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Southeast Regional Sewer Rate Study

Lake County Sanitation District

Draft Report
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SECTION 1: EXECUTIVE SUMMARY

1.1 Background

The Southeast Regional Wastewater Collection and Treatment System (LACOSAN SE) is administered by the Lake County Sanitation District (District). The collection system reaches from Pirates Cove to Lower Lake and includes the City of Clearlake. In total, the LACOSAN SE system provides wastewater (sewer) service to a population of about 13,300 residents through 6,300 service connections. Most of the system was constructed over 30 years ago and has undergone major improvements to address issues with high levels of inflow and infiltration and improve the system's overall performance. The LACOSAN SE system includes over 1,950 manholes and 100 miles of collection system piping as well as 22 lift stations and over 18 miles of force main piping conveying wastewater to the SE Treatment Plant.

The LACOSAN SE system's rate structure consists of a fixed bimonthly charge that varies based on customer class. For ease of understanding, the rates shown in this report are converted to the monthly equivalent rate. Each year the District has historically implemented minimal, inflationary cost increases. The last inflationary rate adjustment went into effect on February 15, 2025 when rates were increased by 2.80%. Despite these increases, the system's revenues have fallen behind the cost of service and rate adjustments are recommended. In addition to meeting the cost of service, the proposed sewer rate adjustments are intended to better reflect current flows and pollutant loading of customers. It is recommended that the District implement a new multifamily residential rate that reflects lower average flows of multifamily customers in comparison to single family customers. It is also recommended that the District implement a new rate category for the Clearlake splashpad to more equitably recover costs from that connection.

1.2 Requirements of Proposition 218

The implementation of utility rates in California is governed by the substantive and procedural requirements of Proposition 218 the "Right to Vote on Taxes Act" which is codified as Articles XIIC and XIID of the California Constitution. The District must follow the procedural requirements of Proposition 218 for all utility rate increases. These requirements include:

1. **Noticing Requirement** – The District must mail a notice of the proposed rate increases to all affected property owners or ratepayers. The notice must specify the amount of the fee, the basis upon which it was calculated, the reason for the fee, and the date/time/location of a public rate hearing at which the proposed rates will be considered/adopted.
2. **Public Hearing** – The District must hold a public hearing prior to adopting the proposed rate increases. The public hearing must be held not less than 45 days after the required notices are mailed.

3. **Rate Increases are Subject to Majority Protest** – At the public hearing, the proposed rate increases are subject to majority protest. If more than 50% of affected property owners or ratepayers submit written protests against the proposed rate increases, the increases cannot be adopted.

Proposition 218 also established substantive requirements that apply to sewer rates and charges, including:

1. **Cost of Service** - Revenues derived from the fee or charge cannot exceed the funds required to provide the service. In essence, fees cannot exceed the “cost of service”.
2. **Intended Purpose** - Revenues derived from the fee or charge can only be used for the purpose for which the fee was imposed.
3. **Proportional Cost Recovery** - The amount of the fee or charge levied on any customer shall not exceed the proportional cost of service attributable to that customer.
4. **Availability of Service** - No fee or charge may be imposed for a service unless that service is used by, or immediately available to, the owner of the property.
5. **General Government Services** - No fee or charge may be imposed for general governmental services where the service is available to the public at large.

Charges for sewer service are exempt from additional voting requirements of Proposition 218, provided the charges do not exceed the cost of providing service and are adopted pursuant to procedural requirements of Proposition 218.

1.3 Rate Study Process

The following is a brief description of the rate study process:

- **Revenue Requirements** - Revenue requirements are analyzed via a cash flow projection based on the best information currently available such as historical operating results, budgets, audits, and input from County staff. The cash flow serves as a roadmap for funding future operating costs and capital expenditures while maintaining long-term fiscal stability, all of which is calculated in this study to produce rates that will be necessary to recover only the actual cost of the sewer service per parcel under these proposed rates.
- **Cost of Service Allocation** - The cost of service process builds on the revenue requirement analysis and assigns sewer costs based on functional cost components: flow and wastewater pollutant strength.

- **Rate Design** - Rate design involves developing a rate structure that fairly recovers costs from customers but does not exceed the proportional cost of the service attributable to each parcel. Final rate recommendations are designed to fund the District's short- and long-term costs of providing service and fairly allocate costs to all customers.

The rates developed in this report were based on the best available information gathered from District budgets, audits, and input from staff. The proposed rates are based on the reasonable cost of providing service and do not exceed the proportional cost of the service attributable to each parcel.

1.4 Summary of Proposed Rates

The proposed rates were developed to fairly recover costs, adhere to California statute, and be affordable to customers. Current and proposed monthly sewer rates are provided in Table 1. The first rate increase is proposed to go into effect August 1, 2026 with subsequent rate changes implemented on August 1 of each year for the next five years. The rate structure is proposed to remain the same except for the addition of a new multifamily rate category and the addition of a splashpad rate category.

The District's current monthly base sewer service charge for single family residential customers is \$36.28. After the first proposed increase, the single family residential monthly service charge would increase to \$54.04, an increase of 49%. In addition, the capital improvement program (CIP) fee that is billed to all customers is proposed to increase from \$5.02 per month to \$31.63 per month on August 1, 2026. The existing bond repayment fee of \$4.16 per month is not proposed to change. The combined single family residential bill impacts are provided in Table 2.

Figure 1 provides a rate survey comparing the current and proposed sewer rates with the rates of other local utilities. The average single family customer in LACOSAN SE is estimated to discharge 210 gallons per day of sewer flow. This equates to about 6,300 gallons of monthly flow. This amount of flow was used to calculate bills for the agencies in Figure 1 that charge volumetric or flow-based rates.

