



LONG-TERM FINANCIAL PLAN

2025

Table of Contents

Table of Contents	1
Introduction	2
Profile of SacSewer	2
Recent Reorganization.....	3
Highlights	3
Purpose of the Long-Term Financial Plan	5
The Mission, Vision, Values, and Guiding Financial Principles	6
Business Environment	7
Economic Conditions and Trends	7
Critical Issues – Risks and Opportunities	9
Long Range Financial Forecasts	13
Financial Performance Targets	13
Financial Forecast Tables	14
Forecast Assumptions.....	20
Capital Funding Projection.....	25
Debt Management Plan	29
Debt Policies and Goals	29
Existing Debt	30
EchoWater Project Financing Plan.....	32
Strategies for Existing Bond Issues	33
Recommended Debt Portfolio Action Items	35
Cash and Investment Management	37



**Presented to the Board of Directors
On September 10, 2025 by:**

M. Tapa Banda, CFA, CMA
Director of Finance

Key Contributors:

Glen Iwamura, CPA
Senior Accounting Manager

Robin Xiang, CPA
Accounting Manager

Helen Hu, P.E.
Operations & Maintenance Manager II

William Wu, P.E.
Principal Civil Engineer

Enrique Sandoval Correa, P.E.
Associate Civil Engineer

Introduction

The Sacramento Area Sewer District (SacSewer) is proud to present the 2025 Long-Term Financial Plan (LTFP) Update. The LTFP is an important component of SacSewer’s strategy for maintaining a financially sound and sustainable wastewater utility. The plan incorporates a 10-year financial forecast and the Capital Funding Projection. The LTFP includes a review of critical issues and risks facing SacSewer that could impact the financial forecast. The plan also includes a review of the financial environment and regional economy that SacSewer operates in. Finally, the LTFP provides some recommended long-term action plans for debt management, asset management, cash reserves management, and other financial issues facing SacSewer over the long term.

Profile of SacSewer

The Sacramento Area Sewer District (SacSewer), formerly known as the Sacramento Regional County Sanitation District, was originally formed by the Board of Supervisors of the County of Sacramento (the County) in October 1973—pursuant to the County Sanitation District Act, Chapter 3 of Part 3 of Division 5, Section 4700 et seq. of the California Health and Safety Code.

SacSewer comprises two enterprise funds, the Treatment and Resource Recovery System and the Collection System. Prior to a reorganization effective January 1, 2024, the two enterprise funds were separate legal entities.

The Treatment and Resource Recovery System provides regional sewage conveyance, treatment, and resource recovery at the EchoWater Resource Recovery Facility (EchoWater Facility). The Treatment and Resource Recovery System was created to implement a Regional Wastewater Management Program. The regionalization process eliminated over 20 wastewater treatment plants—that were discharging to the American River, Sacramento River, and their tributaries—and replaced them with a single facility, known then as the Sacramento Regional Wastewater Treatment Plant. Now known as the EchoWater Facility, this facility provides advanced tertiary treatment to wastewater prior to discharge to the Sacramento River and distribution as recycled water for industrial and agricultural uses. The EchoWater Facility serves a population of about 1.6 million in an area of approximately 386 square miles. It treats sewage from SacSewer’s Collection System service area, along with the sewage collection systems of the cities of Sacramento, Folsom, and West Sacramento, which is located in Yolo County. Service to the cities of Sacramento, Folsom, and West Sacramento is provided under a Master Interagency Agreement.

The Collection System provides sewage collection services for a population of about 1.2 million in a 281 square mile service area. This service area includes urbanized areas in unincorporated Sacramento County; the cities of Citrus Heights, Elk Grove, and Rancho Cordova; portions of the cities of Sacramento and Folsom; and the communities of Locke, Walnut Grove, Courtland, and Freeport. The Collection System serves approximately 305,500 sewer service connections and maintains and operates 3,212 miles of main line pipes, 90 miles of force mains, 1,566 miles of lower lateral pipes, 68,242 manholes, and 106 pump stations. These are all vital components of

the region’s complete sewer infrastructure. The Collection System was formed in 1978 by consolidating 10 smaller districts to provide a common service rate structure for the customers in the affected areas as well as generate cost savings through efficiencies and economies of scale.

SacSewer is in excellent financial condition as reflected in the high and stable AA+ and Aa2 credit ratings for both Treatment and Resource Recovery and the Collection System, which SacSewer has maintained for many years. Details of SacSewer’s financial condition are available in the audited Annual Comprehensive Financial Reports (ACFR) along with annual budget documents on SacSewer’s website at www.sacsewer.com/financial-reports/.

Recent Reorganization

Prior to the reorganization described below, the Sacramento Regional County Sanitation District (Regional San) provided regional sewage conveyance, treatment, and resource recovery services. The former Sacramento Area Sewer District (SASD) provided sewage collection services. Regional San and SASD were separate legal entities.

Effective January 1, 2024, the legal name of the District was changed from its prior name, the Sacramento Regional County Sanitation District, to its current name, the Sacramento Area Sewer District (SacSewer), in accordance with California Health & Safety Code Section 4730.12. Immediately prior to the name change, on December 26, 2023, SASD was dissolved, and its service area was annexed into the SacSewer service area. Since the reorganization, SacSewer has provided both sewage treatment and resource recovery and sewage collection services through a single legal entity using separate operating departments or “systems” that are accounted for as separate enterprise funds. Intended benefits of the reorganization include broadening the policy and leadership decision-making under a shared mission and vision, consolidating and streamlining policy decisions under a single board, and establishing a single service provider that will operate more efficiently and provide better clarity for customers.

Highlights

- To offset the effects of historically high inflation rates in the last five years, which have significantly increased operating and capital project costs, three-year rate increases were adopted by the Board in May 2024 for both systems beginning in fiscal year (FY) 2024-25, as shown below.

Adopted Rate Increases				
	FY 2024-25	FY 2025-26	FY 2026-27	Total Increase
Treatment & Resource Recovery				
Rate Increase per ESD	\$3.50	3.50	3.00	\$10.00
Monthly Rate for Treatment	\$40.50	\$44.00	\$47.00	--
Collection System				
Rate Increase per ESD	\$3.00	\$2.50	\$2.00	\$7.50
Monthly Rate for Collection	\$22.85	\$25.35	\$27.35	--

Rate adjustments for industrial customers were also implemented in line with updated cost of service estimates following the completion of the EchoWater Project.

- Additional rate increases are forecast in the LTFP period to help provide funding for proposed capital projects and higher operating costs.
- For the past several years, a significant portion of SacSewer’s Treatment and Resource Recovery capital expenses was related to the EchoWater Project. The project was substantially complete and commissioned in 2023 with only minor closeout works remaining. The EchoWater Project was funded with loans from the Clean Water State Revolving Fund (SRF) and additional funding from revenue bonds.
- SacSewer began construction of the Harvest Water Program in 2024. Harvest Water will offer multiple benefits, including providing a safe and reliable supply of tertiary-treated water for agricultural uses, reducing groundwater pumping, supporting habitat protection efforts, and providing near-term benefits to the Sacramento-San Joaquin Delta. The project has a total budget of \$597 million, with \$364.8 million in State and Federal grants secured. With some construction bids coming in lower than engineer’s estimates on some of the project components, there is optimism that the project will be delivered within budget. Debt proceeds from new revenue bonds are included in this forecast to provide supplemental funds in addition to secured grants to fund the Harvest Water Program.
- A design-build contract for the BioGeneration (Biogen) Facility Project was awarded to Ameresco in February 2024. The Biogen Facility project, a 13.4-megawatts combined heat and power plant, will burn digester gas produced at the EchoWater Facility to produce electricity that will be used to provide electricity and heating needs for the EchoWater Facility. Fuel cell technology, emitting only water, will also be integrated into the electricity generation system. SacSewer will pursue tax credits from the Inflation Reduction Act to provide partial funding for the BioGeneration Facility Project.
- Recent EchoWater Facility upgrades have impacted the plant’s solids process, resulting in the need for additional handling and disposal capacity. The lining of Dedicated Land Disposal-1 is underway and will provide additional capacity for onsite disposal in 2027. New processes to thicken primary sludge and dewater digested biosolids with winter storage are planned to satisfy projected demand up to 2048 conditions. Additionally, the removal of the remaining biosolids from the Solids Storage Basins and upgrades to the CAP well system have been included based on anticipated regulatory requirements.
- SacSewer continues to maintain healthy cash reserves with over \$330 million in designated reserves and approximately \$200 million in unreserved cash. These cash balances are available to help absorb unforeseen cost increases without increasing rates.
- SacSewer expects to finance all capital project needs for the Collection System over the next 10 years with ongoing revenues and accumulated cash and avoid the issuance of new debt.

Purpose of the Long-Term Financial Plan

The LTFP is a financial planning tool to assist management and policy makers in identifying the financial challenges and opportunities facing SacSewer and determining the impact of various policies and decisions that might be implemented to meet those challenges and opportunities. The LTFP includes a set of well-reasoned assumptions that provides a foundation upon which a variety of policies and decisions can be formulated for the annual operating and capital budgets, debt management program, reserves management, rate and fee setting, and other on-going financial management activities. The LTFP includes a recommendation section with some specific recommended action items to be considered over the long-term horizon to address expected financial challenges and opportunities.

The Planning Process – The LTFP process involves gathering information from SacSewer staff related to the long-term operating and capital needs of SacSewer. The planning process includes reviews of various planning documents produced by SacSewer and other agencies. The LTFP does not attempt to replace other planning processes or documents but works in conjunction with them. The planning documents reviewed include the Strategic Action Plan, the Capital Funding Projections, Condition Assessment Report, major project plans, the annual budget, and other planning documents. Research and analysis of economic data and trends affecting SacSewer are also included. The process involves discussions and collaborations with management, staff, legal counsel, and outside financial advisors to determine critical issues and opportunities that SacSewer may face over the next 10 years. Finally, the process culminates in a presentation to the Board of Directors to receive public and board member input and guidance on what additional issues should be considered in the future.

The LTFP will be updated and brought back to the Board of Directors at least once each year. Any action items outlined in the plan will be brought back to the Board of Directors individually for approval at appropriate times in the future, as conditions and opportunities warrant.



The Mission, Vision, Values, and Guiding Financial Principles

The SacSewer mission is ***“Serving our community by protecting public health and the environment through sewage collection, treatment, and resource recovery.”*** The vision of SacSewer is ***“Setting the bar for excellence in utility management and environmental sustainability.”*** The goal of the Long-Term Financial Plan is to support the SacSewer mission and provide a long-term sustainable financial foundation for achieving and sustaining the vision.

More specific financial principles, policies, and goals guiding this plan include:

1. Growth pays for growth over the long-term. Sewer impact fees will be set at a level necessary to assure that new connections finance capital costs associated with the additional burden of new customers on the collection and treatment and resource recovery systems, respectively.
2. Monthly service rates should be smoothed to avoid spikes and minimize the total burden on ratepayers. Reserves may be used to smooth rates when prudent.
3. Prudent reserves are to be maintained to mitigate the negative effects of emergencies and fluctuations in revenues and expenditure levels. Additional reserve levels will be maintained to fund asset replacements, meet debt management needs, and meet regulatory requirements.
4. Required annual maintenance and scheduled asset replacement should not be deferred to minimize current rates and fees at the expense of higher future rates and fees.
5. SacSewer should maintain strong bond ratings to instill confidence in investors and ratepayers and to facilitate access to the municipal bond market at a lower cost.
6. Use and cost of debt should be minimized to the extent possible. Debt service should be strategically planned to be as level as possible to minimize the burden on ratepayers and produce predictable rates that avoid significant spikes.
7. Capital projects should be financed on a pay-go (cash) basis to the extent possible, targeting at least 25 percent cash financing on projects for new facilities, and 100 percent cash financing on rehabilitation and replacement projects.
8. Excess funds due to higher-than-expected growth, unexpected one-time revenues, and operating surpluses should be used to pay off debt early.

Core Values



Business Environment

Economic Conditions and Trends

Regional, state, national, and global economies and financial markets impact SacSewer’s financial strategies and decisions and, therefore, can have a significant effect on SacSewer operations. Because SacSewer is an integral part of the Sacramento regional economy, conditions and trends here have a significant influence over SacSewer’s financial outlook, particularly on revenue projections.

