Hinkle Booster Pump Station is used to deliver water to the City of Folsom, as well as to distribute water within the San Juan Water District Retail service area. Because this pumping, and related costs, does not affect other member agencies, the District accounts for the pumping costs to ensure that those costs are recovered from San Juan Water District Retail water system as well as an equitable amount from the City of Folsom. The City of Folsom pays these costs through a surcharge on its delivered water. The current surcharge is \$102.00 per AF.

The costs associated with the pump station include labor, electricity, materials, and depreciation expenses. As part of the current update, an annual depreciation expense of \$175,600 was calculated based on an original construction cost of \$3.55 million and an estimated useful life of 40 years. About half of the water through the Hinkle Pump Station is delivered to the City of Folsom, while the other half goes to the SJWD Retail service area. As such, the costs are split evenly between Folsom and SJWD. The surcharge is calculated by dividing Folsom’s share of the costs by the typical volume of water delivered to the City of Folsom, as summarized in **Table 13**.

Table 13: Hinkle Pumping Surcharge Calculations

	Annual Costs	Retail Share	Folsom Share
Employee Costs:	\$41,100	\$20,550	\$20,550
Electricity Costs:	\$39,300	\$19,650	\$19,650
Material Costs	\$6,500	\$3,250	\$3,250
Depreciation Expense:	\$175,600	\$87,800	\$87,800
Total:	\$262,500	\$131,250	\$131,250

Estimated Annual Water Deliveries to Folsom: **1110 AF**

Pumping Surcharge: \$79.10 per AF

Given that the costs of the Hinkle Booster Pump Station are borne by the SJWD Retail water system, the pumping surcharge revenue collected from the City of Folsom goes to the benefit of Fund 50 (Retail Operating Fund).

The Hinkle Pumping Surcharge should be adjusted annually based on inflation, and periodically reviewed and/or updated to ensure that the surcharge continues to reasonably reflect costs associated with this service to the City.

Section 7. CONCLUSION

This Study used methodologies that are aligned with industry standard practices for rate setting as promulgated by AWWA and all applicable laws. The proposed annual adjustments to the water rates are expected to enable the District to continue to provide reliable service to member agencies.

The District is required to give its member agencies a 150-day noticing period prior to implementing new rates.

As with past practice, the District should monitor financial conditions and needs on an ongoing (annual) basis and update the financial plan model if conditions or plans change sufficiently to warrant an update. Actual future conditions, such as water demand, water sales revenue, operating and maintenance expenses, capital project costs/timing, project financing, etc., may differ from the financial plan assumptions reflected herein. Material differences affecting the overall financial condition of the wholesale water system may warrant closer review and/or an earlier update. The need for and magnitude of annual water rate increases may also be affected by differences between assumed and actual conditions.

SCHEDULES

SCHEDULE 1 – CASH FLOW PRO FORMA (OPERATING FUND AND CAPITAL FUND)

SCHEDULE 2 - CAPITAL SPENDING PLAN

SCHEDULE 3 - 5-YEAR SCHEDULE OF PROPOSED WATER RATES

SCHEDULE 1 – 10-YEAR CASH FLOW PROFORMA (1 OF 2)

Operating Fund (Fund 10)