Table 1: Current and Proposed Monthly Rates

Description	Billing Unit	Current	Proposed				
		FY2025/26	FY2026/27	FY2027/28	FY2028/29	FY2029/30	FY2030/31
			Aug 1, 2026	Aug 1, 2027	Aug 1, 2028	Aug 1, 2029	Aug 1, 2030
BASE RATE							
Residential Single Family	Dwelling Unit	\$36.28	\$54.04	\$64.84	\$66.79	\$68.79	\$70.86
Residential Multifamily [1]	Dwelling Unit	\$36.28	\$41.17	\$49.41	\$50.89	\$52.41	\$53.98
Low-Strength Commercial [2]	Each	\$54.42	\$91.05	\$109.26	\$112.54	\$115.92	\$119.39
Medium-Strength Commercial [3]	Each	\$126.97	\$192.98	\$231.57	\$238.52	\$245.67	\$253.04
High-Strength Commercial [4]	Each	\$181.38	\$324.07	\$388.89	\$400.55	\$412.57	\$424.94
IN ADDITION TO THE BASE RATES ABOVE							
Day care or School	per student	\$1.46	\$2.53	\$3.04	\$3.13	\$3.22	\$3.32
Convalescent/Group Home/Hospital/Detention	per licensed bed	\$22.25	\$41.17	\$49.41	\$50.89	\$52.41	\$53.98
Hotel/Motel w/o kitchen	per room	\$7.27	\$22.26	\$26.71	\$27.51	\$28.33	\$29.18
Hotel/Motel with kitchen	per room	\$16.76	\$36.02	\$43.23	\$44.52	\$45.86	\$47.23
Hotel/Motel permanently occupied	per room	\$21.77	\$41.17	\$49.41	\$50.89	\$52.41	\$53.98
Laundromat	per machine	\$22.25	\$30.35	\$36.42	\$37.52	\$38.64	\$39.80
Theater or Drive-in	per seat or car space	\$1.17	\$2.43	\$2.92	\$3.00	\$3.09	\$3.19
Bars and Lounge or Restaurants	per seat over 33	\$1.11	\$4.05	\$4.86	\$5.01	\$5.16	\$5.31
RV & Campgrounds	per space w/o sewer hookup	\$3.63	\$10.12	\$12.14	\$12.51	\$12.88	\$13.27
RV & Campgrounds	per space with sewer hookup	\$7.27	\$36.02	\$43.23	\$44.52	\$45.86	\$47.23
Splashpad	Each	\$72.56	\$1,310.94	\$1,573.13	\$1,620.33	\$1,668.94	\$1,719.01
Backwash Water Systems which serve over 5 customers	Each	\$72.56	\$111.02	\$133.22	\$137.22	\$141.33	\$145.57
Each Additional 3,200 gallons per month (For Backwash Water Systems which serve over 5 customers)	Each	\$16.76	\$17.94	\$21.52	\$22.17	\$22.83	\$23.52
Capital Improvement Program (CIP) Fee	Each	\$5.02	\$31.63	\$32.57	\$33.55	\$34.56	\$35.60
Bond Repayment Fee	Each	\$4.16	\$4.16	\$4.16	\$4.16	\$4.16	\$4.16

See notes on the following page

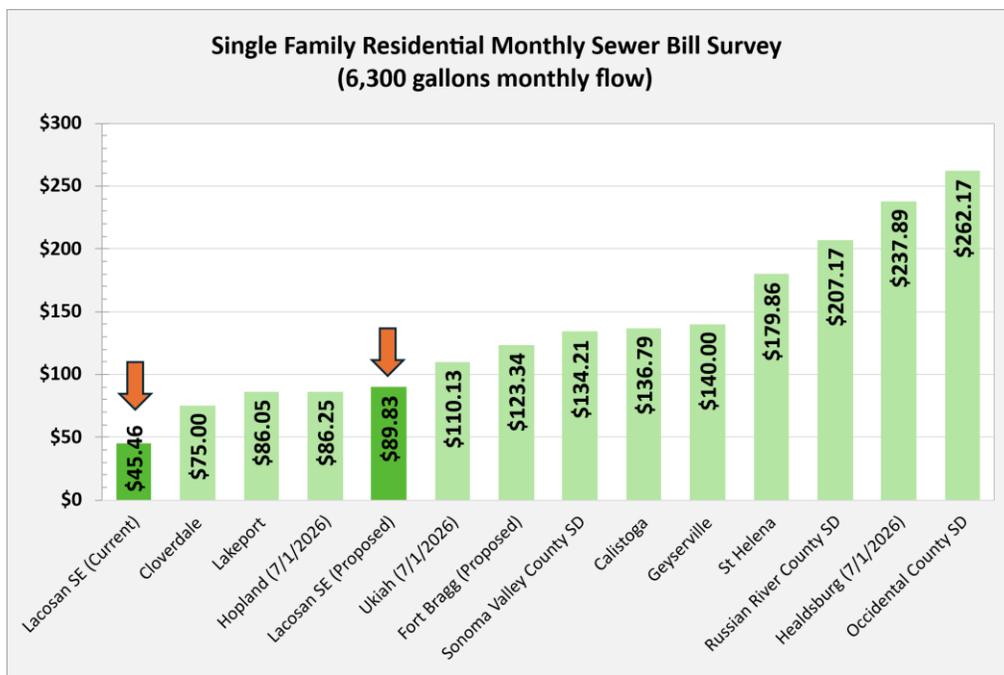
Notes for Table 1:

- 1 – Apartments, mobile homes, triplexes, quadruplexes, and accessory dwelling units
- 2 – Professional office, banks, small retail, daycare or day school without cafeteria or showers, fellowship hall or church without a commercial kitchen, coffee shop without a kitchen
- 3 – Service station or convenience store without grocery or dining, bars without dining, church, fraternity, club house, senior center, theater, hospital, assisted living, group homes, schools with cafeteria and without showers, hotel/motel without dining, detention center, convalescent home, beauty shop, self-service laundromat, car lots, small grocery without deli or butcher shop
- 4 – Hotels/motels with dining, schools with cafeteria and showers, supermarkets, event center, ~~car wash~~ is proposed to be eliminated from this rate schedule, dry cleaning, gas station with dining or kitchen, short order, takeout restaurant, casino, fitness center, bars and cocktail lounges with dining

