Public Hearing
February 24, 2025

CY 2025 Water Cost-of-Service Rate Study

San Gabriel County Water District

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Executive Summary

The San Gabriel County Water District (District) is located in the eastern portion of Los Angeles County (County), approximately 8 miles east of Los Angeles, and is bordered by the cities of San Gabriel, San Marino, Temple City, Rosemead, and Alhambra. The District serves a population of around 45,000 through approximately 9,700 meters. The District periodically reviews rates to determine if adjustments are required to meet operational costs, system improvements, and maintain healthy reserves.

Updating the water utility's long-term financial plan and performing a comprehensive cost-of-service analysis is a prudent business practice to ensure the utility can fully fund its revenue needs from Calendar Year (CY) 2025 through CY 2029 (Rate Setting Period) and beyond. In reviewing and updating water rates, the first step is to thoroughly check the financial health of the water utility based on existing rates. Revenues from existing rates generate positive net operating income through CY 2029, which is used for capital spending and reserve funding. However, by CY 2029, net income is minimal and wouldn't be sufficient to fund the District's capital needs while maintaining healthy reserves. The utility's Capital Improvement Plan (CIP) over the Rate Setting Period equals $15.5M, including a treatment plant, pipeline replacements, and meter replacements. The proposed financial plan is projected to generate an additional $2.5M[1] by CY 2029 through a phased-in approach.

The current water rate structure has both fixed and variable components. The fixed components consist of a bi-monthly base fixed charge, a bi-monthly water quality authority assessment charged by the San Gabriel Basin Water Quality Authority (Authority), and dedicated fire line charges. Variable rates consist of a two-tiered rate structure charged per hundred cubic feet (HCF)[2] for all customer classes.

This detailed cost-of-service analysis includes adjustments to the existing rate structure. The current variable rate consists of a 2-tiered rate structure, with tier 1 covering the cost of groundwater and tier 2 for imported water. However, with reductions in water usage over the years, the District can now cover its projected water demand entirely by groundwater. Therefore, the proposed variable rate reflects a uniform rate for each unit of water consumed.

By adopting the proposed financial plan and approving rates through CY 2029, the water utility is projected to generate positive net income above operating expenses, cover its capital costs, and exceed its minimum reserve requirements. This report and cost-of-service analysis identifies which expenses are recovered through the bi-monthly meter charges versus the uniform variable rate. Proposed rates have been incorporated into a Proposition 218 Notice and mailed to each customer. A Public Hearing is scheduled for February 24, 2025, on the proposed rates identified in Table 1 through Table 3. If there is no majority protest, and the Board of Directors adopts the proposed rates, the new rates for CY 2025 will go into effect on March 1, 2025, with subsequent adjustments occurring each January 1st thereafter.

[1] The proposed financial plan assumes 10,107 active accounts and 4,339 Acre Feet (AF) in sales by CY 2029.
[2] 1 HCF = 748.05 gallons

Table 1: Proposed Bi-Monthly Base Fixed Charges

Proposed Base Fixed Charge ($/Bi-Monthly)					
Meter Size	CY 2025	CY 2026	CY 2027	CY 2028	CY 2029
5/8"	$49.03	$51.49	$54.07	$56.78	$59.63
3/4"	$62.06	$65.17	$68.44	$71.87	$75.47
1"	$88.10	$92.51	$97.14	$102.01	$107.12
1 1/2"	$153.19	$160.86	$168.91	$177.36	$186.24
2"	$348.50	$365.94	$384.24	$403.46	$423.64
3"	$673.99	$707.70	$743.09	$780.26	$819.28
4"	$1,324.99	$1,391.25	$1,460.83	$1,533.88	$1,610.58
6"	$1,975.99	$2,074.80	$2,178.55	$2,287.49	$2,401.88
8"	$2,626.99	$2,758.34	$2,896.27	$3,041.10	$3,193.16

Table 2: Proposed Bi-Monthly Dedicated Fire Line Charges

Proposed Dedicated Fire Line Charge ($/Bi-Monthly)					
Connection Size	CY 2025	CY 2026	CY 2027	CY 2028	CY 2029
All Fire Lines	$22.99	$24.14	$25.35	$26.62	$27.96

Table 3: Proposed Variable Rates ($/HCF)

Proposed Variable Rates ($/HCF)					
Customer Class	**CY 2025**	**CY 2026**	**CY 2027**	**CY 2028**	**CY 2029**
All Customers	$2.58	$2.71	$2.85	$3.00	$3.15

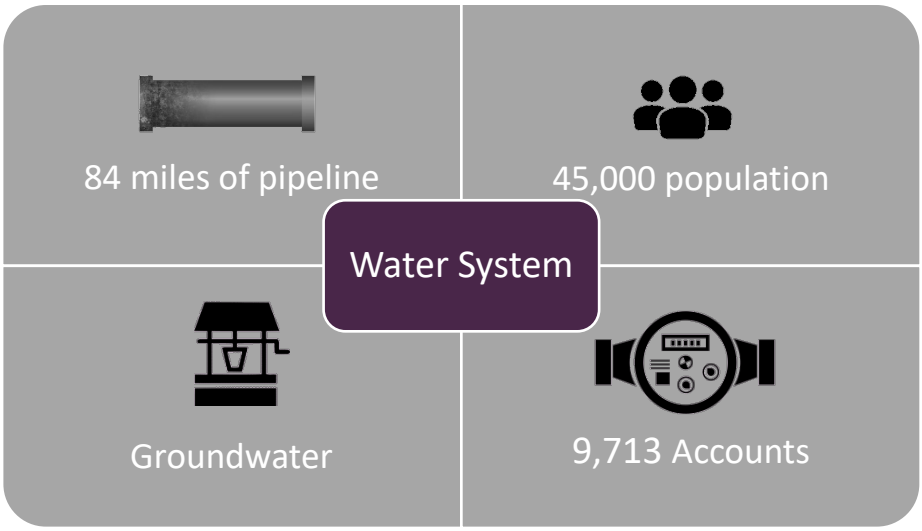
Background

Water System

The District is in the eastern portion of Los Angeles County, approximately 8 miles east of Los Angeles. It encompasses an area of 4.2 square miles and provides water service to portions of San Gabriel, Rosemead, and parts of the unincorporated area of Los Angeles County. Water supplies include groundwater from the Main San Gabriel Basin and Raymond Basin.

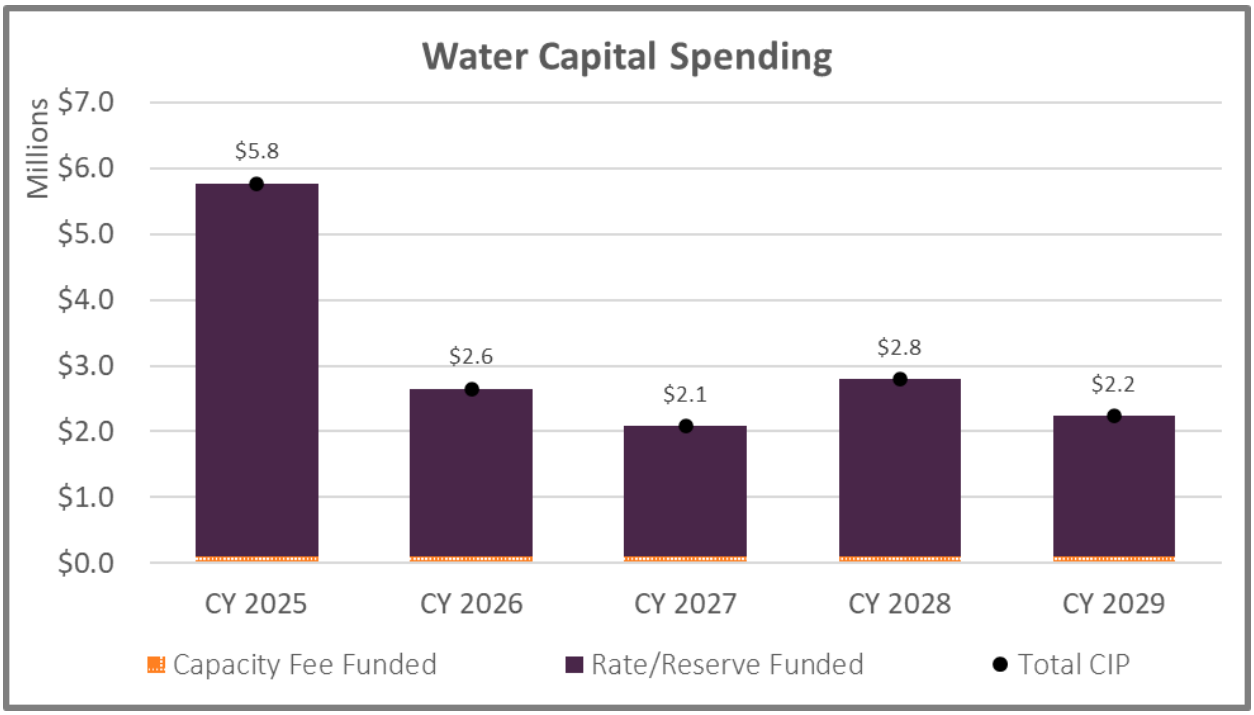
The District has approximately 84 miles of distribution and transmission water mains ranging from 4 inches to 30 inches in size, serving a population of approximately 45,000 customers through 9,713 connections. The water system also consists of two reservoirs, one buster pump station, six active wells, and pressure-reducing/sustaining stations.

Figure 1: Water System



The Capital Improvement Plan (CIP) identified $15.5M in capital spending over the next 5 years, which includes system reinvestment and new capital improvements such as a treatment plant, pipeline and meter replacements, and other necessary improvements. A detailed list of projects is shown in Appendix A. Figure 2 shows the annual CIP costs through CY 2029 and anticipated funding sources.

Figure 2: Capital Improvement Plan



Customers

The District serves 9,713 water meters and 260 dedicated fire line connections. Table 4 provides a summary of accounts by meter size and connection size for fire lines.

Table 4: Accounts by Meter Size / Fire Lines

Accounts by Meter Size / Fire Lines		
Meter Size	**Potable Accounts**	**Dedicated Fire Lines**
5/8"	6,073	4
3/4"	-	-
1"	2,943	2
1 1/2"	362	2
2"	295	36
3"	15	1
4"	21	150
6"	4	40
8"	-	25
Total	9,713	260

As previously mentioned, the existing rate structure consists of bi-monthly base fixed charges, bi-monthly water quality authority assessment charges, bi-monthly dedicated fire line charges, and a two-tiered variable rate for all customers. Existing bi-monthly base fixed charges are identified in Table 5, Table 6 lists the bi-monthly water quality authority assessment charges, and bi-monthly dedicated fire line charges are identified in Table 7. The existing variable rates are shown in Table 8.

