

EL TORO WATER DISTRICT

2025 Water and Recycled Water Rate Update

Report / April 16, 2025





April 16, 2025

Dennis P. Cafferty, P.E.
General Manager
El Toro Water District
24251 Los Alisos Blvd.
Lake Forest, CA 92630

Subject: 2025 Water and Recycled Water Rate Update Report

Dear Mr. Cafferty:

To account for rising operations and maintenance costs and large purchased water rate increases from Metropolitan Water District of Southern California (MWD), El Toro Water District (ETWD or District) engaged Raftelis Consultants, Inc. (Raftelis) to update its water rates that comply with Proposition 218 and other legal requirements. As part of the Water and Recycled Water Rate Update (Update), we reviewed the latest operating budget (including purchased water costs), referenced previously, conducted cost of service analyses, and calculated the water rates for the District in fiscal year (FY) 2025-26. The updated rates, scheduled to take effect on July 1, 2025, reflect projected changes in net revenue requirements for the water enterprise and projected water sales for FY 2026.

This Water and Recycled Water Rate Update Report (Report) summarizes the key findings and recommendations related to developing the respective rates.

It has been a pleasure working with the District. We want to thank you for your assistance during the Study.

Sincerely,

A blue ink signature of Sudhir Pardiwala, written in a cursive style.

Sudhir Pardiwala
Senior Principal – Project Manager

A black ink signature of Nicki Bartak, written in a cursive style.

Nicki Bartak
Senior Consultant

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1.Executive Summary

1.1. Background of the Study

The District engaged Raftelis Consultants, Inc. (Raftelis) to conduct the Water and Recycled Water Rate Update Study (Study) to pass through increases in water purchase cost to develop commodity rates and update the water and recycled water rates based on the District's FY 2025-26 budget. Raftelis prepared rate proposals for this upcoming Fiscal Year (FY) 2025-26. The Water and Recycled Water Rate Update Study Executive Summary ("Summary") summarizes the key findings and recommendations for developing the respective rates.

The District's current water rate structure consists of the following components:

Water

- » Monthly Service Charges by meter size to recover a portion of operating costs
- » Variable Rates: Tiered Residential Rates and Uniform Commercial Rates, comprised of the following rate components:
 - » Water Supply Rate to pay for purchased water supply costs
 - » Delivery Rate to recover the remaining operating costs
 - » Revenue Offset to provide a rate incentive and affordability for essential water use in Tier 1 and for commercial use
 - » Conservation and Recycled Water Program costs applied to inefficient and excessive water use to fund the District's conservation and supplemental water supply programs (e.g., Recycled Water expansion)
- » Capital Facility Charges by meter size to pay for capital replacement and refurbishment (R&R) of the existing water system. (The previously approved capital charges will remain in effect at this time.)

Recycled Water

- » Monthly service charge to cover a portion of the fixed costs of O&M
- » Variable rate: Uniform commodity rate
- » Capital Facility Charge to pay for R&R and debt service associated with capital construction. (The previously approved capital charges will remain in effect at this time.)

1.2. Proposed Water Rates

1.2.1. MONTHLY SERVICE CHARGES

Table 1-1 shows the proposed monthly service charges for FY 2026, effective July 1, 2025. All rates and charges are rounded up to the nearest cent.

Table 1-1: FY 2026 Proposed Monthly Water Service Charges

Meter Size	Proposed FY 2026	Current FY 2025	\$ Change	% Change
5/8"	\$21.18	\$18.77	\$2.41	12.8%
3/4"	\$28.98	\$25.68	\$3.30	12.9%
1"	\$44.58	\$39.50	\$5.08	12.9%
1-1/2"	\$83.57	\$74.05	\$9.52	12.9%
2"	\$161.55	\$143.13	\$18.42	12.9%
10"	\$1,595.00	\$1,413.04	\$181.96	12.9%

1.2.2. CAPITAL FACILITY CHARGES

The District is retaining the previously approved Capital Facilities Charges that are published in the 2023 Proposition 218 Notice. Table 1-2 shows the published monthly capital charges for FY 2026.

Table 1-2: FY 2026 Published Monthly Water Capital Facility Charges

Meter Size	Proposed FY 2026	Current FY 2025	\$ Change	% Change
5/8"	\$8.69	\$6.95	\$1.74	25.0%
3/4"	\$13.02	\$10.42	\$2.60	25.0%
1"	\$21.69	\$17.35	\$4.34	25.0%
1 1/2"	\$43.38	\$34.70	\$8.68	25.0%
2"	\$86.75	\$69.40	\$17.35	25.0%
10"	\$1,000.00	\$800.00	\$200.00	25.0%

1.2.3. COMMODITY RATES

The proposed water commodity rates for FY 2026, shown in Table 1-3, will be effective July 1, 2025. The proposed rates reflect the projected increases in purchased water supply costs from the Metropolitan Water District of Southern California through the Municipal Water District of Orange County (MWDOC) as well as O&M cost increases for water supplied from the Baker Water Treatment Plant.

Table 1-3: FY 2026 Proposed Water Commodity Rates

Water Usage Rates	Proposed FY 2026	Current FY 2025	\$ Impact	% Impact
Tier 1 - Essential Use	\$3.59	\$3.26	\$0.33	10.1%
Tier 2 - Efficient Use	\$3.98	\$3.63	\$0.35	9.6%
Tier 3 - Inefficient Use	\$7.26	\$6.96	\$0.30	4.3%
Tier 4 - Excessive Use	\$9.14	\$8.93	\$0.21	2.4%
Uniform - Commercial Use	\$4.09	\$3.75	\$0.34	9.1%

1.2.4. PRIVATE FIRE RATES

The private fire rates account for the extra capacity demand to fight an average fire in the District. The proposed private fire rates for FY 2026 are shown in Table 1-4.

Table 1-4: FY 2026 Proposed Monthly Private Fire Service Rates

Line Size	Accounts	Proposed FY 2026	Current Rates	\$ Change	% Change
4"	28	\$19.82	\$17.93	\$1.89	10.5%
6"	93	\$27.84	\$25.76	\$2.08	8.1%
8"	46	\$41.67	\$39.25	\$2.42	6.2%
10"	4	\$62.48	\$59.55	\$2.93	4.9%

1.3. Proposed Recycled Water Rates

The current variable rate for recycled water is \$3.27/ccf. The proposed recycled water ("RW") rate for FY 2026 is **\$3.59/ccf**.

All RW customers connected to the recycled water distribution system will be assessed Monthly Service Charges (Table 1-5) and Capital Facility Charges (Table 1-6) which are the same as potable meters, to recover the customer service, meter service, a portion of capacity and other RW related fixed costs and pay for the capital debt service and replacement and refurbishment of the expanded RW system.

Table 1-5: FY 2026 Proposed Monthly Recycled Water Service Charges

Meter Size	Proposed FY 2026	Current FY 2025	\$ Change	% Change
5/8"	\$21.18	\$18.77	\$2.41	12.8%
3/4"	\$28.98	\$25.68	\$3.30	12.9%
1"	\$44.58	\$39.50	\$5.08	12.9%
1-1/2"	\$83.57	\$74.05	\$9.52	12.9%
2"	\$161.55	\$143.13	\$18.42	12.9%
10"	\$1,595.00	\$1,413.04	\$181.96	12.9%

The District is retaining the previously approved Capital Facilities Charges that are published in the 2023 Proposition 218 Notice. Table 1-6 shows the published monthly capital charges for FY 2026.

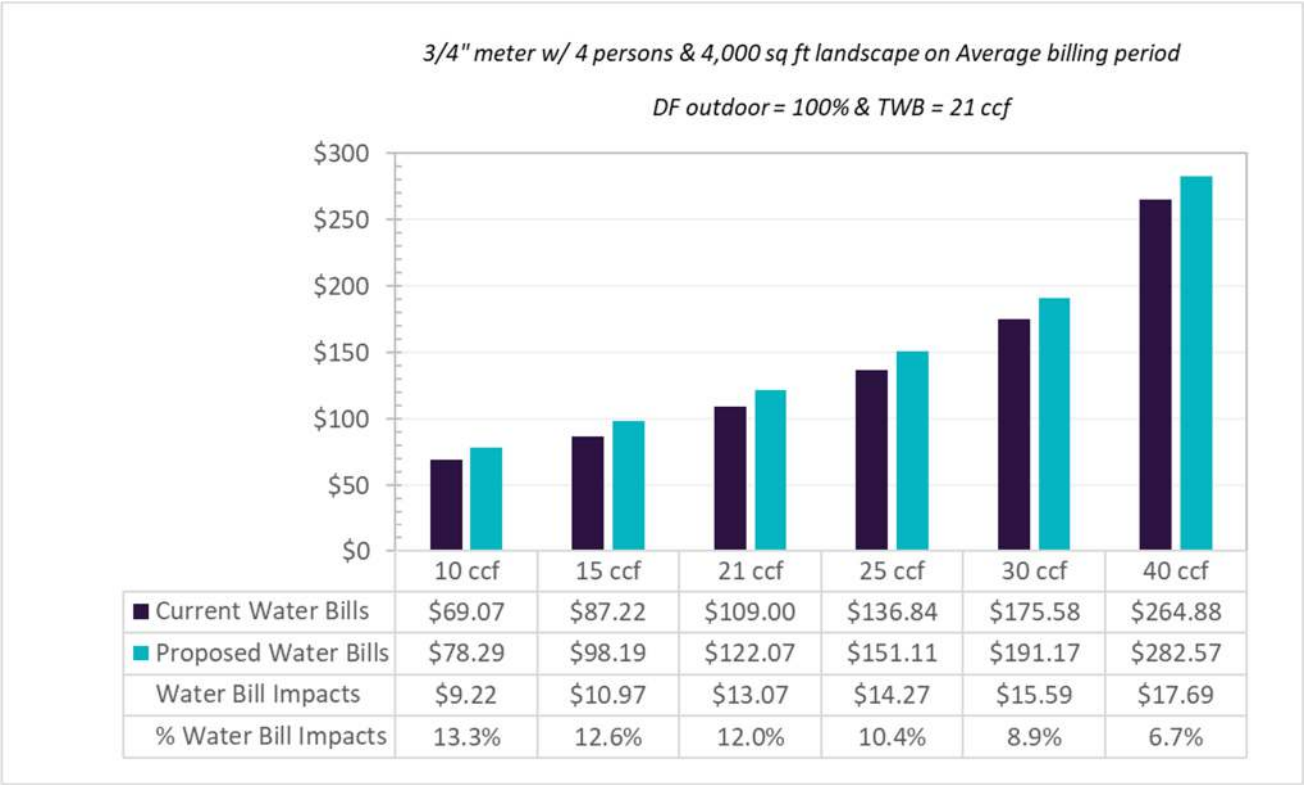
Table 1-6: FY 2026 Published Monthly Recycled Water Capital Facility Charges

