

WEST BAY SANITARY DISTRICT

FY 2025-26 Sewer Rate Update

Final Report
July 10, 2025





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General Manager,

HF&H Consultants (HF&H) is pleased to submit this report to update the West Bay Sanitary District's (District's) FY 2025-26, FY 2026-27, FY 2027-28, FY 2028-29, and FY 2029-30 sewer rates. The report summarizes the analysis that was conducted to develop the recommended rates. The analysis updates last year's projections to reflect the District's and Silicon Valley Clean Water's (SVCW) current operating and capital cost projections.

The overall increase in revenues will allow the District to:

- Fund inflationary increases in existing staff and sewer collection system operating and maintenance costs.
- Fund \$14.4 million in net, average annual capital projects for the District-maintained collection system. This figure accounts for proceeds from a National Fish and Wildlife grant, which reduces the burden on ratepayers.
- Fund the District's share of SVCW's projected operating and capital costs to operate the wastewater treatment plant which grows from \$18.3 million to \$23.1 million over the five-year study period.
- Fund expected increases in SVCW debt service in subsequent years without resorting to sharp increases in rates beyond the five-year planning period.
- Continue to maintain sufficient reserves to fully fund all Board-approved reserve targets. Over the next five years the District plans to balance the level of rate increases with the use of up to \$44 million of existing reserves to meet the increased volume of District capital expenditures and SVCW debt service.

* * * * *

We appreciate this opportunity to continue working for the District.

Sincerely,

HF&H CONSULTANTS, LLC

Rick Simonson
Senior Vice President

Gabe Sasser
Project Manager



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ACRONYMS

FY	Fiscal Year
CCF or HCF	Hundred cubic feet of metered water sold; 748 gallons; a cube of water 4.6 feet on edge
BOD	Biochemical Oxygen Demand
DU	Dwelling Unit
EDU	Equivalent Dwelling Unit
JPA	Joint Powers Authority
LRFP	Long Range Finance Plan
O&M	Operations and Maintenance
OWDZ	On-Site Wastewater Disposal Zone. Customers receiving supplemental service for maintenance of a STEP or Grinder sewer pump system.
PAYGo	Pay-As-You-Go, in reference to funding capital improvements from cash rather than from borrowed sources of revenue
SVCW	Silicon Valley Clean Water, a Joint Powers Authority that is responsible for regional conveyance and wastewater treatment for West Bay Sanitary District and the cities of Redwood City, San Carlos, and Belmont.
STEP	Septic Tank Effluent Pumping systems



TSS Total Suspended Solids

ACKNOWLEDGEMENTS

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LIMITATIONS

This document was prepared solely for the West Bay Sanitary District in accordance with the contract between the District and HF&H and is not intended for use by any other party for any other purpose.

In preparing this study, we relied on information from the District which we consider accurate and reliable. Our analysis is based on the best available information at the time of the study.

Rounding differences caused by stored values in electronic models may exist.

This document represents our understanding of relevant laws, regulations, and court decisions but should not be relied upon as legal advice. Questions concerning the interpretation of legal authorities referenced in this document should be referred to a qualified attorney.



Section 1. Background and Summary

BACKGROUND

The District provides wastewater collection and conveyance services to approximately 55,000 residential, commercial, and industrial customers through a system of pipelines and pump stations that transport their wastewater to the Silicon Valley Clean Water (SVCW) facility for treatment and discharge into San Francisco Bay. SVCW is a Joint Powers Authority (JPA) that provides wastewater treatment services to the Cities of Redwood City, San Carlos, and Belmont, as well as the District.

The District owns and operates wastewater collection system facilities serving portions of Menlo Park, Atherton, and Portola Valley. Wastewater from these communities is treated at the SVCW treatment plant, the cost for which is billed to the District and included in the District’s sewer service charges. In addition, the District maintains the wastewater collection system operations for the Towns of Los Altos Hills and Woodside, and East Palo Alto Sanitary District under service contracts. Wastewater from these communities is treated at the Palo Alto Regional Water Quality Control plant. Under the services contracts, the District is fully compensated by the agencies. The agencies are responsible for setting rates for their customers, which will cover the District’s cost as well as the cost of treatment.

RECENT RATE INCREASES

During the last five years, the District’s residential sewer service charges per dwelling unit (DU) have increased as shown in **Figure 1-1**.

Figure 1-1. Recent Rates and Rate Increases

	FY 2021-22	FY 2022-23	FY 2023-24	FY 2024-25	FY 2025-26
Residential Sewer Service Charge	\$1,255	\$1,280	\$1,306	\$1,371	\$1,440
Percentage Increase		2.0%	2.0%	5.0%	5.0%
Annual Increase - \$ per Year		\$25	\$26	\$65	\$69

The increases during this period were primarily attributable to SVCW’s increasing debt service allocation to the District to fund treatment plant upgrades and, secondarily, to inflationary increases in the District’s operating and annual capital repair and replacement expenses.

CURRENT SEWER RATES

The District charges sewer customers annually on the tax rolls, which is a common practice for billing for sewer service. Billing on the tax rolls is less expensive than it would be if the District issued its own bills while allowing the County to easily levy liens for nonpayment. Even though the District bills through the tax rolls, its sewer service charges are not a tax or assessment. Unlike taxes or assessments, which are based on land-related characteristics such as assessed value or parcel size, the District’s sewer charges are a form of service fee or charge that is proportionate to the cost of providing sewer service.



Residential customers are currently charged \$1,440 per dwelling unit per year. In addition, approximately 95 homes in the Portola Valley area (located within the On-Site Wastewater Disposal Zone) pay higher charges (currently \$966 per year) for the maintenance of the Septic Tank Effluent Pump (STEP) system or Grinder Sewer Collection Systems that they require.

Commercial customers are billed based on their metered water use from the prior calendar year (measured in CCF or hundred cubic feet). Each non-residential charge is the product of the customer’s actual flow multiplied by the rate corresponding to the customer’s class.

Industrial customers are billed based on each customer’s annual flow and the strength of the customer’s wastewater based on sampling data.

Current rates for FY 2025-26 were adopted by the Board in July 2024, as follows:

Figure 1-2. Current Rates

	Current FY 2025-26
<u>Residential (charge per DU per year)</u>	
Single Family, Multi Family	\$1,440
On-site Wastewater Disposal Zone	\$2,454
<u>Commercial (charge per CCF)</u>	
Retail/Commercial	\$11.60
Institution/Public	\$10.56
Restaurants/Bakeries	\$24.43
Supermarkets with Grinders	\$24.71
Hospitals	\$11.99
Hotels with Dining Facilities	\$19.72
<u>Industrial (measured)</u>	
Flow Rate Charge per CCF	\$8.56
BOD Rate Charge per pound	\$1.51
TSS Rate Charge per pound	\$1.72

UPDATED FIVE-YEAR FINANCIAL PLAN

This report presents an updated financial plan for the District that incorporates the capital improvements identified in the District’s Master Plan, as well as the latest available projections provided by SVCW in their recent January draft of 2025 Long Range Financial Plan. The District’s five-year financial plan comprises:

- Projected District operating and capital expenses to maintain the collection system.
- Projected SVCW operating and capital expenses to maintain and upgrade the sewer treatment plant.
- Projected reserve balances and targets.