	Estimated FY 2023	Budget FY 2024	Projected FY 2025	Projected FY 2026	Projected FY 2027	Projected FY 2028	Projected FY 2029	Projected FY 2030	Projected FY 2031	Projected FY 2032	Projected FY 2033	
1	Overall Rate Revenue Increases -->		5%	5%	5%	4%	4%	4%	4%	4%	4%	
2	Beginning Balance	2,054,000	4,554,000	5,107,901	4,206,101	3,541,501	3,071,801	2,758,101	2,611,801	2,641,501	2,864,701	3,292,301
	SOURCE OF FUNDS											
	Rate Revenue											
3	OMR&D Fixed Charges	6,900,984	7,817,000	8,213,000	8,623,000	9,010,000	9,371,000	9,746,000	10,135,000	10,541,000	10,962,000	11,401,000
4	Water Usage Charges	2,235,416	1,548,000	1,626,000	1,708,000	1,784,000	1,856,000	1,930,000	2,007,000	2,087,000	2,171,000	2,258,000
5	Total Rate Revenue	9,136,400	9,365,000	9,839,000	10,331,000	10,794,000	11,227,000	11,676,000	12,142,000	12,628,000	13,133,000	13,659,000
	Miscellaneous Revenue											
6	Non-Service Area Sales	2,697,100	1,381,000	-	-	-	-	-	-	-	-	-
7	Granite Bay Golf Course	12,600	13,200	13,900	14,600	15,200	15,800	16,400	17,100	17,800	18,500	19,200
8	Misc. Operating Revenue	70,000	66,600	69,000	71,000	73,000	75,000	77,000	79,000	81,000	83,000	85,000
9	Interest Earnings	66,500	33,000	48,000	47,000	39,000	33,000	29,000	27,000	26,000	28,000	31,000
10	Total Sources of Funds	11,982,600	10,858,800	9,969,900	10,463,600	10,921,200	11,350,800	11,798,400	12,265,100	12,752,800	13,262,500	13,794,200
	USE OF FUNDS											
11	Source of Supply	884,000	1,364,900	923,300	951,000	980,000	1,009,000	1,039,000	1,070,000	1,102,000	1,135,000	1,169,000
12	Water Treatment & Operations	2,483,258	2,796,224	2,908,000	2,995,000	3,085,000	3,178,000	3,273,000	3,371,000	3,472,000	3,576,000	3,683,000
13	Energy, Chemicals, Utilities & Variable	976,442	1,113,476	1,240,000	1,280,000	1,323,000	1,367,000	1,413,000	1,460,000	1,506,000	1,554,000	1,603,000
14	Executive & Board of Directors	607,800	657,000	683,000	703,000	724,000	746,000	768,000	791,000	815,000	839,000	864,000
15	Administration & Information Technology	758,200	919,400	956,000	985,000	1,015,000	1,045,000	1,076,000	1,108,000	1,141,000	1,175,000	1,210,000
16	Finance	539,400	533,200	555,000	572,000	589,000	607,000	625,000	644,000	663,000	683,000	703,000
17	Human Resources	518,300	476,800	496,000	511,000	526,000	542,000	558,000	575,000	592,000	610,000	628,000
18	Engineering	464,100	473,400	492,000	507,000	522,000	538,000	554,000	571,000	588,000	606,000	624,000
19	Conservation & Outreach	192,700	170,700	178,000	183,000	188,000	194,000	200,000	206,000	212,000	218,000	225,000
20	Non-Operating Expenses	1,600	1,600	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000
21	Debt Service											
22	2017 Refunded COPs (was 2009)	938,700	937,200	934,400	933,600	934,800	934,700	933,500	936,900	933,000	933,700	938,200
23	2022 Refunding Bonds (was 2012)	544,500	581,000	582,000	582,600	580,100	579,800	581,200	578,500	580,600	581,200	-
24	Hinkle Reservoir Debt		280,000	922,000	923,000	922,000	922,000	922,000	922,000	923,000	922,000	922,000
25	Transfer Out to Capital Fund*	573,200	-	-	-	-	-	-	-	-	-	-
26	Total Uses of Funds	9,482,200	10,304,900	10,871,700	11,128,200	11,390,900	11,664,500	11,944,700	12,235,400	12,529,600	12,834,900	12,571,200
27	Change in Fund Balance	2,500,400	553,901	(901,800)	(664,600)	(469,700)	(313,700)	(146,300)	29,700	223,200	427,600	1,223,000
28	Ending Balance	4,554,400	5,107,901	4,206,101	3,541,501	3,071,801	2,758,101	2,611,801	2,641,501	2,864,701	3,292,301	4,515,301
29	Operating Reserve Target (20%)	1,485,000	1,701,000	1,687,000	1,738,000	1,791,000	1,846,000	1,902,000	1,960,000	2,019,000	2,080,000	2,142,000
30	Debt Service Reserve	-	280,000	922,000	923,000	922,000	922,000	922,000	922,000	923,000	922,000	922,000
31	Total Fund 10 Reserve Target	1,485,000	1,981,000	2,609,000	2,661,000	2,713,000	2,768,000	2,824,000	2,882,000	2,942,000	3,002,000	3,064,000

* These transfers to Fund 11 are only hypothetical in order to maintain Fund 10 at the Operating Reserve Target. Actual transfers may differ materially.