Table 2 below shows the growth that SacSewer has experienced over the past 10 years as measured by average billed and collected ESD equivalents:

Table 2
Growth in Connected Equivalent Single-Family Dwelling Units (ESDs)

	FY 2016	2017	2018	2019	2020	2021	2022	2023	2024	2025*
Collection System										
ESDs	407,502	410,689	413,809	417,027	420,297	423,244	427,549	431,280	435,429	439,706
New ESDs	1,905	3,187	3,120	3,218	3,270	2,947	4,305	3,731	4,149	4,277
% Change	0.47%	0.78%	0.76%	0.78%	0.78%	0.70%	1.02%	0.87%	0.96%	0.98%
Treatment & Resource Recovery System										
ESDs	586,351	588,053	592,857	598,217	600,203	599,024	616,770	617,323	619,703	622,809
New ESDs	-168	1,702	4,804	5,360	1,986	-1,179	17,746	553	2,380	3,106
% Change	-0.03%	0.29%	0.82%	0.90%	0.33%	-0.20%	2.96%	0.09%	0.39%	0.50%

*Estimate

The real estate market and construction activities in Sacramento remain strong, helping to drive growth in ESDs. Although there was a slight drop in ESD’s in fiscal year 2020-21 due to COVID-19, the growth in ESDs has quickly recovered back to pre-pandemic levels and is expected to continue at a moderate rate.

SacSewer takes a more conservative approach to forecasting growth in the regional construction market since real estate growth and business activity in the local economy is sensitive to macroeconomic factors, including inflation, wage growth, employment levels, and interest rates. While the Sacramento region is currently experiencing robust real estate development activity and a strong job market, there’s significant uncertainty around macroeconomic factors as the Fed continues its balancing act of trying to contain and reduce inflation without negatively

affecting employment and economic growth. In addition, the new administration's tariff policies have introduced further uncertainty in the macro environment adding more challenges to the Fed's efforts to rein in inflation. SacSewer believes that the uncertainty in the macroeconomic environment with possible outcomes that might include persistently high inflation or a slowdown in business activity as interest rates remain high presents headwinds that might eventually negatively affect new development and growth in the local economy.

Interest Rates – Market interest rates went from all-time highs in the 1980s to all-time lows in the aftermath of the Global Financial Crisis of 2008, as the Federal Reserve (Fed) cut the federal funds rate in response to the Great Recession and more recently the COVID-19 pandemic. The Fed began raising the federal funds rate to help contain rising inflation, which hit a near 40-year high in 2021. Beginning in March 2022, the Fed aggressively raised the federal funds rate throughout 2022 and in the first half of 2023 from 0% to a target range of 5.0 to 5.5% by 2024. In response to falling inflation and to forestall recession fears, the Fed reduced the federal funds rate to 4.25 to 4.5% between September and December 2024 where it currently stands. The Fed has since kept the funds rate at 4.25%–4.50% through August 2025, in line with expectations, as officials adopt a wait-and-see approach amid concerns that President Trump's tariffs could drive up inflation and slow economic growth. In its May 2025 meeting, the Fed noted that uncertainty about the economic outlook has increased further and that the risks of higher unemployment and higher inflation have risen. SacSewer expects inflation and interest rates to remain elevated for much of the forecast period.

Current high interest rates have both good and bad effects on SacSewer's financial outlook. On the negative side, higher interest rates reflect higher inflation rates in the economy. In turn, SacSewer is facing rising operating costs at a rate that it did not have to contend with in the past. Higher interest rates also raise the cost of borrowing, and limits opportunities to refund (refinance) debt at a lower cost. This in turn increases the cost of capital projects and increases the impact of the capital program on SacSewer rates and fees.

On the positive side, SacSewer receives higher returns on invested cash balances. SacSewer is limited by State law and Board policy to investing in securities with maturities of five years or less. In 2022, SacSewer implemented the Cash Reserves Initiative, which allowed the district to invest its designated cash reserves outside of the Sacramento County Pooled Investment Fund. With average maturities around 2.5 years, which is greater than maturities in the County Pool, SacSewer's investment returns on its cash reserves are expected to be higher and outperform the County Pool over the long term in line with the long-term goal of increasing earnings on cash balances.



Critical Issues – Risks and Opportunities

SacSewer continues to hold a financially stable position where revenue, costs from customer growth, and operational costs have grown significantly in the past few years. SacSewer has developed and implemented a rate and fee structure that provides long-term financial stability and maintains reserves to mitigate a variety of financial risks. However, a number of potential issues and unforeseen events could have a significant impact on the financial position of SacSewer, as described below:

1. Regulatory requirement changes – Changes in regulatory requirements that govern SacSewer operations can cause operating costs to rise. The State Water Resources Control Board adopted new Sanitary Sewer State Wastewater Discharge Regulations on December 6, 2022, with an effective date of June 5, 2023. No significant capital and/or operating costs beyond our projected levels are expected at this time. SacSewer continues engaging with the regulatory community and advocating for SacSewer’s interests regarding potential regulation related to PFAS, solids processing, and Advance Clean Fleet.

SacSewer’s wastewater discharge is regulated by a National Pollutant Discharge Elimination System (NPDES) permit issued by the Central Valley Regional Water Quality Control Board. As the permit is required to be renewed every five years, there is the possibility that additional changes with the discharge requirements could increase the costs of treating the wastewater. The NPDES permit will be updated in 2026.

2. Lawsuits and settlements – Legal challenges are an ever-present hazard in the wastewater utility business. In 2023, SacSewer entered into a settlement agreement with the California Coastkeeper Alliance for violations of the Clean Water Act for sanitary sewer spills. Defending litigation and any other potential legal issues can result in settlement costs that are not included in the current projections.

Due to the large number of capital projects that are undertaken by SacSewer, bid protests and legal challenges related to the projects may occur. These challenges could potentially cause project delays and could result in additional regulatory, construction, and legal costs. SacSewer is also exposed to the risk of employment-related lawsuits.

3. Board approved service commitments– Future rate increases may be necessary if more resources are needed to meet service commitment targets. SacSewer has met all seven of its Collection System service commitment targets for the last seven years.

4. Economic conditions - Adverse changes in macroeconomic conditions, such as rising interest rates and inflation may negatively impact the financial performance of this plan. Rising interest rates can benefit SacSewer by providing additional non-operating income from higher returns on invested cash balances. In addition to partially offsetting rising operating and capital costs for the benefit of all ratepayers, this type of income can provide resources

for maintaining or expanding programs such as the Sewer Lifeline Rate Assistance Program for low-income ratepayers that rely on non-rate/fee income for support. On the other hand, rising interest rates have a negative impact on SacSewer by increasing the cost of financing for capital projects or debt restructuring. SacSewer would benefit from declining interest rates in the future by allowing the restructuring of some existing debt to a lower interest cost.

- 5. Natural disasters, climate change, pandemics, and other emergencies** – The potential for natural disasters, such as earthquakes or floods, are issues that SacSewer considers in its emergency planning. An increase in extreme weather events may result in the need for additional capital spending to enhance system capacity or resiliency. A general reserve of 25% of projected annual operating costs is funded and will continue to be maintained to cover additional costs that could be incurred during times of emergency. The risk for earthquakes in the Sacramento Region is relatively small. However, the risk for flooding in the region is significant. SacSewer has taken and will continue to take measures to protect its critical infrastructure from flood damage. For example, the treatment plant in Elk Grove is surrounded by levees designed to protect infrastructure from major flood events. Treatment and Resource Recovery staff inspect these levees periodically and a report is submitted to the Army Corps of Engineers confirming their integrity. These levees protect the entire process area and critical infrastructure at the treatment plant. To mitigate impacts from natural disasters and other emergencies, SacSewer maintains insurance coverage and cash reserves to cover additional costs that could be incurred to preserve or repair essential infrastructure in an emergency. Additionally, SacSewer updated the Continuity of Operation Plan and Flood Response Manual in 2023 and 2019, respectively. These documents provide response plans for natural disasters and other emergencies. An increase in extreme weather events may result in the need for additional capital spending to enhance system capacity or resiliency. The potential for future pandemics to disrupt SacSewer will be considered. COVID-19's impact on SacSewer's finances was minimal, but there is the possibility that future pandemics could have a greater effect.
- 6. Water usage fluctuations** – Reduced or increased wastewater could have an impact on utilities in the future. As sewage flows decline in SacSewer's collection system due to mandated water conservation or drought, potential issues may arise that will increase the costs of maintenance in the system. Lower wastewater flows increase the potential of debris stoppages and may also result in odor issues. There is also a higher risk of root intrusion in the sewer collection system. Conversely, intense storm events can cause system surcharging and increased sanitary sewer spills.
- 7. Aging infrastructure** – In order to adequately address emerging aging infrastructure issues, SacSewer has developed asset sustainability strategies for Collection System main lines, pump stations, force mains, lower laterals, and reinforced concrete pipe. Estimates of cost increases and appropriate reserve levels associated with the sustainability strategies are evaluated annually and included in financial projections and budgets. The North Area

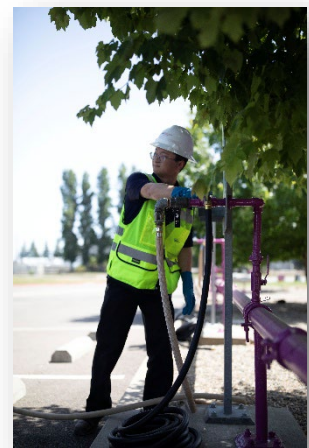
Corporation Yard (NACY) is nearing the end of its design life and renewal costs will be incurred over several years as specified in the 10-year Capital Funding Projection.

SacSewer is implementing programs to address the condition of the Treatment System's interceptor conveyance system assets through condition assessment inspections, repairs, rehabilitations, and replacements to ensure reliable and sustainable wastewater treatment systems are maintained. These programs identify and prioritize projects and assign resources to cost effectively address aging facilities and improve the reliability, efficiency, and effectiveness of operations. There is also a need to improve existing plant assets and systems to support the EchoWater Project. The current plan includes over \$300 million of capital expenditures over the next 10 years to repair and rehabilitate existing assets. Ongoing condition assessments may require additional expenditures.

8. Biosolids processing – The new treatment process implemented through the EchoWater Project, which was required to meet discharge permit requirements has resulted in an increase in biosolids production that now requires additional improvements for biosolids disposal. The Capital Funding Projection includes a total of about \$444 million in biosolids disposal improvements. \$14.8 million in operating costs are projected for FY 2025-26 to handle the additional biosolids disposal needs and an annual average of \$13.8 million in supplemental biosolids recycling costs over the 10-year LTFP forecast period.

9. Water recycling – Water resource protection and sustainability in the Sacramento region and the Sacramento-San Joaquin Delta continue to be critical economic and environmental concerns. SacSewer staff continue to promote environmental stewardship values through better use of the regional water resources with a commitment to the expansion of water recycling programs. With completion of the EchoWater Project, SacSewer is now able to produce more high-quality tertiary treated recycled water that can be used for regional benefits such as agriculture and landscape irrigation, industrial uses, and in-lieu groundwater recharge.

One of the projects currently being implemented to take advantage of the tertiary treated wastewater is the Harvest Water Program, which will deliver up to 50,000 acre-feet of recycled water to agricultural properties for crop irrigation south of the City of Elk Grove. The system also helps deliver recycled water to developed areas within the City of Elk Grove that have already been plumbed to receive and use recycled water for landscape, median, and park landscape irrigation. Future revenues from the sale of recycled water are currently unknown.



10. Harvest Water - SacSewer is progressing in constructing the Harvest Water Program to provide recycled water on a large scale to agricultural water users and existing habitat lands

in southern Sacramento County. In 2013, using grant funds, SacSewer completed a feasibility study that showed water-recycling projects can improve regional groundwater resource sustainability and provide environmental benefits to the Sacramento region. In July 2018, SacSewer was awarded \$280.5 million (later increased to \$291.8 million) in grant funding through the Water Storage Investment Program that is being administered by the California Water Commission (CWC). In 2025, CWC awarded SacSewer an additional \$73 million, including Proposition 4 funds that are anticipated to be included in the Governor’s summer budget. The current funding commitment from CWC of \$364.8 million, is based on the value of public benefits such as ecosystem and water quality improvements that the project will provide, as well as additional funds from Proposition 4 addressing inflation. Harvest Water also received an additional \$30 million in federal grant funding from the Title XVI Water Infrastructure Improvements for the Nation (WIIN) program through the US Bureau of Reclamation. Harvest Water is estimated to cost \$597 million in total. As of Spring 2025, grant awards totaling \$394.8 million had been awarded to help offset project costs. SacSewer continues to seek additional grant funding for Harvest Water, including funding commitments from the United States Department of Agriculture (\$1 million) and the California State Water Resources Control Board (\$3 million) that we are working towards finalizing the funding agreements. As the project is still in construction, there is the risk that escalating costs and higher than anticipated operating costs may increase the cost of the project.

