Lake Hemet Municipal Water District

Comprehensive Water and Wastewater Cost-of-Service Study

Final Report / August 14, 2025

RAFTELIS

RAFTELIS

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August 11, 2025

Mr. Mike Gow
General Manager/Chief Engineer
Lake Hemet Municipal Water District
26385 Fairview Ave.
Hemet, CA 92544

Subject: Comprehensive Water and Wastewater Cost of Service Study Report

Dear Mr. Gow,

Raftelis is pleased to provide this Comprehensive Water and Wastewater Cost of Service Study Report for the Lake Hemet Municipal Water District (District). This Study includes a comprehensive review of the District's financial plan, usage trends, accounts, customer types, available water supplies, capital improvement plan, and reserves to establish rates for the period FY 2025 – FY 2029 that provide sufficient revenue over a five-year planning period. The recommended rates were derived based on industry standard cost-of-service principles.

The major objectives of the study include the following:

- Develop financial plans for each utility system and service area to meet operations costs and ensure sufficient funding for capital replacement and refurbishment needs.
- Develop sufficient cash reserves.
- Review the current rate structures for the water and wastewater utilities and determine if any adjustments to the rates are required to more closely reflect costs incurred and adequately recover each utility's revenue requirements over the FY 2025 – FY 2029 planning period.

This report summarizes the key findings and recommendations related to the development of the financial plans for the Water and Wastewater utilities and the development of updated rates.

Sincerely,
RAFTELIS.

John Wright
Senior Manager

Summer Simpson
Associate Consultant

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GLOSSARY

Acre feet (AF)	Unit of volume of water equal to 43,560 cubic feet or 325,851 gallons of water
American Water Works Association (AWWA)	American Water Works Association is the largest nonprofit, scientific and educational association dedicated to managing and treating water
Base Demand	Average day demand
CalPERS	California Public Employees' Retirement System
CalPERS Fund	Reserve maintained by the District to fund employees' retirement.
Capital Expenses	Expenditures for capital assets
Capital Fund	Reserve maintained by the District to fund capital expenses
Capital R&R	Capital Repair & Replacement
Usage Charge	Charge for per billed unit of water (HCF or ccf)
Debt Service	Principal and interest payments on debt issued
Disaster Fund	Emergency reserved maintained by the District.
Power Lift Pumping Charge	Charge assessed on each unit (HCF or ccf) of billed water delivered to recover the cost of pumping water to higher elevations
Fixed Charge	Portion of the customer monthly charge that does not vary with water use. For water charges, sometimes referred to as the meter charge. For wastewater charges, sometimes referred to as the service charge
Hundred Cubic Feet (HCF or ccf)	Volume of water or wastewater equal to 100 cubic feet or 748 gallons
AWWA Manual M1	American Water Works Association Manual of Practice M1, Principles of Water Rates, Fees, and Charges, Seventh Edition
Million Gallons Per Day (MGD)	Equal to 1 million gallons over the period of one day
Multi-Family Residential	Customer class for multi-dwelling residential buildings without individual water meters for each dwelling unit
Non-Residential	Customers who are not in the Single Family or Multi-Family customer classes for wastewater billing purposes
Operating Fund	Reserve maintained by the District to fund daily operations and maintenance of the water or wastewater system
Operating Expenses	Expenditures on the operating expenses of the water or wastewater system including maintenance costs and, if applicable, debt service payments
Peak Demand	Demand that exceeds base or average day demand
Fire Service Line Charge	Meter charge for water meters that supply water exclusively to private fire protection systems

Proposition 218	The California constitutional amendment passed in 1996 that limits the methods by which local governments can create or increase taxes, fees and charges without taxpayer consent
Revenue Requirement	The portion of annual operating and capital-related expenses that must be recovered from annual water and wastewater rates and charges
Reserves	Reserves reflect cash balances maintained by the District to pay for operating contingencies and capital improvements in excess of budgeted expenses.
Revenue Offsets	Non-rate water and wastewater revenue that is used to pay a portion of the annual operating and capital related expenses
Service Charge - Water	Fixed monthly water charge also known as the meter charge
Single Family Residential	Residential customers with one dwelling unit with an individual water meter
Test Year or Rate Setting Year	The 12-month period used to measure the amount of revenue that must be recovered from rates
Tier Breakpoints	Volume of water that is allowed in each water rate tier, sometimes referred to as block
Volume – Water	Volume (HCF) for a given billing period (usually one month) that is used to calculate the water Usage rate
Usage Charge/Usage Rate	Charge for per unit of water (HCF) consumed

1. EXECUTIVE SUMMARY

1.1 BACKGROUND

In 2023, the Lake Hemet Municipal Water District (District) engaged Raftelis to conduct a Comprehensive Water and Wastewater Cost of Service Study (study) to update the financial plans and rates for the District's utilities over the five-year period FYE 2025 – FYE 2029. The District operates three utilities:

- **Hemet/San Jacinto Water Utility**: The Hemet/San Jacinto water utility provides potable and non-potable water service to customers in a 26-square-mile service area that includes the City of Hemet, the City of San Jacinto, and adjacent unincorporated areas of Riverside County. The Hemet/San Jacinto customer base consists of residential, commercial, institutional, and agricultural customers.

- **Hemet/San Jacinto Sewer Utility**: The Hemet/San Jacinto sewer utility provides wastewater collection services in the Hemet/San Jacinto area. Wastewater treatment and disposal services are provided by the Eastern Municipal Water District (EMWD).

- **Garner Valley Water Utility**: The Garner Valley water utility provides potable water service to approximately 256 customers.

1.1.1 Objectives of the Study

The major objectives of the study included the following:

- Develop financial plans for each of the District's utility systems to ensure adequate rate revenues to pay for the projected operating and capital expenditure costs.
- Develop sufficient cash reserves.
- Review current rate structures for the water and wastewater utilities and determine if any adjustments to the rates are required to more closely reflect costs incurred and adequately recover the utility's revenue requirements over the planning period.

1.2 HEMET/SAN JACINTO VALLEY WATER UTILITY

1.2.1 Hemet/San Jacinto Valley Water Utility Financial Plan

The water utility serving Hemet/San Jacinto incurs all necessary costs to provide customers with potable and non-potable water service. If current water rates remain unchanged, rate revenues are projected to be adequate to meet the utility's needs during the period FYE 2025 - FYE 2029, if the District implements annual Consumer Price Index Adjustments (CPI) as required.

Therefore, as shown in Table 1-1, no systemwide increase in the total amount of revenue earned from rates is recommended[1]. However, modest increases for certain customers at certain levels of consumption are recommended. For this reason, Proposition 218 requires the District to hold a publicly noticed protest hearing for the increases shown in Table 1-5, Table 1-6, Table 1-7, and Table 1-8.

Table 1-1: Hemet/San Jacinto Water Utility Projected Rate Revenue Percentage Increases

Description	FYE 2025	FYE 2026	FYE 2027	FYE 2028	FYE 2029
Rate Revenue Increase	0.0%	0.0%	0.0%	0.0%	0.0%
CPI Adjustment		2.5%	To Be Determined		

Table 1-2 provides a summary of the Hemet/San Jacinto water utility financial plan for the period FYE 2025-FYE 2029, before the implementation of the FYE 2026 CPI adjustment. The total FYE 2025 revenue requirement from rates is $18.94 million, as shown in Line 4. This is the amount that must be collected from customers and is also referred to as the cost-of-service. It is important to note that the rate revenues shown in Line 4 of Table 1-2 do not reflect potential rate increases associated with annual CPI inflationary adjustments the District's Board of Directors is authorized to approve as described in the District's Proposition 218 notice. The value for Net Operating Cash Flow shown in Line 15 of Table 1-2 reflects the difference between Total Revenues (Line 6) and Total Operating Expenses (Line 13). The Net Operating Cash Flow shown in Line 15 is used to pay for capital improvement expenditures and maintain District cash reserve balances. An alternative presentation of the derivation of the $18.94 million FY 2025 revenue requirement (cost-of-service) is shown in Lines 17 – 23 of Table 1-2.

Table 1-2: Hemet/San Jacinto Valley Water Utility Financial Plan Summary

Line	Item	Estimated	Projected				
		FYE 2024	FYE 2025	FYE 2026	FYE 2027	FYE 2028	FYE 2029
1	Annual % Rate Increase/(Decrease)	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
2							
3	Revenue						
4	Rate Revenues/Revenue Req.	$18,755,239	$18,994,865	$18,898,846	$18,971,671	$19,045,185	$19,119,396
5	Other Revenues	$4,132,012	$4,195,712	$4,515,739	$4,853,021	$5,208,435	$5,531,113
6	Total Revenues	$22,887,251	$23,190,577	$23,414,585	$23,824,693	$24,253,620	$24,650,509
7							
8	Operating Expenses						
9	Purchased Water	$405,000	$4,515,447	$4,786,374	$5,073,557	$5,377,970	$5,700,648
10	GW Recharge Purchases	$4,905,000	$2,550,000	$2,754,000	$2,974,400	$3,212,400	$3,469,392
11	General & Admin	$7,247,296	$7,638,218	$8,067,752	$8,529,920	$9,026,976	$9,374,317
12	Other Expenses	$5,272,600	$5,626,050	$5,899,750	$6,242,450	$6,690,750	$6,969,323
13	Total Operating Expenses	$17,829,896	$20,329,715	$21,507,876	$22,820,327	$24,308,096	$25,513,680
14							
15	Net Operating Cash Flow	$5,057,355	$2,860,862	$1,906,709	$1,004,366	($54,476)	($863,170)
16							
17	Alternative Presentation of Rate Revenues/Revenue Requirement (Line 4)						
18	Operating Expenses (Line 13)	$17,829,896	$20,329,715	$21,507,876	$22,820,327	$24,308,096	$25,513,680
19	Net Operating Cash Flow (Line 15)	$5,057,355	$2,860,862	$1,906,709	$1,004,366	($54,476)	($863,170)
20	Gross Revenue Requirement	$22,887,251	$23,190,577	$23,414,585	$23,824,693	$24,253,620	$24,650,509
21							
22	Less: Other Revenues (Line 5)	$4,132,012	$4,195,712	$4,515,739	$4,853,021	$5,208,435	$5,531,113
23	Rate Revenues/Revenue Req. (Line 4)	$18,755,239	$18,994,865	$18,898,846	$18,971,671	$19,045,185	$19,119,396

Figure 1-1 shows the components of the Hemet/San Jacinto water utility financial plan for the period FYE 2025 – FYE 2029 before the implementation of the FYE 2026 CPI adjustment. It is important to note that the

[1] This does not include a 2.5% CPI adjustment that will be implemented for FYE 2026.

black total revenue line shown in Figure 1-1 does not reflect potential rate increases associated with annual CPI inflationary adjustments that the District's Board of Directors is authorized to approve as described in the District's Proposition 218 notice.

Figure 1-1: Hemet/San Jacinto Valley Water Utility Financial Plan Summary

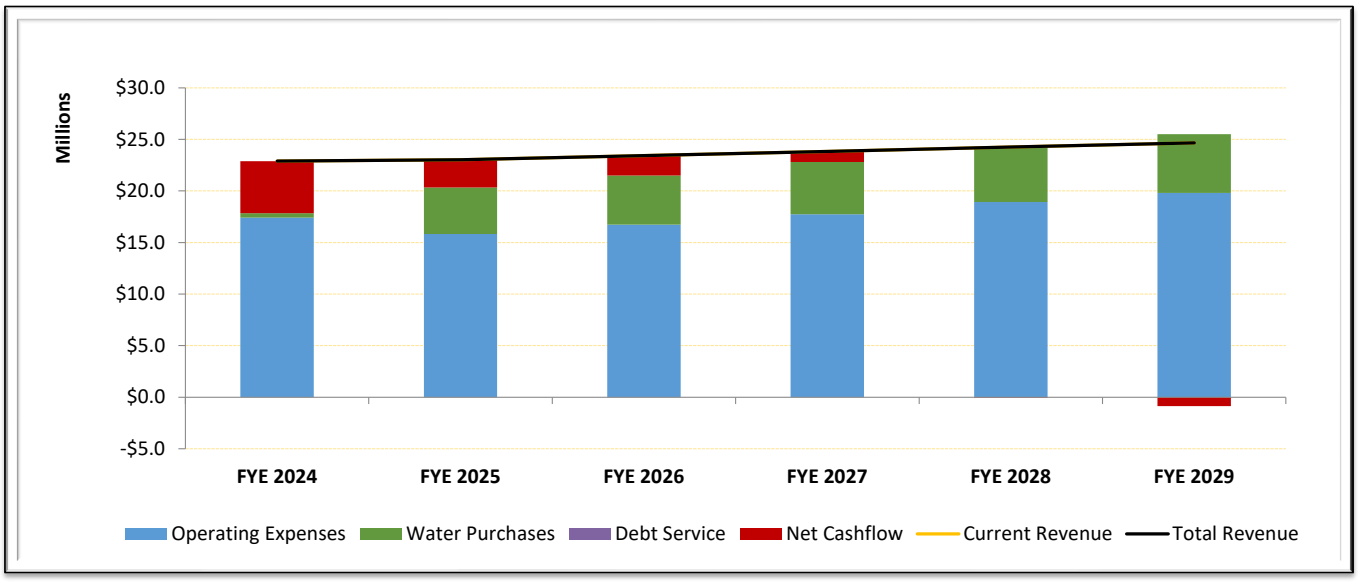


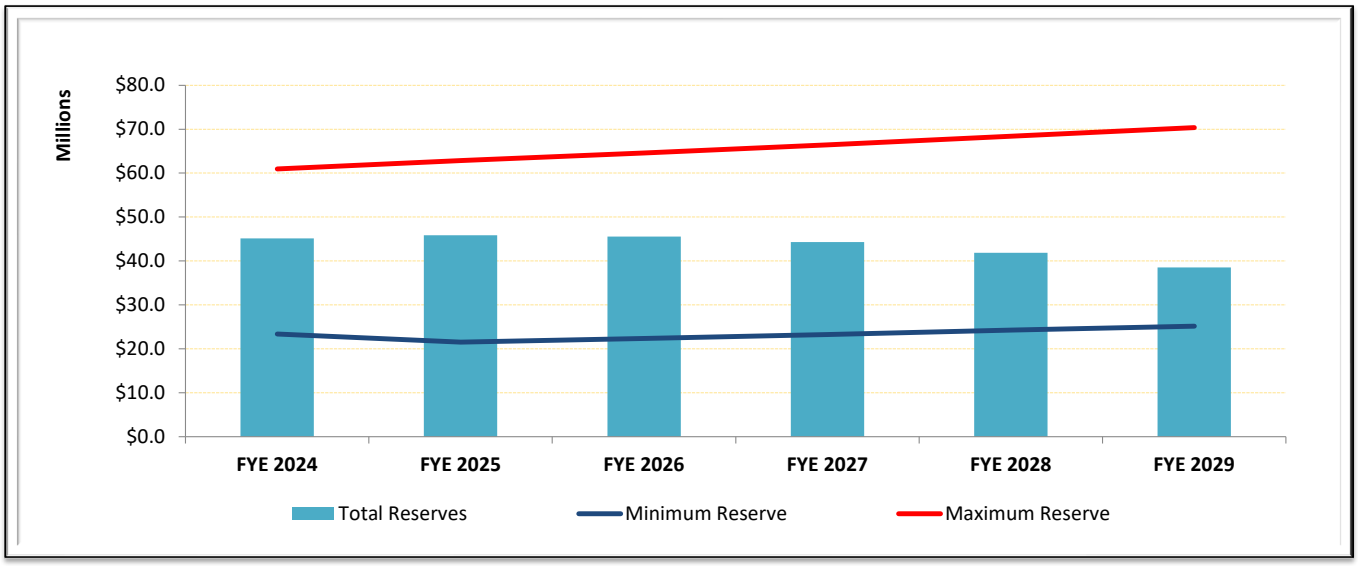
Table 1-3 summarizes projected Hemet/San Jacinto water utility cash reserves for FYE 2025 – FYE 2029. Note that total cash reserves are projected to remain stable at approximately $46.0 million to $50.7 million throughout the five-year planning horizon. The Hemet/San Jacinto Valley water utility uses its Operating Reserve (Line 2) to pay for ongoing operations and maintenance expenditures. The Capital Improvement Reserve (Line 3) pays for capital improvement program (CIP) expenditures. The amounts shown in Line 3 for the Capital Improvement cash reserve are net of expenditures for capital projects, as detailed in Note 1 of Table 1-3 (Lines 11 – 12). It is important to note that the ending cash reserve balances shown in Table 1-3 do not reflect potential rate increases associated with annual CPI inflationary adjustments that the District's Board of Directors is authorized to approve as described in the District's Proposition 218 notice.

Table 1-3: Hemet/San Jacinto Valley Water Utility Projected Cash Reserves

Line	Ending Cash Reserves	Estimated FYE 2024	Projected				
			FYE 2025	FYE 2026	FYE 2027	FYE 2028	FYE 2029
1	Ending Cash Reserves						
2	Operating	$4,676,878	$6,881,857	$9,165,425	$10,568,966	$11,931,919	$12,499,807
3	Capital Improvement (1)	$3,210,387	$1,624,145	$913,509	$71,622	$91,252	$31,317
4	CALPERS Fund	$4,136,411	$4,219,139	$4,261,744	$4,304,575	$4,347,835	$4,391,529
5	Disaster Fund	$3,759,580	$3,759,580	$3,759,580	$3,759,580	$3,759,580	$3,759,580
6	Rate Stabilization Fund	$13,655,481	$13,792,036	$13,929,956	$14,069,256	$14,209,948	$14,352,048
7	Vehicle	$4,050,428	$4,050,428	$4,050,428	$4,050,428	$4,050,428	$4,050,428
8	GW Management	$11,658,658	$11,658,658	$11,658,658	$11,658,658	$11,658,658	$11,658,658
9	Total	$45,147,823	$45,985,843	$47,739,300	$48,483,084	$50,049,619	$50,743,366
10							
11	Note 1: The Capital Improvement cash reserves shown in Line 3 are net of the following projected capital project expenditures:						
12	Expenditures for Capital Projects	$2,148,824	$2,267,009	$2,391,695	$2,523,238	$2,662,016	$2,741,877

Figure 1-2 shows projected Hemet/San Jacinto water utility cash reserves for the period FYE 2025 – FYE 2029. It is important to note that the ending cash reserve balances shown in Figure 1-2 do not reflect potential rate increases associated with annual CPI inflationary adjustments that the District's Board of Directors is authorized to approve as described in the District's Proposition 218 notice.

Figure 1-2: Hemet/San Jacinto Valley Water Utility Projected Cash Reserves



1.2.2 Hemet/San Jacinto Water Utility Cost-of-Service Analysis

The cost-of-service (COS) analysis allocates the annual revenue requirement from rates developed in the financial plan to each customer class based on the cost causation principle. Customer classes are assigned costs based on the proportionate share of demands they impose on the water utility system. In the case of the District's Hemet/San Jacinto Valley water utility, there are no unique potable water customer classes. Instead, all potable water customers are charged under the same three-tier $/HCF rate structure. Similarly, all non-potable water customers are charged under the same uniform $/HCF rate structure. Table 1-4 shows the outcome of the FYE 2025 COS analysis. As shown in Line 3 of Table 1-4, the total FYE 2025 revenue requirement is $18,994,865. This amount matches the revenue requirement (cost-of-service) developed in the Hemet/San Jacinto water financial plan (see Line 4 and Line 23 of Table 1-2).

Table 1-4: Hemet/San Jacinto Valley Water Utility FYE 2025 Cost-of-Service

Line	Revenue Requirement Component	Amount
1	Fixed Costs	$6,395,490
2	Variable Costs	$12,599,375
3	Total Revenue Requirement (Cost-of-Service)	$18,994,865

1.2.3 Hemet/San Jacinto Valley Water Utility Proposed Water Rates

The rate design process results in the development of proposed water rates designed to recover, as closely as possible, the revenue requirement developed in the financial planning and COS analysis. As noted previously,

the Hemet/San Jacinto Valley water utility does not require an increase in rate revenues during the period FYE 2025 – FYE 2029. Nonetheless, minor revisions to the currently effective rates were required to reflect current customer demand characteristics and the current profile of utility costs. Table 1-5 shows the proposed FYE 2025 – FYE 2029 monthly service charges, which are assessed based on water meter size.

Table 1-5: Proposed Hemet/San Jacinto Valley Water Utility Monthly Service Charges

Line	Meter Size	Current Monthly Service Charges	Calculated FYE 2025 Monthly Service Charges	Proposed FYE 2026 Monthly Service Charges After 2.5% CPI Adjustment
1	5/8"	$34.34	$34.35	$35.21
2	3/4"	$34.34	$34.35	$35.21
3	1"	$39.53	$39.92	$40.92
4	1 1/2"	$52.41	$53.72	$55.06
5	2"	$67.94	$70.34	$72.10
6	3"	$117.15	$123.02	$126.10
7	4"	$189.56	$200.55	$205.56
8	6"	$362.86	$386.12	$395.77
9	8"	$745.81	$801.62	$821.66
10	10”	$1,113.10	$1,189.44	$1,219.18
11	12”	$1,397.67	$1,494.17	$1,531.52
12	16”	$2,044.37	$2,186.64	$2,241.31

The metered water consumption of potable and non-potable water customers is billed monthly on a $/HCF basis. Proposed FYE 2025 – FYE 2029 potable and non-potable water usage rates are shown in Table 1-6.

Table 1-6: Proposed Hemet/San Jacinto Valley Water Utility Usage Rates

Line	Water Service	Current Usage Rates ($/HCF)	Calculated FYE 2025 Usage Rates ($/HCF)	Proposed FYE 2026 Usage Rates After 2.5% CPI Adjustment ($/HCF)
1	Potable Tier 1	$2.39	$2.38	$2.44
2	Potable Tier 2	$2.61	$2.58	$2.64
3	Potable Tier 3	$3.93	$4.09	$4.19
4	Non-Potable	$2.50	$2.29	$2.35

The Hemet/San Jacinto Valley water utility serves potable water customers in 10 different elevation zones. The District incurs costs to pump water to each elevation zone, which are recovered via a $/HCF usage rate. Table 1-7 shows proposed FYE 2025 power lift pumping charges.

Table 1-7: Proposed Hemet/San Jacinto Valley Water Utility Power Lift Pumping Charges

Line	Elevation Zone	Current Power Lift Charges ($/HCF)	Calculated FYE 2025 Power Lift Charges ($/HCF)	Proposed FYE 2026 Power Lift Charges After 2.5% CPI Adjustment ($/HCF)
1	1000 + 1101	$0.48	$0.46	$0.47
2	1100	$0.36	$0.43	$0.44
3	1200 + 1201	$0.31	$0.37	$0.38
4	1300 + 1301	$0.12	$0.13	$0.14
5	1400	$0.20	$0.56	$0.58
6	1500	$0.61	$1.00	$1.03
7	1600	$0.07	$0.20	$0.21

The Hemet/San Jacinto Valley water utility provides fire service lines to potable water customers. Table 1-8 shows the proposed FYE 2025 – FYE 2029 fire service line charges, which are assessed based on line size.

Table 1-8: Proposed Hemet/San Jacinto Valley Water Utility Fire Service Line Charges

Line	Size (Inches)	Current Monthly Fire Service Line Charges	Calculated FYE 2025 Monthly Fire Service Line Charges	Proposed FYE 2026 Monthly Fire Line Service Charges After 2.5% CPI Adjustment
1	4"	$1.40	$1.40	$1.44
2	6"	$2.10	$2.10	$2.15
3	8"	$2.79	$2.80	$2.87
4	10"	$3.49	$3.50	$3.59
5	12"	$4.19	$4.20	$4.31

1.2.4 Customers Receiving Water Supplies from EMWD

A limited number of Hemet/San Jacinto Valley water customers receive potable water supplies solely from EMWD. The proposed water service rates for these customers are comprised of two components. The first is a monthly service charge determined based on the size of the meter serving the property (Table 1-9). The second is a usage charge determined based on the water delivered to the property and billed on a dollar per hundred cubic feet ($/HCF) basis Table 1-10.