- Projected revenues from the District’s current and proposed sewer service charges; and,
- Projected growth within the District.

FINDINGS AND RECOMMENDATIONS

Proposed Rate Increases During Five-Year Planning Period

Previously the Board adopted a 5% rate increase for FY 2025-26 during the Proposition 218 process that occurred in 2024. Since the previous study, the District is facing greater than anticipated capital expenses. Therefore, an updated financial plan was conducted to determine the necessary rate increases for FY 2026-27 through FY 2029-30.

Two scenarios have been considered for rate increases. Scenario #1 represents a lower schedule of rate increases with less impacts on rate payers. Scenario #2 represents larger rate increases to increase reserves in anticipation of large cost increases beyond FY 2029-30. Both scenarios account for the same 5% increase in FY 2025-26, which was recently implemented.

Figure 1-3 summarizes the annual rate increases projected for the five-year planning period, beginning with FY 2025-26 recommended under Scenario #1. The increases summarized in **Figure 1-3** reflect updated assumptions and currently available information. Annual revenue increases do not mirror rate increases, as the District continues to experience growth in the number of customers served. As a result, revenue increases outpace recommended rate increases. The five-year financial plan assumes 73 new dwelling units each year through FY 2029-30.

Figure 1-3. Proposed Rate and Revenue Increases – Scenario #1

Fiscal Year	Projected Base Rate Increase	Projected Revenue Increase
FY 2026-27	4.0%	4.3%
FY 2027-28	4.0%	4.3%
FY 2028-29	4.0%	4.3%
FY 2029-30	4.0%	4.3%

Scenario #2 includes larger rate increases to increase reserves in anticipation of large cost increases beyond FY 2029-30. **Figure 1-4** summarizes the annual rate and revenue increases projected for the five-year planning period, beginning with FY 2026-27.

Figure 1-4. Projected Rate and Revenue – Scenario #2

Fiscal Year	Projected Base Rate Increase	Projected Revenue Increase
FY 2026-27	5.0%	5.3%
FY 2027-28	5.0%	5.3%
FY 2028-29	5.0%	5.3%
FY 2029-30	5.0%	5.3%



Proposed Rates

Figure 1-5 summarizes the current FY 2025-26 rates and the proposed FY 2026-27 through FY 2029-30 rates under Scenario #1, which reflect uniform, annual increases to all rates of 4%, 4%, 4%, and 4%, over the next four fiscal years. The proposed rates reflect the rate increase percentages from Scenario #1, as shown in **Figure 1-3**.

Figure 1-5. Current and Proposed Rates – Scenario #1

	Adopted	Proposed Rates			
	FY 2025-26	FY 2026-27	FY 2027-28	FY 2028-29	FY 2029-30
	Annual Rate Increase	4.0%	4.0%	4.0%	4.0%
Residential (charge per DU per year)					
Single Family, Multi Family	\$1,440	\$1,498	\$1,558	\$1,620	\$1,685
On-site Wastewater Disposal Zone	\$2,454	\$2,553	\$2,655	\$2,761	\$2,872
Commercial (charge per CCF)					
Retail/Commercial	\$11.60	\$12.06	\$12.54	\$13.04	\$13.56
Institution/Public	\$10.56	\$10.98	\$11.42	\$11.88	\$12.36
Restaurants/Bakeries	\$24.43	\$25.41	\$26.43	\$27.49	\$28.59
Supermarkets with Grinders	\$24.71	\$25.70	\$26.73	\$27.80	\$28.91
Hospitals	\$11.99	\$12.47	\$12.97	\$13.49	\$14.03
Hotels with Dining Facilities	\$19.72	\$20.51	\$21.33	\$22.18	\$23.07
Industrial (measured)					
Flow Rate Charge per CCF	\$8.56	\$8.90	\$9.26	\$9.63	\$10.02
BOD Rate Charge per pound	\$1.51	\$1.57	\$1.63	\$1.70	\$1.77
TSS Rate Charge per pound	\$1.72	\$1.79	\$1.86	\$1.93	\$2.01

Figure 1-6 summarizes the current FY 2025-26 rates and the proposed FY 2026-27 through FY 2029-30 rates under Scenario #2, which reflect four consecutive annual increases of 5.0%, applied uniformly to all customers. The proposed rates reflect the rate increase percentages from Scenario #2, as shown in **Figure 1-4**.

Figure 1-6. Current and Proposed Rates- Scenario #2

	Adopted	Proposed Rates			
	FY 2025-26	FY 2026-27	FY 2027-28	FY 2028-29	FY 2029-30
	Annual Rate Increase	5.0%	5.0%	5.0%	5.0%
Residential (charge per DU per year)					
Single Family, Multi Family	\$1,440	\$1,512	\$1,588	\$1,667	\$1,750
On-site Wastewater Disposal Zone	\$2,454	\$2,577	\$2,706	\$2,841	\$2,983
Commercial (charge per CCF)					
Retail/Commercial	\$11.60	\$12.18	\$12.79	\$13.43	\$14.10
Institution/Public	\$10.56	\$11.09	\$11.64	\$12.22	\$12.83
Restaurants/Bakeries	\$24.43	\$25.65	\$26.93	\$28.28	\$29.69
Supermarkets with Grinders	\$24.71	\$25.95	\$27.25	\$28.61	\$30.04
Hospitals	\$11.99	\$12.59	\$13.22	\$13.88	\$14.57
Hotels with Dining Facilities	\$19.72	\$20.71	\$21.75	\$22.84	\$23.98
Industrial (measured)					
Flow Rate Charge per CCF	\$8.56	\$8.99	\$9.44	\$9.91	\$10.41
BOD Rate Charge per pound	\$1.51	\$1.59	\$1.67	\$1.75	\$1.84
TSS Rate Charge per pound	\$1.72	\$1.81	\$1.90	\$2.00	\$2.10



Section 2. Revenue Requirement Projections

A spreadsheet model was developed to derive revenue requirements for the five-year planning period, FY 2025-26 through FY 2029-30. The revenue requirements represent the costs that must be covered by revenue from rates and other sources. The District’s Operations & Maintenance (O&M) budget for FY 2025-26 served as the starting point for projecting the District’s expenses and revenues. SVCW provided the projections of all future SVCW expenses, including debt service, used in the model. The escalation factors summarized in **Figure 2-1** were incorporated in the model for projecting expenses and revenues.

