

Finance Committee Meeting
Suffolk County Water Authority
Mar 28, 2024 at 1:30 PM EST
4060 Sunrise Hwy, Oakdale

Agenda

1. Public Comment

2. Goldman Sachs Update

Goldman Sachs will provide a market update and review of potential refinancing opportunities.

3. Budgets- Fiscal Year Ending May 31, 2025

Recommend proposed budgets for fiscal year ending, May 31, 2025:

Operating & Maintenance Expenses: \$158.7M

Capital Budget: \$103.5M

Debt Service: \$41.3M

4. Rates Recommendation

Recommend the proposed rates and fees in accordance with the attached schedule effective June 1, 2024.

Discussion Materials



Goldman Sachs & Co. LLC

March 2024

Disclaimers Regarding Our Investment Banking Services and Distribution Principles

Investment Banking Communication

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General Statement of Distribution Principles

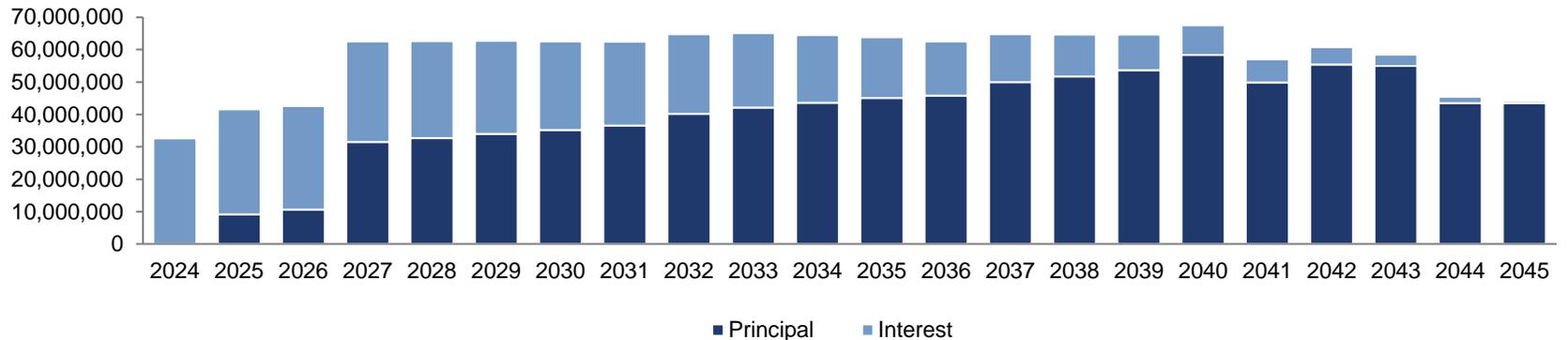
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I. Financing Considerations

Outstanding Series

Series	Par	Average Coupon	Call Date	Final Maturity
Series 2009B	\$ 100,000,000	5.500 %	MWC	6/1/2035
Series 2012A	80,000,000	3.285 %	6/1/2023	6/1/2038
Series 2013 Refunding	62,380,000	3.375 %	6/1/2023	6/1/2029
Series 2014A	31,910,000	4.062 %	6/1/2024	6/1/2040
Series 2014B	50,000,000	3.880 %	6/1/2024	6/1/2040
Series 2015 Refunding	112,180,000	3.762 %	6/1/2025	6/1/2032
Series 2015A	49,105,000	4.519 %	6/1/2025	6/1/2040
Series 2016A	84,280,000	3.527 %	6/1/2026	6/1/2042
Series 2016B	40,000,000	3.250 %	6/1/2026	6/1/2042
Series 2016 Refunding	43,640,000	3.501 %	6/1/2026	6/1/2035
Series 2018A	100,000,000	3.687 %	6/1/2028	6/1/2043
Series 2020B	87,000,000	3.000 %	6/1/2030	6/1/2045
Series 2020 Refunding	27,365,000	2.083 %	MWC	6/1/2040
Total	\$ 867,860,000	3.754 %		

Debt Service (\$mm)



A. Current Refunding

- \$62.38mm of the Authority's Series 2013 Refunding Bonds became callable June 1st, 2023
- \$26.91mm and \$50.0mm of the Authority's Series 2014A and 2014B (respectively) Revenue Bonds are callable on June 1st, 2024
- It is worth noting that while the dated date is April 15th, 2024 we believe calling the bonds on July 12th, 2024 pushes the escrow investment out to generate more savings
- **Based on rates as of March 11th, a theoretical current refunding of all \$139.29mm of the Series 2013 Revenue Refunding Bonds, 2014A and 2014B Revenue Bonds generates \$4.15mm of PV Savings (2.98% of refunded par)**

Maturity-by-Maturity Economics (\$000s)

Refunding Statistics	
Dated Date	4/15/2024
Refunding Par	\$ 125,360,000
Refunded Par	\$ 139,290,000
Arb Yield	2.81 %
Average Life	8.490
Positive Arbitrage (\$)	\$ 0
PV Savings (\$)	\$ 4,145,889
PV Savings (% of Refunded Bonds)	2.98%

