

SERRANO WATER DISTRICT 2026 WATER RATE STUDY

Board Meeting – March 19, 2026



**Water Resources
Economics**

**Promoting the Value
and Price of Water Service**



Agenda

- Rate study overview
- Schedule
- Proposed results
- Discussion & next steps



Rate Study Process

Policy Framework

Identify Key Policy Objectives (Revenue Stability, Customer Affordability, etc.)

What are our priorities and values?

Financial Plan

Develop Multi-year Cash Flow Projections to Determine Annual Rate Revenue Requirement

How much revenue do we need?

Cost-of-Service Analysis

Allocate the Rate Revenue Requirement to Customers in Proportion to Use of and Burden on the Water System

Who should pay for what?

Rate Design

Identify Appropriate Rate Structure Changes and Calculate Proposed Rates

What are the impacts of the proposed rates?

Documentation

Develop a Study Report to Provide Transparency and Defensibility

Is there documentation showing that rates are proportional?



Proposition 218 (Article XIII C and XIII D of California Constitution)

- Applies to Property-related Fees for Service Including Retail Water Rates
- Rate Implications:
 - Rates must be proportional to and may not exceed the cost of providing service
 - One customer class (residential, commercial, etc.) may not subsidize another customer class
 - Retail agencies typically conduct a “cost-of-service analysis” at least once every 5 years to ensure a sufficient nexus between rates and costs
- Procedural Requirements



Cost of
Service
Analysis



Public
Hearing
Requirement



Customer
218 Notice



Customer
Right to
Protest



Water Resources
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Proposition 218

Due to a Series of Court Rulings on Water Rates

Water and Wastewater is a Property-Related Service

Rates Need to be Proportional to the Level of Service

This is the nexus requirement.

Administrative Record is Required to Document the Rationality and Calculation of the Rates

We need to show the math behind our work.

“Demonstrate the Cost Basis” per the San Juan Capistrano decision.

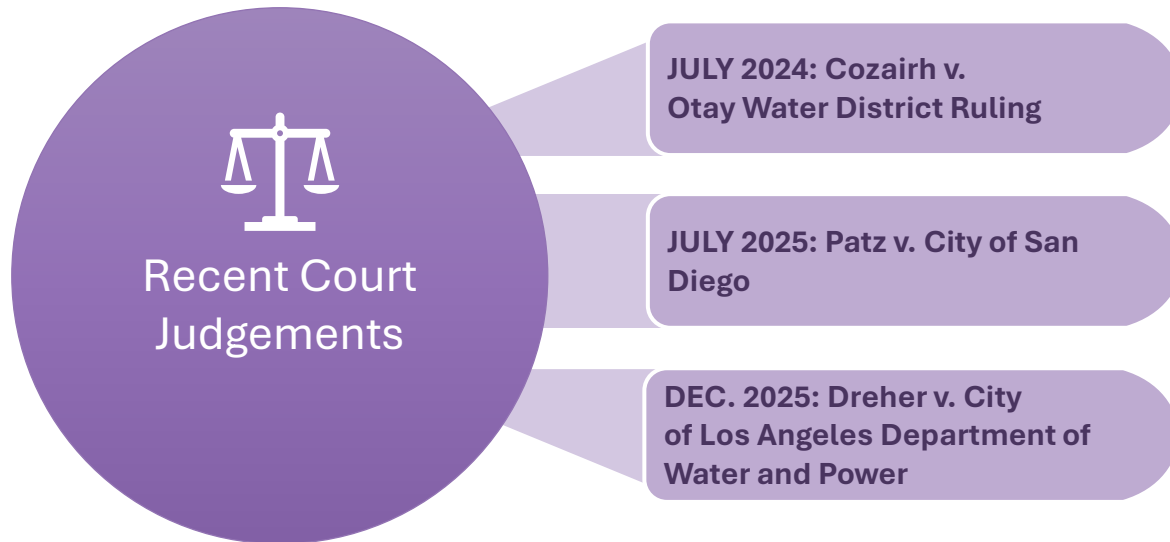
Implications

Business Model of Operating the Utility Should be Reflected in the Rate Structure

We Cannot Have Rates that Subsidize Certain Customers



Recent Proposition 218 Litigation



• Implications:

- **Higher Burden of Proof** to Show that Rates are Proportional to Costs
- **Rates Primarily Designed** to Promote Water Efficiency/Conservation, *Even When Compliant with Industry Standards,* May Not Meet Prop 218 Requirements
- **Tiered Rates** Require a Higher Level of Justification and Are Vulnerable to Legal Challenges
- **Higher Degree of Uncertainty** Regarding Which Rate Structures Will Pass Legal Muster



Rate Study Report

- Demonstrates proportionality between costs & rates
- Provides transparency to the public
- Critical part of administrative record in event of legal challenge

Rate Study Goal

- Currently adopted five-year rate schedule:
 - Spans FY 2021/22 - FY 2025/26
 - The final year of adopted rate increases was not implemented in FY 2025/26
 - Rates have remained unchanged since July 2024
- 2025 Water Rate Study:
 - Goal: Develop a proposed five-year rate schedule for FY 2026/27 - FY 2030/31 that:
 - Meets Prop 218 legal requirements
 - Meets the District's funding needs
 - Is consistent with industry standards established by AWWA

Schedule

- Board to receive rate study report **today**
- Mail out public hearing notices to all customers by March 27th
- Rate study workshop at 5pm on May 14th
- Public hearing to adopt rates at 5pm on May 27th
- New rates effective July 1st