Figure 2-1. Key Modeling Assumptions

Assumptions	FY 2025-26	FY 2026-27	FY 2027-28	FY 2028-29	FY 2029-30
General Inflation	Per Budget	3.0%	3.0%	3.0%	3.0%
Utilities	Per Budget	5.0%	5.0%	5.0%	5.0%
Salaries	Per Budget	4.0%	4.0%	4.0%	4.0%
Benefits	Per Budget	4.0%	4.0%	4.0%	4.0%
SVCW O&M Expenses Increase %	Per Budget	4.0%	4.0%	4.0%	4.0%
Interest on Earnings	2.00%	2.00%	2.00%	2.00%	2.0%
Woodside Revenue Change	Per Budget	3.0%	3.0%	3.0%	3.0%
Los Altos Hills Revenue Change	Per Budget	4.0%	4.0%	3.0%	3.0%
Increase in Annual Residential Customers	73	73	73	73	73
Number of Total Residential Customer Accounts	19,661	19,734	19,807	19,880	19,880
Number of STEP/STEG Customer Accounts	95	95	95	95	95
Annual Percentage in Residential Account Growth	Per Budget	0.4%	0.4%	0.4%	0.4%
Residential Connection Fee per EDU	\$8,608	\$8,608	\$8,608	\$8,608	\$8,608
Connection Fees	\$250,000	\$250,000	\$250,000	\$250,000	\$250,000
Flow Equalization	Per Budget	\$0	\$0	\$0	5.0%
District O&M Expenses	Per Budget	3.0%	3.0%	3.0%	3.4%
Interest on LAIF Earnings		3.0%	3.0%	3.0%	3.0%

The application of these assumptions to the O&M and capital expenses is described below and summarized in **Figure 2-2** and **Figure 2-3**.

DISTRICT O&M EXPENSES

The District’s net O&M expenses (summarized by category in **Figure 2-2**) are projected to increase from approximately \$11.9 million to \$13.8 million over the five-year planning period. The District’s expenses are increasing between 3% and 5% annually per expense category as shown in **Figure 2-1**.



Figure 2-2. District O&M Expense Summary

	Planning Period				
	FY 2025-26	FY 2026-27	FY 2027-28	FY 2028-29	FY 2029-30
Salaries & Benefits	\$8,838,352	\$9,191,886	\$9,559,562	\$9,941,944	\$10,339,622
Materials & Supplies	\$1,026,999	\$1,057,809	\$1,089,543	\$1,122,230	\$1,160,551
Insurance	\$351,149	\$361,683	\$372,534	\$383,710	\$396,813
Contract Services	\$1,120,364	\$1,153,975	\$1,188,594	\$1,224,252	\$1,266,058
Professional Services	\$1,615,500	\$1,663,965	\$1,713,884	\$1,765,300	\$1,825,582
Repairs & Maintenance	\$760,037	\$782,838	\$806,323	\$830,513	\$858,873
Utilities	\$333,916	\$350,612	\$368,142	\$386,550	\$405,877
Other Operating Expenses	\$478,775	\$478,775	\$478,775	\$478,775	\$478,775
Other Operating Revenues	(\$2,613,437)	(\$2,705,072)	(\$2,800,285)	(\$2,893,973)	(\$2,991,160)
Net District Operating Costs	\$11,911,655	\$12,336,472	\$12,777,073	\$13,239,300	\$13,740,990
		3.6%	3.6%	3.6%	3.8%

Note: Other Operating Expenses include administrative costs such as professional memberships, travel and meetings, reimbursements from the Recycled Water Fund and Solid Waste Fund for sewer staff time, and contributions to Local Agency Formation Commission (LAFCo).

DISTRICT CAPITAL EXPENSES

The District’s capital expenses are summarized by category in **Figure 2-3** and reflect the June 2025 revision to the adopted Master Plan projects. The District’s annual, budgeted, net capital expenditures range from a low of \$12.9 million (in FY 2025-26) to \$16.0 million (in FY 2029-30), during the five-year planning period. On average, the District expects to spend approximately \$14.4 million annually on these projects (during the five-year planning period FY 2025-26 to FY 2029-30). This level of capital investment is an increase from recent years when the District spent between \$9.0 million and \$10.0 million dollars annually. The collection system Capital Improvement Program (CIP) expenses is the largest component of the sewer rates revenue requirement.

The increase in CIP demonstrates the District’s intention to maintain its infrastructure in good working order, guaranteeing reliability of its system.

Figure 2-3. CIP Summary

	Planning Period				
	FY 2025-26	FY 2026-27	FY 2027-28	FY 2028-29	FY 2029-30
Administration	\$500,000	\$500,000	\$500,000	\$500,000	\$3,500,000
Collection Facilities	\$1,700,000	\$700,000	\$700,000	\$700,000	\$700,000
Pipe Replacement and/or Rehab.	\$7,649,500	\$5,000,000	\$13,238,300	\$9,329,700	\$12,021,200
Pump Station Improvements	\$4,926,000	\$2,317,000	\$1,000,000	\$0	\$0
Subsurface Lines & Other Capital	\$500,000	\$3,000,000	\$0	\$0	\$0
Capacity Improvements	\$300,000	\$1,704,900	\$704,900	\$3,675,500	\$0
Manhole Raising	\$100,000	\$100,000	\$100,000	\$100,000	\$100,000
Total Capital Expenses	\$15,675,500	\$13,321,900	\$16,243,200	\$14,305,200	\$16,321,200
Less: Connection Fee Revenue	(\$250,000)	(\$250,000)	(\$250,000)	(\$250,000)	(\$250,000)
Less: Grant Proceeds	(\$2,442,056)	\$0	\$0	\$0	\$0
Total Net Capital Expenses	\$12,983,444	\$13,071,900	\$15,993,200	\$14,055,200	\$16,071,200
		1%	22%	-12%	14%

The District plans to fund these capital improvements from a combination of connection fee revenue (from growth), sewer service charge revenue on a pay-as-you-go (PAYGo) basis without issuing debt, and the use of reserves.



DISTRICT RESERVES

In addition to covering annual expenses, sewer service charges need to generate revenue to maintain adequate operations and capital reserves. To determine what constitutes adequate reserve amounts, the reserve balance was subdivided into Operations, Capital, Vehicle and Equipment Replacement, Rate Stabilization, Recycled Water Project, Emergency Reserves, OPEB/PERS Retirement Liability Reserve Fund, and a Treatment Plant Reserve. In this way, it is possible to set recommended target balances for each purpose.

Operations Reserve Minimum Balance

The Operations Reserve provides working capital for monthly O&M expenses. There is a nine-month lag between sewer service charge payments from the County tax assessor; therefore, the minimum Operations Reserve balance is set equal to six months of O&M expenses to provide adequate cash flow. If this minimum balance is maintained, the District should be able to fund its monthly operations cash flow over this extended period without relying on the Capital Reserve for a short-term loan. Maintaining the minimum balance for the Operations Reserve is recommended as the highest priority for the District's reserve accounts.

Capital Reserve Target Balance

The Capital Reserve provides liquidity to fund construction for projects that are funded on a PAYGo basis (as opposed to those that are funded from debt). With adequate capital reserves, the District can pay contractors without encroaching on the Operations or Emergency Reserves.