Callable Bonds						Current Refunding		
Series	Maturity	Par	Coupon	Call Date	PV Savings (\$)	PV Savings %	Selected For Refunding?	
2013REF	6/1/2027	\$ 10,270,000	3.000 %	4/15/2024	\$ 82,158	0.800 %	Yes	
2013REF	6/1/2028	28,710,000	3.000 %	4/15/2024	469,221	1.634 %	Yes	
2013REF	6/1/2029	23,400,000	4.000 %	4/15/2024	1,628,849	6.961 %	Yes	
2014A	6/1/2025	6,345,000	5.000 %	6/1/2024	113,489	1.789 %	Yes	
2014A	6/1/2026	7,675,000	4.000 %	6/1/2024	176,726	2.303 %	Yes	
2014A	6/1/2027	12,890,000	4.000 %	6/1/2024	512,892	3.979 %	Yes	
2014A	6/1/2040	5,000,000	3.125 %	6/1/2024	(287,416)	(5.748)%	No	
2014B	6/1/2027	5,000,000	5.250 %	6/1/2024	377,674	7.553 %	Yes	
2014B	6/1/2039	24,480,000	3.500 %	6/1/2024	210,539	0.860 %	Yes	
2014B	6/1/2040	20,520,000	4.000 %	6/1/2024	1,059,142	5.162 %	Yes	

Note: Reflects rates as of 3/11/2024, assumes refunding bonds are issued with 5% coupon, and all refunded bonds are called on 7/12/2024.

B. BAB ERP Considerations

A Surge in Discussion of Build America Bond Calls & Extraordinary Redemption

Issuers are expecting to call \$20 billion to \$30 billion of Build America Bonds in 2024¹

■ “While only a small amount of BABs have been called using an “extraordinary redemption provision” since sequestration of BABs subsidies began in 2013, that should change as more issuers look to take advantage of using sequestration as a reason to exercise it, with **analysts expecting the largest year of BABs called by the ERP to date.**”

■ “While BABs were issued with the expectation that the subsidy would not be reduced retroactively, **the 35% subsidy for BABs has been reduced through sequestration numerous times.** The current sequestration rate reduction is at 5.7%.”

■ “**The Bay Area Toll Authority, the Los Angeles Unified School District and the University of California, which represent \$5.4 billion of outstanding debt, have announced they plan to do the same later this year, they noted.**”

— The Bond Buyer
(February 26, 2024)

■ “Investors turned up the heat Wednesday on the Regents of the University of California’s \$1.1 billion Build America Bonds refunding, bringing on high-profile law firm Kramer Levin and telling the university it **must either pay bondholders more for the make-whole premium, cancel the deal or face a lawsuit for breach of contract.**”

— The Bond Buyer
(March 21, 2024)

Indiana Municipal Power Agency v. United States²

- A recently concluded court case, Indiana Municipal Power Agency v. U.S., provides “favorable guidance” for issuers as it supports the conclusion that **sequestration resulted in a materially adverse change to the cash subsidy payment obligation**
- In Indiana Municipal Power Agency, a group of local power agencies that had issued BABs sought to restore their full 35% subsidy payments, past and future, that were reduced because of sequestration. The agencies made two arguments:
 - The government violated §1531 of the American Recovery and Reinvestment Act (ARRA) by not making the full 35% payments.
 - A contractual theory that the government breached a contract that arises out of §1531.
- Therefore, as supported by the reasoning in Indiana Municipal Power Agency and a consistent body of older case law, that change was an alteration in the federal government’s obligation to pay. That change is materially adverse to issuers of BABs – **an “extraordinary event” has occurred and is continuing.**

¹Source: The Bond Buyer

²Source: Orrick Herrington & Sutcliffe LLP, “Attention BAB Issuers: Extraordinary Optional Redemption is Available”

Legal and Bondholder Relations Considerations Regarding Exercising ERP

Legal Interpretation Considerations

- The Authority's counsel should review and opine on the exercise of the ERP in each instance
- Different bond counsels have varying views on the interpretation of identical provisions, or may reach different conclusions based upon the slight variations in the wording of the provision
- The Authority should discuss its ability to exercise the ERP with its counsel as part of its evaluation of this refunding strategy
- Goldman Sachs does not provide legal advice, including with respect to this matter

Investor Relations Considerations

- Exercising the ERP will generally result in redemption of the bonds at significantly lower redemption prices than if they were refunded using the standard optional make whole call feature
- This will result in holders of the Authority's Series 2009B BABs receiving relatively lower redemption prices from the Authority's election to exercise the ERP, and potentially lower redemption prices than the prices at which they purchased the bonds in the secondary market or have the bonds marked-to-market on their books
- This dynamic may result in adverse reactions from investors, including but not limited to negative perception of the Authority in the marketplace and unwillingness to participate in the Authority's future bond sales if the investor believes the ERP conditions were not sufficiently met
- For discussion on recent controversy please refer to the recent Regents of the University of California deal³

Goldman Sachs Asset Management ("GSAM") may hold bonds that are proposed to be redeemed with proceeds from this offering pursuant to the Extraordinary Redemption Provision ("ERP") mechanism of your Build America Bonds ("BABs"). Certain bondholders have challenged the exercise of ERP mechanisms in other BABs redemptions. Notwithstanding the role of Goldman Sachs as an underwriter in the offering, you should understand that GSAM will continue to manage these positions as a fiduciary, including with respect to exercising any rights GSAM may have, and your investment banking team will not be able to influence GSAM's management of these positions.