Table 2: Single Family Residential Monthly Bill Impacts

	FY2025/26	FY2026/27	FY2027/28	FY2028/29	FY2029/30	FY2030/31
	Current	August 1, 2026	August 1, 2027	August 1, 2028	August 1, 2029	August 1, 2030
Base Sewer Rate	\$36.28	\$54.04	\$64.84	\$66.79	\$68.79	\$70.86
CIP Fee	\$5.02	\$31.63	\$32.57	\$33.55	\$34.56	\$35.60
Bond Repayment Fee	<u>\$4.16</u>	<u>\$4.16</u>	<u>\$4.16</u>	<u>\$4.16</u>	<u>\$4.16</u>	<u>\$4.16</u>
Total	\$45.46	\$89.83	\$101.57	\$104.50	\$107.51	\$110.62
\$ Increase		\$44.37	\$11.74	\$2.93	\$3.01	\$3.11
% Increase		98%	13%	3%	3%	3%

Figure 1: Monthly Sewer Bill Survey



SECTION 2: CURRENT RATES AND CUSTOMER BASE

This section provides an overview of the District's sewer rates, customer base, and current rate revenues. The District bills customers for sewer service on a bimonthly basis such that each billing period covers two months of service.

2.1 History of Sewer Rate Increases

Historically, rates have been increased in February of each year by the annual change in the Consumer Price Index (CPI). The most recent CPI adjustment went into effect February 15, 2025 which raised the rates by 2.8%. There was no rate change February 2026 due to the initiation of this rate study.

2.2 Current Rates

The schedule of the current monthly sewer rates that went into effect on February 15, 2025 is provided in Table 3. The District charges all customers for sewer service and the current rate structure includes three components: (1) Base Rates based on customer type, (2) Capital Improvement Program (CIP) Fee, and (3) Bond Repayment Fee. Non-residential customers pay base rates delineated by pollutant strength and additional rates based on the type and size of the establishment. For example, restaurants pay a fixed base rate plus additional charges per seat based on the number of seats over 33 per establishment. The District does not bill customers for individualized sewer flows (i.e. volume rates) and instead bills fixed fees based on class average usage characteristics. The CIP Fee is the same for all customer types and is used to fund necessary maintenance and improvement projects within the District.

Table 3: Current Monthly Rates

Rate Code	Description	Monthly Fee
BASE RATE		
SE-R	Residential	\$36.28
SE-LSC	Low Strength Commercial	\$54.42
SE-MSC	Medium Strength Commercial	\$126.97
SE-HSC	High Strength Commercial	\$181.38
IN ADDITION TO BASE RATES ABOVE		
SE-LDE	Day care or School per student	\$1.46
SE-MDC	Convalescent/Group Home/Hospital/Detention per bed	\$22.25
SE-MKE	Hotel/Motel w/o kitchen per room	\$7.27
SE-MKD	Hotel/Motel with kitchen per room	\$16.76
SE-MPO	Hotel/Motel (permanently occupied) per room	\$21.77
SE-MKG	Laundromat per machine	\$22.25
SE-MDD	Schools w/Cafeteria & w/o Showers per student	\$1.46
SE-MDF	Theater or Drive-in per seat or car space	\$1.17
SE-HKJ	Septage Disposal per dump station	\$181.38
SE-HKE	Hotel/Motel w/o kitchen per room	\$7.27
SE-HKD	Hotel/Motel with kitchen per room	\$16.76
SE-HPO	Hotel/Motel (permanently occupied) per room	\$21.77
SE-HDA	Bars and Lounge or Restaurants per seat over 33	\$1.11
SE-HLA	RV & Campgrounds per space w/o sewer hookup per space	\$3.63
SE-HLB	RV & Campgrounds per space w/ sewer hookup per space	\$7.27
SE-HDD	Schools w/ Cafeteria & Showers per student	\$1.46
SE-KT	Backwash Water Systems which serve over 5 customers	\$72.56
SE-KTA	Each additional 3,200 gallons per month (for backwash systems which serve over 5 customers)	\$16.76
ADDITIONAL CHARGES – ALL CUSTOMERS		
SE-CIP	Capital Improvement Program (CIP) Fee	\$5.02
SE-BR	Bond Repayment Fee	\$4.16

2.3 Customer Base and Current Rate Revenues

Table 4 provides the number of billing units and estimated sewer rate revenues. In fiscal year (FY) 2025/26, the District will generate about \$3.28M in sewer service charge revenues not including the bond repayment fee. Residential customers provide the majority of the revenues, with single family residential customers alone providing about 53% of total revenues. The District does not currently have a multifamily rate but billing records indicate that the District provides service to 1,370 multifamily dwelling units.

Table 4: Customer Counts and Estimated Rate Revenues

FY2025/26					
Rate Code	Description	Monthly Fee	Count of Billing Units	Estimated Revenue	% of Total
BASE					
SE-R	Single Family Residential	\$36.28	3,962	\$1,724,896	53%
NEW	Multifamily Residential	\$36.28	1,370	\$596,443	18%
SE-LSC	Low-Strength Commercial	\$54.42	284	\$185,463	6%
SE-MSC	Medium-Strength Commercial	\$126.97	63	\$95,989	3%
SE-HSC	High-Strength Commercial	\$181.38	<u>36</u>	\$78,356	2%
			5,715		
COMMERCIAL (IN ADDITION TO BASE RATE)					
SE-LDE	Day care or School; per student	\$1.46	1,374	\$24,072	1%
SE-MDC	Convalescent/Group Home/Hospital/Detention	\$22.25	114	\$30,438	1%
SE-MKE	Hotel/Motel w/o kitchen; per room	\$7.27	9	\$785	0%
SE-MKD	Hotel/Motel with kitchen; per room	\$16.76	11	\$2,212	0%
SE-MPO	Hotel/Motel; per room permanently occupied	\$21.77	17	\$4,441	0%
SE-MKG	Laundromat; per machine	\$22.25	58	\$15,486	0%
SE-MDD	Schools w/ Cafeteria; per student	\$1.46	870	\$15,242	0%
SE-MDF	Theater or Drive-in; per seat or car space	\$1.17	200	\$2,808	0%
SE-HKE	Hotel/Motel w/o kitchen; per unit	\$7.27	162	\$14,133	0%
SE-HKD	Hotel/Motel w kitchen; per unit	\$16.76	55	\$11,062	0%
SE-HPO	Hotel/Motel permanently occupied or RV/Campground	\$21.77	6	\$1,567	0%
SE-HDA	Bars and Lounge; per stool or cocktail per seat over 33 or Restaurants; per seat over 33	\$1.11	668	\$8,898	0%
SE-HLA	RV & Campgrounds; per space w/o sewer hookup	\$3.63	32	\$1,394	0%
SE-HLB	RV & Campgrounds; per space with sewer hookup	\$7.27	273	\$23,817	1%
SE-HDD	Schools w/Cafeteria & Showers; per student	\$1.46	729	\$12,772	0%
SE-KT	Backwash Water Systems which serve over 5 customers	\$72.56	1	\$871	0%
SE-KTA	Each Additional 3,200 gallons per month (For Backwash Water Systems which serve over 5 customers)	\$16.76	-	<u>\$0</u>	<u>0%</u>
Subtotal				\$2,851,147	87%
SE-CIP	Capital Improvement Program	\$5.02	7,160	\$431,306	13%
Total				\$3,282,453	100%