Financial Plan



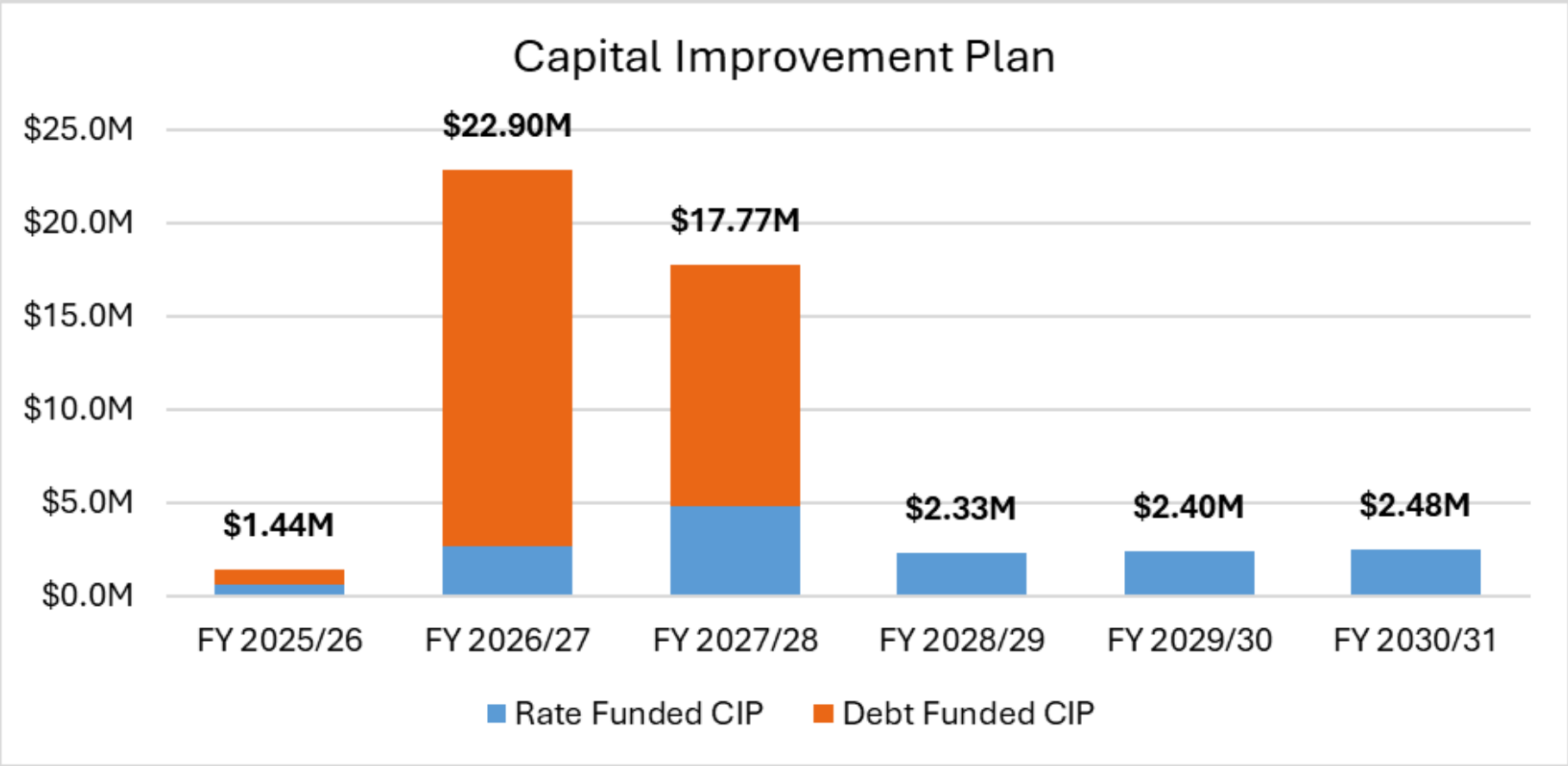
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Key Financial Plan Assumptions: CIP

- New well 100% funded by OCWD loan
- \$26M of Smith Reservoir costs assumed to be funded by new bond issue

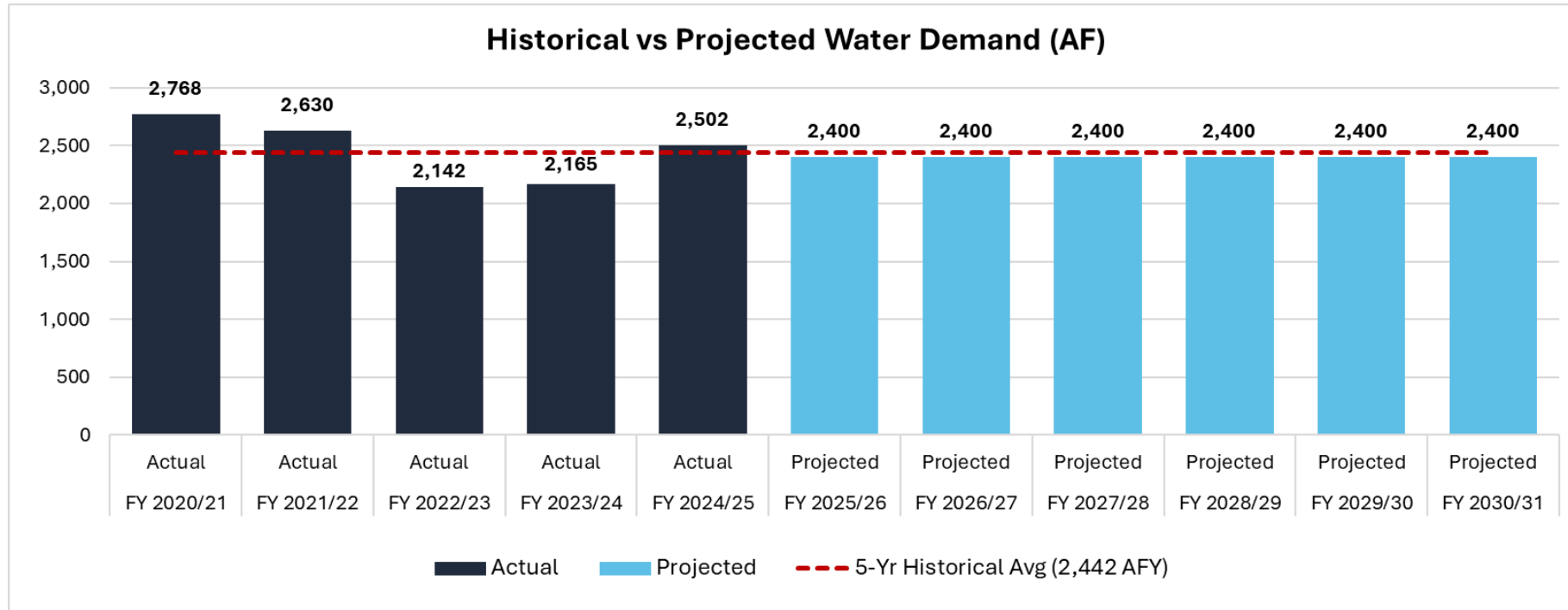
CIP Projects	FY 2026	FY 2027	FY 2028	FY 2029	FY 2030	FY 2031	Total
New Well	\$800,000	\$7,200,000	\$0	\$0	\$0	\$0	\$8,000,000
Smith Reservoir	\$0	\$13,500,000	\$13,500,000	\$0	\$0	\$0	\$27,000,000
Lockett Reservoir Coating & Corrosion	\$0	\$0	\$2,000,000	\$0	\$0	\$0	\$2,000,000
Main Line Replacement	\$500,000	\$2,000,000	\$2,060,000	\$2,121,800	\$2,185,454	\$2,251,018	\$11,118,272
Misc. Capital Replacements	\$140,000	\$200,000	\$206,000	\$212,180	\$218,545	\$225,102	\$1,201,827
Total	\$1,440,000	\$22,900,000	\$17,766,000	\$2,333,980	\$2,403,999	\$2,476,119	\$49,320,099