¹Source: *The Bond Buyer*

²Source: *Orrick Herrington & Sutcliffe LLP*, "Attention BAB Issuers: Extraordinary Optional Redemption is Available"

³Source: *The Bond Buyer*, "Investors hire Kramer Levin to challenge Univ of California BABs deal"

Executing the ERP Could Allow the Authority to Fully Refund Its Outstanding BABs, Eliminate Its Sequestration Risk and Achieve Marginal Savings

- The 35% direct payment BABs interest subsidy the Authority was to receive from the federal government is subject to sequestration, with the current reduction rate of 5.7% lowering the interest subsidy to 33.005%
 - This is scheduled to remain in place through Federal Fiscal Year 2030 absent any future legislative changes

- SCWA could consider refunding its outstanding BABs to ***fully derisk the Authority's exposure to sequestration of the federal subsidy and eliminate the administrative burden related to the subsidy***

- The economics of refunding the BABs with the ERP are impacted by ratios of tax-exempt borrowing rates versus the rates of taxable U.S. Treasury benchmarks, with Treasuries driving the ERP redemption price calculation
 - As shown on the following slide, we estimate that executing the ERP to redeem the Authority's BABs would produce marginal savings

- The Authority's ability to redeem its BABs by exercising the extraordinary optional redemption feature is subject to interpretation of the specific redemption language by counsel
 - We have recently seen issuers, such as Santa Clara Valley Transportation Authority and the Ohio Water Development Authority utilize the ERP to refunding outstanding BABs
 - Additionally, the recent ruling in Indiana Municipal Power Agency v. U.S. provides favorable guidance for issuers to execute BABs
 - Orrick recently published a report expressing support that the ERP is available to most issuers

Source: Orrick, Herrington & Sutcliffe LLP, "Attention BAB Issuers: Extraordinary Optional Redemption is Available"

Series 2009B BABs Refunding

Exercising the Extraordinary MWC

- While SCWA's ability to redeem its Series 2009B BABs by exercising the extraordinary optional redemption feature is subject to interpretation by counsel, a growing number of national bond counsel firms have recently opined that an ERP can be triggered by language similar to SCWA's definition of "Extraordinary Event"
 - "The Series 2009B Bonds will be subject to redemption prior to maturity by written direction at the option of the Authority, in whole or in part, on any date following the occurrence of an "Extraordinary Event", at a redemption price equal to the greater of: (i) 100% of the principal amount of such Series 2009B Bonds to be redeemed, plus accrued and unpaid interest on such Series 2009B Bonds being redeemed to the date fixed for redemption; or (ii) the sum of the present values of the remaining scheduled payments of principal and interest on such Series 2009B Bonds to be redeemed discounted to the date of redemption on a semiannual basis at the Treasury Rate plus 100 basis points"
 - "An "Extraordinary Event" will have occurred if the Authority determines that a material adverse change has occurred to Section 54AA or 6431 of the Internal Revenue Code of 1986 (the "Code") (as such Sections were added by Section 1531 of the Recovery Act, pertaining to "Build America Bonds") or there is any guidance published by the Internal Revenue Service or the United States Treasury with respect to such Sections or any other determination by the Internal Revenue Service or the United States Treasury, which determination is not the result of any act or omission by the Authority to satisfy the requirements to qualify to receive the 35% cash subsidy payment from the United States Treasury, pursuant to which the Authority's 35% cash subsidy payment from the United States Treasury is reduced or eliminated"
- Based on rates as of March 11th, a theoretical BABs refunding of all \$100.00mm of the Series 2009 Federally Taxable – Build America Bonds generates \$5.15mm of PV Savings (5.15% of refunded par)

Refunding Statistics	
Dated Date	4/15/2024
Refunding Par	\$ 86,285,000
Refunded Par	\$ 100,000,000
Arb Yield	2.61 %
Average Life	10.910
Positive Arbitrage (\$)	\$ 0
PV Savings (\$)	\$ 5,151,006
PV Savings (% of Refunded Bonds)	5.15%

Assumptions

- Interest rates as of March 11, 2024
- Delivery Date: April 15, 2024
- Cost of Issuance: \$5 per bond
- BABs subsidy of 33.005%¹

Make-Whole Call Calculation

Average Life	10.2
Treasury Rate [10-year]	4.22%
MW Spread	1.00%
Make-Whole Rate	5.22%
Make Whole Call Price	102.189

¹BABs subsidy calculated to account for 5.7% sequestration.

Appendix A: Market Update

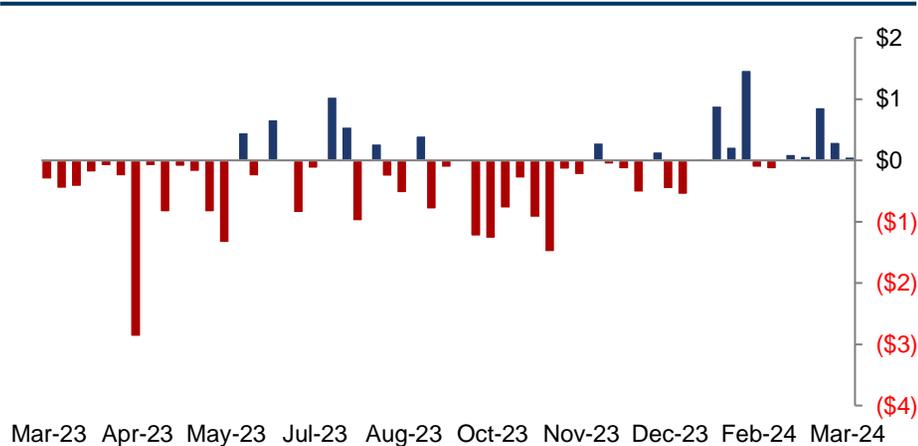
Treasury Rates Lowered by 3-12bp Last Week with 20-Year and Short Tenors Lower Month-to-Date