Should an emergency strike (e.g., earthquake), the District cannot suddenly raise rates to generate additional funds due to state law requirements for such rate increases (e.g., Proposition 218). Moreover, the District bills annually on the tax rolls. Therefore, the District also makes use of the Capital Reserve to have funds on hand to take immediate remedial steps without waiting to procure a loan or issue bonds.

The target balance of \$14.0 million meets the objectives of cash funding capital projects and having emergency funding available for unforeseen events. Maintaining the target balance for the Capital Reserve is recommended after meeting the minimum balances for the Operations Reserve.

Vehicle and Equipment Replacement Fund

The Vehicle and Equipment Replacement fund provides resources to replace District fleet vehicles and operations equipment. The District maintains a schedule for replacement based on the useful life of the asset. The target reserve balance of \$1.0 million ensures there are sufficient funds on hand to keep up with the retirement of old equipment or vehicles with the purchase of their replacements. This fund is tracked separately from the Capital Reserve.

Rate Stabilization Reserve Fund

The Board established a rate stabilization fund to allow a margin of safety for the uncertainty of the timing and amount of SVCW capital expenditures to upgrade the wastewater treatment



facility. The funds could be used to minimize future rate increases and/or to reduce interest expenses by buying down the amount of debt to be issued by SVCW to fund the upgrades. In the past, the District has utilized this reserve to remove a \$13.0 million debt obligation. The District anticipates future debt obligations and is building this reserve to buy down future debt. The target reserve of the revenue stabilization fund is currently set at \$10 million.

OPEB/PERS Retirement Liability Reserve Fund

In February 2018, the Board established a reserve fund to offset the District's unfunded pension liability. In FY 2020-21, the District contributed \$6.2 million of the fund balance to pay off the entire balance of its unfunded accrued liability. The fund has a current balance of \$883,051 as of the end of FY 2023-24 and there are no plans to increase the amount as the District has satisfied their unfunded liability and plans to fund their OPEB/PERS obligations on a PAYGo basis.

Treatment Plant Reserve Fund

Starting FY 2020-21, the Board established a reserve to fund increasing SVCW capital expenses. The reserve is intended to address two notable requirements placed on the District which began in FY 2024-25. First, SVCW requires each member agency to contribute additional funds in lieu of further debt issuance. Based on the draft 2025 Long Range Financial Plan (LRFP), the District will be asked to make a contribution of almost \$2 million to SVCW in FY 2025-26, followed by additional contributions as shown in **Figure 2-4**. Second, in FY 2027-28, each SVCW member agency will begin making payments for its share on a group of WIFIA loans with a 30-year term. The District's annual obligation will be an average of \$3.1 million per annum. These long-term expenses prompted the Board to establish an additional reserve intended to fund planned and unplanned SVCW treatment plant expenses. The Board established a target of \$12.0 million. The reserve is currently fully funded. The District has discretion whether to first use funds from its Rate Stabilization Reserve Fund or its Treatment Plant Reserve Fund but intends to use existing reserves to meet future SVCW capital expenses.

SVCW EXPENSES

Over the next five years, SVCW's treatment costs are projected to be approximately 23% of the District's total revenue requirement. As shown in **Figure 2-4**, SVCW's cost will increase significantly to fund the debt service on a series of bonds and SRF loans, that has been issued to fund the rehabilitation of its interceptors, pump stations, and wastewater treatment plant. The District's treatment charge is allocated in proportion to the number of its EDUs compared with the other SVCW member agencies, currently 26.84%.



Figure 2-4. SVCW O&M and Debt Service Revenue Requirement

SVCW Projected Expenses	Planning Period				
	FY 2025-26	FY 2026-27	FY 2027-28	FY 2028-29	FY 2029-30
Net Operating Expense	\$7,526,417	\$7,827,474	\$8,140,573	\$8,466,196	\$8,804,844
Revenue-Funded Capital (PAYGo)	\$466,801	\$402,600	\$402,600	\$402,600	\$402,600
Debt Reserves	\$1,254,851	\$1,207,800	\$1,342,000	\$1,476,200	\$1,610,400
Cash-in-lieu of Debt/Debt Svc Reserves	\$1,984,943	\$6,632,584	\$2,031,768	\$0	\$0
Transfer to Cash Reserves (CIP)	\$1,043,959	\$1,207,800	\$1,342,000	\$1,476,200	\$1,610,400
Operating Reserves	\$210,892	\$0	\$0	\$0	\$0
Subtotal SVCW PAYGo Capital/Res. Contributions	\$3,706,595	\$8,242,984	\$3,776,368	\$1,878,800	\$2,013,000
Debt Service					
Existing 2018 Bond	\$4,573,034	\$4,566,805	\$4,568,646	\$5,325,375	\$5,327,690
2018, 2021 Revenue Bonds	\$2,385,927	\$2,385,927	\$2,385,927	\$2,385,927	\$2,385,927
SRF for Conveyance Planning	\$29,573	\$61,941	\$97,319	\$236,755	\$0
New WIFIA Loan(s)	\$0	\$0	\$2,998,059	\$2,998,059	\$3,403,250
Subtotal SVCW Debt Service	\$6,988,534	\$7,014,673	\$10,049,951	\$10,946,116	\$11,116,867
Total, SVCW Project Expenses	\$18,221,546	\$23,085,131	\$21,966,892	\$21,291,111	\$21,934,711

TOTAL REVENUE REQUIREMENTS

The foregoing modeling assumptions lead to the projected revenue requirements shown in **Figure 2-5**.

Figure 2-5. Projected Revenue Requirements

SVCW Projected Expenses	Planning Period				
	FY 2025-26	FY 2026-27	FY 2027-28	FY 2028-29	FY 2029-30
SVCW PAYGo Capital/Res. Contributions	\$3,706,595	\$8,242,984	\$3,776,368	\$1,878,800	\$2,013,000
SVCW Debt-funded Capital	\$6,988,534	\$7,014,673	\$10,049,951	\$10,946,116	\$11,116,867
SVCW Operating Expenses	\$7,526,417	\$7,827,474	\$8,140,573	\$8,466,196	\$8,804,844
WBSD PAYGo Capital	\$14,861,022	\$14,873,803	\$14,886,967	\$14,900,527	\$14,914,493
WBSD Operating Expenses	\$14,525,092	\$15,041,543	\$15,577,357	\$16,133,273	\$16,732,150
Total Revenue Requirement	\$47,607,660	\$53,000,477	\$52,431,217	\$52,324,911	\$53,581,353

Highlights of the District’s projected revenue requirements are as follows:

- The District will fund an average of \$8.1 million annually in SVCW operating expenses.
- The District will fund an average of \$13.1 million annually of combined SVCW capital expenditures through contributions to reserves or existing debt service payments.
- The District will fund an average of \$15.6 million annually in collection system O&M costs
- The District will fund an average of \$14.8 million annually in capital expenditures and equipment replacement expenses, net of connection fee revenues and grant proceeds for its own collection system.

