

San Antonio Water Company

Report

Comprehensive Water Utility Rate Study





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Section 1 – Executive Summary

1.1 Introduction

Willdan Financial Services (Willdan) is pleased to submit to the San Antonio Water Company (Company) the Water Rate Study report (Report) for your consideration. Willdan has completed the study of the Company's water rates and summarized the results of the investigations, analyses, and conclusions in this Report.

1.1.1 Water System Background

The San Antonio Water Company (Company or SAWCo) is a private non-profit Mutual Water Company 501 (c) (12) incorporated in 1882. Water is delivered only to its shareholders based on established monthly entitlements and a fixed number of outstanding shares. The water that the Company can produce is prorated among the entitlements of outstanding shareholders.

The Company's domestic users in San Antonio Heights are in the unincorporated area of San Bernardino County which comprise of about 10% of total shares. The Company also delivers untreated water to the City of Upland (68% shareholder), Monte Vista Water District (5% shareholder), the City of Ontario (5% shareholder), the Red Hill Golf Course, Holliday Rock and a few remaining grove irrigators. The Company relies on local surface and groundwater supply sources through a diversion along the San Antonio Creek, groundwater infiltrated and conveyed through the San Antonio Tunnel, and from 11 groundwater wells within the Cucamonga, Chino Basin and Six Basins groundwater basins.

As a mutual water company, SAWCo was organized as a private non-profit corporation. Since more than 70% of the shares are owned by municipalities, in 2004, courts determined that the Company is functionally a public entity subject to the Brown Act and Public Records Act. As a result, the Company adopted these acts and amended the By-Laws to include the Brown Act and Freedom of Information Act. The Company is not required to explicitly follow the provisions of Proposition 218 but does strive to follow its spirit in terms of developing cost-of-service based rates and adopting them through a public hearing process.

1.1.2 Shares and Entitlements Background

The Company currently has 6,389 total shares. The Company will issue no more shares; therefore, the number of shares is finite. Each customer's Entitlement is based on their number of shares held. The entire Company is currently equivalent to 13,000 Acre Feet per Year (AFY), which equates to each annual share being approximately 2.03 AFY (or \approx 88,634 cubic feet annually). Although there is a finite number of shares, they are a commodity which may be divided or sold and are not tied to the land. For this reason, even though the "entire water of the company" is known, the distribution of entitlement among the shareholders has an unpredictable nature due the liquidity of the shares. The water that the company can produce is prorated to each shareholder owner.



Generally, demand may not exceed entitlement. Supply is provided to each shareholder based on their entitlement. If a shareholder exceeds their entitlement, they pay the tiered (supplemental) rate. The only water available to those who exceed their entitlement is from shareholders who do not use their entire entitlement. There is no carry-over of entitlement from year to year or month to month.

1.1.3 Rate Study Background

The Company has focused a significant amount of attention and effort on strategic planning measures in all areas of utility operations to ensure that it is able to maintain critical utility infrastructure, provide a stable and well-functioning water system that delivers uninterrupted service to its customers, and so that it remains prepared for the future. As part of its ongoing strategic planning efforts, the Company commissioned Willdan to perform a water rate study to analyze the revenue sources and expenditures of the water utility system and provide recommendations for proposed rate and/or rate structure adjustments to meet the financial and administrative goals and objectives of the Company. The primary objectives of the rate study include:

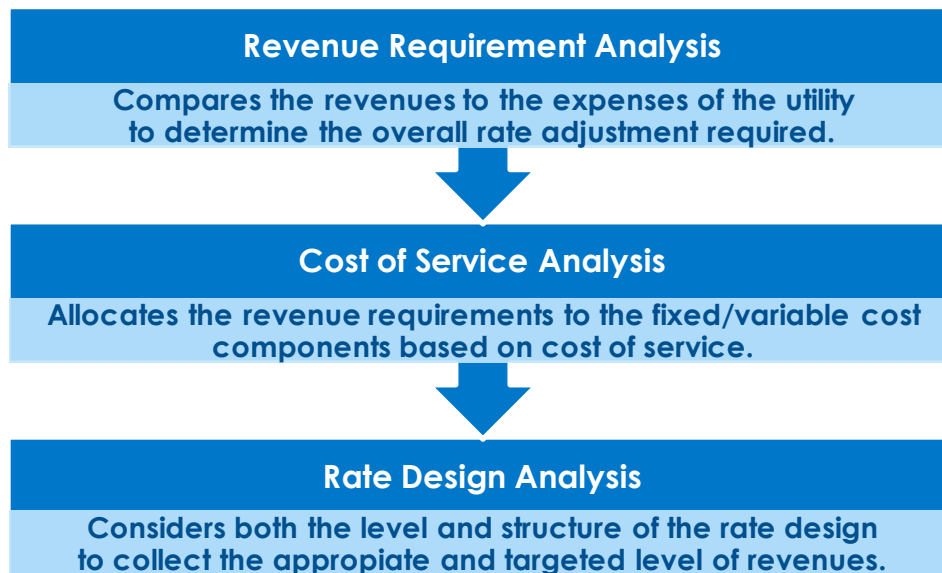
- Full recovery of costs related to utility operations (i.e., operating and maintenance costs, debt, and other expenditure requirements);
- Cost-based rate structures;
- Consistency with American Water Works (AWWA) guidelines;
- Equity among customer classes;
- Maintaining an approach that is generally consistent with Prop 218 requirements;
- Administrative efficiency (i.e., easy to understand and implement); and
- 5-Year capital funding plan.

1.2 Overview of the Rate Study Process

This study includes the development and presentation of a pro-forma water financial plan for a 5-year planning period, as well as the development of cost-based rates through a cost-of-service and rate design analysis. Utility rates must be set at a level such that operating, maintenance, debt, and capital expenses are funded with the revenues received from customers. In addition, the revenues generated from utility rates must only be used for this purpose. This is a significant point, as failure to achieve the revenues needed can lead to unacceptable service levels and inadequately maintained facilities. Therefore, a rate study typically consists of the following three interrelated analyses:



- I. **Financial Planning/Revenue Requirement Analysis:** Creates a five-year plan to support an orderly, efficient program of on-going maintenance and operating costs, debt, and capital improvement and routine system component replacement activities. In addition, the plan should fund and maintain appropriate reserve balances based on industry standards, as well as the Company's fiscal policies and specific needs.
- II. **Cost-of-Service Analysis:** Identifies and apportions annual revenue requirements (i.e., expenditures) to operational and functional cost components based on the demand placed on the utility system. The purpose of this analysis is to develop rates that generate revenues relatively proportionate to the share of each utility's costs. This objective is consistent with industry standards as well as the requirements of Proposition 218 (Prop 218).
- III. **Rate Design:** Develops an equitable and proportionate fixed/variable schedule of rates for the Company's customer base. The policy objectives are coordinated with cost-of-service objectives to achieve a balance between customer equity and financial stability goals. The balance of fixed and variable charges considers the need for a stable revenue source (the fixed charge) and accounts for customers placing higher costs on the system (through higher water use) by incurring a higher bill reflective of their impact on the system (the variable component).



This rate study utilizes generally accepted rate-making principles and standards established by industry experts such as the AWWA in its “M1 - Principles of Water Rates Fees and Charges” manual. The principles established by these entities are used as guidelines in the development of the proposed water rates. A discussion of some of the key principles of ratemaking is presented in the following subsection of this Report.



1.3 Summary of Proposed Rates

The rate study methodology applied in the development of updated water rates, outlined in this Report, consisted of reviewing the historical operating results of the water utility system, analyzing the budget to identify the net revenue requirements to be recovered from user rate revenues, performing general cost-of-service allocations based on the rate components and functional cost categories, and revising the rates based on the applicable costs and expenditures to be recovered from user rates. In addition, an analysis of the system customers and usage characteristics was performed to identify the rate determinants since they drive the recommended rates, which are the primary source for generating revenues. The allocated revenue requirements were utilized in conjunction with the rate determinants and rate structure to develop the proposed water rates.

The findings and conclusions of the rate analysis, as well as the resulting rate recommendations, were utilized to develop a projection of future operating results for a 5-year planning period from Fiscal Year (FY) 2026 (beginning January 1, 2026) through FY 2030 (ending December 31, 2030), herein referred to as the "Projection Period". The purpose for developing the 5-year financial projections is to demonstrate the financial capability of the water revenues to support system operations and fund planned capital improvements. The analyses, findings and accompanying recommendations are presented in the subsequent sections of the Report.

The water rate analysis described in the Report is performed based on the general guidelines of the defined objectives, as well as common industry standards for setting utility rates. In addition to focusing on these major objectives, the rate analyses performed herein will consider other factors in designing rates. As will be discussed in detail later in the Report, such other rate considerations generally include sensitivity to the impact on existing customers, the relative comparability with neighboring utilities and the Company's existing rate structure. The proposed water rates for assumed implementation effective January 1, 2026 (or other such date as determined by the Company) for FY 2026 (FY 2026, herein referred to as the "Test Year") is provided in **Table 1**. The existing rates are provided in **Table 2**.



Table 1 – Proposed Monthly Water Rates

Description	Rate
Monthly Readiness to Serve Charge	
5/8" - 3/4"	\$ 23.14
1.0"	\$ 57.86
1.5"	\$ 115.72
2.0"	\$ 185.16
3.0"	\$ 347.17
4.0"	\$ 578.61
6.0"	\$ 1,157.23
8.0"	\$ 1,851.56
10.0"	\$ 2,661.62
12.0"	\$ 4,976.07
14.0"	\$ 7,406.25
16.0"	\$ 10,600.19
Monthly Readiness to Serve Charge - Weir	
6.0" Weir	\$ 25.46
9.0" Weir	\$ 25.46
10.0" Weir	\$ 46.29
12.0" Weir	\$ 46.29
24.0" Weir	\$ 81.01
30.0" Weir	\$ 138.87
Water Availability Charge - per SHARE	
	\$ 8.38
Volumetric Rates Per 100 Cubic Feet	
Tier 1 - Full Entitle	\$ 0.59
Tier 2 - Over entitle	\$ 2.08
Tier 3 - Double entitle	\$ 3.20



Section 2 – Revenue Sufficiency Analysis

2.1 Financial Planning Principles

While the individual rates for different utility systems may vary based on a variety of factors, rates should be consistent with common rate-making principles within the utility industry. The guiding principle is that rates designed for any utility should provide a reasonable balance between several key factors. In general, the utility rates should:

- Generate a stable revenue stream that, when combined with other sources of funds, is sufficient to meet the expenditure requirements and goals of the system;
- Be based upon the proportionate cost of providing the service and not exceed the cost of providing the service;
- Be equitable – that is, they should generate revenue from customers in a manner which is reasonably in proportion to the cost to provide service to that customer;
- Be easy to understand by customers; and
- Be easy to administer by the water utility.