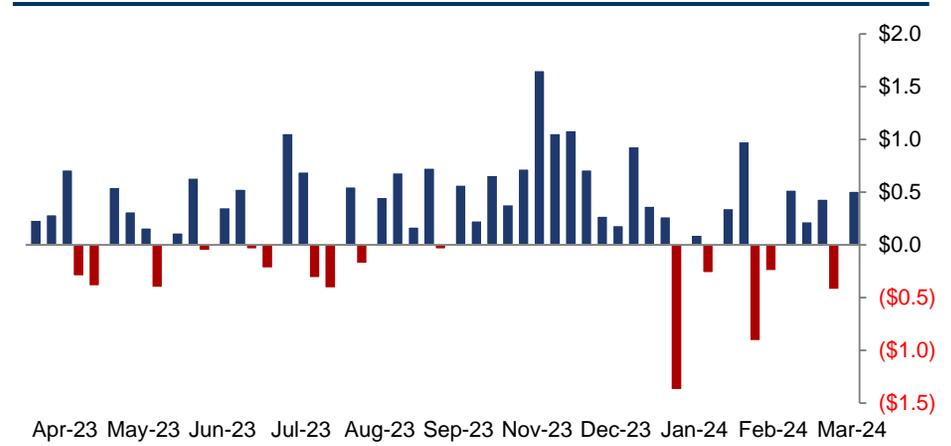
Source: Treasury.gov
 Note: Rates as of March 22, 2024. Changes in basis points may not add due to rounding.

With Five Consecutive Weeks of Inflows, Municipal Technicals are Well Positioned

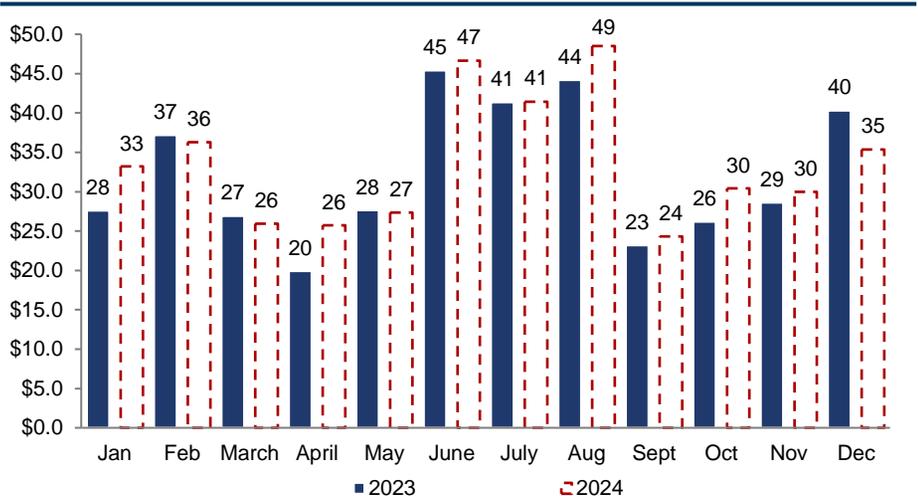
Muni Fund Flows (\$bn)



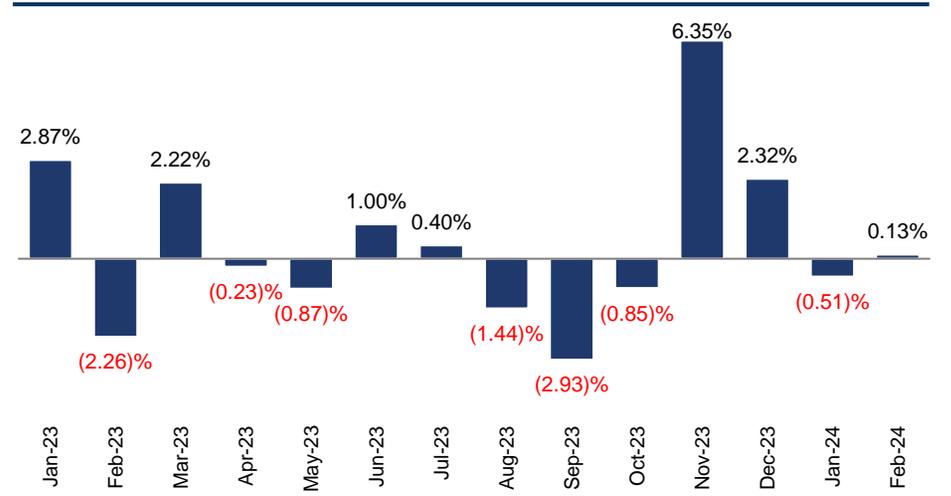
ETF Fund Flows (\$bn)



Municipal Bond Redemptions (\$bn)



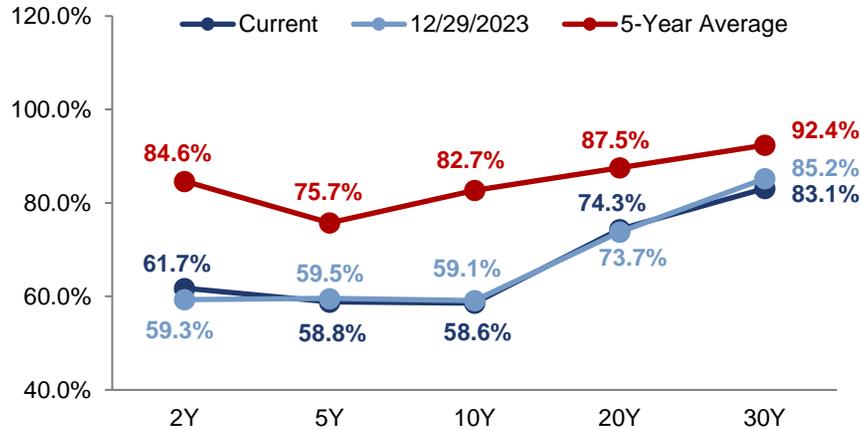
MoM Muni Aggregate Returns ("LMBITR")