To meet increasing costs and to help the District continue to meet reserve targets and debt coverage requirements, future rate increases are recommended. Section 3 will discuss these proposed increases.



Section 3. Proposed Rate Increases

Current rates cannot support the projected revenue requirements shown in **Figure 2-5**. To fund the projected increase in the District’s revenue requirement, we have prepared two rate adjustment scenarios:

- **Scenario #1** represents a lower schedule of rate increases with less impacts on rate payers.
- **Scenario #2** represents larger rate increases to increase reserves in anticipation of large cost increases beyond FY 2029-30.

Both scenarios account for the 5% increase in FY 2025-26, as previously adopted.

The projected rate increases, and corresponding sewer service charge rates, by customer class, are summarized in **Figure 3-1** and **Figure 3-2**.

Figure 3-1. Proposed Rates –Scenario #1

	Adopted	Proposed Rates			
	FY 2025-26	FY 2026-27	FY 2027-28	FY 2028-29	FY 2029-30
	<i>Annual Rate Increase</i>	<i>4.0%</i>	<i>4.0%</i>	<i>4.0%</i>	<i>4.0%</i>
<u>Residential (charge per DU per year)</u>					
Single Family, Multi Family	\$1,440	\$1,498	\$1,558	\$1,620	\$1,685
On-site Wastewater Disposal Zone	\$2,454	\$2,553	\$2,655	\$2,761	\$2,872
<u>Commercial (charge per CCF)</u>					
Retail/Commercial	\$11.60	\$12.06	\$12.54	\$13.04	\$13.56
Institution/Public	\$10.56	\$10.98	\$11.42	\$11.88	\$12.36
Restaurants/Bakeries	\$24.43	\$25.41	\$26.43	\$27.49	\$28.59
Supermarkets with Grinders	\$24.71	\$25.70	\$26.73	\$27.80	\$28.91
Hospitals	\$11.99	\$12.47	\$12.97	\$13.49	\$14.03
Hotels with Dining Facilities	\$19.72	\$20.51	\$21.33	\$22.18	\$23.07
<u>Industrial (measured)</u>					
Flow Rate Charge per CCF	\$8.56	\$8.90	\$9.26	\$9.63	\$10.02
BOD Rate Charge per pound	\$1.51	\$1.57	\$1.63	\$1.70	\$1.77
TSS Rate Charge per pound	\$1.72	\$1.79	\$1.86	\$1.93	\$2.01



Figure 3-2. Proposed Rates – Scenario #2

	Adopted	Proposed Rates			
	FY 2025-26	FY 2026-27	FY 2027-28	FY 2028-29	FY 2029-30
	<i>Annual Rate Increase</i>	<i>5.0%</i>	<i>5.0%</i>	<i>5.0%</i>	<i>5.0%</i>
<u>Residential (charge per DU per year)</u>					
Single Family, Multi Family	\$1,440	\$1,512	\$1,588	\$1,667	\$1,750
On-site Wastewater Disposal Zone	\$2,454	\$2,577	\$2,706	\$2,841	\$2,983
<u>Commercial (charge per CCF)</u>					
Retail/Commercial	\$11.60	\$12.18	\$12.79	\$13.43	\$14.10
Institution/Public	\$10.56	\$11.09	\$11.64	\$12.22	\$12.83
Restaurants/Bakeries	\$24.43	\$25.65	\$26.93	\$28.28	\$29.69
Supermarkets with Grinders	\$24.71	\$25.95	\$27.25	\$28.61	\$30.04
Hospitals	\$11.99	\$12.59	\$13.22	\$13.88	\$14.57
Hotels with Dining Facilities	\$19.72	\$20.71	\$21.75	\$22.84	\$23.98
<u>Industrial (measured)</u>					
Flow Rate Charge per CCF	\$8.56	\$8.99	\$9.44	\$9.91	\$10.41
BOD Rate Charge per pound	\$1.51	\$1.59	\$1.67	\$1.75	\$1.84
TSS Rate Charge per pound	\$1.72	\$1.81	\$1.90	\$2.00	\$2.10