Meter Size	Proposed FY 2026	Current FY 2025	\$ Change	% Change
5/8"	\$8.69	\$6.95	\$1.74	25.0%
3/4"	\$13.02	\$10.42	\$2.60	25.0%
1"	\$21.69	\$17.35	\$4.34	25.0%
1 1/2"	\$43.38	\$34.70	\$8.68	25.0%
2"	\$86.75	\$69.40	\$17.35	25.0%
10"	\$1,000.00	\$800.00	\$200.00	25.0%

1.4. Customer Impact Analysis

Figure 1-1 shows a breakdown of water bill impacts at various water usage levels for a single-family residential user with four occupants and a 4,000 sq. ft. landscape area serviced by a ¾-in meter at current water rates and proposed FY 2026 rates. The water bill increase would range from \$9.22 to \$17.69 per month, depending on the monthly billed usage. The bill impacts resulted from the combination of changes to water service and capital charges, cost of service rates, and increased revenue requirements for FY 2026.

Figure 1-1: SFR Total Monthly Bills at Different Usage Levels at Current and Proposed Rates



2. Introduction

2.1. District Background

The El Toro Water District (District), located in the southern portion of Orange County, was formed in 1960 under provisions of California Water District Law, Division 13 of the Water Code of the State of California, commencing with Section 34000, to provide water and wastewater services to the service area. A publicly elected Board of Directors governs the District. The District is nearly built-out and encompasses the City of Laguna Woods and portions of four other cities: Lake Forest, Aliso Viejo, Laguna Hills, and Mission Viejo.

The District provides water, wastewater, and recycled water services to a population of approximately 51,800 in a service area of approximately 8.5 square miles. The District's water system comprises six reservoirs with a combined capacity of 287 million gallons, in which the District owns 136 million gallons (the remaining capacity is owned by other local water districts), over 170 miles of water lines, and nine booster pump stations with 12 pressure zones to deliver water to approximately 10,000 metered water accounts. The District also participated in a five-agency collaboration to fund and construct a local water treatment plant (the Baker Water Treatment Plant) located in the City of Lake Forest to improve water treatment and water supply reliability for ETWD's customers and South Orange County. The Baker Water Treatment Plant (Baker WTP) allows the participating agencies to purchase untreated water from MWDOC at a lower cost than the treated water, reducing the financial burden on the District's customers.

2.2. Study Background and Objectives

The District engaged Raftelis to conduct a Water and Recycled Water Rate Update (Update) and develop rates for the Water and Recycled Water enterprises of the District that are equitable and in compliance with California legal requirements, including Proposition 218 requirements.

The major objectives of the Study include the following:

- Determine revenue requirements from water rates for FY 2026.
- Determine commodity rate updates to recover wholesale water purchase cost increases from Metropolitan Water District.
- Update water and recycled water rates to meet the District's goals and objectives, including defensibility, affordability for essential use, and promoting efficiency and conservation.
- Update private fire service charges.
- Conduct cost of service analysis for water services.
- Conduct customer impact analyses for the proposed water rates.

This *Water and Recycled Water Rate Study Report* (Report) summarizes the key findings and recommendations related to developing the respective rates.

2.3. Legal Framework and Rate Setting Methodology

This section of the report describes the legal framework that was considered in developing the rates to ensure that the calculated cost of service rates provide a fair and equitable allocation of costs to the different customer classes.

2.3.1. CONSTITUTIONAL MANDATES AND STATUTORY AUTHORITY

Article XIII D, Section 6 (Proposition 218), and Article X, Section 2 of the California Constitution govern the principles applicable to this Rate Study. This Rate Study equitably implements and harmonizes these constitutional mandates in concert with the authority and principles outlined in Water Code Section 370 et seq., which govern Allocation-Based Conservation Water Pricing (commonly referred to as "Water Budget Rate Structure"). This Rate Study provides for a water budget based four-tier rate structure designed to implement, in a reasonable manner, the constitutional mandates, statutory authority, and principles referenced above.

2.3.2. CALIFORNIA CONSTITUTION – ARTICLE X, SECTION 2

Article X, Section 2 of the California Constitution (established in 1976) provides as follows:

It is hereby declared that because of the conditions prevailing in this State the general welfare requires that the water resources of the State be put to beneficial use to the fullest extent of which they are capable, and that the waste or unreasonable use or unreasonable method of use of water be prevented, and that the conservation of such waters is to be exercised with a view to the reasonable and beneficial use thereof in the interest of the people and for the public welfare.

As such, public agencies are constitutionally mandated to maximize the beneficial use of water, prevent waste, and encourage conservation, which this Rate Study achieves.

2.3.3. CALIFORNIA CONSTITUTION – ARTICLE XIII D, SECTION 6 (PROPOSITION 218)

Proposition 218, reflected in the California Constitution as Article XIII D, was enacted in 1996 to ensure that rates and fees were reasonable and proportional to the cost of providing service. The principal requirements for fairness of the fees, as they relate to public water and wastewater service, are as follows:

1. Water and wastewater rates shall not exceed the funds required to provide the service.
2. Revenues derived from the charge shall not be used for any other purpose other than that for which the charge was imposed.
3. The amount of the charge imposed upon any parcel shall not exceed the proportional cost of service attributable to the parcel.
4. No charge may be imposed for a service unless that service is actually used or immediately available to the owner of the property.

The rates developed in this Rate Study use a methodology to establish an equitable system of fixed and variable charges that recovers the cost of providing service and fairly apportions costs to each customer as required by Proposition 218.

2.3.4. STATUTORY AUTHORITY – GOVERNMENT CODE SECTION 370 ET SEQ. (ALLOCATION-BASED CONSERVATION WATER PRICING)

In 2000, the California Legislature (AB 2882), consistent with the above-referenced constitutional provisions, adopted a body of law entitled "Allocation-Based Conservation Water Pricing" (Water Code Section 370 et seq.)

Water Code Section 370 provides in part as follows:

The Legislature hereby finds and declares all of the following:

- (a) *The use of allocation-based conservation water pricing by public entities that sell and distribute water is one effective means by which waste or unreasonable use of water can be prevented and water can be saved in the interest of the people and for the public welfare, within the contemplation of Section 2 of Article X of the California Constitution.*

- (b) It is in the best interest of the people of California to encourage public entities to voluntarily use allocation-based conservation water pricing, tailored to local needs and conditions, as a means of increasing efficient uses of water, and further discouraging wasteful or unreasonable use of water under both normal and dry-year hydrologic conditions.*

Water Code Section 372 provides as follows:

- (a) A public entity may employ allocation-based conservation water pricing that meets all of the following criteria.*
- (1) Billing is based on metered water use.*
 - (2) A basic use allocation is established for each customer account that provides a reasonable amount of water for the customer's needs and property characteristics. Factors used to determine the basic use allocation may include, but are not limited to the number of occupants, the type or classification of use, the size of lot or irrigated area, and the local climate data for the billing period. Nothing in this chapter prohibits a customer of the public entity from challenging whether the basic use allocation established for that customer's account is reasonable under the circumstances. Nothing in this chapter is intended to permit public entities to limit the use of property through the establishment of a basic use allocation.*
 - (3) A basic charge is imposed for all water used within the customer's basic use allocation, except that at the option of the public entity, a lower rate may be applied to any portion of the basic use allocation that the public entity has determined to represent superior or more than reasonable conservation efforts*
 - (4) A conservation charge shall be imposed on all increments of water use in excess of the basic use allocation. The increments may be fixed or may be determined on a percentage or any other basis, without limitation on the number of increments, or any requirement that the increments or conservation charges be sized, or ascend uniformly, or in a specified relationship. The volumetric prices for the lowest through the highest priced increments shall be established in an ascending relationship that is economically structured to encourage conservation and reduce the inefficient use of water, consistent with Section 2 of Article X of the California Constitution.*
- (b) ---*
- (1) Except as specified in subdivision (a), the design of an allocation-based conservation pricing rate structure shall be determined at the discretion of the public entity.*
 - (2) The public entity may impose meter charges or other fixed charges to recover fixed costs of water service in addition to the allocation-based conservation pricing rate structure.*
- (c) A public entity may use one or more allocation-based conservation water pricing structures for any class of municipal or other service that the public entity provides.*

As noted in the referenced statutes, "Allocation-Based Conservation Water Pricing Rate Structure" is a form of increasing block rates in which the amount of water within the first block or blocks is based on the estimated efficient water needs of the individual customer. Water-budget rates differ from other metered water rate designs in two key ways. First, the blocks are established based on water budgets representing varying levels of each customer's efficient water use. Second, water-budget rates require the public agency to set specific standards for what is and is not considered efficient water use for an individual customer.