Striking the appropriate balance between the principles of ratemaking is the result of a detailed process of evaluation of revenue requirements and cost-of-service, and how those translate into the rate design alternatives which meet legal requirements and the specific objectives of the utility under the circumstances in which it operates.

2.2 Existing Rates

The Company has established user rates for water service that are applied to municipal and retail customers of the system. The rates charged for water service are approved by the Company Board of Directors and are not subject to administrative review or approval by any other local or state agency. The Company has historically adjusted rates, as necessary, to provide for recovery of financial obligations such as operating expenses, capital expenditures and any other expenses and transfers.

The existing water rates consist of:

1. **Readiness to Serve Charge** – a fixed charge assessed on a per meter equivalent basis. Domestic customers pay bi-monthly (the monthly Readiness to Serve Charge multiplied by 2), and all other customers pay monthly.
2. **Water Availability Charge** – a fixed charge shareholders pay for the availability of water based on their allocated amount of the water system's shares, including active and inactive shares. Domestic customers pay bi-monthly (the monthly Water Availability Charge multiplied by 2), and all other customers pay monthly.



3. **Volumetric Charge pe 100 cubic feet (CCF)** – each customer pays a volumetric rate per CCF based on the amount of water used. There are three usage tiers that are determined for each respective customer based on their allocated number of system shares. The three usage tiers are based on full entitlement, over entitlement, and double entitlement.

The existing rates for water service are provided in **Table 2**.

Table 2 – Existing Monthly Water Rates

Description	Rate
Monthly Readiness to Serve Charge	
5/8" - 3/4"	\$ 10.00
1.0"	\$ 20.00
1.5"	\$ 40.00
2.0"	\$ 60.00
3.0"	\$ 120.00
4.0"	\$ 150.00
6.0"	\$ 250.00
8.0"	\$ 400.00
10.0"	\$ 1,000.00
12.0"	\$ 1,500.00
14.0"	\$ 1,500.00
16.0"	\$ 1,500.00
Monthly Readiness to Serve Charge - Weir	
6.0" Weir	\$ 11.00
9.0" Weir	\$ 11.00
10.0" Weir	\$ 20.00
12.0" Weir	\$ 20.00
24.0" Weir	\$ 35.00
30.0" Weir	\$ 60.00
Water Availability Charge - per SHARE	
	\$ 8.00
Volumetric Rates Per 100 Cubic Feet	
Tier 1 - Full Entitle	\$ 0.68
Tier 2 - Over entitle	\$ 1.78
Tier 3 - Double entitle	\$ 3.78



2.3 Revenue Sufficiency Process

In evaluating whether the existing rates will generate sufficient revenue to meet the expenditure requirements of the water system, the annual expenditures required for the water utility (herein referred to as the “Revenue Requirements”) were developed. The Revenue Sufficiency Analysis compares the forecasted revenues for the water utility system under existing rates (including customer growth) to the projected Revenue Requirements.

2.3.1 Budget

The Revenue Sufficiency Analysis performed as part of this study and summarized in this Report utilizes the Company's Adopted Budget for FY 2025 (the “Budget” for FY ending December 31, 2025) as one variable to determine the gross Revenue Requirement to be recovered from user rates over the Projection Period.

The Budget, as prepared by the Company, was provided on a line-item basis, and was used for projecting the budgeted financial needs for the Test Year and the remainder of the Projection Period. In developing the rate analysis, certain adjustments are made such that expenditures are categorized into either Operating and Maintenance (O&M) expenses or non-operating expenses. In addition, only recurring costs included in the current Budget were included as part of the Revenue Sufficiency Analysis for the entirety of the Projection Period. One-time costs were identified and evaluated in discussions with Company Staff and removed if appropriate. Recurring annual costs were escalated using suitable indexes or escalation factors, again in discussion with Company Staff and based on historical expense trend analysis.

The O&M expenses are primarily those ongoing costs for labor, materials, chemicals, electricity, supplies, services, etc., required to manage and operate the utility system on a day-to-day basis while maintaining a dependable level of service. The O&M requirements are generally a function of a budgetary process and are directly related to the level of service provided to customers of the utility system. The non-operating expenses include such items as capital outlay and any other expenses & transfers.

The Budget also identifies estimated revenues to be derived from sources other than the retail water user rates. Such other revenue sources include interest earnings on investments, ground leases, and various other miscellaneous income. The revenues generated from the other sources are applied to the gross Revenue Requirements to reduce the amount of revenue required from user rates. The result is the net Revenue Requirement.



2.3.2 Capital Improvement Plan (CIP)

The Company provided a list of anticipated capital projects to be funded over the Projection Period. These are also included in the development of the gross Revenue Requirements. The capital projects provided by and identified by the Company in the CIP are required to modernize and upgrade the system to maintain uninterrupted service to customers by investing in improvements, repairs, or replacements of aging system components as they wear over time. The CIP also includes projects necessary to maintain compliance with State mandated standards for water quality. The Company provided cost estimates for the identified capital projects by the fiscal year in which they are estimated to be undertaken. The funding for these capital projects was then used in the analysis, along with O&M and non-operating expenses, to determine the gross Revenue Requirements for the water system. The capital projects included in the CIP, along with the assumed funding sources by fiscal year, for the Projection Period are provided in **Table 3**.

Table 3 – Water CIP

Description	Funding Source	Projected for Fiscal Year Ending December 31					Total
		2026	2027	2028	2029	2030	
Project							
Pipelines - Cash Funded	Cash	\$ 1,129,781	\$ 1,163,675	\$ 1,198,585	\$ 1,234,542	\$ 1,271,579	\$ 5,998,162
Well 19 Pipeline	Debt	2,008,500	-	-	-	-	2,008,500
Pump Stations	Cash	154,500	159,135	163,909	168,826	173,891	820,261
Reservoirs	Cash	173,813	179,027	184,398	189,930	195,628	922,794
Wells	Cash	212,438	218,811	225,375	232,136	239,100	1,127,860
Tunnel	Cash	103,000	106,090	109,273	112,551	115,927	546,841
Intake	Cash	41,200	42,436	43,709	45,020	46,371	218,736
Total Capital Project Costs		\$ 3,823,231	\$ 1,869,173	\$ 1,925,248	\$ 1,983,006	\$ 2,042,496	\$11,643,155

2.3.3 Debt Service

Based on discussions with and guidance from Company Staff, while the Company currently has no existing debt associated with the water utility system, it is anticipated that the Company may issue debt during the Projection Period to provide funding for the Well 19 Pipeline project identified above in **Table 3**. As previously discussed, a foundational step in the development of revenue requirements for the utility is the creation of a detailed budget and five-year projections, including funding of capital projects. Anticipated payments for any existing and projected debt must be incorporated in this analysis. For this purpose, Willdan developed simple estimates of annual payments that would be anticipated to repay debt obligations associated with identified capital projects in the CIP. These estimates were created for budgeting and planning purposes only. It is important to note that Willdan is not acting as a municipal/financial advisor for the Company in connection with this Rate Study, nor for the structuring of projected bond or debt offerings over the course of the Projection Period. We are not providing debt service schedules, asserting any commitment to issue debt or assist with debt issuance, or providing advice or guidance related to the structure and terms of projected debt. Please refer to **Section 6.1.2** at the end of this report for a more comprehensive municipal advisory disclaimer. The annual existing and proposed debt payments over the Projection Period are provided in **Table 4**.



Table 4 – Annual Debt Service Payments

Description	Projected for Fiscal Year Ending December 31				
	2026	2027	2028	2029	2030
Water Annual Debt Service					
Existing Debt	\$ -	\$ -	\$ -	\$ -	\$ -
Water System Improvements - Future Debt ^[1]	-	157,000	157,000	157,000	157,000
Total Water Annual Debt Service	\$ -	\$ 157,000	\$ 157,000	\$ 157,000	\$ 157,000

Notes:

[1] All projected future debt service included in the analysis is for financial planning purposes only. Willdan is not structuring debt for the Company or acting as the Company's municipal advisor.

2.3.4 Gross and Net Revenue Requirement

The proposed water user rates developed in the Report are designed for assumed implementation in FY 2026 (the Test Year as previously defined). The projected Test Year gross and net Revenue Requirements are estimated by utilizing the Budget, debt, capital estimates and assumed funding sources for capital projects as provided by the Company, along with anticipated transfers to reserves for funding capital projects. The Test Year Revenue Requirements that are used for developing the user rates proposed herein are detailed in **Appendix A** at the end of this report and summarized in **Table 5**.

Table 5 – Test Year Revenue Requirements – FY 2026

Description	Water
Total O&M	\$ 4,120,434
Debt Service	-
Other Expenditures & Transfers	1,577,379
Gross Revenue Requirement	\$ 5,697,813
Less Other Revenues	(472,994)
Net Revenue Requirement	\$ 5,224,819

The projected Revenue Requirements for the water utility system over the entire Projection Period is provided in **Table 6**.

Table 6 – Water Revenue Requirements for the Projection Period

Description	Projected for Fiscal Year Ending December 31				
	2026	2027	2028	2029	2030
Total O&M	\$ 4,120,434	\$ 4,321,841	\$ 4,534,834	\$ 4,760,157	\$ 4,998,617
Debt Service	-	157,000	157,000	157,000	157,000
Other Expenditures & Transfers	1,577,379	1,467,151	1,514,126	1,561,119	1,607,912
Gross Revenue Requirement	\$ 5,697,813	\$ 5,945,992	\$ 6,205,960	\$ 6,478,276	\$ 6,763,529
Less Other revenues	(472,994)	(472,994)	(472,994)	(472,994)	(472,994)
Net Revenue Requirement	\$ 5,224,819	\$ 5,472,998	\$ 5,732,966	\$ 6,005,282	\$ 6,290,535



2.4 Customers & Billable Flows

The rate study is heavily reliant upon a detailed analysis of system customers and accompanying usage and demand characteristics. The existing utility customer base and metered/billable flows provide the determinants utilized in the cost-of-service analysis, and ultimately in calculating the monthly user rates and charges, which become the foundation for projecting future revenues generated by the water utility system.