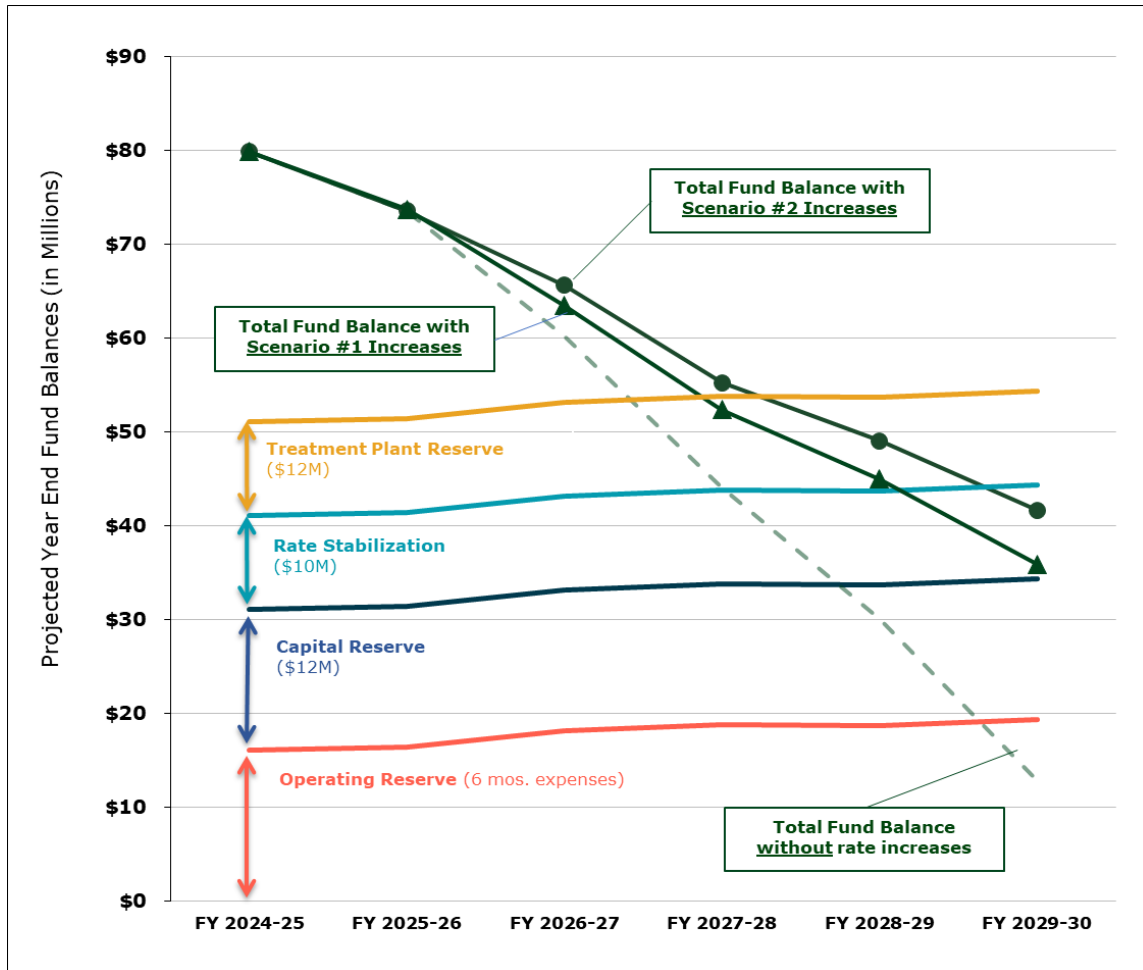
PROJECTED FUND BALANCE

Figure 3-3 shows the District’s total projected annual fund balance during the five-year planning period without rate increases (dashed green line) and with the rate increases proposed under Scenario #1 (solid green line with triangle markers) and Scenario #2 (solid green line with circle markers). Although the projections show straight lines between years, the fund balance will be drawn down and added to during each year. In other words, the reserves are actively drawn from at all times during the year but only periodically added to when payments are received from the County. The reserves are not simply accumulated without being used.

Over the five-year period, under both rate adjustment scenarios, the District would use existing reserves to partially offset the growing revenue requirement. The difference in the two scenarios being how much of the District’s reserves will be used to reduce the impact on rate payers. The use of reserves allows the District to avoid implementing larger rate increases to pay for growing SVCW capital expenses and the District’s collection system capital expenses.



Figure 3-3. Projected Fund Balance



Minimum Fund Balance

The minimum balance (red line) is the balance that is required to meet the District’s operating expenses during the year. The balance is large because the District bills annually on the tax rolls and receives reimbursement from the County twice each year. As a result, there are several months over which the District must rely heavily on its operating reserve to meet its monthly cash flow requirements. Because of the lag between payments from the County, the minimum Operations Reserve balance is set equal to five months of SVCW and District operating expenses.

Target Fund Balance

The target balance is the sum of the minimum balance for operations (red line) plus an allowance for capital reserve (\$14.0 million), vehicle and equipment replacement fund (\$1.0 million), rate stabilization reserves (\$10.0 million), and treatment plant reserves (\$12.0

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million). The capital allowance provides working capital to maintain sufficient funds in order to pay contractors so that work can proceed without delay. Emergency reserves help manage risks associated with sudden asset failures caused by emergencies such as natural disasters or human error. Emergency reserves are a form of capital reserve that can provide a measure of self-insurance so that immediate funding is available for disaster recovery until loans can be arranged. The vehicle and equipment replacement fund provides for the scheduled replacement of the District's fleet vehicles and operational equipment. The District has discretion to use funds from its rate stabilization and treatment plant reserves to address anticipated cost increases to help offset impacts to ratepayers.

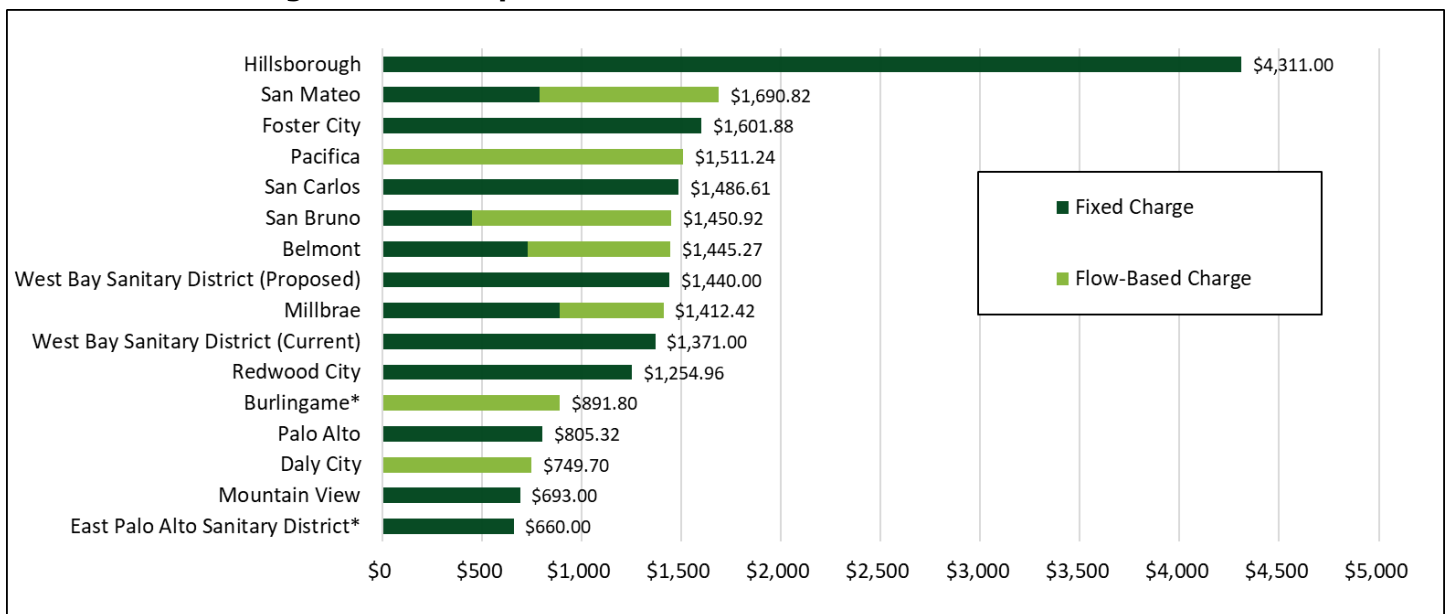


Section 4. Residential Sewer Charge Comparison

Based on available sources, **Figure 4-1** shows the current residential charges for sewer service among various San Mateo and Santa Clara County agencies. The bills reflect projected rates for FY 2025-26, assuming 70 HCF of billed wastewater per year, for agencies with flow-based charges, according to historical residential flow monitoring data. The recent rate increase of 5% in FY 2025-26 would increase the District’s charges above what Millbrae currently charges. However, the District’s residential customer bills would still fall within the median of the range surveyed.

Fellow SVCW member agencies (San Carlos, Belmont, and Redwood City) also face similar additional costs. It is expected that these agencies will be required to increase their rates to cover their share of SVCW costs in the future. Even with the projected rate increases, we would not expect the District’s relative position among its neighbors to change significantly.