Key Financial Plan Assumptions: CIP Funding



Key Financial Plan Assumptions: Water Demand

- Customer water demand projected to remain constant at 2,400 acre-feet per year (about 1.7% below 5-year historical average)

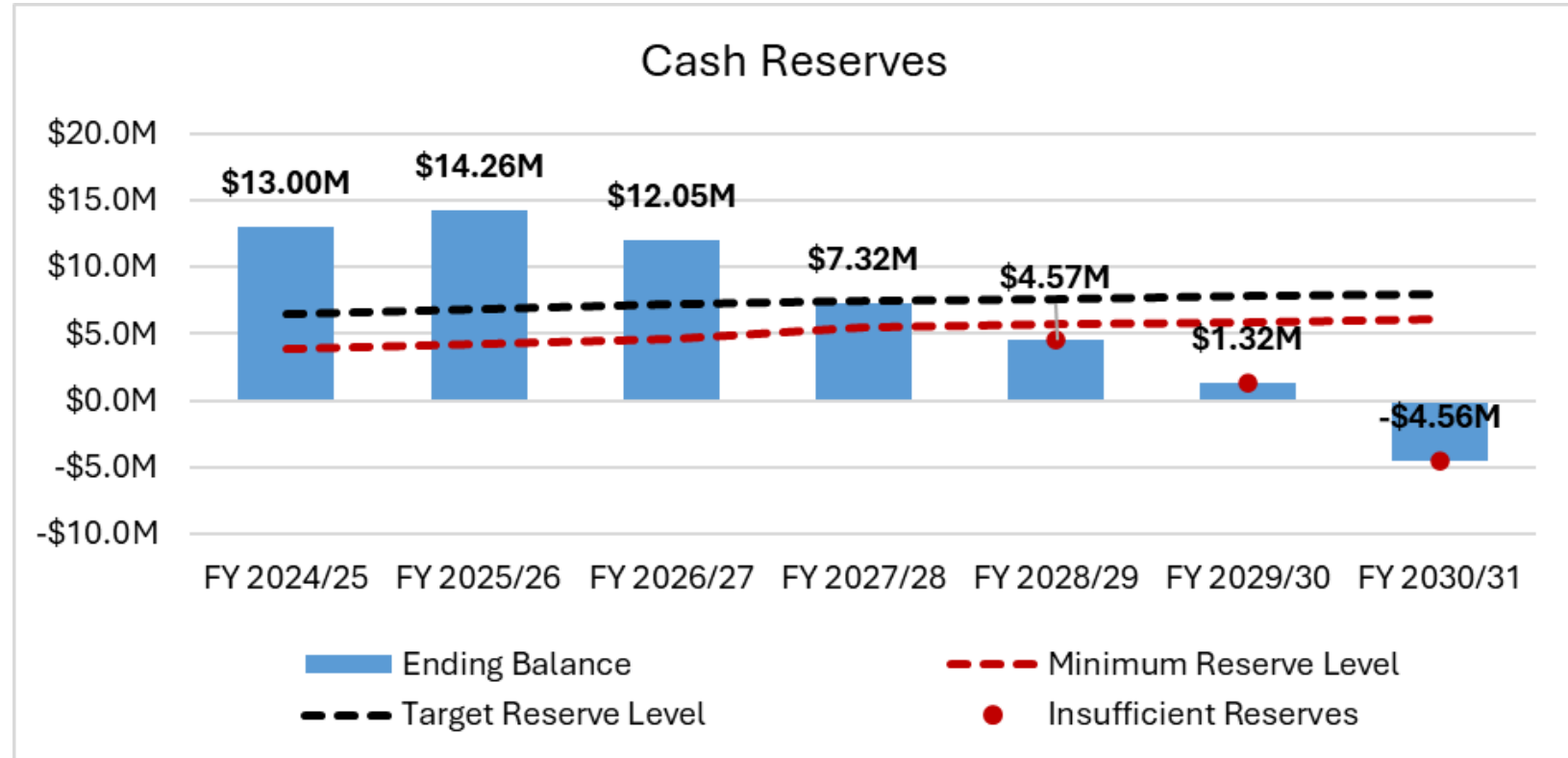


Reserve Policy

Reserve	Minimum Reserve Level (~\$4.2M Total)	Target Reserve Level (~\$6.8M Total)
Operating Reserve	6 months of operating expenses	6 months of operating expenses
Capital Project Reserve	Annual depreciation	Annual average of 10-year CIP
Emergency Reserve	5% of capital assets net of depreciation	\$1.5 million