Table 1-9: Proposed Monthly Service Charges (Supplies from EMWD)

Line	Meter Size	Current Monthly Service Charges	Calculated FYE 2025 Monthly Service Charges	Proposed FYE 2026 Monthly Service Charges After 2.5% CPI Adjustment
1	5/8"	N/A	$34.35	$35.21
2	3/4"	N/A	$34.35	$35.21
3	1"	N/A	$39.92	$40.92
4	1 1/2"	N/A	$53.72	$55.06
5	2"	N/A	$70.34	$72.10
6	3"	N/A	$123.02	$126.10
7	4"	N/A	$200.55	$205.56
8	6"	N/A	$386.12	$395.77
9	8"	N/A	$801.62	$821.66
10	10”	N/A	$1,189.44	$1,219.18
11	12”	N/A	$1,494.17	$1,531.52
12	16”	N/A	$2,186.64	$2,241.31

Table 1-10: Proposed Usage Rates (Supplies from EMWD)

Consumption TIERS	Current ($/HCF)	Calculated FYE 2025 ($/HCF)	Proposed FYE 2026 Monthly Service Charges After 2.5% CPI Adjustment
All Consumption	N/A	$6.06	$6.21

1.3 GARNER VALLEY WATER UTILITY

The water utility serving Garner Valley (referred to as Garner Valley or GVWU in this report) incurs all necessary costs to provide customers with potable water service.

1.3.1 GVWU Financial Plan

If GVWU’s capital expenditures are equivalent to 67% (2/3) of annual depreciation expenses, the revenues earned from current water rates (i.e., if water rates remain and do not change) are projected to be adequate

to meet the utility's needs during FYE 2025 - FYE 2029. Therefore, as shown in Table 1-11, no rate increases are recommended, assuming that the District implements annual Consumer Price Index Adjustments (CPI) as required. However, a 2.5% CPI adjustment will be implemented for FYE 2026.

Table 1-11: GVWU Projected Rate Revenue Percentage Increases

Description	FYE 2025	FYE 2026	FYE 2027	FYE 2028	FYE 2029
Rate Revenue Increase	0.0%	0.0%	0.0%	0.0%	0.0%
CPI Adjustment		2.5%	To Be Determined		

Table 1-12 provides a summary of the Garner Valley water utility financial plan for the period FYE 2025- FYE 2029 before the implementation of the FYE 2026 CPI adjustment. The total FYE 2025 revenue requirement from rates is $469,955 as shown in Line 4. This is the amount that must be collected from ratepayers and is also referred to as the cost-of-service. It is important to note that the rate revenues shown in Line 4 of Table 1-12 do not reflect potential rate increases associated with annual CPI inflationary adjustments the District's Board of Directors is authorized to approve as described in the District's Proposition 218 notice. The value for Net Operating Cash Flow shown in Line 16 of Table 1-12 reflects the difference between Total Revenues (Line 6) and Total Operating Expenses as shown Line 14. The Net Operating Cash Flow shown in Line 16 is used to pay for capital improvement expenditures and maintain District cash reserve balances. An alternative presentation of the derivation of the $469,055 revenue requirement (cost-of-service) is shown in Lines 18 – 23 of Table 1-12.

Table 1-12: GVWU Financial Plan Summary

Line	Item	Estimated FYE 2024	Projected				
			FYE 2025	FYE 2026	FYE 2027	FYE 2028	FYE 2029
1	Annual % Rate Increase/(Decrease)	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
2							
3	Revenue						
4	Rate Revenue/Revenue Requirement	$469,055	$469,055	$469,055	$469,055	$469,055	$469,055
5	Other Revenues	$240,800	$240,275	$244,575	$248,975	$253,475	$253,475
6	Total Revenues	$709,855	$709,330	$713,630	$718,030	$722,530	$722,530
7							
8	Operating Expenses						
9	Power Purchased	$58,000	$63,800	$70,200	$77,300	$85,100	$89,355
10	Operating Expenses	$280,500	$278,300	$290,300	$303,100	$316,400	$330,459
11	Non-Operating Expenses	$20,500	$21,600	$22,700	$23,900	$25,100	$25,100
12	Existing Debt Service	$126,125	$122,500	$83,875	$125,000	$124,875	$124,500
13	Accumulated Deficit Repayment	$101,971	$101,971	$101,971	$101,971	$101,971	$101,971
14	Total Operating Expenses	$587,096	$588,171	$569,046	$631,271	$653,446	$671,385
15							
16	Net Operating Cash Flow	$122,759	$121,159	$144,584	$86,759	$69,084	$51,145
17							
18	Alternative Presentation of Rate Revenues/Revenue Requirement (Line 4)						
19	Operating Expenses (Line 14)	$587,096	$588,171	$569,046	$631,271	$653,446	$671,385
20	Net Operating Cash Flow (Line 16)	$122,759	$121,159	$144,584	$86,759	$69,084	$51,145
21	Gross Revenue Requirement	$709,855	$709,330	$713,630	$718,030	$722,530	$722,530
22							
23	Less: Other Revenues (Line 5)	$240,800	$240,275	$244,575	$248,975	$253,475	$253,475
24	Rate Revenues/Revenue Req. (Line 4)	$469,055	$469,055	$469,055	$469,055	$469,055	$469,055

Figure 1-3 shows the components of the Garner Valley water utility financial plan for FYE 2025 – FYE 2029. It is important to note that the black total revenue line shown in Figure 1-3 does not reflect potential rate

increases associated with annual CPI inflationary adjustments that the District's Board of Directors is authorized to approve as described in the District's Proposition 218 notice.

Figure 1-3: GVWV Financial Plan Summary

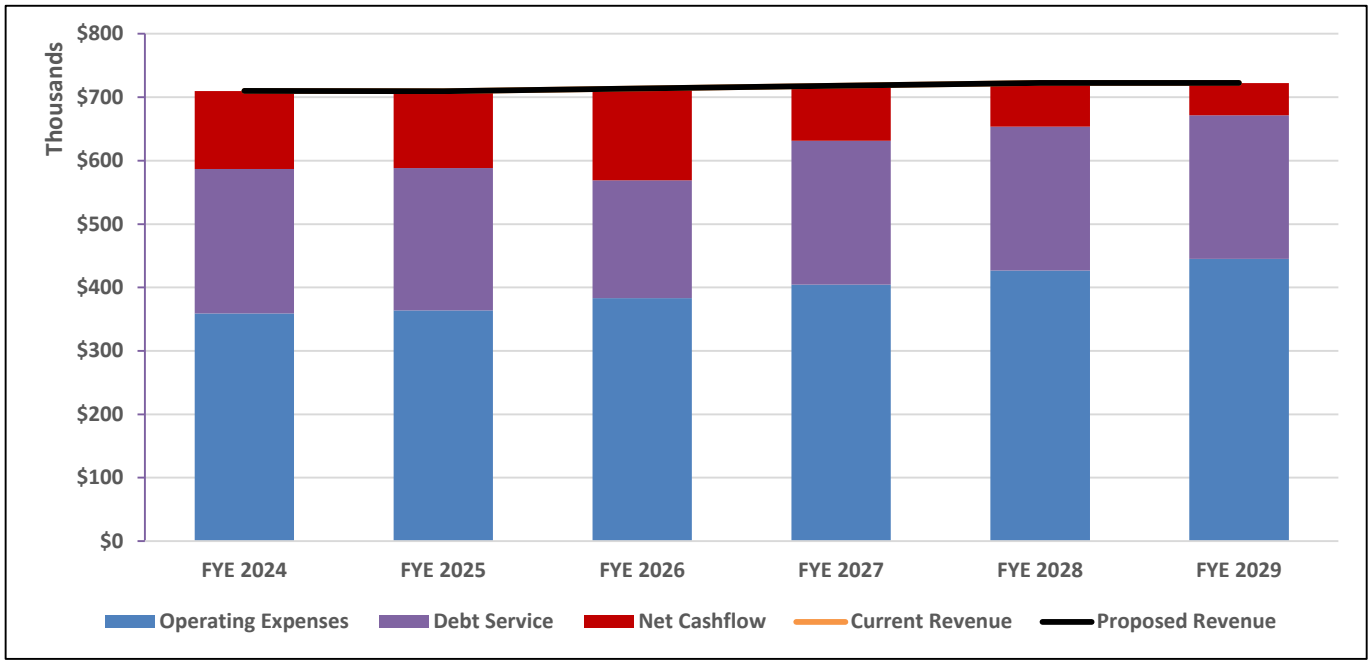


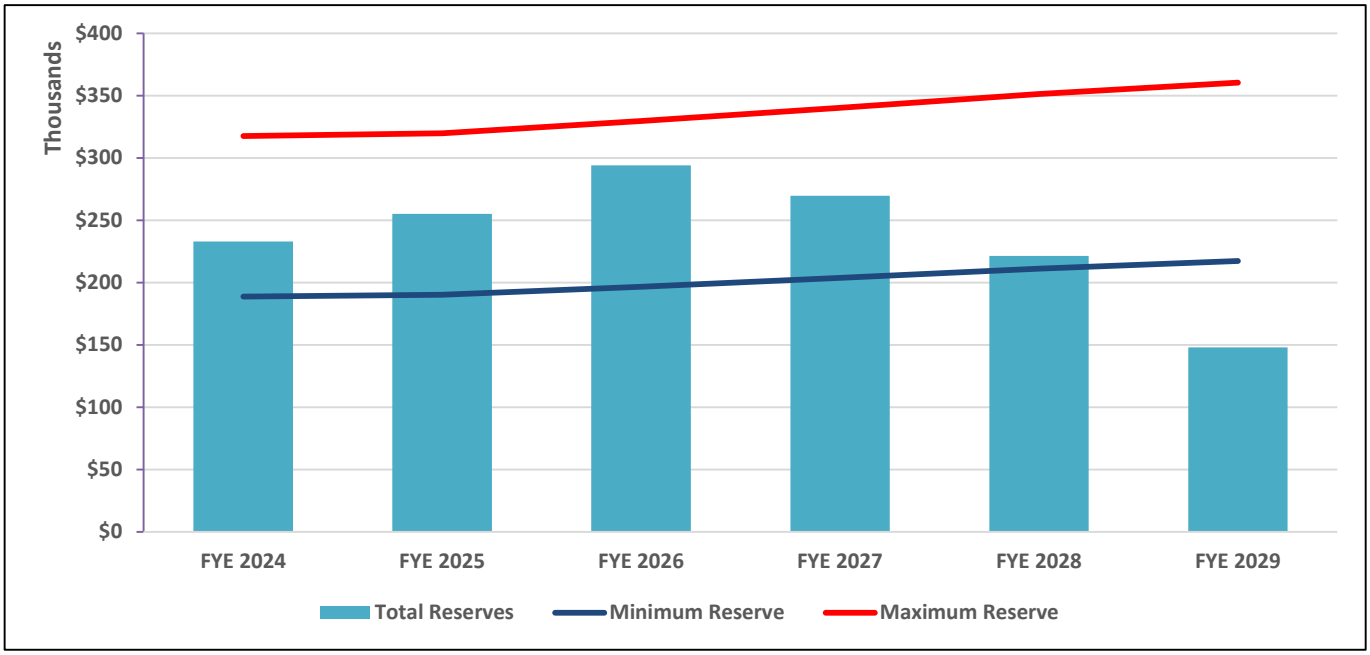
Table 1-13 summarizes the projected Garner Valley water utility cash reserves for FYE 2025 – FYE 2029. The cash reserve amounts shown in Line 1 are the net of expenditures for capital projects as detailed in Note 1 of Table 1-13 (Lines 2 and 3). It is important to note that the ending cash reserve balances shown in Table 1-13 do not reflect potential rate increases associated with annual CPI inflationary adjustments that the District's Board of Directors is authorized to approve as described in the District's Proposition 218 notice.

Table 1-13: GVWU Projected Cash Reserves

Line	Ending Cash Reserves	Estimated FYE 2024	Projected				
			FYE 2025	FYE 2026	FYE 2027	FYE 2028	FYE 2029
1	Ending Reserves (1)	$233,013	$255,039	$294,049	$269,594	$221,269	$148,029
2	(1) The Capital Improvement cash reserve is net of the following projected capital project expenditures:						
3	Expenditures for Capital Projects	$309,959	$102,398	$108,030	$113,972	$120,240	$126,854

Figure 1-4 shows projected Garner Valley water utility cash reserves for FYE 2025 – FYE 2029. It is important to note that the ending cash reserve balances shown in Figure 1-4 do not reflect potential rate increases associated with annual CPI inflationary adjustments that the District's Board of Directors is authorized to approve as described in the District's Proposition 218 notice.

Figure 1-4: GVWU Projected Cash Reserves



1.3.2 GVWU Cost-of-Service Analysis

The Garner Valley utility has no distinct potable water customer classes. Instead, all potable water customers are charged under the same rate structure. Table 1-14 shows the outcome of the FYE 2025 COS analysis. As shown in Line 3 of Table 1-14, the total FYE 2025 revenue requirement (cost-of-service) is $469,055. This amount matches the revenue requirement developed in the Garner Valley Utility financial plan (see Line 4 and Line 24 of Table 1-12).

Table 1-14: GVWU FYE 2025 Cost-of-Service

Line	Revenue Requirement Component	Amount
1	Fixed Costs	$116,753
2	Variable Costs	$352,302
3	Total Revenue Requirement (Cost-of-Service)	$469,055

1.3.3 GVWU Proposed Water Rates

No changes are proposed for Garner Valley's monthly service charges or usage rates during FYE 2025 – FYE 2029. Table 1-15 shows the proposed FYE 2025 – FYE 2029 monthly service charges and Table 1-16 shows the proposed usage rates.

Table 1-15: Proposed GVWU Bi-Monthly Service Charges

Line	Meter Size	Current Bi-Monthly Service Charges	Calculated FYE 2025 Bi-Monthly Service Charges	Proposed FYE 2026 Bi-Monthly Service Charges After 2.5% CPI Adjustment
1	5/8"	$64.80	$64.80	$66.42
2	3/4"	$64.80	$64.80	$66.42
3	1"	$74.92	$74.92	$76.79
4	1 1/2"	$98.94	$98.94	$101.41
5	2"	$128.25	$128.25	$131.46
6	3"	$221.14	$221.14	$226.67
7	4"	$357.82	$357.82	$366.77

Table 1-16: Proposed GVWU Usage Rates

Line	Water Service	Current Usage Rates ($/HCF)	Calculated FYE 2025 ($/HCF)	Proposed FYE 2026 After 2.5% CPI Adjustment ($/HCF)
1	All Consumption	$4.33	$4.33	$4.44

1.4 HEMET/SAN JACINTO SEWER UTILITY

1.4.1 Hemet/San Jacinto Sewer Utility Financial Plan

The sewer utility serving Hemet/San Jacinto incurs all necessary costs to provide customers with sewer collection service. Customer sewer discharges are conveyed to EMWD, which provides wastewater treatment services. If the District's current sewer rates remain unchanged, rate revenues are projected to result in an accumulation of cash reserves during the period FYE 2025 - FYE 2029 that are more than target levels. Therefore, as shown in Table 1-17, a 2.0% decrease in FYE 2025 sewer rates is recommended. In addition, it is not recommended that a 2.5% CPI adjustment be implemented in FYE 2026.

Table 1-17: Hemet/San Jacinto Sewer Utility Projected Rate Revenue Percentage Increases

Description	FYE 2025	FYE 2026	FYE 2027	FYE 2028	FYE 2029
Rate Revenue Increase	(2.0%)	0.0%	0.0%	0.0%	0.0%
CPI Adjustment		0.0%	To Be Determined		

Table 1-18 provides a summary of the Hemet/San Jacinto sewer utility financial plan for the period FYE 2025- FYE 2029. The total FYE 2025 revenue requirement from rates is $705,580, as shown in Line 4. This is the amount that must be collected from ratepayers and is also referred to as the cost-of-service. It is important to note that the rate revenues shown in Line 4 of Table 1-18 do not reflect potential rate increases associated with annual CPI inflationary adjustments that the District's Board of Directors is authorized to approve as described in the District's Proposition 218 notice. The values for Net Operating Cash Flow shown in Line 16 of Table 1-18 reflect the difference between Total Revenues (Line 6) and Total Operating Expenses (Line 14). The amounts shown in Line 16 are used to pay for capital improvement expenditures and maintain District cash reserve balances. An alternative presentation of the derivation of the $705,580 revenue requirement (cost-of-service) is shown in Lines 18 – 25 of Table 1-18.

Table 1-18: Hemet/San Jacinto Sewer Utility Financial Plan Summary

Line	Item	Estimated FYE 2024	Projected FYE 2025	FYE 2026	FYE 2027	FYE 2028	FYE 2029
1	Annual % Rate Increase/(Decrease)	0.0%	(2.0%)	0.0%	0.0%	0.0%	0.0%
2							
3	Revenue						
4	Rate Revenue/Revenue Req.	$716,640	$705,580	$708,869	$712,174	$715,495	$718,834
5	Other Revenue	$0	$0	$0	$0	$0	$0
6	Total Revenue	$716,640	$705,580	$708,869	$712,174	$715,495	$718,834
7							
8	Operating Expenses						
9	Salaries	$5,000	$5,200	$5,400	$5,600	$5,800	$5,974
10	Sewer Expense & Cleaning	$265,600	$278,900	$292,900	$307,600	$323,000	$335,920
12	Sewer Training/Classes	$4,000	$4,000	$4,000	$4,000	$4,000	$4,160
13	General & Admin	$145,276	$153,106	$161,712	$170,971	$180,930	$187,892
14	Total Operating Expenses	**$419,876**	**$441,206**	**$464,012**	**$488,171**	**$513,730**	**$533,946**
15							
16	Net Operating Cash Flow	**$296,764**	**$264,374**	**$244,857**	**$224,002**	**$201,766**	**$184,888**
17							
18	Alternative Presentation of Rate Revenues/Revenue Requirement (Line 4)						
19	Operating Expenses (Line 14)	$419,876	$441,206	$464,012	$488,171	$513,730	$533,946
20	Net Operating Cash Flow (Line 16)	$296,764	$264,374	$244,857	$224,002	$201,766	$184,888
21	Gross Revenue Requirement	$716,640	$705,580	$708,869	$712,174	$715,495	$718,834
22							
23	Less: Other Revenues (Line 5)	$0	$0	$0	$0	$0	$0
25	Rate Revenues/Revenue Req. (Line 4)	$716,640	$705,580	$708,869	$712,174	$715,495	$718,834

Figure 1-5 shows the components of the Hemet/San Jacinto sewer utility financial plan for the period FYE 2025 – FYE 2029. It is important to note that the black total revenue line shown in Figure 1-5 does not reflect potential rate increases associated with annual inflationary adjustments authorized by the District's Board of Directors as allowed in the District's Proposition 218 notice.

Figure 1-5: Hemet/San Jacinto Sewer Financial Plan Summary

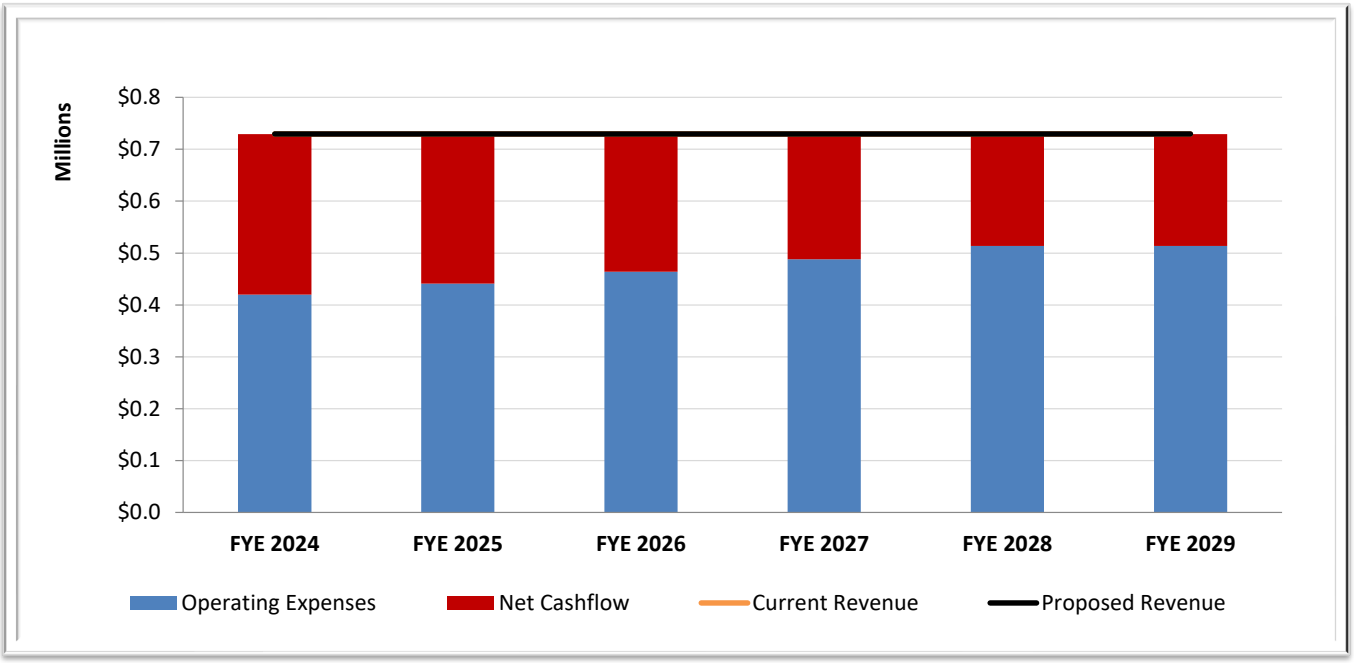


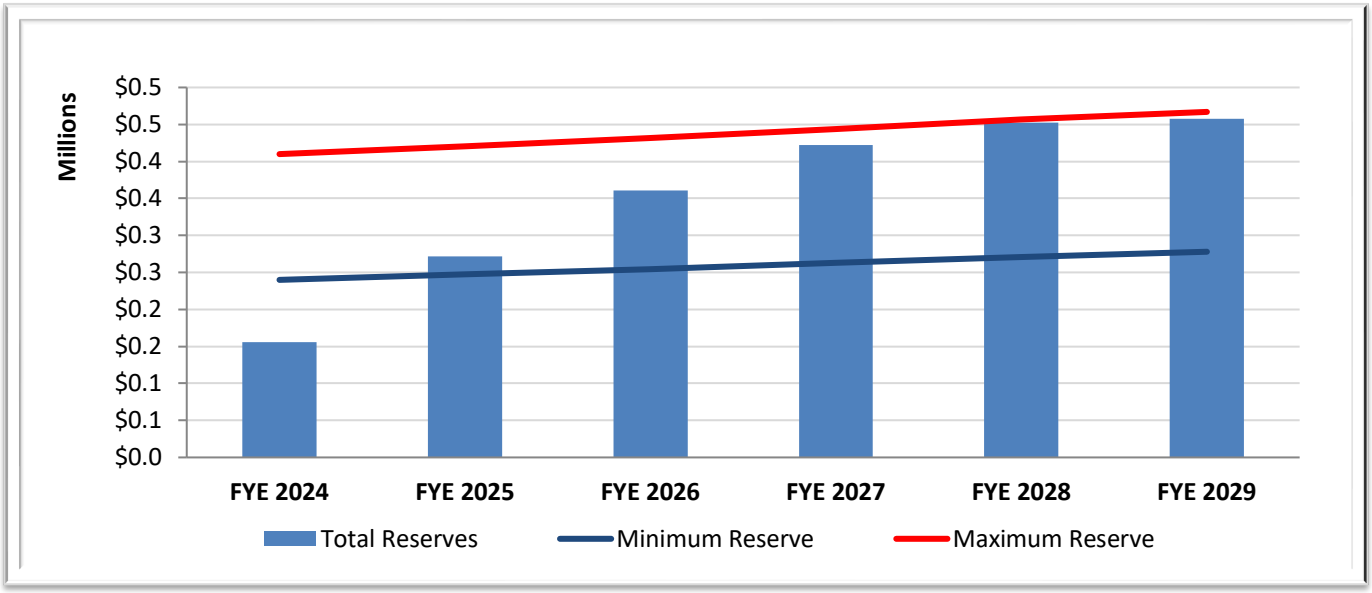
Table 1-19 summarizes the projected Hemet/San Jacinto sewer utility cash reserves for the period FYE 2025 – FYE 2029. The cash reserve amounts shown in Line 1 are net of expenditures for capital projects, as detailed in Note 1 of Table 1-19 (Lines 2 and 3). It is important to note that the ending cash reserve balances shown in Table 1-19 do not reflect potential rate increases associated with annual CPI inflationary adjustments that the District's Board of Directors is authorized to approve as described in the District's Proposition 218 notice.