This Rate Study, in conjunction with ETWD's landscape data for individual customers, establishes a standard for efficient usage and then establishes a budget for each individual customer. This determines how much water is

considered efficient for each customer. Customers with usage above this efficient usage budget pay a higher rate for their "inefficient" or "wasteful" usage (in accordance with Section 372 of the Water Code).

This Rate Study conforms to the principles set forth in the enabling statutes for Water Budget Rate Structures.

2.3.5. TIERED RATES

"Inclining" Block-Rate Structures (which are synonymous with "Increasing Block-Rate Structures"), when properly designed and differentiated by customer class (as this Rate Study does), allow a water agency to send consistent price incentives for conservation to customers. For this reason, the heightened interest in water conservation, "Increasing Block-Rates," has been increasingly favored, especially in relatively water-scarce regions such as Southern California.

2.3.6. PROPORTIONALITY – PROPOSITION 218'S REQUIREMENT THAT FEES BE PROPORTIONATE TO THE COST OF SERVICE FOR EACH PARCEL

There is a fair amount of ambiguity in how Proposition 218 was drafted – none more so than the issue of "proportionality." It has taken a succession of court rulings over several years to clarify the substantive requirements of Proposition 218.

In *Griffith v. Pajaro Valley Water Management Agency* (2013) 220 Cal.App.4th 586, the Sixth Appellate District has provided guidance on several important Proposition 218 issues, including the issue of proportionality. The *Pajaro* Court held:

1. *That Pajaro's costs of using supplemental water along the coast to prevent saltwater intrusion benefited all of Pajaro's customers, including inland customers using the groundwater basins.*
2. *That proportionality is not measured on an individual parcel basis but instead is measured collectively, considering all customer classes. As such, the Appellate Court in Pajaro confirmed the common practice of grouping customers into classes with comparable service costs and setting rates by class rather than parcel by parcel met the Prop 218 requirement that fees be proportionate to the cost of providing service to each parcel.*

Under Item 1 noted above, water utilities can reasonably justify that the addition of recycled water to the water resource mix frees up water for potable uses and therefore, potable water customers should share in the costs of recycled water so that recycled water can be put to beneficial use as required by Article X, Section 2. This clarification by the appellate court allows agencies to harmonize the mandates of Proposition 218 and Article X, Section 2.

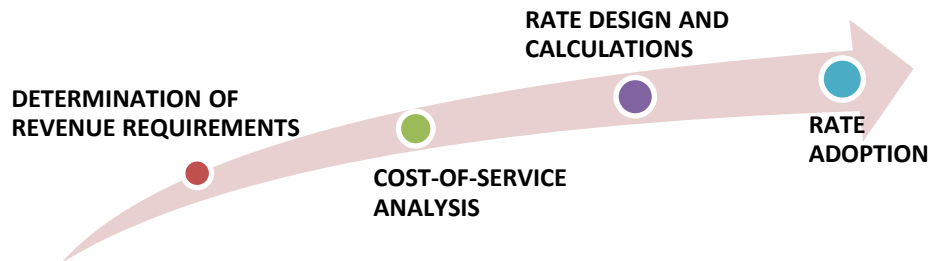
Under Item 2 noted above, utilities can develop rates by customer class and meet the requirements of Proposition 218, as opposed to the strict interpretation, which would require cost proportionality for each parcel receiving service. This was another significant clarification of Proposition 218 since cost proportionality for individual parcels is almost impossible to achieve in the strict sense.

The *Pajaro* case rulings provided for the harmonizing of the proportionality requirements of Proposition 218 with the efficient use and conservation requirements of Article X, Section 2 by accepting that the supplemental costs of water used by one group of customers should be shared by all users, based on the concept that all users receive benefit from an increase in the overall water resources. In the District's case, recycled water adds a water resource that provides benefit to all users by freeing up potable water, and therefore, the costs of recycled water can be shared by all inefficient potable water users. Due to non-essential usage's demand on the system, the District allocates the cost of funding the recycled water system development to Tiers 3 and 4 residential/irrigation usage as well as to commercial use at a lower rate based on an estimated 10 percent inefficient use by Commercial and Public Authority (CII) customers.

2.4. Cost-Based Rate Setting Methodology

As stated in the Manual M1, the methodology put forth by the AWWA Rates and Charges Subcommittee is consistent with the Proposition 218 requirement that "the costs of water rates and charges should be recovered from classes of customers in proportion to the cost of serving those customers." There are four major steps to develop utility rates that comply with Proposition 218 and industry standards while meeting other emerging goals and objectives of the utility:

Figure 2-1: Cost-Based Rate Setting Methodology



1. **Determination of Revenue Requirement:** The rate-making process starts with the determination of future revenue requirements to sufficiently fund the utility's operation and maintenance (O&M), capital replacement and refurbishment (R&R), capital improvement and perpetuation of the system, and ensure the preservation of the utility's financial integrity. The basic revenue requirements of a utility include O&M expenses, debt service payments, contributions to specified reserves, and the cost of capital expenditures that are not debt-financed.
2. **Cost-of-Service Analysis:** The annual cost of providing services (cost of service), determined in the development of the financial plan, should be allocated among the customers commensurate with their service requirements. In this step, costs are identified and allocated to cost causation components and distributed to the respective customer classes consistent with industry standards provided in Manual M1 (published by AWWA).
3. **Rate Design and Calculations:** Rates do more than simply recover costs. Within the legal framework and industry standards, properly designed rates should support and optimize a blend of various utility objectives, such as conservation, affordability for essential needs, revenue stability, etc. They should work as a public information tool in communicating these objectives to customers.
4. **Rate Adoption:** In the last step of the rate-making process, to comply with the Proposition 218 requirements, the results of the analyses are documented in a Study Report that identifies the nexus between costs and rates to help educate the public about the proposed changes, the rationale, and justifications behind the changes and their anticipated financial impacts in layperson's terms. At least 45 days after sending out the public notices, the agency shall consider all written protests against the proposed rates at a public hearing. The Board can approve and adopt the new rates if there is no majority protest.

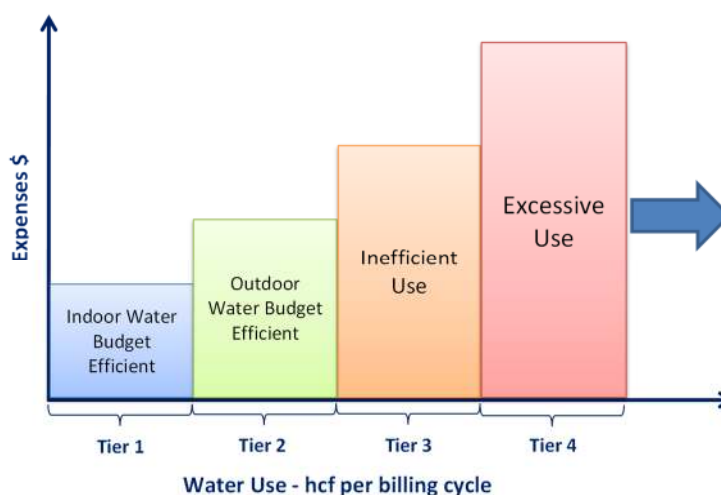
3. Water Budget and Tier Definitions

Since July 1, 2010, the District has implemented a tiered water budget rate structure to incentivize conservation and efficient water use. The description of the allocations to individual customers and the development of water budgets are described here for this report's completeness.

3.1. Water Budget Definitions

The American Water Works Association Journal defines water budget as "the quantity of water required for an efficient level of water use by that customer" (*Source: American Water Works Association Journal, May 2008, Volume 100, Number 5*). Therefore, each customer has their own allocation or water budget, as shown in the following figures. Figure 3-1 illustrates how the tier breaks are set for water budget customers. Tier 1 is defined by the allotment for indoor use, and Tier 2 is defined by the allotment for outdoor use. Tier 3 is set to a percentage of the total water budget (or Tiers 1 and 2) combined. Any use beyond Tier 3 is considered excessive and falls into Tier 4.

