



Wastewater
Treatment



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WASTEWATER
TO RESOURCES



Recycled
Water



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Production



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Reuse

Major Factors Impacting Development of FY26/27 Sewer Service Charges (SSCs)

Board of Directors Meeting
March 11, 2026

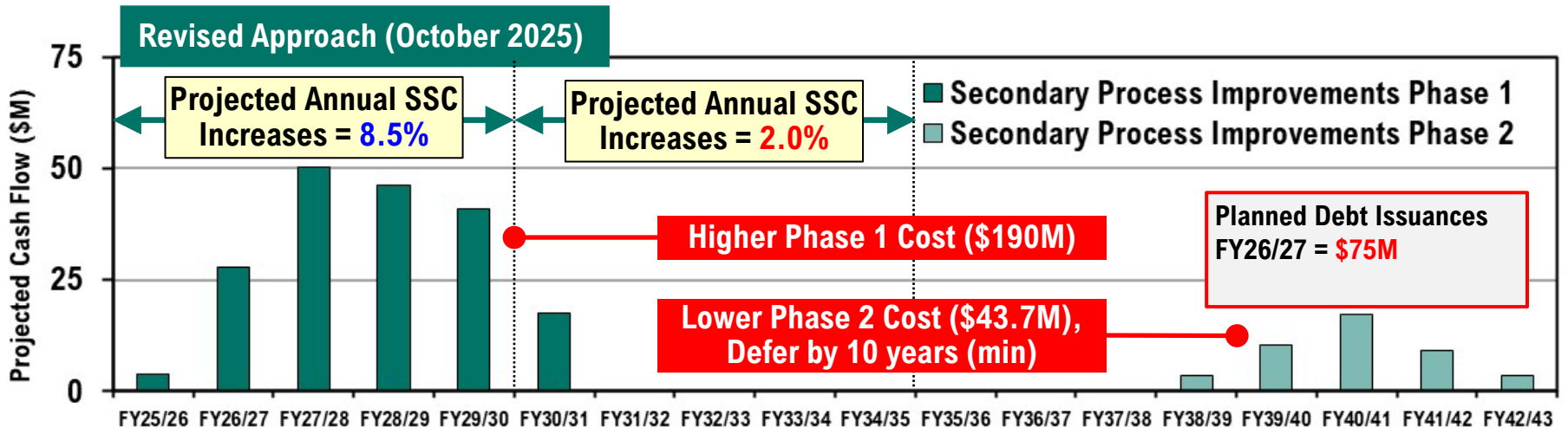
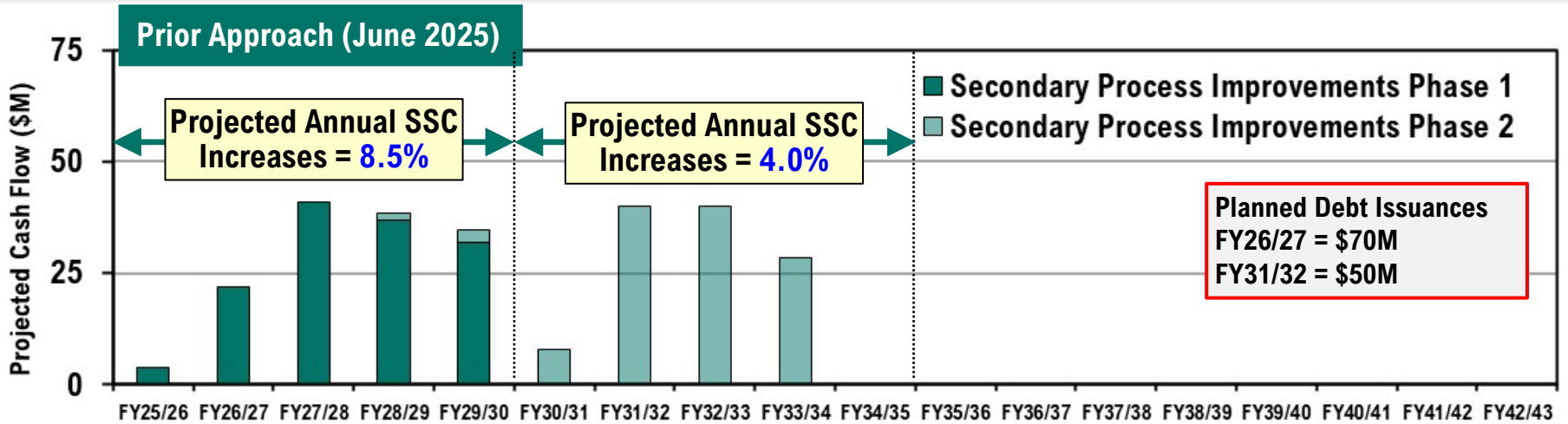
Overview