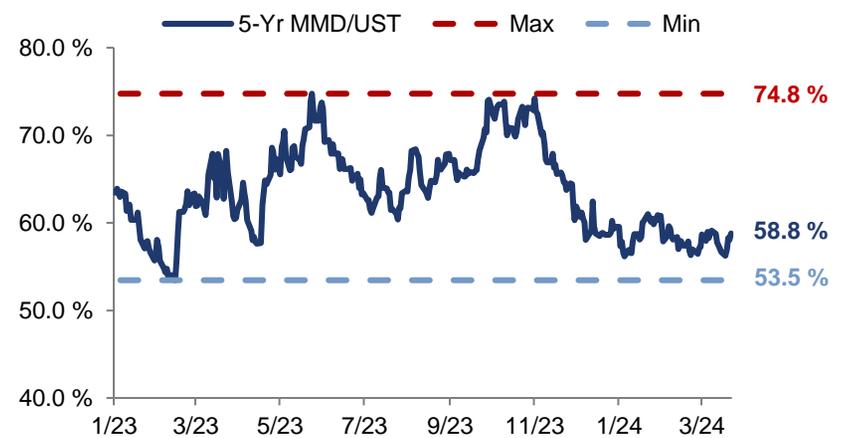
Source: Lipper Funds, Bloomberg
 Note: ETF Fund Flows as of March 22, 2024 and Muni Fund Flows data as of March 20, 2024.

MMD/UST Ratios Across the Curve Remain At Historically Attractive Levels for Issuers

