



STAFF REPORT

Meeting Type: Finance and Administration Committee

Title: Water Rate Setting Update

From: Bret Uppendahl, Finance Director

Through: Shaun Horne, General Manager

Meeting Date: October 22, 2026

BU
BH

TYPE OF ITEM: Approve ☒ Review and Comment

RECOMMENDATION: Review and comment on the District's rate setting process update

SUMMARY: As a municipal water district that relies on water rates to fund ongoing operations and capital improvements, the District is subject to the requirements of Proposition 218 in order to modify or increase water rates and charges. Procedural requirements include holding a noticed public hearing and providing written notice of the public hearing and proposed rate increases to each parcel.

The substantive requirements of Proposition 218 provide that the proposed rates must be proportional to the cost of providing service to the parcel and cannot exceed the cost of providing water service. To ensure that the District's rates are proportional in nature and generate sufficient revenue for operating and capital expenditures, staff is currently working with Water Resource Economics LLC to conduct a cost-of-service water rate study. The study is expected to provide recommended rate structure adjustments for the four-year period from 2027 to 2031. Staff anticipates that changes in the District's rate structure will be effective in July 2027.

DISCUSSION: During the August 27, 2026 Finance and Administration Committee, as well as the September 15, 2026 Board meeting, staff reviewed inflationary impacts on key areas of the District's operating budget. Overall, the operating budget is expected to increase by 4 to 5 percent per year over the next four years; however large expenditure items such as electricity, purchased water and personnel costs are expected to increase by a larger percentage than the overall operating budget. Staff also outlined the recent changes in the District's Capital Improvement Program (CIP) and noted that rate-funded capital investments increased from \$18.7 million to \$57.9 million over the past five years, with the majority of the increased capital expense being dedicated toward water supply enhancements and deferred maintenance. While water supply and deferred maintenance will both continue to be top priorities for the District, staff expects to reduce the rate-funded CIP by \$5 to \$7 million for the upcoming planning period.

Staff has also reported that the total billed water consumption in fiscal year (FY) 2025/26 was 20,048 acre feet (AF), which represented a reduction of four percent compared to the prior year and was five

percent below the amount incorporated in the FY 2025/26 revenue budget. The recent data, as well as the prior two years, indicates that projected water consumption will need to be reduced to reflect a sustained downward shift in local demand. The continued low water consumption means that customer water rates will need to increase by more than the expected increase in expenditures to generate sufficient revenue with lower unit sales.

Staff is also working with Water Resources Economics to analyze the District's current rate structure. In prior reports, staff showed that the District's current tier structure is significantly different than other comparable agencies. Staff will present preliminary findings with respect to the District's current tier structure and will outline potential changes to the tier structure for various customer classes.

Staff will be providing regular updates on the water rate study at Board meetings and Finance and Administration Committee meetings throughout the remainder of 2026 and in early 2027. The District is planning to conduct a public hearing regarding proposed changes to the rate structure in the Spring of 2027.

ENVIRONMENTAL REVIEW: Not applicable.

FISCAL IMPACT: Not applicable.

ATTACHMENT(S): None.