Recent Board Communications



- In June 2025, Board approved 5-year CIP (\$238.1M) and **maximum** annual Sewer Service Charge (SSC) increases (+8.5%/year for FY25/26-FY29/30)
 - Board approved +8.5% SSC increase for FY25/26
 - Board approval is required to place SSCs on tax roll each year
- In October 2025, staff presented a significant shift in approach to **meeting nutrient removal regulatory mandate** via Secondary Process Improvements Project
 - **Achieve nutrient removal in Phase 1** (\$140.5 → \$190.2M), **defer implementation of Phase 2** (\$121M → \$43.7M) by 10 years (min)
 - Reduces overall capital cost from \$261.5M to \$233.9M (-\$27.6M)
 - Reduces nutrient removal cost from \$146M to \$84.2M (-\$61.8M)
 - Reduces total planned debt issuance from \$120M to \$75M (-\$45M)

Revised Approach to Nutrient Mandate Compliance (Oct 2025)

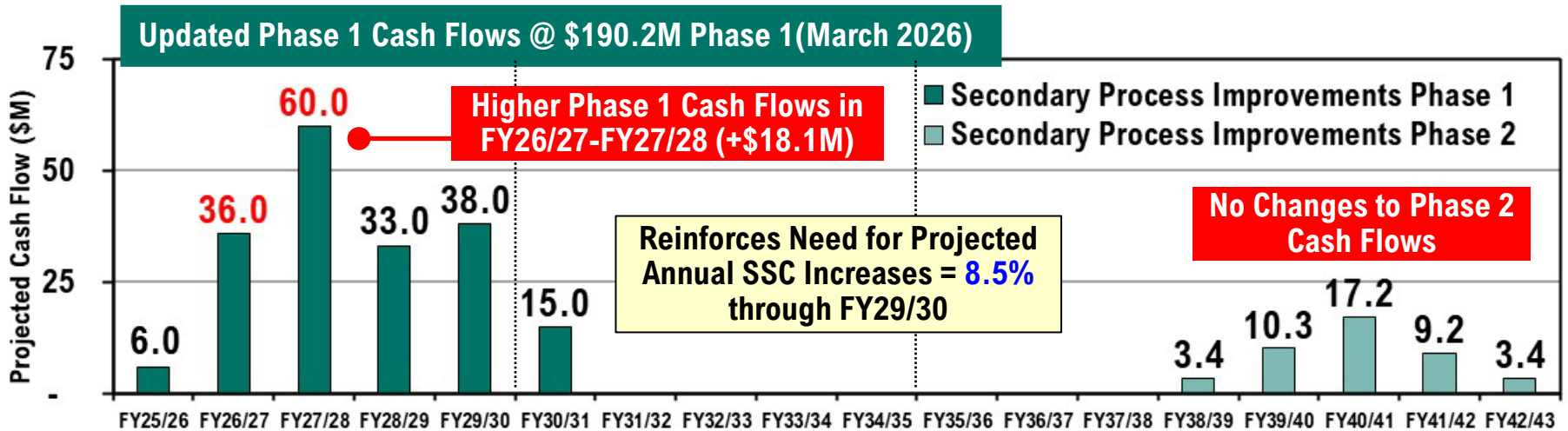
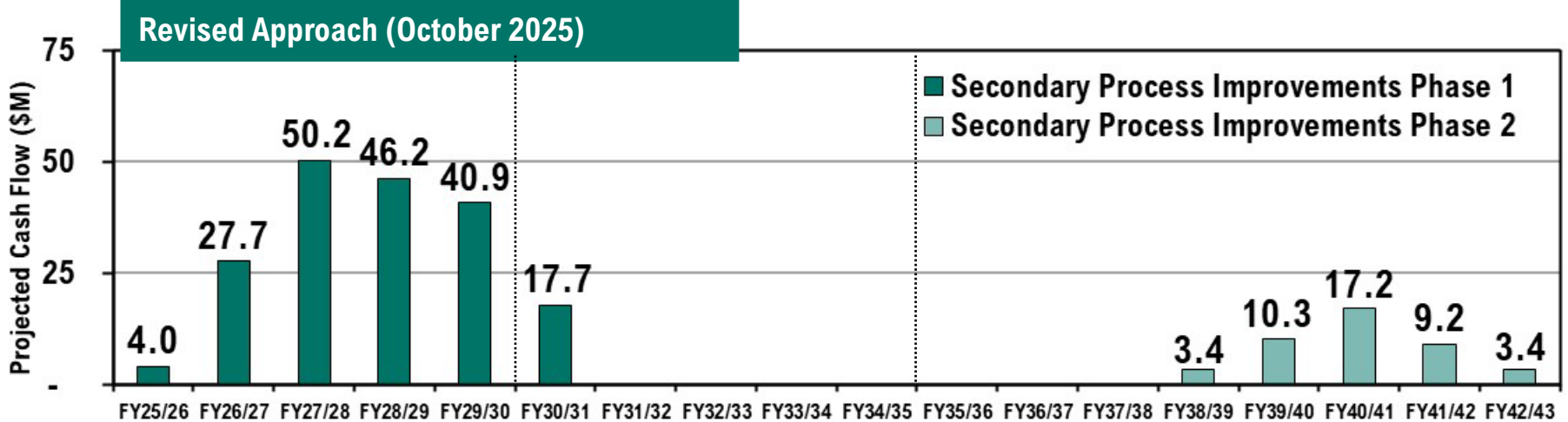