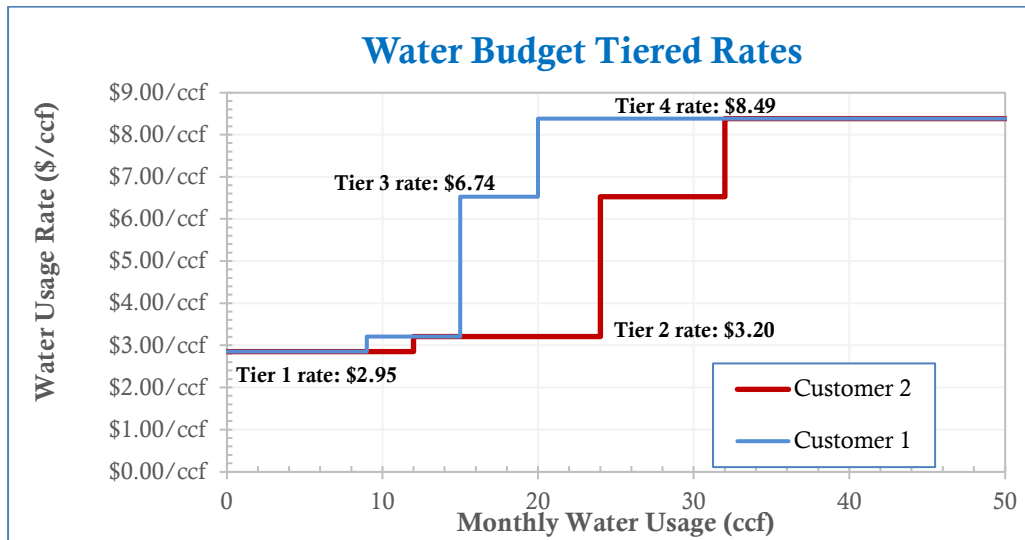
Figure 3-1: Water Budget Tiers



It is worth noting that water budgets are customized for each customer, which results in different tier breaks for different customers. The individual customer budgets are based on occupancy (Tier 1), irrigable or landscape area (Tier 2) and the District's variance process in which extenuating circumstances may be considered or default values may be modified for specific customer circumstances. For example, as illustrated by Figure 3-2, which examines the use of two hypothetical customers at hypothetical rates. The first 9 units consumed by Customer 1 are charged at Tier 1 rate, whereas Customer 2 has 12 units at Tier 1 rate (\$2.95/ccf) for essential use. The following 6 units (10 – 15 units) consumed by Customer 1 are reserved for efficient use, which is charged at the Tier 2 rate (\$3.20/ccf), the next 5 units (16 – 20 units) are charged at the Tier 3 rate (\$6.74/ccf), and any usage exceeding 20 units.¹ will be deemed excessive and charged at the Tier 4 Rate (\$8.49/ccf). Similarly, for Customer 2, Tier 2 spans from 13-24 units, Tier 3 (\$6.74/ccf) spans 25 – 32 units, and use exceeding 32 units will be charged at the Tier 4 Rate (\$8.49/ccf). Customer 2, with a larger indoor and outdoor water budget (or allotment), represents a residential customer with a larger family and a bigger irrigated landscape area than that of Customer 1.

¹ Tier 3 = 30% of Total Water Budget (TWB) whereas TWB = Indoor WB + Outdoor WB

Figure 3-2: Customized Water Budget Tiers



Like the Water Budget Rate Study in 2010, the District's water budget allocations and tiered rate structure are designed for residential and irrigation accounts only; all other customer types will retain the current uniform rate structure.

3.2. Indoor Water Budget

The indoor water budget (IWB) is determined by a customer's household size and standard consumption per person. The proposed IWB formula is as follows:

$$IWB = \frac{GPCD * Household Size * Dwelling Units * Days of Service * DF_{indoor}}{748} + V_{indoor}$$

Where:

- GPCD = Gallons per capita per day.
 - SB x7-7,3F² Section 10608 of the Water Code established the provisional standard for indoor residential water use at 55 gallons per capita per day.
- Household Size = Number of residents per dwelling unit. The 2020 census lists the average household size at 3.01 persons, which includes single and multi-family housing. Typically, single-family household size is greater than three persons, and multi-family household size is less than 3.0 persons. The District policy is to provide adequate water for health and sanitation needs and minimize customer complaints and requests for variances. The default values for household size are set based on customer characteristics as follows:
 - Single-Family: Household Size = 4 persons
 - Multi-Family:
 - Restricted: Household Size = 2 persons (senior citizen housing typically 1 to 2 residents per dwelling unit)
 - Unrestricted: Household Size = 3 persons
- Dwelling units – Number of dwelling units served by the meter/account
- Days of Service = The number of days of service varies with each billing cycle for each customer. The actual number of days of service will be applied to calculate each billing cycle's indoor water budget.

² The language from SB x7-7 setting the 55 GPCD performance standard: (2) The per capita daily water use that is estimated using the sum of the following performance standards: (A) For indoor residential water use, 55 gallons per capita daily water use as a provisional standard.

- DF_{indoor} = Indoor drought factor. The percentage of indoor water budget allotted during drought conditions. The drought factor is subject to the approval of the District's Board of Directors. The indoor drought factor is currently set at 100 percent.
- V_{indoor} = Indoor variance. The additional water allotment to be granted for extenuating circumstances is subject to District's approval or the verification as outlined in the District's variance program. Variances can be requested by submitting a "Variance/Adjustment Request Form" found on the District's website.
- 748 is the conversion unit from gallons to the billing unit of hundred cubic feet (ccf).

3.3. Outdoor Water Budget

The outdoor water budget (OWB) is determined by three main variables: irrigable landscape area, weather data, and the evapotranspiration (ET) Adjustment Factor. The irrigable landscape area, measured as square footage of landscape surface on a customer's property, is in some cases established through on-site direct physical measurement and in others estimated using the Orange County Assessors' parcel data for lot size, building size, and number of floors where the actual irrigable landscape area data is not available. The weather data is based on the reference Evapotranspiration³ (ET_0), which is the amount of water loss to the atmosphere over a given time period under local atmospheric conditions. ET_0 is the amount of water (in inches of water) needed for a hypothetical reference crop to maintain its health and appearance. The ET Adjustment Factor (ETAF) is a coefficient that adjusts ET_0 values based on plant factor and irrigation system efficiency. The updated California Department of Water Resources' Model Water Efficient Landscape Ordinance (Landscape Ordinance) provides the following ETAF for different landscapes:

- Existing landscape (Functional): $ETAF_{\text{Existing}} = 80\%$
- New development / redevelopment landscape (Functional)⁴: $ETAF_{\text{New}} = 70\%$
- Special landscape (Recreational): $ETAF_{\text{Recreational}}^5 = 100\%$

The formula to calculate the outdoor water budget is as follows:

$$OWB = \left(\frac{\text{LandscapeArea} * ET_0 * ETAF}{1200} + V_{\text{outdoor}} \right) * DF_{\text{outdoor}}$$

where

- ET_0 is measured in inches of water during the billing period based on daily data acquired from the California Irrigation Management Information System (CIMIS) Station 75, which is the closest station to the District's service area.
- ETAF (% of ET_0) is defined using the updated Landscape Ordinance as shown above.
- Landscape Area (or Irrigable Landscape Area) (in square feet) is the measured irrigable landscape area served by a customer's meter.
 - Where the measured irrigable landscape area is not available, the landscape area will be estimated by the following formula using the Orange County Assessors' parcel data.
 - $$\text{LandscapeArea}(sqft) = 70\% * \left(\text{LotSize} - \frac{\text{BuildingSize}}{\text{NumberOfFloors}} \right)$$
 - For accounts dedicated for domestic use only, such as multi-family units, 25 square feet of irrigable landscape area is provided for each dwelling unit for patio plants.

³ Reference evapotranspiration (ET_0) is derived by measuring weather conditions and estimating the ET of a reference plant. In California this is a standardized planted surface of well-maintained cool season turf. ET_0 data is available online from over 100 weather stations throughout the state of California from the California Irrigation Management Information System (CIMIS). Minute-by-minute weather data is collected and used to calculate hourly, daily, weekly, or monthly ET_0 .

⁴ Functional is essentially aesthetic landscape

⁵ Recreational includes golf courses, parks, etc.

- DF_{outdoor} = Outdoor drought factor. The percentage of outdoor water budget allotted during drought conditions. The drought factor is subject to the approval of the District's Board of Directors. The outdoor drought factor is currently set at 100 percent.
- V_{outdoor} = Outdoor variance. The additional water allotment to be granted for extenuating circumstances is subject to District's approval or verification as outlined in the variance program. Outdoor variance is subject to the outdoor drought factor.
- 1,200 is the conversion unit from inch* ft^2 to billing unit of hundred cubic feet (ccf).

3.4. Water Budget Allocations by Customer Type

Table 3-1 summarizes the water budget allocation by customer type. Both Single Family and Multi-Family (restricted and unrestricted) customers will receive an indoor and outdoor water budget. Irrigation accounts will only receive an outdoor budget. Commercial and Public Authority (CII) customers will continue with the current uniform water rate structure.

Table 3-1: Water Budget Allocations by Customer Type

Customer Type	Water Budget Allocations	Default Values ⁶
Single Family	IWB + OWB	Household Size = 4 persons; GPCD = 55 $ETAF_{\text{New}} = 70\%$; $ETAF_{\text{Existing}} = 80\%$; $DF_{\text{outdoor}} = 100\%$
Multi-Family – Restricted	IWB + OWB	Household Size = 2 persons; GPCD = 55 $ETAF_{\text{New}} = 70\%$; $ETAF_{\text{Existing}} = 80\%$; $DF_{\text{outdoor}} = 100\%$
Multi-Family – Unrestricted	IWB + OWB	Household Size = 3 persons; GPCD = 55 $ETAF_{\text{New}} = 70\%$; $ETAF_{\text{Existing}} = 80\%$; $DF_{\text{outdoor}} = 100\%$
Irrigation – Non-Functional*	OWB	$ETAF_{\text{New}} = 70\%$; $ETAF_{\text{Existing}} = 80\%$; $DF_{\text{outdoor}} = 100\%$
Irrigation – Recreational**	OWB	$ETAF_{\text{Recreational}} = 100\%$; $DF_{\text{outdoor}} = 100\%$

*Irrigation – Non-Functional: landscape that is ornamental in nature

**Irrigation – Recreational: landscape that is used mostly for recreational purposes (schools, parks, golf courses, etc....)

3.5. Tier Definitions

Based on the information in Table 3-1, the tier definitions are developed as shown in Table 3-2. The main difference between Single-Family/Multi-Family and Irrigation accounts is that Irrigation accounts do not have a Tier 1 allotment that is reserved for indoor use. All three customer types have their Tier 3 allotment defined as 30 percent of their respective total water budget (TWB) and usage exceeding 130% TWB falls in Tier 4.