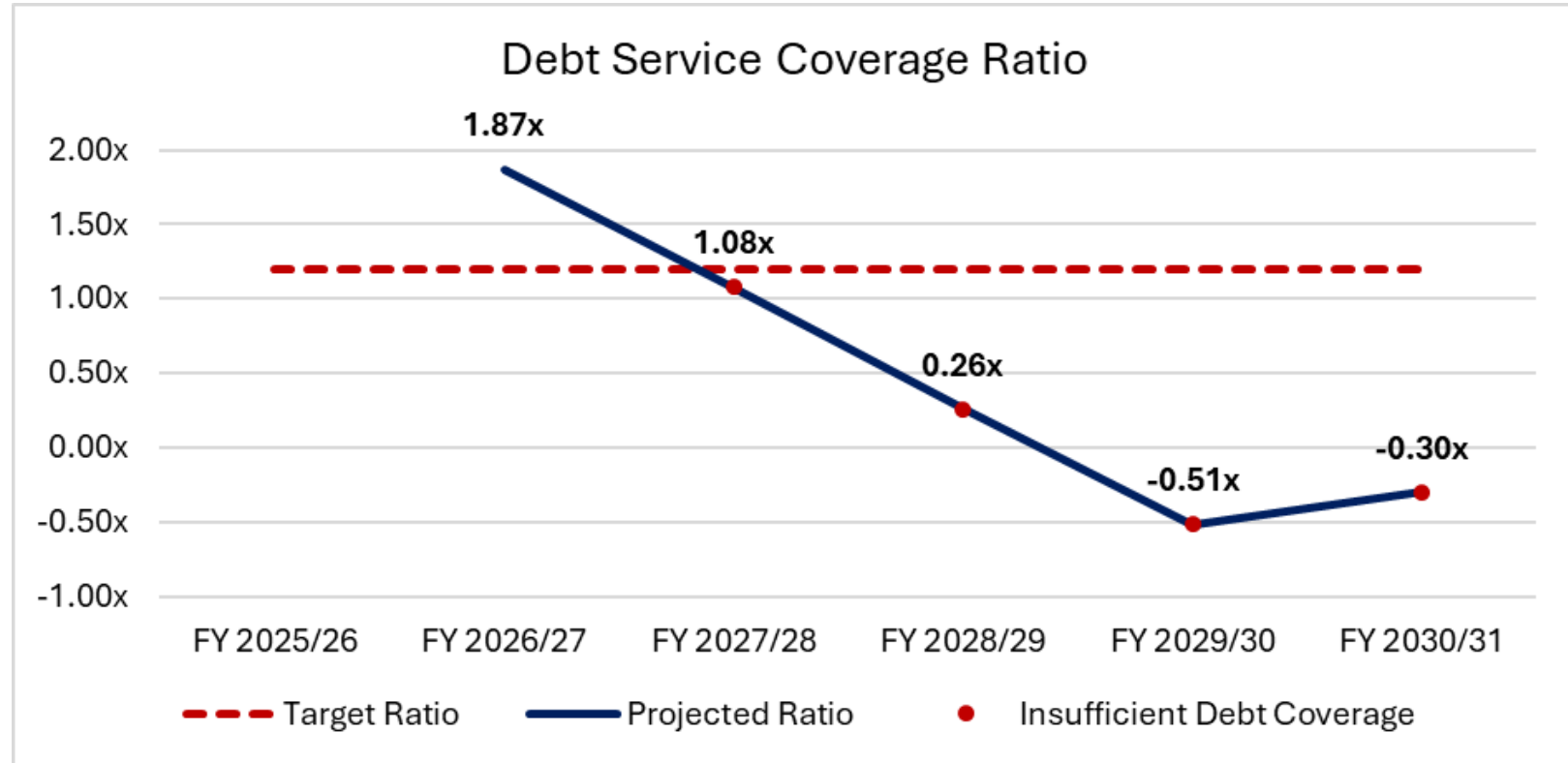
Status Quo Financial Plan (NO REVENUE ADJUSTMENTS)

Fiscal Year	Effective Month	Revenue Adjustment
FY 2026/27	July 2026	0%
FY 2027/28	July 2027	0%
FY 2028/29	July 2028	0%
FY 2029/30	July 2029	0%
FY 2030/31	July 2030	0%