Table 5: Existing Bi-Monthly Base Fixed Charges

Base Fixed Charge ($/Bi-Monthly)	
Meter Size	**Existing Charge**
5/8"	$43.80
3/4"	$43.80
1"	$63.67
1 1/2"	$113.32
2"	$172.89
3"	$361.53
4"	$639.52
6"	$1,404.02

Table 6: Existing Bi-Monthly Water Quality Authority Assessment Charges

Water Quality Authority Charge ($/Bi-Monthly)	
Meter Size	**Existing Charge**
5/8"	$0.67
3/4"	$0.67
1"	$0.94
1 1/2"	$1.35
2"	$2.69
3"	$4.04
4"	$5.38
6"	$13.51

Table 7: Existing Bi-Monthly Dedicated Fire Line Charges

Dedicated Fire Line Charge ($/ Bi-Monthly)	
Connection Size	**Existing Charge**
5/8"	$40.65
3/4"	$40.65
1"	$40.65
1 1/2"	$40.65
2"	$40.65
3"	$60.96
4"	$81.26
6"	$121.89
8"	$162.50
10"	$203.13

Table 8: Existing Variable Rates

Variable Rates ($/ HCF)		
Customer Class	**Tier Definitions**	**Existing Rate**
Tier 1	0-30 HCF	$2.04
Tier 2	> 30 HCF	$3.87

Financial Plan Overview

Financial Planning

Financial planning incorporates numerous considerations, including projecting revenues and forecasting expected costs using various inflationary adjustments. Utilities also need to account for changes in water demand driven by variations in weather, water availability, state mandates, growth, and economic factors. In addition, system maintenance and reinvestment, reserves, and debt compliance all influence the revenues needed in future years. Therefore, a comprehensive financial plan reviews the following:

1) Historical water sales and consumption patterns to determine an appropriate level of usage for projecting future water use.
2) Operational costs that may change over the planning period as a result of inflation as well as any new expenditures incurred to meet strategic goals, state mandates, or changes in operations.
3) Multi-year system improvement needs, and scheduling based on priority. This review also considers available funding sources to complete projects such as pay-as-you-go (PAYGO), grants, loans, and debt financing.
4) Reserve funding to meet adopted reserve policies. The goal is to generate adequate cash on hand to mitigate financial risks related to operating cashflow needs, unexpected increases in expenses, shortages in system reinvestment, and mitigating potential system failures.

Figure 3 illustrates the key elements when developing a long-term financial plan.

Figure 3: Financial Plan Key Elements

Financial Planning Assumptions

Developing a long-term financial plan requires an understanding of the utility's financial position by evaluating existing revenue streams, ongoing expenses, how those expenses will change over time, existing debt coverage requirements, and reserve policies. These considerations require certain assumptions for projecting revenues, expenses, and expected ending fund balances. Through discussions with staff and their understanding of historical budget data and future obligations, Table 9 identifies assumptions used for forecasting revenues. Table 10 and Table 11 identify the number of accounts by meter size and the number of fire lines by connection size, respectively, over the Rate Setting Period. Table 12 identifies projected consumption by customer class and tier.

Table 9: Assumptions for Forecasting Revenues

Revenue Forecasting					
Key Assumptions	**CY 2025**	**CY 2026**	**CY 2027**	**CY 2028**	**CY 2029**
Revenue Escalation					
Non-Rate Revenues	0.0%	0.0%	0.0%	0.0%	0.0%
Reserve Interest	2.0%	2.0%	2.0%	2.0%	2.0%
Account Growth					
All Customers	1.0%	1.0%	1.0%	1.0%	1.0%
Dedicated Fire Lines	0.0%	0.0%	0.0%	0.0%	0.0%
Total Meters	9,713	9,810	9,908	10,007	10,107
Total Dedicated Fire Lines	260	260	260	260	260
Total Consumption (HCF)	1,816,285	1,834,448	1,852,792	1,871,320	1,890,033

Table 10: Accounts by Meter Size

Accounts by Meter Size					
Customer Accounts	**CY 2025**	**CY 2026**	**CY 2027**	**CY 2028**	**CY 2029**
All Customers					
Meter Size					
5/8"	6,073	6,134	6,195	6,257	6,320
3/4"	-	-	-	-	-
1"	2,943	2,972	3,002	3,032	3,062
1 1/2"	362	366	370	374	378
2"	295	298	301	304	307
3"	15	15	15	15	15
4"	21	21	21	21	21
6"	4	4	4	4	4
Total All Customers Meters	9,713	9,810	9,908	10,007	10,107

Table 11: Dedicated Fire Lines by Connection Size

Accounts by Connection Size					
Dedicated Fire Line					
Connection Size					
5/8"	4	4	4	4	4
3/4"	-	-	-	-	-
1"	2	2	2	2	2
1 1/2"	2	2	2	2	2
2"	36	36	36	36	36
3"	1	1	1	1	1
4"	150	150	150	150	150
6"	40	40	40	40	40
8"	25	25	25	25	25
Total Dedicated Fire Line Connections	260	260	260	260	260

Table 12: Projected Water Consumption by Customer Class & Tier (HCF)

Projected Consumption					
Consumption by Customer Class	**CY 2025**	**CY 2026**	**CY 2027**	**CY 2028**	**CY 2029**
All Customers					
Tier 1	984,496	994,341	1,004,284	1,014,327	1,024,470
Tier 2	831,789	840,107	848,508	856,993	865,563
Total Consumption (HCF)	1,816,285	1,834,448	1,852,792	1,871,320	1,890,033

Table 13 identifies assumptions used for forecasting increases in expenses over the Rate Setting Period. The Capital and General Costs escalation factors reflect the 5-year average of the Engineering News-Record – Construction Cost Index (ENR CCI) and the Consumer Price Index (CPI) for the Los Angeles area, respectively.

Table 13: Assumptions for Forecasting Expenses

Expense Forecasting							
Key Assumptions	*Source:*		**CY 2025**	**CY 2026**	**CY 2027**	**CY 2028**	**CY 2029**
Expenditure Escalation							
Benefits			5.0%	5.0%	5.0%	5.0%	5.0%
Capital	*ENR - LA*	*5-Year Average*	4.9%	4.9%	4.9%	4.9%	4.9%
Energy			10.0%	10.0%	10.0%	10.0%	10.0%
General	*CPI - LA (BLS)*	*5-Year Average*	3.9%	3.9%	3.9%	3.9%	3.9%
Retirement			5.0%	5.0%	5.0%	5.0%	5.0%
Salaries			3.0%	3.0%	3.0%	3.0%	3.0%

Current Financial Position

Revenues

Based on the forecasting assumptions, fixed revenues were calculated by multiplying the existing fixed charges (Table 5 through Table 7) by accounts by meter size and dedicated fire line connection size over six billing periods (Table 10 and Table 11). Variable revenue was calculated by taking the variable rates in Table 8 multiplied by the projected total water sales shown in Table 12. Table 14 shows the calculated rate revenues through the Rate Setting Period. Table 15 summarizes calculated rate revenues and other non-rate revenues, with future projections rounded to the nearest thousands. Non-rate revenues include interest earnings which vary annually based on the District's fund balance and a 2% return factor.

Table 14: Calculated Rate Revenues

Calculated Rate Revenue					
Fixed Revenue	**CY 2025**	**CY 2026**	**CY 2027**	**CY 2028**	**CY 2029**
Base Fixed Charge	$3,419,229	$3,452,170	$3,485,493	$3,519,079	$3,552,928
Water Quality Authority Assmt	$50,071	$50,561	$51,056	$51,555	$52,059
Dedicated Fire Line Charge Revenue	$137,860	$137,860	$137,860	$137,860	$137,860
Total Fixed Revenue	$3,607,160	$3,640,591	$3,674,409	$3,708,495	$3,742,847
Variable Revenue	**CY 2025**	**CY 2026**	**CY 2027**	**CY 2028**	**CY 2029**
All Customers					
Tier 1	$2,008,372	$2,028,456	$2,048,739	$2,069,227	$2,089,919
Tier 2	$3,219,023	$3,251,214	$3,283,726	$3,316,563	$3,349,729
Total Variable Rate Revenue	$5,227,395	$5,279,670	$5,332,465	$5,385,790	$5,439,648
Total Rate Revenue	$8,834,556	$8,920,261	$9,006,875	$9,094,285	$9,182,494

Table 15: Projected Revenues

Projected Revenues					
Revenue Summary	**CY 2025**	**CY 2026**	**CY 2027**	**CY 2028**	**CY 2029**
Rate Revenues					
Base Fixed Charge	$3,419,000	$3,452,000	$3,485,000	$3,519,000	$3,553,000
Water Quality Authority Assmt	$50,000	$51,000	$51,000	$52,000	$52,000
Dedicated Fire Line Charge	$138,000	$138,000	$138,000	$138,000	$138,000
Variable Revenue	$5,227,000	$5,280,000	$5,332,000	$5,386,000	$5,440,000
Subtotal Rate Revenues	$8,834,000	$8,921,000	$9,006,000	$9,095,000	$9,183,000
Operating Revenues					
Cross Connection Admin. Fees	$7,000	$7,000	$7,000	$7,000	$7,000
Fire Flow Fee	$4,000	$4,000	$4,000	$4,000	$4,000
City of S.G Hydrant Rental	$4,000	$4,000	$4,000	$4,000	$4,000
Late Fees	$15,000	$15,000	$15,000	$15,000	$15,000
Return Payment Fee	$1,000	$1,000	$1,000	$1,000	$1,000
Shut Off Fee	$4,000	$4,000	$4,000	$4,000	$4,000
Water Connection Fee	$100,000	$100,000	$100,000	$100,000	$100,000
Developer's Fees	$100,000	$100,000	$100,000	$100,000	$100,000
Subtotal Operating Revenues	$235,000	$235,000	$235,000	$235,000	$235,000
Non-Operating Revenue					
Metro PCS-American Tower	$21,000	$21,000	$21,000	$21,000	$21,000
Enersponse Inc	$8,000	$8,000	$8,000	$8,000	$8,000
Interest: LAIF	$159,000	$72,000	$77,000	$82,000	$86,000
Miscellaneous Income	$12,000	$12,000	$12,000	$12,000	$12,000
Grand Lease Revenue	$75,000	$75,000	$75,000	$75,000	$75,000
Subtotal Non-Operating Revenue	$275,000	$188,000	$193,000	$198,000	$202,000
Total Revenues	**$9,344,000**	**$9,344,000**	**$9,434,000**	**$9,528,000**	**$9,620,000**

Expenses

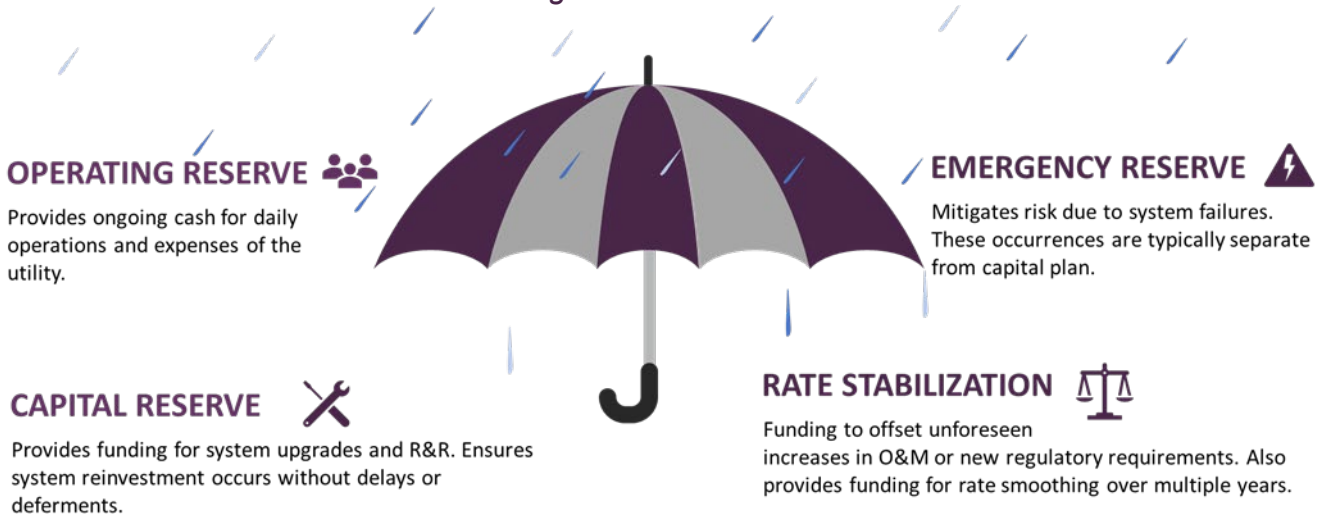
The CY 2025 budget was used as the baseline expenses of the utility and adjusted in subsequent years based on the escalation factors shown in Table 13. Table 16 provides projected Operating and Maintenance (O&M) expenses through the Rate Setting Period, with future projections rounded to the nearest thousand. Each expense category includes detailed line-item expenditures discussed with staff to determine the appropriate escalation factor to use for forecasting how costs will increase over time.