SECTION 3: REVENUE REQUIREMENT

Proposition 218 requires that utility rates be based on the reasonable cost of providing service to customers. The cost of service includes annual operating expenses, debt service payments, capital projects, and the accumulation of appropriate reserves. The sewer utility cost of service was developed based on the fiscal year (FY) 2025/26 adopted budget, capital project list developed by staff, and reserve recommendations. Lake County manages Southeast Regional’s cash flows via five funds: (1) an Operations and Maintenance Fund, (2) Capital Improvement Program Fund, (3) Capacity Expansion Fund, (4) Mitigation Fund, and (5) Debt Service Fund. The Operations and Maintenance (O&M) Fund accounts for annual budgeted operating expenses and the Capital Improvement Program (CIP) Fund accounts for infrastructure repairs and replacements. The Capacity Expansion and Mitigation Funds manage revenues and expenses related to specialized infrastructure improvements and were not evaluated in this study. The Debt Service Fund collects bond repayment fee revenues and makes debt service payments. The Debt Service Fund and bond repayment fee were not evaluated in this study.

3.1 Reserves

Each of the District’s funds has its own reserve. As shown in Table 5, LACOSAN SE has very minimal reserves. Reserves were spent down recently for the District’s emergency response to a sewer spill. The debt service reserve is restricted and can only be used to fund bond payments.

Table 5: Reserve Fund Balances

RESERVE/DESIGNATION CLASSIFICATION	Estimated Balance as of 6/30/25
Capacity Expansion Reserve	\$0
Mitigation Reserve	\$1,324
CIP Reserve	(\$202,200)
O&M Reserve	\$0
Debt Service Reserve	\$322,204
TOTAL	\$121,328

One goal of the proposed rate adjustment is to accumulate reasonable reserves to improve the financial health of the utility. It is proposed that the District adopt an O&M Reserve target equal to 50% of annual operating expenses. For FY2026/27, this equates to an operating reserve target of \$3.02 million. This is in line with industry standards. It is also proposed that the capital improvement reserve maintain a balance of \$500,000 to fund any urgent repairs.

Adequate fund reserves protect the District when faced with unforeseen financial challenges such as emergency expenses like sewer spills or revenue deficits. It is acceptable if reserves dip below the target

on a temporary basis, provided the District takes action to attain the target over the longer run. The District can also choose to use reserves to smooth cash flows and mitigate impacts to ratepayers.

3.2 Revenues

For FY2025/26, total revenues for LACOSAN SE are estimated at \$4.8 million, of which about \$2.85 is revenue collected from service charges. Additional sources of operating revenues include delinquency penalties, fines, forfeits, penalties, interest earnings, auditing & accounting fees, contributions from other agencies for septic dump, and other miscellaneous revenue. Delinquency revenues vary greatly from year to year. County staff estimate future delinquency revenues of \$585,000 per year based on an average of the past three years. The contributions from NCPA/CLO are for reimbursements of expenses incurred by LACOSAN SE for operations and maintenance of geothermal plants that ultimately produce renewable energy for the Northern California Power Agency (NCPA) and Calpine.

The first rate adjustment proposed in this report will go into effect August 1, 2026 with future rate adjustments going into effect August 1 of each subsequent year.

3.3 Operating Expenses

In FY2025/26, sewer operating expenses total approximately \$5.86 million. Major line-items include admin & overhead, staffing, maintenance, professional services, chemicals, and utilities. Beyond FY2025/26, all operating expenses are projected to increase by 3.0% per year due to inflation, see Table 6.

Table 6: Operating Expense Projection

	Budget	Escalation Factor	Projected				
	FY2025/26		FY2026/27	FY2027/28	FY2028/29	FY2029/30	FY2030/31
Admin & Overhead	\$2,250,200	3%	\$2,317,700	\$2,387,200	\$2,458,800	\$2,532,600	\$2,608,600
Staffing	\$1,166,600	3%	\$1,201,600	\$1,237,600	\$1,274,700	\$1,312,900	\$1,352,300
Maintenance	\$782,500	3%	\$806,000	\$830,200	\$855,100	\$880,800	\$907,200
Equipment	\$35,000	3%	\$36,100	\$37,200	\$38,300	\$39,400	\$40,600
Professional Services	\$355,100	3%	\$365,800	\$376,800	\$388,100	\$399,700	\$411,700
Chemicals	\$543,500	3%	\$559,800	\$576,600	\$593,900	\$611,700	\$630,100
Utilities	\$726,600	3%	\$748,400	\$770,900	\$794,000	\$817,800	\$842,300
Total	\$5,859,500		\$6,035,400	\$6,216,500	\$6,402,900	\$6,594,900	\$6,792,800

3.4 Capital Improvement Plan

Over the next five years, LACOSAN SE intends to fund capital improvements that fall into three categories: (1) equipment and upgrades, (2) pipeline replacements and plant improvements, and (3) pump truck. Equipment and upgrade costs are provided in Table 7 and total about \$3.25 million. Of this amount, about \$1.25 million is expected to be grant funded and \$2M is expected to be funded from rate revenues. Rate funded projects are spread over the five-year planning period to equal an expenditure of \$400,000 per year.