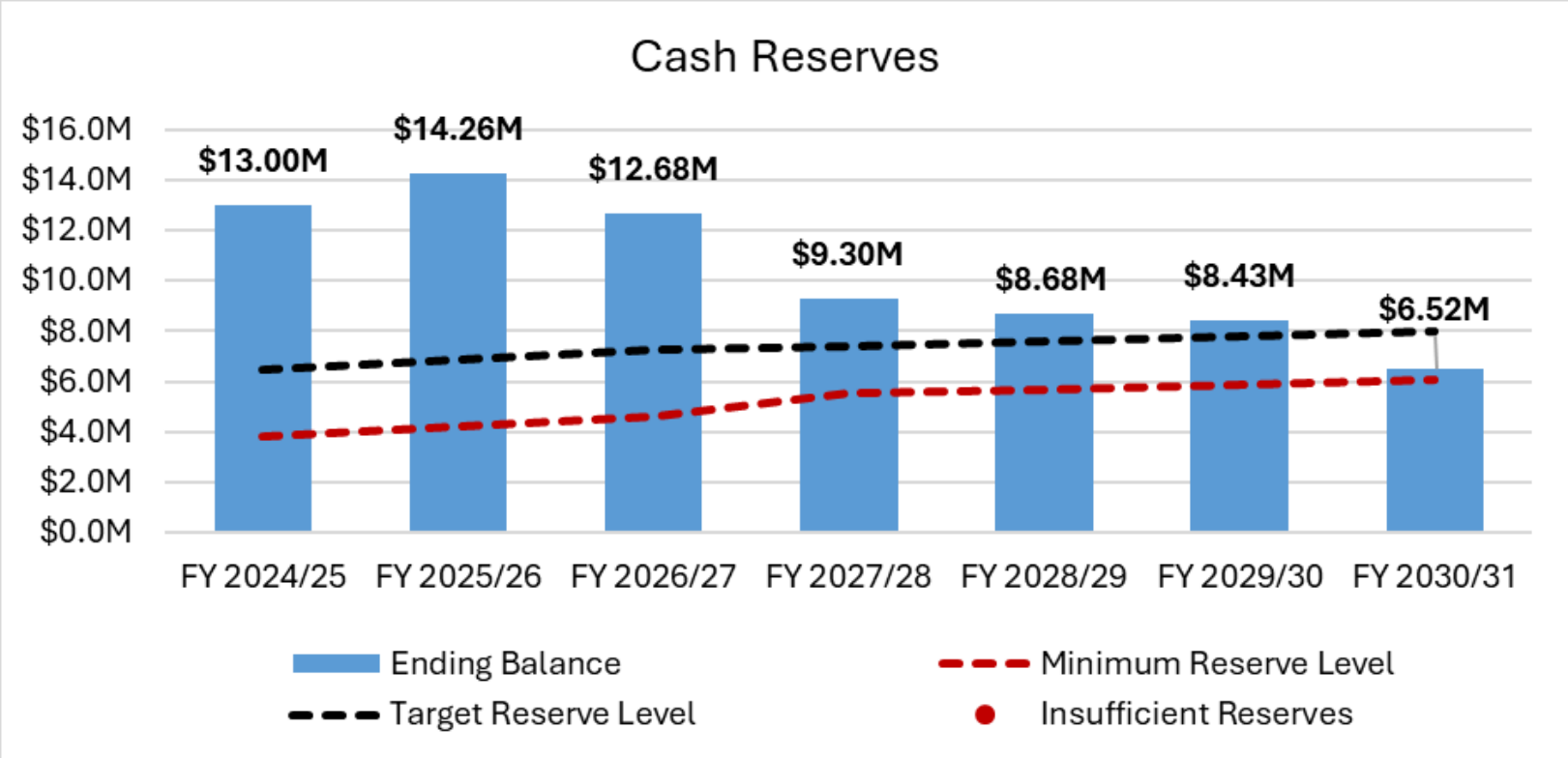
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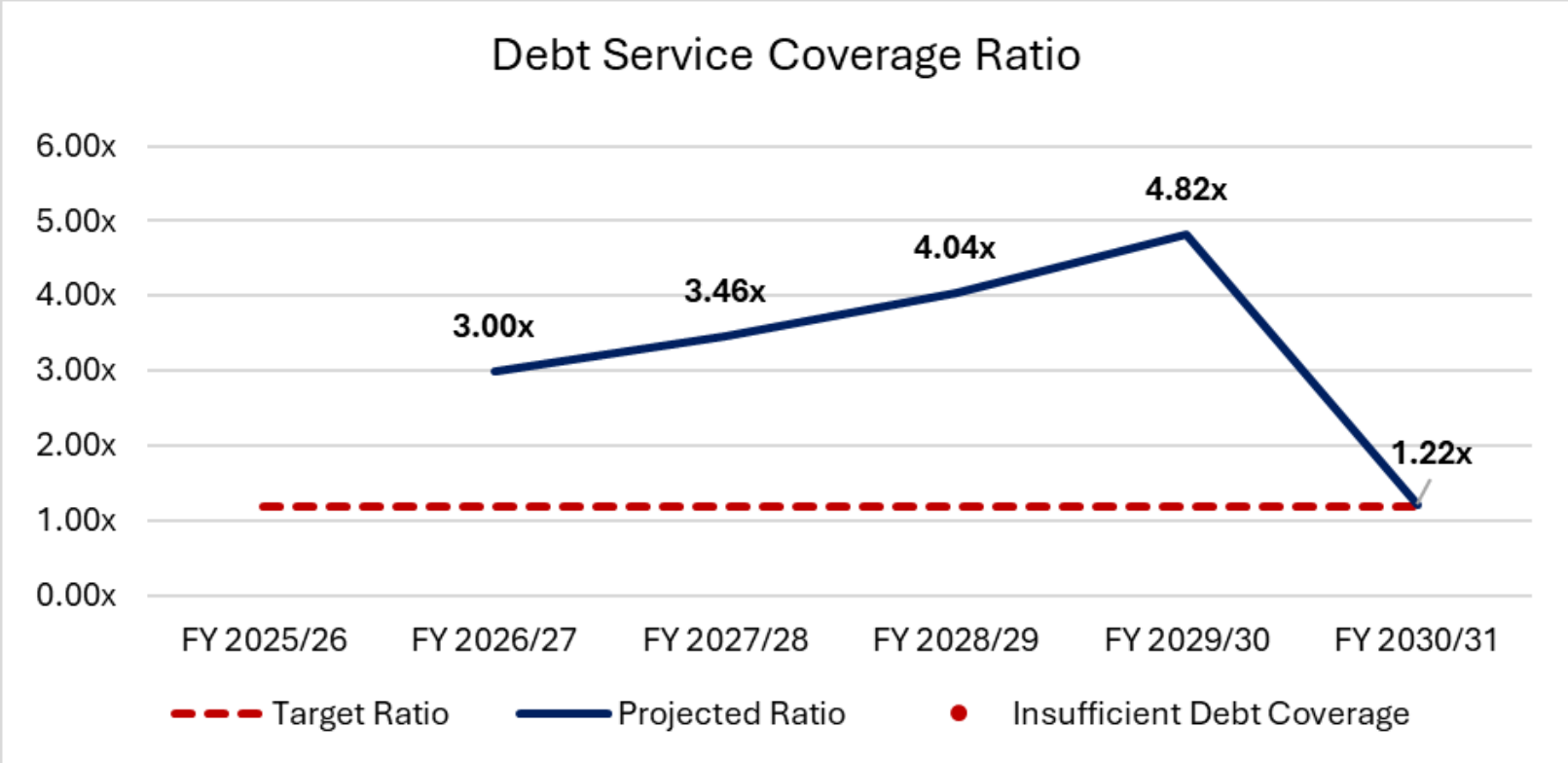
Proposed Financial Plan (9% REVENUE ADJUSTMENTS)