11. BioGeneration Facility - SacSewer has executed a \$140M design-build contract to construct a biogas cogeneration engine system that will utilize digester gas onsite to provide renewable and reliable utility and backup power, steam for digester heating, and revenue per a commodity agreement. There is an opportunity to obtain federal funding in the form of tax credits (direct payments) from the Inflation Reduction Act (IRA). SacSewer anticipates meeting the IRA requirements including domestic content and project labor agreements which would result in upto \$42 million in IRA direct payments. Due to uncertainty around meeting the domestic content requirement, the amount of direct payments received could be as low as \$28 million. The LTFP conservatively assumes the lower amount. The risks of escalating construction costs and unknown additional costs for startup have been reduced with the execution of the contract. SacSewer expects to save approximately \$8 million on electricity costs during the first year of operation. These cost savings are expected to increase as biogas production is increased through the expansion of the organic waste program.

12. Transition from County support services – Effective December 15, 2024, SacSewer became a new employer for the first time in its history. All staff serving the district transitioned from being County employees to district employment. Along with the transition of staff from the County, the district has established its own human resources management function and an independent financial management system. As SacSewer takes over the services, the impact on its finances has been marginal. However, there have been some notable delays in the implementation of in-house services and processes, most of which have been resolved timely. However, some risk still remain on some service transitions and key services still provided by the County under service agreements.

Long Range Financial Forecasts

Financial Performance Targets

One of the primary objectives of SacSewer’s Board and management is to maintain a financially sound and sustainable wastewater utility capable of delivering high-quality service at the lowest long-term cost. Some financial benchmarks and performance targets are used to determine and maintain financial health. Those targets include cash balances, annual cash flow needs, and debt coverage ratios.

Collection System

The forecast model is designed to maintain total cash on hand equal to at least eight months of operating expenses net of depreciation. Currently, SacSewer has about 18 months of operating cash on hand, which is equal to the industry median of 18 months for Water and Sewer Retail districts, AA+ rated. The forecast model shows how the cash balances are allocated between designated reserves and the unreserved cash balance. The current Debt Service Coverage Ratio of 4.8x is above the industry median of 2.6x, for water and sewer retail districts, AA+ rated, as reported by Fitch Ratings.¹ When projected revenues or cash flow needs cause any of these metrics to fall below these target levels, a rate increase is considered to return these measures to their target levels. The baseline forecast assumes an annual growth rate of 0.5% per year, and includes adopted rate increases and projected future rate increases totaling \$4.00 per ESD from FY 2031-32 to FY 2034-35. A minimum debt coverage ratio of 2.5x is a target of the forecast model in line with medians of similar utilities with comparable credit ratings. This is above the bond covenant requirements of 1.20x for senior coverage, and 1.10x for total debt coverage. Projected coverage is higher than the covenant requirements throughout the LTFP forecast period.

Treatment and Resource Recovery System

The forecast model is designed to maintain total cash on hand of at least \$309 million by the end of the forecast period. The Treatment and Resource Recovery System had approximately 837 days of operating cash on hand on June 30, 2025, which is significantly above the industry median of 471 days². SacSewer maintains higher cash balances for the Treatment and Resource Recovery System than the industry median because SacSewer maintains higher debt loads than industry averages. In addition, the forecast model assumes designated reserve levels for specific types of reserves and that SacSewer will maintain a positive unreserved cash balance for the System. A minimum debt coverage ratio of 1.45x is a target of the forecast model in line with medians of similar utilities with comparable credit ratings. This is above the bond covenant requirements of

¹ Fitch Ratings U.S. Water and Sewer Peer Review 2024, Financial Ratios - Retail.

² Fitch Ratings U.S. Water and Sewer Peer Review 2024, Financial Ratios - Wholesale.

1.20x for senior debt coverage. Projected coverage is higher than the covenant requirements and in line with the targets.

Under the baseline forecast, the annual growth assumption used does not exceed 0.5% per year. Monthly service rates for Treatment and Resource Recovery of \$40.50 per ESD would rise to \$47 by FY 2026-27 based on last year's adopted rate increases. Additional rate increases totaling \$6 per ESD are forecasted in years 3 through 6 of the forecast period from FY 2027-28 to FY 2030-31. This forecast is dependent on actual capital costs coming in close to the capital funding projection and inflation rates leveling out at current levels.



Financial Forecast Tables

The following four pages contain the ten-year financial forecast tables for SacSewer. The forecast includes two tables, an operating pro forma and a cashflow projection, showing actuals for the latest audited fiscal year (FY 2023-24), the projected year-end estimates for the current budget year, and a ten-year forecast to FY 2034-35, with the first year reflecting the final adopted budget for FY 2025-26. Tables 2 and 3, show a pro-forma statement of operations showing revenues, expenditures, and debt coverage projections for the Collections System and Treatment and Resource Recovery, respectively. Tables 4 and 5 show cash flows and cash balance projections, including cash in reserve funds for the Collection System and Treatment and Resource Recovery,

respectively. These tables reflect a baseline growth rate assumption that ESDs will be added at a rate of 0.5% in each fiscal year from FY 2026-27 through FY 2034-35. This is a conservative growth assumption given the past ten-year average annual growth rate for SacSewer has averaged around 1.0%.

The forecast for Treatment and Resource Recovery includes anticipated debt financing (revenue bonds) totaling \$430 million in FY 2026-27 and FY 2028-29 to close the funding gap for the Harvest Water Program and to help finance necessary improvements for Biosolids management. Also included are supplemental biosolids recycling costs, and projected operational costs for the Harvest Water and BioGeneration Facility Projects once construction is complete, and when the delivery of recycled water and electricity generation begin. The BioGeneration Facility Project is expected to generate cost savings by reducing the EchoWater Facility's demand for electricity from the local electric utility. Cost savings averaging \$8 million annually (2027 dollars) are assumed in the financial forecast.

Table 2: Collection System Pro Forma as of August 20, 2025

(\$'000s unless noted otherwise)	Actuals	Preliminary Actuals	Adopted Budget*	Forecast									
				2023-24	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31	2031-32	2032-33
ESD Growth Rate	0.96%	0.98%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%
Historical/Avg. Billed ESDs (estimated)	435,429	439,706	441,904	444,114	446,334	448,566	450,809	453,063	455,328	457,605	459,893	462,192	
Operating Revenues													
<i>Monthly rate per ESD</i>	<u>\$ 19.85</u>	<u>\$ 22.85</u>	<u>\$ 25.35</u>	<u>\$ 27.35</u>	<u>\$ 27.35</u>	<u>\$ 27.35</u>	<u>\$ 27.35</u>	<u>\$ 27.35</u>	<u>\$ 28.85</u>	<u>\$ 29.35</u>	<u>\$ 29.85</u>	<u>\$ 30.35</u>	
Residential/Commercial revenue	104,224	120,567	134,427	145,758	146,487	147,219	147,955	148,695	157,635	161,168	164,734	168,330	
Industrial Revenue	276	759	1,381	2,003	2,013	2,023	2,033	2,043	2,053	2,064	2,074	2,084	
Total Revenue from Service Charges	104,500	121,326	135,808	147,761	148,500	149,242	149,988	150,738	159,688	163,232	166,807	170,415	
Impact Fee Revenue	10,181	8,924	7,500	7,538	7,575	7,613	7,651	7,689	7,728	7,766	7,805	7,844	
Subtotal Operating Revenue	114,681	130,250	143,308	155,298	156,075	156,855	157,639	158,428	167,416	170,998	174,613	178,259	
Non-Operating Revenue													
Fed/State Grants (incl. BAB Subsidy)	2,395	2,283	2,283	2,283	2,283	2,283	2,283	2,283	2,283	2,283	2,283	2,283	2,283
Interest revenue	4,436	5,172	5,113	5,241	4,925	4,435	3,902	4,232	4,526	4,865	5,201	5,577	
Other revenue	10,238	7,929	10,644	10,857	11,074	11,296	11,522	11,752	11,987	12,227	12,471	12,721	
Subtotal Non-Operating Revenue	17,069	15,383	18,041	18,381	18,282	18,014	17,706	18,267	18,796	19,375	19,955	20,581	
Total Revenue	\$ 131,750	145,633	161,349	173,679	174,357	174,869	175,346	176,695	186,211	190,374	194,568	198,840	
Operating Expenses													
Salaries & Benefits	50,672	53,150	59,262	65,189	71,707	73,859	76,074	78,357	80,707	83,129	85,622	88,191	
Services & Supplies	42,799	43,919	52,751	54,334	55,964	57,643	59,372	61,153	62,988	64,877	66,824	68,829	
Depreciation & Amortization	37,032	35,028	35,723	36,826	37,538	38,506	39,124	39,262	39,451	39,621	39,787	39,961	
Total Operating Expense	130,502	132,097	147,736	156,349	165,210	170,007	174,570	178,772	183,146	187,627	192,233	196,980	
<i>Total Operating Exp., net of depr. & amort.</i>	93,470	97,069	112,014	119,522	127,671	131,501	135,446	139,510	143,695	148,006	152,446	157,020	
Non-Operating Expense	3,621	3,670	5,452	5,862	5,791	5,820	5,851	5,882	6,014	5,947	5,981	6,015	
Total Expense	\$ 97,091	100,740	117,465	125,384	133,462	137,322	141,297	145,392	149,709	153,953	158,427	163,035	
Net revenue	34,659	44,894	43,884	48,295	40,895	37,547	34,048	31,302	36,502	36,420	36,141	35,805	
Net revenue for coverage test	\$ 38,280	\$ 48,564	\$ 49,335	\$ 54,157	\$ 46,686	\$ 43,368	\$ 39,899	\$ 37,185	\$ 42,516	\$ 42,368	\$ 42,122	\$ 41,820	
Debt Service Coverage													
Senior Debt Service	10,111	10,118	13,641	13,626	13,590	13,562	13,521	13,492	16,792	16,674	16,546	16,426	
Total Debt Service (All Senior)	10,111	10,118	13,641	13,626	13,590	13,562	13,521	13,492	16,792	16,674	16,546	16,426	
Debt service coverage (must be ≥ 1.20x)	3.79x	4.80x	3.62x	3.97x	3.44x	3.20x	2.95x	2.76x	2.53x	2.54x	2.55x	2.55x	

* Includes post-adoption adjustments to budgeted revenues and expenses based on updated FY 24-25 actuals.