Major Factors Impacting FY26/27 SSC Development



- Significant needs for SSC revenue to support CIP spending
 - Increased cost for Secondary Process Improvements Phase 1 (**+\$49.7M**), increased capital expenditures in FY26/27-FY27/28
 - Incorporated federal tax credits (**-\$6.0M+**) under Inflation Reduction Act for Cogeneration System Improvements Project
 - Significant pump station redundant forcemain cost (**+\$4.3M**)
- In October 2025, staff confirmed maximum annual SSC increases (+8.5%, FY26/27-FY29/30) provide sufficient revenue for Secondary Process Improvements
- Subsequently completed 90% design for Secondary Process Improvements Phase 1
 - **Higher than previously estimated capital expenditures** in FY26/27-FY27/28 (**+\$18.1M**)
 - Evaluating increase in overall project cost estimate (**+\$20M**)

Secondary Process Improvements Updated Capital Expenditures by FY



Development of Proposed FY26/27 SSC Increase



- Based on preliminary financial modeling and capital needs, staff will likely recommend +8.5% SSC increase for FY26/27

Current FY25/26 Annual Residential SSC	Maximum SSC Increase by Fiscal Year				Annual Residential SSC by Fiscal Year			
	FY 26/27	FY 27/28	FY 28/29	FY 29/30	FY 26/27	FY 27/28	FY 28/29	FY 29/30
\$513.80	8.5%	8.5%	8.5%	8.5%	\$557.48 (+\$43.68)	\$604.88 (+\$47.40)	\$656.30 (+\$51.42)	\$712.10 (+\$55.80)

- Directly supports upcoming public bond offering to fund CIP by providing increased revenue collection certainty
- Supports financial capacity to adapt to unfavorable construction bid results, unanticipated capital needs
 - Secondary Process Improvements Phase 1 – construction bids expected to be received in late July 2026

Additional Future SSC Revenue Considerations



- Staff has confirmed **annual SSC increases of 8.5% through FY29/30** should provide sufficient revenue to meet significant increase in capital infrastructure investment needs
- However, critical issue is whether sufficient SSC revenue is available if significantly higher construction bid is received
 - Staff is conducting analysis to “stress test” financial model and support “go/no go” decision following receipt of SPI Phase 1 bids in July 2026
 - May need to increase projected annual SSC increases of 2.0% for FY30/31-FY34/35 (as presented in October 2025)
 - May need to significantly increase debt issuance for SPI Phase 1 to maintain maximum annual SSC increases of 8.5% through FY29/30

Next Steps

- Continue financial modeling activities to confirm SSC revenue and debt issuance needs based on updated CIP cash flow projections over next 10+ years
- Prepare associated public information materials to support FY26/27 SSC increase review and approval process
 - Includes multiple fact sheets, FAQs, website content
 - Proposition 218 Notice issued in April 2025 included multi-year maximum annual SSC increases = 8.5% (through FY29/30)
- Prepare for significant public bond issuance for Secondary Process Improvements Phase 1 Project following receipt of construction bids (summer 2026)

Upcoming Board Meetings FY26/27 SSCs



March

3/3 Fin Comm: Major Factors Impacting Development of FY26/27 SSCs

3/11 Review Major Factors Impacting Development of FY26/27 SSCs



April

4/16 Fin Comm: Review Proposed SSCs

4/23 Review Proposed SSCs, Set Public Hearing for 6/25

May

5/13 (No SSC-related Items Currently Planned)

June

6/25 Conduct SSC Public Hearing, Consider FY26/27 SSC Approval, Authorize Collection of SSCs on Tax Roll



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Major Factors Impacting Development of FY26/27 SSCs Questions?

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