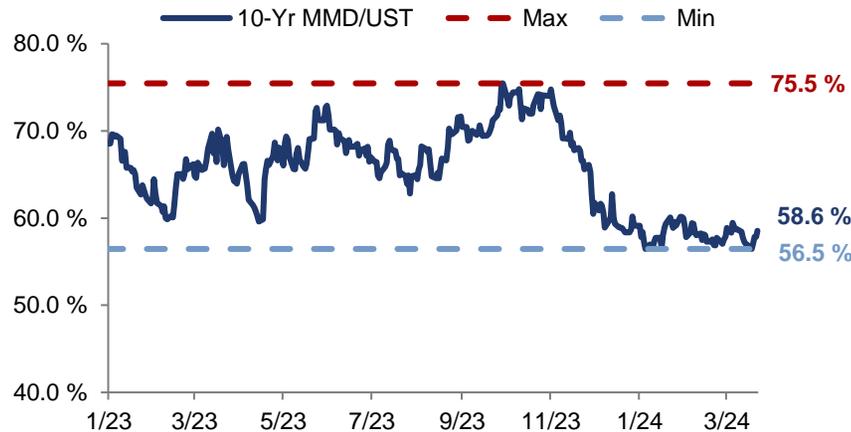
MMD/UST Ratio Curve Comparison



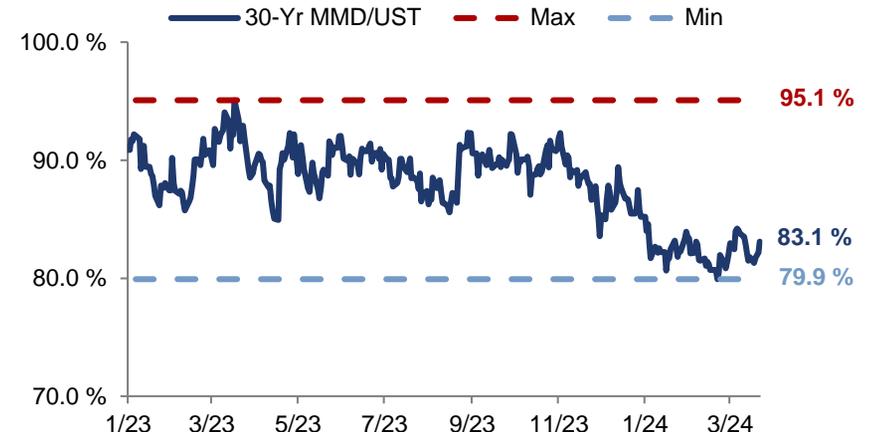
5-yr MMD/UST



10-yr MMD/UST

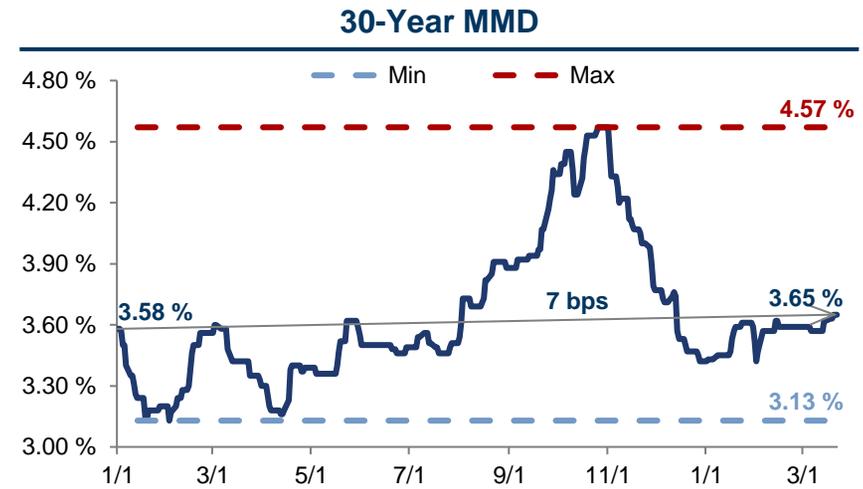
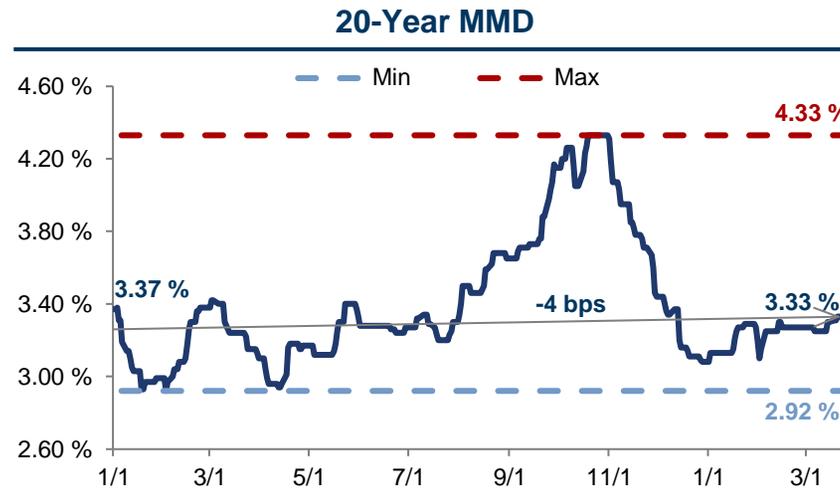
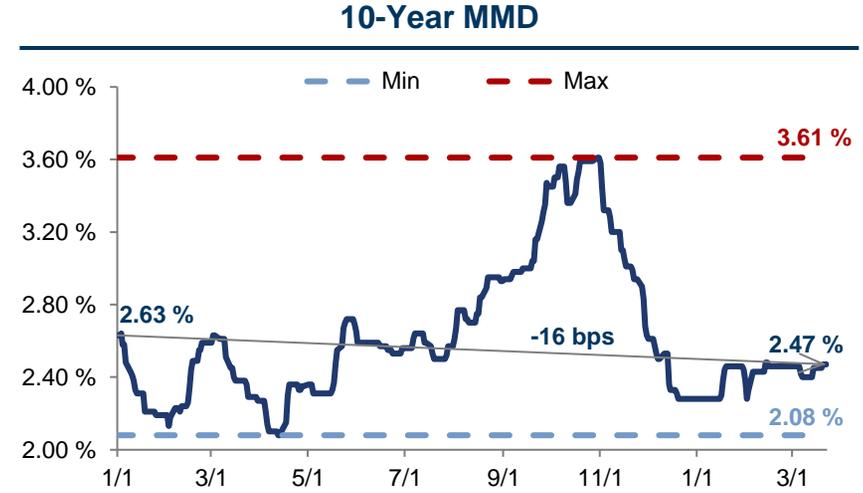
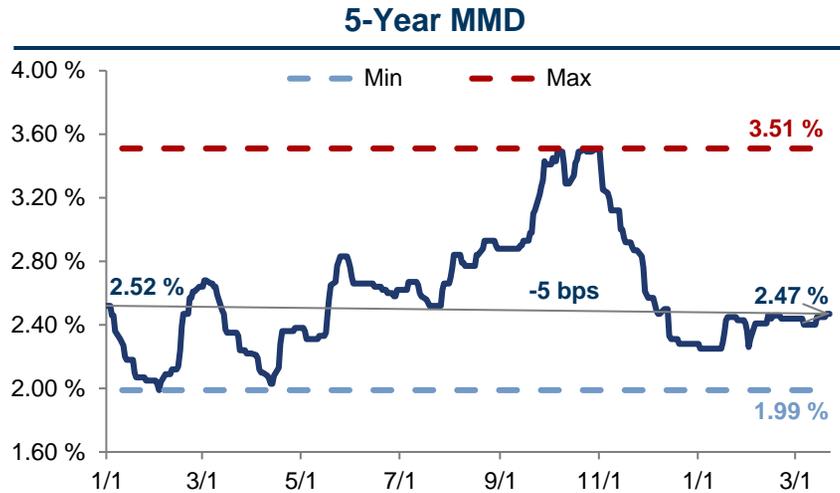


30-yr MMD/UST



Source: Treasury.gov, LSEG.
Note: Rates as of March 22, 2024.

Tax-Exempt Rates Have Outperformed Treasuries Year-to-Date and are Well Below October Highs



Source: LSEG

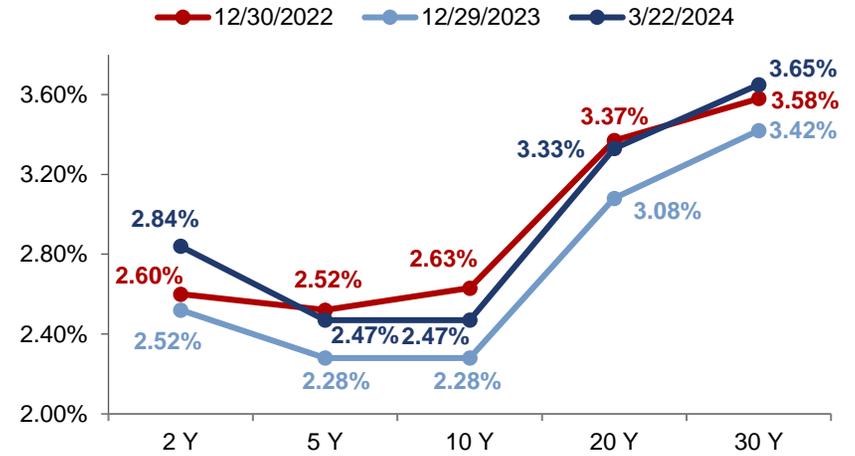
Note: Rates as of March 22, 2024. Changes in basis points may not add due to rounding.

