

PROP 218 PRESENTATION SERRANO WATER DISTRICT SERVICE AREA

Public Hearing – May 27, 2026



**Water Resources
Economics**

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



Agenda

- Rate study overview
- Proposed results
- Staff recommendation

Public Workshops

1. May 8, 2025 at 5:00 p.m. Operational Planning- Workshop #1
2. August 18, 2025 at 5:30 p.m. Rate Study-Workshop #2
3. March 19, 2026 at 5:00 p.m. Rate Study-Workshop #3
4. May 14, 2026 at 5:00 p.m. Rate Study-Workshop #4

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



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Proposition 218 (cont.)

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



Exhaustion of Remedies (*Government Code Section 53759.1*)

- Provides ratepayers 45 days to review proposed rate increases & submit a written objection that specifies grounds for alleged noncompliance
- Agency must respond to and consider any written objections
- A legal challenge to the proposed rates is prohibited unless that party submitted a written objection

- Rate Study-Workshop #4 was held on May 14th to consider written objections
- ***No written objections were received***



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

Financial Plan



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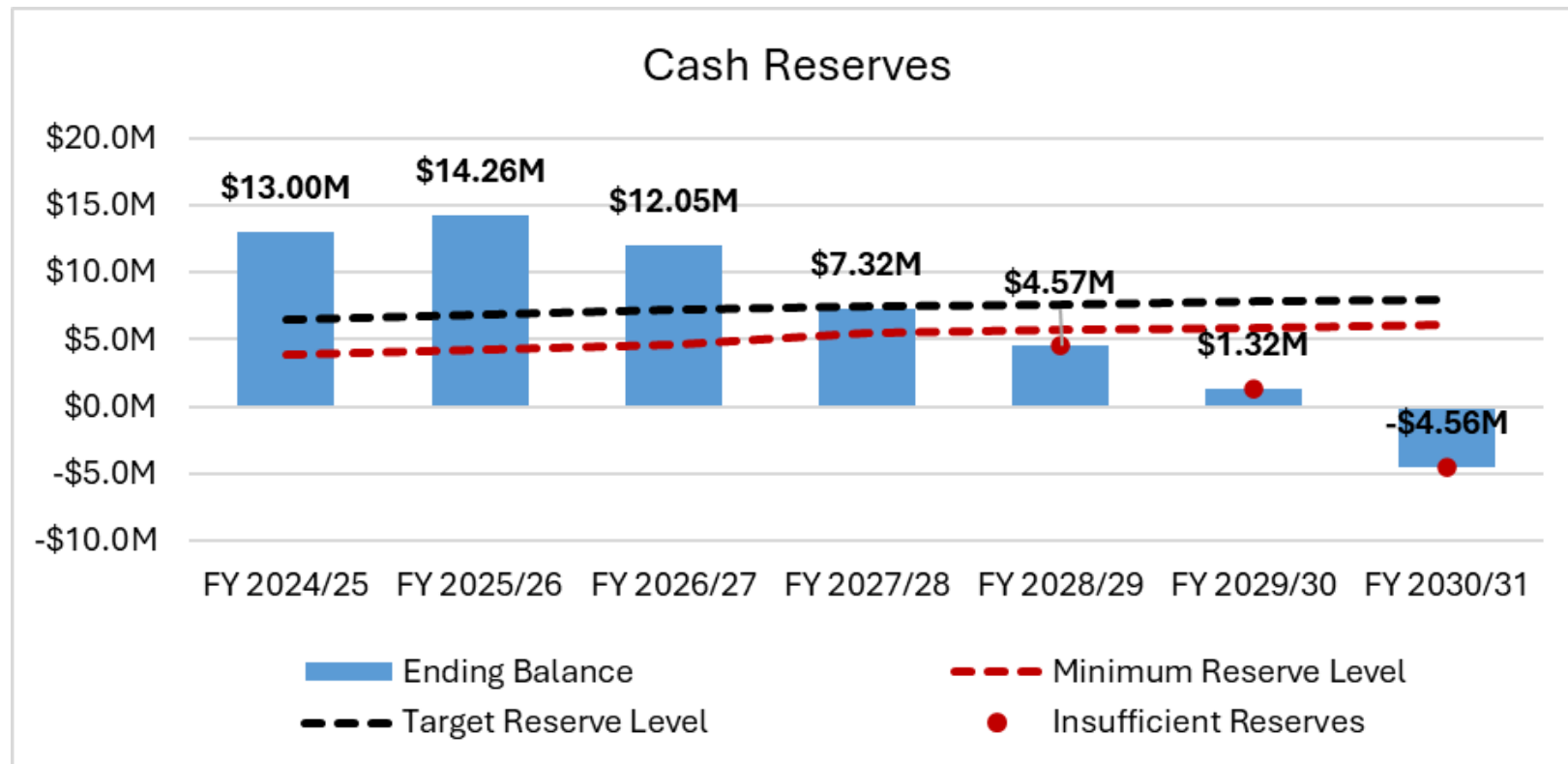
Capital Improvement Plan