Table 16: Projected O&M Expenses

Projected Expenses					
O&M Expenses	**CY 2025**	**CY 2026**	**CY 2027**	**CY 2028**	**CY 2029**
Water Supply Costs					
Authority					
Water Quality Authority Assmt	$65,000	$65,000	$65,000	$65,000	$65,000
Subtotal Authority	$65,000	$65,000	$65,000	$65,000	$65,000
Variable Water Supply Costs					
Main San Gabriel Basin	$744,000	$753,000	$762,000	$771,000	$781,000
Raymond Basin	$34,000	$34,000	$34,000	$34,000	$34,000
Subtotal Variable Water Supply Costs	$778,000	$787,000	$796,000	$805,000	$815,000
Total Water Supply Costs	**$843,000**	**$852,000**	**$861,000**	**$870,000**	**$880,000**
Operating Expenses					
Production & Supply					
Salaries & Benefits	$735,000	$763,000	$793,000	$824,000	$856,000
O&M	$351,000	$672,000	$708,000	$746,000	$787,000
Pumping/Energy	$712,000	$791,000	$879,000	$976,000	$1,084,000
Transmission & Distribution					
Salaries & Benefits	$802,000	$833,000	$866,000	$900,000	$935,000
O&M	$295,000	$309,000	$324,000	$339,000	$356,000
Customer Service - Field					
Salaries & Benefits	$222,000	$231,000	$240,000	$250,000	$259,000
O&M	$27,000	$28,000	$29,000	$30,000	$31,000
Customer Service - Office					
Salaries & Benefits	$356,000	$370,000	$384,000	$399,000	$415,000
O&M	$49,000	$51,000	$53,000	$55,000	$58,000
Conservation	$6,000	$6,000	$6,000	$6,000	$7,000
General & Administration					
Salaries & Benefits	$1,451,000	$1,508,000	$1,567,000	$1,628,000	$1,692,000
O&M	$1,624,000	$1,699,000	$1,777,000	$1,859,000	$1,946,000
Subtotal Operating Expenses	$6,630,000	$7,261,000	$7,626,000	$8,012,000	$8,426,000
Total Expenses	**$7,473,000**	**$8,113,000**	**$8,487,000**	**$8,882,000**	**$9,306,000**

Reserves

Figure 4: Reserves



Currently, the District maintains a water operating fund. As part of best management practices, it is recommended that the District establish separate reserves to clearly identify how much the District should retain as a total reserve balance and the amount associated with each of the following four reserves: Operating, Capital, Rate Stabilization, and Emergency. These reserves will help mitigate risks to the utility by ensuring sufficient cash is on hand for daily operations, funding for annual system improvements, covering any unforeseen cost increases, and addressing any unanticipated system failures. In addition, these reserves help smooth rates and mitigate rate spikes. Table 17 summarizes the minimum reserve requirements and the ideal targets of each reserve.

Table 17: Reserve Requirements and Targets

Reserve Requirements and Targets		
Reserve	Minimum Requirement	Reserve Target
Operating	120 days of operating expenses	180 days of operating expenses
Capital	2 years of 5-year average CIP	5 years of 5-year average CIP
Rate Stabilization	5% of Rate Revenues	10% of Rate Revenues
Emergency	10% of System Assets	20% of System Assets

The total reserve balance as of January 1, 2024, equaled approximately $17.7M.

Financial Outlook at Existing Rates

Calculating revenue using existing rates and projecting expenses helps determine the utility's current financial health. Revenues from existing rates are sufficient to fund O&M through CY 2029, but net operating income continues to decrease as operating expenses increase over time and are inadequate by CY 2030. In addition, with limited net operating income available, capital spending would require the use of reserves as the primary funding source, which is not sustainable in the long term. Table 18 and Table 19 forecast existing revenues and expenses through CY 2029. Table 20 identifies the operating reserve activity, with CY 2025 starting reserve balances shown for each reserve.

Table 18: Financial Plan at Existing Rates

Financial Plan at Existing Rates						
Revenue		**CY 2025**	**CY 2026**	**CY 2027**	**CY 2028**	**CY 2029**
Rate Revenues						
Base Fixed Charge	Table 15	$3,419,000	$3,452,000	$3,485,000	$3,519,000	$3,553,000
Water Quality Authority Assmt		$50,000	$51,000	$51,000	$52,000	$52,000
Dedicated Fire Line Charge		$138,000	$138,000	$138,000	$138,000	$138,000
Variable Revenue		$5,227,000	$5,280,000	$5,332,000	$5,386,000	$5,440,000
Total Rate Revenues		$8,834,000	$8,921,000	$9,006,000	$9,095,000	$9,183,000
Operating Revenues						
Cross Connection Admin. Fees	Table 15	$7,000	$7,000	$7,000	$7,000	$7,000
Fire Flow Fee		$4,000	$4,000	$4,000	$4,000	$4,000
City of S.G Hydrant Rental		$4,000	$4,000	$4,000	$4,000	$4,000
Late Fees		$15,000	$15,000	$15,000	$15,000	$15,000
Return Payment Fee		$1,000	$1,000	$1,000	$1,000	$1,000
Shut Off Fee		$4,000	$4,000	$4,000	$4,000	$4,000
Water Connection Fee		$100,000	$100,000	$100,000	$100,000	$100,000
Developer's Fees		$100,000	$100,000	$100,000	$100,000	$100,000
Subtotal Operating Revenues		$235,000	$235,000	$235,000	$235,000	$235,000
Non-Operating Revenue						
Metro PCS-American Tower	Table 15	$21,000	$21,000	$21,000	$21,000	$21,000
Enersponse Inc		$8,000	$8,000	$8,000	$8,000	$8,000
Interest: LAIF		$267,000	$253,000	$151,000	$156,000	$160,000
Miscellaneous Income		$12,000	$12,000	$12,000	$12,000	$12,000
Grand Lease Revenue		$75,000	$75,000	$75,000	$75,000	$75,000
Subtotal Non-Operating Revenue		$383,000	$369,000	$267,000	$272,000	$276,000
Total Revenues		**$9,452,000**	**$9,525,000**	**$9,508,000**	**$9,602,000**	**$9,694,000**

Table 19: Financial Plan at Existing Rates (Continued)

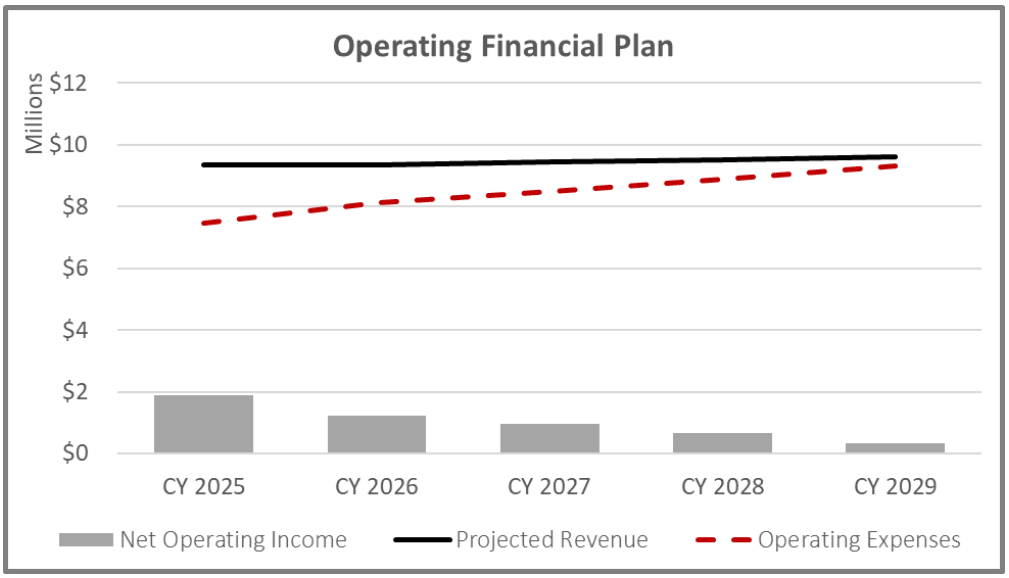
Financial Plan at Existing Rates						
O&M Expenses		**CY 2025**	**CY 2026**	**CY 2027**	**CY 2028**	**CY 2029**
Water Supply Costs						
Authority						
Water Quality Authority Assmt	Table 16	$65,000	$65,000	$65,000	$65,000	$65,000
Subtotal Authority		$65,000	$65,000	$65,000	$65,000	$65,000
Variable Water Supply Costs						
Main San Gabriel Basin	Table 16	$744,000	$753,000	$762,000	$771,000	$781,000
Raymond Basin		$34,000	$34,000	$34,000	$34,000	$34,000
Subtotal Variable Water Supply Costs		$778,000	$787,000	$796,000	$805,000	$815,000
Total Water Supply Costs		**$843,000**	**$852,000**	**$861,000**	**$870,000**	**$880,000**
Operating Expenses						
Production & Supply						
Salaries & Benefits	Table 16	$735,000	$763,000	$793,000	$824,000	$856,000
O&M		$351,000	$672,000	$708,000	$746,000	$787,000
Pumping/Energy		$712,000	$791,000	$879,000	$976,000	$1,084,000
Transmission & Distribution						
Salaries & Benefits		$802,000	$833,000	$866,000	$900,000	$935,000
O&M		$295,000	$309,000	$324,000	$339,000	$356,000
Customer Service - Field						
Salaries & Benefits		$222,000	$231,000	$240,000	$250,000	$259,000
O&M		$27,000	$28,000	$29,000	$30,000	$31,000
Customer Service - Office						
Salaries & Benefits		$356,000	$370,000	$384,000	$399,000	$415,000
O&M		$49,000	$51,000	$53,000	$55,000	$58,000
Conservation		$6,000	$6,000	$6,000	$6,000	$7,000
General & Administration						
Salaries & Benefits		$1,451,000	$1,508,000	$1,567,000	$1,628,000	$1,692,000
O&M		$1,624,000	$1,699,000	$1,777,000	$1,859,000	$1,946,000
Subtotal Operating Expenses		$6,630,000	$7,261,000	$7,626,000	$8,012,000	$8,426,000
Total Expenses		**$7,473,000**	**$8,113,000**	**$8,487,000**	**$8,882,000**	**$9,306,000**
Net Operating Income	*(Revenues - Expenses)*	**$1,979,000**	**$1,412,000**	**$1,021,000**	**$720,000**	**$388,000**