Both Taxable and Exempt Rates are Higher YTD

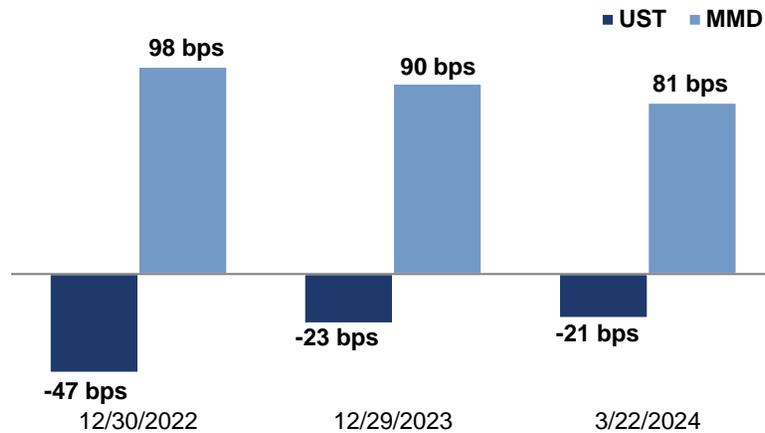
US Treasury Yield Curve Comparison



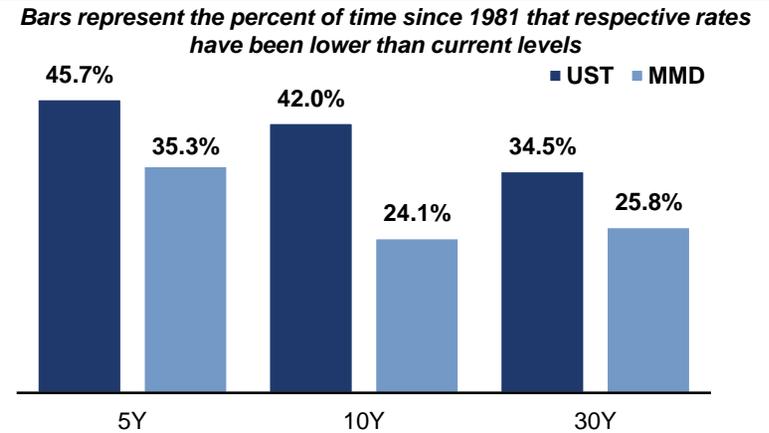
MMD Yield Curve Comparison



30y – 2y Curve Steepness Comparison



Rates are Historically Below Average in Treasury and MMD Tenors



Source: Treasury.gov, LSEG
Note: Rates as of March 22, 2024.

**SUFFOLK COUNTY WATER AUTHORITY
Oakdale, Long Island, New York**

INTEROFFICE CORRESPONDENCE

DATE: March 13, 2024
TO: Jeff Szabo, Chief Executive Officer
FROM: Christopher Cecchetto, Chief Financial Officer 
SUBJECT: **BUDGETS – FISCAL YEAR ENDING MAY 31, 2025**

In accordance with the *2025 Budget & Rates Proposal* presentation, I respectfully submit the Suffolk County Water Authority budgets for the fiscal year ending May 31, 2025 for Board approval. In accordance with Public Authorities Law, these budgets must be approved by the Board and accessible to applicable agencies by March 31, 2024.

The following summarizes the proposed budgets for fiscal year ending, May 31, 2025:

Operating & Maintenance Expenses: \$158.7M
Capital Budget: \$103.5M
Debt Service: \$41.3M

If you are in agreement, please include on the agenda for the March 28, 2024 board meeting.

CC:ms

cc. S. Hannan

FIN-24-024

SUFFOLK COUNTY WATER AUTHORITY
Oakdale, Long Island, New York

I N T E R O F F I C E C O R R E S P O N D E N C E

DATE: March 14, 2024

TO: Jeff Szabo, Chief Executive Officer

FROM: Christopher Cecchetto, Chief Financial Officer 

SUBJECT: **Rate & Fee Recommendations**

The Finance department prepares financial analysis on (1) consumption and service charges and (2) hydrants, firelines, and flow test rates. This analysis includes revenue modeling to ensure that all budget and cash requirements are satisfied. Cash reserves utilization is also considered to manage consumption and service charge rate increases. Hydrants, firelines, and flow test rates are increased 3% annually, in accordance with Board resolution 136-03-2023.

Additionally, the Finance department prepares an internal analysis to assess the appropriateness of (3) tapping fees and (4) meter vault fees. This analysis considers current labor and material costs and aims to ensure that all associated costs are recovered through the respective fee structures. The Construction Maintenance department prepares a similar analysis of (5) standard cost fees.

The revenue sources noted above provide the Authority the means to support its capital, operating & maintenance, and debt service budgets.

Based upon these analyses, it is recommended to amend the Authority's rates and fees in accordance with the attached schedule, effective June 1, 2024 and January 1, 2025 (wholesale water rate).

These proposed rates will be published in Newsday on March 21, 2024.

