

**Orange County Sanitation District
FY 2024-25 and FY 2025-26 Budget Update Revenue Detail**

Revenue Summary (in millions)

Category	FY 2024-25 Proposed	FY 2025-26 Proposed
Revenues:		
Service Fees	335.5	347.7
Permit User Fees	17.2	18.0
Capital Facility Capacity Charge	20.4	20.7
Property Taxes	130.5	133.1
Interest	17.4	15.3
Other Revenue	19.5	30.5
Debt Proceeds	0.0	0.0
Total Revenue	\$540.5	\$565.3

The Orange County Sanitation District (OC San) has a variety of revenue sources available for operating and capital expenses.

The major revenue sources are as follows:

- Service Fees
- Permit User Fees
- Capital Facilities Capacity Charges (CFCC)
- Property Taxes
- Interest
- Other Revenue
- Debt Proceeds

	<u>FY2024-25</u>	<u>FY2025-26</u>
<p>Service Fees – User fees are ongoing fees for service paid by customers connected to the sewer system. A property owner, or user, does not pay user fees until connected to the sewer system and receiving services. Once connected, a user is responsible for his share of the system’s costs, both fixed and variable, in proportion to his demand on the system. These fees are for both Single Family Residences (SFR) and Multiple Family Residences (MFR).</p> <p>FY 2024-25 will be the second year of the most recent five-year sewer service fee rate schedule to be approved by the Board. The SFR rate (the underlying basis for all sewer rates) will increase by 3.6 percent (\$13) to \$371 in FY 2024-25, and 3.5 percent (\$13) to \$384 in FY 2025-26. These rates are still well below the average annual sewer rate currently being charged throughout the state.</p>	\$335.5M	\$347.7M

<p>Permit User Fees – Fees paid by large industrial and commercial properties owners connected to the sewer system. These fees are for the owner’s share of the system’s costs, both fixed and variable, in proportion to his demand on the system.</p> <p>Since the inception of the Permit User Fee program in 1970, users of OC San’s system that discharge high volumes or high strength wastewater are required to obtain a discharge permit and pay for the full cost of service.</p>	\$17.2M	\$18.0M
<p>Capital Facilities Capacity Charges (CFCC) – Capital Facilities Capacity Charge is a one-time, non-discriminatory charge imposed at the time a building or structure is newly connected to OC San’s system, directly or indirectly, or an existing structure or category of use is expanded or increased. This charge pays for OC San facilities in existence at the time the charge is imposed, or to pay for new facilities to be constructed in the future, that are of benefit to the property being charged.</p>	\$20.4M	\$20.7M
<p>Property Taxes – The County is permitted by State law (Proposition 13) to levy taxes at 1% of full market value (at time of purchase) and can increase the assessed value no more than 2% per year. OC San receives a share of the basic levy proportionate to what was received in the 1976 to 1978 period less \$3.5 million, the amount that represents the State’s permanent annual diversion from special districts to school districts that began in 1992-93. OC San’s share of this revenue is dedicated for the payment of debt service.</p>	\$130.5M	\$133.1M
<p>Interest – Interest earnings are generated from the investment of accumulated reserves consisting of a cash flow/contingency, a capital improvement, a renewal/replacement, and a self-insurance reserve.</p>	\$17.4M	\$15.3M
<p>Other Revenue – Other revenue includes solids handling and capital assessments from the Irvine Ranch Water District (IRWD); and O&M sewer services provided to IRWD, the Santa Ana Watershed Protection Authority (SAWPA), Capital Improvement Program reimbursements from OCWD, and the Sunset Beach Sanitary District.</p>	\$19.5M	\$30.5M

<p>Debt Proceeds – Certificates of Participation (COPs) are OC San’s primary mechanism for financing capital projects. COPs are repayment obligations based on a lease or installment sale agreement. COPs are viewed by the State of California as a share in an installment arrangement where OC San serves as the purchaser. No new debt issuances are projected in the near-term.</p>	\$0.0M	\$0.0M
-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------	---------------	---------------

Financing

If it is necessary that OC San utilize debt financing to meet its total obligations and to meet projected construction schedules, OC San uses long-term borrowing (Certificates of Participation (COP)) for capital improvements that cannot be financed from current revenue. Before any new debt is issued, the impact of debt service payments on total annual fixed costs is analyzed. No new debt issuance is currently being planned.

OC San Maintains its AAA Rating

OC San maintains ratings of “AAA” from Standards and Poor and “AA” from Fitch. A triple A rating is the highest obtainable for any governmental agency. In order to maintain this rating, OC San adheres to its 2021 Debt Policy and coverage ratio requirements. This Board-adopted policy serves as the agency’s guide in the management of existing debt and in the issuance of future debt.

OC San Has Contractual Covenants

OC San has contractual covenants within the existing COP agreements which require minimum coverage ratios of 1.25. The minimum coverage ratio is the ratio of net annual revenues available for debt service requirements to total annual debt service requirements for all senior lien COP debt. The coverage ratio for senior lien COP debt was approved at 4.35 for FY 2024-25.