Table 1-19: Hemet/San Jacinto Valley Sewer Utility Projected Cash Reserves

Line	Ending Cash Reserves	Estimated FYE 2024	Projected				
			FYE 2025	FYE 2026	FYE 2027	FYE 2028	FYE 2029
1	Ending Reserves (1)	$155,394	$271,400	$361,047	$422,220	$452,785	$457,303
2	(1) The Capital Improvement cash reserves shown in Line 1 are net of the following projected capital project expenditures:						
3	Expenditures for Capital Projects	$141,370	$149,145	$157,348	$166,003	$175,133	$184,765

Figure 1-6 shows projected Hemet/San Jacinto sewer utility cash reserves for FYE 2025 – FYE 2029. It is important to note that the ending cash reserve balances shown in Figure 1-6 do not reflect potential rate increases associated with annual CPI inflationary adjustments that the District's Board of Directors is authorized to approve as described in the District's Proposition 218 notice.

Figure 1-6: Hemet/San Jacinto Sewer Utility Projected Cash Reserves



1.4.2 Hemet/San Jacinto Sewer Utility Cost-of-Service Analysis

The Hemet/San Jacinto sewer utility has no distinct sewer service customer classes. Instead, all sewer customers are charged under the same per-unit monthly fixed charge. Table 1-20 shows the outcome of the FYE 2025 COS analysis. As shown in Line 1 of Table 1-20, the total FYE 2025 revenue requirement (cost-of-

service) is $705,580. This amount matches the revenue requirement developed in the Hemet/San Jacinto sewer financial plan (see Line 4 and Line 25 of Table 1-18).

Table 1-20: Hemet/San Jacinto Sewer Utility FYE 2025 Cost-of-Service

Revenue Requirement Component	Amount
Total Revenue Requirement (Cost-of-Service)	$705,580

1.4.3 Hemet/San Jacinto Sewer Utility Proposed Sewer Rates

No changes are proposed for the Hemet/San Jacinto sewer utility monthly per-unit fixed charge for FYE 2025 – FYE 2029. Table 1-21 shows the proposed FYE 2025 – FYE 2029 monthly per unit fixed charge.

Table 1-21: Proposed Hemet/San Jacinto Sewer Monthly Fixed Charge

Line	Charge	Current Monthly Fixed Charge per Unit	Calculated FYE 2025 Monthly Fixed Charge per Unit	Proposed FYE 2026 Monthly Fixed Charge per Unit (1)
1	Fixed Charge per Unit	$4.07	$4.00	$4.00

(1) A FYE 2026 CPI Adjustment is not recommended for the sewer monthly fixed charge.

2. STUDY BACKGROUND

2.1 LAKE HEMET MUNICIPAL WATER DISTRICT

2.1.1 District Overview

Lake Hemet Municipal Water District (the "District") was created in 1955. Its service area encompasses a total of approximately 12,700 acres covering the northeasterly portion of the City of Hemet, a small southeast portion of the City of San Jacinto, and unincorporated parts in western Riverside County in Southern California. The LHMWD is within the San Jacinto Valley, surrounded by the San Jacinto Mountains on the north and east, the Santa Rosa Hills on the south, and the Lakeview Mountains on the west. The District's Hemet/San Jacinto service area consists of a mixture of residential, commercial, institutional, and agricultural uses. The agricultural uses consist mostly of citrus groves. Institutional uses are mostly public schools, private schools, churches, the Valley-Wide Recreation and Park District, the Riverside County Sheriff Station, and the Valle Vista Library. Commercial uses are almost exclusively along the SR74/Florida Avenue and SR79/San Jacinto Avenue corridors.

The District provides potable water service to approximately 15,000 customers and non-potable service to 49 agricultural customers. The District's 26 square mile service territory includes portions of Hemet, San Jacinto, and adjacent unincorporated areas of Riverside County. The District has also annexed an additional service area, which is the Garner Valley community in the San Jacinto Mountains, east of Lake Hemet. The District provides potable water to approximately 282 services in this area.

In addition to potable and non-potable water service, the District also provides sewer collection service to customers in Hemet/San Jacinto. The District maintains and repairs sewer laterals and main sewer lines but has no wastewater treatment or disposal facilities. Wastewater treatment and disposal are provided by EMWD. Fees for EMWD wastewater treatment and disposal services are collected by the District and transferred to EMWD.

2.1.2 District Water Supply

The District's water supplies consist of both local and imported water. Local supplies include locally pumped groundwater and surface water diversions from the San Jacinto River System while imported water is purchased from EMWD. The District s primary source of potable water is local groundwater pumped from the San Jacinto Groundwater Basin. The basin is managed by the Hemet-San Jacinto Watermaster which determines allowable production amounts for water suppliers to ensure the long-term viability of the basin as water source. Surface water from the Lake Hemet Reservoir and the San Jacinto River System is used for agricultural irrigation and groundwater recharge. The District has the ability to purchase both potable and non-potable water from EMWD through multiple connections.

2.2 STUDY OBJECTIVES

The Department retained the services of Raftelis via a professional service agreement that was executed on March 16, 2023. The major objectives of the study included the following:

- Develop financial plans for each of the District's utility systems to ensure adequate rate revenues to pay for the projected operating and capital expenditure costs.
- Develop sufficient cash reserves.
- Review current rate structures for the water and wastewater utilities and determine if any adjustments to the rates are required to more closely reflect costs incurred and adequately recover the utility's revenue requirements over the planning period.

2.3 REPORT CONTENTS

This report contains the following sections:

- Section 1: Executive Summary
- Section 2: Study Background
- Section 3: Hemet/San Jacinto Water Cost-of-Service Study
- Section 4: Garner Valley Cost-of-Service Study
- Section 5: Hemet/San Jacinto Sewer Cost-of-Service Study

2.4 STUDY APPROACH

The water and wastewater cost-of-service studies discussed in this report were prepared in a manner aligned with the intent of California Proposition 218. The studies were also prepared using industry standard principles as discussed in AWWA Manual M1.

As stated in AWWA Manual M1, "the costs of water rates and charges should be recovered from classes of customers in proportion to the cost of serving those customers." To develop utility rates that comply with Proposition 218 and industry standards while meeting the goals and objectives of the District. The rate setting process includes the following key steps:

- **Revenue Requirement Determination**: The rate-making process starts by determining the level of "test-year" (i.e., rate-setting year) revenue that must be earned from rates (the revenue requirement). The revenue requirement should sufficiently fund the utility's operating expenses, debt service, capital expenses, and other identified costs with funding to reserves (positive cash) or using reserves (negative cash), all based on a long-term financial plan.

- **COS Analysis**: The annual cost of providing water and wastewater service is distributed among customer classes in proportion to their service requirements. A COS analysis involves the following key steps:

    - **Assignment of Costs to Functions**: Examples of water system functions can include storage, treatment, pumping, and distribution. Examples of wastewater system functions can include collection, conveyance, treatment, and biosolids disposal.

- **Allocation of Costs to Cost Causation Components:** Examples of water cost components cab include base demand, maximum day demand, and maximum hour demand. Examples of wastewater cost causation components can include flow, biochemical oxygen demand, and suspended solids.

- **Distribution of Costs to Customer Classes**: Costs are distributed to customer classes in proportion to the demands they place on the water and wastewater systems.

- **Rate Design and Proposed Rates**: Rates do more than simply recover costs. Properly designed rates should support and optimize a blend of various utility objectives, such as promoting cost-based water use efficiency, affordability for essential needs, and revenue stability, among other objectives.

- **Rate Adoption Process**: Rate adoption is the last step of the rate-making process and is part of the procedural requirements of Proposition 218. Raftelis documents the rate study results in reports to serve as the utility's administrative record and a public education tool about the proposed changes, the rationale and justifications behind the changes, and their anticipated financial impacts.

2.5 LEGAL FRAMEWORK – PROPOSTION 218

California Constitution Article XIII D, Section 6, commonly referred to as Proposition 218, was enacted in 1996 to limit the rates that can be charged for property-related fees, such as fees for ongoing water and sewer service. A concise summary of the principal substantive requirements of Proposition 218, as they relate to water and sewer fees, are as follows:

- A property-related charge (such as water and sewer rates) imposed by a public agency on a parcel shall not exceed the costs required to provide the property-related service.
- Revenues derived from the charge shall not be used for any other purpose other than that for which the charge was imposed.
- The amount of the charge imposed upon any parcel shall not exceed the proportional cost of service attributable to the parcel.
- No charge may be imposed for a service unless that service is used or immediately available to the owner of the property.

A written notice of the proposed charge shall be mailed to the record owner of each parcel at least 45 days before a public hearing where the agency considers written protests against the charge.

Proposition 218 requires that rates cannot be "arbitrary and capricious," meaning that the rate-setting methodology must be sound and there must be a nexus between the costs and the rates charged. Raftelis follows industry standard rate setting methodologies to perform the cost of service analysis based on the AWWA M1 Manual. Industry-standard cost of service principles and rate setting methodologies are aligned with the requirements of Proposition 218. However, a determination of whether utility rates comply with Proposition 218 can only be made by a court of competent jurisdiction. Raftelis is not a law firm, and we offer no legal opinion on District compliance with Proposition 218.

2.6 WATER RATES FOR LARGEST USERS

Recent regulatory changes detailed in AB 755 passed in 2023 and codified in Water Code, §§ 390 & 390.1 require us to identify the costs to serve the largest 10 percent of the users in the District. Proposition 218 requires rates that allocate costs of service proportionately, not special rates for the top 10% of consumers regardless of other factors.

In FY 2023, the Hemet/San Jacinto Water Utility currently had 14,375 potable water accounts; the top 10% of users represent 1,438 accounts and 51% of total potable water use. These large users are primarily irrigation and domestic customers. It is our professional judgment that the rates proposed in Table 1-5 and Table 1-6 are the most efficient and fairest way to allocate the Hemet/San Jacinto water utility costs among those who create those costs, consistent with Proposition 218.

3. HEMET/SAN JACINTO WATER UTILITY COST-OF-SERVICE STUDY

3.1 FINANCIAL PLAN

This section describes the process used to develop the Hemet/San Jacinto water utility financial plan for the period FYE 2025 - FYE 2029. No water rate increases are projected to be required for the Hemet/San Jacinto water utility during the period FYE 2025 – FYE 2029. The overarching objective of the financial planning process is to project the revenue requirement from rates (i.e., rate revenues that must be collected from customers) based on a utility's desired operational and capital cost funding strategy. Key steps in the development of a water financial plan include:

- **Forecast of Customer Accounts and Billed Water Consumption (Demand Forecast)**: The demand forecast projects the level of billed water consumption for each customer class based on anticipated customer account growth and projected per account water consumption.

- **Projection of Water Sales Revenues at Existing Rates**: This step in the financial planning process determines how much rate revenue will be earned from forecast billed water consumption if there are *no rate increases*. This projected level of rate revenue can then be compared to projected expenditures to determine the annual funding shortfall (i.e., the difference between projected water sales revenues and projected expenditures) that must be met by the appropriate combination of rate revenue increases or external debt financing.

- **Projection of Miscellaneous Non-Rate Revenue**: Miscellaneous non-rate revenue items can include interest income from cash reserves, grants, capacity fee receipts, and miscellaneous ancillary fees. Miscellaneous non-rate revenues assist in closing the annual funding shortfall. Miscellaneous non-rate revenues also reduce the revenue requirement from rates (i.e., the amount of rate revenue that must be earned from customers).

- **Projection of Expenditures (Operating Expenses, Debt Service Payments, CIP Expenditures)**: This step in the financial planning process determines the expenditures that will be incurred by the utility to provide service during each year of the planning horizon. Projected expenditures are compared against projected water sales revenue at existing rates and projected miscellaneous non-rate revenue to determine the annual funding gap.

- **Identification of Cash Reserve and Debt Service Coverage Targets**: Utilities must not only have sufficient revenues to pay for projected expenditures, but they must also maintain prudent cash reserves and meet both contractually obligated and target debt service coverage requirements.

- **Determination of the Capital Financing Strategy**: In this final step in the financial planning process, the utility determines the optimal mix of annual rate revenue increases and external debt financing to cover the funding shortfall. As discussed previously, the funding shortfall is the difference between

revenues at existing rates and projected expenditures (including funding for prudent cash reserves and debt service coverage levels).

3.1.1 Projected Customer Accounts and Billed Consumption

Table 3-1 shows projected customer accounts for the Hemet/San Jacinto water utility. The projected number of potable water customers at the end of the FYE 2025 test-year is 14,665 (Line 14). The estimated number of non-potable water customers is 49 (Line 35). For most types of customers, annual projected customer account growth over the FYE 2025 – FYE 2029 planning horizon is 0.5% (i.e., one-half of one percent annually). This projected growth rate reflects historical norms and was developed in consultation with District staff.

Table 3-1: Projected Utility Customer Accounts

Line	Customer Type	Estimated FYE 2024	Projected				
			FYE 2025	FYE 2026	FYE 2027	FYE 2028	FYE 2029
1	Potable Water						
2	5/8"	10,782	10,890	10,999	11,110	11,221	11,333
3	3/4"	1,502	1,517	1,532	1,548	1,563	1,579
4	1"	1,821	1,839	1,858	1,876	1,895	1,914
5	1 1/2"	117	118	120	121	122	123
6	2"	240	243	245	248	250	253
7	3"	8	8	8	8	8	8
8	4"	31	32	32	32	33	33
9	6"	9	9	9	9	9	10
10	8"	4	4	4	4	4	4
11	10"	1	1	1	1	1	1
12	12"	3	3	3	3	3	3
13	16"	-	-	-	-	-	-
14	Total Potable Water	14,519	14,665	14,812	14,960	15,110	15,262
15							
16	Fire Hydrant Construction						
17	5/8"	1	1	1	1	1	1
18	4"	39	40	40	41	41	41
19	Total Fire Hydrant Construction	39	40	40	41	41	41
20							
21	Fire Service Lines						
22	4"	26	27	27	27	27	28
23	6"	32	33	33	33	34	34
24	8"	38	39	39	40	40	40
25	10"	1	1	1	1	1	1
26	12"	3	3	3	3	3	3
27	Total Fire Service Lines	101	102	103	104	105	106
28							
29	Non-Potable Irrigation						
30	IR1AF	13	13	13	14	14	14
31	IR3AF	4	4	4	4	4	4
32	IR5M	14	14	14	15	15	15
33	IR5W	4	4	4	4	4	4
34	IR3CF	13	13	13	14	14	14
35	Total Non-Potable Irrigation	48	49	49	50	50	51

Table 3-2 shows projected billed water consumption for the Hemet/San Jacinto water utility. Projected billed potable water consumption in the FYE 2025 test-year is 3,181,245 HCF (Line 22). Projected non-potable water consumption is 2,104-acre feet (Line 32). For most customer types, projected billed consumption was developed based on the customer account growth estimates provided in Table 3-2.

Table 3-2: Projected Utility Billed Consumption

Line	Customer Type	Estimated FYE 2024	Projected FYE 2025	FYE 2026	FYE 2027	FYE 2028	FYE 2029
1	Potable Water (HCF)						
2	Single Residential	2,406,270	2,406,270	2,406,270	2,406,270	2,406,270	2,406,270
3	Multiple Residential	275,807	275,807	275,807	275,807	275,807	275,807
4	Single Residential - EMWD (Trade)	3,633	3,633	3,633	3,633	3,633	3,633
5	Single Residential - City of Hemet (Trade)	9,815	9,815	9,815	9,815	9,815	9,815
6	Multiple Residential - City of Hemet (Trade)	5,813	5,813	5,813	5,813	5,813	5,813
7	Miscellaneous Commercial	89,035	89,480	89,928	90,377	90,829	91,283
8	Schools	91,701	92,160	92,621	93,084	93,549	94,017
9	Churches	35,101	35,276	35,453	35,630	35,808	35,987
10	Restaurants	12,218	12,279	12,340	12,402	12,464	12,526
11	Government	4,124	4,144	4,165	4,186	4,207	4,228
12	Motels	3,999	4,019	4,039	4,059	4,079	4,100
13	Parks	39,447	39,644	39,843	40,042	40,242	40,443
14	Industrial	221	222	223	224	226	227
15	Mobile Home Parks	96,531	97,014	97,499	97,986	98,476	98,969
16	Car Washes	6,610	6,643	6,676	6,710	6,743	6,777
17	Laundromats	5,973	6,003	6,033	6,063	6,093	6,124
18	Miscellaneous Commercial - EMWD (Trade)	472	475	477	479	482	484
19	Landscape Irrigation	62,655	62,968	63,283	63,599	63,917	64,237
20	Landscape Irrigation - City of Hemet (Trade)	8,359	8,400	8,442	8,485	8,527	8,570
21	Rate Code IR3CF	21,075	21,180	21,286	21,392	21,499	21,607
22	Total Potable Water (HCF)	3,178,858	3,181,245	3,183,645	3,186,056	3,188,480	3,190,916
23							
24	Non-Potable Water Sales (AF)						
25	Rate Code IR1AF	2,084	2,084	2,084	2,084	2,084	2,084
26	Rate Code IR3AF	156	156	156	156	156	156
27	Total Non-Potable Water Sales (AF)	2,240	2,240	2,240	2,240	2,240	2,240
28							
29	Non-Potable Wheeling (AF)						
30	Rate Code IR5M (Washburn)	1,248	1,248	1,248	1,248	1,248	1,248
31	Rate Code IR5W (McMillan)	3,615	3,615	3,615	3,615	3,615	3,615
32	Total Non-Potable Wheeling (AF)	2,104	2,104	2,104	2,104	2,104	2,104

The Hemet/San Jacinto water utility provides potable water service to customers in 10 different elevation zones. Water provided to these customers must be pumped to each elevation zone and there is a unique $/HCF power lift charge for each zone. Table 3-3 identifies each zone and projected FYE 2025 pumped volumes.

Table 3-3: Projected FYE 2025 Power Zone Pumping Volumes

Line	Zone Number	Zone Name	Projected FYE 2025 Pumped Volumes (HCF)
1	1000	Pachea Trail	17,680
2	1100	Section of 13 N of Hwy 73	1,460
3	1101	Irrigation Section of 13 N of Hwy 74	9,469
4	1200	Section 13S S of Hwy 74	1,042
5	1201	Irrigation Section 13 S of Hwy 74	27,450
6	1300	Sprague Heights	71,166
7	1301	Sprague Heights	1,311
8	1400	Valle Heights	22,783
9	1500	Skycrest/Vista del Valle	53,690
10	1600	Bee Canyon	12,379

3.1.2 Projected Rate Revenues at Existing Rates

Having established the projected number of customer accounts and billed consumption, the next step in developing a financial plan is to project the rate revenue that will be earned if rates do not increase annually. The projected rate revenues at existing rates can then be compared to projected operating and capital costs to determine if there is a funding shortfall.

Table 3-4 shows the rate revenues projected to be earned during the FYE 2025 – FYE 2029 planning horizon. Line 16 of Table 3-4 shows that if there is no rate increase, the projected level of FYE 2025 rate revenues is $18,994,865. The value of $18,994,865 is the amount of revenue allocated to customer classes in the COS analysis. Lines 17–21 of Table 3-4 also show projected miscellaneous non-rate revenues during the period FYE 2025 – FYE 2029.

Table 3-4: Projected Revenues at Existing Rates

Line	Rate Revenue	Estimated FYE 2024	Projected				
			FYE 2025	FYE 2026	FYE 2027	FYE 2028	FYE 2029
1	Fixed Charge Revenue						
2	Monthly Service Charges	$6,318,313	$6,381,654	$6,445,630	$6,510,248	$6,575,513	$6,641,432
3	Fire Hydrant Construction	$11,817	$11,936	$12,055	$12,176	$12,298	$12,422
4	Private Fire Line	$2,735	$2,763	$2,790	$2,818	$2,847	$2,875
5	Total Fixed Charge Revenue	$6,332,866	$6,396,353	$6,460,476	$6,525,242	$6,590,658	$6,656,729
6							
7	Usage Revenue						
8	Potable Water	$9,739,919	$9,747,898	$9,755,916	$9,763,975	$9,772,074	$9,780,213
9	Non-Potable Water	$2,445,032	$2,613,193	$2,445,032	$2,445,032	$2,445,032	$2,445,032
10	Wheeling Revenue (Washburn/McMillian)	$168,161	$168,161	$168,161	$168,161	$168,161	$168,161
11	Power Lift (Elevation Pumping Charges)	$69,261	$69,261	$69,261	$69,261	$69,261	$69,261
12	Total Usage Revenue	$12,422,373	$12,598,512	$12,438,370	$12,446,429	$12,454,528	$12,462,667
13							
14	Total Rate Revenue	$18,755,239	$18,994,865	$18,898,846	$18,971,671	$19,045,185	$19,119,396
15							
16	Miscellaneous Revenue						
17	Purchased Water Pass-Through Revenue	$0	$0	$270,927	$558,109	$862,523	$1,185,201
18	Washburn & McMillan – Net	$1,746,812	$1,746,812	$1,746,812	$1,746,812	$1,746,812	$1,746,812
19	Rent & Interest	$529,200	$555,700	$566,900	$578,300	$589,900	$589,900
20	Tax & Standby Revenue	$1,856,000	$1,893,200	$1,931,100	$1,969,800	$2,009,200	$2,009,200
21	Total	$4,132,012	$4,195,712	$4,515,739	$4,853,021	$5,208,435	$5,531,113
22							
23	Total Revenue	$22,887,251	$23,190,577	$23,414,585	$23,824,693	$24,253,620	$24,650,509

Table 3-5 shows a detail of projected FYE 2025 potable water billed consumption and usage revenue recovery under existing rates for the three consumption tiers in the District's potable water rate structure.

Table 3-5: Projected FYE 2025 Usage Revenue by Consumption Tier

Line	Consumption Tier	Projected	
		FYE 2025 Billed Consumption (HCF)	FYE 2025 Billed Revenue
1	Tier 1 (0 ≤ 5 HCF)	985,492	$2,353,378
2	Tier 2 (6.01 ≤ 13 HCF)	941,969	$2,462,362
3	Tier 3 (14 HCF and Above)	1,253,784	$4,932,158
4	Total	3,181,245	$9,747,898

Table 3-6 provides a detail of projected FYE 2025 non-potable water billed consumption and usage revenue recovery by consumption tier.

Table 3-6: Projected FYE 2025 Non-Potable Water Revenue at Existing Rates

Line	Non-Potable Rate Code	Projected	
		FYE 2025 Billed Consumption (AF)	FYE 2025 Billed Revenue
1	Non-Potable Water Sales (AF)		
2	Rate Code IR1AF	2,084	$2,271,560
3	Rate Code IR3AF	156	$173,472
4	Total	2,240	$2,445,032
5			
6	Non-Potable Wheeling (AF)		
7	Rate Code IR5M	1,248	$105,192
8	Rate Code IR5W	3,615	$62,970
9	Total	4,863	$168,161

3.1.3 Projected Operating Expenses

Projected operating expenses for the Hemet/San Jacinto water utility are shown in Table 3-7. The values shown for FYE 2025 – FYE 2028 were provided by District staff. A detail of the inflation factors used by District staff to develop the expenses shown in Table 3-8.