⁶ Customers can change the default by applying to the District for any special needs or variances.

Table 3-2: Tier Definitions by Customer Types

Tiers	Single Family	Multi-Family	Irrigation
Tier 1 – Indoor Use	100% IWB	100% IWB	N/A
Tier 2 – Outdoor Use	100% OWB	100% OWB	100% OWB
Tier 3 – Inefficient Use	100% to 130% TWB	100% to 130% TWB	100% to 130% OWB
Tier 4 – Excessive Use	Above Tier 3	Above Tier 3	Above Tier 3
<i>TWB = Total Water Budget = IWB + OWB</i>			

The tier definitions are tailored to the unique consumption patterns of the District's customers and are subject to the District's policy decisions. The tier definitions are based on Raftelis' water use and impact analyses, as well as numerous policy discussions with the Board. The priority for water use is essential indoor water use for health, safety, and sanitary purposes. Based on the Board's direction, indoor water use is eligible for revenue offsets from miscellaneous and property tax revenues. Maintaining a healthy landscape at efficient water use is non-essential, yet important; thus, efficient outdoor water use is required to pay the Tier 2 rate. The total water budget is the sum of the indoor and outdoor water budgets.

Tier 3 was designed to account for inefficient use and/or customers with non-climate appropriate landscapes. Tier 3 is set to thirty percent (30%) of the total water budget and was determined based on the 2009 analysis, which indicated that a customer with high water use plants would require 30% more water than an identical customer with climate-appropriate plants. Any use beyond Tier 3 is considered excessive and falls into Tier 4. Tiers 3 and 4 allow individuals to use additional water above their total water budget while providing a signal to each customer on their inefficient and excessive water usage. Tier 3 provides use up to 30 percent of the total water budget and use over 130% TWB is considered to be excessive.

The District system is designed assuming the efficient use of water. The District relies on purchased imported water for all of its drinking water supply. Water, in the State of California, has become an increasingly challenging resource. Changing climate conditions, cyclic droughts and the infrastructure investments necessary to convey purchased water to the District have further challenged supply adequacy and availability leading the District to invest in policy decisions to implement conservation and recycled water programs to mitigate the impact of demands exceeding efficient use. The cost associated with individual customer choices to use more water than budgeted in Tiers 1 and 2 are recovered through the Tier 3 and Tier 4 rates.

Any usage above an efficient level is subject to higher charges to fund conservation programs and any other supplemental water supply program. The current water supply is reserved for efficient water use within the District for indoor, outdoor, and commercial use. The higher Tier 3 rate serves as a signal for conservation and efficient use to reflect how such inefficient use requires the District to expand its infrastructure and services, whereas excessive use in Tier 4 incurs the highest marginal costs of providing service.

The Commercial class will continue to be billed at a uniform rate; however, this rate will encompass domestic use and inefficient use. Based on SB X7-7 (i.e., Water Conservation Act of 2009), which requires commercial users to reduce their water use by 10 percent, indoor and efficient outdoor (or process) use is defined as 90 percent of total use, and the remaining 10 percent use as inefficient. Additionally, indoor use is defined as 90 percent of the efficient use ($90\% \times 90\% = 81\%$) and the remainder is defined as efficient outdoor use ($10\% \times 90\% = 9\%$). The uniform rate charged to commercial customers will then be a blend of the use defined here.

4. Pass-through Water Supply Cost

The District purchases water from the Municipal Water District of Orange County (MWDOC), a member agency of the Metropolitan Water District of Southern California (MWD). MWD rates are scheduled to increase in January 2026. The MWD rate increases will be included in the blended rates charged to the District. Dividing the total costs in Table 4-1 (Line 7) by the projected water sales (Line 8) results in the unit rate shown in Line 9. See Appendix 1 for detailed breakdown of water supply costs. Table 4-2 and Table 4-3 show that projected water supply rates will increase by an average of \$0.33 per ccf.

Table 4-1: Water Supply Revenue Requirements

Line #	Water Supply Unit Rates Development	FY 2026	Notes
1	MWD Fixed Charges		
2	Capacity Reservation Charge	\$193,355	Appendix 1
3	Readiness To Serve Charge	\$832,919	Appendix 1
4	Total Treated Full Service Annual Cost	\$4,992,965	Appendix 1
5	Baker Raw Water Cost	\$3,365,400	Appendix 1
6	Baker WTP O&M Annual Cost	\$1,213,332	Appendix 1
7	Total Water Supply Cost	\$10,597,971	
8	Projected Water Sales	2,896,740	
9	Water Supply Unit Rate	\$3.66	[7] / [8]

Table 4-2: Current and Projected Water Supply Unit Rate

Fiscal Year (FY)	Water Supply Unit Rate \$ / hundred cubic feet (ccf)
FY 2024-25	\$3.33
FY 2025-26	\$3.66
Increase / Change	\$0.33 / ccf

Table 4-3: Water Supply Cost Component of the Water Rates (\$/ccf)

Tiers	Descriptions	Current FY 2025	Proposed FY 2026
Tier 1 - Essential Use	MWDOC + Baker Blended	\$3.33	\$3.66
Tier 2 - Efficient Use	MWDOC + Baker Blended	\$3.33	\$3.66
Tier 3 - Inefficient Use	MWDOC + Baker Blended	\$3.33	\$3.66
Tier 4 - Excessive Use	MWDOC + Baker Blended	\$3.33	\$3.66
Uniform – CII Use	MWDOC + Baker Blended	\$3.33	\$3.66

5. Water Revenue Requirements and Proposed Rates

5.1. Revenue Requirements

Table 5-1 shows the derivation of the revenue requirement of the water rates. Total expenses for the water enterprise are shown in Line 1. Next, other supplementary revenues are subtracted from the expenses, serving as an offset of these costs. For the District, this is encompassed in the Non-Operating Revenues totaled in Line 4. These revenues include cell-site leases, property taxes, investment revenues, and other revenues. Revenue requirements include funding of the Operating Reserve and increase the revenue required from rates for FY 2026 (Line 15). The total revenue required from water service rates is shown in Line 16, excluding capital R&R requirements.

Details of the figures presented in Table 5-1 can be found in Appendix 3, in the Cash Flow Analysis for the Water Funds. The Cash Flow Analysis is part of the Financial Plan developed by District staff to determine the District's long-term financial needs. Raftelis based its determination of the revenue requirements and cost of service for FY 2026 on the Financial Plan developed and budget data provided by District Staff.

Table 5-1: Water Operating Revenue Requirements from Rates

	Water Operating Revenue Requirements ⁷	FY 2026	Notes
1	Water O&M Expenses	\$17,597,758	Appendix 3
2	Purchased Water	\$10,597,971	Appendix 1
3	Other O&M Expenses	\$6,999,787	[1] – [2]
4	Less (-) Non-Operating Revenues	(\$1,514,000)	
5	Funding from Restricted Reserve for Conservation Program	(\$200,000)	Appendix 3
6	Property Taxes - General Fund Revenue	(\$303,944)	Appendix 3
7	Property Taxes (Funds Tier 1 Offset)	(\$216,056)	Appendix 3
8	Miscellaneous Revenue	(\$39,000)	Appendix 3
9	Cellular Site Lease Revenue (Funds Tier 1 Offset)	(\$280,000)	Appendix 3
10	Other Income (R-6 Partners)	(\$125,000)	Appendix 3
11	Investment Income	(\$350,000)	Appendix 3
12	Plus (+) Other Fundings	\$1,071,206	
13	Plus Reserve Funding	\$200,000	Appendix 3
14	Plus Restricted Reserve Funding	\$623,438	Appendix 3
15	Plus Operating Reserve Funding	\$247,769	Appendix 3
16	Water Operating Service Rev Requirements	\$17,154,964	Sum of lines 1, 4 & 12

The District separately charges customers for the cost of capital repair and replacement (R&R) for the water and recycled water systems via a fixed charge. The District is retaining the previously approved Capital Facilities Charges that are published in the 2023 Proposition 218 Notice.

⁷ May not total due to rounding

5.2. Cost of Service

While as a matter of policy the District is designed to serve efficient water use, as a matter of practice all water systems are built to accommodate peak use of any class or type of customer. If a system is not built to accommodate the peak use customers choose to consume, no matter how inefficient, then *all* customers will experience poor service during peak consumption periods. Different parts of a water system are designed to handle different peaks, and there are significant costs associated with meeting peak requirements. For example, the District's maximum day usage is estimated to be 1.73⁸ times the average usage, and facilities such as reservoirs are designed 1.73 times larger than required to meet average demands to ensure that maximum day requirements are met (reservoirs also are designed to meet fire flows). To allocate costs appropriately amongst the different types of usage, an analysis of the peaking costs is provided in Section 5.2.1.

A portion of the costs of fire service are recovered from Private Fire Rates (charged to customers which have separate fire line service as discussed in Tables 5-5 to 5-6 and Section 5.2.2 of this report below). However, the costs to maintain public fire flows are included in the cost of service recovered from rates. This reflects that providing water in the volumes and at the pressures required to operate fire hydrants and fire sprinklers in structures is a statutory mandate of public water systems in California, and that such cost recovery is authorized by California Government Code sections 53069.9 and 53750.5. Moreover, charging water users for the portion of the cost of water service associated with fire flows appropriately assigns those costs to those who benefit from them. Sprinklers are within (and serve) structures served by water meters. The California Fire Code requires hydrants near structures, not elsewhere and hydrants serve parcels improved with structures. Thus, those who pay water fees which recover fire flow costs also own or occupy structures protected by fire sprinklers and fire hydrants and therefore benefit from that service. Finally, fire hydrants are used to flush water mains periodically and serve a water system function in addition to the fire suppression function noted here.