It is important to note that the customer and flow analysis focuses primarily on the customer classifications that will be subject to and impacted by the user rates and charges to be developed in the Report. This consists of the general service customers that currently pay for water utility services pursuant to the existing user rates and charges as previously detailed. For the purposes of the rate study, it is these customers and their accompanying usage characteristics that will generate revenues based upon the proposed user rates and charges.

2.4.1 Customer Billing Analysis

For the rate study, detailed information was provided by the Company for each customer. This data offered a breakdown of water customers by class and usage characteristics. An analysis of the customer data was conducted to obtain an understanding of existing customers, customer classes, demand and usage characteristics, and metered usage. In accordance with the data, as well as discussions with the Company staff, the utility system provides service to various identifiable retail customer classes consisting of:

- Domestic
- Municipal, and
- Irrigation.

Each of these customer classes embodies certain common characteristics in their utility use and service demand profiles that provide the basis for establishing an equitable allocation of system costs. The customer data was utilized to identify the number of customer accounts, the applicable equivalent residential units (ERUs), and the metered/billable usage profiles. These characteristics were then used to project the number of customers and the metered/billable usage for the Test Year plus the remaining years of the Projection Period.



2.5 Financial Projections Under Existing Rates

The projected customers and accompanying billable flows were applied to the existing rates to develop a projection of user revenues that would be generated under existing rates. The revenues are then compared to the projected revenue requirements/expenditures to determine if revenue adjustments are needed. Based on this comparison, it is projected that under the existing rates, the water utility system would only be able to meet its collective projected O&M financial obligations. Therefore, revenue increases are required to generate additional cash to fund projected costs of capital projects, and to maintain adequate cash reserves. In addition, the Company has an established policy objective of maintaining at least 90 days of operating cash reserves to help fund ongoing operations in the event of periodic fluctuations in cash flow, and to address unexpected needs that may require cash funding. The cash-flow statement outlining the projected operating results under the existing rates is summarized in **Table 7** for the water utility system. The proposed rates and projected financial results are addressed in the subsequent sections of this Report.



Table 7 – Water System Projected Operating Results Under Existing Rates

Description	Projected for Fiscal Year Ending December 31				
	Proposed 2026	2027	2028	2029	2030
Revenues:					
Water Service Charges	\$ 5,000,479	\$ 5,000,479	\$ 5,000,479	\$ 5,000,479	\$ 5,000,479
Other Revenues	472,994	472,994	472,994	472,994	472,994
Total Revenues	\$ 5,473,473	\$ 5,473,473	\$ 5,473,473	\$ 5,473,473	\$ 5,473,473
Less O&M Expenses	(4,120,434)	(4,321,841)	(4,534,834)	(4,760,157)	(4,998,617)
Net Income For Debt	\$ 1,353,039	\$ 1,151,632	\$ 938,639	\$ 713,316	\$ 474,856
Debt Service:					
Existing	\$ -	\$ -	\$ -	\$ -	\$ -
Future	-	157,000	157,000	157,000	157,000
Total Debt Service	\$ -	\$ 157,000	\$ 157,000	\$ 157,000	\$ 157,000
Debt Service Coverage Ratio	N/A	7.34	5.98	4.54	3.02
Balance After Debt	\$ 1,353,039	\$ 994,632	\$ 781,639	\$ 556,316	\$ 317,856
Other Expenditures & Transfers:					
Capital Outlay	\$ -	\$ -	\$ -	\$ -	\$ -
Transfers In	-	-	-	-	-
Transfers Out	-	-	-	-	-
Total Other Expenditures & Transfers	\$ -	\$ -	\$ -	\$ -	\$ -
Net Results	\$ 1,353,039	\$ 994,632	\$ 781,639	\$ 556,316	\$ 317,856
Fund Balance Activity:					
Operating Fund					
Beginning Fund Balance	\$ 2,300,734	\$ 1,015,998	\$ 1,065,660	\$ 1,118,179	\$ 567,090
Deposit/(Withdrawal) from Operations	1,353,039	994,632	781,639	556,316	317,856
Transfer from/(to) Capital Fund	(2,637,775)	(944,970)	(729,120)	(1,107,405)	(884,946)
Total Operating Fund	\$ 1,015,998	\$ 1,065,660	\$ 1,118,179	\$ 567,090	\$ -
Operating Days Cash on Hand	90	90	90	43	0
Depreciation & Obsolescence Fund					
Beginning Fund Balance	\$ 2,172,889	\$ 2,995,933	\$ 2,071,729	\$ 875,601	\$ 0
Transfer from/(to) Operating Fund	2,637,775	944,970	729,120	1,107,405	884,946
Cash Funded CIP Projects	(1,814,731)	(1,869,173)	(1,925,248)	(1,983,006)	(2,042,496)
Total Depreciation & Obsolescence Fund	\$ 2,995,933	\$ 2,071,729	\$ 875,601	\$ 0	\$(1,157,550)
Total Fund Balance	\$ 4,011,930	\$ 3,137,389	\$ 1,993,780	\$ 567,090	\$(1,157,550)



Section 3 – Cost-of-Service (COS) Analysis

3.1 General

The purpose of a COS analysis is to provide a rational basis for distributing the full costs incurred by the Company to provide water service to each shareholder in proportion to their demands placed on the system. Demand within the water utility system comes in two forms. First, the ownership of a share requires the Company to be able to provide service to that share at request. The second is providing delivery of water up to the share's entitlement. As part of the COS analysis, a detailed cost allocation that serves as the basis for the proposed rate adjustments was developed. The COS methodology is based on the types of customers being served, the allocated total shares of the water system, and the billable/metered usage based on each customer's entitlement (i.e., full entitlement, over entitlement, and double entitlement).

3.2 Water Cost-of-Service

The COS utilizes the Revenue Requirements for the Test Year as a cost basis. The Test Year Revenue Requirements, as identified in the previous section of the Report, are functionally unbundled, classified and allocated to customer classes to determine the proportionate COS by class. More detail relating to the water COS approach can be found in **Appendix B**.

3.2.1 Entitlement Usage

The amount of water used by each customer was assessed to determine how much of the system's water usage fell within each entitlement allotment based on their allocated number of the total system's shares. The amount of usage within each entitlement is shown in **Table 8**.

Table 8 – Usage by Entitlement Allotment

Description	Usage (CCF)	Full Entitlement	Over Entitlement	Double Entitlement	Total
Full Entitlement	5,145,106.99	95.45%	3.13%	1.42%	100.00%
Over Entitlement	168,495.31	95.45%	3.13%	1.42%	100.00%
Double Entitlement	76,555.65	95.45%	3.13%	1.42%	100.00%



3.2.2 Functional Unbundling of Revenue Requirements

The water system costs are unbundled into functional operating components consisting of Supply/Treatment, Transmission, Distribution, Customer, and Administration functions. These are the primary services provided by most water utility systems to their customers. A brief description of each component is as follows:

- **Supply/Treatment** – the costs associated with obtaining and converting raw water to potable water;
- **Transmission** – the costs associated with major pumping and large diameter line facilities that transmit potable water throughout the system at-large;
- **Distribution** – the costs associated with smaller diameter lines that carry water to individual customer properties;
- **Customer** – the costs associated with metering, billing, and providing other services to customers (e.g., printing, delivering and collecting utility bills, recordkeeping, etc.);
- **Administration** – various overhead and other non-operating costs.

The allocation of the functionally unbundled revenue requirements for the Test Year are summarized in **Table 9**.

Table 9 – Functionally Unbundled Cost Allocations

Description	Test Year 2026
Total O&M	\$ 4,120,434
Existing Debt Service	0
Future Debt Service	0
Other Expenditures & Transfers	1,577,379
Gross Revenue Requirement	\$5,697,813
Less Other Revenues	(472,994)
Net Revenue Requirement	\$5,224,819
Functional Unbundled Revenue Requirement	
Transmission & Distribution	\$ 861,427
Pumping	1,046,343
Customer Service	10,653
Admin	1,618,370
Source of Supply	583,641
CIP	1,814,731
Non-Rate Revenue	(472,994)
Fund Balance ^[1]	(237,352)
Total	\$5,224,819
Notes:	
[1] Represents a transfer from reserves to provide funding for capital outlay and CIP costs.	



3.2.3 Classification of Water System Costs

As previously addressed, the functionally unbundled water system Revenue Requirements are then classified using the types of customers being served, the allocated total shares of the water system, and the billable/metered usage based on each customer's entitlement (i.e., full entitlement, over entitlement, and double entitlement). The Categories are as follows:

- **Full Entitlement Costs** – variable costs associated with service to customers who do not exceed their full entitlement allotment.
- **Over Entitlement Costs** – variable costs associated with service to customers who exceed their full entitlement allotment.
- **Double Entitlement Costs** – variable costs associated with service to customers who use excessive water that is double their full entitlement allotment.
- **Readiness to Serve Costs** – fixed costs associated with the potential for delivering water and making sure a customer has instantaneous access to water when needed.
- **Water Availability Costs** – fixed costs associated with the availability of water based on the total system's shares.

Costs are separated between those attributable to each one of the cost components mentioned above. Components such as source or supply, pumping, transmission, and distribution are allocated based on flows within each entitlement allotment. Readiness to Serve costs are allocated based on ERUs determined by the number of customers by meter size, and water availability costs are allocated based on the total shares the system can serve.

Based on discussions with Company staff, the general makeup of the customer base is not expected to change, so it is anticipated that the allocation percentages and factors will not change materially during the Projection Period. However, it is important to note that COS analyses are based on the data at a specific point in time (i.e., the most recent fiscal year). To the extent that weather conditions, economic conditions and customer usage characteristics change during the Projection Period, the cost allocators can be impacted. The system-wide costs by service characteristics are shown in **Table 10**.