Table 7: Equipment and Upgrades

Project	Amount Requested	Funding Source	Grant Funded	Rate Funded
Land Acquisition #1-7	\$10,000	Rate Funded	\$0	\$10,000
Septic Hauler Dump Station	\$150,000	Rate Funded	\$0	\$150,000
SL Rat Unit	\$37,250	Rate Funded	\$0	\$37,250
400KW Generator	\$255,000	Rate Funded	\$0	\$255,000
LS #7 Generator 30KW	\$47,000	HMGP	\$47,000	\$0
LS #15 Generator 125KW	\$52,320	HMGP	\$52,320	\$0
Utility Relocations and Adjustments	\$299,000	Rate Funded	\$0	\$299,000
SCADA - All Districts Evaluation Upgrades and Accessibility	\$200,000	Rate Funded	\$0	\$200,000
Southeast Treatment Plant Headworks Upgrades Pipes	\$200,000	Rate Funded	\$0	\$200,000
Southeast Treatment Plant Headworks Upgrades Screen	\$100,000	Rate Funded	\$0	\$100,000
LS#2 Sealing	\$100,000	Rate Funded	\$0	\$100,000
#1-7 – Lift Station Design	\$100,000	Rate Funded	\$0	\$100,000
Baylis Ave/Alvita Ave Sewer Collection Capacity Upgrade	\$543,803	Rate Funded	\$0	\$543,803
LACOSAN SE Infiltration & Inflow Reduction	<u>\$1,154,088</u>	<u>IRWM</u>	<u>\$1,154,088</u>	<u>\$0</u>
Total	\$3,248,461		\$1,253,408	\$1,995,053
% of Total			39%	61%

Additional capital costs include \$1.5M to \$2.5M per year of pipeline replacements and wastewater treatment plant improvements. Lake County also intends to purchase pumper trucks that will be shared across various County service areas. Each service area is allocated a proportional cost for the trucks. LACOSAN SE’s share is \$165,000 annually.

3.5 Cash Flow Projection

Based on the FY2025/26 adopted budget, LACOSAN SE is projected to begin FY2026/27 with an O&M fund balance of about \$0. Over the five-year rate study period, rate increases are proposed such that operating and capital costs are funded and the reserve balance at the end of the five-year rate study period should meet or exceed the operating reserve fund target of 50 percent of annual operating expenses plus the cost of an emergency repair. Rate increases are proposed such that the following objectives are met, in order of importance:

- 1) Fund operating costs
- 2) Fund capital costs
- 3) Accumulate reserves by end of the five-year rate study period equal to 50 percent of annual operating expenses plus the cost of an emergency repair (\$500,000)

The cash flow for the LACOSAN SE system is provided in Table 8. The first rate increase is proposed to go into effect August 1, 2026 and subsequent rate increases will go into effect August 1 of each year thereafter. Because the rate adjustment will go into effect in August, the fiscal year will reflect 1 bimonthly billing period at the current rates and 5 billing periods at the proposed rates. To cover the costs described above, the first proposed O&M rate increase is 50%. As shown in Table 8, this rate increase is needed to cover operating costs of about \$6.04 million. Any less of an increase and LACOSAN SE would operate at a deficit.

The second rate increase is proposed to be a 20% increase. The final three years of the rate plan are proposed to be 3% annual rate increases. The capital improvement fee is proposed to increase to \$31.63 per month in FY2026/27 and then increase by 3% each of the following years to account for inflation.

Table 8: Cash Flow Projection

	PROJECTED				
	FY2026/27	FY2027/28	FY2028/29	FY2029/30	FY2030/31
Effective Date	Aug 1, 2026	Aug 1, 2027	Aug 1, 2028	Aug 1, 2029	Aug 1, 2030
Rate Revenue Increase	50%	20%	3%	3%	3%
Service Charges Over 12 Months	\$4,276,700	\$5,132,000	\$5,286,000	\$5,444,600	\$5,607,900
Beginning Fund Balance	\$0	\$31,900	\$835,100	\$1,724,700	\$2,582,200
Revenues					
Service Charges	\$4,039,100	\$4,989,500	\$5,260,300	\$5,418,200	\$5,580,700
Delinquencies	\$585,000	\$585,000	\$585,000	\$585,000	\$585,000
Fines, Forfeits, Penalties	\$135,900	\$137,900	\$139,900	\$141,900	\$143,900
Interest	\$128,100	\$128,100	\$128,100	\$128,100	\$128,100
Auditing & Accounting Fees	\$28,500	\$28,500	\$28,500	\$28,500	\$28,500
Contrib. -Septic Dump	\$128,400	\$128,400	\$128,400	\$128,400	\$128,400
Contributions (NCPA/CLO)	\$997,800	\$997,800	\$997,800	\$997,800	\$997,800
Other Revenue	<u>\$24,500</u>	<u>\$24,500</u>	<u>\$24,500</u>	<u>\$24,500</u>	<u>\$24,500</u>
Total Revenues	\$6,067,300	\$7,019,700	\$7,292,500	\$7,452,400	\$7,616,900
Operating Expenses					
Admin & Overhead	\$2,317,700	\$2,387,200	\$2,458,800	\$2,532,600	\$2,608,600
Staffing	\$1,201,600	\$1,237,600	\$1,274,700	\$1,312,900	\$1,352,300
Maintenance	\$806,000	\$830,200	\$855,100	\$880,800	\$907,200
Equipment	\$36,100	\$37,200	\$38,300	\$39,400	\$40,600
Professional Services	\$365,800	\$376,800	\$388,100	\$399,700	\$411,700
Chemicals	\$559,800	\$576,600	\$593,900	\$611,700	\$630,100
Utilities	<u>\$748,400</u>	<u>\$770,900</u>	<u>\$794,000</u>	<u>\$817,800</u>	<u>\$842,300</u>
Total Operating Expenses	\$6,035,400	\$6,216,500	\$6,402,900	\$6,594,900	\$6,792,800
Net Operating Revenues	\$31,900	\$803,200	\$889,600	\$857,500	\$824,100
Ending Fund Balance	\$31,900	\$835,100	\$1,724,700	\$2,582,200	\$3,406,300
Operating Fund Target	\$3,017,700	\$3,108,250	\$3,201,450	\$3,297,450	\$3,396,400
Target Met?	No	No	No	No	Yes
CAPITAL FUND					
Rate Revenue Increases	530%	3%	3%	3%	3%
Service Charges Over 12 Months	\$2,717,200	\$2,798,700	\$2,882,700	\$2,969,200	\$3,058,300
Beginning Capital Fund Balance	(\$202,200)	\$69,000	\$539,100	\$842,800	\$732,600
Capital Revenues					
Capital Improvement Charges	\$2,336,200	\$2,785,100	\$2,868,700	\$2,954,800	\$3,043,500
Capital Projects (Rate Funded)					
Equipment and Upgrades	\$400,000	\$400,000	\$400,000	\$400,000	\$400,000
Pipe/plant improvements	\$1,500,000	\$1,750,000	\$2,000,000	\$2,500,000	\$2,500,000
Pumper Truck	<u>\$165,000</u>	<u>\$165,000</u>	<u>\$165,000</u>	<u>\$165,000</u>	<u>\$165,000</u>
Total Capital Costs	\$2,065,000	\$2,315,000	\$2,565,000	\$3,065,000	\$3,065,000
Ending Fund Balance	\$69,000	\$539,100	\$842,800	\$732,600	\$711,100
Fund Target	\$500,000	\$500,000	\$500,000	\$500,000	\$500,000
Target Met?	No	Yes	Yes	Yes	Yes