5.2.1. PEAKING FACTOR ANALYSIS

In the 2022 Rate Study, Raftelis conducted peaking factor analysis for the District's water usage. The analysis utilized the usage from July 2019 to June 2020. This represents a more normal year for water use, since FY 2023 and FY 2024 were wet years and FY 2022 was a dry year, and is used to determine the peaking factors. Note that the usage for FY 2026 is almost the same as the use in FY 2020. The results are shown in Table 5-2 and summarized in Table 5-3.

⁸ ETWD 2005 Master Plan

Table 5-2: Peaking Factor Analysis for Different Usage Types

Usage	Tier 1 - Essential Use	Tier 2 - Efficient Use	Tier 3 - Inefficient Use	Tier 4 - Excessive Use	Uniform - Commercial Use	Total
	ccf	ccf	ccf	ccf	ccf	ccf
Jul-19	128,023	109,113	8,420	7,321	34,464	287,341
Aug-19	135,307	147,680	10,481	10,936	38,771	343,175
Sep-19	134,410	140,302	12,569	12,130	38,047	337,458
Oct-19	121,021	93,183	10,545	12,244	33,696	270,689
Nov-19	141,325	101,033	13,215	16,128	39,039	310,740
Dec-19	113,313	27,141	6,224	7,179	25,389	179,246
Jan-20	118,280	18,380	5,259	4,310	27,959	174,188
Feb-20	113,871	30,985	5,698	5,582	28,294	184,430
Mar-20	108,446	34,112	4,424	3,828	26,862	177,672
Apr-20	116,898	18,879	3,839	2,468	18,146	160,230
May-20	132,554	66,283	4,799	2,575	22,845	229,056
Jun-20	129,603	109,296	7,381	4,223	27,632	278,135
FY 2020	1,493,051	896,387	92,854	88,924	361,144	2,932,360

Table 5-3: Peaking Factor Summary for Different Usage Types

Line	Water Uses	FY 2020 Usage	Max Month Usage	Average Month Usage	Peaking Factors (Max/Avg)
		A	B	C	D = [B] / [C]
1	Indoor Use	1,493,051	141,325	124,421	1.15
2	Outdoor Use	896,387	147,680	74,699	1.94
3	Inefficient Use	92,854	13,215	7,738	1.73
4	Excessive Use	88,924	16,128	7,410	2.21
5	Commercial Use	361,144	39,039	30,095	1.32
6	Total Usage	2,932,360	343,175	244,363	1.38

Since the multi-family peaking in Tier 3 is very small, it reduces the peaking factor in Tier 3 below Tier 2. The proposed peaking factors for each usage type are shown in Table 5-4. The relative relationships among these monthly peaking factors are a proxy for the actual peaking characteristics and provide a reasonable basis to allocate peaking costs to the different uses.

Table 5-4: Peaking Factors by Usage Class

Tiers	Relative Peaking Factors
Indoor Use	1.15
Outdoor Use	1.94
Inefficient Use	1.73
Excessive Use	2.21
Commercial Use	1.32

The different peaking factors, increasing in the arrow's direction, may be conceptually represented on the scale shown below.



5.2.2. COST OF SERVICE ANALYSIS

Revenue requirements are allocated to the following cost causation categories to allocate costs appropriately to the different usage classes and determine the cost-of-service rates. This methodology is consistent with the Base Extra Capacity methodology of the American Water Works Association (AWWA) *M1 Manual, Principles of Water Rates, Fees, and Charges* (M1 Manual):

1. Water supply costs: Imported water supply costs, allocated to all users in proportion to their usage.
2. Fixed costs: fixed costs associated with operating and maintaining water systems to deliver water to meet average demand, including customer service, meter service, administration, and other base fixed costs.
3. Peaking costs: fixed costs associated with operating and maintaining the water system to deliver water to meet peak demand.
4. Recycled Water Funding: The use of recycled water for non-potable needs releases potable supply for inefficient and excessive use. Recycled water is the least expensive supplemental source of water available to the District and offsets supply for potable needs. The revenues collected under this category will be collected in restricted reserves to assist the RW fund to pay debt service costs that finance the RW expansion project completed in FY 2015 and expanded in FY 2019.
5. Conservation: Conservation program cost, allocated to inefficient and excessive use to help conserve water. The conservation program costs include rebates for customer investments in indoor and outdoor water use efficiency devices and appliances, participation in regional water use efficiency programs, District staff costs and costs to participate in community events to educate the public about water use efficiency practices. A portion of these costs amounting to \$200,000 are recovered through the Tier 3 and Tier 4 rates.
6. Revenue Offsets: Property taxes revenue used partially to provide incentive for indoor/domestic use.

The cost causation categories described above are then assigned to each rate component:

Fixed Rate Components (i.e., Monthly Service Charges)

- To recover customer service, meter service, administration and other base fixed costs and a portion of the peaking costs.
- To recover the costs of providing water for fire service to the private fire customers.

Commodity Rate Components

- Water Supply: to recover imported water supply costs.
- Delivery/Peaking: to recover remaining peaking costs associated with operating and maintaining water systems to deliver water to meet peak demand. These costs are allocated based on the peaking characteristics of each class of use.
- Recycled Water (RW): to generate supplemental funding sources to pay for RW expansion projects.
- Conservation: to recover the conservation program cost, allocated to inefficient and excessive users, to encourage water conservation.
- Revenue Offsets: A portion of the property tax revenues to provide an incentive for indoor/domestic use.

Capital Facility Charges:

- Funds for the capital replacement and refurbishment of the existing water and RW system and debt service payments.

Fire Service Charges:

Fire demands are based on the water system design. Typical fire demands are based on the maximum demand needed for fire service which is 3,000 gpm for two hours. The maximum day and maximum hour demands are determined on this basis. Maximum day and maximum hour potable demands are then added to these to determine total maximum day and maximum hour demands for the system. The proportion of the fire demand to total demand is used to prorate the costs that are allocated to be recovered from fire service charges as shown in Table 5-11.

A part of the peaking demand is designed for both public and private fire protection. The District has approximately 1,899 public fire hydrants and 171 private fire services. The fire demand factor for each fire service size is calculated using the line size. Based on the total Fire Demand Units (FDU, calculated by fire demand factor and respective number of services), about 10.2 percent of the District's fire protection is to service private fire protection. Table 5-5 shows the estimated fire demand between public and private fire services.

Table 5-5: Fire Demand Units

Fire Services	# of Services	Fire Demand Factor	Fire Demand Units (FDU)	FDU / yr	Percentage Demand
	A	$B = \text{MeterSize}^{2.63^9}$	$C = A \times B$	$D = C \times 12 \text{ bills/yr}$	
Private Fire Services			24,043	288,512	10.2%
4"	28	38.32	1,073	12,875	
6"	93	111.31	10,352	124,223	
8"	46	237.21	10,912	130,938	
10"	4	426.58	1,706	20,476	
Public Hydrants			211,379	2,536,553	89.8%
6"	1,899	111.31	211,379	2,536,553	
Total	2,070		235,422	2,825,065	100%

Table 5-6 shows the fire demand imposed on peaking requirements.

Table 5-6: Water System and Fire Demand Peaking Requirements

Line	Description		Peak Demand	Extra Capacity
		A	B	C
1	Flow	3,000 GPM		
2	Duration	2 hrs		
3	Fire Max Day Demand	360 kgal	481 ccf	
4	Fire Max Hour Demand	3,960 kgal ¹⁰	5,294 ccf	
5	Annual System Demand	2,896,740 ccf		
6	Daily System Demand	7,936 ccf / day		
7	System Max Day	1.73x of Average Demand	13,730 ccf / day	5,793 ccf / day ¹¹
8	System Max Hour	2.04x of Average Demand	16,190 ccf / day	2,460 ccf / day ¹²

Table 5-7 shows the peaking factors for the water system provided by the District's Water Master Plan and the allocation of Max Day and Max Hour costs using the Base Extra Capacity approach as outlined in the AWWA Manual M1.