Table 20: Transfers & Reserve Activity at Existing Rates

Line #	Reserve Activity at Existing Rates						
	Direct Transfers		**CY 2025**	**CY 2026**	**CY 2027**	**CY 2028**	**CY 2029**
1	Net Operating Income	Table 19	$1,979,000	$1,412,000	$1,021,000	$720,000	$388,000
2	Connection Fee Transfer (to) Capital Reserve		($100,000)	($100,000)	($100,000)	($100,000)	($100,000)
3	Transfer (to)/from Rate Stabilization Reserve		($460,000)	$0	$0	$0	$0
4	Transfer (to)/from Emergency Reserve		($3,265,771)	$0	$0	$0	$0
5	**Net Income** *(after Direct Transfers)*		**($1,846,771)**	**$1,312,000**	**$921,000**	**$620,000**	**$288,000**
	Operating Fund		**CY 2025**	**CY 2026**	**CY 2027**	**CY 2028**	**CY 2029**
6	Beginning Balance		$17,920,756	$3,685,315	$4,000,932	$4,185,370	$4,380,164
7	Net Income (after Direct Transfers)	*Line 5*	($1,846,771)	$1,312,000	$921,000	$620,000	$288,000
8	Transfers from/(to) Capital Reserve		($12,388,670)	($996,384)	($736,562)	($425,205)	($78,904)
9	**Ending Balance**		**$3,685,315**	**$4,000,932**	**$4,185,370**	**$4,380,164**	**$4,589,260**
	Capital Reserve		**CY 2025**	**CY 2026**	**CY 2027**	**CY 2028**	**CY 2029**
10	Beginning Balance		$0	$6,789,253	$5,357,246	$4,202,324	$1,993,170
11	Plus:						
12	Transfers from/(to) Operating Fund		$12,388,670	$996,384	$736,562	$425,205	$78,904
13	Capacity Fee Revenue	*Line 2*	$100,000	$100,000	$100,000	$100,000	$100,000
14	Less:						
15	CIP		($5,766,637)	($2,648,652)	($2,086,133)	($2,795,701)	($2,233,839)
16	Subtotal Capital Reserve		$6,722,033	$5,236,984	$4,107,675	$1,931,828	($61,765)
17	Interest Earnings		$67,220	$120,262	$94,649	$61,342	$0
18	**Ending Balance**		**$6,789,253**	**$5,357,246**	**$4,202,324**	**$1,993,170**	**($61,765)**
	Rate Stabilization Reserve		**CY 2025**	**CY 2026**	**CY 2027**	**CY 2028**	**CY 2029**
19	Beginning Balance		$0	$460,000	$460,000	$460,000	$460,000
20	Direct Transfer	*Line 3*	$460,000	$0	$0	$0	$0
21	**Ending Balance**		**$460,000**	**$460,000**	**$460,000**	**$460,000**	**$460,000**
	Emergency Reserve		**CY 2025**	**CY 2026**	**CY 2027**	**CY 2028**	**CY 2029**
22	Beginning Balance		$0	$3,265,771	$3,265,771	$3,265,771	$3,265,771
23	Direct Transfer	*Line 4*	$3,265,771	$0	$0	$0	$0
24	**Ending Balance**		**$3,265,771**	**$3,265,771**	**$3,265,771**	**$3,265,771**	**$3,265,771**
25	**Total Ending Balance**		**$14,200,339**	**$13,083,949**	**$12,113,465**	**$10,099,105**	**$8,253,266**

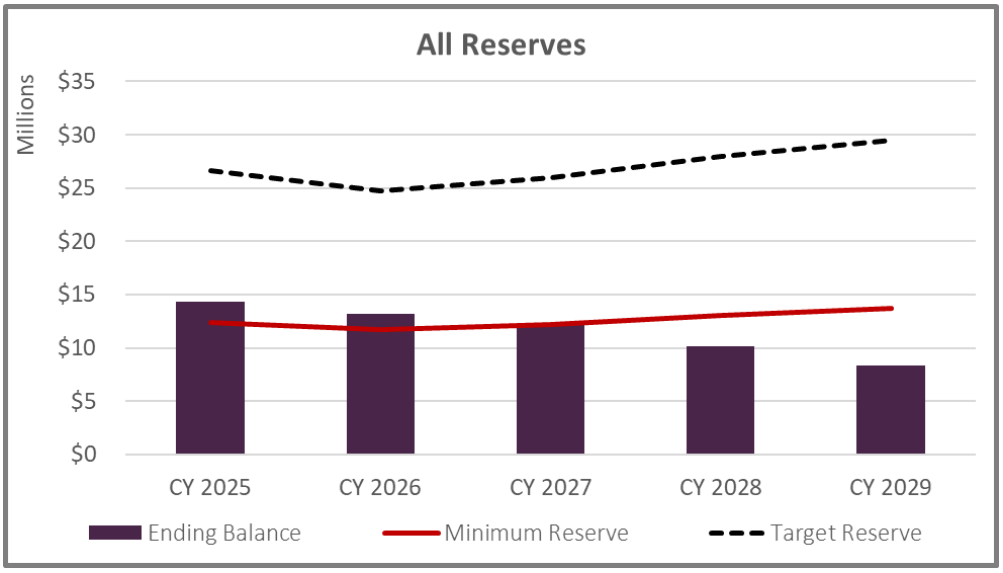
Figure 5 illustrates the operating position of the utility, where O&M expenses are identified with the dashed red trendline, and the horizontal black trendline shows total revenues at existing rates. The bars represent the net operating income available for capital spending and reserve funding.

Figure 5: Current Operating Financial Position



The capital improvement plan reflects over $15.5M in spending through the Rate Setting Plan Period, as shown in Figure 2. Without increases in rate revenue, reserves would be used to cover the remaining capital expenses to ensure necessary projects continue as scheduled and the utility would not meet its minimum target in CY 2028. Figure 6 reflects the projected ending balances of reserves after funding operating and capital projects.

Figure 6: Projected Ending Reserves at Existing Rates



Proposed Financial Plan

Based on our review of the financial outlook at existing rates, a proposed financial plan was developed to adequately fund the multi-year revenue requirements. The proposed financial plan increases rate revenue each year to generate approximately $2.5M in additional revenue by CY 2029. Table 21 forecasts projected revenues, ***with annual revenue adjustments,*** and Table 22 forecasts expenses through CY 2029. Table 23 identifies the projected CY 2025 total starting reserve balances, activity within each recommended reserve (including net income transfer from Table 22, transfers between reserves, annual CIP), and projected ending balances for each calendar year.

Table 21: Proposed Financial Plan

Proposed Financial Plan						
Revenue		**CY 2025**	**CY 2026**	**CY 2027**	**CY 2028**	**CY 2029**
Rate Revenues						
Base Fixed Charge	Table 15	$3,419,000	$3,452,000	$3,485,000	$3,519,000	$3,553,000
Water Quality Authority Assmt		$50,000	$51,000	$51,000	$52,000	$52,000
Dedicated Fire Line Charge		$138,000	$138,000	$138,000	$138,000	$138,000
Variable Revenue		$5,227,000	$5,280,000	$5,332,000	$5,386,000	$5,440,000
Total Rate Revenues		$8,834,000	$8,921,000	$9,006,000	$9,095,000	$9,183,000
Additional Revenue (from revenue adjustments):						
Year / Revenue Adjs						
CY 2025 5.0%		$368,000	$446,000	$450,000	$454,000	$459,000
CY 2026 5.0%			$468,000	$472,000	$477,000	$482,000
CY 2027 5.0%				$496,000	$501,000	$506,000
CY 2028 5.0%					$526,000	$531,000
CY 2029 5.0%						$558,000
Total Additional Revenue		$368,000	$914,000	$1,418,000	$1,958,000	$2,536,000
Projected Rate Revenue		**$9,202,000**	**$9,835,000**	**$10,424,000**	**$11,053,000**	**$11,719,000**
Operating Revenues						
Cross Connection Admin. Fees	Table 15	$7,000	$7,000	$7,000	$7,000	$7,000
Fire Flow Fee		$4,000	$4,000	$4,000	$4,000	$4,000
City of S.G Hydrant Rental		$4,000	$4,000	$4,000	$4,000	$4,000
Late Fees		$15,000	$15,000	$15,000	$15,000	$15,000
Return Payment Fee		$1,000	$1,000	$1,000	$1,000	$1,000
Shut Off Fee		$4,000	$4,000	$4,000	$4,000	$4,000
Water Connection Fee		$100,000	$100,000	$100,000	$100,000	$100,000
Developer's Fees		$100,000	$100,000	$100,000	$100,000	$100,000
Subtotal Operating Revenues		$235,000	$235,000	$235,000	$235,000	$235,000
Non-Operating Revenue						
Metro PCS-American Tower	Table 15	$21,000	$21,000	$21,000	$21,000	$21,000
Enersponse Inc		$8,000	$8,000	$8,000	$8,000	$8,000
Interest: LAIF		$267,000	$253,000	$151,000	$156,000	$160,000
Miscellaneous Income		$12,000	$12,000	$12,000	$12,000	$12,000
Grand Lease Revenue		$75,000	$75,000	$75,000	$75,000	$75,000
Subtotal Non-Operating Revenue		$383,000	$369,000	$267,000	$272,000	$276,000
Total Revenues		**$9,820,000**	**$10,439,000**	**$10,926,000**	**$11,560,000**	**$12,230,000**

Table 22: Proposed Financial Plan (Continued)