Table 3-7: Projected Operating Expenses

Line	Expense Item	Estimated FYE 2024	Projected				
			FYE 2025	FYE 2026	FYE 2027	FYE 2028	FYE 2029
1	Purchased Water	$405,000	$4,515,447	$4,786,374	$5,073,557	$5,377,970	$5,700,648
2	Source of Supply	$637,500	$663,100	$690,100	$718,300	$747,700	$777,608
3	Groundwater Management Recharge Purchases	$4,905,000	$2,550,000	$2,754,000	$2,974,400	$3,212,400	$3,469,392
4	Pumping	$1,832,000	$1,993,450	$2,175,550	$2,375,050	$2,593,650	$2,721,129
5	Purification	$418,500	$434,400	$450,900	$468,100	$486,000	$505,440
6	Transmission and Distribution	$1,727,600	$1,817,700	$1,904,000	$1,992,300	$2,084,700	$2,168,088
7	Commercial Expenses	$171,500	$180,100	$189,200	$198,700	$208,700	$208,700
8	General and Administrative	$7,247,296	$7,638,218	$8,067,752	$8,529,920	$9,026,976	$9,374,317
9	Water Master Costs	$450,000	$450,000	$450,000	$450,000	$450,000	$468,358
10	Non-Operating Costs	$35,500	$87,300	$40,000	$40,000	$120,000	$120,000
11	Total Operating Costs	$17,829,896	$20,329,715	$21,507,876	$22,820,327	$24,308,096	$25,513,680
12							
13	Debt Service	$0	$0	$0	$0	$0	$0
14	Total Expenditures	$17,829,896	$20,329,715	$21,507,876	$22,820,327	$24,308,096	$25,513,680

Table 3-8: Projected Operating Expense Inflation Factors

Expense Category	FYE 2025	FYE 2026	FYE 2027	FYE 2028
Source of Supply				
Labor	3.0%	3.0%	3.0%	3.0%
Supplies & Repairs	5.0%	5.0%	5.0%	5.0%
Water Purchased	5.0%	5.0%	5.0%	5.0%
Spreading Basins	0.0%	6.0%	5.7%	5.4%
GWMP Recharge Purchases	-48.0%	8.0%	8.0%	8.0%
Pumping				
Supplies	-35.0%	0.0%	0.0%	0.0%
Repairs	5.0%	5.0%	5.0%	5.0%
Electrical Training/Classes	-60.0%	0.0%	0.0%	0.0%
Power Purchased	10.0%	10.0%	10.0%	10.0%
Purification				
Labor	3.0%	3.0%	3.0%	3.0%
Supplies	5.0%	5.0%	5.0%	5.0%
Repairs	0.0%	0.0%	0.0%	0.0%
Transmission and Distribution				
Patrolling Storage	3.0%	3.0%	3.0%	3.0%
Customer Premise	0.0%	6.0%	5.7%	5.4%
Misc Supplies & Exp	5.0%	5.0%	5.0%	5.0%
WRD Training / Classes	0.0%	66.7%	0.0%	0.0%
Meter Department Training/Classes	0.0%	0.0%	0.0%	0.0%
Meter Department Expense	5.0%	5.0%	5.0%	5.0%
Construction Training / Classes	100.0%	0.0%	0.0%	0.0%
Construction Tools / Equipment	5.0%	5.1%	5.1%	5.0%
Construction Lead Expense	3.7%	3.6%	3.4%	3.3%
Repairs to transmission	5.2%	5.1%	5.0%	5.1%
Repairs to Storage	5.0%	5.0%	5.0%	5.0%
Repairs to Distribution Lines	5.0%	5.0%	5.0%	5.0%
Repairs-Services & Hydrants	5.0%	5.0%	5.0%	5.0%
Commercial Expense				
Collections & Meter Readings	5.0%	5.1%	5.0%	5.0%

3.1.4 Projected Capital Improvements

The District provided its assumptions for the repair and replacement of its assets to address future water capital improvement project (CIP) needs. Raftelis worked with District staff to adjust the CIP to reflect a measured multi-year approach. Based on discussions with District Staff, 67% (2/3) of the annual depreciation expenses for Hemet/San Jacinto water utility assets was used as the baseline CIP for projected CIP expenditures. Raftelis indexed the capital expenditures by a 5.5% annual inflationary assumption to account for increased construction costs in future years. Table 3-9 summarizes the annual CIP (Line 1), the cumulative inflationary factor (Line 2), and the resulting total anticipated CIP costs (Line 3). Capital improvement expenditures are paid through the Hemet/San Jacinto water utility Capital Improvement Fund (see Line 3 of Table 3-10)

Table 3-9: Projected Capital Improvement Plan

Line	Description	FYE 2024	FYE 2025	FYE 2026	FYE 2022	FYE 2028	FYE 2029
1	67% (2/3) of Depreciation Value	$2,036,800	$2,036,800	$2,036,800	$2,036,800	$2,036,800	$2,036,800
2	Cumulative Inflationary Factor	105.5%	111.3%	117.4%	123.9%	130.7%	134.6%
3	Inflated CIP Used in Financial Plan	$2,148,824	$2,267,009	$2,391,695	$2,523,238	$2,662,016	$2,741,877

3.1.5 Projected Cash Reserves

The District maintains a total of eight (8) different cash reserves as shown in Table 3-10. The Operating Reserve (Line 1 of Table 3-10) is the primary source of cash used by the District to fund operations and maintenance expenses associated with continuing day-to-day operations. The minimum reserve target for the Operating Reserve is a minimum of 90 days of annual operating expenses. The Operating Reserve maximum reserve target is 180 days of annual operating expenses. Notwithstanding the normal day-to-day use of the Operating Reserve, the District assesses the adequacy of its cash reserves on a combined aggregate basis (i.e., the total of all funds).

Table 3-10 summarizes projected Hemet/San Jacinto water utility cash reserves for FYE 2025 – FYE 2029. Note that total cash reserves are projected to remain stable at approximately $46 million to $50.7 million throughout the planning five-year planning horizon. The Hemet/San Jacinto Valley water utility uses its Operating Reserve (Line 2) to pay for ongoing operations and maintenance expenditures. The Capital Improvement Reserve (Line 3) pays for capital improvement program (CIP) expenditures. The annual amounts shown in the Capital Improvement reserve are net of the projected capital project expenditures shown in Table 3-9. It is important to note that the ending cash reserve balances shown in Table 3-10 do not reflect potential rate increases associated with annual CPI inflationary adjustments that the District's Board of Directors is authorized to approve as described in the District's Proposition 218 notice.

Table 3-10: Projected Cash Reserves

Line	Ending Cash Reserves	Estimated FYE 2024	Projected				
			FYE 2025	FYE 2026	FYE 2027	FYE 2028	FYE 2029
1	Ending Cash Reserves						
2	Operating	$4,676,878	$6,881,857	$9,165,425	$10,568,966	$11,931,919	$12,499,807
3	Capital Improvement	$3,210,387	$1,624,145	$913,509	$71,622	$91,252	$31,317
4	CALPERS Fund	$4,136,411	$4,219,139	$4,261,744	$4,304,575	$4,347,835	$4,391,529
5	Disaster Fund	$3,759,580	$3,759,580	$3,759,580	$3,759,580	$3,759,580	$3,759,580
6	Rate Stabilization Fund	$13,655,481	$13,792,036	$13,929,956	$14,069,256	$14,209,948	$14,352,048
7	Vehicle	$4,050,428	$4,050,428	$4,050,428	$4,050,428	$4,050,428	$4,050,428
8	GW Management	$11,658,658	$11,658,658	$11,658,658	$11,658,658	$11,658,658	$11,658,658
9	Total	$45,147,823	$45,985,843	$47,739,300	$48,483,084	$50,049,619	$50,743,366
10							
11	Minimum Reserve Target (1)	$23,354,695	$21,498,290	$22,328,470	$23,234,706	$24,233,315	$25,166,366
12	Variance from Minimum Target	$21,793,128	$24,487,553	$23,410,830	$21,243,378	$17,796,254	$13,526,750
13							
14	Maximum Reserve Target (2)	$60,939,938	$62,848,732	$64,565,532	$66,444,853	$68,419,997	$70,336,557
15	Variance from Maximum Target	($15,792,115)	($16,862,889)	($18,826,232)	($21,966,769)	($26,390,428)	($31,643,441)

(1) Components of Minimum Reserve Target:
Operating Reserve: 90 Days of Annual Operating Expenses
Capital Improvement Reserve: 100% of Annual Depreciation Expense
CALPERS Fund: 100% of Annual CALPERS Obligation
Disaster Fund: 100% of 5-Year Average of Water Purchases
Rate Stabilization Fund: 50% of Annual Commodity Revenue
Vehicle Fund: 10% of Annual Operating Expenses
Groundwater Reserve: 100% of Annual GW Mgt. Plan Expenses

(2) Components of Maximum Reserve Target:
Operating Reserve: 180 Days of Annual Operating Expenses
Capital Improvement Reserve: Remaining Master Plan Projects
CALPERS Fund: CALPERS Unfunded Liability
Disaster Fund: 200% of 5-Year Average of Water Purchases
Rate Stabilization Fund: 100% of Annual Commodity Revenue
Vehicle Fund: 20% of Annual Operating Expenses
Groundwater Reserve: 200% of Annual GW Mgt. Plan Expenses

Figure 3-1, shows projected Hemet/San Jacinto water utility cash reserves for the period FYE 2025 – FYE 2029. It is important to note that the ending cash reserve balances shown in Figure 3-1 do not reflect

potential rate increases associated with annual CPI inflationary adjustments that the District's Board of Directors is authorized to approve as described in the District's Proposition 218 notice.

Figure 3-1: Projected Cash Reserves

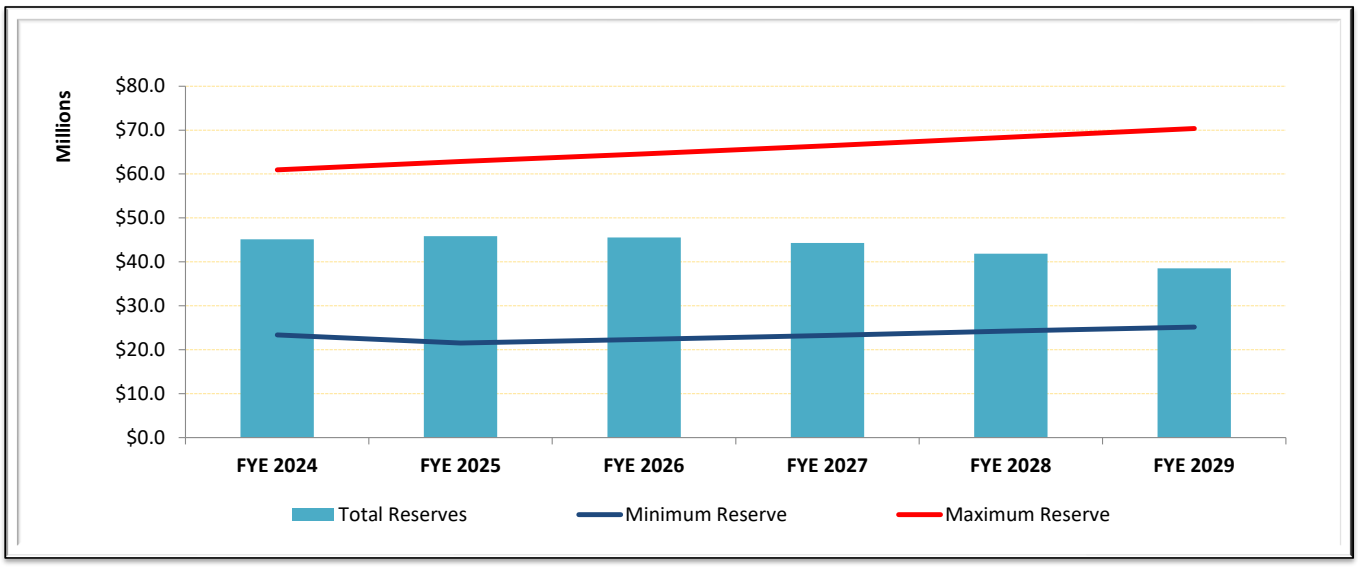


Table 3-11 provides a detail of the Hemet/San Jacinto water utility financial plan for the period FYE 2025-FYE 2029. The total FYE 2025 revenue requirement from rates (i.e., the amount that must be collected from ratepayers is $18.99 million, as shown in Line 11. The revenue requirement from rates is also referred to as the cost-of-service. It is important to note that the rate revenues shown in Line 11 of Table 3-11 do not reflect potential rate increases associated with annual CPI inflationary adjustments that the District's Board of Directors is authorized to approve as described in the District's Proposition 218 notice.

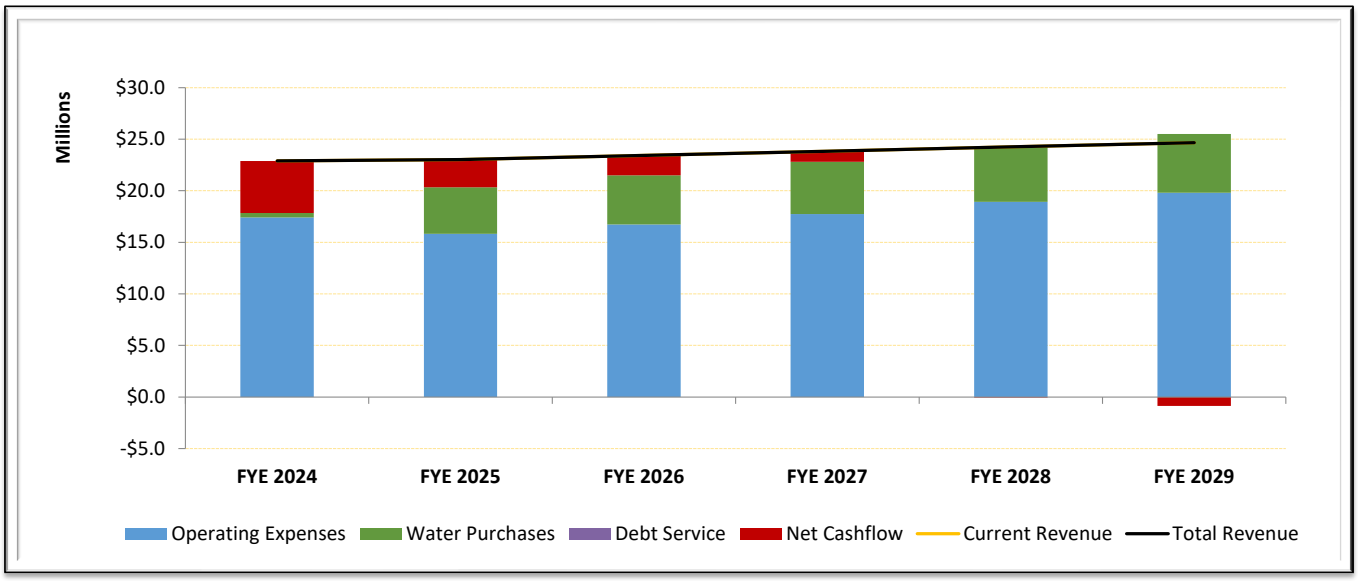
The value for Net Operating Cash Flow is shown in Line 35 of Table 3-11 reflects the difference between Total Revenues (Line 20) and Total Operating Expenses (Line 33). The Net Operating Cash Flow shown in Line 35 is used to pay for capital improvement expenditure and maintain District cash reserve balances. An alternative presentation of the derivation of the $18.99 million revenue requirement (cost-of-service) is shown in Lines 37 – 43 of Table 3-11.

Figure 3-2 provides a graphic representation of the financial plan.

Table 3-11: Projected Financial Plan

Line	Description	FYE 2024	FYE 2025	FYE 2026	FYE 2027	FYE 2028	FYE 2029
1	Annual % Rate Increase/(Decrease)	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
2							
3	Rate Revenues/Revenue Req.						
4	Fixed Charges	$6,332,866	$6,396,353	$6,460,476	$6,525,242	$6,590,658	$6,656,729
5	Usage Charges	$8,180,927	$8,187,297	$8,193,699	$8,200,132	$8,206,598	$8,213,096
6	Imported Surcharges	$1,178,515	$1,179,834	$1,181,159	$1,182,491	$1,183,830	$1,185,175
7	Capital Surcharges	$380,477	$380,767	$381,059	$381,351	$381,646	$381,942
8	Irrigation (Non-Potable)	$2,445,032	$2,613,193	$2,445,032	$2,445,032	$2,445,032	$2,445,032
9	Wheeling Revenue	$168,161	$168,161	$168,161	$168,161	$168,161	$168,161
10	Power Lift Charges	$69,261	$69,261	$69,261	$69,261	$69,261	$69,261
11	Total Rate Revenues	$18,755,239	$18,994,865	$18,898,846	$18,971,671	$19,045,185	$19,119,396
12							
13	Other Revenues						
14	Water Purchase Pass Thru	$0	$0	$270,927	$558,109	$862,523	$1,185,201
15	Washburn & McMillan – Net	$1,746,812	$1,746,812	$1,746,812	$1,746,812	$1,746,812	$1,746,812
16	Rent & Interest	$529,200	$555,700	$566,900	$578,300	$589,900	$589,900
17	Tax & Standby Revenue	$1,856,000	$1,893,200	$1,931,100	$1,969,800	$2,009,200	$2,009,200
18	Other Revenues	$4,132,012	$4,195,712	$4,515,739	$4,853,021	$5,208,435	$5,531,113
19							
20	Total Revenues	$22,887,251	$23,190,577	$23,414,585	$23,824,693	$24,253,620	$24,650,509
21							
22	Operating Expenses						
23	Water Purchases	$405,000	$4,515,447	$4,786,374	$5,073,557	$5,377,970	$5,700,648
24	Source of Supply	$637,500	$663,100	$690,100	$718,300	$747,700	$777,608
25	GWMP Recharge Purchases	$4,905,000	$2,550,000	$2,754,000	$2,974,400	$3,212,400	$3,469,392
26	Pumping	$1,832,000	$1,993,450	$2,175,550	$2,375,050	$2,593,650	$2,721,129
27	Purification	$418,500	$434,400	$450,900	$468,100	$486,000	$505,440
28	Transmission & Distribution	$1,727,600	$1,817,700	$1,904,000	$1,992,300	$2,084,700	$2,168,088
29	Commercial Expenses	$171,500	$180,100	$189,200	$198,700	$208,700	$208,700
30	General and Administration	$7,247,296	$7,638,218	$8,067,752	$8,529,920	$9,026,976	$9,374,317
31	Water Master Costs	$450,000	$450,000	$450,000	$450,000	$450,000	$468,358
32	Non-Operating Costs	$35,500	$87,300	$40,000	$40,000	$120,000	$120,000
33	Total Operating Expenses	$17,829,896	$20,329,715	$21,507,876	$22,820,327	$24,308,096	$25,513,680
34							
35	Net Operating Cash Flow	$5,057,355	$2,860,862	$1,906,709	$1,004,366	($54,476)	($863,170)
36							
37	Alternative Presentation of Rate Revenues/Revenue Requirement (Line 4)						
38	Operating Expenses (Line 33)	$17,829,896	$20,329,715	$21,507,876	$22,820,327	$24,308,096	$25,513,680
39	Net Operating CF (Line 35)	$5,057,355	$2,860,862	$1,906,709	$1,004,366	($54,476)	($863,170)
40	Gross Revenue Requirement	$22,887,251	$23,190,577	$23,414,585	$23,824,693	$24,253,620	$24,650,509
41							
42	Less: Other Revenues (Line 18)	$4,132,012	$4,195,712	$4,515,739	$4,853,021	$5,208,435	$5,531,113
43	Rate Revenues / Revenue. Requirement (Line 11)	$18,755,239	$18,994,865	$18,898,846	$18,971,671	$19,045,185	$19,119,396

Figure 3-2: Financial Plan Summary



3.2 COST OF SERVICE ANALYSIS

3.2.1 The Importance of Proportionality

Demonstrating that rates are proportional to the demands and associated costs that customer classes place on the utility system is critical to ensure that rates are aligned with the intent of Proposition 218. The revenue requirement of a utility is, by definition, the cost of providing service that must be recovered through rate revenues. This cost is then allocated to customer classes in proportion to the demands they place on the system. For costs recovered through a water utility's fixed meter charge, costs are allocated either over all accounts or by meter size, depending on the type of expense. As such, customer classes and usage are not considered when calculating a fixed charge. Conversely, costs that are variable in nature are allocated among customer classes based on the demands they place on the water system and the cost of water supplies.

Customer class demands vary depending on their respective usage characteristics. For example, the demand characteristics of a single-family residential customer will differ from the demand characteristics of an irrigation customer. Peak demands are a key difference in usage characteristics of customer classes. The concept of proportionality requires that cost allocations consider both the average quantity of water consumed (base demand) and the peak rate at which it is consumed (peak demands). The use of peak demands in the cost allocation process is consistent with cost-of-service principles because a water system is designed, constructed, and operated to meet peak demands. These additional costs must be allocated to customer classes in proportion to their peak usage characteristics.

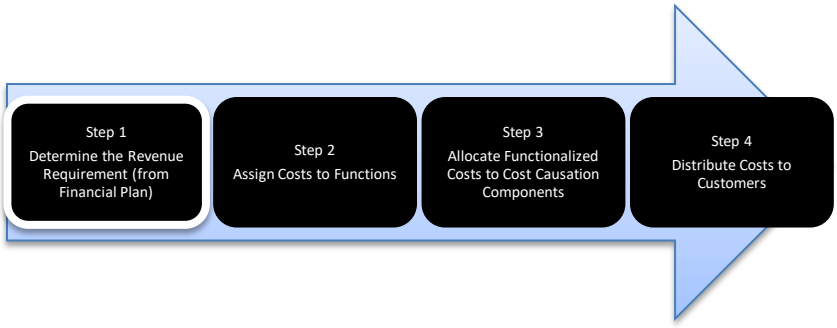
In allocating the costs of service, the industry standard, as promulgated by AWWA's M1 Manual, is to group customers with similar system needs and demands into customer classes. Rates are then developed for each customer class. A customer class consists of a group of customers, with common characteristics, who share

responsibility for certain costs incurred by the utility. Joint costs are proportionately shared among all customers in the system based on their service requirements.

3.2.2 The Cost-of-Service Analysis

A cost of service analysis distributes a utility's revenue requirements (costs) to each customer class. Figure 3-3 provides a general overview of a cost-of-service analysis. Each step shown below will be described in greater detail in the next section.

Figure 3-3: Cost of Service Process



3.2.2.1 Step One – Revenue Requirement Determination

This study calculates the water rates for the Hemet/San Jacinto water utility for FYE 2025 (known as the test-year or rate-setting year). As previously discussed, the revenue requirement is developed in the financial planning process. Table 3-12 shows the FYE 2025 revenue requirement which was developed during the financial planning process. The total revenue requirement of $18,994,865 is shown in Line 51 of Table 3-12 matches the total amount of revenue shown in the financial plan (see Line 11 of Table 3-11). Note that the revenue requirement shown in Table 3-12 is before any cost allocations which are discussed below.

Table 3-12: FYE 2025 Revenue Requirement Before Cost Allocations

Line	Revenue Requirement Components (Costs)	Total
1	Specific Allocation Costs	
2	Non-Potable Water Purchases	$2,185,447
3	Contract Water	$2,330,000
4	GWMP Recharge Expense	$2,550,000
5	Power Purchased	$1,650,600
6	Total Specific Allocation Costs	$8,716,047
7		
8	Operating Costs	
9	Labor	$314,200
10	Supplies & Repairs	$343,900
11	Spreading Basins	$5,000
12	Supplies	$650
13	Repairs	$339,200
14	Electrical Training/Classes	$3,000
15	Labor	$262,700
16	Supplies	$170,700
17	Repairs	$1,000
18	Patrolling Storage	$281,800
19	Customer Premise	$5,000
20	Misc Supplies & Expenses	$194,300
21	WRD Training/Classes	$3,000
22	Meter Dept. Training/Classes	$500
23	Meter Dept. Expense	$301,900
24	Construction Training/Classes	$20,000
25	Construction Tools/Equipment	$52,500
26	Pre-Construction Expense	$1,500
27	Construction Lead Expense	$14,000
28	Repairs to Transmission	$56,900
29	Repairs to Storage	$162,800
30	Repairs to Distribution Lines	$527,100
31	Repairs - servs & Hydrants	$196,400
32	Collections & Meter Readings	$180,100
33	General and Administrative	$7,638,218
34	Water Master Cost	$450,000
35	Non-Operating Expense	$87,300
36	Total Operating Expenses	$11,613,668
37		
38	Gross Revenue Requirement	$20,329,715
39		
40	Less: Miscellaneous Non-Rate Revenue Offsets	
41	Washburn & McMillan – Net	$1,746,812
42	Rent & Interest	$555,700
43	Tax and Stand-By Revenue	$1,893,200
43	Total Revenue Offsets	$4,195,712
44		
45	Net Revenue Requirement Before Adjustments	$16,134,003
46		
47	Less: Adjustments	
48	Adjustment for Change in Cash Balance	$2,860,862
49	Total Adjustments	$2,860,862
50		
51	Revenue Requirement from Rates	$18,994,865

3.2.2.2 Step 2 – Assignment of Costs to Functions

After determining the revenue requirement as part of a financial planning process, costs are assigned to system functions to in relation to how that cost is generally incurred. Hemet/San Jacinto water utility costs were categorized into the following functions:

- **Non-Potable Water Purchases** – variable costs incurred to import water from EMWD.