SCHEDULE 1 – 10-YEAR CASH FLOW PROFORMA (2 OF 2)

Capital Fund (Fund 11)

	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029	FY 2030	FY 2031	FY 2032	FY 2033
32 Beginning Balance	18,784,000	18,759,000	16,536,600	14,765,500	11,275,200	10,274,000	7,165,700	5,240,400	4,657,800	4,336,400	3,570,800
Sources of Funds											
33 Transfer In from Operations	573,200	-	-	-	-	-	-	-	-	-	-
33 Capital Facilities Charges	-	33,000	66,000	66,000	66,000	66,000	33,000	-	-	-	-
34 Property Taxes	1,376,100	1,403,600	1,432,000	1,461,000	1,490,000	1,520,000	1,550,000	1,581,000	1,613,000	1,645,000	1,678,000
34 Wholesale Connection Fees	220,000	100,000	188,000	324,000	334,000	344,000	355,000	365,000	505,000	520,000	-
35 CSI Solar Rebate	-	-	-	-	-	-	-	-	-	-	-
35 Interest Earnings	189,300	150,000	165,400	147,700	112,800	102,700	71,700	52,400	46,600	43,400	-
36 Debt Proceeds	23,120,600	-	-	-	-	-	-	-	-	-	-
37 Total Sources of Funds	25,479,200	1,686,600	1,851,400	1,998,700	2,002,800	2,032,700	2,009,700	1,998,400	2,164,600	2,208,400	1,678,000
Uses of Funds											
38 Cash Funded Capital Outlay	2,176,100	3,909,000	3,622,500	5,489,000	3,004,000	5,141,000	3,935,000	2,581,000	2,486,000	2,974,000	2,349,000
40 Debt Funded Capital Outlay	23,120,600	-	-	-	-	-	-	-	-	-	-
41 Total Uses of Funds	25,296,700	3,909,000	3,622,500	5,489,000	3,004,000	5,141,000	3,935,000	2,581,000	2,486,000	2,974,000	2,349,000
42 Change of Fund Balance	182,500	(2,222,400)	(1,771,100)	(3,490,300)	(1,001,200)	(3,108,300)	(1,925,300)	(582,600)	(321,400)	(765,600)	(671,000)
43 Ending Balance	18,966,500	16,536,600	14,765,500	11,275,200	10,274,000	7,165,700	5,240,400	4,657,800	4,336,400	3,570,800	2,899,800
44 CIP Reserve Target	3,549,000	3,549,000	3,691,000	3,802,000	3,916,000	4,033,000	4,154,000	4,279,000	4,407,000	4,539,000	4,675,000
45 Debt Service Coverage Ratio *	3.90	2.68	2.29	2.57	2.80	3.04	3.22	3.32	3.49	3.62	2.56

* This debt service coverage ratio is the combined ratio for both the Retail enterprise and Wholesale enterprise

SCHEDULE 2 – CAPITAL SPENDING PROJECTIONS

Capital Spending Plan (1 of 3)