Table 10 - Classification of Unbundled Revenue Requirements

Component	Readiness to Serve	Water Availability	Full Entitlement	Over Entitlement	Double Entitlement	Total
Transmission & Distribution	\$ 0	\$ 0	\$ 720,561	\$ 82,862	\$ 58,004	\$ 861,427
Pumping	0	0	875,238	100,650	70,455	1,046,343
Customer Service	0	10,653	0	0	0	10,653
Admin	899,490	718,880	0	0	0	1,618,370
Source of Supply	0	0	488,200	56,142	39,299	583,641
CIP	176,029	0	1,370,731	157,630	110,341	1,814,731
Non-Rate Rev & Fund Bal	(128,723)	(87,314)	(413,477)	(47,549)	(33,284)	(710,346)
Total	\$ 946,796	\$ 642,219	\$ 3,041,254	\$ 349,735	\$ 244,815	\$ 5,224,819

3.2.4 Allocation to Customer Classes and Unit Cost Development

The functionalized and classified Revenue Requirements are allocated to customer classes utilizing a unit cost approach as follows:

- **Full Entitlement** – Based on relative percentage of Full Entitlement Annual Usage.
- **Over Entitlement** – Based on relative percentage of Over Entitlement Annual Usage.
- **Double Entitlement** – Based on relative percentage of Over Entitlement Annual Usage.
- **Readiness to Serve** – Based on the relative percentage of ERUs the system serves through the varying capacity of different water meter sizes. These costs represent the potential demand that a respective customer class can place on the water system due to the capacity of their assigned water meters, relative to other sized meters.
- **Water Availability** – Based on the relative percentage of customer shares being served.

The units of service for each component of cost by customer class (if applicable) are provided in **Table 11**. The units of service consist of the number of ERUs, total annual flows in 100 cubic feet (CCF) and system shares. ERUs are based on the number of meter equivalencies being served in accordance with AWWA standards. For reference, **Table 14**, showing meter equivalency factors, follows in the next section (**3.2.5**) of this Report. Full Entitlement, Double Entitlement, and Over Entitlement represent the relative percentage of the total annual usage projected for the test year based on historical customer data. Water Availability shares are based on the total active and inactive shares that the system can serve.



Table 11 – Units of Service

Description	ERUs	SHAREs	Full Entitlement (CCF)	Over Entitlement (CCF)	Double Entitlement (CCF)
Domestic Meters	1,896	1,342	928,435	106,767	74,737
Raw Water Meters	1,513	5,047	4,216,672	61,728	1,819
Total	3,409	6,389	5,145,107	168,495	76,556

The Revenue Requirement for each cost component is divided by its respective unit of service to calculate a unit cost. The unit cost for each cost component is demonstrated in **Table 12**.

Table 12 – Cost Per Unit

Description	Readiness to Serve	Water Availability	Full Entitlement	Over Entitlement	Double Entitlement	Total
Total Revenue Requirement	\$ 946,796	\$ 642,219	\$ 3,041,254	\$ 349,735	\$ 244,815	\$ 5,224,819
Units of Service	3,409	6,389	5,145,107	168,495	76,556	
	ERU/Monthly	SHAREs /Monthly	CCF	CCF	CCF	
Cost Per Unit	\$ 23.14	\$ 8.38	\$ 0.59	\$ 2.08	\$ 3.20	
	per ERU/Month	per SHAREs /Month	CCF	CCF	CCF	

The allocation of the Revenue Requirement to each customer class is determined by multiplying the Units of Service for each customer class (from **Table 11**) by the Cost per Unit for each cost component (from **Table 12**). The resulting total cost to be recovered from each customer class by cost component is shown in **Table 13**. To calculate the Readiness to Serve and Water Availability COS by Customer Class, the monthly Units of Service from **Table 11** are multiplied by twelve (12), representing the number of billing periods, to determine the total annual ERUs and shares being served, then that result is multiplied by the respective Cost per Unit shown in **Table 12**. For the Full Entitlement, Over Entitlement, and Over Entitlement Costs, the Units of Service from **Table 11** are multiplied by the Costs per Unit from **Table 12**.



Table 13 – Cost of Service by Customer Class and Cost Component

Description	Readiness to Serve	Water Availability	Full Entitlement (CCF)	Over Entitlement (CCF)	Double Entitlement (CCF)	Total Costs
Domestic Meters	\$ 526,584	\$ 134,866	\$ 548,794	\$ 221,610	\$ 238,999	\$ 1,670,854
Raw Water Meters	420,212	507,353	2,492,459	128,125	5,815	\$ 3,553,965
Total	\$ 946,796	\$ 642,219	\$3,041,254	\$ 349,735	\$ 244,815	\$5,224,819

3.2.5 Rate Design by Unit Cost

The unit costs developed in the previous section are used to develop the proposed rates for the Test Year. The fixed rate components are based on Readiness to Serve (ERUs) and the allocated Water Availability costs. The volumetric rate component is based on the annual usage by entitlement.

The first component of the fixed meter charge is calculated on an ERU basis. It is common practice in the utility rate-making industry to establish a rate structure that includes an incremental service availability charge (i.e., Readiness to Serve Charge, sometimes also called a meter charge) such that customers placing a greater potential demand requirement on the system (those with larger meters) will pay proportionately more for the service availability component.

The methodology for increasing the service availability charge is based upon standardized meter/capacity criteria established by the AWWA relative to the size and capacity of water meters. The AWWA equivalent meter capacity criteria are commonly used to establish a standard unit of measure for customers, referred to as an ERU. Based upon established standards, an ERU is equivalent to a connection with a 5/8-3/4-inch water meter. The applicable ERU factors for larger water meters are based upon the incremental increase in potential hydraulic capacity of those meters as compared to the standard meter size. These factors are derived from actual flow testing results as performed and defined by the AWWA and commonly utilized by the water and sewer utility industry. The AWWA equivalency factors can be applied to the meter charge for a 5/8-3/4-inch meter to calculate the applicable Readiness to Serve charges for each meter size. A full summary of the AWWA meter-size equivalency factors, and how they compare to the existing meter factors, is provided in **Table 14**.

Table 14 - AWWA Meter Equivalency Factors

Description	AWWA Meter Equivalency Factors ^[1]	Current Meter Equivalency Factors	Difference (AWWA vs Existing)
Meter Size			
5/8" - 3/4"	1.00	1.00	-
1.0"	2.50	2.00	0.50
1.5"	5.00	4.00	1.00
2.0"	8.00	6.00	2.00
3.0"	15.00	12.00	3.00
4.0"	25.00	15.00	10.00
6.0"	50.00	25.00	25.00
8.0"	80.00	40.00	40.00
10.0"	115.00	100.00	15.00
12.0"	215.00	150.00	65.00
14.0"	320.00	150.00	170.00
16.0"	458.00	150.00	308.00
Notes:			
[1] Meter-size equivalency factors established by the AWWA and identified in AWWA Standards C700, M1 and M22.			

Table 15 provides an illustration of how the AWWA meter-size equivalency factors are applied to the total customer accounts by meter-size to determine the total ERUs that the water system serves. The proposed monthly Readiness to Serve Charges for the Test Year are shown in **Table 16**.

Table 15 – Total Monthly Accounts & ERUs

Description	AWWA Factor	Total Accounts by Meter Size	Total Equivalent Residential Units
	[A]	[B]	[C]=[A]*[B]
Meter Size			
5/8 & 3/4 Inch	1.00	840	840
1.0 Inch	2.50	342	855
1.5 Inch	5.00	29	145
2.0 Inch	8.00	14	112
3.0 Inch	15.00	-	-
4.0 Inch	25.00	-	-
6.0 Inch	50.00	3	150
8.0 Inch	80.00	1	80
10.0 Inch	115.00	2	230
12.0 Inch	215.00	1	215
14.0 Inch	320.00	1	320
16.0 Inch	458.00	1	458
All Customer Total		1,234	3,405
Plus:			
12" Weir ^[1]	2.00	2	4
Total		1,236	3,409
Notes:			
[1] Based on discussions with Company staff, it was determined to keep the existing meter factor for 12" Weir customers.			

Table 16 – Readiness to Serve Charge by Meter Size

Description	Readiness to Serve Charge
Meter Size	
5/8 & 3/4 Inch	\$ 23.14
1.0 Inch	\$ 57.86
1.5 Inch	\$ 115.72
2.0 Inch	\$ 185.16
3.0 Inch	\$ 347.17
4.0 Inch	\$ 578.61
6.0 Inch	\$ 1,157.23
8.0 Inch	\$ 1,851.56
10.0 Inch	\$ 2,661.62
12.0 Inch	\$ 4,976.07
14.0 Inch	\$ 7,406.25
16.0 Inch	\$ 10,600.19
12" Weir ^[1]	\$ 46.29

The second component of the fixed charge is the Water Availability Charge. Unlike meter-related costs that vary based on meter size, the Water Availability Charge varies based on each respective customer's allocated shares of the total system. Therefore, the customer unit cost of **\$8.38** (from **Table 12**) is applied to each customer account based on their allocated shares. For example, a customer receiving 10 shares will pay a monthly Water Availability Charge of **\$83.80** per month.

The water volumetric rates are made up of three Entitlement tier allotments that apply specifically to each customer based on their allocated number of shares. The first entitlement allotment represents customers who do not exceed their full entitlement (Full Entitlement). The second entitlement allotment represents customers who go over their full entitlement (Over Entitlement). The third entitlement allotment represents customers who use more than double their full entitlement (Double Entitlement). The costs for each entitlement are divided by the annual usage within each entitlement to calculate the rate per CCF shown in **Table 17**.



Table 17 – Entitlement Volumetric Rate Calculation

Entitlement	Total Cost	CCF	Proposed Rate (\$/CCF)
	[A]	[B]	[C]=[A]/[B]
Full Entitlement	\$ 3,041,254	5,145,106.99	\$ 0.59
Double Entitlement	\$ 349,735	168,495.31	\$ 2.08
Double Entitlement	\$ 244,815	76,555.65	\$ 3.20

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Section 4 – Proposed Test Year Rates

4.1 General

The methodology used to calculate the recommended water rates proposed herein involves applying the projected customer units of service to the user rates developed in the preceding COS and rate analyses to calculate the estimated revenues that would be generated. Then, these projected revenues are compared to the estimated Test Year Revenue Requirements, and the water rates are adjusted on a percentage basis as necessary until the revenues generated are sufficient to meet the revenue needs of the water utility system.