Table 3: Treatment System Pro Forma as of August 20, 2025

(\$'000s unless noted otherwise)	Actuals	Preliminary Actuals	Adopted Budget*	Forecast											
				2023-24	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31	2031-32	2032-33	2033-34	2034-35
				ESD Growth Rate	0.39%	0.50%	0.87%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%
Historical/Average Billed ESDs (estimated)	619,703	622,809	628,216	631,358	634,514	637,687	640,875	644,080	647,300	650,537	653,789	657,058			
Operating Revenues															
Monthly rate per ESD	\$ 37.00	\$ 40.50	\$ 44.00	\$ 47.00	\$ 49.00	\$ 50.50	\$ 52.00	\$ 53.00	\$ 53.00	\$ 53.00	\$ 53.00	\$ 53.00	\$ 53.00		
Residential/Commercial Revenue	283,805	\$ 312,208	\$ 342,134	\$ 356,086	\$ 373,094	\$ 386,438	\$ 399,906	\$ 409,635	\$ 411,683	\$ 413,741	\$ 415,810	\$ 417,889			
Industrial Revenue	11,765	10,696	11,625	12,090	12,605	12,990	13,376	13,633	13,633	13,633	13,633	13,633			
Total Revenue from Service Charges	295,570	322,904	353,759	368,176	385,699	399,429	413,282	423,268	425,316	427,375	429,443	431,522			
Impact Fee Revenue	34,481	33,515	25,125	26,256	27,437	27,574	27,712	27,851	27,990	28,130	28,271	28,412			
Subtotal Operating Revenue	330,050	356,420	378,884	394,431	413,136	427,003	440,995	451,119	453,306	455,505	457,714	459,934			
Non-Operating Revenue															
Interest revenue	20,106	21,237	13,034	12,043	12,154	16,701	16,856	14,544	12,743	12,066	13,086	14,875			
Other revenue	10,861	7,548	12,020	12,260	12,505	12,755	13,011	13,271	13,536	13,807	14,083	14,365			
Subtotal Non-Operating Revenue	30,967	28,785	25,054	24,303	24,660	29,456	29,867	27,815	26,280	25,873	27,169	29,240			
Total Revenue	\$ 361,017	385,205	403,938	418,735	437,796	456,459	470,861	478,933	479,586	481,378	484,883	489,175			
Operating Expenses															
Salaries & Benefits	72,283	73,163	81,577	91,137	100,141	103,145	106,239	109,427	112,709	116,091	119,573	123,161			
Services & Supplies	89,299	89,729	96,876	101,041	104,492	108,047	111,708	115,479	119,457	123,647	127,902	131,925			
Supplemental BioSolids Recycling	11,071	13,475	14,814	14,000	14,000	14,000	14,000	17,100	20,200	18,200	6,200	6,200			
Harvest Water Operations	-	-	-	500	1,000	1,030	1,051	1,072	1,093	1,115	1,137	1,160			
Biogen Operations	-	-	-	-	3,903	3,702	4,542	7,466	3,335	4,310	4,087	5,015			
Biogen Electricity Cost Savings	-	-	-	-	(7,983)	(8,222)	(8,387)	(8,555)	(8,726)	(8,900)	(9,078)	(9,260)			
Depreciation & Amortization	71,185	69,157	73,670	80,245	86,681	90,184	92,358	95,662	98,378	100,788	101,798	102,008			
Total Operating Expense	243,837	245,524	266,937	286,922	302,235	311,885	321,511	337,651	346,447	355,250	351,620	360,209			
Total Operating Expense, excl. depr. & amort.	172,652	176,367	193,267	206,677	215,553	221,701	229,154	241,989	248,069	254,462	249,821	258,201			
Non-Operating Expense	4,403	8,774	9,163	9,346	9,533	9,724	9,918	10,117	10,319	10,525	10,736	10,951			
Total Expense	\$ 177,055	185,141	202,430	216,024	225,086	231,425	239,072	252,105	258,388	264,987	260,557	269,152			
Net Revenue	183,962	200,063	201,508	202,711	212,709	225,034	231,789	226,828	221,198	216,391	224,326	220,023			
Net revenue for debt coverage test	\$ 188,365	208,838	210,671	212,057	222,243	234,758	241,708	236,945	231,517	226,916	235,061	230,973			
Debt Service Coverage															
Senior debt service	114,963	127,596	127,901	127,902	137,658	137,658	155,873	155,874	155,870	155,869	155,870	153,050			
Total debt service (All Senior)*	123,213	127,596	127,901	127,902	137,658	137,658	155,873	155,874	155,870	155,869	155,870	153,050			
Senior debt coverage (minimum 1.20x)	1.64 x	1.64 x	1.65 x	1.66 x	1.61 x	1.71 x	1.55 x	1.52 x	1.49 x	1.46 x	1.51 x	1.51 x			

* Following the issuance of Series 2024 refunding bonds, all subordinate bonds were refunded and the entire debt portfolio is senior lien only.

** Includes post-adoption estimates to budgeted revenues and expenses based on FY24-25 preliminary actuals.

Table 4: Collection System Cash Flow Projection as of August 20, 2025

(\$'000s unless noted otherwise)	Actuals	Prelim. Actuals	Adopted Budget*	Forecast								
				2023-24	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31	2031-32
Beginning Cash Balance	\$ 142,165	\$ 141,838	\$ 143,978	\$ 148,221	\$ 151,238	\$ 130,180	\$ 123,255	\$ 136,863	\$ 145,263	\$ 156,443	\$ 167,919	\$ 178,815
Cash Inflow												
Impact Fees	10,181	8,924	7,500	7,538	7,575	7,613	7,651	7,689	7,728	7,766	7,805	7,844
Monthly Service Charges	104,500	121,326	135,808	147,761	148,500	149,242	149,988	150,738	159,688	163,232	166,807	170,415
Interest/Other Revenue	14,675	13,100	15,758	16,098	15,999	15,731	15,423	15,984	16,513	17,092	17,673	18,298
Federal BABs Subsidy	2,395	2,283	2,283	2,283	2,283	2,283	2,283	2,283	2,283	2,283	2,283	2,283
Septic Conversion Project Grants	0	2,125	29,170	3,960	-	-	-	-	-	-	-	-
Subtotal Cash In	131,750	147,758	190,519	177,639	174,357	174,869	175,346	176,695	186,211	190,374	194,568	198,840
Cash Outflow												
Operating Expenses	93,470	97,069	112,014	119,522	127,671	131,501	135,446	139,510	143,695	148,006	152,446	157,020
Non-Operating Expenses	3,621	3,670	5,452	5,862	5,791	5,820	5,851	5,882	6,014	5,947	5,981	6,015
Capital Project Expenses	24,875	34,760	55,170	35,612	48,363	30,910	6,920	9,410	8,530	8,270	8,700	5,210
Debt Service	10,111	10,118	13,641	13,626	13,590	13,562	13,521	13,492	16,792	16,674	16,546	16,426
Subtotal Cash Out	132,077	145,618	186,276	174,622	195,415	181,794	161,738	168,294	175,031	178,897	183,673	184,671
Ending Cash Balance	\$ 141,838	\$ 143,978	\$ 148,221	\$ 151,238	\$ 130,180	\$ 123,255	\$ 136,863	\$ 145,263	\$ 156,443	\$ 167,919	\$ 178,815	\$ 192,983
Unreserved Cash Balance	95,447	99,022	100,215	100,734	77,566	68,366	80,772	87,937	97,846	108,015	117,565	130,350
Designated Reserves												
General Reserve	20,549	22,904	25,733	28,003	29,881	31,918	32,875	33,862	34,877	35,924	37,002	38,112
Upper Lateral Loan Revolving Fund	500	600	600	600	600	600	600	600	600	600	600	600
Metro Airpark	2,799	2,912	2,970	3,029	3,090	3,152	3,215	3,279	3,344	3,411	3,480	3,549
Confluence Program	8,000	8,000	8,000	8,000	8,000	8,000	8,000	8,000	8,000	8,000	8,000	8,000
McClellan Airpark	1,723	-	-	-	-	-	-	-	-	-	-	-
Asset Replacement	8,820	6,541	6,704	6,872	7,044	7,220	7,400	7,585	7,775	7,969	8,168	8,373
Rate Stabilization	4,000	4,000	4,000	4,000	4,000	4,000	4,000	4,000	4,000	4,000	4,000	4,000
Total Designated Reserves	\$ 46,391	\$ 44,956	\$ 48,007	\$ 50,504	\$ 52,614	\$ 54,889	\$ 56,090	\$ 57,326	\$ 58,597	\$ 59,904	\$ 61,249	\$ 62,633

* Includes post-budget adoption estimates of revenues and expenses based on FY24-25 preliminary actuals.

Table 5: Treatment System Cash Flow Projection as of August 20, 2025

(\$'000s unless noted otherwise)	Actuals	Actuals	Adopted Budget*	Forecast								
	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31	2031-32	2032-33	2033-34	2034-35
Beginning Cash Balance	\$ 394,611	\$ 519,293	\$ 403,373	\$ 341,448	\$ 346,739	\$ 347,802	\$ 606,524	\$ 517,225	\$ 452,362	\$ 397,198	\$ 407,203	\$ 465,168
Cash Inflow												
Impact Fees	34,481	33,515	25,125	26,256	27,437	27,574	27,712	27,851	27,990	28,130	28,271	28,412
Monthly Service Charges	295,570	322,904	353,759	368,176	385,699	399,429	413,282	423,268	425,316	427,375	429,443	431,522
Interest & Other Revenue	30,967	28,785	25,054	24,303	24,660	29,456	29,867	27,815	26,280	25,873	27,169	29,240
State & Federal Grant Proceeds	-	37,268	193,186	102,317	101,164	-	-	-	-	-	-	-
SRF Loan & Bond Proceeds*	132,081	-	-	150,000	-	280,000	-	-	-	-	-	-
<i>Subtotal Cash In</i>	<i>493,098</i>	<i>422,473</i>	<i>597,125</i>	<i>671,052</i>	<i>538,960</i>	<i>736,459</i>	<i>470,861</i>	<i>478,933</i>	<i>479,586</i>	<i>481,378</i>	<i>484,883</i>	<i>489,175</i>
Cash Outflow												
Operating & Non-Operating Expenses	177,055	185,141	202,430	216,024	225,086	231,425	239,072	252,105	258,388	264,987	260,557	269,152
Capital, Harvest Water Recycling Project	19,565	143,105	152,435	113,711	40,477	17,006	3,348	5,137	5,395	-	-	-
Capital, BioGeneration Project	16,259	50,000	60,000	54,000	-	-	-	-	-	-	-	-
Capital, East Rancho Cordova Interceptor Project	-	-	3,000	5,300	19,500	31,000	30,500	15,700	-	-	-	-
Capital, BioSolids Processing Improvements	-	-	2,650	21,250	21,250	23,900	116,000	106,000	105,000	43,300	5,000	-
Other Capital Project Costs	22,371	32,551	110,633	127,575	93,926	36,749	15,368	8,981	10,097	7,217	5,491	5,618
Debt Service, SRF Loans (EchoWater & SPA)	41,053	44,632	44,632	44,632	44,632	44,632	44,632	44,632	44,632	44,632	44,632	44,632
Debt Service, Existing Bond Debt	82,160	82,964	83,269	83,270	83,268	83,268	83,269	83,270	83,266	83,265	83,266	80,446
Future Debt Service (est.)**	-	-	-	-	9,758	9,758	27,972	27,972	27,972	27,972	27,972	27,972
Swap Termination Payment	9,952	-	-	-	-	-	-	-	-	-	-	-
<i>Subtotal Cash Out</i>	<i>368,415</i>	<i>538,393</i>	<i>659,049</i>	<i>665,761</i>	<i>537,898</i>	<i>477,737</i>	<i>560,160</i>	<i>543,797</i>	<i>534,750</i>	<i>471,373</i>	<i>426,917</i>	<i>427,819</i>
Ending Cash Balance	\$ 519,293	\$ 403,373	\$ 341,448	\$ 346,739	\$ 347,802	\$ 606,524	\$ 517,225	\$ 452,362	\$ 397,198	\$ 407,203	\$ 465,168	\$ 526,524
Unreserved Cash Balance	\$ 269,748	145,326	73,478	72,875	69,164	323,732	229,887	159,064	99,561	105,077	161,241	217,465
Designated Reserves												
General Reserve	35,579	41,568	48,267	51,669	53,888	55,425	57,288	60,497	62,017	63,615	62,455	64,550
Rate Stabilization	23,200	23,200	23,200	23,200	23,200	23,200	23,200	23,200	23,200	23,200	23,200	23,200
CWSRF & SPA Loan Reserve (Restricted)	45,251	44,632	44,632	44,632	44,632	44,632	44,632	44,632	44,632	44,632	44,632	44,632
Facilities Closure	14,738	15,498	16,291	16,291	16,291	16,291	16,291	16,291	16,291	16,291	16,291	16,291
Equipment Replacement	1,249	1,280	1,312	1,345	1,379	1,413	1,448	1,485	1,522	1,560	1,599	1,639
Confluence Program	15,000	15,000	15,000	15,000	15,000	15,000	15,000	15,000	15,000	15,000	15,000	15,000
Expansion	20,908	20,908	20,908	20,908	20,908	20,908	20,908	20,908	20,908	20,908	20,908	20,908
Replacement & Rehabilitation	93,621	95,961	98,361	100,820	103,340	105,924	108,572	111,286	114,068	116,920	119,843	122,839
Total Designated Reserves	\$ 249,546	\$ 258,047	\$ 267,970	\$ 273,864	\$ 278,637	\$ 282,792	\$ 287,339	\$ 293,298	\$ 297,637	\$ 302,125	\$ 303,927	\$ 309,058

* Includes post-budget adoption estimates of revenues and expenses based on FY24-25 preliminary actuals.

** Assumed bond proceeds and debt service for projected future issuance.

Forecast Assumptions

The financial forecasts are designed to meet performance targets for debt coverage and total cash balances necessary to remain financially sound and maintain strong credit ratings. The target minimum levels for debt coverage ratios (senior debt) are 2.5x and 1.45x for the Collection System and Treatment System, respectively. The target minimum level for Collection System total cash balances at the end of the forecast period is \$85 million. The minimum cash balance target includes both reserved and unreserved cash, and the unreserved cash balance must remain above \$23 million to ensure 100% cash funding of the capital program.

The target minimum level for Treatment System total cash balances, excluding restricted bond proceeds is \$378 million. The minimum cash balance target includes both reserved and unreserved cash, and the unreserved cash balance must remain positive and provide pay-go financing of up to 25% of the capital program.

In addition, the forecasts include the following assumptions for each line item:

- 1. Rate Revenue – Collection System:** The monthly rates per ESD will increase to \$27.35/ESD in FY 2026-27 based on adopted rate increases and will remain at that level until FY 2031-32 when additional rate increases totaling \$3.00/ESD over 4 years are projected, in order to maintain debt coverage ratios at target minimum levels.