Financial Plan at Existing Rates						
O&M Expenses		**CY 2025**	**CY 2026**	**CY 2027**	**CY 2028**	**CY 2029**
Water Supply Costs						
Authority						
Water Quality Authority Assmt	Table 16	$65,000	$65,000	$65,000	$65,000	$65,000
Subtotal Authority		$65,000	$65,000	$65,000	$65,000	$65,000
Variable Water Supply Costs						
Main San Gabriel Basin	Table 16	$744,000	$753,000	$762,000	$771,000	$781,000
Raymond Basin		$34,000	$34,000	$34,000	$34,000	$34,000
Subtotal Variable Water Supply Costs		$778,000	$787,000	$796,000	$805,000	$815,000
Total Water Supply Costs		**$843,000**	**$852,000**	**$861,000**	**$870,000**	**$880,000**
Operating Expenses						
Production & Supply						
Salaries & Benefits	Table 16	$735,000	$763,000	$793,000	$824,000	$856,000
O&M		$351,000	$672,000	$708,000	$746,000	$787,000
Pumping/Energy		$712,000	$791,000	$879,000	$976,000	$1,084,000
Transmission & Distribution						
Salaries & Benefits		$802,000	$833,000	$866,000	$900,000	$935,000
O&M		$295,000	$309,000	$324,000	$339,000	$356,000
Customer Service - Field						
Salaries & Benefits		$222,000	$231,000	$240,000	$250,000	$259,000
O&M		$27,000	$28,000	$29,000	$30,000	$31,000
Customer Service - Office						
Salaries & Benefits		$356,000	$370,000	$384,000	$399,000	$415,000
O&M		$49,000	$51,000	$53,000	$55,000	$58,000
Conservation		$6,000	$6,000	$6,000	$6,000	$7,000
General & Administration						
Salaries & Benefits		$1,451,000	$1,508,000	$1,567,000	$1,628,000	$1,692,000
O&M		$1,624,000	$1,699,000	$1,777,000	$1,859,000	$1,946,000
Subtotal Operating Expenses		$6,630,000	$7,261,000	$7,626,000	$8,012,000	$8,426,000
Total Expenses		**$7,473,000**	**$8,113,000**	**$8,487,000**	**$8,882,000**	**$9,306,000**
Net Operating Income	*(Revenues - Expenses)*	**$2,347,000**	**$2,326,000**	**$2,439,000**	**$2,678,000**	**$2,924,000**

Table 23: Proposed Transfers & Reserve Activity

Line #	Reserve Activity at Proposed Rates						
	Direct Transfers		CY 2025	CY 2026	CY 2027	CY 2028	CY 2029
1	Net Operating Income	Table 22	$2,347,000	$2,326,000	$2,439,000	$2,678,000	$2,924,000
2	Connection Fee Transfer (to) Capital Reserve		($100,000)	($100,000)	($100,000)	($100,000)	($100,000)
3	Transfer (to)/from Rate Stabilization Reserve		($460,000)	$0	$0	$0	$0
4	Transfer (to)/from Emergency Reserve		($3,265,771)	$0	$0	$0	$0
5	**Net Income** *(after Direct Transfers)*		**($1,478,771)**	**$2,226,000**	**$2,339,000**	**$2,578,000**	**$2,824,000**
	Operating Fund		CY 2025	CY 2026	CY 2027	CY 2028	CY 2029
6	Beginning Balance		$17,920,756	$3,685,315	$4,000,932	$4,185,370	$4,380,164
7	Net Income (after Direct Transfers)	*Line 5*	($1,478,771)	$2,226,000	$2,339,000	$2,578,000	$2,824,000
8	Transfers from/(to) Capital Reserve		($12,756,670)	($1,910,384)	($2,154,562)	($2,383,205)	($2,614,904)
9	**Ending Balance**		**$3,685,315**	**$4,000,932**	**$4,185,370**	**$4,380,164**	**$4,589,260**
	Capital Reserve		CY 2025	CY 2026	CY 2027	CY 2028	CY 2029
10	Beginning Balance		$0	$7,160,933	$6,659,500	$6,962,803	$6,786,438
11	Plus:						
12	Transfers from/(to) Operating Fund		$12,756,670	$1,910,384	$2,154,562	$2,383,205	$2,614,904
13	Capacity Fee Revenue	*Line 2*	$100,000	$100,000	$100,000	$100,000	$100,000
14	Less:						
15	CIP		($5,766,637)	($2,648,652)	($2,086,133)	($2,795,701)	($2,233,839)
16	Subtotal Capital Reserve		$7,090,033	$6,522,664	$6,827,928	$6,650,307	$7,267,503
17	Interest Earnings		$70,900	$136,836	$134,874	$136,131	$140,539
18	**Ending Balance**		**$7,160,933**	**$6,659,500**	**$6,962,803**	**$6,786,438**	**$7,408,043**
	Rate Stabilization Reserve		CY 2025	CY 2026	CY 2027	CY 2028	CY 2029
19	Beginning Balance		$0	$460,000	$460,000	$460,000	$460,000
20	Direct Transfer	*Line 3*	$460,000	$0	$0	$0	$0
21	**Ending Balance**		**$460,000**	**$460,000**	**$460,000**	**$460,000**	**$460,000**
	Emergency Reserve		CY 2025	CY 2026	CY 2027	CY 2028	CY 2029
22	Beginning Balance		$0	$3,265,771	$3,265,771	$3,265,771	$3,265,771
23	Direct Transfer	*Line 4*	$3,265,771	$0	$0	$0	$0
24	**Ending Balance**		**$3,265,771**	**$3,265,771**	**$3,265,771**	**$3,265,771**	**$3,265,771**
25	**Total Ending Balance**		**$14,572,019**	**$14,386,202**	**$14,873,943**	**$14,892,374**	**$15,723,074**

Figure 7 identifies the operating position based on the proposed financial plan and Figure 8 shows the capital plan with funding sources and Figure 9 identifies the ending reserve balances.

Figure 7: Proposed Operating Financial Position

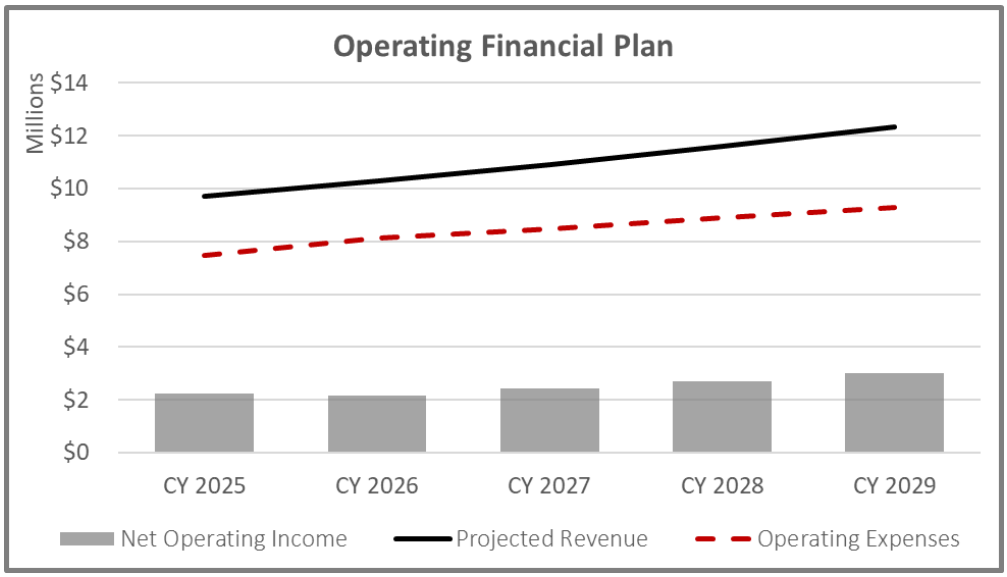


Figure 8: Capital Improvement Plan with Funding Sources

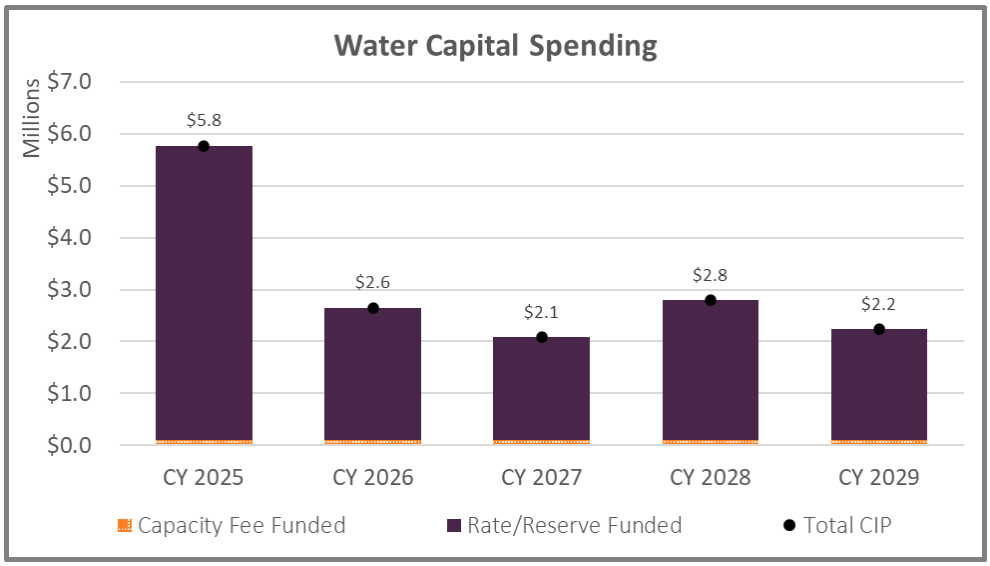
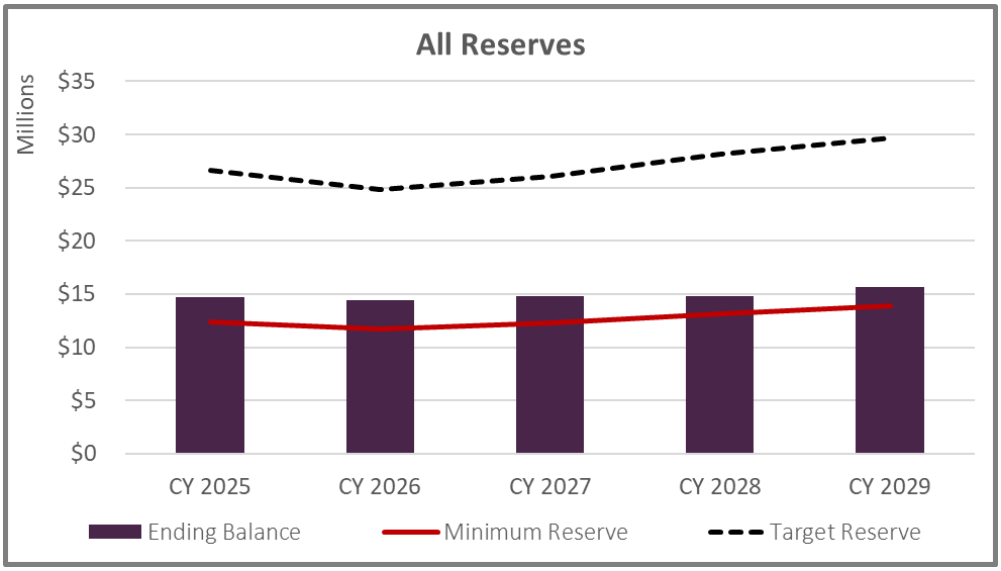