- 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

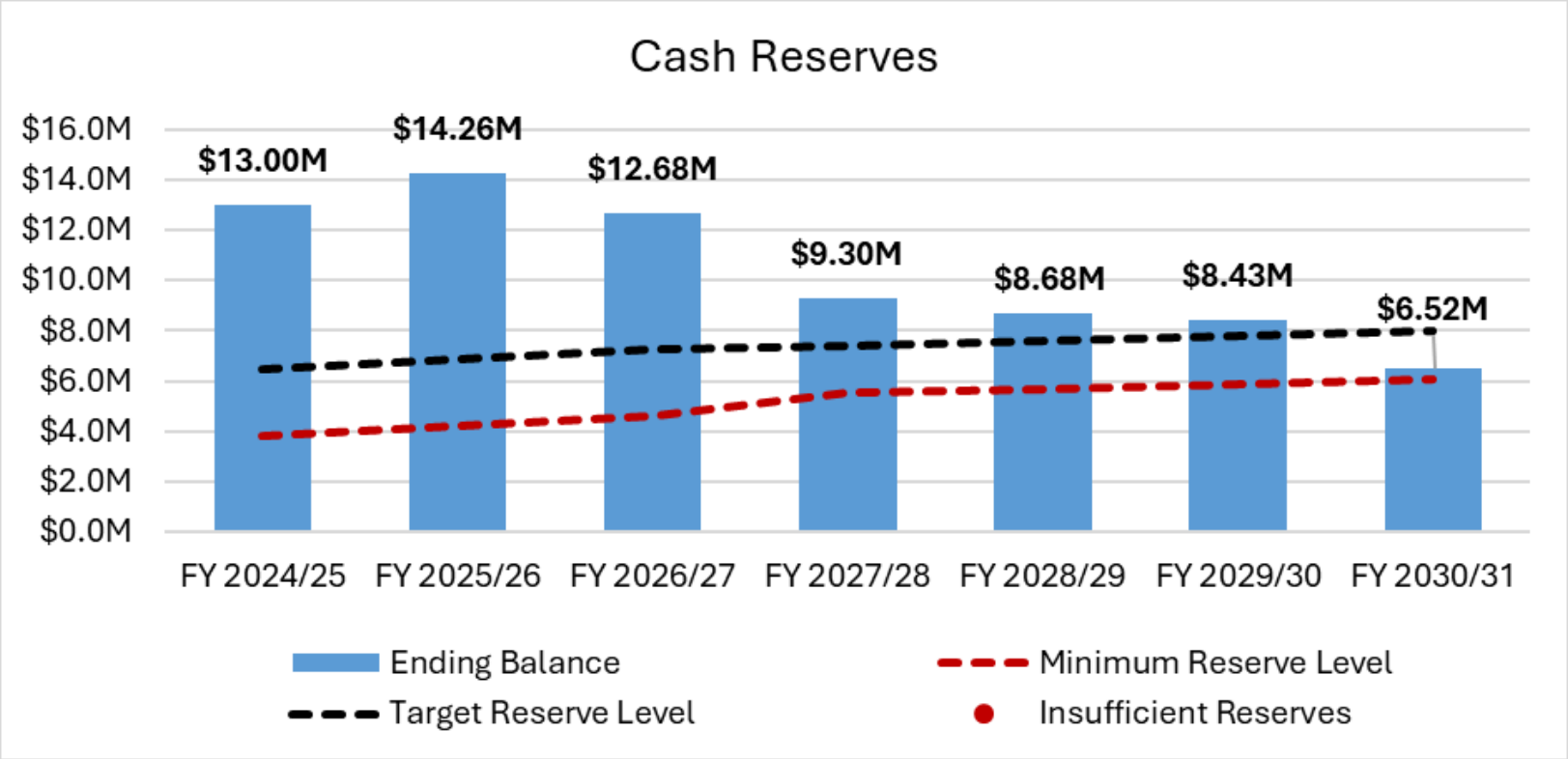
Status Quo Financial Plan (NO REVENUE ADJUSTMENTS)