- **Groundwater Master Plan Imported Water Purchases** – imported water for Soboba Tribe based on GWMP Agreement.
- **Groundwater Recharge Expense** – variable cost incurred to recharge both Canyon and Upper basins.
- **Power Purchased** – energy costs incurred for pumping groundwater and pumping water through elevation zones.
- **Operating Expenses** – operating expenses incurred from the following departments: sources of supply, pumping, transmission and distributions, commercial expenses, general and administration costs, debt service and costs incurred per Water Master Plan.

Table 3-13 shows the FYE 2025 Hemet/San Jacinto water utility gross revenue requirement assigned to functionalized expenses.

Table 3-13: FYE 2025 Functionalized Expenses

Revenue Requirements	FYE 2025
Non-Potable Water Purchases	$2,185,447
Contract Water	$2,330,000
Groundwater Recharge	$2,550,000
Power Purchased	$1,650,600
Operating Expenses	$11,613,668
Total Gross Revenue Requirement	$20,329,715

3.2.2.3 Step 3 – Allocation of Functionalized Costs to Cost Causation Components

The functionalization of costs allows for a more accurate allocation of costs based on how they are incurred. This is commonly referred to as cost causation. Essentially, cost causation means that the utility area incurs a cost to providing service because of the demands or burdens the customer places on the system and water resources. The Base-Extra Capacity Method, as described in AWWA Manual M1, was used to allocate functionalized costs to cost causation components. Costs were allocated to the following cost causation components:

- **Customer Service** includes customer related costs such as billing, collecting, customer accounting, and customer call center. These costs are incurred at the same level regardless of the type of land use or the total amount of water that the utility delivers.
- **Meter Capacity** includes maintenance and capital costs associated with serving meters. These costs are assigned based on the meter size or equivalent meter capacity.
- **Groundwater Supply** represents the costs to pump available groundwater to all District customers to meet demands.
- **Contract Water** represents the cost of importing water specifically for contract customers (McMillian).
- **Treated Imported Water** represents the cost of imported treated water from EMWD.
- **Groundwater Recharge** represents the cost of replenish groundwater supply for all District customers.
- **Non-Potable Imported Supply** represents the cost of imported non-potable water from the EMWD.
- **Fire** represents the costs incurred as a result of sizing the distribution infrastructure in order to be able to serve fire protection infrastructure.
- **Base/Delivery** are operating and capital costs of the water system associated with serving customers at a constant, or average, rate of use. These costs tend to vary with the total quantity of water used.

- **Pumping** represents the cost of energy required to pump water to District customers.
- **Peaking Costs** or Extra Capacity Costs represent those costs incurred to meet customer peak demands for water in excess of average day usage. Total peaking costs are subdivided into costs associated with maximum day and maximum hour demands. The maximum day demand is the maximum amount of water used in a single day in a year. The maximum hour (Max Hour) demand is the maximum usage in an hour on the maximum usage day (Max Day). Various facilities are designed to meet customer peaking needs. For example, reservoirs are designed to meet Max Day requirements and have to be designed larger than they would be if the same amount of water were being used at a constant rate throughout the year. The cost associated with constructing a reservoir is based on system wide peaking factors. For example, if the Max Day factor is 2.0, then certain system facilities must be designed larger than what would be required if the system only needed to accommodate average daily demand. In this case, half of the cost would be allocated to Base (or average day demand) and the other half allocated to Max Day. The calculation of the Max Hour and Max Day demands is explained below.

Groundwater from the San Jacinto Groundwater Basin comes from two sub-basins. The Canyon sub-basin has a total production capacity of 4,546 AF, and the Upper Sub-basin has a total production capacity of 3,727 AF. McMillian obtains their water from the Upper Basin and is, therefore, included in the 3,727 AF contained in the Upper Basin. The District also provided Raftelis pumping costs associated with each basin. The cost of pumping water from Canyon Basin and Upper Basin is $132/AF and $216/AF, respectively. Therefore, the pumping factor for Canyon Basin is approximately 0.61 times the full pumping cost for Upper Basin ($132/216 = 0.61). The production costs for each basin were determined by multiplying the total production for each basin by their respective pumping factors. The weighted production was then used to allocate groundwater supply. Groundwater availability is 12.9% less than production to account for water loss. Therefore, groundwater availability for Canyon and Upper Basin is approximately 3,961 AF and 3,265 AF, respectively (with McMillian Contract Water accounted for as a separate water supply). Calculations for groundwater supply can be seen in Table 3-28.

Specific Allocation Costs

The Specific Allocation of expenses places costs into four functionalized categories: Non-Potable Water Purchases, GWMP Imported Purchases, Power Purchased, and Groundwater Recharge Expense. For non-potable water purchases, approximately 51.6% of non-potable water purchases are allocated as Contract Water to potable customers reflecting the portion of non-potable water that is used to serve McMillian, providing additional groundwater for District customers. The remaining amount of purchased water is allocated to non-potable customers, as shown in Table 3-14.

Based on the District's Groundwater Management Plan and obligation to mitigate pumping overdraft, the District purchases imported water. Since all units of water pumped out of the ground impact groundwater availability, the costs associated with the District Groundwater Management Plan and Groundwater Recharge were allocated on a pro-rata basis using water production. Therefore, 16% of imported GWMP purchases were allocated to non-potable customers, while 84% is allocated to potable customers.

Purchased power costs are allocated between groundwater supply, non-potable imported supply, and pumping. Based on the power lift costs Raftelis calculated, approximately 6.2% of the District's budgeted

energy costs are from power lift charges. From our consumption analysis for McMillan, it was determined that 19.16% of energy costs are based on the amount of water McMillan uses for its own purposes. The remaining 74.64% of the energy costs were allocated to groundwater supply, reflecting the energy costs required to pump water from both basins. Table 3-15 shows the derivation of the allocation of power costs.

Table 3-14: Non-Potable Water Purchase Allocation Percentages

Factors	Units of Water
Average Historical Exchange w/McMillian	2,000 AF (Historical)
Estimated $/AF Cost	$1,165
Estimated Total Cost	$2,330,000
Total Non-Potable Water Purchases	$4,515,447
% Allocated to Contract Water (McMillan Make-Up Water)	51.60% ($2,330,000/$4,515,447)
% Allocated to Non-Potable Water Supply	48.4% (100% - 51.60%)

Table 3-15: Power Zone Cost Allocation Percentages

Factors	Calculations
McMillan Projected Usage	3,615 AF (Billing Analysis)
Less: McMillan Exchange Water	1,650 AF (From District)
McMillan Net Supply	1,965 AF
Canyon Sub Basin	4,546 AF (From District)
Add: Upper San Jacinto Sub Basin	3,747 AF (From District)
Add: McMillan Net Supply	1,965 AF (From Above)
Total Supply	10,258 AF
% Allocation to Non-Potable Supply	19.16% (1,965 AF/10,238 AF)
Projected FYE 2025 Power Lift Costs	$102,351
Projected FYE 2025 Total Power Costs	$1,650,600
% Allocation to Pumping	6.20% ($102,351/$1,650,600)
% Allocation to Groundwater Supply	74.64% (100% - 19.16% - 6.20%)

Table 3-16 shows the outcome of the allocation process used for specific allocation costs.

Table 3-16: Allocation of Specific Allocation Costs

Line	Functionalized Expenses	Groundwater Supply	Contract Water	Non-Potable Imported Supply	Groundwater Recharge	Pumping	Total
1	Non-Potable Water Purchases		51.60%	48.40%			100%
2	GWMP Imported Purchases			16.0%	84.0%		100%
3	Power Purchased	74.64%		19.16%		6.20%	100%
4	GW Recharge Expense			15.0%	85.0%		100%
5							
6	Non-Potable Water Purchases	$0	$2,330,000	$2,185,447	$0	$0	$4,515,447
7	GWMP Imported Purchases	$0	$0			$0	$0
8	Power Purchased	$1,232,008	$0	$316,241	$0	$102,351	$1,650,600
9	GW Recharge Expense	$0	$0	$382,500	$2,167,500	$0	$2,550,000
10	Total Specific Allocation	$1,232,008	$2,330,000	$2,884,188	$2,167,500	$102,351	$8,716,047
11	Specific Allocation (%)	14.1%	26.7%	33.1%	24.9%	1.2%	100%

Operating Expense Allocation

The operating expenses consist of several functionalized categories: source-of-supply costs, transmission and distribution, commercial expenses, general and administrative costs, water master costs, and non-

operating expenses. Each functionalized category's line item was then allocated to specific cost components. Allocating costs into these components allows for the distribution of costs to the various customer classes based on their respective base, extra capacity, and customer service requirements.

System peaking factors are used to allocate costs to delivery and extra capacity cost components. The base demand is assigned a value of 1.0, signifying no peak demand requirements. The Max Day and Max Hour factors shown in Table 3-17 were based on historical data and discussions with District staff. The peaking factors were calculated based on system-wide maximum monthly demands and average demand months using recent consumption data provided by the District. A Max Day peaking factor of 1.42 means the system delivers approximately 1.42 times the average daily demand during a peak day. A Max Hour peaking factor of 2.02 means that delivery during the max hour is approximately 1.42 times the average hour during the peak day. Since certain facilities are designed to meet max hour requirements while also meeting fire flow requirements, an allocation is provided for fire flow. Based on Raftelis and District staff, the portion of costs allocated to fire flow was 5% of max day and max hour demands.

Table 3-17: System-Wide Peaking Factors[2]

Demand	Factor	Base	Max Day	Max Hour	Fire
Base	1.00	100%	0%	0%	0%
Max Day[1]	1.42	67.9%	27.1%	0.0%	1.42
Max Hour[2]	2.02	47.8%	19.1%	28.0%	2.02

[1] Max Day = 1.42 times average day
[2] Max Hour = 1.42 times the average hour during the max day

Using the relationship between Base, Max Day, Max Hour, and Fire, operating costs were then allocated to cost causation components. Table 3-18 summarizes the percentage allocations for operating expenses to each cost causation component. Table 3-19 details the dollar value of costs (before offsets and adjustments) allocated to each cost component.

[2] System-wide peaking factors were calculated based on consumption data provided by the District.

Table 3-18: Percentage Allocation of Operating Costs

Department	Functionalized Expenses	Customer Service	Meter Capacity	Fire	Base	Max Day	Max Hour	Total
Source of Supply	Labor				100.00%			100.0%
Source of Supply	Supplies & Repairs				100.00%			100.0%
Source of Supply	Spreading Basins				100.00%			100.0%
Pumping	Supplies				100.00%			100.0%
Pumping	Repairs				100.00%			100.0%
Pumping	Electrical Training/Classes				100.00%			100.0%
Purification	Labor	100.00%						100.0%
Purification	Supplies	100.00%						100.0%
Purification	Repairs				100.00%			100.0%
Transmission and Distribution	Patrolling Storage				100.00%			100.0%
Transmission and Distribution	Customer Premise				100.00%			100.0%
Transmission and Distribution	Misc Supplies & Expenses				100.00%			100.0%
Transmission and Distribution	WRD Training/Classes				100.00%			100.0%
Transmission and Distribution	Meter Dept. Training/Classes		100.00%					100.0%
Transmission and Distribution	Meter Dept. Expense				100.00%			100.0%
Transmission and Distribution	Construction Training/Classes				100.00%			100.0%
Transmission and Distribution	Construction Tools/Equipment				100.00%			100.0%
Transmission and Distribution	Pre-Construction Expense				100.00%			100.0%
Transmission and Distribution	Construction Lead Expense				100.00%			100.0%
Transmission and Distribution	Repairs to Transmission			5.00%	67.92%	27.08%		100.0%
Transmission and Distribution	Repairs to Storage			5.00%	67.92%	27.08%		100.0%
Transmission and Distribution	Repairs to Distribution Lines			5.00%	47.84%	19.13%	28.04%	100.0%
Transmission and Distribution	Repairs - servs & Hydrants				100.00%			100.0%
Commercial Expense	Collections & Meter Readings				100.00%			100.0%
Total General and Admin	General and Admin	50.00%	23.50%		26.50%			100.0%
Water Master Costs	Water Master Cost				100.00%			100.0%

Table 3-19: Dollar Allocation of Operating Costs

Department	Functionalized Expenses	Customer Service	Meter Capacity	Fire	Base	Max Day	Max Hour	Total
Source of Supply	Labor	$0	$0	$0	$314,200	$0	$0	$314,200
Source of Supply	Supplies & Repairs	$0	$0	$0	$343,900	$0	$0	$343,900
Source of Supply	Spreading Basins	$0	$0	$0	$0	$0	$0	$5,000
Pumping	Supplies	$0	$0	$0	$5,000	$0	$0	$650
Pumping	Repairs	$0	$0	$0	$0	$0	$0	$339,200
Pumping	Electrical Training/Classes	$0	$0	$0	$0	$0	$0	$3,000
Purification	Labor	$262,700	$0	$0	$650	$0	$0	$262,700
Purification	Supplies	$170,700	$0	$0	$339,200	$0	$0	$170,700
Purification	Repairs	$0	$0	$0	$3,000	$0	$0	$1,000
Transmission and Distribution	Patrolling Storage	$0	$0	$0	$0	$0	$0	$281,800
Transmission and Distribution	Customer Premise	$0	$0	$0	$0	$0	$0	$5,000
Transmission and Distribution	Misc Supplies & Expenses	$0	$0	$0	$0	$0	$0	$194,300
Transmission and Distribution	WRD Training/Classes	$0	$0	$0	$1,000	$0	$0	$3,000
Transmission and Distribution	Meter Dept. Training/Classes	$0	$500	$0	$281,800	$0	$0	$500
Transmission and Distribution	Meter Dept. Expense	$0	$0	$0	$5,000	$0	$0	$301,900
Transmission and Distribution	Construction Training/Classes	$0	$0	$0	$194,300	$0	$0	$20,000
Transmission and Distribution	Construction Tools/Equipment	$0	$0	$0	$3,000	$0	$0	$52,500
Transmission and Distribution	Pre-Construction Expense	$0	$0	$0	$0	$0	$0	$1,500
Transmission and Distribution	Construction Lead Expense	$0	$0	$0	$301,900	$0	$0	$14,000
Transmission and Distribution	Repairs to Transmission	$0	$0	$2,845	$20,000	$15,407	$0	$56,900
Transmission and Distribution	Repairs to Storage	$0	$0	$8,140	$52,500	$44,082	$0	$162,800
Transmission and Distribution	Repairs to Distribution Lines	$0	$0	$26,355	$1,500	$100,810	$147,779	$527,100
Transmission and Distribution	Repairs - servs & Hydrants	$0	$0	$0	$196,400	$0	$0	$196,400
Commercial Expense	Collections & Meter Readings	$0	$0	$0	$180,100	$0	$0	$180,100
Total General and Admin	General and Admin	$3,819,109	$1,794,981	$0	$2,024,128	$0	$0	$7,638,218
Water Master Costs	Water Master Cost	$0	$0	$0	$450,000	$0	$0	$450,000
	Total Specific Allocations	$4,339,809	$1,795,481	$37,340	$5,132,959	$160,299	$147,779	$11,613,668
	Allocation Percentage	37.4%	15.5%	0.322%	44.2%	1.4%	1.3%	100.0%

Table 3-20 shows the calculation of the FYE 2025 net revenue requirement from rates for the Hemet/San Jacinto water utility after the completion of the cost allocation process. Note that Table 3-20 does not show any capital costs. This is because the District's capital improvement expenditures are funded through the District's capital improvement reserve (see Line 3 in Table 3-10).

Table 3-20: FYE 2025 Revenue Requirement After Cost Allocations

Line	Revenue Requirement Components (Costs)	Specific Allocation	Operating Costs	Capital Costs	Total
1	Specific Allocation Costs				
2	Non-Potable Water Purchases	$2,185,447			$2,185,447
3	Contract Water	$2,330,000			$2,330,000
4	GWMP Recharge Expense	$2,550,000			$2,550,000
5	Power Purchased	$1,650,600			$1,650,600
6	Total Specific Allocation Costs	$8,716,047			$8,716,047
7					
8	Operating Costs				
9	Labor		$314,200		$314,200
10	Supplies & Repairs		$343,900		$343,900
11	Spreading Basins		$5,000		$5,000
12	Supplies		$650		$650
13	Repairs		$339,200		$339,200
14	Electrical Training/Classes		$3,000		$3,000
15	Labor		$262,700		$262,700
16	Supplies		$170,700		$170,700
17	Repairs		$1,000		$1,000
18	Patrolling Storage		$281,800		$281,800
19	Customer Premise		$5,000		$5,000
20	Misc Supplies & Expenses		$194,300		$194,300
21	WRD Training/Classes		$3,000		$3,000
22	Meter Dept. Training/Classes		$500		$500
23	Meter Dept. Expense		$301,900		$301,900
24	Construction Training/Classes		$20,000		$20,000
25	Construction Tools/Equipment		$52,500		$52,500
26	Pre-Construction Expense		$1,500		$1,500
27	Construction Lead Expense		$14,000		$14,000
28	Repairs to Transmission		$56,900		$56,900
29	Repairs to Storage		$162,800		$162,800
30	Repairs to Distribution Lines		$527,100		$527,100
31	Repairs - servs & Hydrants		$196,400		$196,400
32	Collections & Meter Readings		$180,100		$180,100
33	General and Administrative		$7,638,218		$7,638,218
34	Water Master Cost		$450,000		$450,000
35	Non-Operating Expense		$87,300		$87,300
36	Total Operating Costs	$0	$11,613,668	$0	$11,613,668
37					
38	Gross Revenue Requirement	$8,716,047	$11,613,668	$0	$20,329,715
39					
40	Less: Miscellaneous Non-Rate Revenue Offsets				
41	Washburn & McMillan – Net		$1,746,812		$1,746,812
42	Rent & Interest	$277,850	$277,850		$555,700
	Tax and Stand-By Revenue	$1,703,880	$189,320		$1,893,200
43	Total Revenue Offsets	$1,981,730	$2,213,982		$4,195,712
44					
45	Net Revenue Requirement Before Adjustments	$6,734,317	$9,399,686	$0	$16,134,003
46					
47	Less: Adjustments				
48	Adjustment for Change in Cash Balance		$2,860,862		$2,860,862
49	Total Adjustments	$0	$2,860,862		$2,860,862
50					
51	Revenue Requirement from Rates	$6,734,317	$12,260,548	$0	$18,994,865

3.2.2.4 Step 4 – Distribution of Costs to Customers

Calculation of the Unit Cost-of-Service for Each Cost Causation Component

The operating cost allocation percentages from the last line of Table 3-19 are used to allocate the operating cost revenue requirement, including any revenue offsets or adjustments, from the revenue requirement components shown in Table 3-20. Table 3-21 shows the outcome of this allocation process, which is a

specifically identified net revenue requirement for each cost causation component. Note that the total net revenue requirement of $18,994,865 shown in Line 24 of Table 3-21 matches the revenue requirement from rates shown in Line 51 of Table 3-20 and various other tables previously shown in this report.

Table 3-21: FYE 2025 Revenue Requirement for Cost Causation Components

Line	Revenue Requirements	Fixed Cost Customer Service	Fixed Cost Meter Capacity	Fixed Cost Public and Private Fire	Variable Cost GW Supply	Variable Cost Contract Water
1	Specific Allocation Cost	$0	$0	$0	$1,232,008	$2,330,000
2	Operating Cost	$4,581,536	$1,895,489	$36,660 Public $2,759 Private	$0	$0
3	Gross Revenue Requirement	$4,581,536	$1,895,489	$39,420	$1,232,008	$2,330,000
4						
5	Revenue Offset	$0	$0	$0	$0	$0
6	Net Revenue Requirement	$4,581,536	$1,895,489	$39,420	$1,232,008	$2,330,000
7						

Line	Revenue Requirements	Variable Cost Treated Imported	Variable Cost Non-Potable	Variable Cost GW Recharge	Variable Cost Base	Variable Cost Max Day
8						
9						
10	Specific Allocation Cost	$0	$2,884,188	$2,167,500	$0	$0
11	Operating Cost	$0	$0	$0	$5,418,864	$169,228
12	Gross Revenue Requirement	$0	$2,884,188	$2,167,500	$5,418,864	$169,228
13						
14	Revenue Offset	$0	$0		$0	$0
15	Net Revenue Requirement	$0	$2,884,188	$2,167,500	$5,418,864	$169,228
16						

Line	Revenue Requirements	Variable Cost Max Hour	Variable Cost Pumping	Variable Cost Revenue Offset	Total Revenue Requirement	
17						
18						
19	Specific Allocation Cost	$0	$102,351	$0	$8,716,047	
20	Operating Cost	$156,011	$0	$0	$12,260,548	
21	Gross Revenue Req.	$156,011	$102,351	$0	$20,976,595	
22						
23	Revenue Offset	$0	$0	($1,981,730)	($1,981,730)	
24	Net Revenue Requirement	$156,011	$102,351	($1,981,730)	$18,994,865	

Having established the net revenue requirement for each cost causation component, the unit cost-of-service can be calculated for each cost causation component (revenue requirement / units of service = unit cost-of-service). The unit cost-of-service will be used in the development of proposed monthly service charges and variable rates later in the report. Table 3-22 shows the calculation of the unit cost-of-service for each causation component.

Table 3-22: FYE 2025 Cost Causation Components Unit Cost-of-Service

Line	Description	Fixed Cost Customer Service	Fixed Cost Meter Capacity	Fixed Cost Private Fire	Variable Cost GW Supply	Variable Cost Contract Water
1	Revenue Requirement	$4,581,536	$1,895,489	$2,759	$1,232,008	$2,330,000
2	Unit of Measure	Bills	Equivalent Meters	Equivalent Inches	GW Allotment (HCF)	McMillian Well (HCF)
3	Units of Service	175,976	232,662	7,908	2,422,169	**759,077**
4	Unit Cost	$26.04	$8.15	$0.35	$0.51	$3.07
5						
6	Description	Variable Cost Treated Imported	Variable Cost Non-Potable	Variable Cost GW Recharge	Variable Cost Base Demand	Variable Cost Max Day Demand
8	Revenue Requirement	$0	$2,884,188	$2,167,500	$5,418,864	$169,228
9	Unit of Measure	Imported (HCF)	All Non-Potable (HCF)	Recharge Amount (HCF)	HCF	Allocated to Peaking
10	Units of Service	33,777	975,744	3,181,245	4,156,989	
11	Unit Cost	$0.00	$2.96	$0.69	$1.31	
12						
13	Description	Variable Cost Max Hour	Variable Cost Pumping	Variable Cost Revenue Offset	Total Revenue Requirement	
15	Revenue Requirement	$156,011	$102,351	($1,981,730)	$18,994,865	
16	Unit of Measure	Allocated to Peaking	Pumped HCF	Non-Potable Irrigation HCF		
17	Units of Service		218,430	975,744		
18	Unit Cost		$0.47	($2.03)		

(1) The $1,895,489 Meter Capacity revenue requirement is composed of $1,858,829 meter capacity costs and $36,660 public fire protection costs as specified in Table 3-21

Determination of the Fire Service Line Revenue Requirement

The total revenue requirement for the fire cost causation component is $39,420 (see Table 3-21). This revenue requirement must be allocated between fire service lines for which there is a specific proposed rate and public fire hydrant service, which is not recovered by a specific proposed rate. Table 3-23 summarizes the derivation of the allocation percentage for fire service lines. Raftelis calculated the fire service line equivalent units (or connections) and compared them to system-wide fire equivalents. The demand factor for each fire service line size was calculated by using the Hazen-Williams equation, which calculates the total flow capacity of a pipe, given its size (diameter). The diameter for each meter size is raised to the 2.63 power to determine its hydraulic capacity, per the Hazen-Williams equation. The demand factor was then multiplied by the number of connections for each respective size to determine the fire demand equivalents. 16,392 fire equivalent connections were private compared to 208,263 fire hydrants. This resulted in 7.0% being allocated to private fire lines and 93.0% being allocated to public fire hydrants.