When reviewing potential rate structure options in conjunction with the need for additional revenues, it was determined that revenue adjustments are needed, and the existing rate structure needs to be adjusted based on the COS analysis. The proposed water rates for the Test Year are provided again in **Table 18**.

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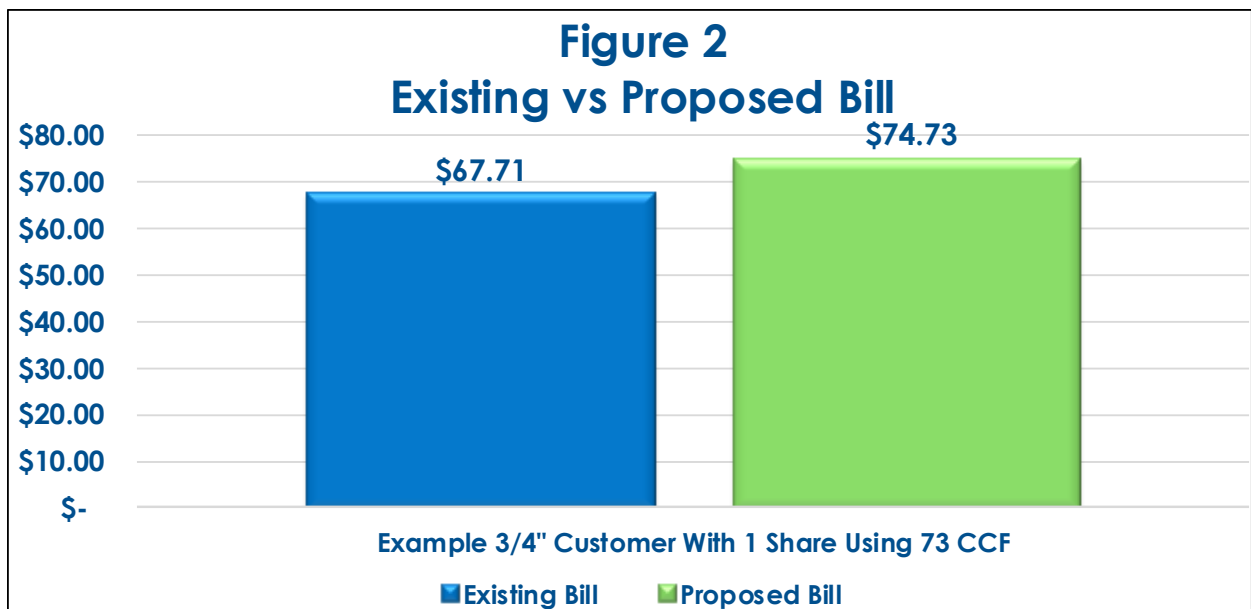
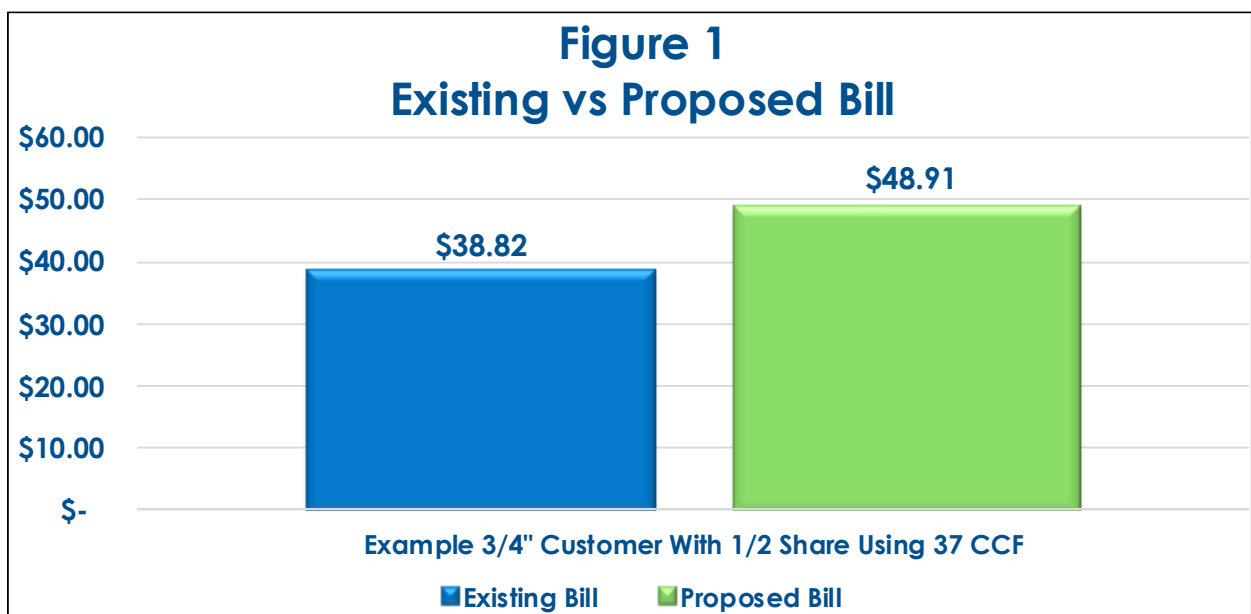
Table 18 – Proposed Monthly Water Rates

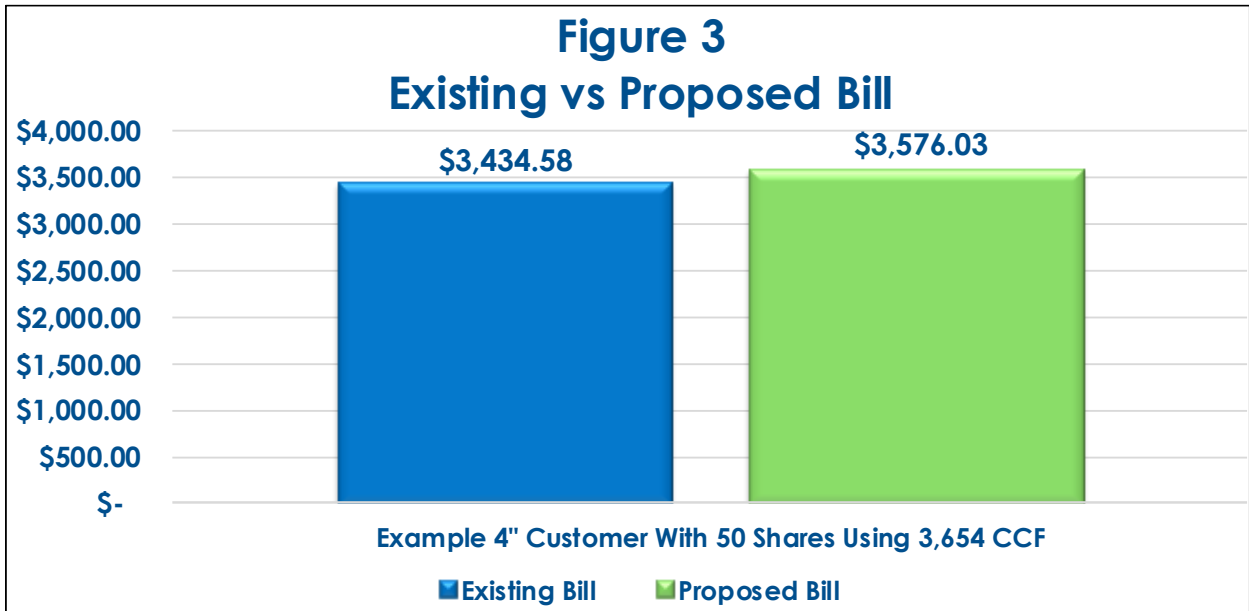
Description	Rate
Monthly Readiness to Serve Charge	
5/8" - 3/4"	\$ 23.14
1.0"	\$ 57.86
1.5"	\$ 115.72
2.0"	\$ 185.16
3.0"	\$ 347.17
4.0"	\$ 578.61
6.0"	\$ 1,157.23
8.0"	\$ 1,851.56
10.0"	\$ 2,661.62
12.0"	\$ 4,976.07
14.0"	\$ 7,406.25
16.0"	\$ 10,600.19
Monthly Readiness to Serve Charge - Weir	
6.0" Weir	\$ 25.46
9.0" Weir	\$ 25.46
10.0" Weir	\$ 46.29
12.0" Weir	\$ 46.29
24.0" Weir	\$ 81.01
30.0" Weir	\$ 138.87
Water Availability Charge - per SHARE	
	\$ 8.38
Volumetric Rates Per 100 Cubic Feet	
Tier 1 - Full Entitle	\$ 0.59
Tier 2 - Over entitle	\$ 2.08
Tier 3 - Double entitle	\$ 3.20

4.2 Shareholder Impacts

In addition to reviewing the effect that a change in rates will have on the system's revenues, it is also important for Company utility management to understand the impact that a change will have on the existing customers.