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%



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%



Rate Design



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Proposed Five-Year Rate Schedule

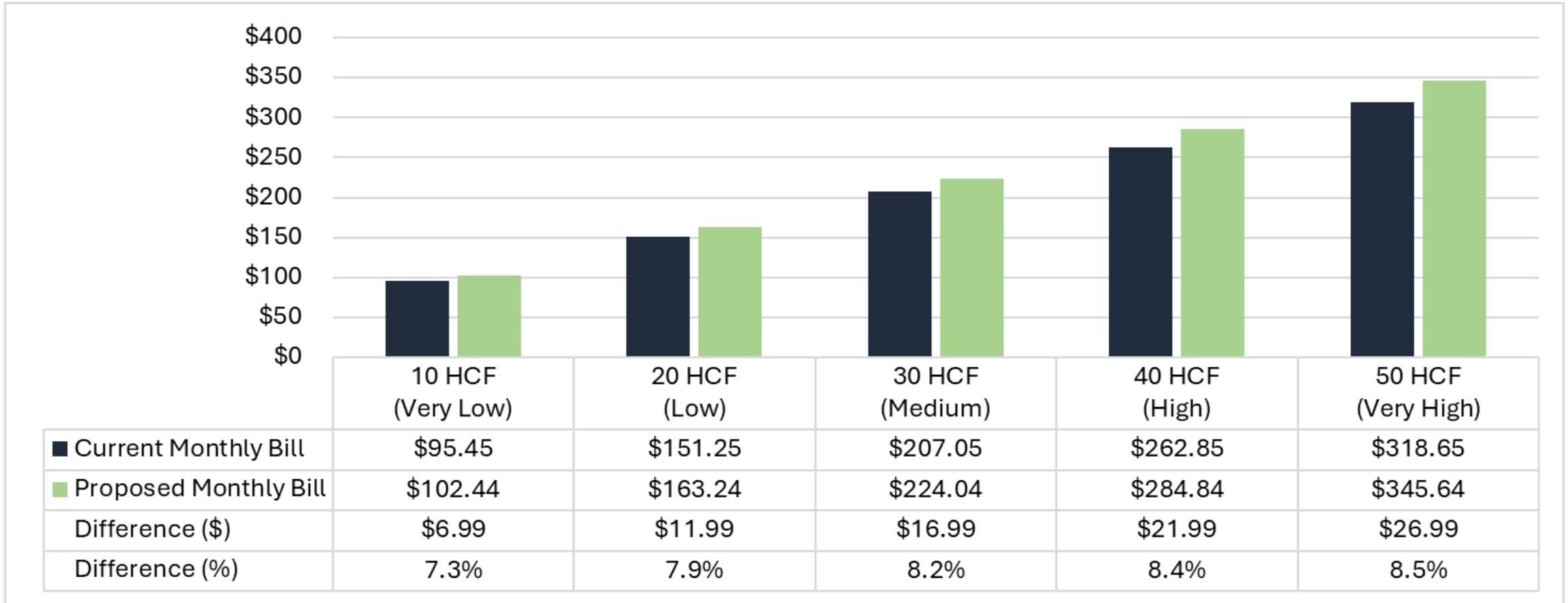
Water Rates	Current	Proposed FY 2026/27 (July 2026)	Proposed FY 2027/28 (July 2027)	Proposed FY 2028/29 (July 2028)	Proposed FY 2029/30 (July 2029)	Proposed FY 2030/31 (July 2030)
Readiness to Serve Charge (monthly)						
1-inch and under	\$45.23	\$47.72	\$52.02	\$56.71	\$61.82	\$67.39
1.5-inch	\$50.12	\$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