Treatment System: The monthly rates per ESD will increase to \$47/ESD in FY 2026-27 based on adopted rate increases. Additional annual rates increases are projected from FY 2027-28 to FY 2030-31, totaling \$6.00/ESD over 4 years, to provide sufficient revenue to fund new capital project spending, higher debt service, and meet the target ratios for debt coverage.

Rate revenue increase based on customer (ESD) growth is estimated to average 0.5% annually throughout the 10-year forecast period.

- 2. Impact Fee Revenue – Collection System:** Increased impact fees were recently adopted effective July 1, 2024 (\$790/ESD for relief areas and \$4,067/ESD for expansion areas), and July 1, 2024 (\$790/ESD for relief areas and \$4,374/ESD for expansion areas). No additional impact fee increases are anticipated during the forecast period.

Treatment System: Lower sewer impact fees for infill areas were adopted effective July 9, 2023 (\$3,283 per ESD), and will remain at that level through July 1, 2027; while fees for new communities will remain the same at \$6,479 per ESD through June 30, 2026. On July 1, 2026, fees will increase to \$6,718 per ESD, and to \$6,955 per ESD on July 1, 2027. We do not expect the new fees to negatively impact construction activity and new service connections. Impact fee revenue is more difficult to predict due to the number of variables affecting revenue. Factors that can affect impact fee revenues include the proportion of new development in infill versus new communities, new construction activity, the level of impact fee credits used, the proportion of commercial development versus residential development, and levels of redevelopment.

The fee revenue forecast reflects the same ESD growth assumptions used for rate revenues.

- 3. Non-operating revenue – Collection System:** The main variable in this revenue category is interest income on invested cash balances. This revenue category is expected to remain relatively flat over the first half of the forecast period due to decreases in interest income as a result of net cash drawdowns to finance operational cost increases and major capital projects. After the near-term cash draws to finance large capital project spending, we expect non-operating revenue to increase at an average growth rate of 3% each year over the remainder of the forecast period.

Treatment System: Non-operating revenue is expected to decrease modestly by about 2% annually over the first half of the forecast period due to decreases in interest income as a result of net cash drawdowns to finance operational cost increases and major capital projects. After the near-term cash draws, we expect non-operating revenue to increase moderately at an average of 4% each year through the remainder of the forecast period.

- 4. Operating Expenses: Salaries & Benefits** – This cost category is projected to increase by about 5% annually throughout the forecast period. Additional annual increases of 7% were applied through FY 2027-28 to account for potential equity adjustments to the median of comparable sanitation districts following separation of SacSewer employees from the County. These increases reflect expected cost-of-living adjustments per SacSewer’s Compensation Policy, rising retirement and health benefit costs, and additional staff to meet projected program growth.
- 5. Operating Expenses: Services & Supplies – Collection System:** This expenditure category is projected to increase by about 3.0% per year based on program needs and maintenance schedules throughout the forecast period, and reflects our belief that inflation will generally be higher than historical levels.

Treatment System: Overall, non-labor operating costs are expected to increase at an average rate of 3.5% annually. These costs include the additional operating costs for supplemental biosolids processing. Harvest Water operating costs are expected to begin in fiscal year 2026-27, while BioGeneration Facility operating costs and savings are expected to begin in fiscal year 2027-28. Separate line items for these projects have been added to the forecast.

- 6. Non-Operating Expenses** – This expenditure category is projected to increase modestly by 1 – 2% annually throughout the forecast period for both systems.

Collection System

- 1. Debt Service** – Debt service is based on total outstanding bond debt of approximately \$153 million as of June 30, 2025. Debt service coverage stays above the target level of 2.5x throughout the ten-year forecast period.

2. Designated Reserves

The designated reserve levels for the Collections System are projected to increase from \$45 million as of June 30, 2025, to \$62.6 million by the end of Fiscal Year 2034-35 and are projected based on the following needs and assumptions:

- **General Reserve Collection System (\$22.9 million)** – Covers emergency costs and other unexpected expenditures, or to offset temporary fluctuations in revenues. This reserve is targeted at a level equal to 25% of operating expenditures and provides protection from rate increases that might result from short-term cost spikes from emergencies, regulatory changes, or legal (lawsuit) settlements.
- **Upper Lateral Loan Revolving Fund Reserve (\$600,000)** – Was established in fiscal year 2016-17 to provide a base revolving loan fund for low interest loans for customers that need to replace failing upper lateral sewer pipes on their property.
- **Metro Airpark Reserve (\$2.9 million)** – Was developer funded at this level by agreement between SacSewer and the developer of Metro Airpark to cover additional future maintenance and repair expenditures expected in this area. This reserve will be increased each year by a 2% general inflation factor to cover cost increases resulting from inflation.
- **Asset Replacement Reserve (\$6.5 million)** – Is funded from monthly rates and will be used to finance replacements of pipelines, buildings, and equipment assets as they reach the end of their useful lives. The changes in this reserve are based on asset replacement needs identified annually in the SacSewer Asset Management Plan and may be drawn down in years where the Capital Funding Projection total costs exceed \$25 million.
- **Rate Stabilization Reserve (\$4 million)** – Is available to make sure debt coverage ratios of at least 1.20x, as required by bond agreements, are met if revenues decline without requiring an immediate increase in rates. As debt gets paid off the need for the reserve declines.
- **Confluence Program Reserve (\$8 million)** – Was first set aside in fiscal year 2018-19 to manage the programs funding annually through non-rate/fee revenues. This reserve provides a funding buffer to ensure long-term programs can continue during years of low non-rate/fee revenues.
- **Unreserved Cash Balances** – This is defined as all of the cash balances not designated for a specific purpose by the Board of Directors and provides an additional cushion for unexpected expenses or revenue loss. Unreserved cash also provides a flexible source of funding to take advantage of opportunities to maximize long-term economic benefits for ratepayers. In this plan, unreserved cash provides financing for capital projects and offsets the need for new debt.

- 3. Capital Costs**– The cost estimates for capital project expenditures are from the Collection System Asset Management Plan that has replacement schedules for all major Collection System assets. Larger than normal capital expenditures forecast in 2025-26 through 2028-29 will be covered by drawing down unreserved cash balances. More detail on the capital projects is included in the following Capital Funding Projection section.

Treatment and Resource Recovery System

- 1. Debt Service** – The current debt service is based on the total outstanding bond debt of \$921 million and CWSRF loan debt of \$927.5 million as of June 30, 2025. With the current debt outstanding as of June 30, 2025, the average annual level debt service for the Treatment System is projected to be \$127 million through fiscal year 2033-34, at which point the debt service payments begin to decline. The forecast includes approximately \$150 million to help finance the Harvest Water Program, which would add approximately \$10 million in additional debt service costs annually, and an additional \$280 million in FY 2028-29 to help finance biosolids processing improvements and a new interceptor in east Rancho Cordova, adding an additional \$18 million in annual debt service in FY 2029-30.

- 2. Designated Reserves**

Treatment and Resource Recovery - In 2005, the Board of Directors approved a reserve policy that established the current reserves and the basis for their levels. New reserves have subsequently been added, including the Confluence Program Reserve and the CWSRF Loan Reserves. The designated reserve levels for Treatment and Resource Recovery are projected to increase from \$258 million to \$281.4 million and are projected into the future based on the following needs and assumptions:

- **General Reserve (\$42 million)** – Covers emergency costs and other unexpected expenditures that might otherwise result from short-term cost spikes from regulatory changes, or legal settlements or to offset temporary reductions in revenues. This reserve is currently at its designated target level of 25% of operating expenses, net of depreciation.
- **Rate Stabilization Reserve (\$23.2 million)** – This reserve is available to ensure minimum debt coverage ratios, as required by bond agreements, are met when revenues decline or operating expenses increase unexpectedly, without requiring an immediate increase in rates. There is no projected need to change the level of this reserve throughout the forecast period.
- **Confluence Program Reserve (\$15 million)** – The Board of Directors established this reserve in fiscal year 2017-18 by combining the Economic Incentive Reserve and the Rate Assistance Program Reserve. This reserve supports programs for economic incentives, educational programs, the Sewer Lifeline Rate Assistance Program, and other community

partnership programs. These programs are supported by non-rate/non-fee revenues and are now combined under one umbrella known as the Confluence Program.

- **Facilities Closure Reserve (\$15.5 million)** – Mandated by the State of California to finance closure and post-closure costs of the solids storage basins and the dedicated lined disposal sites at the EchoWater Resource Recovery Facility. This reserve is increased as needed to ensure sufficient funding will be available at the time of closure of the facilities as mandated by State law.
 - **Equipment Replacement (\$1.3 million)** – This reserve was created to replace existing heavy equipment (i.e., tractors, cranes) thereby eliminating the need for debt financing in years when heavy equipment is replaced. This reserve is increased by 2.5% each year to reflect inflation.
 - **Replacement Reserve (\$96 million)** – This reserve funds future rehabilitation and replacement of existing facilities and major components when they reach the end of their useful lives. This reserve will be increased by 2.5% each year during the forecast period to offset the impacts of inflation.
 - **Expansion Reserve (\$20.9 million)** – This reserve was created to fund facility expansions required by customer growth. It is designed to be used when expansion projects are under construction but impact fees decline due to a sudden slowdown in growth. No changes to this reserve are envisioned for the forecast period.
 - **CWSRF & SPA Loan Reserve (\$44.6 million)** – This reserve was established in fiscal year 2017-18 as required by the terms of the CWSRF loan that financed the EchoWater Project and the Prop. 1 loan that financed a portion of the SPA water-recycling project. The reserve is equal to the annual debt service required under the loan agreements, currently at \$44.6 million.
 - **Unreserved Cash Balances** – This is defined as all of the cash reserves not specifically designated by the Board of Directors, loan agreements, or laws and regulations. Unreserved cash provides a flexible source of funding to take advantage of opportunities to maximize long-term economic benefits for ratepayers, provide an additional cushion for unexpected expenses or revenue loss, and mitigate any negatives that might be noted by rating agencies. Unreserved cash also provides policymakers with the opportunity to consider the early repayment or restructuring of debt for savings, or financing of future capital project expenditures without the need for additional debt. In this long-term plan unreserved cash is used to fund a portion of the capital costs of projects.
- 3. Capital Costs** – The cost estimates for capital-project expenditures are from Treatment and Resource Recovery’s Capital Funding Projection detailed in Table 5. In the Cash Flow

Forecast (Table 4), capital costs are shown on five separate lines. These include costs for existing infrastructure, BioGeneration Facility, Harvest Water Program and the Central Interceptor Rehabilitation.

Capital Funding Projection

Collection System

Table 6 below lists the Collection System's capital projects already in progress or projects that are expected to begin within the 10-year projection timeframe. The projects are shown in a summary format and have been updated to reflect the most current cost and timing information available. Approximately \$217 million in capital project costs are anticipated over the next 10 years. The capital program will be financed with grants, rate revenue, and available cash, and will not require any debt issuance. The Collection System has sufficient reserves to handle the large capital outlays for the years of FY 25-26, FY 26-27, and FY 27-28, where more than \$30 million is needed each year. More than 90% of Septic Conversion Focus Areas (Project #15) costs are expected to be reimbursed by State and federal grants and Confluence Program funds contributed from the Treatment and Resource Recovery System.

The capital projects listed in Table 6 are organized into the following five project types:

Relief Projects – Projects #1 through #6 are major relief projects that address capacity deficiencies and risks at specific locations in existing facilities.

Pump Station Rehab Projects – Projects #7 through #9 are for rehabilitating existing pump stations throughout the service area.

System Rehabilitation Projects (On-going multiple location projects) – Projects #10 through #13 are on-going projects at numerous locations throughout the service area that replace or rehabilitate various components of the sewer system.

Focus Area Septic Conversions – Projects #14 provide funding for converting septic systems in specific communities to the sewer system. These conversions are completed with construction contracts managed by SacSewer in concert with the property owners and regulatory agencies. A significant portion of the cost for each area project will be covered by State grant programs.

Facilities Renewal – Projects #15 and 16. Project #15 is a sitewide renovation of the North Corporation Yard. This facility is nearing the end of its functional life and will undergo significant upgrades in the planning period. Project #16 includes several facility roof renewal projects.