Figure 4-1. Comparison of FY 2025-26 Annual Residential Bills



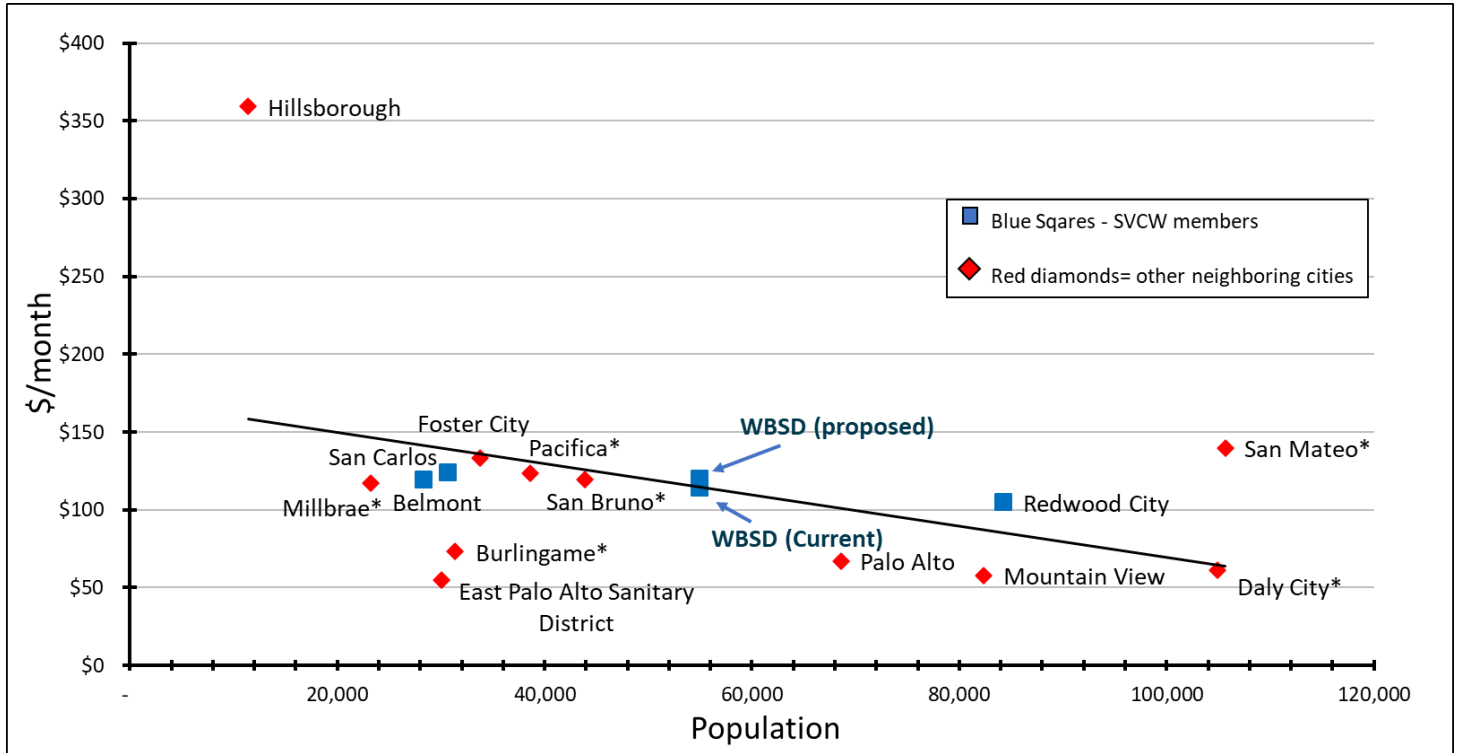
*Agencies that have not adopted rate increases for FY 2025-26.

Figure 4-2 provides some context as to why the District’s charges are more than those of other agencies. The graph shows the District’s current and proposed sewer rates along with the other SVCW member agencies (identified with blue squares in the figure below) and other neighboring agencies. Based on the graph, there is some correlation between larger agencies charging lower rates because they can take advantage of economies of scale and have a larger base of customers over which to distribute fixed costs. Admittedly, there are outliers, such as the higher populated City of San Mateo charging higher rates, and the smaller jurisdiction of East Palo Alto Sanitary District charging lower rates. However, the graph helps explain why the District’s customers are charged higher rates than larger agencies, such as Redwood City, Mountain View, and Palo Alto.

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 Section 4. Residential Sewer Charge Comparison



Figure 4-2. Comparison of FY 2025-26 Monthly Residential Bills and Population



*Agencies with sewer service charges consisting of a flow-based component.
 Note: Monthly bill calculated based on customer water use of 143 gallons per day (5.8 hundred cubic feet per month, which is the average daily water use by West Bay residential customers.



Section 5. Debt Coverage Requirements

In addition to revenue sufficiency and reserve fund balance projections, the rate increase scenarios need to consider the capacity of future revenue projections to meet debt service requirements. Therefore, this section illustrates the debt coverage analysis conducted.

The District has separately issued long-term debt to fund its Recycled Water Program through the California State Revolving Fund (SRF) Loan program. The loan covenant requires the District to maintain a debt coverage ratio of at least 1.2. Under this requirement the District must demonstrate the ratio of net revenues to annual debt service for the forthcoming three-year period (FY 2025-26 through FY 2027-28) exceeds 120%. While the Recycled Water Program may be separately funded, the covenant requirement of this loan obligation applies to all programs of the District, including the sewer services and solid waste services. Therefore, to ensure the District is in compliance, the debt coverage ratio factors in the respective net operating revenues and debt services of the recycled water program, sewer services, and solid waste services.

An explanation of the components used to analyze the debt service coverage follows.

Operating Revenues

The SRF Loan covenant requires operating revenues to be calculated using only approved rates that were previously adopted by the Board of Directors. Therefore, for this analysis, operating revenue projections reflect solid waste revenues at the current 2025 rate (no other increases have been adopted by the Board), current permit and inspection fees for ancillary sewer services, the Sharon Heights Golf and Country Club (SHGCC) recycled water loan payments, operating revenue for sewer service previously identified in the Revenues section of this memorandum, and sewer service charges, based on the Board-adopted rates for FY 2025-26. Operating revenues are shown to increase from \$39.0 million in FY 2025-26 to \$39.8 million in FY 2029-30 (refer to **Figure 5-2**). The increase in revenues is attributable to projected increases from sewer maintenance contracts and projected growth in accounts.

Non-Operating Revenues

Non-operating revenues are made up of investment income and connection fee revenues. Total non-operating revenues are calculated to remain at \$750,000 each fiscal year.

Operating Expenses

Operating expenses include the annual costs the District incurs to provide sewer collection, solid waste, and recycled water service. Per guidance from District staff, this category of expenses also includes the SVCW operating expenses, SVCW PAYGO capital expenses, and SVCW reserve contributions previously identified in this memorandum. Collectively, operating expense projections range from a high of \$31.9 million in FY 2026-27 to a minimum of \$26.5 million in FY 2025-26 over the five-year period. **Figure 5-1** summarizes the operating expenses included in the calculation of debt service coverage.