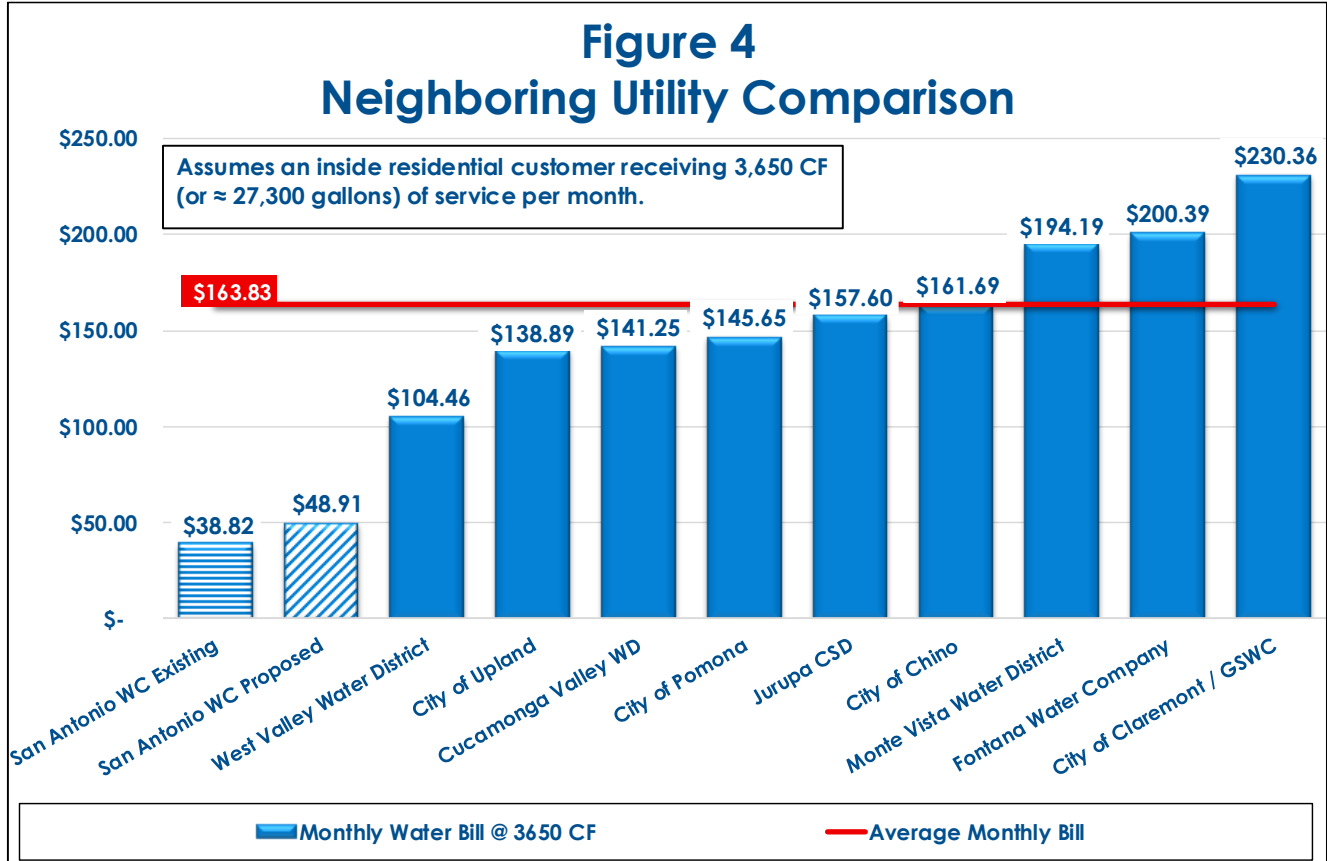
Shareholder impacts will vary depending on the number of shares, water used, and meter size. Presented below are the customer impacts of an average 1/2 share customer with a 3/4" meter (**Figure 1**), an average 1 share customer with the 3/4" meter (**Figure 2**) and an assumed shareholder with a 4" meter and 50 shares (**Figure 3**).





4.3 Rate Comparison with Other Utilities

To provide the Company with additional insight and context regarding the proposed rate levels, the analysis includes a comparison of both the existing and proposed user rates relative to the user rates imposed by other water utility systems located in the same region. A summary analysis is provided comparing the cost of monthly water service for a residential customer calculated under the existing and proposed rates of the Company with those of the other utilities. The Company's existing and proposed bills assume a domestic customer receiving a 1/2 share. The rates utilized for the other neighboring utilities shown in **Figure 4** were in effect as of April 2025 and are exclusive of local taxes, outside surcharges, franchise fees, regulatory fees, and other rate adjustments. A summary comparison with other utilities for a single-family residential customer receiving 3,650 cubic feet of service per monthly billing is illustrated in **Figure 4**.



It should be noted that when making comparisons of water service with other providers, several factors affect the level of rates and charges. Such factors may include:

1. Terms of wholesale service agreements;
2. Time since last rate update for comparison providers;
3. Level of treatment required before the distribution of water to the ultimate customers;
4. Anticipated capital improvement programs and capital financing methods;
5. Plant capacity utilization, age of facilities, and assistance in construction by federal or state grants, connection fees, developer contributions, etc.;
6. General Fund and/or administrative fee transfers made by other systems which may account for differences in the level of rates charged; and
7. Bond covenants and funding requirements of the rates.

For the utilities included in the rate comparisons, no analysis has been carried out with consideration of the above-mentioned factors as they relate to the reported water rates currently being charged.



Section 5 – Projected Operating Results

5.1 General

As a conclusion to the study, a pro-forma operating statement was developed for the water utility system. The statement summarizes the projected financial results based on the system's revenues, expenses and other Revenue Requirements anticipated in future years.

The operating statement covers the 5-fiscal year Projection Period through December 31, 2030, and is prepared on a cash-flow basis. In addition, the operating statement includes the applicable annual percentage rate adjustments necessary to meet the projected Revenue Requirements. The following discussions describe the development of the major components of the projected operating results.

5.2 Projected User Rate Revenues

The user rate and charge revenues are estimated by applying the existing and proposed rates to the projected customer units of service. The resulting revenues are then compared to the projected Revenue Requirements (i.e., O&M expenses, debt service, capital outlay, CIP, transfers, etc.) in each fiscal year to determine if the revenues are sufficient to satisfy the expenditure needs of the utility system. To the extent that there are revenue shortfalls in any given year of the Project Period, the water rates developed from the COS and Rate analysis outlined previously in **Section 3** of this Report are adjusted on a percentage basis, as necessary, to generate the required level of revenues. The projected water user rate revenues are provided in **Table 19**.

Table 19 – Projected Water User Rate Revenues

System	Existing	Proposed	Projected for Fiscal Year Ending December 31			
	2026	2026	2027	2028	2029	2030
Water Revenues						
Readiness to Serve Charge	\$ 299,160	\$ 946,796	\$ 991,768	\$ 1,038,880	\$ 1,088,225	\$ 1,139,918
Water Availability Charge	613,344	642,219	672,725	704,679	738,151	773,214
Volumetric/Consumption Charge	4,087,975	3,635,803	3,808,505	3,989,407	4,178,906	4,377,403
Total Water Revenues	\$5,000,479	\$5,224,819	\$5,472,998	\$5,732,966	\$6,005,282	\$6,290,535

The projected revenues include the annual water rate adjustments anticipated for the remaining years of Projection Period beyond the Test Year. The proposed user rates for which the projected operating results are developed for the entire 5-fiscal year Projection Period are provided in **Table 20**.



Table 20 – Proposed Monthly Water Rates

Description	Existing Rates	Projected for Fiscal Year Ending December 31				
		2026	2027	2028	2029	2030
Monthly Readiness to Serve Charge						
5/8" - 3/4"	\$ 10.00	\$ 23.14	\$ 24.24	\$ 25.40	\$ 26.60	\$ 27.87
1.0"	\$ 20.00	\$ 57.86	\$ 60.61	\$ 63.49	\$ 66.50	\$ 69.66
1.5"	\$ 40.00	\$ 115.72	\$ 121.22	\$ 126.98	\$ 133.01	\$ 139.33
2.0"	\$ 60.00	\$ 185.16	\$ 193.95	\$ 203.16	\$ 212.81	\$ 222.92
3.0"	\$ 120.00	\$ 347.17	\$ 363.66	\$ 380.93	\$ 399.03	\$ 417.98
4.0"	\$ 150.00	\$ 578.61	\$ 606.10	\$ 634.89	\$ 665.04	\$ 696.63
6.0"	\$ 250.00	\$ 1,157.23	\$ 1,212.19	\$ 1,269.77	\$ 1,330.09	\$ 1,393.27
8.0"	\$ 400.00	\$ 1,851.56	\$ 1,939.51	\$ 2,031.64	\$ 2,128.14	\$ 2,229.23
10.0"	\$ 1,000.00	\$ 2,661.62	\$ 2,788.05	\$ 2,920.48	\$ 3,059.20	\$ 3,204.51
12.0"	\$ 1,500.00	\$ 4,976.07	\$ 5,212.44	\$ 5,460.03	\$ 5,719.38	\$ 5,991.05
14.0"	\$ 1,500.00	\$ 7,406.25	\$ 7,758.04	\$ 8,126.55	\$ 8,512.56	\$ 8,916.91
16.0"	\$ 1,500.00	\$10,600.19	\$11,103.70	\$11,631.13	\$12,183.61	\$12,762.33
Monthly Readiness to Serve Charge - Weir						
6.0" Weir	\$ 11.00	\$ 25.46	\$ 26.67	\$ 27.94	\$ 29.26	\$ 30.65
9.0" Weir	\$ 11.00	\$ 25.46	\$ 26.67	\$ 27.94	\$ 29.26	\$ 30.65
10.0" Weir	\$ 20.00	\$ 46.29	\$ 48.49	\$ 50.79	\$ 53.20	\$ 55.73
12.0" Weir	\$ 20.00	\$ 46.29	\$ 48.49	\$ 50.79	\$ 53.20	\$ 55.73
24.0" Weir	\$ 35.00	\$ 81.01	\$ 84.85	\$ 88.88	\$ 93.11	\$ 97.53
30.0" Weir	\$ 60.00	\$ 138.87	\$ 145.46	\$ 152.37	\$ 159.61	\$ 167.19
Water Availability Charge - per SHARE						
	\$ 8.00	\$ 8.38	\$ 8.77	\$ 9.19	\$ 9.63	\$ 10.09
Volumetric Rates Per 100 Cubic Feet						
Tier 1 - Full Entitle	\$ 0.68	\$ 0.59	\$ 0.62	\$ 0.65	\$ 0.68	\$ 0.71
Tier 2 - Over entitle	\$ 1.78	\$ 2.08	\$ 2.17	\$ 2.28	\$ 2.39	\$ 2.50
Tier 3 - Double entitle	\$ 3.78	\$ 3.20	\$ 3.35	\$ 3.51	\$ 3.68	\$ 3.85

The projected user rates provided herein for the period beyond the Test Year are intended for strategic planning purposes, and to provide the Company with the estimated future rates that may be needed to satisfy the projected cash flow requirements. The rates are developed in accordance with the assumed customer, flow, expenditure, and revenue estimates projected in this rate study. It is important to note that, since it is necessary to utilize numerous assumptions to develop the projected operating results, to the extent that actual customers, flows and/or system expenditures differ from those assumed herein, additional rate adjustments may be required.