Table 6: Collection System Capital Funding Projection (in '000s)

ID	Project Name	Status	FY 25/26	FY 26/27	FY 27/28	FY 28/29	FY 29/30	FY 30/31	FY 31/32	FY 32/33	FY 33/34	FY 34/35	10-yr Total
1	<u>System Capacity Projects:</u>												
	System Capacity Projects-Planning	On-Going	\$90	\$90	\$90	\$90	\$90	\$90	\$90	\$90	\$90	-	\$810
	System Capacity Projects:-ARD-10	Planning	\$340	\$1,620	\$3,810	\$630	-	-	-	-	-	-	\$6,400
	System Capacity Projects:-ARD-21	Planning	-	\$380	\$1,020	\$5,400	-	-	-	-	-	-	\$6,800
	System Capacity Projects:-MCL-1	Planning	-	-	-	\$190	\$620	\$2,250	\$750	-	-	-	\$3,810
	System Capacity Projects:-SEA-20	Planning	-	-	-	-	\$1,000	\$1,670	\$1,670	-	-	-	\$4,340
	System Capacity Projects:-ARD-25	Planning	-	-	-	-	-	\$190	\$620	\$2,250	\$750	-	\$3,810
	System Capacity Projects:-SEA-11	Planning	-	-	-	-	-	\$190	\$620	\$2,250	-	-	\$3,060
	System Capacity Projects:-ARD-26	Planning	-	-	-	-	-	-	-	\$100	\$400	-	\$500
2	Creek Crossing Project	Planning	\$2,540	\$2,230	-	-	-	-	-	-	-	-	\$4,770
3	Rio Linda (RIO-3) Relief Project	Planning	\$1,010	\$1,080	\$13,940	\$6,970	-	-	-	-	-	-	\$23,000
4	Walnut Grove (WG-1) Relief Project	Planning	\$430	\$2,322	\$3,343	-	-	-	-	-	-	-	\$6,095
5	Arden Gold (NEA 51) Relief Project	Planning	\$780	\$3,340	\$3,850	\$960	-	-	-	-	-	-	\$8,930
6	Arden Towne (ARD-24) Relief Project	Initiation	\$250	\$1,660	\$1,220	-	-	-	-	-	-	-	\$3,130
7	RCCC Pump Station Rehab Project	Design	\$11,510	\$2,880	-	-	-	-	-	-	-	-	\$14,390
8	Landis Pump Station Condition Assessment and Rehab.	Design	\$570	-	-	-	-	-	-	-	-	-	\$570
9	Pump Station/Force Main Rehabilitation Projects	On-Going	\$400	\$500	\$500	\$500	\$500	\$500	\$500	\$500	\$500	\$500	\$4,900
10	Main Line CIPP Work	On-Going	\$2,400	\$2,400	\$2,400	\$1,150	\$1,150	\$1,150	\$1,150	\$1,150	\$1,150	\$1,150	\$15,250
11	Lower Lateral Replacement Work	On-Going	\$3,440	\$3,440	\$3,440	\$3,440	\$3,440	\$3,440	\$3,440	\$3,440	\$3,440	\$3,440	\$34,400
12	Lower Lateral CIPP Work	On-Going	\$60	\$60	\$60	\$60	\$60	\$60	\$60	\$60	\$60	\$60	\$600
13	MH/ML Replacements	On-Going	\$60	\$60	\$60	\$60	\$60	\$60	\$60	\$60	\$60	\$60	\$600
14	<u>Septic Conversion Focus Areas:</u>												
	Linda Manor Septic Conversion Project	Design	\$4,840	-	-	-	-	-	-	-	-	-	\$4,840
	Old Florin Town Septic Conversion Project	Design	\$4,980	-	-	-	-	-	-	-	-	-	\$4,980
	Franklin Septic Conversion Project	Design	\$2,660	-	-	-	-	-	-	-	-	-	\$2,660
	Hood Septic Conversion Project	Design	\$10,110	-	-	-	-	-	-	-	-	-	\$10,110
15	Building Replacement - NACY	Planning	\$2,030	\$13,550	\$14,630	\$11,460	-	-	-	-	-	-	\$41,670
16	NACY/SACY Rehabilitation Projects	Planning	\$6,670	-	-	-	-	-	-	-	-	-	\$6,670
Total:			\$55,170	\$35,612	\$48,363	\$30,910	\$6,920	\$9,410	\$8,530	\$8,270	\$8,700	\$5,210	\$217,095

Treatment and Resource Recovery System

Table 7 is the capital funding projection (CFP) showing SacSewer capital projects in the Treatment and Resource Recovery System already in progress or projects that are expected to begin within the 10-year timeframe. The projects are shown in a summary format and have been updated to reflect the most current cost and scheduling information available. Approximately \$1.4 billion in capital project costs are anticipated between Fiscal Years 2025-26 and 2034-35. Biosolids management projects make up the largest portion (37%) of the capital funding projection (CFP). At approximately \$298 million (remaining expenditures), the Harvest Water Program represents 22% of the CFP. Interceptor projects account for 21% of the CFP, including a major rehabilitation of the Central Interceptor and installation of a new East Rancho Cordova Interceptor to address significant growth in the area. The BioGeneration Facility Project is the fourth largest at 7.2% of the CFP.

Full operation of the new EchoWater biological treatment process resulted in unanticipated higher volumes of biosolids production, resulting in the need for additional handling and disposal capacity. The lining of Dedicated Land Disposal-1 is underway and will provide additional capacity for onsite disposal in 2027. New processes to thicken primary sludge and dewater digested biosolids with winter storage are planned to satisfy projected demand up to 2048 conditions. Additionally, the removal of the remaining biosolids from the Solids Storage Basins and upgrades to the CAP well system have been included based on anticipated regulatory requirements. These new capital projects are estimated to cost a total of \$444 million over the 10-year period. SacSewer plans to fund these projects with rate revenue, unreserved cash balances, and new debt issuances. The forecast assumes bond issuances of \$150 million and \$280 million in FY's 2026-27 and 2028-29, respectively.

The Harvest Water Program is budgeted at a total cost of \$597 million. Currently, SacSewer has secured grant funding of \$364.8 million through the Water Storage Investment Program with the California Water Commission and \$30 million from the Federal Bureau of Reclamation, for a total of \$394.8 million in secured grant funding. The projection includes an additional \$150 million in bond funding to cover costs not covered by the current grant funding. However, if SacSewer receives additional grants, the expected bond issuance would be adjusted down accordingly. In the future, this project and other water-recycling projects have the potential to generate revenue from recycled water sales to recover some of the operating costs, but the current projections do not include any estimates for these revenue sources.

The BioGeneration Facility is expected to cost \$146 million based on the design-build contract awarded to Ameresco in February 2024, and the financing projection includes a conservative estimate of \$28 million in anticipated IRA tax credits (direct payments), assuming the project does not meet all domestic content requirements. Potential tax credits could be as high as \$51 million, if a higher percent of project costs (85%) are deemed eligible and domestic steel requirements are met. The balance of funding for this project will be provided from rate revenue and unreserved cash balances.

Table 7: Treatment System Capital Funding Projection, FY 2025-26 (in '000s)

Project Title	Total Budget	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31	2031-32	2032-33	2033-34	2034-35	Total 10-Year
EchoWater Program - Closeout (PMO)	\$1,735,000	\$1,000	-	-	-	-	-	-	-	-	-	\$1,000
Harvest Water	\$597,235	\$152,435	\$113,711	\$40,477	\$17,006	\$3,348	\$5,137	\$5,395	-	-	-	\$337,508
BIOSOLIDS MANAGEMENT PROJECTS:												
Primary Sludge Thickening	\$128,800	\$1,000	\$6,000	\$6,000	\$6,000	\$35,500	\$35,500	\$34,500	\$4,300	-	-	\$128,800
Digester Sludge Dewatering Facility	\$310,000	\$1,500	\$15,000	\$15,000	\$15,000	\$70,500	\$70,500	\$70,500	\$39,000	\$5,000	-	\$302,000
Cap Well Upgrades	\$5,150	\$150	\$250	\$250	\$2,500	\$2,000	-	-	-	-	-	\$5,150
WAS Thickener Expansion	\$8,400	-	-	-	\$400	\$8,000	-	-	-	-	-	\$8,400
Lining DLD 1	\$27,000	\$6,500	\$15,500	\$3,500	-	-	-	-	-	-	-	\$25,500
BioGeneration Facility Project	\$182,000	\$60,000	\$54,000	-	-	-	-	-	-	-	-	\$114,000
Digester Rehabilitation	Ongoing	-	\$1,500	\$4,000	\$1,500	\$4,000	\$1,500	\$4,000	\$1,500	-	-	\$18,000
Secondary Sedimentation Tanks Rehabilitation	Ongoing	\$3,090	\$3,183	\$3,278	\$3,377	\$3,478	\$3,582	\$3,690	\$3,800	\$3,914	\$4,032	\$35,423
New Influent Pumps (No. 2 and No. 5)	\$12,000	\$9,000	\$3,000	-	-	-	-	-	-	-	-	\$12,000
SSB Mixers Replacement	\$3,000	-	\$613	\$631	-	-	-	-	-	-	-	\$1,244
Primary Deck Structural Assessment/Rehab	\$5,963	\$900	-	-	-	-	-	-	-	-	-	\$900
Mixed Sludge Feed Loop Rehab	\$800	\$600	\$175	-	-	-	-	-	-	-	-	\$775
Influent Junction Structure Rehabilitation	\$2,500	\$750	\$750	-	-	-	-	-	-	-	-	\$1,500
Primary ORT Repair/Replacement	\$11,560	\$3,000	\$4,280	\$4,280	-	-	-	-	-	-	-	\$11,560
Chiller Replacement Project	\$18,300	\$6,300	\$8,000	\$4,000	-	-	-	-	-	-	-	\$18,300
RPT I/O Replacement	\$50,000	\$3,000	\$5,400	\$6,000	\$4,000	\$3,500	-	-	-	-	-	\$21,900
Emerson Ovation Upgrade 2023	\$8,300	\$135	-	-	-	-	-	-	-	-	-	\$135
I/E Locker Room & Fitness Center	\$1,650	\$1,350	\$300	-	-	-	-	-	-	-	-	\$1,650
Ferric Chloride System Rehab	\$4,800	\$2,000	\$2,800	-	-	-	-	-	-	-	-	\$4,800
FOG Facility Rehab & Modifications	\$1,000	\$900	-	-	-	-	-	-	-	-	-	\$900
I/E Building Fire Alarm System Upgrade	\$700	\$300	\$300	-	-	-	-	-	-	-	-	\$600
X09 Low Voltage Switchgear Replacement	\$1,700	\$1,000	\$700	-	-	-	-	-	-	-	-	\$1,700
N28 Odor Control Improvements	\$75	\$75	-	-	-	-	-	-	-	-	-	\$75
SSB/LDL Roadway	\$1,000	\$1,000	-	-	-	-	-	-	-	-	-	\$1,000
Lower Beach Lake & Morrison Creek Berm Seepage	\$700	\$700	-	-	-	-	-	-	-	-	-	\$700
ESB Concrete Joint Sealant Replacement	Ongoing	\$500	-	-	\$500	-	-	\$500	-	-	-	\$1,500
Barscreen 2 Replacement	\$2,000	\$200	\$1,800	-	-	-	-	-	-	-	-	\$2,000
BarScreen Room Channel CA & Rehab	\$2,200	\$200	\$1,000	\$1,000	-	-	-	-	-	-	-	\$2,200
DAFT Rehabilitation (1 thru 4) - long term	\$10,000	-	\$500	\$2,500	\$2,500	\$2,500	\$2,000	-	-	-	-	\$10,000
SRWTP Facilities Roof Rehab	Ongoing	\$258	\$265	\$273	\$281	\$290	\$299	\$307	\$317	\$326	\$336	\$2,952
Lab HVAC upgrade/replacement	\$750	\$600	\$150	-	-	-	-	-	-	-	-	\$750
EchoWater Pavement & Road Restoration	Ongoing	\$100	\$100	\$100	\$100	\$100	\$100	\$100	\$100	\$100	\$100	\$1,000
Annual EchoWater Facility Capital Project Allowance	Ongoing	\$650	\$650	\$650	\$650	\$650	\$650	\$650	\$650	\$650	\$650	\$6,500
BRF Improvements	\$12,402	\$4,200	\$4,000	\$4,000	-	-	-	-	-	-	-	\$12,200
I/E Pump Rehabilitation	Ongoing	-	-	\$500	\$500	\$500	\$500	\$500	\$500	\$500	\$500	\$4,000
INTERCEPTOR & CITY OF SACRAMENTO PROJECTS:												
N21 Central Interceptor Rehab	\$174,000	\$41,337	\$50,642	\$50,642	\$20,714	-	-	-	-	-	-	\$163,334
Upper Dry Creek Interceptor Relief	\$20,212	\$8,315	-	-	-	-	-	-	-	-	-	\$8,315
Interceptor PLC Replacement Project	\$3,900	\$310	-	-	-	-	-	-	-	-	-	\$310
Interceptor Cathodic Protection	\$2,400	\$2,276	-	-	-	-	-	-	-	-	-	\$2,276
Interceptor Condition Assessment	\$475	\$475	-	-	-	-	-	-	-	-	-	\$475
Zinfandel Drive Extension - Interceptor	\$8,277	-	\$2,000	\$4,000	\$2,277	-	-	-	-	-	-	\$8,277
East Rancho Cordova Interceptors Project	\$105,000	\$3,000	\$5,300	\$19,500	\$31,000	\$30,500	\$15,700	-	-	-	-	\$105,000
Annual Interceptor Small Cap Project Allowance	Ongoing	\$350	\$350	\$350	\$350	\$350	\$350	\$350	\$350	\$350	\$350	\$2,800
City of Sac - N12 PLC, and Ball Valve Actuator	\$1,337	\$1,187	-	-	-	-	-	-	-	-	-	\$1,187
City of Sac - N29 72-inch Force Main Rehab	\$26,530	\$8,000	\$18,530	-	-	-	-	-	-	-	-	\$26,530
City of Sac - Sump 55 Connection to Interceptor	\$600	\$75	-	-	-	-	-	-	-	-	-	\$75
City of Sac - N12 Bypass Pipe Saddle Clamps	\$1,716	-	-	\$1,716	-	-	-	-	-	-	-	\$1,716
City of Sac - N11 Valve Structure Replacement	\$2,506	-	-	\$2,506	-	-	-	-	-	-	-	\$2,506
City of Sac - N12 48-inch Gate Valve Replacement	\$1,088	-	\$1,088	-	-	-	-	-	-	-	-	\$1,088
Total:		\$328,718	\$321,836	\$175,153	\$108,655	\$165,215	\$135,818	\$120,492	\$50,517	\$10,491	\$5,618	\$1,422,511