Figure 5-1. Operating Expenses in Debt Service Coverage Calculation

	Planning Period				
	FY 2025-26	FY 2026-27	FY 2027-28	FY 2028-29	FY 2029-30
Sewer Operating Expenses	\$14,525,092	\$15,041,543	\$15,577,357	\$16,133,273	\$16,732,150
Solid Waste Operating Expenses	\$121,611	\$125,763	\$130,058	\$134,499	\$139,092
Recycled Water Operating Expenses	\$601,993	\$627,357	\$653,816	\$681,419	\$710,215
SVCW PAYGo Capital/Reserve Contributions	\$3,706,595	\$8,242,984	\$3,776,368	\$1,878,800	\$2,013,000
SVCW Operating Expenses	\$7,526,417	\$7,827,474	\$8,140,573	\$8,466,196	\$8,804,844
Operating Expenses	\$26,481,708	\$31,865,122	\$28,278,173	\$27,294,187	\$28,399,301

Outstanding Debt Service

This category of costs accounts for existing and future sewer service debt payments the District will make to SVCW, as well as the annual recycled water facility debt payments the District makes for the facility at SHGCC. Combined annual payments are projected to increase from \$7.6 million in FY 2025-26 to \$14.4 million in FY 2029-30.

Recycled Water Debt

The District will begin re-payment of two loans for the construction of its Bayfront Recycled Water facility beginning in FY 2028-29. Annual payments of \$2.5 million in FY 2028-29 and \$2.6 million in FY 2029-30 have been included.

Future Solar Lease

SHGCC is exploring an option to enter into a Power Purchase Agreement (PPA) loan for solar installation. The District has indicated it may be required to be named as the borrower for this agreement and has asked that the loan conservatively be assumed in the debt coverage calculation. While loan terms are not currently available, a principal loan of \$1.3 million, with a five-year term and a 10% annual interest rate, has been conservatively assumed. The projected annual payment of \$27,621 is estimated to begin FY 2026-27.

DEBT COVERAGE CALCULATIONS

Figure 5-2 calculates the annual debt coverage ratio for a five-year period of FY 2025-26 through FY 2029-30, assuming the previously adopted 5% increase to FY 2025-26 and no additional rate increases.



Figure 5-2. Debt Service Coverage Summary

	Planning Period				
	FY 2025-26	FY 2026-27	FY 2027-28	FY 2028-29	FY 2029-30
Operating Revenues	\$39,009,591	\$39,201,331	\$39,396,649	\$39,590,442	\$39,787,734
Non-Operating Revenues	\$750,000	\$750,000	\$750,000	\$750,000	\$750,000
Operating Expenses	(\$26,481,708)	(\$31,865,122)	(\$28,278,173)	(\$27,294,187)	(\$28,399,301)
Net Revenues	\$13,277,883	\$8,086,209	\$11,868,476	\$13,046,255	\$12,138,433
Outstanding Debt Service to SVCW	\$7,651,445	\$7,677,584	\$10,712,862	\$11,609,027	\$11,779,778
Recycled Water Debt Service	\$0	\$0	\$0	\$2,543,808	\$2,637,169
Future SHGCC PPA Loan	\$0	\$0	\$27,621	\$27,621	\$27,621
Total Debt Service	\$7,651,445	\$7,677,584	\$10,740,483	\$14,180,456	\$14,444,568
Adjusted Debt Service Coverage	1.74	1.05	1.11	0.92	0.84

Note: Operating Expenses calculated in Figure 5-1.

According to projections, the District will meet the minimum debt coverage ratio in FY 2025-26. However, the District's debt service coverage will fall short of the minimum in subsequent fiscal years.

Revenue projections assuming the proposed rate scenarios in **Section 3** were developed to analyze how the debt service coverage ratio would increase with the two scenarios of five-year rate recommendations. Each scenario accounts for the recently implemented 5% increase to rates for FY 2025-26.

Figure 5-3 shows the debt service coverage assuming the rates proposed under **Scenario #1** are adopted (4%, 4%, 4%, and 4% for FY 2026-27 through FY 2029-30, respectively). **Figure 5-4** shows the debt service coverage assuming the rates under **Scenario #2** are adopted (5%, 5%, 5%, and 5% for FY 2026-27 through FY 2029-30, respectively).

Figure 5-3. Debt Service Coverage Calculation – Scenario #1 Rates

	Planning Period				
	FY 2025-26	FY 2026-27	FY 2027-28	FY 2028-29	FY 2029-30
Operating Revenues	\$39,009,591	\$40,633,271	\$42,325,914	\$44,085,291	\$45,919,510
Non-Operating Revenues	\$750,000	\$750,000	\$750,000	\$750,000	\$750,000
Operating Expenses	(\$26,481,708)	(\$31,865,122)	(\$28,278,173)	(\$27,294,187)	(\$28,399,301)
Net Revenues	\$13,277,883	\$9,518,149	\$14,797,741	\$17,541,104	\$18,270,209
Outstanding Debt Service to SVCW	\$7,651,445	\$7,677,584	\$10,712,862	\$11,609,027	\$11,779,778
Recycled Water Debt Service	\$0	\$0	\$0	\$2,543,808	\$2,637,169
Future SHGCC PPA Loan	\$0	\$0	\$27,621	\$27,621	\$27,621
Total Debt Service	\$7,651,445	\$7,677,584	\$10,740,483	\$14,180,456	\$14,444,568
Debt Service Coverage (1.20 = min)	1.74	1.24	1.38	1.24	1.26

Figure 5-4 shows the debt service coverage assuming rates proposed in Section 4 are adopted.



Figure 5-4. Debt Service Coverage Calculation – Scenario #2 Rates

	Planning Period				
	FY 2025-26	FY 2026-27	FY 2027-28	FY 2028-29	FY 2029-30
Operating Revenues	\$39,009,591	\$40,991,232	\$43,076,154	\$45,264,589	\$47,567,358
Non-Operating Revenues	\$750,000	\$750,000	\$750,000	\$750,000	\$750,000
Operating Expenses	(\$26,481,708)	(\$29,912,920)	(\$28,278,173)	(\$27,294,187)	(\$28,399,301)
Net Revenues	\$13,277,883	\$11,828,312	\$15,547,982	\$18,720,402	\$19,918,057
Outstanding Debt Service to SVCW	\$7,651,445	\$7,677,584	\$10,712,862	\$11,609,027	\$11,779,778
Recycled Water Debt Service	\$0	\$0	\$0	\$2,543,808	\$2,637,169
Future SHGCC PPA Loan	\$0	\$0	\$27,621	\$27,621	\$27,621
Total Debt Service	\$7,651,445	\$7,677,584	\$10,740,483	\$14,180,456	\$14,444,568
Debt Service Coverage (1.20 = min)	1.74	1.54	1.45	1.32	1.38

In each rate increase scenario, the District would generate rate revenues that are sufficient to increase the debt service coverage above the minimum coverage ratio for FY 2025-26 through FY 2029-30. Therefore, adopting either rate adjustment scenario will allow the District to meet the debt covenant requirements for its Recycled Water Program SRF loan over the five-year planning period.