If you are in agreement, please place the following items on the March 28, 2024 Board agenda.

cc. S. Hannan, M. Litka, J. Pokorny, J. Tinsley, B. Warner, C. Given, S. Huber

FIN-24-023

NOTICE IS HEREBY GIVEN a Public Hearing will be held remotely at 2:00 p.m. on Thursday, March 28, 2024, to receive comment on the proposed rate increases for certain Suffolk County Water Authority service classifications as stated below. The Zoom Meeting link will be provided on Suffolk County Water Authority's website.

Please submit any questions to info@scwa.com by 12:00 PM EST on March 28, 2024.

		CURRENT June 1, 2023	PROPOSED June 1, 2024
Minimum Service Charge			
Service Classification 1 – Quarterly	General	32.07	33.18
Service Classification 1 – Monthly	General	10.69	11.06
Service Classification 1D – Annual	Fire Island	268.07	277.45
Water Quality & Treatment Charge			
Service Classification 1 – Quarterly	General	20.00	20.00
Service Classification 1 – Monthly	General	6.67	6.67
Service Classification 1D – Quarterly	Fire Island	20.00	20.00
Service Classification 1D – Annual	Fire Island	80.00	80.00
Commodity Charge ¹			
Service Classification 1 – Quarterly	General	1.742	1.803
Service Classification 1 – Monthly	General	1.742	1.803
Service Classification 1D – Annual	Fire Island	2.424	2.509
Conservation Rate ^{1 2}			
Service Classification 1 – Quarterly	General	2.516	2.604
Service Classification 1 – Monthly	General	2.516	2.604
		PROPOSED January 1, 2024	PROPOSED January 1, 2025
Commodity Charge			
Service Classification 1B – Special Service Water			
Districts wholesale rate per 1,000,000 gallons		1,863.00	1,928.00
Wholesale rate per 1,000 gallons		1.863	1.928

¹ Rates noted are per CCF (centum cubic feet); for estimated rates per 1,000 gallons, please visit SCWA.com after rate approval

² Consumption in excess of the following thresholds for the respective meter sizes will be billed at the Conservation Rate:

Meter Size	Quarterly Consumption (CURRENT: June 1, 2023)		Quarterly Consumption (PROPOSED, June 1, 2024)	
	Gallons	CCF	Gallons	CCF
5/8"	89,760	120	89,760	120
3/4"	89,760	120	89,760	120
1"	89,760	120	89,760	120
1 1/2"	291,720	390	291,720	390
2"	291,720	390	291,720	390
3"	291,720	390	291,720	390
4"	1,795,200	2,400	1,795,200	2,400
6"	2,244,000	3,000	2,244,000	3,000
8"	2,244,000	3,000	2,244,000	3,000

Tapping fee increases, effective June 1, 2024, are as follows:

Service Size	Current Fee	Proposed Fee	% Increase
1"	\$4,100 (includes vault)	\$4,500 (includes vault)	9.76%
1 1/2"	\$5,300	\$6,500	22.64%
2"	\$7,900	\$8,400	6.33%
4"	\$16,000	\$16,600	3.75%
6"	\$16,500	\$17,600	6.67%
8"	\$17,500	\$18,200	4.00%
10"	\$18,000	\$19,200	6.67%
12"	\$18,900	\$19,900	5.29%

Meter vault fee increases, effective June 1, 2024, are as follows:

Meter Vault	Current	Proposed	% Increase
1"	\$1,050	\$1,050	0.00%
1 1/2" (without labor)	\$1,000	\$1,700	70.00%
1 1/2" (with labor)	\$2,040	\$2,100	2.94%
2" (without labor)	\$2,050	\$2,200	7.32%
2" (with labor)	\$2,970	\$2,970	0.00%

Standard cost increases, effective June 1, 2024, are as follows:

Current	Proposed	% Increase
\$244	\$285	16.80%

Hydrant fee increases, effective June 1, 2024, are as follows:

Hydrant Rate Category ³	Current (semi-annual)	Proposed (semi-annual)	% Increase
SCWA Public Hydrant Public Main No Flow Test	\$82.50	\$84.975	3.00%
SCWA Private Hydrant Private Main No Flow Test	\$121.153	\$124.788	3.00%
SCWA Private Hydrant Public Main No Flow Test	\$121.153	\$124.788	3.00%
SCWA Private Hydrant Private Main With Flow Test	\$146.903	\$151.310	3.00%
SCWA Private Hydrant Public Main With Flow Test	\$146.903	\$151.310	3.00%

Fireline rate increases, effective June 1, 2024, are as follows:

Fireline Rate Category ³	Current (quarterly)	Proposed (quarterly)	% Increase
2" General Fireline	\$43.96	\$45.279	3.00%
3" General Fireline	\$43.96	\$45.279	3.00%
4" General Fireline	\$63.42	\$65.323	3.00%
6" General Fireline	\$131.71	\$135.661	3.00%
8" General Fireline	\$263.65	\$271.560	3.00%
10" General Fireline	\$375.72	\$386.992	3.00%
12" General Fireline	\$541.75	\$558.003	3.00%
16" General Fireline	\$1,154.49	\$1,189.125	3.00%

Flow Test rate increases, effective June 1, 2024, are as follows:

Flow Test Rate Category ³	Current (semi-annual)	Proposed (semi-annual)	% Increase
Flow Test Only	\$25.75	\$26.523	3.00%

³ Hydrant, Fireline, and Flow Test rates will be increased 3.00%, effective June 1 of every year until otherwise directed by the SCWA Board.