Table 3-23: Fire Service Line Revenue Requirement

(A) Hydrants/Lines	(B) Demand Factor (A^2.63)	(C) # of Connections	(D = B x C) Fire Demand Equivalents (1)	(E = D / 224,655) Percent Allocation	(F = E x $39,420) (3) Revenue Requirement
Fire Lines					
4"	38.32	27	1,017		
6"	111.31	33	3,634		
8"	237.21	39	9,196		
10"	426.58	1	436		
12"	689.04	3	2,109		
Subtotal Private Equivalent Connections			16,392	7.0%	$2,759
Public Fire Hydrants (2)	111.31	1,871	208,263	93.0%	$36,660
			224,655	100.0%	$39,420

(1) Rounded up to the nearest equivalent.
(2) Based on historical data, assuming no new fire connections have occurred.
(3) There may be slight differences due to rounding.

Potable Water Rate Structure Tier Allotments

All potable customers in the Hemet/San Jacinto service area are currently charged a $/HCF usage rate based on a 3-tier inclining block rate structure. The $/HCF usage rate increases with each tier. No changes to this rate structure are recommended because it provides a straight-forward connection between available water supplies and water consumption allotments in each tier.

The main source of water supply for the Hemet/San Jacinto water utility is groundwater from the San Jacinto Groundwater Basin, which comes from two sub-basins. The Canyon sub-basin has a total production capacity of 4,546 AF, and the Upper Sub-basin has a total production capacity of 3,727 AF. However, due to water loss, the amount of available groundwater to serve customers is approximately 3,961 AF and 3,265 AF for Canyon and Upper Basins, respectively.

The net amount of available groundwater is apportioned evenly to all accounts for each basin. Doing so resulted in each account receiving a fair share amount of Canyon groundwater equal to 5 HCF per account by billing period. For Upper Basin, each account will receive a fair share amount of groundwater equal to 8 HCF. Therefore, the tiers for all potable customers will account for the amount of available groundwater in the Canyon and Upper Basins for setting the Tier 1 and Tier 2 allotments.

For potable customers, Tier 1 is based on the amount of Canyon Basin groundwater allocated to the number of potable accounts. Through this method, the Tier 1 allotment is 5 HCF and is designed to recover costs associated with delivering Canyon Basin groundwater for all potable accounts. Similar to Tier 1, Tier 2 is based on the amount of Upper Basin groundwater allocated to the number of potable accounts. Through this method, the Tier 2 allotment is 13 HCF and is designed to recover costs associated with delivering Upper Canyon groundwater for all potable accounts. Tier 3 captures any usage above Tier 2, which will be fulfilled through remaining Upper Basin groundwater, contract water supplied by the exchange with McMillan, and the treated imported water supply. The current potable water consumption tiers, which are applicable to all customers, are shown in Table 3-24.

Table 3-24: Potable Water Rate Structure Tier Widths

Consumption Tier	Bi-Monthly Consumption Tier (HCF)	Projected FYE 2025 Billed Usage	% of Total
Tier 1	0 ≤ 5	985,492	31.0%
Tier 2	6.01 ≤ 13	941,969	29.6%
Tier 3	14 and Above	1,253,784	39.4%
		3,181,245	100.0%

Non-Potable Water Rate Structure

Non-potable water customers pay a uniform $/HCF usage rate. Although non-potable water customers are not charged under an inclining tier rate structure, It is important to note that non-potable customers paying their proportionate share of the cost of providing the service based on the demands and associated costs they impose on the non-potable system. Non-potable rates are not subsidized by any increase in rates to other customers.

Potable Water Usage by Consumption Tier

The projected FYE 2025 potable water customer usage by consumption tier is shown in Table 3-24. The current potable water consumption tiers, which are applicable to all customers, are also shown in Table 3-24.

3.2.2.5 Step 5 – Distribute Cost Components to Customer Classes and Tiers

To allocate costs to different customer classes, unit costs of service need to be developed for each cost causation component. The unit costs of service are developed by dividing the total annual costs allocated to each parameter by the total annual service units of the respective component. The annual units of service for each cost component from Table 3-22 are derived below and have been rounded up to the nearest whole penny.

Customer Service Component Unit Cost-of-Service

These costs are incurred at the same level regardless of the type of land use or the total amount of water that the utility delivers; therefore, the Customer Service component is based on the number of bills and does not fluctuate with increases in meter size. The number of bills can be determined by multiplying the number of accounts, 14,665, times the number of billing periods, 12, in a year. The total Customer Service revenue requirement from Table 3-22 of $4,581,536 is divided by the number of bills to determine the unit cost of service shown in Table 3-25.

Table 3-25: Customer Service Component Unit Cost-of-Service

Customer Service Component	Amount
Customer Service Revenue Requirements(1)	$4,581,536
÷ # of Bills (14,053 x 12)	175,976
Monthly Unit Rate(2)	$26.04

(1) Customer Service revenue requirement from Table 3-22

(2) Customer Service rate was rounded up to the nearest penny

Meter Capacity Component Unit Cost-of-Service

The Meter Capacity component includes costs related to a portion of personnel and materials, capital outlay, and the public portion for fire protection (hydrants). Raftelis allocated these cost components based on meter size. To create parity across the various meter sizes, each meter size is assigned a factor relative to a 3/4" meter, which is given a value of 1.0. Larger meters have the potential to demand more capacity or, said differently, exert more peaking characteristics compared to smaller meters. The potential capacity demand (peaking) is proportional to the potential flow through each meter size. For this study, the safe maximum operating capacity by meter type, as identified in the AWWA M1 Manual, Table B-1, was used as a basis for calculating the equivalent meter ratio. As shown in Table 3-26, the safe maximum operating capacity for each meter was divided by the base meters' safe operating capacity (30 gpm) to determine the equivalent meter ratio. The ratios represent the potential flow through each meter size compared to the flow through a 3/4" meter. Multiplying the number of meters by the AWWA Ratio results in the Equivalent Meter Units (EMUs).

Table 3-26: Hemet/San Jacinto Equivalent Meter Units

Meter Size	(A) AWWA Capacity (gpm)	(B) Capacity Ratio (B = A/30 GPM)	(C) Number of Accounts	(D = B x C) Equivalent Meter Units	(E = D x 12)[2] Annual EMUs
3/4" or less	30	30/30 = 1.00	10,890	10,890	130,681
1"	50	50/30 = 1.67	1,517	1,517	18,204
1 1/2"	100	100/30 = 3.33	1,839	3,072	36,860
2"	160	160/30 = 5.33	118	394	4,729
3"	350	350/30 = 11.67	243	1,294	15,529
4"	630	630/30 = 21.00	8	95	1,143
6"	1300	1,300/30 = 43.33	32	664	7,969
8"	2,800	2,800/30 = 93.33	9	398	4,774
10"	4,200	4,200/30 = 140.00	4	381	4,570
12"	5,300	5,300/30 = 176.67	1	143	1,714
16"	7,800	7,800/30 = 260.00		541	6,488
Total			**14,665**	**19,389**	**232,662**

[1]Capacity ratios were rounded to the nearest tenth.

[2]There may be slight differences due to rounding.

Based on these ratios and taking into consideration the number of billing periods, the total annual equivalent meters is 232,662 (see Line 3 of Table 3-22). Table 3-27 shows the Meter Capacity costs and Public Fire Protection costs from Table 3-22 allocated over the total annual equivalent meters.

Table 3-27: Meter Capacity Component – Unit COS

Meter Capacity Component	Amount
Meter Capacity Revenue Requirement	$1,858,829
+ Public Fire Protection Revenue Requirement	$36,660
Total Meter Requirements (1)	$1,895,489
÷ Annual Equivalent Units	232,662
Monthly Unit Rate (2)	$8.15

(1) Meter Capacity + Fire Protection for Public Fire revenue requirement from Table 3-22.

(2) Monthly meter capacity was rounded up to the nearest penny.

Groundwater Supply Component Unit Cost-of-Service

The Groundwater Supply Component is the cost required to pump water from the Canyon and Upper Basins and deliver it to customers. The revenue requirement for each basin was calculated by determining the pumping factor, which is the ratio of pump costs in relation to Upper Basin. Canyon Basin has a pump factor of 0.61, which was calculated by dividing the current pump cost for the Canyon Basin by the current pump cost for Upper Basin ($81/$132 = 0.61). The weighted production for each basin was determined to split the total groundwater revenue requirement for each basin.

The groundwater availability was calculated by determining the ratio for each basin production over total production and multiplying it by the total annual usage of all potable customers. The resulting calculation was then divided by .8713 to reflect 12.87% water loss for the system (1 - .1287 = .8713). Lastly, the unit rate for groundwater was calculated by dividing each revenue requirement by the amount of available groundwater for each basin. Table 3-28 summarizes the determination of the unit rates for the Groundwater Supply Component.

Table 3-28: Groundwater Supply Component – Unit COS

Groundwater Supply	(A) Total Production	(B) Pumping Factor	(C = A x B) Weighted Production	(D = C/ 6,519.89) Weighted %	(E = D * $1,232,008) GW Revenue Requirement	(F) GW Availability (AF)	(G) Unit Cost-of-Service[1] ($/HCF)
Canyon Basin	4,546	61.0%	2,773.15	43%	$524,018	3,961	$0.31
Upper Basin	3,747	100.0%	3,746.74	57%	$707,990	3,265	$0.50
Total	8,293		6,519.89	100%	$1,232,008		

[1]Rates were rounded to the nearest penny.

Contract Water Component Unit Cost-of-Service

The service area incurs purchased water costs at a uniform rate for contract customers; therefore, the Contract Water cost is based on the remaining total units of water required to serve customers that exceed Upper Canyon availability. $2,330,000 was divided by the imported contract water purchased, equal to 759,077 HCF, for a unit rate of $3.07 per HCF. Table 3-29 summarizes the determination of the unit rate for the Contract Water Component.

Table 3-29: Contract Water Component – Unit COS

Contract Water Component	Amount
Revenue Requirement	$2,330,000
Contract Supply (HCF)	759,077
Unit Rate (1)	$3.07

(1) Contract water rate was rounded to the nearest penny.

Non-Potable Imported Supply Unit Cost-of-Service

The service area also incurs purchased non-potable water costs at a uniform rate for non-potable customers; therefore, the Non-Potable Imported Supply is based on the total units of non-potable water to serve customers. The revenue requirement of $2,884,188 was divided by the total non-potable usage of 975,744 HCF to develop a rate of $2.96 per HCF for all non-potable customers. Table 3-30 summarizes the determination of the unit rate for the Non-Potable Imported Supply Component.

Table 3-30: Non-Potable Imported Supply Component – Unit COS

Non-Potable Imported Supply Component	Amount
Revenue Requirement	$2,884,188
Non-Potable Water Sales (HCF)	975,744
Unit Rate (1)	$2.96

(1) Unit rate was rounded to the nearest penny.

Groundwater Recharge Component

The Groundwater Recharge Components were first allocated between potable customers and non-potable customers through the Specific Allocation, 84% and 16%, respectively. The cost of groundwater recharge to potable customers, equal to $2,167,500, was divided by the total potable water sales of 3,181,245 HCF from Table 3-22. Because groundwater recharge generates water reliability to all potable customers and potential access to additional groundwater availability, all units of potable water are charged the cost associated with the proportional cost of groundwater recharge specifically allocated to potable customers. Table 3-31 summarizes the calculation of the unit rate for the Groundwater Recharge Component.

Table 3-31: Groundwater Recharge Component – UCOS

Groundwater Recharge Component	Amount
Revenue Requirement	$2,167,500
Recharge Supply (HCF)	3,181,245
Unit Rate (1)	$0.69

(1) unit rate was rounded to the nearest penny.

Base/Delivery Component – Unit Cost-of-Service

Delivery Costs are operating and capital costs associated with delivering water to all customers at a constant average rate of use (i.e., base demand). Therefore, delivery costs are spread over all units of water, irrespective of customer class or tiers, to calculate a uniform rate. Table 3-32 summarizes the determination of the unit rate for the Base/Delivery Component (see also Table 3-22).

Table 3-32: Base/Delivery Component – Unit COS

Base/Delivery Component	Amount
Revenue Requirement	$5,418,864
All Units of Water (HCF)	4,156,989
Unit Rate (1)	$1.37

(1) Base rate was rounded to the nearest penny.

Peaking Component – Unit Cost-of-Service

Extra Capacity Costs represent those costs incurred to meet customer peak demands for water in excess of average day usage. Total peaking costs are subdivided into costs associated with maximum day and maximum hour demands. The maximum day demand is the maximum amount of water used in a single day in a year. The maximum hour (Max Hour) demand is the maximum usage in an hour on the maximum usage day (Max Day). Various facilities are designed to meet customer peaking needs. For example, reservoirs are designed to meet Max Day requirements and must be designed larger than they would be if the same amount of water were being used at a constant rate throughout the year. The cost associated with constructing a reservoir is based on system wide peaking factors. For example, if the Max Day factor is 2.0, then certain system facilities must be designed larger than what would be required if the system only needed to accommodate average daily demand. In this case, half of the cost would be allocated to Base (or average day demand) and the other half allocated to Max Day. The calculation of the Max Hour and Max Day demands is explained below.

As noted previously, the Hemet/San Jacinto potable water usage rates are charged under a three-tier rate structure that applies to all customers (i.e., systemwide potable water rates). To determine how peaking costs should be allocated each tier, Raftelis first calculated the maximum day peaking factors for various land use types as well as a weighted peaking factor and a revenue requirement allocation. This is shown in Lines 3 – 23 of Table 3-33. That data was then used to develop the peaking costs that can be recovered from rates based on the Hemet/San Jacinto systemwide coincidental peaking factor of 1.42 as shown in Table 3-17.

The total peaking component revenue requirement of $325,239 was determined by adding the maximum day revenue requirement of $169,228, and the maximum hour revenue requirement of $156,011. These values are show in Table 3-22. Of this amount peaking costs of $320,898 can be recovered through rates as shown in Line 1 of Table 3-33. The difference of $4,341 ($325,239 - $320,898) reflects the fact that the ***total***

system coincidental weighted peaking factor of 4,517,368 (Line 1 of Table 3-33), as calculated using a maximum day peaking factor of 1.42, is less than the sum of the weighted peaking factors for different land use types based on their unique non-coincident maximum day peaking factors. This value is 4,578,473 as shown on Line 23 of Table 3-33.

Table 3-33: Hemet/San Jacinto Total System Peaking Revenue Requirement

Line	Land Use Types	(A) Projected Usage (ccf)	(B) Max Day Peaking Factor	(C = A x B) Weighted Peaking Factor	(D) % Allocation (4,517,368/ 4,578,373	(E) Revenue Requirements
1	Hemet / San Jacinto Total System	3,181,245	1.42	4,517,368	98.7%	$320,898
2						
3	Single Residential	2,406,270	1.45	3,489,092	76.206%	$247,853
4	Multiple Residential	275,807	1.19	328,210	7.169%	$23,315
5	Single Residential - EMWD (Trade)	3,633	1.45	5,268	0.115%	$374
6	Single Residential - City of Hemet (Trade)	9,815	1.45	14,232	0.311%	$1,011
7	Multiple Residential - City of Hemet (Trade)	5,813	1.19	6,917	0.151%	$491
8	Miscellaneous Commercial	89,480	1.38	123,483	2.697%	$8,772
9	Schools	92,160	1.95	179,711	3.925%	$12,766
10	Churches	35,276	1.38	48,681	1.063%	$3,458
11	Restaurants	12,279	1.18	14,489	0.316%	$1,029
12	Government	4,144	1.39	5,760	0.126%	$409
13	Motels	4,019	1.69	6,792	0.148%	$482
14	Parks	39,644	1.85	73,342	1.602%	$5,210
15	Industrial	222	1.96	436	0.010%	$31
16	Mobile Home Parks	97,014	1.30	126,118	2.755%	$8,959
17	Car Washes	6,643	1.30	8,636	0.189%	$613
18	Laundromats (ccf)	6,003	1.15	6,903	0.151%	$490
19	Miscellaneous Commercial - EMWD (Trade)	475	1.38	655	0.014%	$47
20	Landscape Irrigation (ccf)	62,968	1.51	95,082	2.077%	$6,754
21	Landscape Irrigation - City of Hemet (Trade)	8,400	1.51	12,685	0.277%	$901
22	IR3CF	21,180	1.51	31,982	0.699%	$2,272
23	Total of Land Use Types	3,181,245		4,578,473		$325,239

Table 3-34 shows the allocation of peaking costs to each tier and the associated unit cost-of-service.

Table 3-34: Peaking Component – Unit COS

Customer Class	(A) Projected Usage (HCF)	(B) Peaking Factor	(C = A x B) Weighted Peaking Factor	(D = A / 5, 500,532) % Allocation	(E = D X $320,898) Revenue Requirement	(F = E/A) Unit Rate
Tier 1	985,492	1.00	985,492	20%	$63,242	$0.06
Tier 2	941,969	1.17	1,101,747	22%	$70,702	$0.08
Tier 3	1,253,784	2.32	2,913,293	58%	$186,954	$0.15
Subtotal	3,181,245		5,000,532	100%	$320,898	

Revenue Offset Component – Unit Cost-of-Service

The revenue offset component is derived based on the total amount of revenue that could be used to reduce the proposed cost of potable Tier 3 water and imported non-potable water. The maximum offset that can be used is ($1,981,730). Table 3-35 details the revenue offset component see also Table 3-22.

Table 3-35: Revenue Offset Component – Unit COS

Groundwater Recharge Component	Amount
Revenue Offset	($1,981,730)
Non-Potable	975,744
Unit Rate[1]	($2.03)

[1]Revenue offset rate was rounded to the nearest penny.

Fire Service Line Component

The fire service line component is allocated to fire service lines based on their diameter in inches. Table 3-36 shows the calculation of the fire service line $/inch unit cost-of-service.

Table 3-36: Fire Service Line Component – Unit COS

Fire Line Component	Amount
Revenue Requirement	$2,759
Annual Equivalent Units (Inches)	7,908
Monthly Unit Rate	$0.35

Power Zone Pumping Charge Component

The power zone pumping component revenue requirement was allocated to pumping zones based on the actual costs of pumping in each zone. District staff provided Raftelis with pumping costs per zone and those costs were used to determine the updated power zone pumping charges. As shown in Table 3-22, the total pumping revenue requirement is $102,351. The amount of revenue required from each pumping zone was calculated by multiplying the cost of pumping ($ per HCF) by the amount of usage per zone, as shown in Table 3-37 to arrive at the unit cost-of-service shown in Column D of Table 3-26.

Table 3-37: Power Zone Pumping Charge – Unit COS

Lift Zone	(A) Pumping Rate ($/HCF)[1]	(B) Usage (HCF)	(C = A x B) Revenue	(D = C x $102,351) % of Total Revenue
1000 + 1101	$0.46	27,149	$12,369	12.1%
1100	$0.43	1,460	$627	0.6%
1200 + 1201	$0.37	28,492	$10,620	10.4%
1300 + 1301	$0.13	72,477	$9,609	9.4%
1400	$0.56	22,783	$12,795	12.5%
1500	$1.00	53,690	$53,820	52.6%
1600	$0.20	12,379	$2,511	2.5%
Total		218,430	$102,351	100.0%

[1]Proposed rates were based on the actual cost of pumping per zone provided by the district.

3.2.3 Proposed FYE 2025 Potable Water Rates

3.2.3.1 Proposed Monthly Service Charges

Table 3-38 summarizes the proposed FYE 2025 monthly service charges. The charges are based on the unit cost-of-service rates developed in Section 3.2.2 (The Cost-of-Service Process) and the meter capacity ratios shown in Column B of Table 3-38. The customer service cost component of the monthly service charges (Column C) does not vary based on meter size or potential water usage. The meter capacity cost component of the monthly fixed charges increases as the size of the meter increases (Columns A and B). Specifically, the meter capacity cost component is determined by multiplying the unit costs of $7.79 (Line 1, Column B) by the appropriate capacity ratio (Column A).

Table 3-38: FYE 2025 Proposed Meter Service Charge ($/Month)

Line	Meter Size	(A) Capacity Ratio	(B = A x $7.79) Meter Capacity	(C) Customer Service	(D) Proposed Service Charge	(E) Current Service Charge
1	5/8"	1.00	$8.31	$26.04	$34.35	$34.34
2	3/4"	1.00	$8.31	$26.04	$34.35	$34.34
3	1"	1.67	$13.88	$26.04	$39.92	$39.53
4	1 1/2"	3.33	$27.68	$26.04	$53.72	$52.41
5	2"	5.33	$44.30	$26.04	$70.34	$67.94
6	3"	11.67	$96.98	$26.04	$123.02	$117.15
7	4"	21.00	$174.51	$26.04	$200.55	$189.56
8	6"	43.33	$360.08	$26.04	$386.12	$362.86
9	8"	93.33	$775.58	$26.04	$801.62	$745.81
10	10"	140.00	$1,163.40	$26.04	$1,189.44	$1,113.10
11	12"	176.67	$1,468.13	$26.04	$1,494.17	$1,397.67
12	16"	260.00	$2,160.60	$26.04	$2,186.64	$2,044.37

3.2.3.2 Proposed 2025 Usage Rates

Table 3-39 details the derivation of the proposed potable water usage rates for Tier 1, Tier 2, and Tier 3. The components of the variable rate are added together to produce rates for each customer class and tier. Potable customers in Tiers 1 and 2 are not charged with the imported supply rate as their usage is made up by groundwater allotment. Tier 3 is a blended rate of groundwater and imported water supply.

Table 3-39: Calculation of Proposed FYE 2025 Usage Rates ($/HCF)

Customer Class/Tier	Tier (HCF)	Projected Usage	GW Supply	Contract Water (Imported Supply)	Treated Imported Water	GW Recharge	Non-Potable Imported Supply	Base	Peaking	Revenue Offset	Proposed Usage Rate (HCF)
Tier 1	0-5 HCF	985,492	$0.31			$0.69		$1.31	$0.06		$2.38
Tier 2	5.01-13 HCF	941,969	$0.50			$0.69		$1.31	$0.08		$2.58
Tier 3[1]	> 13	1,253,784	$0.50	$3.07	$1.10	$0.69		$1.31	$0.15	($0.05)	$4.09
Non-Potable	Uniform	975,744					$2.96	$1.31		($1.98)	$2.29

[1]Tier 3 is blended rate of groundwater and imported contract water, where Tier 3 demand is supplied 39.98% by groundwater water from Upper Canyon, 57.33% is supplied by contract water, and 2.69% is supplied by treated imported water from EMWD.

A summary comparison of existing and proposed FYE 2025 usage rates is shown in Table 3-40. The increase in the Tier 3 potable water rates reflects an increase in the Tier 3 peaking factor to 2.32 (see Table 3-24) as compared to the value of 1.75 used in the previous cost-of-service study completed by the District.

Table 3-40: Proposed FYE 2025 Usage Rates ($/HCF)

Customer Class/Tier	Tier (HCF)	Projected Usage	Existing Usage Rate ($/HCF)	Proposed Usage Rate ($/HCF)
Tier 1	0-5 HCF	985,492	$2.39	$2.38
Tier 2	5.01-13 HCF	941,969	$2.61	$2.58
Tier 3[1]	> 13	1,253,784	$3.93	$4.09
Non-Potable	All Usage	975,744	$2.50	$2.29

3.2.3.3 Proposed 2025 Fire Service Line Charges

Table 3-41 details the derivation of the proposed FYE 2025 fire service line charges.