Schedule 2

	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029	FY 2030	FY 2031	FY 2032
Vehicles										
1 Pool - Vehicle #32 - Wholesale Share (Ford Edge) - 50/50 split W/R								\$15,000		
2 Engineering - Vehicle #41 (2022 F-150 SuperCrew; 4x4, 50/50 W/R share)										
3 Engineering - Vehicle #33 (2016 F-150 SuperCab, 25/75 split W/R)		\$16,000								
4 Conservation - Vehicle #34 (2016 Chevy Colorado)								\$11,000		
5 WTP - Vehicle #3 (1991 Ford F-800 Dump)		\$125,000								
6 WTP - Vehicle #7 (2010 Ford F150)		\$50,000								
7 WTP - Vehicle #25 (2009 F650 W/Dump Bed)		\$125,000								
8 WTP - Vehicle #29 (2000 Dodge Dakota SLT Xtra Cab)				\$31,000						
9 WTP - Vehicle #40 (2021 Dodge Promaster 2500)										
10 WTP - Vehicle #45 (2022 Ford F450 Reg Cab Chassis w/ Crane Body)	\$86,000									
11 GEM (Electric two-seater w/ Utility Bed)										
Pre-Treatment										
12 SWC Resurface, Joint Repair, and Caulk					\$273,000					
13 Powdered Activated Carbon System		\$311,000	\$1,282,000							
14 Launderer & Settling Tube Evaluation and Replacement								\$119,000		
Filters										
15 Backwash Hood Rehabilitation	\$150,000	\$425,000	\$438,000							
16 NW and SW Surface Wash Pump Rehabilitations		\$16,000	\$16,500							
17 Tag Line Replacement for BW Hoods		\$15,000	\$15,500							
18 Backwash Hood Track and Rail Replacement		\$32,500	\$33,500							
19 Filter Valve Actuators Replacements										
20 Isolation Valves on Filter Effluent Piping (Filter Gallery)								\$860,000		
21 Filter Effluent Pipe Thickness Testing		\$75,000								
22 Filter Channel Lining/Underdrain Inspection						\$724,000	\$2,983,000			
23 Filter Influent/Effluent Valve Replacement						\$699,000				
Chemical Feed Systems										
24 CL2 Piping Replacement Project			\$82,000							
25 Lime Feeder Replacement										
26 Lime Tower Assmnt/Design & Replm't	\$225,000	\$200,000								
27 Chlorinator Replacement (6)				\$74,000						
28 ProMinet Cl2 Sensors and Cabinets (4)										
29 Update Depolox Analyzers				\$32,000						
30 Turbidimeters Replacement	\$47,800									
31 Dry Polymer Conversion					\$216,000					
32 Streaming Current Controllers (2)						\$56,000				
Solids Handling Facilities										
33 Clarifier (Thickener) Access Ladders	\$50,000	\$150,000								
34 Sludge Feed Pump Replacement (3 pumps)										\$63,000
35 Solids Handling Improvements									\$261,000	\$1,074,000
36 Drying Beds Improvements				\$1,270,000						

Capital Spending Plan (2 of 3)

Schedule 2

	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029	FY 2030	FY 2031	FY 2032
Hinkle/Baldwin Reservoir										
37 Hinkle Res. Monitoring Wells Level Probes										\$74,000
38 Baldwin Channel Culvert Replacement (at Solar Site Access Road)	\$342,500									
39 Hinkle Overflow Channel Lining (East of AFR)		\$342,500								
40 Hinkle Reservoir Cover & Liner Replacement (CASH)	\$774,800									
41 Hinkle Res. Outlet Actuator (Equip & Power)										
42 Rehab Hinkle Reservoir Inlet Structure										
43 Hinkle Res. Temporary Tanks, Piping, & Elec. (SSWD Imp. Inc'd)			\$100,000							
44 Baldwin Road and Fence Improvements (includes bank stabilization)						\$437,000				
45 Hinkle Reservoir Cover & Liner Replacement										
Plant Piping										
46 Reline 60" Pipe from Filters to Inlet Structure			\$180,000			\$1,773,000				
47 TW1 60-in Valve Replacement			\$77,000							
48 New Influent Valve Actuators (Headworks)				\$64,000						
49 48-in Bypass Valves Rehabilitation			\$76,000							
50 Replace North/South Influent Meters (Mag meters)				\$335,000						
Transmission Pipeines										
51 HTB 72-in T-main Joint Seals (WECO Seals, Hinkle to Bacon)		\$762,000								
52 Hazel Ave 12-in T-main Eden Oaks to OVWC Replacement		\$32,000	\$298,000							
53 Twin 54-in T-mains and BFV Actuators Rehab/Repairs		\$200,000								
54 Penstock Manifold and BFV Actuators Rehab/Repair		\$150,000								
55 Corrosion Control Bench Testing			\$52,000							
56 Transmission Main Detailed Condition Assessment Plan		\$100,000								
57 High Priority RCP Pipe Inspection				\$908,000						
58 Medium Priority RCP/CLMS/SP Pipe Inspection							\$551,000	\$567,000	\$584,000	\$602,000
59 54-in and 72-in RCP Joint Rehabilitation									\$368,000	
60 Condition Assessment Plan Update										
61 Low Priority RCP/CMLS/SP Pipe Inspection										
Water Supply Reliability Projects										
62 Supply Reliability Improvements				\$424,000						