5.3 Debt Service Coverage

The water operating statement includes a calculation of the annual debt service coverage. Debt service coverage is generally viewed as an indicator of the financial strength of the utility. The debt service coverage ratio is broadly calculated by dividing the net revenues by the annual debt service requirement. For the purposes of the debt service coverage calculation developed herein, the net revenues consist of the total operating revenues (user rate revenues plus other revenues) less the O&M expenses. Based on the potential future debt issuance, the Company may have to maintain coverage of at least 120% (1.20 times) of the annual debt service payment. Therefore, it is assumed in the analysis that the Company will need to maintain at least 120% of the annual debt service payment. The proforma operating statement indicates that the water system is expected to meet or exceed the potentially required minimum level of debt service coverage in each fiscal year of the Projection Period. It is important to note that the coverage results are provided for informative purposes only and are not intended as a legally supportable calculation for representation to potential bondholders. The debt service coverage for the water system over the projection period is provided in **Table 21**.

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5.4 Summary of Projected Operating Results

The cash-flow statement outlining the projected operating results is summarized in **Table 21** for the water utility system. The results demonstrate that the proposed rates and charges along with the other respective system revenues are anticipated to be sufficient to satisfy the projected Revenue Requirements and capital needs for the water utility system.

Table 21 – Water System Projected Operating Results

Description	Projected for Fiscal Year Ending December 31				
	Proposed 2026	2027	2028	2029	2030
Revenues:					
Water Service Charges	\$ 5,224,819	\$ 5,472,998	\$ 5,732,966	\$ 6,005,282	\$ 6,290,535
Other Revenues	472,994	472,994	472,994	472,994	472,994
Total Revenues	\$ 5,697,813	\$ 5,945,992	\$ 6,205,960	\$ 6,478,276	\$ 6,763,529
Less O&M Expenses	(4,120,434)	(4,321,841)	(4,534,834)	(4,760,157)	(4,998,617)
Net Income For Debt	\$ 1,577,379	\$ 1,624,151	\$ 1,671,126	\$ 1,718,119	\$ 1,764,912
Debt Service:					
Existing	\$ -	\$ -	\$ -	\$ -	\$ -
Future	-	157,000	157,000	157,000	157,000
Total Debt Service	\$ -	\$ 157,000	\$ 157,000	\$ 157,000	\$ 157,000
Debt Service Coverage Ratio	N/A	10.34	10.64	10.94	11.24
Balance After Debt	\$ 1,577,379	\$ 1,467,151	\$ 1,514,126	\$ 1,561,119	\$ 1,607,912
Other Expenditures & Transfers:					
Capital Outlay	\$ -	\$ -	\$ -	\$ -	\$ -
Transfers In	-	-	-	-	-
Transfers Out	-	-	-	-	-
Total Other Expenditures & Transfers	\$ -	\$ -	\$ -	\$ -	\$ -
Net Results	\$ 1,577,379	\$ 1,467,151	\$ 1,514,126	\$ 1,561,119	\$ 1,607,912
Fund Balance Activity:					
Operating Fund					
Beginning Fund Balance	\$ 2,300,734	\$ 1,015,997	\$ 1,065,659	\$ 1,118,178	\$ 1,173,737
Deposit/(Withdrawal) from Operations	1,577,379	1,467,151	1,514,126	1,561,119	1,607,912
Transfer from/(to) Capital Fund	(2,862,115)	(1,417,489)	(1,461,607)	(1,505,560)	(1,549,114)
Total Operating Fund	\$ 1,015,997	\$ 1,065,659	\$ 1,118,178	\$ 1,173,737	\$ 1,232,536
Operating Days Cash on Hand	90	90	90	90	90
Depreciation & Obsolescence Fund					
Beginning Fund Balance	\$ 2,172,889	\$ 3,220,273	\$ 2,768,589	\$ 2,304,947	\$ 1,827,501
Transfer from/(to) Operating Fund	2,862,115	1,417,489	1,461,607	1,505,560	1,549,114
Cash Funded CIP Projects	(1,814,731)	(1,869,173)	(1,925,248)	(1,983,006)	(2,042,496)
Total Depreciation & Obsolescence Fund	\$ 3,220,273	\$ 2,768,589	\$ 2,304,947	\$ 1,827,501	\$ 1,334,119
Total Fund Balance	\$ 4,236,270	\$ 3,834,248	\$ 3,423,126	\$ 3,001,239	\$ 2,566,655



Section 6 – Conclusions and Recommendations

6.1 Disclaimers

6.1.1 General Disclaimer

In the development of the proposed user rates and charges, certain historical reviews and analyses have been performed, together with the application of assumptions based on prudent financial, operational, and ratemaking principles and best practices. The cost criteria and customer usage characteristics associated with general ratemaking procedures are representative of averages and are not intended as indicators of any individual customer.

In the preparation of the rate study, certain assumptions have been made with respect to conditions that may occur in the future. While it is believed that these assumptions are reasonable for the purpose of this update, they are dependent upon future events and actual conditions may differ from those assumed. In addition, the study has used and relied upon certain information that was provided by other parties not associated with Willdan. Such information includes, among other things, the Company's audited financial statements, annual operating budgets, periodic reports, and other information and data provided by the Company, its independent auditors, and other sources. While the sources are believed to be reliable, there has been no independent verification of the information, and no assurances are offered with respect thereto. To the extent that future conditions differ from those assumed herein or provided by others, the actual results may vary from those projected.

6.1.2 Municipal Advisory Disclaimer

Unless the San Antonio Water Company (the "Company") has a written engagement from Willdan Financial Services ("Willdan") for municipal advisory services, Willdan is not advising or recommending any action be taken by the recipient of this information with respect to any prospective, new, or existing municipal financial products or issuance of municipal securities (including with respect to the structure, timing, terms and other similar matters concerning such financial products or issues). The Company shall discuss any such information and material contained in Willdan's work product with any and all internal and/or external advisors and experts, including its own municipal advisor, that it deems appropriate before acting on the information and material.

For the avoidance of doubt and without limiting the foregoing, in connection with any revenue projections, cash-flow analyses, feasibility studies and/or other analyses Willdan may provide the Company with respect to financial, economic or other matters relating to a prospective, new or existing issuance of municipal securities of the Company, (A) any such projections, studies and analyses shall be based upon assumptions, opinions or views (including, without limitation, any assumptions related to revenue growth) established by the



Company, in conjunction with such of its municipal, financial, legal and other advisers as it deems appropriate; and (B) under no circumstances shall Willdan be asked to provide, nor shall it provide, any advice or recommendations or subjective assumptions, opinions or views with respect to the actual or proposed structure, terms, timing, pricing or other similar matters with respect to any municipal financial products or municipal securities issuances, including any revisions or amendments thereto.

6.2 Conclusions

As previously addressed, the purpose of this study is to provide a review of the Company's existing utility rates to determine if rate adjustments are necessary to meet the budgeted and/or projected financial needs in future years. This Report is the result of the collaborative efforts of representatives from both the Company and Willdan. Company staff were diligent and cooperative in their efforts to ensure the availability and quality of source data on financial and operating matters. Based on the reviews, analyses and assumptions discussed herein, it is concluded that:

1. The proposed user rates and charges are anticipated to generate sufficient revenues to meet the Revenue Requirements of each respective system based upon the projected expenditures, capital project timing and costs, transfers, and billable customer units estimated for the Test Year. The proposed rates are based on an assumed implementation date of January 1, 2026. To the extent that the actual implementation date varies from the assumed implementation date, additional rate adjustments and/or appropriations from existing reserves may be necessary.
2. The estimated revenues and resulting rate adjustments for the remaining years of the Projection Period beyond the Test Year are developed based on the projected customer assumptions generated from the historical analyses and discussions with Company staff.
3. Customer projections for the water utility system are based on historical customer data as provided by the Company as well as discussions with the Company staff regarding developer activity and anticipated construction. If it turns out that the customer assumptions are not realized, the resulting revenues could be different than projected.
4. The projection of billable water flows is based on historical trends regarding the average flow per user for each customer class. The average water flows per account is developed from historical customer data and is assumed to remain relatively constant for the Projection Period. The historical billing data provided by the Company was utilized to identify the average flow statistics for system customers. For the analyses developed herein, it is assumed that the average usage statistics for the Projection Period will be consistent with recent historical average usage levels as realized in recent years, or as otherwise assumed based on discussions with staff. However, it is important to note that annual variations in rainfall and other



climatological factors may influence the level of future water demands for the Company.

5. Future capital improvement projects are assumed to occur as reported by the Company in its CIP. To the extent that the timing of such projects may change from that estimated herein, the cost of such projects and resulting impact on future rates and charges may vary from those indicated.
6. The proposed rates and rate structure are consistent with industry cost-of-service standards for rate-setting practices and conform to the Company's financial policies with respect to:
 - a. Equitably recovering costs;
 - b. Being based upon the proportionate cost of providing services; and
 - c. Generating sufficient revenue to recover system Revenue Requirements, fund capital needs, and meet reserve requirements.

6.3 Recommendations

Based on the reviews, analyses and assumptions addressed herein, as well as the resulting conclusions provided above, it is respectfully recommended that the Company:

1. Adopt the proposed water rates.
2. Enact the proposed rates to become effective as of January 1, 2026 (or other such date as determined by the Company). Based on the timing of the project, it is expected that the proposed water rates will become effective on the recommended date.
3. Readdress the COS analysis portion of this study every three to five years to ensure costs are recovered consistently with COS principles and customer characteristics.

We appreciate the opportunity to be of service to the Company in this engagement. In addition, we would like to thank the Company's staff for the valuable assistance provided during the completion of the rate study.