Fiscal Year	Effective Month	Revenue Adjustment
FY 2026/27	July 2026	9%
FY 2027/28	July 2027	9%
FY 2028/29	July 2028	9%
FY 2029/30	July 2029	9%
FY 2030/31	July 2030	9%



Proposed Financial Plan (9% REVENUE ADJUSTMENTS)

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FY 2027/28	July 2027	9%
FY 2028/29	July 2028	9%
FY 2029/30	July 2029	9%
FY 2030/31	July 2030	9%



Preliminary Rates



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Current Rate Structure

- No proposed changes to current rate structure:
 - 1) Fixed Readiness to Serve Charge
 - Increases with meter size
 - 2) Volumetric rate per unit of water delivered
 - Volumetric rate starts when water use exceeds 1 unit

Current Water Rates	Effective July 1, 2024
Readiness to Serve Charge (monthly)	
1-inch and under	\$45.23
1.5-inch	\$50.12
2-inch	\$54.94
3-inch	\$64.61
4-inch	\$74.32
6-inch	\$132.33
Volumetric Rate (per HCF)*	
All water use exceeding one HCF per month	\$5.58

*HCF = one hundred cubic feet = 748 gallons

Pass-Through Provision

- We recommend adopting a pass-through provision so that rates can be automatically adjusted if actual cost increases exceed the rate study projections:
 - 1) **Water supply cost pass-through** based on actual cost increases that exceed:
 - 4.5% annual average projected increase in OCWD Replenishment Assessments
 - 7.8% annual average projected increase in MWDOC imported water
 - 2) **Inflationary pass-through** based on CPI if actual cost increases exceed:
 - 4.6% annual average projected increase in all other O&M expenses

Proposed Readiness to Serve Charges (FY 2026/27)

- Distributional impacts in first year due to updated cost-of-service
- Fixed charges increase by meter size based on meter capacity

Readiness to Serve Charge (monthly)	Number of Meters	Meter Capacity Ratio	Current Charge (FY 2025/26)	Proposed Charge (FY 2026/27)	Difference (\$)	Difference (%)
1-inch and under	2,297	1.00	\$45.23	\$47.72	\$2.49	5.5%
1.5-inch	8	2.00	\$50.12	\$74.03	\$23.91	47.7%
2-inch	45	3.20	\$54.94	\$105.60	\$50.66	92.2%
3-inch	0	6.40	\$64.61	\$189.79	\$125.18	193.7%
4-inch	2	10.00	\$74.32	\$284.50	\$210.18	282.8%
6-inch	3	20.00	\$132.33	\$547.59	\$415.26	313.8%

Proposed Volumetric Rate (FY 2026/27)

Description	
Proposed Rate (FY 2026/27)	
Operating Component	\$4.99
Capital Component	\$1.09
Total Rate (per HCF)	\$6.08
Rate Comparison (per HCF)	
Proposed Rate (FY 2025/26)	\$6.08
Current Rate	\$5.58
<i>Difference (\$)</i>	<i>\$0.50</i>
<i>Difference (%)</i>	<i>9.0%</i>



Proposed Five-Year Rate Schedule

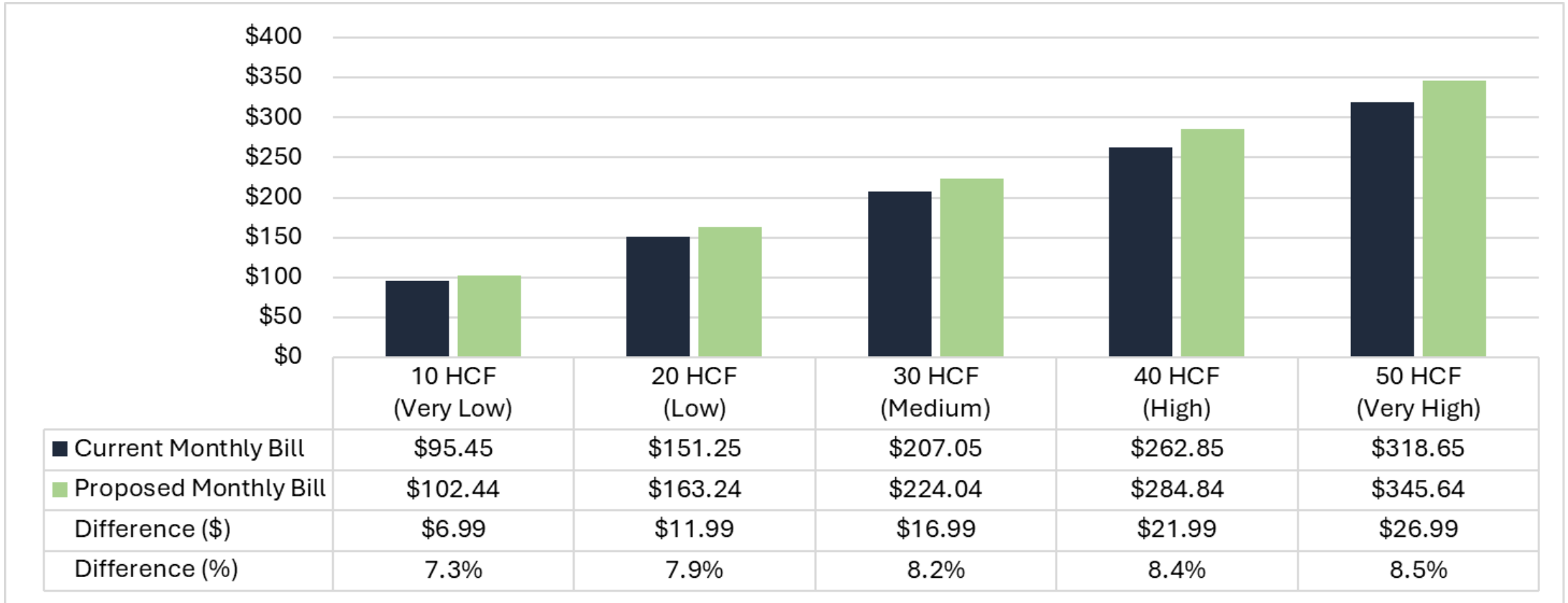
Water Rates	Current	Proposed FY 2026/27 (July 2026)	Proposed FY 2027/28 (July 2027)	Proposed FY 2028/29 (July 2028)	Proposed FY 2029/30 (July 2029)	Proposed FY 2030/31 (July 2030)
Readiness to Serve Charge (monthly)						
1-inch and under	\$45.23	\$47.72	\$52.02	\$56.71	\$61.82	\$67.39
1.5-inch	\$50.12	\$74.03	\$80.70	\$87.97	\$95.89	\$104.53
2-inch	\$54.94	\$105.60	\$115.11	\$125.47	\$136.77	\$149.08
3-inch	\$64.61	\$189.79	\$206.88	\$225.50	\$245.80	\$267.93
4-inch	\$74.32	\$284.50	\$310.11	\$338.02	\$368.45	\$401.62
6-inch	\$132.33	\$547.59	\$596.88	\$650.60	\$709.16	\$772.99
Volumetric Rate (per HCF)						
All water use exceeding one HCF per month	\$5.58	\$6.08	\$6.63	\$7.23	\$7.89	\$8.61