Capital Spending Plan (3 of 3)

Schedule 2

	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029	FY 2030	FY 2031	FY 2032
Miscellaneous CIP Items										
63 SBW Pump Station Rehab (& BW EQ Basin)		\$175,000								
64 WTP Generator Replacement										
65 WTP Electrical Panel Relocation			\$201,000	\$1,769,000						
66 Admin/FO/Engr Building Imprmt/Repm't (Whls Share)			\$221,000				\$3,028,000			
67 Security Improvements (WTP)		\$45,000	\$108,000							
68 Corp Site Perimeter Fencing Replacements					\$153,000					
69 Corp Site Paving, Slurry Seal & Re-Stripe				\$206,000						
70 Unspecified Rehab/Upgrade Projects		\$293,000	\$301,000	\$310,000	\$320,000	\$329,000	\$339,000	\$1,009,000	\$1,199,000	\$1,235,000
71 Admin PG&E Electrical Service Upgrade (50/50 split W/R)	\$225,000									
72 SCADA Comm Impv'ts - North Phase (Whsl Share,; Replm't Radios, Fiber, etc.)										
73 Security Fence West End of WTP at WEL Garden					\$33,000					
74 Solar Panel Replacement										
75 WTP Lab Remodel			\$15,000							
76 WTP Carpet Replacement					\$7,000					
77 Wholesale Delivery Mag Meter Replacements (Billing Meters)										
78 SHB - Failing Slumpstone Facing Restoration				\$6,000						
79 Replace and Relocate Electric Panel near sink										
80 Fluke Pressure Calibrator										
81 HVAC Replacements		\$90,000								
82 HVAC Replacement - Admin Bldg (50/50 split W/R)		\$50,000								
83 Power Monitors (Total 11 sites W&R; 2 site Whsl Share)		\$63,000								
84 Land Acquisition (Property Boundary adjustment south of Hinkle Res.)	\$25,000									
85 New Gate for WTP	\$35,000									
86 Corp Site Sewer Evaluation (50/50 split W/R)	\$25,000									
87 Hach pH/DO Lab Meter	\$5,500									
88 In-Plant-Pumps SCADA Integration	\$20,000									
89 Clean Fleet Study and Improvements-CARB (25/75 split W/R)	\$70,000									
90 SCADA Cyber Security Study & Improvements	\$70,000									
91 Flagpole Replacement (50/5 split W/R)	\$5,000									
92 ADA Plan Compliance - Administration Bldg Men's Restroom (50/50 split W/R)	\$7,500									
93 Whsl Meter Terminal Replacements (33 meters total)		\$66,000	\$68,000	\$70,000						
Information Technology										
94 New Servers					\$87,000					
95 New Firewall							\$17,000			
96 New Appliances										
97 Fiber Optic Cabling to Solids Handling Bldg			\$27,000							
98 173Hz Radios (MQTT) - South Phase										
99 Tyler Content Management and Output Director (50/50 split W/R)	\$12,000									
100 Tyler System Upgrades				\$21,000						
Large Non-Capital Projects										
101 Medium Voltage Electrical Service Study					\$55,000					
102 Total Capitals Spending	\$2,176,100	\$3,909,000	\$3,622,500	\$5,489,000	\$3,004,000	\$5,141,000	\$3,935,000	\$2,581,000	\$2,486,000	\$2,974,000