Respectfully Yours,

WILLDAN FINANCIAL SERVICES

San Antonio Water Company

Comprehensive Water Utility Rate Study

Appendices

A	Revenue Requirement for User Rates
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B	Water Cost-of-Service Analysis
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San Antonio Water Company

Comprehensive Water Utility Rate Study

Appendix A	Revenue Requirement for User Rates
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APPENDIX - A

SAN ANTONIO WATER COMPANY

DEVELOPMENT OF RATE REVENUE REQUIREMENTS - WATER

Line No:	Description	[A]	[B]	[C]=[A]*[B]
		Test Year for Rate Revenue Requirement		
		FY 2026	% to Water	Water
1	Total Operating Revenues	\$ 5,697,813		\$ 5,697,813
	Less:			
	Other Operating Revenues			
2	Shareholder Fees	\$ 19,859	100%	\$ 19,859
3	Capital Facilities Connection Fee	26,238	100%	26,238
4	Sale of Water/From Storage	189,000	100%	189,000
5	Miscellaneous Income	11,531	100%	11,531
6	Service/Litigation Agreements	2,173	100%	2,173
7	Ground Lease Income	62,046	100%	62,046
8	Interest Income	125,504	100%	125,504
9	Overhead Income	1,643	100%	1,643
10	Gain on Sale of Assets	35,000	100%	35,000
11	Total Other Operating Revenues	472,994		472,994
12	Total Rate Revenue Requirement	\$ 5,224,819	100%	\$ 5,224,819

San Antonio Water Company

Comprehensive Water Utility Rate Study

Appendix B

Water Cost-of-Service Analysis



APPENDIX - B

SAN ANTONIO WATER COMPANY

ALLOCATION OF TEST YEAR COSTS TO WATER FUNCTION

Test Year Revenue Requirement		
Line No:	Expense Group	FY 2026
1	Transmission & Distribution	\$861,427
2	Pumping	1,046,343
3	Customer Service	10,653
4	Admin	1,618,370
5	Source of Supply	583,641
6	CIP	1,814,731
7	Total	\$ 5,935,165

APPENDIX - B

SAN ANTONIO WATER COMPANY

WATER CUSTOMER AND EQUIVALENT RESIDENTIAL UNIT CALCULATION - TEST YEAR FY 2026

Meter Equivalencies

Line No:	Meter Size	Class -->	[A - 1]	[B - 1]	[C - 1]
			Domestic Meters	Raw Water Meters	Raw Water Meters - Weir
		Billing Basis-->	Units	Units	Units
1	0.625 & 0.75		1.00	1.00	N/A
2	1.00		2.50	2.50	N/A
3	1.50		5.00	5.00	N/A
4	2.00		8.00	8.00	N/A
5	3.00		15.00	15.00	N/A
6	4.00		25.00	25.00	N/A
7	6.00		50.00	50.00	N/A
8	8.00		80.00	80.00	N/A
9	10.00		115.00	115.00	N/A
10	12.00		215.00	215.00	2.00
11	14.00		320.00	320.00	N/A
12	16.00		458.00	458.00	N/A

Customer Accounts

Line No:	Meter Size	Class -->	[A - 2]	[B - 2]	[C - 2]	Total
			Domestic Meters	Raw Water Meters	Raw Water Meters - Weir	
		Billing Basis-->	Units	Units	Units	
13	0.625 & 0.75		840.00	-	-	840.00
14	1.00		342.00	-	-	342.00
15	1.50		29.00	-	-	29.00
16	2.00		7.00	7.00	-	14.00
17	3.00		-	-	-	-
18	4.00		-	-	-	-
19	6.00		-	3.00	-	3.00
20	8.00		-	1.00	-	1.00
21	10.00		-	2.00	-	2.00
22	12.00		-	1.00	2.00	3.00
23	14.00		-	1.00	-	1.00
24	16.00		-	1.00	-	1.00
25	Total Monthly Customers		1,218.00	16.00	2.00	1,236.00

Total Equivalent Residential Units

Line No:	Meter Size	Class -->	[A - 1] * [A - 2]	[B - 1] * [B - 2]	[C - 1] * [C - 2]	Total
			Domestic Meters	Raw Water Meters	Raw Water Meters - Weir	
		Billing Basis-->	Units	Units	Units	
26	0.625 & 0.75		840.00	-	-	840.00
27	1.00		855.00	-	-	855.00
28	1.50		145.00	-	-	145.00
29	2.00		56.00	56.00	-	112.00
30	3.00		-	-	-	-
31	4.00		-	-	-	-
32	6.00		-	150.00	-	150.00
33	8.00		-	80.00	-	80.00
34	10.00		-	230.00	-	230.00
35	12.00		-	215.00	4.00	219.00
36	14.00		-	320.00	-	320.00
37	16.00		-	458.00	-	458.00
38	Total Monthly Customers		1,896.00	1,509.00	4.00	3,409.00

APPENDIX - B

SAN ANTONIO WATER COMPANY

WATER UNITS OF SERVICE BY COST COMPONENT - TEST YEAR FY 2026

Line No:	Description	[A]	[B]	[C]	[D]	[E]
		ERUs	SHAREs	Full Entitlement (CCF)	Over Entitlement (CCF)	Double Entitlement (CCF)
1	Domestic Meters	1,896	1,342	928,434.87	106,767.30	74,737.11
2	Raw Water Meters	1,513	5,047	4,216,672.12	61,728.01	1,818.54
3	Total	3,409	6,389	5,145,106.99	168,495.31	76,555.65

APPENDIX - B
SAN ANTONIO WATER COMPANY
ALLOCATION OF WATER COSTS - TEST YEAR FY 2026

Line No:	Description	Water Costs	Full Entitlement	Over Entitlement	Double Entitlement	Readiness to Serve	Water Availability	Total (Check)
Allocation Factors:								
1	Transmission & Distribution		83.65%	9.62%	6.73%	0.00%	0.00%	100.00%
2	Pumping		83.65%	9.62%	6.73%	0.00%	0.00%	100.00%
3	Customer Service		0.00%	0.00%	0.00%	0.00%	100.00%	100.00%
4	Admin		0.00%	0.00%	0.00%	55.58%	44.42%	100.00%
5	Source of Supply		83.65%	9.62%	6.73%	0.00%	0.00%	100.00%
6	CIP		75.53%	8.69%	6.08%	9.70%	0.00%	100.00%
Allocation of Costs:								
7	Transmission & Distribution	\$ 861,427	\$ 720,561	\$ 82,862	\$ 58,004	\$ -	\$ -	\$ 861,427
8	Pumping	1,046,343	875,238	100,650	70,455	-	-	1,046,343
9	Customer Service	10,653	-	-	-	-	10,653	10,653
10	Admin	1,618,370	-	-	-	899,490	718,880	1,618,370
11	Source of Supply	583,641	488,200	56,142	39,299	-	-	583,641
12	CIP	1,814,731	1,370,731	157,630	110,341	176,029	-	1,814,731
13	Non-Rate Rev & Fund Bal	(710,346)	(413,477)	(47,549)	(33,284)	(128,723)	(87,314)	(710,346)
14	Total	\$ 5,224,819	\$ 3,041,254	\$ 349,735	\$ 244,815	\$ 946,796	\$ 642,219	\$ 5,224,819
Total Units of Service			5,145,106.99	168,495.31	76,555.65	3,409	6,389	
Units			CCF	CCF	CCF	ERU/Monthly	SHARES	/Monthly
Cost Per Unit			\$ 0.59	\$ 2.08	\$ 3.20	\$ 23.14	\$ 8.38	
Units			CCF	CCF	CCF	ERU/Month	per SHARES	/Month

APPENDIX - B

SAN ANTONIO WATER COMPANY

WATER COST OF SERVICE BY COST COMPONENT AND CUSTOMER CLASS - TEST YEAR FY 2026

Line No:	Description	[A]	[B]	[C]	[D]	[E]	[F]
		Readiness to Serve	Water Availability	Full Entitlement (CCF)	Over Entitlement (CCF)	Double Entitlement (CCF)	Total
1	Domestic Meters	\$ 526,584	\$ 134,866	\$ 548,794	\$ 221,610	\$ 238,999	\$ 1,670,854
2	Raw Water Meters	\$ 420,212	\$ 507,353	\$ 2,492,459	\$ 128,125	\$ 5,815	\$ 3,553,965
3	Total	\$ 946,796	\$ 642,219	\$ 3,041,254	\$ 349,735	\$ 244,815	\$ 5,224,819

APPENDIX - B
SAN ANTONIO WATER COMPANY
WATER RATE CALCULATION - TEST YEAR FY 2026

Line No:	Description	[A]	[B]	[C]	[D]	[E]=[C]-[D]
		Capacity Ratio	Fixed Charge	Proposed Charge	Existing Charge	Difference
Readiness to Serve						
1	5/8 & 3/4 Inch	1.00	\$ 23.14	\$ 23.14	\$ 10.00	\$ 13.14
2	1.0 Inch	2.50	\$ 57.86	\$ 57.86	\$ 20.00	\$ 37.86
3	1.5 Inch	5.00	\$ 115.72	\$ 115.72	\$ 40.00	\$ 75.72
4	2.0 Inch	8.00	\$ 185.16	\$ 185.16	\$ 60.00	\$ 125.16
5	3.0 Inch	15.00	\$ 347.17	\$ 347.17	\$ 120.00	\$ 227.17
6	4.0 Inch	25.00	\$ 578.61	\$ 578.61	\$ 150.00	\$ 428.61
7	6.0 Inch	50.00	\$ 1,157.23	\$ 1,157.23	\$ 250.00	\$ 907.23
8	8.0 Inch	80.00	\$ 1,851.56	\$ 1,851.56	\$ 400.00	\$ 1,451.56
9	10.0 Inch	115.00	\$ 2,661.62	\$ 2,661.62	\$ 1,000.00	\$ 1,661.62
10	12.0 Inch	215.00	\$ 4,976.07	\$ 4,976.07	\$ 1,500.00	\$ 3,476.07
11	14.0 Inch	320.00	\$ 7,406.25	\$ 7,406.25	\$ 1,500.00	\$ 5,906.25
12	16.0 Inch	458.00	\$ 10,600.19	\$ 10,600.19	\$ 1,500.00	\$ 9,100.19

Water Availability						
10	per SHARE		\$ 8.38	\$ 8.38	\$ 8.00	\$ 0.38

Line No:	Customer Class	[A]	[B]	[C]=[A]-[B]	[D]
		Proposed Rate (\$/CCF)	Existing Rate (\$/CCF)	Difference	Tier Differential
Domestic Meters					
1	Full Entitlement	\$ 0.59	\$ 0.68	\$ (0.09)	1.00
2	Over Entitlement	\$ 2.08	\$ 1.78	\$ 0.30	3.51
3	Double Entitlement	\$ 3.20	\$ 3.78	\$ (0.58)	5.41
Raw Water Meters					
4	Full Entitlement	\$ 0.59	\$ 0.68	\$ (0.09)	1.00
5	Over Entitlement	\$ 2.08	\$ 1.78	\$ 0.30	3.51
6	Double Entitlement	\$ 3.20	\$ 3.78	\$ (0.58)	5.41



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