SECTION 4: COST ALLOCATION AND RATE DESIGN

The revenue requirements detailed in the previous section determine the amount of revenue to be recovered from sewer rates. The cost of service allocation determines how revenues will be recovered from customers based on their estimated impact on the sewer system. Proposition 218 requires that agencies providing “property-related services” (including sewer service) set rates and charges that are based on the cost of providing those services.

4.1 Methodology

The determination of the sewer flows, sewer loadings, and the revenue requirements of the sewer utility provide the basis for performing the cost of service allocation. The concept of proportionate allocation to each customer class indicates that allocations should take into consideration the quantity of effluent a customer contributes in addition to the strength of sewer effluent.

The key factors used to assign sewer utility costs are estimated effluent (flow) going to the wastewater treatment plant and effluent strengths, measured in biochemical oxygen demand (BOD) and total suspended solids (TSS). Higher levels of BOD or TSS typically equate to increased treatment costs. The total revenue requirement shown in the sewer cash flow projection is the net cost of providing service and is allocated to the flow, BOD, and TSS parameters. These allocations are then used as the basis to develop unit rates for the sewer parameters and to assign costs to each customer class in proportion to the sewer services rendered.

Using the FY2025/26 budget as the base year, sewer expenses are allocated to the following categories (a) Flow, (b) Biochemical Oxygen Demand (BOD), and (c) Total Suspended Solids (TSS).

- *Flow Costs:* Volume- or flow-related costs that vary with the total quantity of wastewater collected. The County determined that the flow of a typical single family residential customer is 210 gallons per day. The flows of other customer classes were estimated based on industry typical sewer generation rates.
- *Strength Costs:* Strength-related costs are those expenditures associated with the additional handling and treatment of high strength sewer. Sewer strength is typically measured in BOD and TSS. Increased levels of BOD or TSS typically equate to increased treatment costs.

4.2 Proposed Cost Allocation

The budgeted expenses for FY2026/26 were allocated to flow, BOD, and TSS based on the type of expense and how the District incurs cost. For instance, most administrative and equipment expenses are allocated 50% to flow, 25% to BOD, and 25% to TSS based on general industry guidance. Maintenance and utilities are allocated 80% to flow, 10% to BOD, and 10% to TSS because these expenses are related to the collection system and not heavily impacted by pollutants. Chemicals are allocated solely to BOD

and TSS. A total of 53.1% of expenses are allocated to flow, 23.5% to BOD, and 23.5% to TSS, see Table 9.

Table 9: Cost Allocation

Expenses	FY2025/26	Flow	BOD	TSS
Admin & Overhead	\$2,250,200	50%	25%	25%
Staffing	\$1,166,600	50%	25%	25%
Maintenance	\$782,500	80%	10%	10%
Equipment	\$35,000	50%	25%	25%
Professional Services	\$355,100	50%	25%	25%
Chemicals	\$543,500	0%	50%	50%
Utilities	<u>\$726,600</u>	<u>80%</u>	<u>10%</u>	<u>10%</u>
Total Operating Costs	\$5,859,500	\$3,110,730	\$1,374,385	\$1,374,385
Total Allocation %		53.1%	23.5%	23.5%

4.3 Rate Structure Considerations

As part of the rate study process, the District reviewed its current rate structure and potential alternative rate structures. Sewer rates in California are typically charged as either a fixed charge per billing unit, a volume rate per unit of wastewater flow, or as a combination of both fixed and volume charges. Ultimately, this study does not recommend any major changes to the current sewer rate structure. Fixed sewer charges provide revenue stability, are easy for customers to understand, and are straightforward to bill. Moreover, the District provides only sewer service and does not have access to metered water usage data that could otherwise be used to estimate flows.

The amount charged to individual customers is proposed to change each year, but the categories of charges and customer classes are proposed to remain the same apart from three changes. First, a new multifamily rate is proposed because of the relatively lower flows of the typical multifamily residential customer in comparison to the typical single family residential customer. Additionally, a splashpad rate category is proposed due to the recent opening of a splashpad park within the District. It is also proposed that day care and school customers be combined into one rate category since they have similar flow and loading characteristics. Rates are apportioned based on the updated flow and pollutant loadings for each class as described below.

4.4 Sewer Rate Design

The District does not directly meter the wastewater flow of individual utility accounts. However, influent data from the LACOSAN SE treatment plant was analyzed and flows of each customer class were approximated using a combination of available treatment plant and water use data and industry standard estimates.