Table 3-41: Proposed FYE 2025 Fire Service Line Charges

(A) Connection Size (Inches)	(B) Unit COS per Inch	(C = A x B) Proposed Fire Line Charge	Current Fireline Charge
4"	$0.35	$1.40	$1.40
6"	$0.35	$2.10	$2.10
8"	$0.35	$2.80	$2.79
10"	$0.35	$3.50	$3.49
12"	$0.35	$4.20	$4.19

3.2.3.4 Proposed Power Lift Zone Charges

Table 3-42 shows the proposed power lift zone charges as originally calculated in Table 3-37.

Table 3-42: Proposed FYE 2025 Power Lift Zone Charges

Lift Zone	Proposed Rate ($/HCF)[1]	Current Rates ($/HCF)
1000 + 1101	$0.46	$0.48
1100	$0.43	$0.36
1200 + 1201	$0.37	$0.31
1300 + 1301	$0.13	$0.12
1400	$0.56	$0.20
1500	$1.00	$0.61
1600	$0.20	$0.07

[1]Proposed rates were based on actual cost of pumping per zone provided by the district.

3.2.4 Proposed FYE 2025 Water Rates – Customers Receiving Water Supplies from EMWD

Beginning in FYE 2025, a limited number of customers in new subdivision in the Hemet/San Jacinto Valley will begin receiving potable water supplies solely from the EMWD. This requires the creation of an entirely new potable water usage rate that reflects EMWD's role as the sole water supplier. Table 3-43 shows the derivation of the usage rates. The final rates are shown on Line 11. Table 3-44 shows the proposed monthly service charges which are the same as those calculated for other Hemet/San Jacinto water utility potable water customers. The monthly service charges will not change throughout the FYE 2025 – FYE 2029 planning horizon.

Table 3-43: Proposed FYE 2025 Usage Rates – (Supplies from EMWD)

Line	Costs Allocated to the Subdivision Supplied by EMWD	FYE 2025
1	Total Revenue Requirement	$465,560
2		
3	Fixed Revenue Recovery	
4	Number of 3/4" Meters	300
5	Monthly Meter Charge	$39.92
6	Annual Monthly Meter Charge Revenue	$143,712
7		
8	Projected Usage Rate	
9	Net Usage Revenue Requirement	$321,848
10	Projected Billed Consumption (HCF)	53,116.8
11	$/HCF Before FYE 2026 2.5% CPI Adjustment	$6.06

Table 3-44: Proposed FYE 2025 Monthly Service Charges (Supplies from EMWD)

Meter Size	Current Monthly Service Charge	FYE 2025 Proposed Monthly Service Charge
3/4" or less	N/A	$34.35
1"	N/A	$39.92
1 1/2"	N/A	$53.72
2"	N/A	$70.34
3"	N/A	$123.02
4"	N/A	$200.55
6"	N/A	$386.12
8"	N/A	$801.62
10"	N/A	$1,189.44
12”	N/A	$1,494.17
16”	N/A	$2,186.64

3.2.1 Summary of Proposed Hemet/San Jacinto FYE 2026 Potable Water Rates after 2.5% CPI Adjustment

Table 3-45: Proposed FYE 2026 Hemet/San Jacinto Valley Water Utility Monthly Service Charges

Line	Meter Size	Current Monthly Service Charges	Calculated FYE 2025 Monthly Service Charges	Proposed FYE 2026 Monthly Service Charges After 2.5% CPI Adjustment
1	5/8"	$34.34	$34.35	$35.21
2	3/4"	$34.34	$34.35	$35.21
3	1"	$39.53	$39.92	$40.92
4	1 1/2"	$52.41	$53.72	$55.06
5	2"	$67.94	$70.34	$72.10
6	3"	$117.15	$123.02	$126.10
7	4"	$189.56	$200.55	$205.56
8	6"	$362.86	$386.12	$395.77
9	8"	$745.81	$801.62	$821.66
10	10”	$1,113.10	$1,189.44	$1,219.18
11	12”	$1,397.67	$1,494.17	$1,531.52
12	16”	$2,044.37	$2,186.64	$2,241.31

Table 3-46: Proposed FYE 2026 Hemet/San Jacinto Valley Water Utility Usage Rates

Line	Water Service	Current Usage Rates ($/HCF)	Calculated FYE 2025 Usage Rates ($/HCF)	Proposed FYE 2026 Usage Rates After 2.5% CPI Adjustment ($/HCF)
1	Potable Tier 1	$2.39	$2.38	$2.44
2	Potable Tier 2	$2.61	$2.58	$2.64
3	Potable Tier 3	$3.93	$4.09	$4.19
4	Non-Potable	$2.50	$2.29	$2.35

Table 3-47: Proposed FY 2026 Hemet/San Jacinto Valley Water Utility Power Lift Pumping Charges

Line	Elevation Zone	Current Power Lift Charges ($/HCF)	Calculated FYE 2025 Power Lift Charges ($/HCF)	Proposed FYE 2026 Power Lift Charges After 2.5% CPI Adjustment ($/HCF)
1	1000 + 1101	$0.48	$0.46	$0.47
2	1100	$0.36	$0.43	$0.44
3	1200 + 1201	$0.31	$0.37	$0.38
4	1300 + 1301	$0.12	$0.13	$0.14
5	1400	$0.20	$0.56	$0.58
6	1500	$0.61	$1.00	$1.03
7	1600	$0.07	$0.20	$0.21

Table 3-48: Proposed FY 2026 Hemet/San Jacinto Valley Water Utility Fire Service Line Charges

Line	Size (Inches)	Current Monthly Fire Service Line Charges	Calculated FYE 2025 Monthly Fire Service Line Charges	Proposed FYE 2026 Monthly Fire Line Service Charges After 2.5% CPI Adjustment
1	4"	$1.40	$1.40	$1.44
2	6"	$2.10	$2.10	$2.15
3	8"	$2.79	$2.80	$2.87
4	10"	$3.49	$3.50	$3.59
5	12"	$4.19	$4.20	$4.31

3.2.1 Summary of Proposed FYE 2026 Potable Water Rates for Customers Receiving Water Supplies from EMWD after 2.5% CPI Adjustment

Table 3-49: Proposed FYE 2025 Usage Rates – (Supplies from EMWD

Consumption Tier	Current Usage Rate ($/HCF)	Calculated FYE 2025 Usage Rates ($/HCF)	Proposed FYE 2026 Usage Rates After 2.5% CPI Adjustment ($/HCF)
All Usage	N/A	$6.06	$6.21

Table 3-50: Proposed FYE 2026 Monthly Service Charges (Supplies from EMWD)

Meter Size	Current Monthly Service Charge	FYE 2025 Proposed Monthly Service Charge	Proposed FYE 2026 Monthly Service Charges After 2.5% CPI Adjustment
3/4" or less	N/A	$34.35	$35.21
1"	N/A	$39.92	$35.21
1 1/2"	N/A	$53.72	$40.92
2"	N/A	$70.34	$55.06
3"	N/A	$123.02	$72.10
4"	N/A	$200.55	$126.10
6"	N/A	$386.12	$205.56
8"	N/A	$801.62	$395.77
10"	N/A	$1,189.44	$821.66
12”	N/A	$1,494.17	$1,219.18
16”	N/A	$2,186.64	$1,531.52

4. GARNER VALLEY COST-OF-SERVICE STUDY

If GVWU's capital expenditures are equivalent to 67% (2/3) of annual depreciation expenses, the revenues earned from current water rates (i.e., if water rates remain and do not change) are projected to be adequate to meet the utility's needs during FYE 2025 - FYE 2029. Therefore, as shown in Table 4-1, no rate increases are recommended, assuming that the District implements annual Consumer Price Index Adjustments (CPI) as required. However, a 2.5% CPI adjustment will be implemented for FYE 2026.

Table 4-1: GVWU Projected Rate Revenue Percentage Increases

Description	FYE 2025	FYE 2026	FYE 2027	FYE 2028	FYE 2029
Rate Revenue Increase	0.0%	0.0%	0.0%	0.0%	0.0%
CPI Adjustment		2.5%	To Be Determined		

4.1 GARNER VALLEY WATER UTILITY FINANCIAL PLAN

This section describes the development of the Garner Valley water utility financial plan, the results of which were used to determine the revenue adjustments needed to meet ongoing expenses and provide fiscal sustainability to the District. As noted above in Table 4-1, no water rate increases are projected to be required for the Garner Valley water utility during the period FYE 2025 – FYE 2029.

4.1.1 Projected Customer Accounts and Billed Consumption

Table 4-1 shows the projected Garner Valley accounts and billed water consumption for the period FYE 2025 – FYE 2029.

Table 4-1: Projected Accounts and Billed Consumption

Line	Accounts by Meter Size	FYE 2024	FYE 2025	FYE 2026	FYE 2027	FYE 2028	FYE 2029
1	5/8"	3	3	3	3	3	3
2	3/4"	5	5	5	5	5	5
3	1"	245	245	245	245	245	245
4	1 1/2"	1	1	1	1	1	1
5	2"	1	1	1	1	1	1
6	3"	0	0	0	0	0	0
7	4"	1	1	1	1	1	1
8	Total Accounts	256	256	256	256	256	256
9							
10	**Projected Billed Consumption (HCF)**	**FYE 2024**	**FYE 2025**	**FYE 2026**	**FYE 2027**	**FYE 2028**	**FYE 2029**
12	All Usage	81,363	81,363	81,363	81,363	81,363	81,363

4.1.2 Projected Revenues at Existing Rates

The current water rate structure consists of two components:

- Bi-monthly Water Service Charge based on meter size. (Table 4-2 summarizes the projected revenue).
- Water usage rates billed on a $/HCF basis. (Table 4-3 summarizes the projected District usage revenue).

Table 4-2: Projected Bi-Monthly Service Charge Revenue

Meter Size	(A) # of Meters	(B) Current Bi-Monthly Water Service Charges	(C = A x B x 6 Bills) Projected Annual Water Service Charge Revenue
5/8"	3	$64.80	$1,166
3/4"	5	$64.80	$1,944
1"	245	$74.92	$110,132
1 1/2"	1	$98.94	$594
2"	1	$128.25	$770
3"	0	$221.14	$0
4"	1	$357.82	$2,147

Table 4-3: Projected Usage Charge Revenue

Customer Classes	Consumption Tier	(A) Projected Annual Usage (HCF)	(B) Current Water Usage Charge ($/HCF)	(C = A x B) Projected Annual Usage Charge Revenue
All Customers	All Usage	81,363	$4.33	$352,302

Table 4-4 summarizes projected Garner Valley water utility revenues under existing rates (i.e., current rates) for the period FYE 2025 – FYE 2029. As shown in the table, since Raftelis assumed zero growth and no increase in water demand, the rate revenue remained constant during the Study Period. The projected water sales by customer class and tier remained constant and was based on the total FYE 2023 usage.

Table 4-4: Projected Revenues Under Existing Rates

Revenue Source	FYE 2024	FYE 2025	FYE 2026	FYE 2027	FYE 2028	FYE 2029
Fixed Revenue	$116,753	$116,753	$116,753	$116,753	$116,753	$116,753
Variable Revenue	$352,302	$352,302	$352,302	$352,302	$352,302	$352,302
Subtotal Rate Revenue	$469,055	$469,055	$469,055	$469,055	$469,055	$469,055
Other Revenues	$240,275	$244,575	$248,975	$253,475	$253,475	$240,275
Total Revenues	$709,330	$713,630	$718,030	$722,530	$722,530	$722,530

4.1.3 Operating Expenses

The projected operating expenses for Garner Valley are shown in Table 4-5. The values shown for FYE 2025–FYE 2028 were provided by District staff. A detail of the inflation factors used to develop the expenses shown in Table 3-7, are shown in Table 3-8 as part of the Hemet/San Jacinto water utility discussion.

Table 4-5: Projected Operating Expenses

Line	Operating Expenses	FYE 2024	FYE 2025	FYE 2026	FYE 2027	FYE 2028	FY 2029
1	Power Purchased	$58,000	$63,800	$70,200	$77,300	$85,100	$89,355
2	Operating Expenses	$280,500	$278,300	$290,300	$303,100	$316,400	$330,459
3	Non-Operating Expenses	$20,500	$21,600	$22,700	$23,900	$25,100	$25,100
4	Existing Debt	$126,125	$122,500	$83,875	$125,000	$124,875	$124,500
5	Accumulated Deficit Repayment	$101,971	$101,971	$101,971	$101,971	$101,971	$101,971
6	Total Operating Expenses	$587,096	$588,171	$569,046	$631,271	$653,446	$671,385

4.1.4 Capital Improvement Plan

Based on discussions with District staff, the capital improvement expenditures required to address Garner Valley's needs is equivalent to 67% (2/3) of the annual depreciation expenses for Garner Valley's utility assets. Raftelis indexed the capital expenditures by a 5.5% annual inflationary assumption to account for

increased construction costs in future years. Table 4-6 summarizes the annual CIP expenditures (Line 1), the cumulative inflationary factor (Line 2), and the resulting total anticipated CIP costs (Line 3).

Table 4-6: Projected Capital Improvement Plan[3]

Line	Description	FYE 2024	FYE 2025	FYE 2026	FYE 2022	FYE 2028	FYE 2029
1	67% (2/3) of Depreciation Value	$293,800	$92,000	$92,000	$92,000	$92,000	$92,000
2	Cumulative Inflationary Factor	105.5%	111.3%	117.4%	123.9%	130.7%	134.6%
3	Inflated CIP Used in Financial Plan	$309,959	$102,398	$108,030	$113,972	$120,240	$126,854

4.1.5 Financial Plan

Table 4-7 shows the Garner Valley water utility financial plan for the period FYE 2025- FYE 2029. The total FYE 2025 revenue requirement from rates is $469,055 as shown in Line 4. This is the amount that must be collected from ratepayers and is also referred to as the cost-of-service. It is important to note that the rate revenues shown in Line 4 of Table 4-7 does not reflect potential rate increases associated with annual CPI inflationary adjustments that the District's Board of Directors is authorized to approve as described in the District's Proposition 218 notice. The value for Net Operating Cash Flow shown in Line 16 of Table 4-7 reflects the difference between Total Revenues (Line 6) and Total Operating Expenses shown in Line 14. The Net Operating Cash Flow shown in Line 16 is used to pay for capital improvement expenditures and maintain District cash reserve balances. An alternative presentation of the derivation of the $469,055 revenue requirement (cost-of-service) is shown in Lines 18 – 24 of Table 4-7.

Table 4-7: Projected Financial Plan

Line	Item	Estimated FYE 2024	Projected				
			FYE 2025	FYE 2026	FYE 2027	FYE 2028	FYE 2029
1	Annual % Rate Increase/(Decrease)	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
2							
3	Revenue						
4	Rate Revenue/Revenue Requirement	$469,055	$469,055	$469,055	$469,055	$469,055	$469,055
5	Other Revenues	$240,800	$240,275	$244,575	$248,975	$253,475	$253,475
6	Total Revenues	$709,855	$709,330	$713,630	$718,030	$722,530	$722,530
7							
8	Operating Expenses						
9	Power Purchased	$58,000	$63,800	$70,200	$77,300	$85,100	$89,355
10	Operating Expenses	$280,500	$278,300	$290,300	$303,100	$316,400	$330,459
11	Non-Operating Expenses	$20,500	$21,600	$22,700	$23,900	$25,100	$25,100
12	Existing Debt	$126,125	$122,500	$83,875	$125,000	$124,875	$124,500
13	Accumulated Deficit Repayment	$101,971	$101,971	$101,971	$101,971	$101,971	$101,971
14	Total Operating Expenses	$587,096	$588,171	$569,046	$631,271	$653,446	$671,385
15							
16	Net Operating Cash Flow	$122,759	$121,159	$144,584	$86,759	$69,084	$51,145
17							
18	Alternative Presentation of Rate Revenue/Revenue Requirement (Line 4)						
19	Operating Expenses (Line 14)	$587,096	$588,171	$569,046	$631,271	$653,446	$671,385
20	Net Operating Cash Flow (Line 16)	$122,759	$121,159	$144,584	$86,759	$69,084	$51,145
21	Gross Revenue Requirement	$709,855	$709,330	$713,630	$718,030	$722,530	$722,530
22							
23	Less: Other Revenues (Line 5)	$240,800	$240,275	$244,575	$248,975	$253,475	$253,475
24	Rate Revenues/Revenue Requirement (Line 4)	$469,055	$469,055	$469,055	$469,055	$469,055	$469,055

[3] There may be slight differences due to rounding.

Figure 4-1 shows the components of the Garner Valley water utility financial plan for FYE 2025 – FYE 2029. It is important to note that the black total revenue line shown in Figure 4-1 does not reflect potential rate increases associated with annual CPI inflationary adjustments that the District's Board of Directors is authorized to approve as described in the District's Proposition 218 notice.

Figure 4-1: Financial Plan Summary

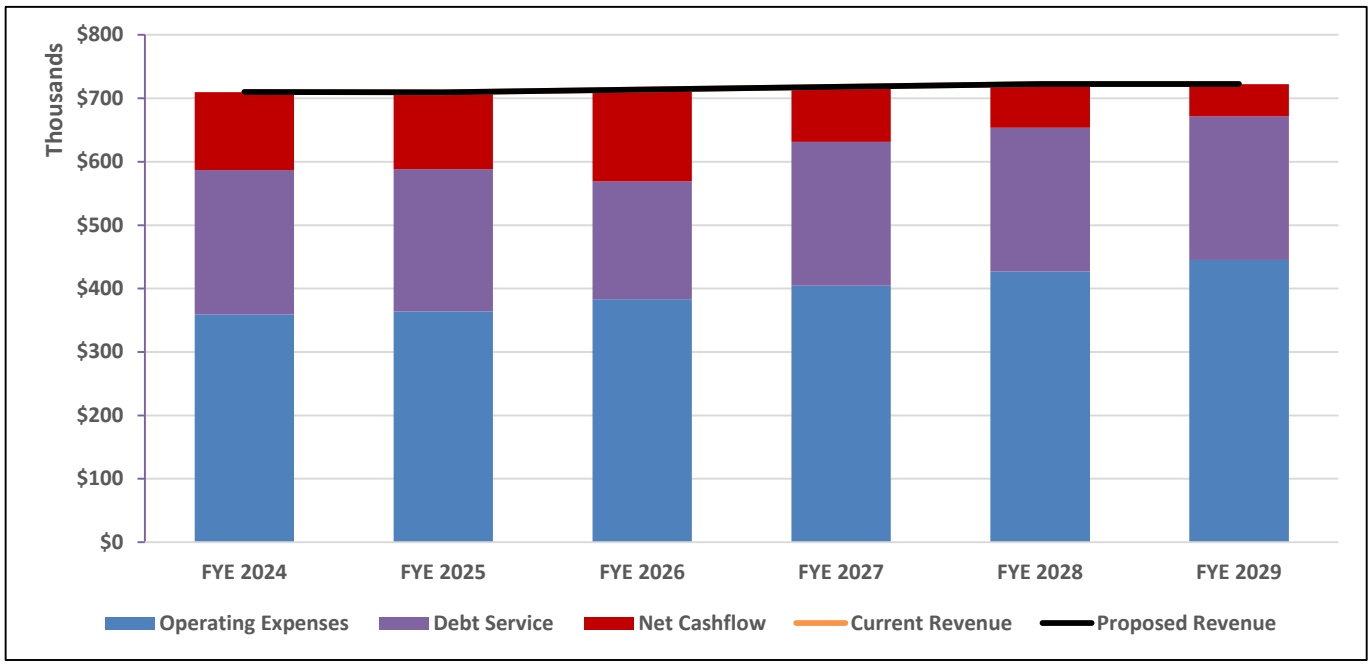


Table 4-8 summarizes the projected Garner Valley water utility cash reserves for FYE 2025 – FYE 2029. The annual amounts shown in Table 4-8 are net of the capital expenditures described in Table 4-6. It is important to note that the ending cash reserve balances shown in Table 4-8 do not reflect potential rate increases associated with annual CPI inflationary adjustments that the District's Board of Directors is authorized to approve as described in the District's Proposition 218 notice.

Table 4-8: Projected Cash Reserves

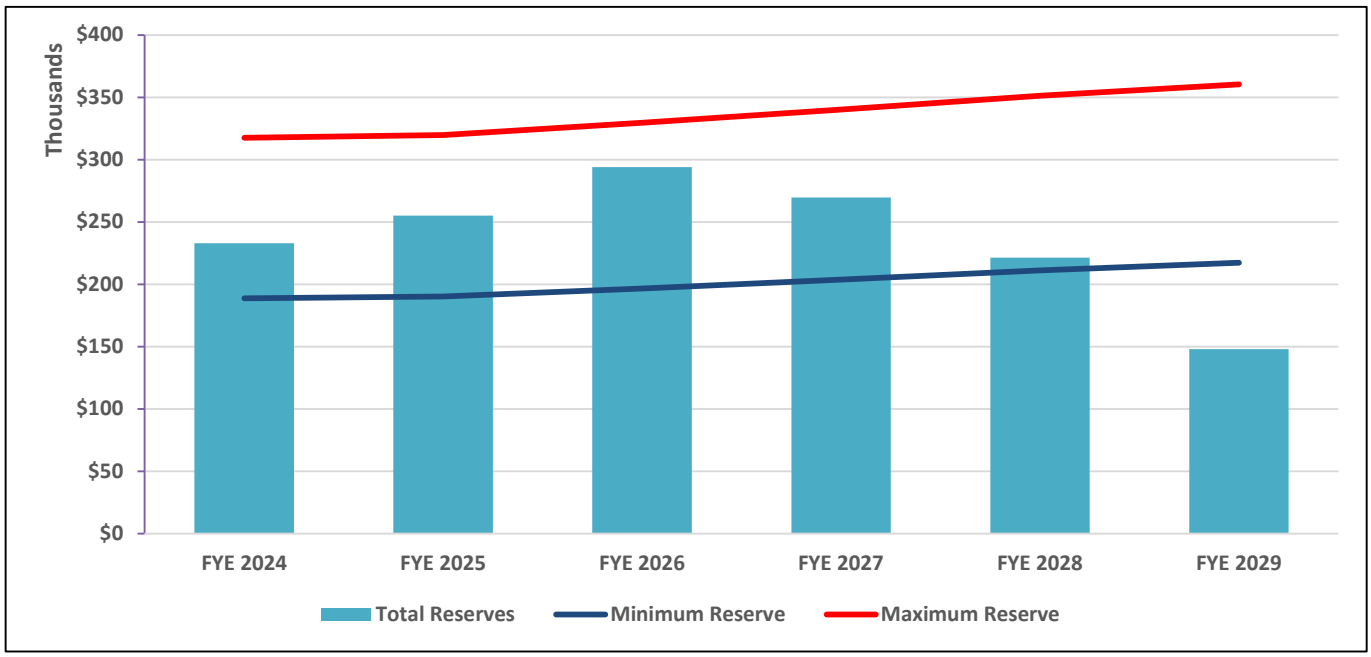
Line	Ending Cash Reserves	Estimated FYE 2024	Projected				
			FYE 2025	FYE 2026	FYE 2027	FYE 2028	FYE 2029
1	Ending Reserves	$233,013	$255,039	$294,049	$269,594	$221,269	$148,029
2	Minimum Reserve Target (1)	$190,233	$196,733	$203,767	$211,200	$217,305	$190,233
3	Variance from Minimum Target	$44,346	$67,262	$100,074	$68,659	$12,537	($67,417)
4							
5	Maximum Reserve Target (2)	$317,500	$319,850	$329,600	$340,150	$351,300	$360,457
6	Variance from Maximum Target	($84,487)	($62,354)	($32,793)	($67,724)	($127,563)	($210,569)

(1) Components of Minimum Reserve Target:
Operating Reserve: 120 Days of Annual Operating Expenses (excluding debt service)
Capital Improvement Reserve: 50% of Annual Depreciation Expense

(2) Components of Maximum Reserve Target:
Operating Reserve: 180 Days of Annual Operating Expenses (excluding debt service)
Capital Improvement Reserve: 100% of Annual Depreciation Expense

Figure 4-2 shows projected Garner Valley water utility cash reserves for FYE 2025 – FYE 2029. It is important to note that the ending cash reserve balances shown in Figure 4-2 do not reflect potential rate increases associated with annual CPI inflationary adjustments that the District's Board of Directors is authorized to approve as described in the District's Proposition 218 notice.