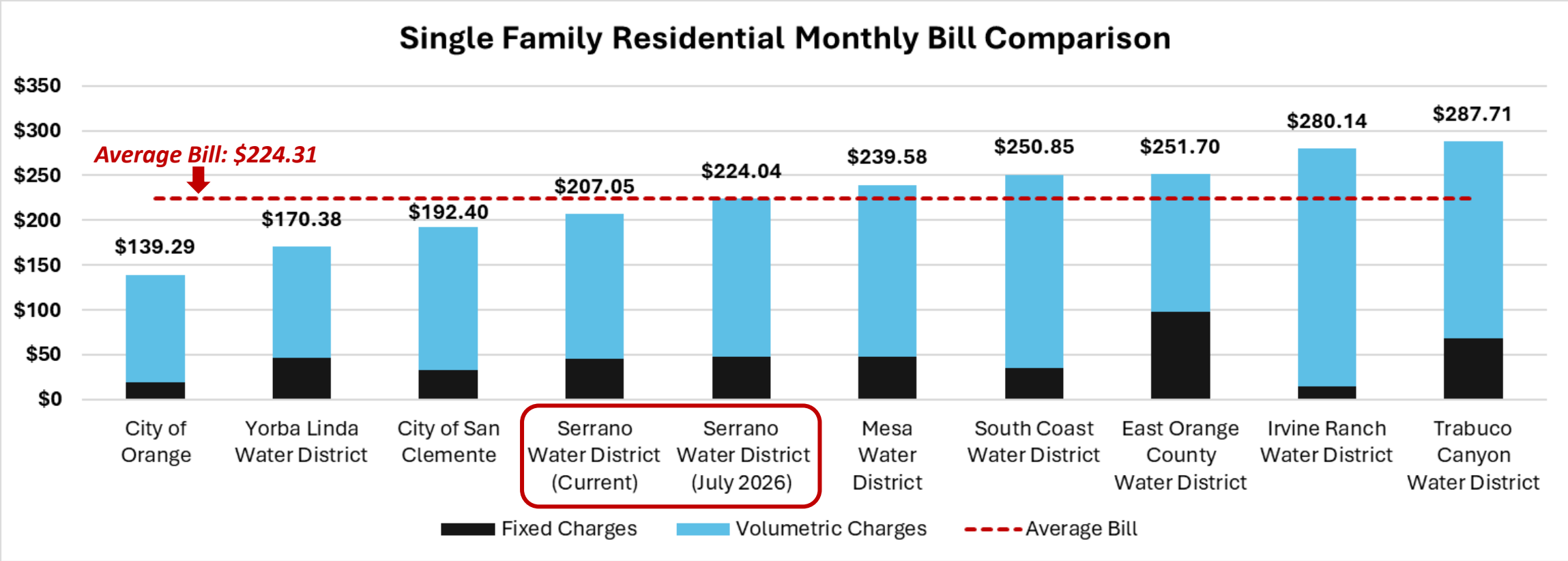
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Sample Residential Bills - FY 2026/27



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.

Staff Recommendation

- Staff recommends that the Board of Directors adopt the proposed five-year rate schedule presented in the 2026 Water Rate Study Final Report



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