Customer Bill Impacts



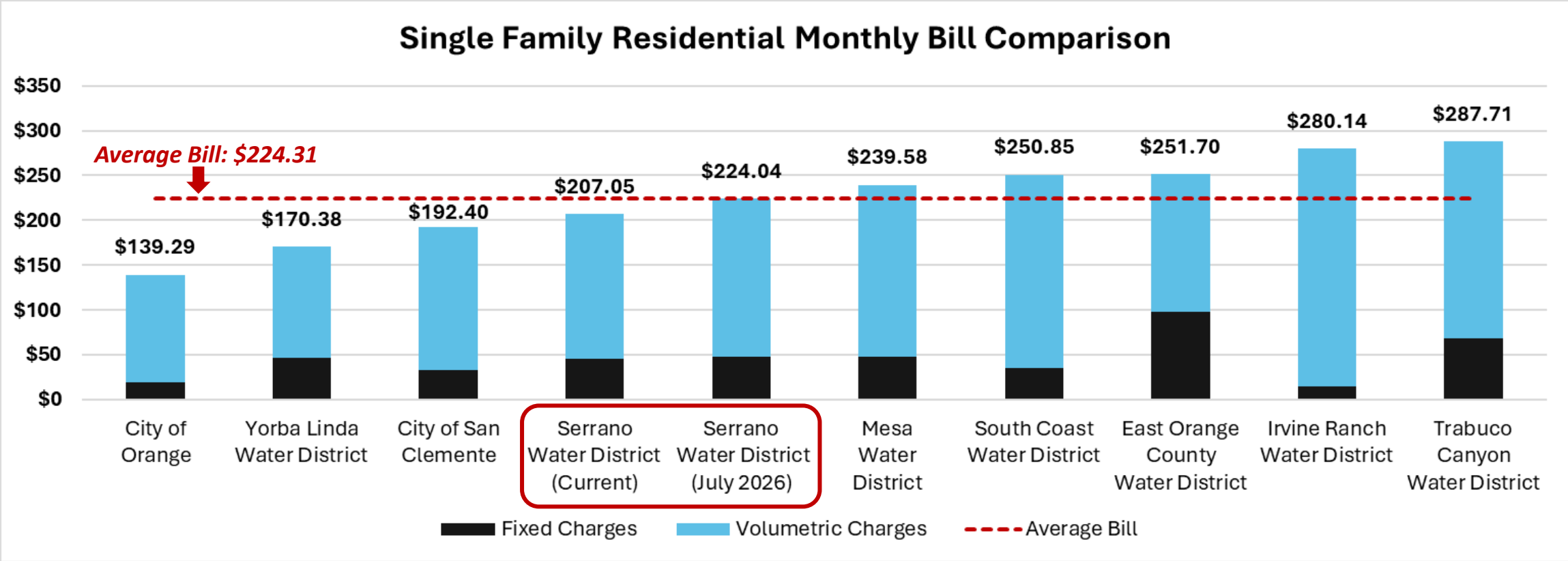
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Sample Residential Bills - FY 2026/27