Figure 4-2: Projected Cash Reserves



4.1.1 Garner Valley Water Utility – Cost of Service Analysis

4.1.1.1 Revenue Requirement Determination

Table 4-10 shows a detail of the Garner Valley water utility FYE 2025 revenue requirement after the allocation of costs. This matches the total FYE 2025 rate revenue shown in Lines 4 and 24 of Table 4-7 (Projected Financial Plan).

Table 4-9: FYE 2025 Revenue Requirement After Cost Allocations

Line	Revenue Requirement Components (Costs)	(A) Specific	(B) Operating	(C) Capital	(D) Total
1	Power Purchased	$63,800			$63,800
2	Operating Supplies & Exp.		$21,000		$21,000
3	Repairs to Buildings & Grounds		$5,000		$5,000
4	Rep to Ground Source, Well Facility		$10,000		$10,000
5	Repair to Pumping Equip.		$57,800		$57,800
6	Purification		$21,000		$21,000
7	Repair to Tanks		$5,000		$5,000
8	Repair to Pipelines		$6,500		$6,500
9	Repair to Services		$1,000		$1,000
10	Repair to Fire Hydrants		$1,000		$1,000
11	Meter Reading		$1,000		$1,000
12	Engineering		$500		$500
13	Legal Fees		$1,500		$1,500
14	General Exp.		$8,500		$8,500
15	Uncollectible Water Bills		$500		$500
16	Administrative		$138,000		$138,000
17	Non-Operating Expenses		$21,600		$21,600
18	Debt Service			$224,471	$224,471
19	Funded Depreciation - Transfer to the Capital Reserve			$0	$0
20	Availability - Transfer to the Capital Reserve			$0	$0
21	Gross Revenue Requirements	$63,800	$299,900	$224,471	$588,171
22					
23	Less: Revenue Offsets				
24	Misc./Service Connection Revenue		$250		$250
25	Property Tax		$66,200		$66,200
26	Bond Taxes			$148,000	$148,000
27	Availability			$25,275	$25,275
28	G.V. Depr. Fund Int./Bond Int.		$550		$550
29	Total Revenue Offsets	$0	$67,000	$173,275	$240,275
30					
31	Less: Adjustments				
32	Adjustment for Cash Balance			$121,159	$121,159
33	Total Adjustments	$0	$0	$121,159	$121,159
34					
35	Revenue Requirements from Rates	$63,800	$232,900	$172,355	$469,055

4.1.1.2 Distribution of Costs to Customers

Table 4-10 shows the outcome of the process of allocating the Garner Valley FYE 2025 revenue requirement to cost causation components.

Table 4-10: FYE 2025 Revenue Requirement for Cost Causation Components

Line	Revenue Requirements	Fixed Cost Customer Service	Fixed Cost Meter Capacity	Fixed Cost GW Supply	Variable Cost Base	Variable Cost Peak
1	Specific Allocation Cost	$0	$0	$63,800	$0	$0
2	Operating / Capital Cost	$77,572	$38,169	$0	$212,295	$63,544 Max Day 13,675 Max Hour
3	Gross Revenue Requirement	$77,572	$38,169	$63,800	$212,295	$77,219
4						
5	Revenue Offset	$0	$0	$0	$0	$0
6	Net Revenue Requirement	$77,572	$38,169	$63,800	$212,295	$63,544
7						
8						
9	**Revenue Requirements**	**Total Revenue Requirement**				
10	Specific Allocation Cost	$63,800				
11	Operating / Capital Cost	$405,255				
12	Gross Revenue Requirement	$469.055				
13						
14	Revenue Offset	$0				
15	Net Revenue Requirement	$499.055				

Table 4-11 shows the calculation of the FYE 2025-unit cost-of-service for each Garner Valley revenue requirement component.

Table 4-11: FYE 2025 Cost Causation Components Unit Cost-of-Service

Line	Revenue Requirements	Fixed Cost Customer Service	Fixed Cost Meter Capacity	Fixed Cost GW Supply	Variable Cost Base	Variable Cost Max Day
1	Revenue Requirement	$77,572	$38,169	$63,800	$212,295	$77,219
2	Unit of Measure	Bills	Equiv. Meters	HCF	HCF	HCF
3	Units of Service	1,536	2,681	81,363	81,363	81,363
4	Unit Cost	$50.51	$14.24	$0.79	$2.61	$0.95
5						
6						
7	Revenue Requirements	Total Revenue Requirement				
8	Revenue Requirement	$469.055				
9	Unit of Measure					
10	Units of Service					
11	Unit Cost					

4.1.1 Proposed Water Rates

4.1.1.1 Proposed Bi-Monthly Fixed Charges

Table 4-12 summarizes the proposed FYE 2025 – FYE 2029 Bi-Monthly Service Charges (Column F). The charges are based on the unit cost of service shown in Table 4-11. The meter capacity costs shown in Column B of Table 4-12 have been adjusted upward by the amounts shown in Column C. This adjustment was made to ensure that there was no change to Garner Valley's existing bi-monthly fixed charges. As shown in Table 4-13, this adjustment reduces proposed usage rates by approximately $0.02/HCF.

Table 4-12: Proposed FYE 2025 Bi-Monthly Meter Service Charge ($/Month)

Line	Meter Size	(A) Capacity Ratio	(B = A x $14.24) Meter Capacity Unit Cost-of-Service	(C) Adjustment to Meter Capacity Unit Cost	(D) Adjusted Meter Capacity Unit Cost-of-Service	(E) Customer Service	(F = D + C) Proposed Service Charge	(G) Current Service Charge	(H) Difference ($)
1	5/8"	1.00	$14.24	$0.05	$14.29	$50.51	$64.80	$64.80	$0.00
2	3/4"	1.00	$14.24	$0.05	$14.29	$50.51	$64.80	$64.80	$0.00
3	1"	1.67	$23.79	$0.62	$24.41	$50.51	$74.92	$74.92	$0.00
4	1 1/2"	3.33	$47.42	$1.01	$48.43	$50.51	$98.94	$98.94	$0.00
5	2"	5.33	$75.90	$1.84	$77.74	$50.51	$128.25	$128.25	$0.00
6	3"	11.67	$166.19	$4.44	$170.63	$50.51	$221.14	$221.14	$0.00
7	4"	21.00	$299.04	$8.27	$307.31	$50.51	$357.82	$357.82	$0.00

4.1.1.2 Proposed Usage Rates

Table 4-13 details the derivation of the proposed Garner Valley FYE 2025 – FY 2029 potable water rates. The components of the variable rate are added together to produce the final rate shown in Column H.

Table 4-13: Calculation of Proposed FYE 2025 Hemet / San Jacinto Usage Rates ($/HCF)

Customers	Tier (HCF)	Projected Usage	(A) GW Supply	(B) Base	(C) Peaking	(D) Revenue Recovery Shift to Bi-Monthly Fixed Charge	(E = A+B+C+D) Proposed Commodity Charge	(F) Current Commodity Rate	(G) Difference ($)	(H) Proposed Commodity Charge
All	All Usage	81,363	$0.79	$2.61	$0.95	($0.02)	$4.33	$4.33	$0.00	$4.33

A summary comparison of existing and proposed FYE 2025 usage rates is shown in Table 4-14.

Table 4-14: Proposed FYE 2025 Usage Rates ($/HCF)

Customer Class	Tier (HCF)	Projected Usage	Existing Usage Rate	Proposed Usage Rate (HCF)	Difference ($)
All	All Usage	81,363	$4.33	$4.33	$0.00

4.1.1 Proposed FYE 2026 Garner Valley Potable Water Rates after 2.5% CPI Adjustment

Table 4-15: Proposed GVWU Bi-Monthly Service Charges

Line	Meter Size	Current Bi-Monthly Service Charges	Calculated FYE 2025 Bi-Monthly Service Charges	Proposed FYE 2026 Bi-Monthly Service Charges After 2.5% CPI Adjustment
1	5/8"	$64.80	$64.80	$66.42
2	3/4"	$64.80	$64.80	$66.42
3	1"	$74.92	$74.92	$76.79
4	1 1/2"	$98.94	$98.94	$101.41
5	2"	$128.25	$128.25	$131.46
6	3"	$221.14	$221.14	$226.67
7	4"	$357.82	$357.82	$366.77

Table 4-16: Proposed GVWU Utility Usage Rates

Line	Water Service	Current Usage Rates ($/HCF)	Calculated FYE 2025 ($/HCF)	Proposed FYE 2026 After 2.5% CPI Adjustment ($/HCF)
1	All Consumption	$4.33	$4.33	$4.44

5. HEMET/SAN JACINTO SEWER UTILITY COST-OF SEVICE STUDY

5.1 SEWER UTILITY – FINANCIAL PLAN

5.1.1 Hemet/San Jacinto Sewer Utility Financial Plan

The sewer utility serving Hemet/San Jacinto incurs all necessary costs to provide customers with sewer collection service. Customer sewer discharges are conveyed to EMWD which provides wastewater treatment services. If the District's current sewer rates remain unchanged, rate revenues are projected to result in an accumulation of cash reserves during the period FYE 2025 - FYE 2029 that are more than target levels. Therefore, as shown in Table 5-1, a 2.0% decrease in FY 2025 sewer rates is recommended. In addition, it is not recommended that a 2.5% CPI adjustment be implemented in FYE 2026.

Table 5-1: Hemet/San Jacinto Sewer Utility Projected Rate Revenue Percentage Increases

Description	FYE 2025	FYE 2026	FYE 2027	FYE 2028	FYE 2029
Rate Revenue Increase	(2.0%)	0.0%	0.0%	0.0%	0.0%
CPI Adjustment		0.0%	To Be Determined		

5.1.2 Projected Revenues at Existing Rates

The current wastewater rate structure consists of a monthly fixed charge that does not vary with the volume of wastewater discharges produced by customers. The Hemet/San Jacinto wastewater utility does not provide wastewater treatment services. Instead, it merely transmits customer wastewater discharges to the EMWD for treatment. Table 5-2 shows the projected revenues if existing rates remain unchanged and total rate revenues are not reduced by 2% in FYE 2025 as recommended in this report.

Table 5-2: Projected Rate Revenues

Revenue	FYE 2024	FYE 2025	FYE 2026	FYE 2027	FYE 2028	FYE 2029
All Rate Revenue	$716,640	$719,980	$723,335	$726,708	$730,097	$733,504

5.1.3 Operating Expenses

The District's FYE 2025 budget values and the assumed inflation factors shown in Table 3-8 were used as the basis for projecting operating expenses for the period FYE 2025 – FYE 2029. Table 5-3 shows the total projected operating expenses.

Table 5-3: Projected Operating Expenses

Operating Expenses	FYE 2024	FYE 2025	FYE 2026	FYE 2027	FYE 2028	FYE 2029
Salaries	$5,000	$5,200	$5,400	$5,600	$5,800	$5,974
Sewer Expense & Cleaning	$265,600	$278,900	$292,900	$307,600	$323,000	$335,920
Sewer Dept Training/Classes	$4,000	$4,000	$4,000	$4,000	$4,000	$4,160
General & Admin	$145,276	$153,106	$161,712	$170,971	$180,930	$187,892
Total	$419,876	$441,206	$464,012	$488,171	$513,730	$533,946

5.1.4 Capital Improvement Plan

The District provided its assumptions for the repair and replacement of wastewater assets to address future capital improvement project (CIP) needs. Raftelis worked with District staff to adjust the CIP to reflect a measured multi-year approach for Hemet/San Jacinto wastewater utility. Based on discussions with District Staff, 67% (2/3) of the annual depreciation expenses for wastewater utility assets was used as the baseline CIP for projected CIP expenditures. Raftelis indexed the capital expenditures by a 5.5% annual inflationary assumption to account for increased construction costs in future years. Table 5-4 summarizes the annual CIP (Line 1), the cumulative inflationary factor (Line 2), and the resulting total anticipated CIP costs (Line 3).

Table 5-4: Projected Capital Improvement Plan

Line	Description	FYE 2024	FYE 2025	FYE 2026	FYE 2022	FYE 2028	FYE 2029
1	67% (2/3) of Depreciation Value	$141,370	$149,145	$157,348	$166,003	$175,133	$184,765
2	Cumulative Inflationary Factor	105.5%	111.3%	117.4%	123.9%	130.7%	134.6%
3	Inflated CIP Used in Financial Plan	$309,959	$102,398	$108,030	$113,972	$120,240	$126,854

5.1.5 Financial Plan

Table 5-5 provides a summary of the Hemet/San Jacinto sewer utility financial plan for the period FYE 2025-FYE 2029. The total FYE 2025 revenue requirement from rates is $705,580, as shown in Line 4. This is the amount that must be collected from ratepayers and is also referred to as the cost-of-service. The value of $705,580 reflects a 2.0% decrease in rate revenues for FY 2025. It is important to note that the rate revenues shown in Line 4 of Table 5-5 do not reflect potential rate increases associated with annual CPI inflationary adjustments that the District's Board of Directors is authorized to approve as described in the District's Proposition 218 notice. The values for Net Operating Cash Flow shown in Line 16 of Table 5-5 reflect the difference between Total Revenues (Line 6) and Total Operating Expenses (Line 14). The amounts shown in Line 16 are used to pay for capital improvement expenditures and maintain District cash reserve balances. An alternative presentation of the derivation of the $705,580 revenue requirement (cost-of-service) is shown in Lines 15 – 20 of Table 5-5.

Table 5-5: Projected Financial Plan

Line	Item	Estimated FYE 2024	Projected FYE 2025	FYE 2026	FYE 2027	FYE 2028	FYE 2029
1	Annual % Rate Increase/(Decrease)	0.0%	(2.0%)	0.0%	0.0%	0.0%	0.0%
2							
3	Revenue						
4	Rate Revenue/Revenue Req.	$716,640	$705,580	$708,869	$712,174	$715,495	$718,834
5	Other Revenue	$0	$0	$0	$0	$0	$0
6	Total Revenue	$716,640	$705,580	$708,869	$712,174	$715,495	$718,834
7							
8	Operating Expenses						
9	Salaries	$5,000	$5,200	$5,400	$5,600	$5,800	$5,974
10	Sewer Expense & Cleaning	$265,600	$278,900	$292,900	$307,600	$323,000	$335,920
12	Sewer Training/Classes	$4,000	$4,000	$4,000	$4,000	$4,000	$4,160
13	General & Admin	$145,276	$153,106	$161,712	$170,971	$180,930	$187,892
14	Total Operating Expenses	$419,876	$441,206	$464,012	$488,171	$513,730	$533,946
15							
16	Net Operating Cash Flow	$296,764	$264,374	$244,857	$224,002	$201,766	$184,888
17							
18	Alternative Presentation of Rate Revenues/Revenue Requirement (Line 4)						
19	Operating Expenses (Line 14)	$419,876	$441,206	$464,012	$488,171	$513,730	$533,946
20	Net Operating Cash Flow (Line 16)	$296,764	$264,374	$244,857	$224,002	$201,766	$184,888
21	Gross Revenue Requirement	$716,640	$705,580	$708,869	$712,174	$715,495	$718,834
22							
23	Less: Other Revenues (Line 5)	$0	$0	$0	$0	$0	$0
25	Rate Revenues/Revenue Req. (Line 4)	$716,640	$705,580	$708,869	$712,174	$715,495	$718,834

Figure 5-1 shows the components of the Hemet/San Jacinto sewer utility financial plan for the period FYE 2025 – FYE 2029. It is important to note that the black total revenue line shown in Figure 5-1 does not reflect potential rate increases associated with annual inflationary adjustments authorized by the District's Board of Directors as allowed in the District's Proposition 218 notice.

Figure 5-1: Financial Plan

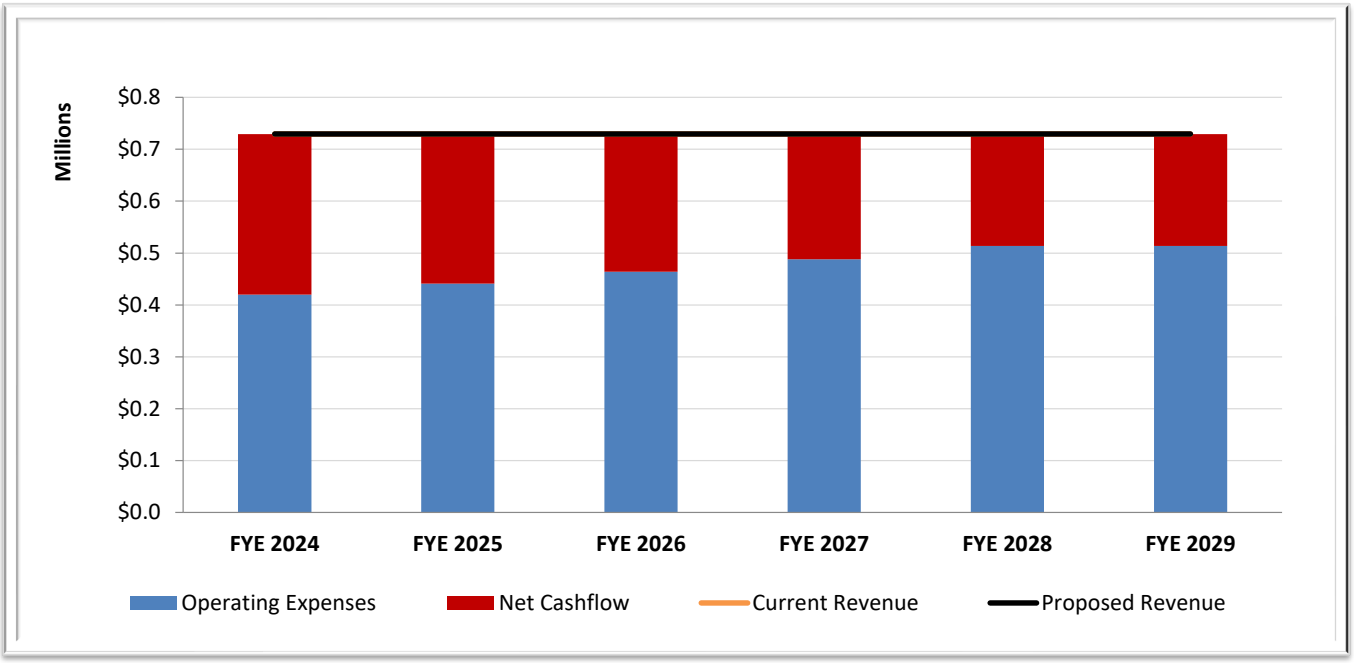


Table 5-6 summarizes the projected Hemet/San Jacinto sewer utility cash reserves for the period FYE 2025 – FYE 2029. The annual amounts shown in Table 5-6 are net of the capital expenditures described in Table 5-4. It is important to note that the ending cash reserve balances shown in Table 1-19 do not reflect potential rate increases associated with annual CPI inflationary adjustments that the District's Board of Directors is authorized to approve as described in the District's Proposition 218 notice.

Table 5-6: Projected Cash Reserves

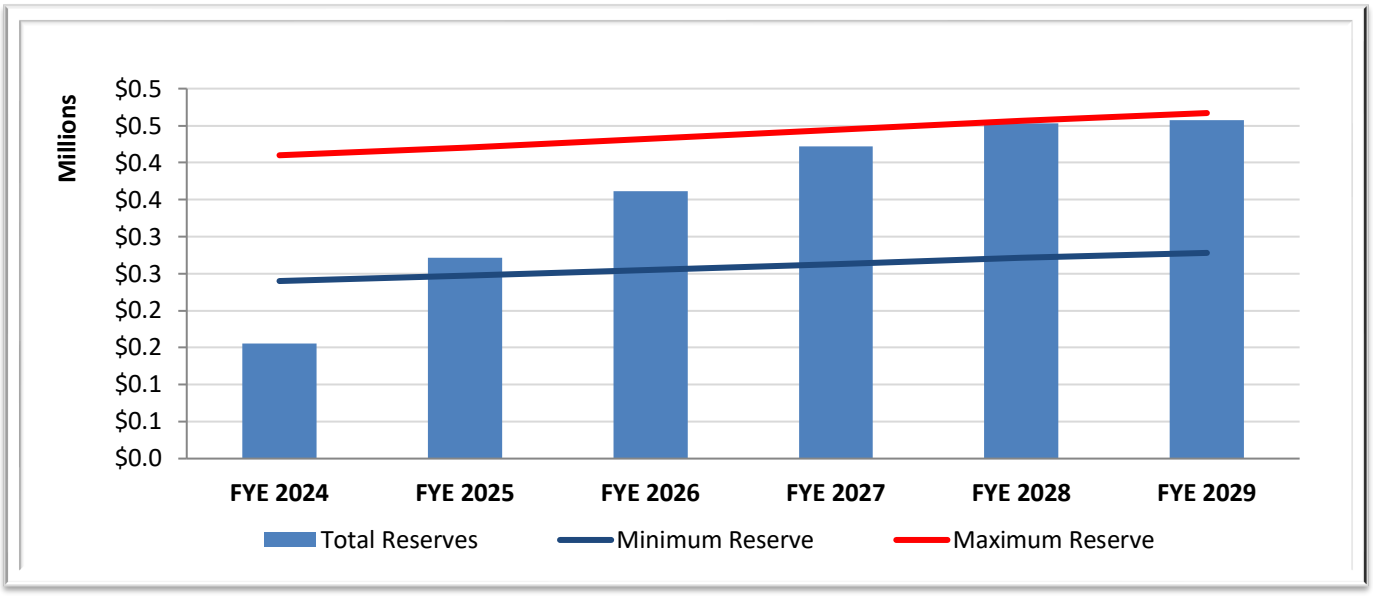
Line	Ending Cash Reserves	Estimated FYE 2024	Projected FYE 2025	FYE 2026	FYE 2027	FYE 2028	FYE 2029
1	Ending Reserves	$155,394	$271,400	$361,047	$422,220	$452,785	$457,303
2	Minimum Reserve Target (1)	$169,979	$173,534	$177,335	$181,362	$185,622	$188,991
3	Variance from Minimum Target	($14,585)	$112,266	$212,650	$284,547	$325,819	$342,151
4							
5	Maximum Reserve Target (2)	($13,808)	$100,004	$186,884	$244,790	$271,558	$272,884
6	Variance from Maximum Target	($148,798)	($36,763)	$48,217	$104,109	$128,747	$128,388

(1) Components of Minimum Reserve Target:
Operating Reserve: 120 Days of Annual Operating Expenses
Capital Improvement Reserve: 50% of Annual Depreciation Expense

(2) Components of Maximum Reserve Target:
Operating Reserve: 180 Days of Annual Operating Expenses
Capital Improvement Reserve: 100% of Annual Depreciation Expense

Figure 5-2 shows projected Hemet/San Jacinto sewer utility cash reserves for FYE 2025 – FYE 2029. It is important to note that the ending cash reserve balances shown in Figure 1-6 do not reflect potential rate increases associated with annual CPI inflationary adjustments that the District's Board of Directors is authorized to approve as described in the District's Proposition 218 notice.

Figure 5-2: Projected Cash Reserves



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5.1.6 Hemet/San Jacinto Sewer Utility Proposed Rates

The Hemet/San Jacinto sewer utility does not charge usage rates. Instead, it merely charges a monthly fixed charge. Further, the utility does not have separate customer classes. This eliminates the need for a cost allocation process and greatly simplifies the rate calculation process. The FYE 2025 – FYE 2029 Hemet/San Jacinto rate revenue requirement and associated rate calculation is shown in Table 5-7. The outcome is an estimated cost-of-service rate of $4.00 per month. This rate is $0.07 less than the monthly sewer rate of $4.07. Therefore, a $0.07 reduction in the current rate of $4.07 is recommended. Due to this reduction, no CPI adjustment will be applied to sewer rates in FYE 2026

Table 5-7: Proposed FYE 2025 – FYE 2029 Sewer Rates

Line	Revenue Requirement	Total
1	Operating Expenses	$441,206
2		
3	Adjustment for Change in Cash Balance	$264,374
4	Revenue Requirement from Rates/COS	$705,580
5		
6	Customer Accounts	14,721
7	Annual Sewer Rate (Line 6/Line 8)	$47.93
8	Monthly Sewer Rate (Line 9/12 Months)	$4.00
10		
11	Current Monthly Sewer Rates	$4.00
12	Difference ($)	-$0.07