SCHEDULE 3 – FIVE-YEAR COMPREHENSIVE WATER RATE SCHEDULE

	Current Rates	Proposed Rates (effective January 1st)				
		CY 2024	CY 2025	CY 2026	CY 2027	CY 2028
San Juan Water District - Retail						
Water Usage Rate (\$/AF)	\$81.14	\$52.96	\$55.61	\$58.39	\$60.73	\$63.16
Quarterly O, M, R, & D Service Charges	\$578,808.35	\$645,275.00	\$702,345.00	\$737,462.25	\$766,960.74	\$797,639.17
Hinkle Reservoir Debt Charge ¹	\$133,920.00	\$23,625.00	----- (see footnote 1) -----			
Citrus Heights Water District						
Water Usage Rate (\$/AF)	\$81.14	\$52.96	\$55.61	\$58.39	\$60.73	\$63.16
Quarterly O, M, R, & D Service Charges	\$533,570.81	\$580,725.00	\$631,758.75	\$663,346.69	\$689,880.56	\$717,475.78
Hinkle Reservoir Debt Charge ¹	\$125,550.00	\$20,950.00	----- (see footnote 1) -----			
Fair Oaks Water District						
Water Usage Rate (\$/AF)	\$81.14	\$52.96	\$55.61	\$58.39	\$60.73	\$63.16
Quarterly O, M, R, & D Service Charges	\$366,991.51	\$422,725.00	\$459,900.00	\$482,895.00	\$502,210.80	\$522,299.23
Hinkle Reservoir Debt Charge ¹	\$96,255.00	\$15,275.00	----- (see footnote 1) -----			
Orange Vale Water Company						
Water Usage Rate (\$/AF)	\$81.14	\$52.96	\$55.61	\$58.39	\$60.73	\$63.16
Quarterly O, M, R, & D Service Charges	\$189,735.00	\$214,925.00	\$233,861.25	\$245,554.31	\$255,376.48	\$265,591.54
Quarterly Hinkle Reservoir Debt Charge ¹	\$46,035.00	\$7,800.00	----- (see footnote 1) -----			
Quarterly Capital Facilities Charge ²	\$0.00	\$66,000.00	\$66,000.00	\$66,000.00	\$66,000.00	\$66,000.00
City of Folsom						
Water Usage Rate (\$/AF)	\$81.14	\$52.96	\$55.61	\$58.39	\$60.73	\$63.16
Hinkle Pump Station Surcharge (\$/AF) ⁴	\$102.00	\$79.10	----- (to be determined ⁵) -----			
Quarterly O, M, R, & D Service Charges	\$56,139.74	\$63,725.00	\$69,352.50	\$72,820.12	\$75,732.92	\$78,762.23
Quarterly Hinkle Reservoir Debt Charge ¹	\$12,555.00	\$2,325.00	----- (see footnote 1) -----			
Direct Portion of 2022 Debt ³	\$18,476.96	\$19,725.00	\$19,750.00	\$19,775.00	\$19,700.00	\$19,675.00
Sacramento Suburban Water District						
Treat and Wheel Rate (\$/AF) ⁴	\$220.16	\$265.74	\$279.03	\$292.98	\$304.70	\$316.89

Notes:

¹ The existing charge associated with the debt service for the Hinkle Reservoir Rehabilitation Project has not yet been assessed to Member Agencies. For illustrative purposes, the revised debt charge has been shown separately for CY 2024. Starting in CY 2025, the Hinkle Reservoir Debt Charge is combined with the Quarterly Fixed Charge.

² This charge only applies to Orange Vale Water Company for the Hazel Ave. 12 inch transmission main replacement.

³ Unique charge to City of Folsom for debt that was formerly the 2012 bond.

⁴ Per negotiated agreements.

⁵ The District may elect to increase the Hinkle Pump Station Surcharge based on inflation indices.