Figure 9: Proposed Ending Reserves



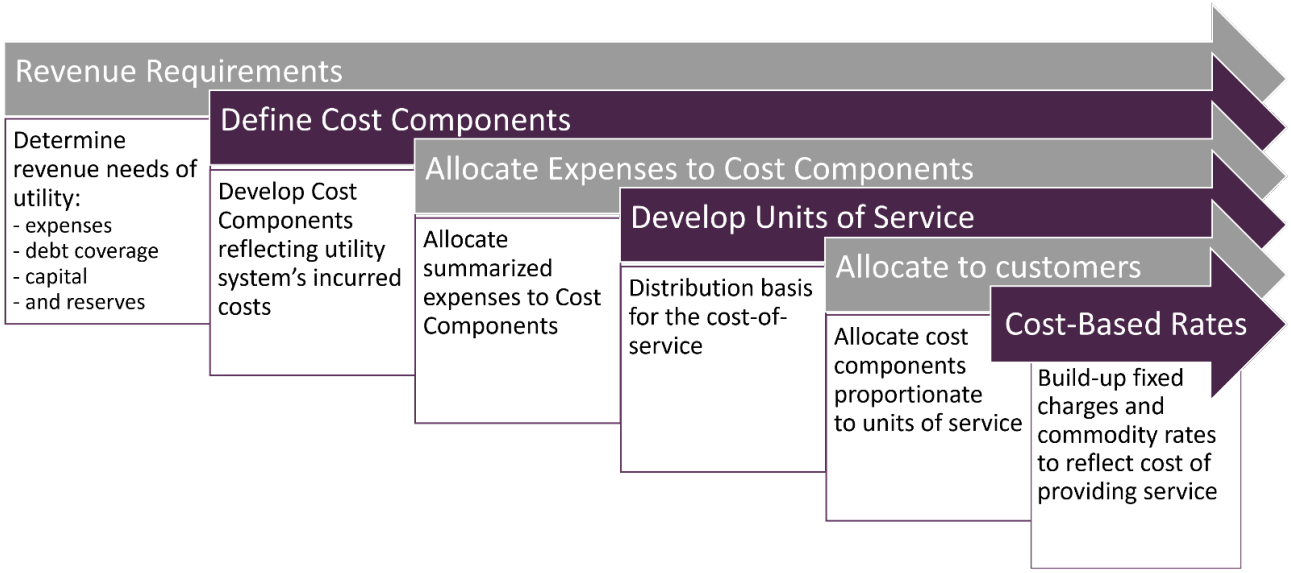
Cost-of-Service Analysis

Cost-of-Service Process

The next step in developing rates is to perform a cost-of-service analysis. This step develops proposed water rates that are cost-based and equitable. Meeting the requirements of Proposition 218 is of paramount importance in developing utility rates. Proposition 218 does not provide a particular methodology for establishing cost-based rates. This study and analysis herein allocate costs proportionately to each parcel served by the District and derive water rates that adhere to the cost-of-service provisions of Proposition 218.

It is important to understand **how** costs are incurred to determine the most appropriate way to recover these costs. The following graphic summarizes the cost-of-service process. This process allocates costs incurred to customers based on their proportional share. As a result, the proposed rates are cost-based and reflect the costs incurred to provide service to customers.

Figure 10: Cost-of-Service Process



Revenue Requirements

Revenue requirements are determined for CY 2025 and used for the cost-of-service. Revenue requirements include water supply costs, O&M expenses, available offsets from other operating and non-operating revenues, annual net income, and any mid-year adjustments if rates are implemented after the start of the fiscal year. The mid-year adjustment annualizes the proposed revenue adjustment to account for the time elapsed before new rates take effect and connects to the annual units of service used within this report for deriving rates. The proposed revenue adjustments and corresponding rates generate the necessary funding over the Rate Setting Period to fund total revenue requirements, including the capital spending plan, and satisfy minimum reserve requirements. The results of the financial plan analysis are summarized in Table 24 and represent the revenue required from rates over the Rate Setting Period.

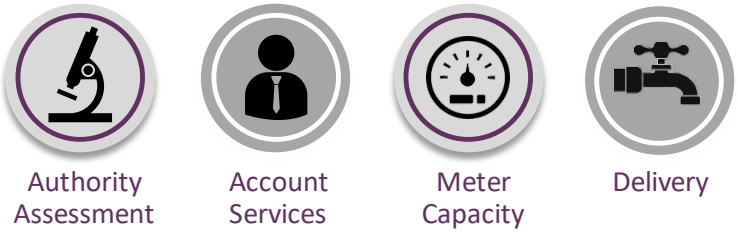
Table 24: Revenue Requirements

Revenue Requirements	CY 2025	CY 2026	CY 2027	CY 2028	CY 2029
Water Supply Costs					
Authority					
Water Quality Authority Assmt	$65,000	$65,000	$65,000	$65,000	$65,000
Variable Water Supply Costs					
Main San Gabriel Basin	$744,000	$753,000	$762,000	$771,000	$781,000
Raymond Basin	$34,000	$34,000	$34,000	$34,000	$34,000
Total Variable Water Supply Costs	$778,000	$787,000	$796,000	$805,000	$815,000
Total Water Supply Costs	$843,000	$852,000	$861,000	$870,000	$880,000
Operating Expenses					
Production & Supply					
Salaries & Benefits	$735,000	$763,000	$793,000	$824,000	$856,000
O&M	$351,000	$672,000	$708,000	$746,000	$787,000
Pumping/Energy	$712,000	$791,000	$879,000	$976,000	$1,084,000
Transmission & Distribution					
Salaries & Benefits	$802,000	$833,000	$866,000	$900,000	$935,000
O&M	$295,000	$309,000	$324,000	$339,000	$356,000
Customer Service - Field					
Salaries & Benefits	$222,000	$231,000	$240,000	$250,000	$259,000
O&M	$27,000	$28,000	$29,000	$30,000	$31,000
Customer Service - Office					
Salaries & Benefits	$356,000	$370,000	$384,000	$399,000	$415,000
O&M	$49,000	$51,000	$53,000	$55,000	$58,000
Conservation	$6,000	$6,000	$6,000	$6,000	$7,000
General & Administration					
Salaries & Benefits	$1,451,000	$1,508,000	$1,567,000	$1,628,000	$1,692,000
O&M	$1,624,000	$1,699,000	$1,777,000	$1,859,000	$1,946,000
Total Operating Expenses	$6,630,000	$7,261,000	$7,626,000	$8,012,000	$8,426,000
Other Funding					
Revenue Offsets					
Operating Revenues	($235,000)	($235,000)	($235,000)	($235,000)	($235,000)
Non-Operating Revenue	($383,000)	($369,000)	($267,000)	($272,000)	($276,000)
Total Revenue Offsets	($618,000)	($604,000)	($502,000)	($507,000)	($511,000)
Direct Transfers					
Connection Fee Transfer (to) Capital Reserve	$100,000	$100,000	$100,000	$100,000	$100,000
Adjustments					
Reserve Funding	($1,478,771)	$2,226,000	$2,339,000	$2,578,000	$2,824,000
Adjustment for Mid-Year Increase	$73,600	$0	$0	$0	$0
Total Adjustments	($1,405,171)	$2,226,000	$2,339,000	$2,578,000	$2,824,000
Total Other Funding	$1,802,600	$1,722,000	$1,937,000	$2,171,000	$2,413,000
Revenue Required from Rates	**$9,275,600**	**$9,835,000**	**$10,424,000**	**$11,053,000**	**$11,719,000**

Define Cost Components

The utility incurs costs to accommodate total water demand that varies throughout the year. Therefore, to determine the most appropriate way to recover the utility's expenses, cost components are identified to allocate expenses based on how they are incurred. The cost components shown in Figure 11 are specific to the District, with three components related to fixed costs and one of the cost components related to variable costs.

Figure 11: Cost Components



Cost Components:
Authority Assessment: Fixed monthly costs charged to the District by the Authority for water quality and cleanup associated with the San Gabriel Valley groundwater basins.
Account Services: Fixed expenses that do not necessarily fluctuate based on usage nor are a function of meter size.
Meter Capacity: Fixed expenses associated with system demand to be recovered based on meter capacity.
Delivery: Operating and capital expenses of the water system associated with serving customers at a constant average use. These costs tend to vary with the total water used.

Allocate Expenses to Cost Components

The analysis herein establishes cost components for developing fixed charges and variable rates. When allocating expenses to the defined cost components, it is important to identify which expenses were allocated to fixed versus variable or split between both fixed and variable. The distribution of expenses to the cost components should be straightforward to ensure the method of apportionment is **understandable** and easily **correlates with how expenses are incurred**.

Table 25 summarizes the percent allocation of water supply costs to the fixed and variable water supply components and corresponding values in dollars.

Table 25: Water Supply Cost Allocation to Cost Components

Water Supply Costs	Methodology / Allocation Basis	Cost Components: Authority Assessment	Account Services	Meter Capacity	Delivery	Total
Authority						
Water Quality Authority Assmt	Specific	100.0%	0.0%	0.0%	0.0%	100.0%
Variable Water Supply Costs						
Main San Gabriel Basin	Specific	0.0%	0.0%	0.0%	100.0%	100.0%
Raymond Basin	Specific	0.0%	0.0%	0.0%	100.0%	100.0%

Water Supply Costs	Methodology / Allocation Basis	Cost Components: Authority Assessment	Account Services	Meter Capacity	Delivery	Total
Authority						
Water Quality Authority Assmt	Specific	$65,000	$0	$0	$0	$65,000
Variable Water Supply Costs						
Main San Gabriel Basin	Specific	$0	$0	$0	$744,000	$744,000
Raymond Basin	Specific	$0	$0	$0	$34,000	$34,000
Total Allocation ($)		**$65,000**	**$0**	**$0**	**$778,000**	**$843,000**

Table 26 summarizes the percent allocation of Operating Expenses revenue requirements to the cost components and corresponding values in dollars. All Salaries & Benefits (S&B) were allocated to the fixed-cost components of either Account Services or Meter Capacity. S&B expenses associated with production (*Production & Supply)* and operating the system (*Transmission & Distribution and Customer Service – Field*) to meter capacity, which apportions the cost to customers based on the capacity taken in the system by each meter. *Customer Service – Office* is assigned 100% to Account Services as these expenses are associated with fielding calls, billing, and other general customer service activities. Costs assigned to Account Services are spread over all customers evenly, generating a base fixed charge for all meter sizes. *General & Administration* includes the Board and executive staff, responsible for long-term planning and overall system operations, plus overhead expenses. Therefore, *General & Administration* were split 50/50 between Accounts Services and Meter Capacity, as overhead expenses are approximately 50% of the cost, with staffing assigned to meter capacity.