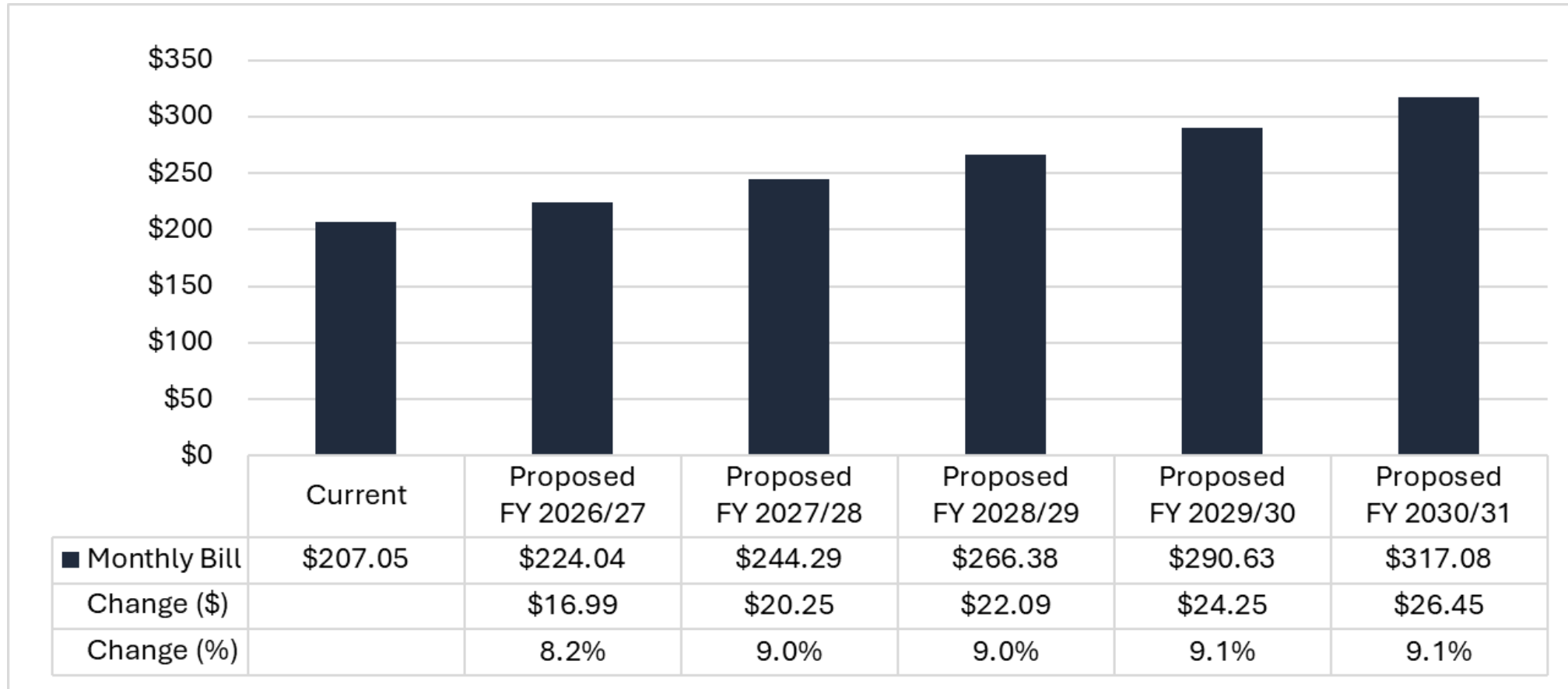
Note: all bills are for a 1-inch or smaller meter

Residential Bill Comparison



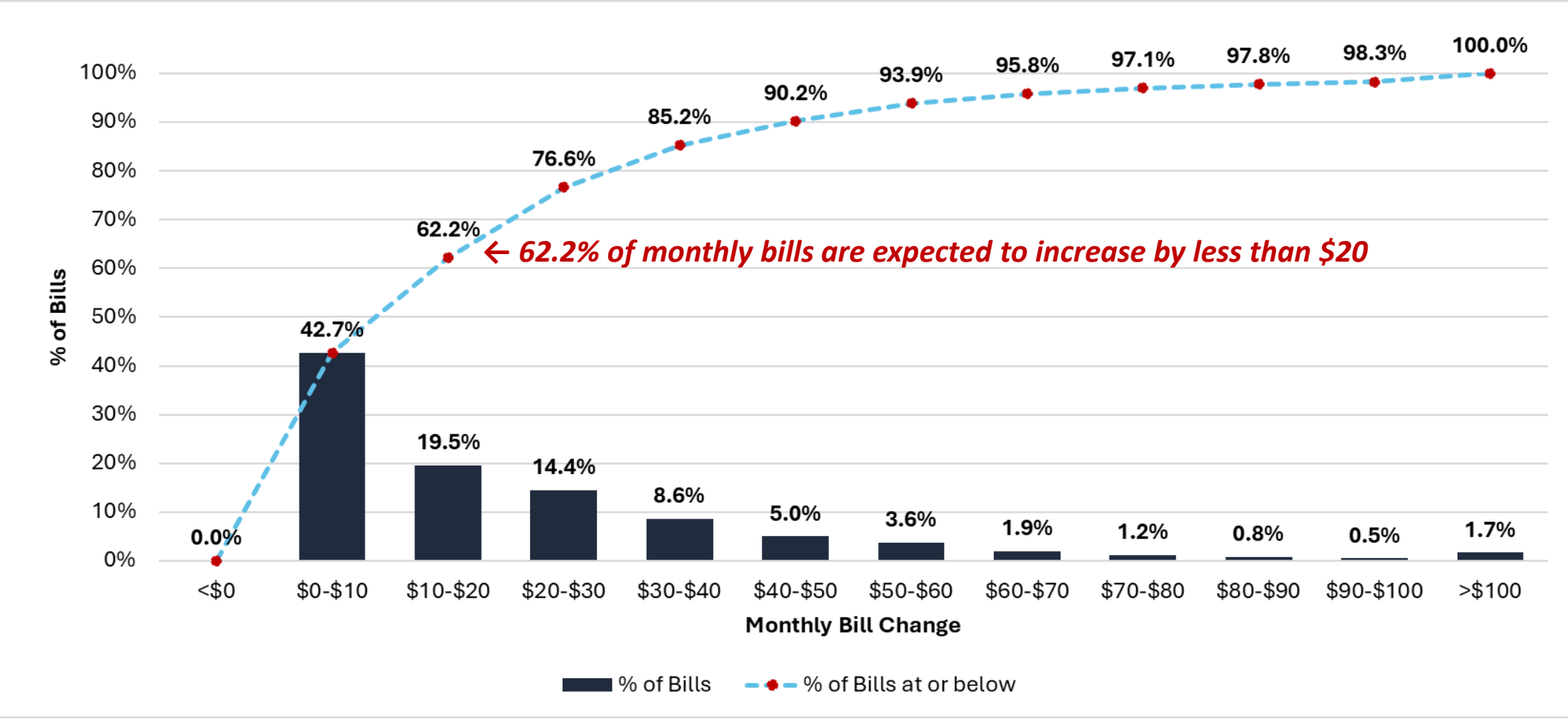
Note: All bills are for a single family residential customer with the smallest available meter, monthly water use of 30 HCF, and rates effective in March 2026.

Five Year Bill Impacts for Typical Residential Customer



Note: all bills are for a 1-inch or smaller meter using 30 HCF per month

Estimated Monthly Bill Impacts - FY 2026/27



Next Steps

- Send out public hearing notices by March 27th
- Rate study workshop at 5pm on May 14th
- Public hearing to adopt rates at 5pm on May 27th
- New rates effective July 1st



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