Total system flows and pollutant loads are estimated in Table 10. Flows are estimated in gallons per day (gpd). The average domestic strength single family residential or commercial sewer flow is estimated as 210 gpd and the estimated multifamily residential sewer flow per dwelling unit is 160 gpd. Pollutant loads consist of biochemical oxygen demand (BOD) and total suspended solids (TSS). The loading for residential customers is assumed to be 110 milligrams per liter (mg/l) for BOD and 350 mg/l for TSS. Loading estimates for non-residential customers are based on general industry guidelines. The estimates shown below result in a total calculated flow of about 513 million gallons per year.

Table 11 provides the unit cost calculation for the flow, BOD, and TSS cost categories. The total proposed rate revenue requirement for FY2026/27 (based on 12 months with the 50% increase) is divided between the categories based on the percentages developed in Table 9. The revenue requirement for each category is then divided by the total annual billing units for flow, BOD, and TSS from Table 10 to calculate unit charges.

Table 10: Total Flow and Load Estimates

Rate Code	Customer Class	Units	Billing Unit Count	Estimated Flow (gpd)	BOD (mg/L)	TSS (mg/L)	Total Flow (gal/year)	BOD (lbs/yr)	TSS (lbs/yr)
SE-R	Residential Single Family	Dwelling Unit	3,962	210	110	350	303,687,300	278,783	887,038
NEW	Residential Multifamily	Dwelling Unit	1,371	160	110	350	80,066,400	73,501	233,865
SE-LSC	Low-Strength Commercial	Each	284	450	75	150	46,647,000	29,197	58,393
SE-MSC	Medium-Strength Commercial	Each	63	750	110	350	17,246,250	15,832	50,374
SE-HSC	High-Strength Commercial	Each	36	800	300	600	10,512,000	26,318	52,636
SE-LDE	Day care or School	per student	1,374	12.5	75	150	6,268,875	3,924	7,847
SE-MDC	Convalescent/Group Home/Hospital/Detention	per licensed bed	114	160	110	350	6,657,600	6,112	19,446
SE-MKE	Hotel/Motel w/o kitchen	per room	9	110	75	150	361,350	226	452
SE-MKD	Hotel/Motel with kitchen	per room	11	140	110	350	562,100	516	1,642
SE-MPO	Hotel/Motel (per room permanently occupied)	per room	17	160	110	350	992,800	911	2,900
SE-MKG	Laundromat	per machine	58	150	75	150	3,175,500	1,988	3,975
SE-MDD	Schools w/ Cafeteria & w/o Showers	per student	870	12.5	75	150	3,969,375	2,484	4,969
SE-MDF	Theater or Drive-in	per seat or car space	200	12	75	150	876,000	548	1,097
SE-HKE	Hotel/Motel w/o kitchen	per unit	162	110	75	150	6,504,300	4,071	8,142
SE-HKD	Hotel/Motel w kitchen	per unit	55	140	110	350	2,810,500	2,580	8,209
SE-HPO	Hotel/Motel permanently occupied or RV/Campground permanently occupied	per unit/space	6	160	110	350	350,400	322	1,023
SE-HDA	Bars and Lounge or Restaurants	per seat over 33	668	10	300	600	2,438,200	6,104	12,209
SE-HLA	RV & Campgrounds w/o sewer hookup	per space	32	50	75	150	584,000	366	731
SE-HLB	RV & Campgrounds with sewer hookup	per space	273	140	110	350	13,950,300	12,806	40,747
SE-HDD	Schools w/Cafeteria & Showers	per student	729	12.5	75	150	3,326,063	2,082	4,164
NEW	Splashpad	Each	1	5,095	110	350	1,859,675	1,707	5,432
SE-KT	Backwash Water Systems which serve over 5 customers	Each	1	650	50	50	237,250	99	99
SE-KTA	Each Additional 3,200 gallons per month (For Backwash Water Systems which serve over 5 customers)	Each	0	105	50	50	0	0	0
Totals							513,083,238	470,477	1,405,392

Table 11: Unit Cost Calculation

Cost Allocation	Total	Flow	BOD	TSS
Cost Allocation %		53.1%	23.5%	23.5%
FY2026/27 Revenue Requirement	\$4,276,700	\$2,270,400	\$1,003,100	\$1,003,100
Billing Units		513,083,238 gal/year	470,477 lbs/year	1,405,392 lbs/year
Rate		\$4.43 \$/1000 gal	\$2.13 \$/lb	\$0.71 \$/lb

4.5 Proposed Sewer Rates

As a first step in calculating the sewer O&M rates, the unit charges detailed in Table 11 above were multiplied by the flow and loading assumptions in Table 10 for each customer class to calculate the total monthly rate for FY2026/27. Table 12 shows the percentage change for each customer class and the estimated annual rate revenues.

The rates for future years were calculated as the previous year’s rate increased by the annual percent change to correspond to the increase in revenue requirement shown in Table 8 (20% for FY2027/28, for example). The five-year proposed rate plan is provided in Table 13.