Table 26: Operating Expense Allocation to Cost Components

Operating Expenses	Methodology / Allocation Basis	Cost Components: Fixed Water	Account Services	Meter Capacity	Delivery	Total
Production & Supply						
Salaries & Benefits	Specific	0.0%	0.0%	100.0%	0.0%	100.0%
O&M	Specific	0.0%	0.0%	0.0%	100.0%	100.0%
Pumping/Energy	Specific	0.0%	0.0%	0.0%	100.0%	100.0%
Transmission & Distribution						
Salaries & Benefits	Specific	0.0%	0.0%	100.0%	0.0%	100.0%
O&M	Specific	0.0%	0.0%	0.0%	100.0%	100.0%
Customer Service - Field						
Salaries & Benefits	Specific	0.0%	0.0%	100.0%	0.0%	100.0%
O&M	Specific	0.0%	0.0%	0.0%	100.0%	100.0%
Customer Service - Office						
Salaries & Benefits	Specific	0.0%	100.0%	0.0%	0.0%	100.0%
O&M	Specific	0.0%	0.0%	0.0%	100.0%	100.0%
Conservation	Specific	0.0%	0.0%	0.0%	100.0%	100.0%
General & Administration						
Salaries & Benefits	Specific	0.0%	50.0%	50.0%	0.0%	100.0%
O&M	Specific	0.0%	0.0%	0.0%	100.0%	100.0%

Operating Expenses	Methodology / Allocation Basis	Cost Components: Fixed Water	Account Services	Meter Capacity	Delivery	Total
Production & Supply						
Salaries & Benefits	Specific	$0	$0	$735,000	$0	$735,000
O&M	Specific	$0	$0	$0	$351,000	$351,000
Pumping/Energy	Specific	$0	$0	$0	$712,000	$712,000
Transmission & Distribution						
Salaries & Benefits	Specific	$0	$0	$802,000	$0	$802,000
O&M	Specific	$0	$0	$0	$295,000	$295,000
Customer Service - Field						
Salaries & Benefits	Specific	$0	$0	$222,000	$0	$222,000
O&M	Specific	$0	$0	$0	$27,000	$27,000
Customer Service - Office						
Salaries & Benefits	Specific	$0	$356,000	$0	$0	$356,000
O&M	Specific	$0	$0	$0	$49,000	$49,000
Conservation	Specific	$0	$0	$0	$6,000	$6,000
General & Administration						
Salaries & Benefits	Specific	$0	$725,500	$725,500	$0	$1,451,000
O&M	Specific	$0	$0	$0	$1,624,000	$1,624,000
Total Allocation ($)		**$0**	**$1,081,500**	**$2,484,500**	**$3,064,000**	**$6,630,000**
O&M Allocation (%)		*0.0%*	*16.3%*	*37.5%*	*46.2%*	*100.0%*

Other Funding includes other operating and non-operating revenues as an offset, direct transfers, and reserve funding. All items under "Other Funding" are allocated based on the O&M Allocation percentages derived at the bottom of Table 26 to proportionately allocate revenue offsets and reserve funding to each O&M cost component in line with the cost-of-service analysis. Table 27 summarizes the percent allocation of Other Funding to the cost components and corresponding values in dollars.

Table 27: Other Funding Allocation to Cost Components

		Cost Components			
Other Funding	**Methodology / Allocation Basis**	**Account Services**	**Meter Capacity**	**Delivery**	**Total**
Revenue Offsets					
Operating Revenues	O&M Allocation	16.3%	37.5%	46.2%	100.0%
Non-Operating Revenue	O&M Allocation	16.3%	37.5%	46.2%	100.0%
Direct Transfers					
Connection Fee Transfer (to) Capital Reserve	O&M Allocation	16.3%	37.5%	46.2%	100.0%
Adjustments					
Reserve Funding	O&M Allocation	16.3%	37.5%	46.2%	100.0%
Adjustment for Mid-Year Increase	O&M Allocation	16.3%	37.5%	46.2%	100.0%

		Cost Components			
Other Funding	**Methodology / Allocation Basis**	**Account Services**	**Meter Capacity**	**Delivery**	**Total**
Revenue Offsets					
Operating Revenues	O&M Allocation	($38,334)	($88,063)	($108,603)	($235,000)
Non-Operating Revenue	O&M Allocation	($62,476)	($143,524)	($177,000)	($383,000)
Direct Transfers					
Connection Fee Transfer (to) Capital Reserve	O&M Allocation	$16,312	$37,474	$46,214	$100,000
Adjustments					
Reserve Funding	O&M Allocation	($241,220)	($554,149)	($683,402)	($1,478,771)
Adjustment for Mid-Year Increase	O&M Allocation	$12,006	$27,581	$34,014	$73,600
Total Allocation ($)		**$294,044**	**$675,499**	**$833,057**	**$1,802,600**

Table 28 summarizes the revenue requirement derived in Table 24 by cost component.

Table 28: CY 2025 Cost-of-Service Requirements by Cost Component

	Fixed Components			Variable Component	
Revenue Requirement	**Authority Assessment**	**Account Services**	**Meter Capacity**	**Delivery**	**Total**
Water Supply Costs	$65,000	$0	$0	$778,000	$843,000
Operating Expenses	$0	$1,081,500	$2,484,500	$3,064,000	$6,630,000
Other Funding	$0	$294,044	$675,499	$833,057	$1,802,600
COS Requirements	**$65,000**	**$1,375,544**	**$3,159,999**	**$4,675,057**	**$9,275,600**

Rate Design

Develop Units of Service

Unit rates for each cost component are derived by spreading the corresponding revenue requirements over appropriate units of service (distribution basis). This approach provides a clear connection between costs incurred and the proportionate share attributable to each customer class, corresponding tier, and customer account. When designing rates, the most critical component is to connect costs to the proposed rates, resulting in a rate structure that is cost-based and in compliance with Proposition 218. The previous section summarized costs by expense category and then allocated to cost components based on how each cost is incurred. The next step in designing rates is to allocate each cost component to customers in relation to their use of the system and facilities.

The method of apportionment considers each customer's share of system costs and is reflected by the units of service used to equitably distribute the cost components to each customer account. The distribution basis varies by cost component and includes annual bills (total accounts multiplied by 6 billing periods), Meter Equivalents (MEs), which reflect demand placed on the system based on meter size, and total projected water consumption. Each meter size was assigned an equivalency factor using the flow characteristics of a 5/8" meter, equal to 20 gallons per minute (gpm). The District's meter inventory was reviewed, and the specifications of the meters were provided for determining the safe operating yield (in gpm) for each meter size. The safe maximum operating flow capacity for each meter size was divided by the safe operating flow capacity of the 5/8" meter (20 gpm) to determine the equivalent meter ratios identified in Table 29 (Column B).

The Capacity Ratio represents the potential flow through each meter size compared to the flow through the base 5/8" meter to establish parity between meter sizes. Total MEs are determined by multiplying the number of meters by the Capacity Ratio and then multiplying the result by the billing periods in a year (6 billing periods), as shown in Table 29. Table 30 summarizes the annual units of service related to Total Accounts (Total Bills), Total Bills less Fire Lines (FL), Total MEs, and Total MEs less FL.

Table 29: Accounts and Meter Equivalents

Annual Fixed Units of Service									
	Meter Size	Capacity (gpm)	Capacity Ratio	Potable Accounts	Dedicated Fire Lines	Total Accounts	Potable ME's	Dedicated Fire Line	Total ME's
Line #		[A]	[B] = A ÷ 20	[C]	[D]	[E] = C + D	[F] = C x B	[G] = D x B	[H] = F + G
1	5/8"	20	1.00	6,073	4	6,077	6,073	4	6,077
2	3/4"	30	1.50	-	-	-	-	-	-
3	1"	50	2.50	2,943	2	2,945	7,358	5	7,363
4	1 1/2"	100	5.00	362	2	364	1,810	10	1,820
5	2"	250	12.50	295	36	331	3,688	450	4,138
6	3"	500	25.00	15	1	16	375	25	400
7	4"	1,000	50.00	21	150	171	1,050	7,500	8,550
8	6"	1,500	75.00	4	40	44	300	3,000	3,300
9	8"	2,000	100.00	-	25	25	-	2,500	2,500
10	Total			9,713	260	9,973	20,653	13,494	34,147
11	Annual Units *(Line 10 x 6 billing periods)*			58,278	1,560	59,838	123,918	80,964	204,882

Table 30: Annual Fixed Units of Service

Annual Fixed Units of Service				
Customer Class	Total Bills	Total Bills (less FL)	Total ME's	Total ME's (less FL)
All Customers	58,278	58,278	123,918	123,918
Dedicated Fire Lines	1,560	-	80,964	-
Annual Fixed Units	59,838	58,278	204,882	123,918

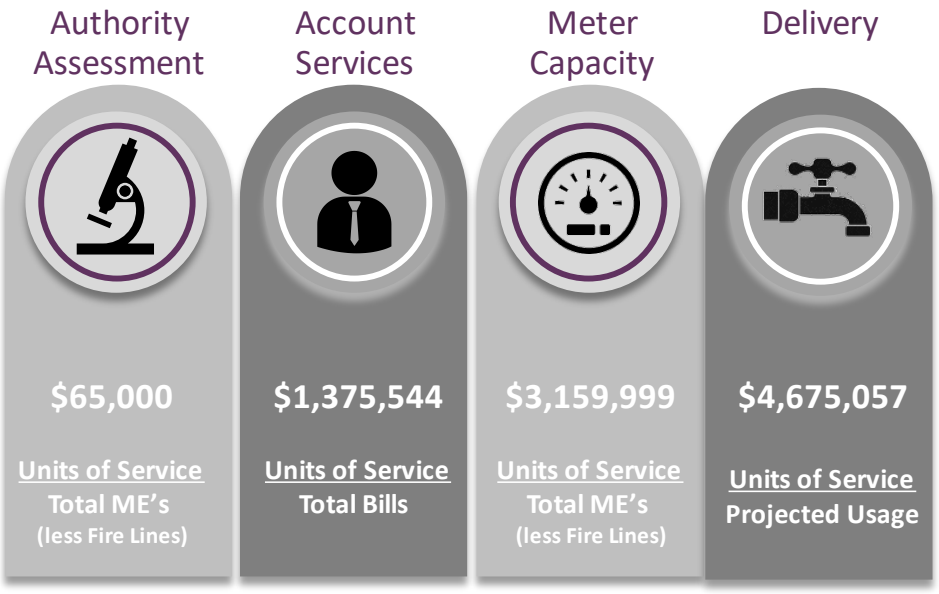
The existing two-tiered rate structure reflected rates that varied by water supply costs, with tier 2 based on the cost of imported water. As the District's total water demand has reduced over the years, there has not been a need to purchase imported water. Since the District can cover its total water demand entirely by groundwater, the proposed rate structure collapses the existing tiers to a uniform rate for each unit of water consumed. Table 31 provides the projected usage for CY 2025.

Table 31: Projected Usage (HCF)

Annual Variable Units of Service	
Customer Class	Projected Usage (HCF)
All Customers	1,816,285

With the units of service shown in Table 30 and Table 31, we can select the appropriate distribution basis for each cost component. Figure 12 identifies the total revenue requirements by cost component from Table 28 and the corresponding units of service.

Figure 12: Distribution Basis and Units of Service by Cost Component



Using CY 2025 revenue requirements, the cost-of-service allocates expenses to customers based on the service demands that each place on the system (cost causation). This cost causation approach ensures that each customer proportionately shares in the financial obligation of the utility. Unit rates were rounded up to the nearest penny.

Fixed Cost Recovery

Authority Assessment

The Authority Assessment includes fixed costs for cleaning contaminants within the San Gabriel Valley groundwater basins. The revenue requirement for the Authority Assessment is apportioned based on meter size. Larger-sized meters can generate a greater demand on the system from the potential water flow that may pass through the meter. The assessment is not charged against dedicated fire lines. Therefore, the revenue requirement for Authority Assessment is apportioned to meter size as represented by Total MEs (less FL) (Table 30), as shown in Table 32. In subsequent years, any increases or decreases in the assessment charged by the Authority will be passed through to customers as authorized by California Government Code 53756.