Table 5-7: Peaking Factors for Water System

		Peaking Factors	Base Fixed	Max Day	Max Hour
1	Max Day	1.73	57.8%	42.2%	
2	Max Hour	2.04	49.0%	35.8%	15.2%

⁹ 2.63 is the coefficient used in the Hazen-Williams formula, which determines the flow of water in a pipe

¹⁰ 24-hour demand less Max Day demand (Line 3)

¹¹ Extra Capacity demand for Max Day = Peak Max Day Demand – Daily Demand

¹² Extra Capacity demand for Max Hour = Peak Max Hour Demand – Peak Max Day Demand

The Max Day factor of the District's system is 1.73, which means that Max Day demand is expected to be 173 percent of the average day capacity. Calculating the Max Day allocation of functional costs to the cost causation components results in the following:

$$\text{Base Fixed Allocation for Max Day} = \frac{\text{Base Fixed}}{\text{Max Day}} = \frac{1}{1.73} \approx 57.8\%$$

$$\text{Max Day Allocation} = 1 - \frac{\text{Base}}{\text{Max Day}} = 1 - 57.8\% \approx 42.2\%$$

Facilities designed for Max Hour peaks, such as distribution system facilities, are allocated similarly. The Max Hour factor is 2.04, so Max Hour facilities are designed to provide 204 percent of the average day capacity. The allocation of Max Hour facilities is shown below:

$$\text{Base Fixed Allocation} = \frac{\text{Base}}{\text{Max Hour}} = \frac{1}{2.04} \approx 49.0\%$$

$$\text{Max Day Allocation} = \frac{\text{Max Day} - \text{Base}}{\text{Max Hour}} = \frac{1.73 - 1.00}{2.04} \approx 35.8\%$$

$$\text{Max Hour Allocation} = 1 - 49.0\% - 35.8\% \approx 15.2\%$$

Table 5-8 shows the allocation factors for different water functions to the various cost categories. Treated storage costs are distributed using the Max Day allocation. Source of supply costs will be allocated to water supply based on budgeted purchased water costs (Table 4-1) and the remaining costs will be allocated to base fixed costs. Operations and Administrative cost functions will be allocated between base fixed and billing & customer service (CS) based on staffing levels for the field office and main office. Labor costs are allocated 10% to billing and customer service, as estimated by the District, including management, customer service, and billing field personnel. The remaining 90% of the labor costs are allocated proportionately based on the non-labor and non-supply costs. Transmission facilities are designed for max day requirements and distribution facilities are designed to meet max hour requirements. Transmission and Distribution (T&D) are estimated 50% to transmission and 50% to distribution. Therefore, T&D is allocated 50% to max day demand for transmission (row 1 of Table 5-7) and 50% to max hour demand for distribution (row 2 of Table 5-7). Pumping is designed to meet max hour demand, thus allocated using the max hour demand allocation factors (row 2 in Table 5-7).

$$\text{T\&D Base Fixed} = 50\% \times 57.8\% + 50\% \times 49\% \approx 53.4\%$$

$$\text{T\&D Max Day} = 50\% \times 42.2\% + 50\% \times 35.8\% \approx 39.0\%$$

$$\text{T\&D Max Hour} = 50\% \times 0\% + 50\% \times 15.2\% \approx 7.6\%$$

Table 5-8: Allocation Factors for Different Water Functions

Water Functions	Water Supply	Base Fixed	Max Day	Max Hour	Billing & CS	Notes
Storage		57.8%	42.2%			Max Day
Source of Supply	Purchased water cost	Remaining cost				
T&D		53.4%	39.0%	7.6%		50% MD, 50% MH
Pumping		49.0%	35.8%	15.2%		Max Hour
Operations		82.5%			17.5%	Staffing levels for field office
Administrative		77.5%			22.5%	Staffing levels for main office
Labor		60.3%	25.3%	4.5%	10%	Proportional based on total non-labor costs

Table 5-9 shows the allocations of water **O&M expenses** using the allocation factors shown in Table 5-8 and O&M breakdown for FY 2026 provided by the District staff (Appendix 2).

Table 5-9: Allocations of Water O&M Expenses by Cost Categories

Water O&M Allocation	FY 2026	Water Supply	Base Fixed	Max Day	Max Hour	Billing & CS	Functional Allocation
O&M Expenses							
Source of Supply	\$10,742,971	\$10,597,971	\$145,000				Source of Supply
Water Storage Operations	\$269,625		\$155,853	\$113,772			Max Day
Pumping - Water	\$483,940		\$237,225	\$173,175	\$73,540		Pumping
T&D - Water	\$616,875		\$329,482	\$240,522	\$46,870		T&D
Operations Support	\$96,665		\$79,749			\$16,916	Operations
Fleet	\$162,664		\$134,198			\$28,466	Operations
Indirect Operating Costs	\$66,624		\$54,965			\$11,659	Operations
Information Technology	\$244,488		\$189,478			\$55,010	Administrative
Indirect Admin. Costs	\$777,806		\$602,800			\$175,006	Administrative
Labor Costs	\$4,136,100		\$2,730,676	\$807,483	\$184,332	\$413,610	Labor
Subtotal O&M Expenses (Excl. Dep & Int)	\$17,597,758	\$10,597,971	\$4,659,425	\$1,334,952	\$304,742	\$700,668	

Table 5-10 shows the allocation of **revenue requirements** to cost categories. The total matches the revenue requirements shown in Table 5-1.

Table 5-10: Water Revenue Requirements by Cost Categories

Other Rev Requirement Allocations	FY 2026	Water Supply	Base Fixed	Max Day	Max Hour	Billing & CS	RW	Conservation	Rev Offset	Private Fire
O&M Expenses (Excl. Dep & Int)	\$17,597,758	\$10,597,971	\$4,659,425	\$1,334,952	\$304,742	\$700,668				
Less (-) Non-Operating Revenues										
Funding from Restricted Reserve for Conservation Program	-\$200,000		-\$200,000							
Property Taxes - General Fund Revenue	-\$303,944		-\$303,944							
Property Taxes (Funds Tier 1 Offset)	-\$216,056								-\$216,056	
Miscellaneous Revenue	-\$39,000		-\$39,000							
Cellular Site Lease Revenue	-\$280,000		-\$217,000			-\$63,000				
Other Income (R-6 Partners)	-\$125,000		-\$125,000							
Investment Income	-\$350,000		-\$350,000							
Plus (+) Other Fundings										
Plus Funding Conservation Program	\$200,000							\$200,000		
Plus Restricted Reserve Funding	\$623,438						\$623,438			
Plus Operating Reserve Funding	\$247,769		\$247,769							
Total Water Service Rev Requirements	\$17,154,964	\$10,597,971	\$3,672,250	\$1,334,952	\$304,742	\$637,668	\$623,438	\$200,000	-\$216,056	\$0
Reallocation of Private Fire Peaking				-\$10,457	-\$21,248					\$31,705
Total Net Revenue Requirements	\$17,154,964	\$10,597,971	\$3,672,250	\$1,324,495	\$283,494	\$637,668	\$623,438	\$200,000	-\$216,056	\$31,705

Table 5-11 details the allocations of Max Day and Max Hour revenue requirements to Private Fire services.

Table 5-11: Allocations of Peaking Costs to Private Fire Services

Line No.	Allocation of Peaking Costs to Fire Protection		Max Day	Max Hour	Total ¹³
	A	B	C	D	E = C + D
1	Revenue Requirements (Table 5-9)		\$1,334,952	\$304,742	
2	Fire Demand (Table 5-6, rows 3-4)	ccf	481	5,294	
3	Extra Capacity Demand (Table 5-6, rows 7-8)	ccf	5,793	2,460	
4	Total Extra Capacity Demand plus Fire	ccf	6,275	7,754	
5	Unit Cost of Service (ccf)	\$ / ccf	\$212.75	\$39.30	
6	Unit Cost of Service (kgal)	\$/ kgal	\$284.42	\$52.54	
7	Fire Demand (Table 5-6, rows 3-4)	kgal	360	3,960	
8	Fire Protection Costs (Line 6 x Line 7)		\$102,393	\$208,056	\$310,448
9	Private Fire (Line 8 x B9)	10.2%	\$10,457	\$21,248	\$31,705
10	Public Fire (Line 8 x B10)	89.8%	\$91,936	\$186,808	\$278,744

The AWWA M1 Manual describes a cost-of-service approach to setting water rates that results in the distribution of costs to each customer or customer class based on the costs that each incurs. A dual set of fees—fixed and variable—is an extension of this cost causation theory. For example, a utility incurs some of the costs of serving customers irrespective of the amount or rate of water they use, such as billing and customer service costs. These costs are referred to as customer-related costs and are typical costs that would be recovered through a fixed monthly service charge. These costs are usually recovered on each meter. Regardless of the level of a customer's consumption, a customer will be charged this minimum amount on each bill.

Utilities invest in and continue to maintain facilities to provide capacity to meet all levels of desired consumption, including the peak demand plus fire protection. These costs must be recovered regardless of the amount of water used during a given period. Thus, capacity or peaking costs, along with base costs, are generally considered fixed water system costs. Ideally, an agency could recover 100% of the fixed costs in the fixed charges, therefore providing revenue stability; however, this approach foregoes affordability for essential use and heavily impacts small users. A portion of the base costs and peaking costs are recovered in the fixed charges, along with the customer-related costs and meter-related costs to balance between affordability and revenue stability. Revenue requirements for the District's fixed monthly service charges include 100 percent of base fixed costs, inclusive of billing and customer service costs and other fixed costs to meet average demand, as well as a portion of the peaking costs. The remaining peaking costs are recovered in the delivery rate component of the commodity rates.

The rate structure remains unchanged and consists of the monthly fixed service and the volumetric commodity rates, which are allocated as follows in Table 5-12:

- The monthly service charge includes customer service, fixed base costs, and a portion of the peaking costs.
- The volumetric water commodity rates include water supply (to recover total purchased water costs from MWDOC and Baker Water Treatment Plant water costs), delivery/peaking (to recover the District's remaining peaking costs), RW funding, conservation, and revenue offsets components.

¹³ Total may not add due to rounding

Table 5-12: Cost Categories and Water Rate Structure

Cost Components	Service Charges	Tier 1 Essential Use	Tier 2 Efficient Use	Tier 3 Inefficient Use	Tier 4 Excessive Use	Commercial Use
Billing & Cust. Service	x					
Meters	x					
Fixed Base Costs	x					
Delivery Peaking Costs	x	x	xx	xxx	xxx	x
Water Supply		x	x	x	x	x
RW Program Funding				xx	xxx	x
Conservation				x	x	x
Rev Offset		x				x

Unit Component Cost Derivation

The end goal is to proportionately distribute the cost causation components to each user class. First, the cost causation component unit costs must be calculated, which starts by assessing the total service units demanded by each class for each cost causation component. Extra capacity costs representing the demand placed on the system are related to the capacity of the meters. The capacity of the meters is determined by comparing the hydraulic capacity of the meters to the smallest meter in the system, which is assigned a capacity of one. Thus, a 1-inch meter that can continuously deliver 50 gallons per minute (gpm) is considered to have a capacity of 2.5 when compared to the 5/8-inch meter which can deliver 20 gpm. Because of the unique characteristics of the District's service area, the maximum of the hydraulic capacity or the actual usage characteristics was used to determine the capacity of the meters. For example, a 2-inch meter, on average, uses 10 times the water of the 5/8-inch meter. The meter capacity ratios representing the maximum of the hydraulic ratio or the actual usage are used to calculate the equivalent meter units to recover the meter service & capacity costs (based on ETWD *Cost of Service Study Report for Water, Wastewater and Recycled Water prepared in April 2009*). The calculation of the bills per year and the equivalent meter units (EMU) is shown in Table 5-13 below.