Debt Management Plan

Debt Policies and Goals

The policy of SacSewer is to ensure debt is issued and managed in a manner that benefits ratepayers, maintains or improves credit ratings, maintains access to the credit market, and provides financial flexibility. The primary objectives of the debt management plan are to minimize financial risk, minimize debt service costs, maintain or improve credit ratings and reduce the complexity and administrative cost associated with maintaining the portfolio. These policies and goals are designed to help SacSewer maintain a sound and sustainable financial position.

SacSewer has two main policy documents covering debt issuance, management, and administration. They are the debt policy and the master derivative policy. Key provisions of the debt management plan include:

- Debt will only be issued for projects included in the Board approved Capital Funding Projection. No activities that are operational in nature will be funded with debt.
- For major new capital projects, SacSewer will target financing 75%, or less, of the total costs with debt proceeds. The remaining 25%, or more, will be financed with cash from reserves and/or on-going revenues. For capital projects that replace existing assets SacSewer will aim to finance 100% with cash in the 10-year planning horizon.
- Assets financed by a debt issue will have an average useful life at least equal to the last maturity of a proposed debt issue.
- Outstanding debt issues should be fully amortized in 40 years or less.
- No more than 20% of outstanding debt, or \$200,000,000, whichever is less, can be variable rate debt without a hedge or cap to mitigate interest-rate risk. Any variable rate debt above this limit must be hedged with derivatives (swaps) to synthetic fixed rates or capped with interest rate caps.
- The total notional amount per swap counterparty is limited to \$350 million or 25% of total outstanding bonds in each system, whichever is greater.
- Excess revenues from higher than projected growth and operating surpluses will be dedicated to the early retirement of debt.

Existing Debt

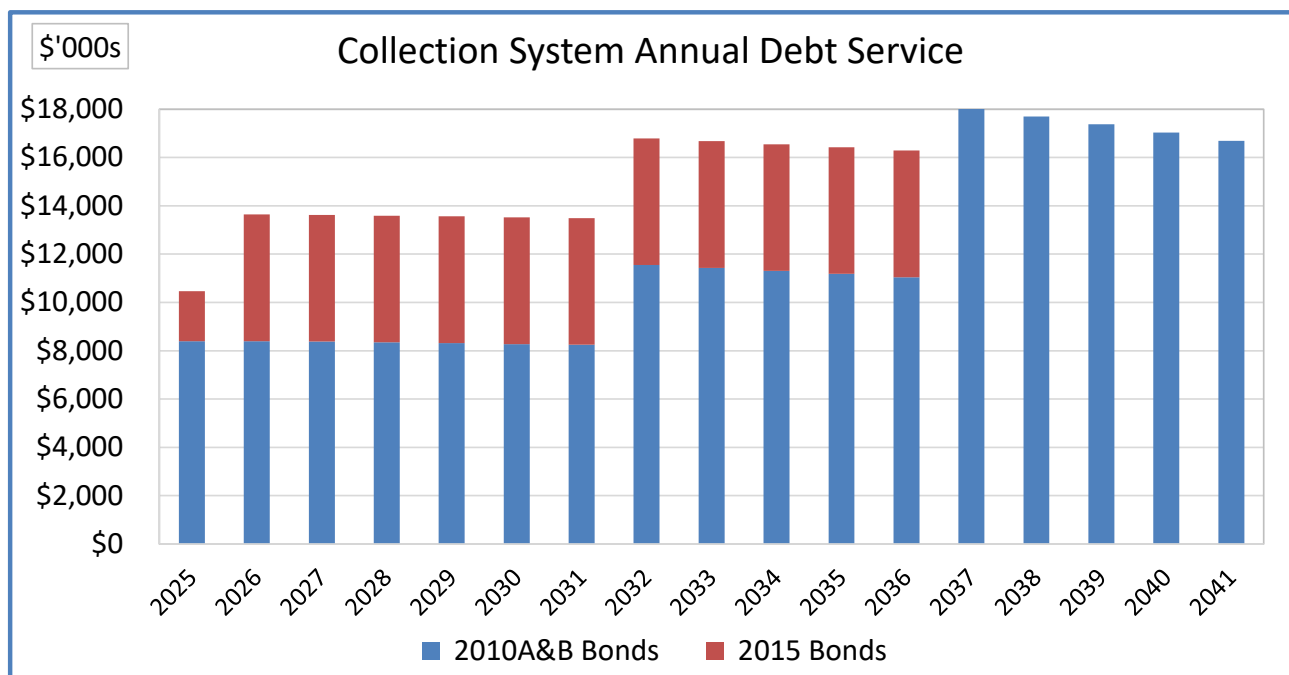
Collection System

SacSewer has about \$152.9 million of outstanding revenue bond debt for the Collection System in two issues as of August 1, 2025. All this debt is fixed rate senior lien debt. Table 8 below shows the details of each of these debt issues.

Table 8

Issue	Par Amount (\$)	Call Date	Final Maturity	Comments
Series 2015	42,175,000	8-1-2025	8-1-2035	Refunding Bonds
Series 2010A	110,690,000	Make whole call	8-1-2040	Taxable BABs
Total	152,865,000			

This debt portfolio is 100% fixed rate debt that has a low level of interest rate risk. Annual debt service (principal and interest payments) total about \$10.5 million, of which approximately \$2.3 million is subsidized by the federal government under the Build America Bonds (BABs) program. Debt service net of the BAB subsidy currently consumes a manageable 9.8% of the \$25.35 per month rate per ESD paid by SacSewer ratepayers. As the chart below illustrates, the Collection System’s annual debt service will escalate to about \$13.6 million in FY 2025-26 as the outstanding principal begins to be paid off and will remain at that level until FY 2030-31. Then the debt service steps up again to about \$16.7 million in FY 2031-32. With projected customer growth and adopted rate increases, debt service should remain manageable at between 9%-11% of monthly service rates. After 2025, some of the outstanding debt could be refunded and restructured to reduce annual debt service.



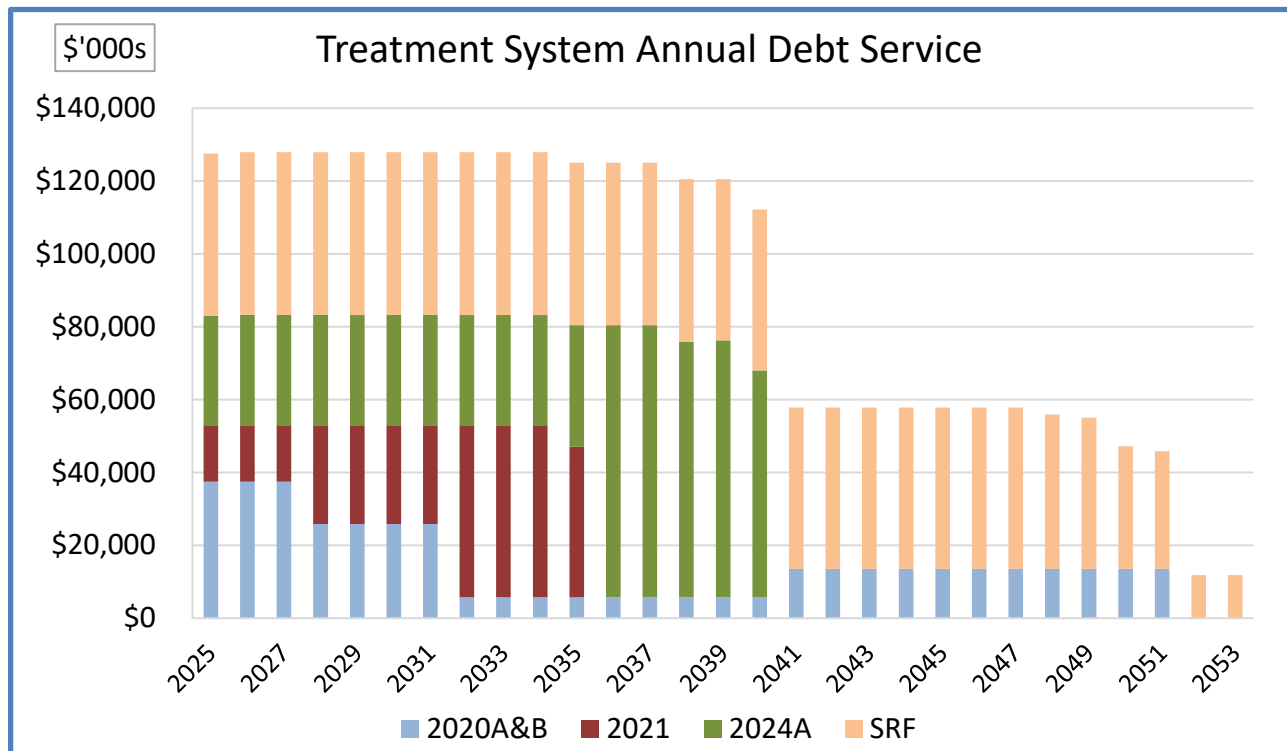
Treatment and Resource Recovery System

The Treatment and Resource Recovery System has approximately \$921 million of bond debt outstanding as of June 30, 2025. After the most recent refunding in June 2024, all bond debt for the Treatment System is fixed rate senior lien debt. Table 9 below shows the current outstanding bond debt for the Treatment and Resource Recovery System:

Table 9

Issue	Outstanding Balance	Termination/ Call Feature	Average Interest Rate	Final Maturity
2020A	205,185,000	12-1-2030 at par	5.00%	12-1-2050
2020B	37,635,000	None	1.04%	12-1-2026
2021	247,875,000	12-1-2031 make whole	4.78%	12-1-2034
2024A	430,155,000	12-1-2034 at par	3.41%	12-1-2039
Total	920,850,000			

This debt portfolio is 100% fixed rate debt that has a low level of interest rate risk. Annual debt service (principal and interest payments) totals about \$83 million. Revenue bond debt service currently consumes a manageable 23% of the \$44 per month per ESD paid by SacSewer ratepayers. As the chart below illustrates, the Treatment System’s annual debt service is leveled for the next 10 years and falls off significantly in FY 2040-41 after the 2024A series is paid off. With projected customer growth, adopted rate increases, and future rate increases, existing debt service will remain manageable at between 18%-23% of monthly service rates during the forecast period.



In addition to the bond debt, SacSewer has Clean Water State Revolving Fund Loans outstanding of approximately \$927.5 million, and total loan commitments of \$999 million as of June 30, 2025, which are detailed in the next section.