Table 32: CY 2025 Authority Assessment Bi-Monthly Unit Rate

Authority Assessment Component Unit Rate	
Revenue Requirement	$65,000
÷ Total ME's (less FL)	123,918
Bi-Monthly Unit Rate	$0.53

Account Services

Each customer incurs Account Services costs regardless of the type of land use, meter size, or total amount of water used in a month. These costs should be spread equally across all accounts. This is achieved by using the distribution basis of Total Bills. Total Bills are determined by multiplying the number of accounts by six billing periods (Table 30). Therefore, the revenue requirement for Account Services is apportioned based on the Total Bills to determine the bi-monthly unit cost-of-service shown in Table 33.

Table 33: CY 2025 Account Services Bi-Monthly Unit Rate

Account Services Component Unit Rate	
Revenue Requirement	$1,375,544
÷ Total Bills	59,838
Bi-Monthly Unit Rate	$22.99

Meter Capacity

As described in the cost-of-service section, the Meter Capacity Component includes the Salaries & Benefits of production and operating the water system, including a proportional share of revenue offsets and reserve funding. The revenue requirement for Meter Capacity is apportioned based on meter size. Larger-sized meters can generate a greater demand on the system from the amount of potential water flow that may pass through the meter. However, dedicated fire lines are a standby service and do not consistently use water or place demand on the system. Therefore, the revenue requirement for Meter Capacity is apportioned to meter size as represented by Total MEs (less FL) (Table 30), as shown in Table 34.

Table 34: CY 2025 Meter Capacity Bi-Monthly Unit Rate

Meter Capacity Component Unit Rate	
Revenue Requirement	$3,159,999
÷ Total ME's (less FL)	123,918
Bi-Monthly Unit Rate	$25.51

Variable Cost Recovery

The remaining cost component of Delivery is recovered through a variable rate. The proposed rate structure consists of a uniform rate per HCF.

Delivery

Delivery costs are incurred based on the total volume of water produced and delivered to customers throughout the year. Table 35 apportions the revenue requirement for Delivery over all projected water usage identified in Table 31.

Table 35: CY 2025 Conveyance Unit Rate

Delivery Component Unit Rate	
Revenue Requirement	$4,675,057
÷ Projected Usage	1,816,285
Unit Rate ($/HCF)	$2.58

CY 2025 Cost-of-Service Rates

Proposed Bi-Monthly Fixed Charges

The proposed monthly fixed charges for CY 2025 are shown in Table 36, reflecting the combined charges of Authority Assessment, Account Services, and Meter Capacity. Authority Assessment and Meter Capacity charges increase with the size of the meter in relation to the Capacity Ratios, rounded up to the next whole penny.

Table 36: CY 2025 Proposed Bi-Monthly Base Fixed Charges

Proposed Base Fixed Charges ($/Bi-Monthly)					
Meter Size	Capacity Ratio [A]	Authority Assessment [B] = $.53 x A	Account Services [C] = $22.99	Meter Capacity [D] = $25.51 x A	Proposed Base Fixed Charge [E] = B + C + D
5/8"	1.00	$0.53	$22.99	$25.51	**$49.03**
3/4"	1.50	$0.80	$22.99	$38.27	**$62.06**
1"	2.50	$1.33	$22.99	$63.78	**$88.10**
1 1/2"	5.00	$2.65	$22.99	$127.55	**$153.19**
2"	12.50	$6.63	$22.99	$318.88	**$348.50**
3"	25.00	$13.25	$22.99	$637.75	**$673.99**
4"	50.00	$26.50	$22.99	$1,275.50	**$1,324.99**
6"	75.00	$39.75	$22.99	$1,913.25	**$1,975.99**
8"	100.00	$53.00	$22.99	$2,551.00	**$2,626.99**

The proposed monthly dedicated fire line charges for CY 2025 are shown in Table 37. Dedicated fire lines are charged a uniform monthly standby charge comprised of Account Services.

Table 37: CY 2025 Proposed Bi-Monthly Dedicated Fire Line Charges

Proposed Dedicated Fire Line Charges ($/Bi-Monthly)		
Connection Size	Account Services	Proposed Dedicated Fire Line Charge
All Fire Lines	$22.99	**$22.99**

Proposed Variable Rate

Table 38 provides the variable rate for CY 2025 reflecting the Delivery rate.

Table 38: CY 2025 Proposed Variable Rate ($/HCF)

Proposed Variable Rates ($/HCF)		
Customer Class	Delivery	Proposed Variable Rates
All Customers	$2.58	**$2.58**

Cost-Based Rates

Cost-of-Service and Rate Summary

The comprehensive cost-of-service analysis and rate development meet the requirements of Proposition 218 and identify the cost components that make up the proposed water fixed charges and variable rates. Proposition 218 requires the following conditions:

1. An agency cannot collect revenue beyond what is necessary to provide service.

   The long-term financial plan identifies the District's revenue requirements, including operating expenses, capital improvement programs, debt, and reserves.

2. Revenues derived by the charge shall not be used for any other purpose other than that for which the charge was imposed.

   The District's water utility is set up as a business enterprise to track revenues and expenses and does not fund other services outside of those necessary for the provision of water to property.

3. The amount of the fee may not exceed the proportional cost-of-service for the parcel.

   The comprehensive cost-of-service analysis, updated fixed charges, and variable rate reflect each customer's proportionate share of water costs. Through this update, each customer is paying for the cost of providing service to that parcel.

4. No charge may be imposed for a service unless that service is actually used or immediately available to the owner of a property.

   The proposed fixed charges and variable rates connect directly to the District's budget and projected future revenue requirements and are recovered equitably from all active accounts receiving service.

5. A written notice of the proposed charge shall be mailed to the record owner of each parcel at least 45 days prior to the public hearing.

   Notices were mailed to each affected parcel owner at least 45 days before the February 25, 2025, Public Hearing.

The proposed water 5-year rate schedule is shown in the following section. If a majority protest does not exist at the February 24, 2025, Public Hearing, the District Board may adopt the rates with an effective date of March 1, 2025, and each January 1st thereafter.

5-Year Rate Schedules

Table 39, and Table 40 provide the 5-year water rate schedule for bi-monthly base fixed charges and dedicated fire line charges, respectively. Table 41 provides the 5-year rate schedule for water variable rates. For CY 2026 through CY 2029, the revenue adjustments are applied across the board to the rates derived for CY 2025 to maintain proportionality of the cost-of-service analysis derived within this report.

Table 39: Proposed Base Fixed Charge (CY 2025 – CY 2029)

Revenue Adjustment		5.0%	5.0%	5.0%	5.0%
Proposed Base Fixed Charge ($/Bi-Monthly)					
Meter Size	**CY 2025**	**CY 2026**	**CY 2027**	**CY 2028**	**CY 2029**
5/8"	$49.03	$51.49	$54.07	$56.78	$59.63
3/4"	$62.06	$65.17	$68.44	$71.87	$75.47
1"	$88.10	$92.51	$97.14	$102.01	$107.12
1 1/2"	$153.19	$160.86	$168.91	$177.36	$186.24
2"	$348.50	$365.94	$384.24	$403.46	$423.64
3"	$673.99	$707.70	$743.09	$780.26	$819.28
4"	$1,324.99	$1,391.25	$1,460.83	$1,533.88	$1,610.58
6"	$1,975.99	$2,074.80	$2,178.55	$2,287.49	$2,401.88
8"	$2,626.99	$2,758.34	$2,896.27	$3,041.10	$3,193.16

Table 40: Proposed Dedicated Fire Line Charge (CY 2025 – CY 2029)

Revenue Adjustment		5.0%	5.0%	5.0%	5.0%
Proposed Dedicated Fire Line Charge ($/Bi-Monthly)					
Connection Size	**CY 2025**	**CY 2026**	**CY 2027**	**CY 2028**	**CY 2029**
All Fire Lines	$22.99	$24.14	$25.35	$26.62	$27.96

Table 41: Proposed Variable Rates (CY 2025 – CY 2029)

Revenue Adjustment		5.0%	5.0%	5.0%	5.0%
Proposed Variable Rates ($/HCF)					
Customer Class	**CY 2025**	**CY 2026**	**CY 2027**	**CY 2028**	**CY 2029**
All Customers	$2.58	$2.71	$2.85	$3.00	$3.15

Appendix A – Capital Improvement Plan

Table 42 identifies the assumptions used for inflating CIP costs over the Rate Setting Period and the projects within the selected Capital Improvement Plan. The same capital escalation factor shown in Table 13 reflecting the 5-year average of the ENR CCI for the Los Angeles area was used to calculate a cumulative inflationary factor. Project costs in the CIP are uninflated starting in CY 2025; therefore, the subtotal of the CIP costs for each fiscal year was multiplied by the corresponding cumulative inflationary factor to calculate the total inflated CIP costs.

Table 42: Detailed CIP (CY 2025 – CY 2029)

CIP Forecasting					
Key Assumptions	**CY 2025**	**CY 2026**	**CY 2027**	**CY 2028**	**CY 2029**
Capital Inflation	4.9%	4.9%	4.9%	4.9%	4.9%
Cumulative Inflationary Factor	104.9%	110.1%	115.6%	121.3%	127.3%
Capital Improvement Plan					
Project Description	**CY 2025**	**CY 2026**	**CY 2027**	**CY 2028**	**CY 2029**
Mainline Replacement	$100,000	$200,000	$200,000	$200,000	$200,000
Service Replacement	$175,000	$175,000	$175,000	$175,000	$175,000
Meters	$50,000	$50,000	$50,000	$50,000	$50,000
Fire Hydrants	$80,000	$80,000	$80,000	$80,000	$80,000
10 Freeway Crossing	$1,500,000	$0	$0	$0	$0
W12 Treatment Plant	$2,000,000	$500,000	$0	$0	$0
Service Truck	$90,000	$0	$0	$0	$0
Lobby Improvements	$100,000	$0	$0	$0	$0
Del Mar Mainline 1,138'	$650,000	$0	$0	$0	$0
Earle Mainline 1,620'	$750,000	$0	$0	$0	$0
Ralph Mainline 1,320'	$0	$700,000	$0	$0	$0
Bencamp Mainline 1,320'	$0	$700,000	$0	$0	$0
Delta Mainline 950'	$0	$0	$625,000	$0	$0
Angeleno Mainline 1,175'	$0	$0	$675,000	$0	$0
Charlotte Mainline 910'	$0	$0	$0	$625,000	$0
Norwood Mainline 620'	$0	$0	$0	$450,000	$0
Pine Mainline 350'	$0	$0	$0	$250,000	$0
Marshall Mainline 650'	$0	$0	$0	$475,000	$0
Lime, Fisk, Hovey Mainline 1440'	$0	$0	$0	$0	$800,000
Willard Mainline 600'	$0	$0	$0	$0	$450,000
Subtotal Capital Improvement Plan	$5,495,000	$2,405,000	$1,805,000	$2,305,000	$1,755,000
Capital Improvement Plan Total Costs	**$5,766,637**	**$2,648,652**	**$2,086,133**	**$2,795,701**	**$2,233,839**