Table 12: FY2026/27 Proposed Rate Impacts

Rate Code	Customer Class	Units	Current Monthly Rate	Proposed Monthly Rate	Rate Change	Projected FY2026/27 Revenue [1]	% of Revenue
SE-R	Residential Single Family	Dwelling Unit	\$36.28	\$54.04	49%	\$2,569,278	60.1%
NEW	Residential Multifamily	Dwelling Unit	\$36.28	\$41.17	13%	\$677,329	15.9%
SE-LSC	Low-Strength Commercial	Each	\$54.42	\$91.05	67%	\$310,298	7.3%
SE-MSC	Medium-Strength Commercial	Each	\$126.97	\$192.98	52%	\$145,893	3.4%
SE-HSC	High-Strength Commercial	Each	\$181.38	\$324.07	79%	\$139,998	3.3%
SE-LDE	Day care or School	per student	\$1.46	\$2.53	73%	\$41,715	1.0%
SE-MDC	Convalescent/Group Home/Hospital/Detention	per licensed bed	\$22.25	\$41.17	85%	\$56,321	1.3%
SE-MKE	Hotel/Motel w/o kitchen	per room	\$7.27	\$22.26	206%	\$2,404	0.1%
SE-MKD	Hotel/Motel with kitchen	per room	\$16.76	\$36.02	115%	\$4,755	0.1%
SE-MPO	Hotel/Motel (permanently occupied)	per room	\$21.77	\$41.17	89%	\$8,399	0.2%
SE-MKG	Laundromat	per machine	\$22.25	\$30.35	36%	\$21,124	0.5%
SE-MDD	Schools w/ Cafeteria & w/o Showers	per student	\$1.46	\$2.53	73%	\$26,413	0.6%
SE-MDF	Theater or Drive-in	per seat/car space	\$1.17	\$2.43	108%	\$5,832	0.1%
SE-HKE	Hotel/Motel w/o kitchen	per unit	\$7.27	\$22.26	206%	\$43,273	1.0%
SE-HKD	Hotel/Motel w kitchen	per unit	\$16.76	\$36.02	115%	\$23,773	0.6%
SE-HPO	Hotel/Motel permanently occupied or RV/Campground permanently occupied	per unit/space	\$21.77	\$41.17	89%	\$2,964	0.1%
SE-HDA	Bars and Lounge or Restaurants	per seat over 33	\$1.11	\$4.05	265%	\$32,465	0.8%
SE-HLA	RV & Campgrounds without sewer hookup	per space	\$3.63	\$10.12	179%	\$3,886	0.1%
SE-HLB	RV & Campgrounds with sewer hookup	per space	\$7.27	\$36.02	395%	\$118,002	2.8%
SE-HDD	Schools w/Cafeteria & Showers	per student	\$1.46	\$2.53	73%	\$22,132	0.5%
NEW	Splashpad		\$72.56	\$1,310.94	1707%	\$15,731	0.4%
SE-KT	Backwash Water Systems which serve over 5 customers	Each	\$72.56	\$111.02	53%	\$1,332	0.0%
SE-KTA	Each Additional 3,200 gallons per month (For Backwash Water Systems which serve over 5 customers)	Each	\$16.76	\$17.94	7%	\$0	0.0%
						\$4,273,317	100.0%

1 – 12 months (6 billing periods) at the proposed rates

Table 13: Proposed Monthly Sewer Rates

Description	Billing Unit	Current	Proposed				
		FY2025/26	FY2026/27	FY2027/28	FY2028/29	FY2029/30	FY2030/31
			Aug 1, 2026	Aug 1, 2027	Aug 1, 2028	Aug 1, 2029	Aug 1, 2030
BASE RATE							
Residential Single Family	Dwelling Unit	\$36.28	\$54.04	\$64.84	\$66.79	\$68.79	\$70.86
Residential Multifamily [1]	Dwelling Unit	\$36.28	\$41.17	\$49.41	\$50.89	\$52.41	\$53.98
Low-Strength Commercial [2]	Each	\$54.42	\$91.05	\$109.26	\$112.54	\$115.92	\$119.39
Medium-Strength Commercial [3]	Each	\$126.97	\$192.98	\$231.57	\$238.52	\$245.67	\$253.04
High-Strength Commercial [4]	Each	\$181.38	\$324.07	\$388.89	\$400.55	\$412.57	\$424.94
IN ADDITION TO THE BASE RATES ABOVE							
Day care or School	per student	\$1.46	\$2.53	\$3.04	\$3.13	\$3.22	\$3.32
Convalescent/Group Home/Hospital/Detention	per licensed bed	\$22.25	\$41.17	\$49.41	\$50.89	\$52.41	\$53.98
Hotel/Motel w/o kitchen	per room	\$7.27	\$22.26	\$26.71	\$27.51	\$28.33	\$29.18
Hotel/Motel with kitchen	per room	\$16.76	\$36.02	\$43.23	\$44.52	\$45.86	\$47.23
Hotel/Motel permanently occupied	per room	\$21.77	\$41.17	\$49.41	\$50.89	\$52.41	\$53.98
Laundromat	per machine	\$22.25	\$30.35	\$36.42	\$37.52	\$38.64	\$39.80
Theater or Drive-in	per seat or car space	\$1.17	\$2.43	\$2.92	\$3.00	\$3.09	\$3.19
Bars and Lounge or Restaurants	per seat over 33	\$1.11	\$4.05	\$4.86	\$5.01	\$5.16	\$5.31
RV & Campgrounds	per space w/o sewer hookup	\$3.63	\$10.12	\$12.14	\$12.51	\$12.88	\$13.27
RV & Campgrounds	per space with sewer hookup	\$7.27	\$36.02	\$43.23	\$44.52	\$45.86	\$47.23
Splashpad	Each	\$72.56	\$1,310.94	\$1,573.13	\$1,620.33	\$1,668.94	\$1,719.01
Backwash Water Systems which serve over 5 customers	Each	\$72.56	\$111.02	\$133.22	\$137.22	\$141.33	\$145.57
Each Additional 3,200 gallons per month (For Backwash Water Systems which serve over 5 customers)	Each	\$16.76	\$17.94	\$21.52	\$22.17	\$22.83	\$23.52
Capital Improvement Program (CIP) Fee	Each	\$5.02	\$31.63	\$32.57	\$33.55	\$34.56	\$35.60
Bond Repayment Fee	Each	\$4.16	\$4.16	\$4.16	\$4.16	\$4.16	\$4.16

1 – Apartments, mobile homes, triplexes, quadruplexes, and accessory dwelling units

2 – Professional office, banks, small retail, daycare or day school without cafeteria or showers, fellowship hall or church without a commercial kitchen, coffee shop without a kitchen

3 – Service station or convenience store without grocery or dining, bars without dining, church, fraternity, club house, senior center, theater, hospital, assisted living, group homes, schools with cafeteria and without showers, hotel/motel without dining, detention center, convalescent home, beauty shop, self-service laundromat, car lots, small grocery without deli or butcher shop

4 – Hotels/motels with dining, schools with cafeteria and showers, supermarkets, event center, ~~car wash~~ *car wash is proposed to be eliminated from this rate schedule*, dry cleaning, gas station with dining or kitchen, short order, takeout restaurant, casino, fitness center, bars and cocktail lounges with dining