EchoWater Project Financing Plan

In 2015, the California State Water Resources Control Board approved SacSewer’s EchoWater Project for up to \$1.576 billion of Clean Water State Revolving Fund (SRF) financing. The SRF financing consists of eight separate loan agreements for each of the eight EchoWater Project construction components, and each loan has a 30-year term. As of June 2024, SacSewer had executed all eight loan agreements for a maximum loan of about \$1.4 billion. Amendments to these agreements and lower than expected project expenditures reduced the total loan amounts drawn to \$999 million as of June 30, 2024. The first five agreements totaling \$246 million are at a fixed rate of 1.6%, and the last three agreements totaling \$753 million are at 1.7%. Each of the loan agreements provides for level annual payments. The loan agreements will be fully amortized in 28 years, beginning one year after completion of construction of each component. In addition to the SRF loans, SacSewer issued two separate bonds for \$150 million each in July 2014 and July 2020, to finance a portion of planning and design costs and construction costs, respectively. Table 10 below details the loans and status of the EchoWater Financing Plan as of June 30, 2025.

Table 10
EchoWater Project Financing and Debt Schedule

Revenue Bonds & SRF Loans	Loan Start Fiscal Year	Bond / Approved Loan Amount	Proceeds used as of 6/30/2025	Annual Debt Service	Impact on Monthly Rate/ESD
Series 2014A Bonds Planning, Design, and Administration	14-15	\$150,000,000	\$150,000,000	\$6,729,600	\$0.90
Series 2020A Bonds Construction	20-21	\$150,000,000	\$150,000,000	\$5,758,250	\$0.77
CWSRF Loan 1 – Site Preparation	17-18	\$43,949,856	\$42,106,057	\$1,773,695	\$0.24
CWSRF Loan 2 – Flow Equalization	19-20	\$138,672,372	\$127,391,104	\$5,577,103	\$0.75
CWSRF Loan 3 – Main Electric Substation Expansion	17-18	\$3,439,831	\$2,861,737	\$121,051	\$0.02
CWSRF Loan 4 – Disinfection Chemical Storage	18-19	\$21,468,655	\$21,465,759	\$919,145	\$0.12
CWSRF Loan 5 – Nitrifying Side Stream Treatment	19-20	\$53,490,845	\$51,815,353	\$2,246,831	\$0.30
CWSRF Loan 6 – Biological Nutrient Removal Facility	21-22	\$533,142,603	\$454,257,274	\$20,326,250	\$2.72
CWSRF Loan 7 – Return Activated Sludge Pumping Station	19-20	\$35,696,952	\$31,580,355	\$1,388,318	\$0.19
CWSRF Loan 8 – Tertiary Treatment Facility	23-24	\$564,657,506	\$267,557,721	\$11,876,000	\$1.59
SUBTOTAL - CWSRF Loans		\$1,394,518,620	\$999,035,360	\$44,228,393	\$5.92
GRAND Totals		\$1,694,518,620	\$1,299,035,360	\$56,716,243	\$7.59



Strategies for Existing Bond Issues

Collection System

Series 2015 Revenue Bonds – These fixed rate, tax-exempt bonds have an outstanding par amount of \$45,435,000. They have a final maturity date of August 1, 2035, and bear interest at rates ranging from 3% to 5%. These bonds were issued on May 1, 2015, to refund the Series 2005 Revenue Bonds. Also, at that time, approximately \$72 million of cash was used to pay-off a portion of the Series 2005 Revenue Bonds up to twenty years early. This refunding and early pay-off of debt will save SacSewer about \$125 million over those 20 years.

These bonds can be called at par beginning in 2025 and refunded with tax-exempt bonds if meaningful savings can be obtained at that time. If SacSewer has any excess reserves at that time, a small cash contribution (\$5-\$10 million) can provide additional restructuring savings by eliminating some of the longer maturities. This would help reduce needed rate increases beyond FY 2030.

Series 2010A Revenue Bonds – These bonds were issued for the Collection System on August 11, 2010, to provide new money proceeds to finance SacSewer capital projects, including the Goethe

Road Office Building and Corp Yard Facility. The Series 2010A Bonds are \$110.7 million of federally taxable direct subsidy Build America Bonds (BABs) with an average taxable interest rate of about 6.25% and a final maturity in 2040. These bonds have a lower net debt service cost due to the subsidy from the federal government that covers approximately 35% of the interest costs. This results in a net interest rate of 4.1% with the subsidy. There is some level of uncertainty with federal government support for the subsidy, as such SacSewer continues to evaluate opportunities for refunding these bonds as the interest rate environment evolves.

Treatment and Resource Recovery System

Series 2024A – In June 2024, SacSewer executed a successful bond refunding and swap termination transaction. The transaction involved issuance of \$440 million 2024A fixed rate senior lien refunding bonds at an average fixed rate of 3.41%, and a final maturity of December 1, 2039. The issuance refunded 2014A fixed rate senior lien bonds and all four variable rate subordinate lien bonds, 2012A, 2013B, 2013C, and 2013D. The refunding generated net present value savings of \$60 million and eliminated all interest rate risk associated with the variable rate bonds. The two remaining Swap agreements with BNP Paribas, each with a notional amount of \$50 million, that were used to hedge 2012A and 2013B were terminated at a cost of \$9.95 million. SacSewer uses swaps to mitigate the interest rate risk associated with the variable-rate portion of the debt portfolio. With all variable rate bonds having been refunded, the swap agreements were no longer necessary. The refunding helped achieve SacSewer’s debt management goals of minimizing financial risk, minimizing debt service costs, maintaining or improving credit ratings, and reducing the complexity and administrative costs associated with managing the debt portfolio. These fixed-rate senior-lien bonds have an outstanding par of \$430,155,000 and are callable at par on December 1, 2034. No change is planned for this issue in the near future.

Series 2021 – In March 2021, SacSewer issued Treatment and Resource Recovery System Refunding Revenue Bonds, Series 2021. The proceeds from the issuance, along with other available moneys, refunded the Series 2007B outstanding bonds, terminated the associated interest rate swap, and paid for the costs of issuance. The refunding reduced the Treatment and Resource Recovery System’s future total debt service payments by approximately \$19.6 million. These fixed-rate senior-lien bonds have an outstanding par of \$247,875,000, an average fixed rate of 1.46%, and a final maturity of December 1, 2034. Since these bonds feature a make whole call on December 1, 2031, no change is planned for this issue in the near future.

Series 2020A – In July 2020, SacSewer issued this debt to pay for a portion of the Echo Water Project costs, refund all of the Series 2000C outstanding bonds, pay a portion of the Series 2000C Swap termination costs, and to pay the costs of issuance for cash flow savings of \$6.8 million. These fixed-rate senior-lien bonds have an outstanding par of \$205,185,000, an average fixed rate of 2.63%, and a final maturity of December 1, 2050. These bonds are callable in December 2030. Due to the length of time before the bonds become callable, no change is planned for this issue in the near future.

Series 2020B – In July 2020, SacSewer issued Treatment and Resource Recovery System taxable Series 2020B Bonds to advance refund the outstanding Series 2011A bonds and pay a portion of the Series 2000C Swap termination costs for cash flow savings of \$17.1 million. These fixed-rate senior-

lien bonds have an outstanding par of \$37,635,000, an average fixed rate of 1.06%, and a final maturity of December 1, 2026. Since these bonds are not callable, no change is planned for this issue in the near future.

Recommended Debt Portfolio Action Items

This section of the Long-Term Financial Plan is divided into strategic recommendations that are general in nature and specific action items that could be undertaken to achieve the recommendations. All action items will be brought to the SacSewer Board of Directors for separate approval at future dates as required by existing ordinance or Board policy.

Collection System

Recommendation #1

Continue to monitor the municipal bond market to look for opportunities to refund and restructure SacSewer debt issues to lower costs and levelize annual debt service costs to help reduce interest rate risk and minimize the size of rate increases in the future.

- **Action Item #1. Explore options to refund Series 2010A Buy America Bonds (BABs).** SacSewer has been receiving about \$2.3 million annually in BABs subsidies to partially offset the debt service costs of the Series 2010A Bonds. These bonds have a make-whole call provision, which gives SacSewer the right to call the bonds at any time but requires the future interest to be paid at a discounted present value along with the outstanding principal. This generally makes it uneconomical to call these bonds before they get close to maturity. However, the 2010A Bonds also have an extraordinary redemption feature that, subject to bond counsel approval, could be exercised to facilitate a refinancing. Reduction or elimination of the subsidy by the federal government may qualify as an extraordinary event. Even though a restructuring transaction may not generate net present value savings, it may give SacSewer the opportunity to reduce federal subsidy risk and refinance with bonds that have a call feature.
- **Action Item #2. Explore options to refund Series 2015 Bonds.** These bonds are callable beginning on August 1, 2025 and can be currently refunded with tax-exempt bonds. Preliminary analysis shows potential cost savings in excess of 8% of refunded par, which is higher than the 3% minimum per SacSewer's Debt Policy.

Recommendation #2

Continue the robust asset management and capital funding program necessary to maintain Collection System capital assets on a cash basis.

- **Action Item #3.** Continue pay-go financing for SacSewer's Collection System capital program. All capital projects can be financed with current rate revenue and reserves over the next 10 years. With a well-managed asset replacement schedule that provides for some asset replacement or refurbishing every year, large replacements that need to occur in a short timeframe that might require debt financing can be avoided. The current level of rates and fees can support the level of maintenance and capital expenditures needed and build reserves to handle the few years where capital expenditures may be higher than normal. Due to the steady nature of replacement

spending and the long life of most Collection System assets we see no need to build very large reserves for asset replacements.

Treatment and Resource Recovery System

Recommendation #3

Explore low cost financing sources for the Treatment and Resource Recovery System capital program. With new large projects, Harvest Water, Biosolids Improvements, Interceptors, and the Biogeneration Facility, in their early stages of implementation, additional external sources of financing are required to fully fund the capital program.

- **Action Item #3. Secure external debt financing to close the funding gap for Harvest Water and Biosolids Management.** SacSewer continues to seek additional grant funding and low interest loans for Harvest Water. However, without any additional grant funding, the LTFP forecasts that SacSewer will need approximately \$150 million in FY 2026-27 bond funding to fully fund the Harvest Water project. The capital improvements needed to address increased biosolids production at the EchoWater Facility will require significant financial resources based on recently completed analysis. Based on the estimated 10 year cost of \$444 million for identified improvements, the LTFP estimates an additional \$280 million bond issue in FY 2028-29 to cover the funding shortfall for these projects.

Cash and Investment Management

Prior to September 2022, all SacSewer monies were under the custody of the County treasury and invested in the Sacramento County Local Investment Fund (County Pool). Following the adoption of SacSewer's Investment Policy, in July 2021, which delegated treasury responsibility for designated cash reserves to SacSewer's Director of Finance, SacSewer set up a separate investment program for designated cash reserves. Because the liquidity needs on designated cash reserves is much less than the County Pool's liquidity needs, the separate investment program was established to allow for cash reserves to be invested in securities with longer average maturities compared to the County Pool in order to maximize interest earnings on reserve cash balances. Between September 2022 and January 2025, SacSewer transferred all its designated cash reserve funds from the County Pool to its own investment accounts, currently managed by an external investment advisor.

In preparation of separating its workforce and financial management system from the County, treasury responsibilities for SacSewer's Director of Finance were expanded in November 2024 to include all SacSewer operating funds. In December 2024, SacSewer became a direct employer of its workforce, a critical step in the separation of its affairs from the County and opened its own commercial banking accounts in order to manage its operating funds outside the County treasury. Transfer of operating cash balances from the County treasury to SacSewer's own commercial bank accounts is ongoing and is expected to be completed in August 2025.

As of June 30, 2025, SacSewer had \$337.5 million in designated cash reserve balances invested in its separate investment accounts, with about \$47.7 million in Collection System and \$289.8 million in Treatment and Resource Recovery System reserve balances. For the quarter ending June 30, 2025, SacSewer's investment performance (average purchase yield to maturity) on the designated cash reserves funds was 4.39% and the portfolio had a weighted average maturity of 3.0 years.

Approximately, \$82 million in operating funds was on balance in SacSewer's commercial bank accounts, while \$113 million was still in the County Pool awaiting the completion of planned withdrawals from the County Pool by August 2025. Outstanding operating fund balances in the commercial bank accounts are invested in the bank's short-term cash management facility (Sweep Program). For the quarter ending June 30, 2025, SacSewer earned approximately \$4 million in interest income on its operating cash balances at US Bank and the County Pool.

Interest income earned on all cash balances is non-rate/non-fee income that can be used to support SacSewer's incentive and assistance programs (Confluence Program). Interest income can also supplement rate and fee income to fund the district's operating and capital costs.

With the designated cash reserves investment portfolio now exceeding \$300 million and managed by only one asset manager, SacSewer will explore opportunities to increase the number of asset managers in order to diversify asset manager risk.