Table 5-13: Units of Service for Monthly Service Charges

Potable Water Meters	Meter Counts	Meter Ratio	Bills / yr	EMUs / yr
	A	B	$C = A \times 12$	$D = C \times B$
5/8"	2,380	1.00	28,560	28,560
3/4"	4,857	1.50	58,284	87,426
1"	459	2.50	5,508	13,770
1-1/2"	711	5.00	8,532	42,660
2"	1,127	10.00	13,524	135,240
Private Fire ¹⁴	171	1.00		2,052
Total	9,705		114,408	309,708

¹⁴ Private Fire bills are combined with the account customer bill for potable services

Table 5-14 below shows the calculation for the remaining units of service. The capacity or peaking factor for each customer class is taken from Table 5-4. Recycled Water costs are allocated to Tier 3, Tier 4, and Commercial Use. The RW factors shown in Column E in Table 5-14 below are derived from the Updated RW Expansion costs. Tier 3 uses the most cost effective water at \$1,150/AF, and Tier 4 is allocated the large scale, more expensive water at \$2,000/AF. The RW factor for Tier 4 is the ratio of large scale versus the most cost effective water, shown below:

$$\text{Tier 4 RW Factor} = \frac{\text{large scale cost}}{\text{most cost effective}} = \frac{\$2,000 \text{ per AF}}{\$1,150 \text{ per AF}} = 1.74$$

The Commercial RW factor of 0.14 is 10% of the average of the factors for Tier 3 and Tier 4. Conservation costs are allocated to Tier 3, Tier 4, and Commercial Use. These costs are equally split between Tier 3 and 4, so both have a factor of 1.00, as shown in Column G of Table 5-14 below. The Commercial Conservation factor is 10% of what is allocated to Tier 3 and Tier 4, or 0.10.

Table 5-14: Water Units of Service Derivation

		Peaking		RW		Conservation		Revenue Offset		Service & Capacity	Billing & CS	Priv Fire Service
Water Usage	Water Sales (ccf) ¹⁵	Peaking Factors	Extra Capacity	RW Funding	RW Service Units	Conservation Funding	Conservation Service Units	Offset Factor	Rev Offset Service Units	No. of Meters (Equiv.)	No. of Bills	FDU/yr
		Table 5-4								Table 5-13	Table 5-13	Table 5-5
[A]	[B]	[C]	[D] = [B] x [C - 1]	[E]	[F] = [E] x [B]	[G]	[H] = [G] x [B]	[I]	[J] = [I] x [B]			
Tier 1 - Essential Use	1,504,371	1.15	228,120	0.00	0	0.00	0	1.00	1,504,371			
Tier 2 - Efficient Use	875,709	1.94	822,993	0.00	0	0.00	0	0.00	0			
Tier 3 - Inefficient Use	83,556	1.73	61,127	1.00	83,556	1.00	83,556	0.00	0			
Tier 4 - Excessive Use	77,790	2.21	93,866	1.74	135,288	1.00	77,790	0.00	0			
Uniform - Commercial Use	355,313	1.32	111,993	0.14	48,662	0.10	35,531	0.81	287,804			
Total	2,896,740		1,318,098		267,506		196,878		1,792,175	309,708	114,408	288,512

¹⁵Budgeted FY 26 water sales, marginally different from actual FY20 water use used to calculate peaking factors in Table 5-3.

Table 5-15 allocates the water revenue requirement cost categories (Table 5-10) to rate components for FY 2026. These rate components show the allocation of costs to the various cost components and are used in the derivation of the unit costs (shown in the last line of the table) based on the units of service shown in Table 5-14.

Table 5-15: Water Rate Components and Unit Cost Calculation

		Monthly Service Charge			Water Commodity Rates				
Water Rev Requirements	FY 2026	Billing & CS	Service & Capacity	Fire Service	Water Supply	Peak Delivery	RW	Conservation	Rev Offset
Water Supply	\$10,597,971				\$10,597,971				
Base Fixed	\$3,711,250		\$3,711,250						
Peaking	\$1,607,989		\$1,157,989			\$450,000			
RW	\$623,438						\$623,438		
Conservation	\$200,000							\$200,000	
Rev Offset	-\$255,056		-\$39,000						-\$216,056
Billing & CS	\$637,668	\$637,668							
Private Fire	\$31,705			\$31,705					
Total	\$17,154,964	\$637,668	\$4,830,239	\$31,705	\$10,597,971	\$450,000	\$623,438	\$200,000	-\$216,056
Units of Service		114,408	309,708	288,512	2,896,740	1,318,098	267,506	196,878	1,792,175
		bills / yr	EMUs / yr	FDU/yr	ccf / yr	ccf / yr	ccf / yr	ccf / yr	ccf / yr
Unit Rate		\$5.57	\$15.60	\$0.110	\$3.66	\$0.34	\$2.33	\$1.02	-\$0.12

Monthly Service Charge Derivation

The monthly service charge calculations are shown in Table 5-16 below based on the unit costs shown in Table 5-15. Note the proposed FY 2026 rate for the 10-inch meter is calculated on the average increase seen across all meter sizes of approximately 12.9%, which is a lower rate than what the rate would be calculated on the corresponding meter capacity ratio.

Table 5-16: Proposed Monthly Service Charges Calculations

Meter Size	Billing & Customer Service	Meter Service & Capacity ¹⁶	Proposed Rates	Current Rates	\$ Impact	% Impact
	A (Table 5-15)	B	C = A + B	D	E = C - D	F = E / D
5/8"	\$5.57	\$15.60	\$21.18	\$18.77	\$2.40	12.8%
3/4"	\$5.57	\$23.40	\$28.98	\$25.68	\$3.28	12.9%
1"	\$5.57	\$39.00	\$44.58	\$39.50	\$5.05	12.9%
1-1/2"	\$5.57	\$77.99	\$83.57	\$74.05	\$9.47	12.9%
2"	\$5.57	\$155.97	\$161.55	\$143.13	\$18.32	12.9%
10"	\$5.57	\$1,586.22	\$1,595.00	\$1,413.04	\$181.96	12.9%

Capital Facility Charges Derivation

The District is retaining the previously approved Capital Facilities Charges that are published in the 2023 Proposition 218 Notice. Table 5-17 shows the published monthly capital charges for FY 2026, effective July 1, 2025.

Table 5-17: FY 2026 Published Monthly Water Capital Facility Charges

Meter Size	Proposed FY 2026	Current FY 2025	\$ Change	% Change
5/8"	\$8.69	\$6.95	\$1.74	25.0%
3/4"	\$13.02	\$10.42	\$2.60	25.0%
1"	\$21.69	\$17.35	\$4.34	25.0%
1 1/2"	\$43.38	\$34.70	\$8.68	25.0%
2"	\$86.75	\$69.40	\$17.35	25.0%
10"	\$1,000.00	\$800.00	\$200.00	25.0%

¹⁶ Service and Capacity component can be calculated by using the unit cost (Table 5-15.) multiplied by the appropriate meter ratio (Table 5-13)

Commodity Rate Derivation

Peak Delivery rates (Table 5-18) are applied to all rates based on peaking characteristics for each usage class (shown in Table 5-4). Indoor or domestic use has the lowest peaking factor; consequently, all indoor use (residential and commercial) is assigned a lower peak delivery cost. Outdoor irrigation is associated with higher peaking factors, so outdoor use comprising residential irrigation and the current dedicated irrigation classes (both functional and recreational) will have higher peak delivery costs. Inefficient and excessive use has even higher peaking factors and is assigned the highest peak delivery costs.

Table 5-18: Peak Delivery Rate Calculations

Line	Water Usage	Budgeted Water Sales	Peaking Factor	Peak Usage	Peak Rate (\$/ccf) ¹⁷
		A	B (Table 5-4)	C = A x (B - 1)	D = [A7] x C/A
1	Tier 1 - Essential Use	1,504,371	1.15	228,120	\$0.05
2	Tier 2 - Efficient Use	875,709	1.94	822,993	\$0.32
3	Tier 3 - Inefficient Use	83,556	1.73	61,127	\$0.25
4	Tier 4 - Excessive Use	77,790	2.21	93,866	\$0.41
5	Uniform - Commercial Use	355,313	1.32	111,993	\$0.11
6	Total	2,896,740		1,318,098	
7	Peak Unit Rate, \$/ccf ¹⁸	\$0.34			

The District system is designed assuming the efficient use of water. The District relies on purchased imported water for all of its drinking water supply. Water, in the State of California, has become an increasingly challenging resource. Changing climate conditions, cyclic droughts and the infrastructure investments necessary to convey purchased water to the District have further challenged supply adequacy and availability leading the District to invest in policy decisions to implement conservation and recycled water programs to mitigate the impact of demands exceeding efficient use.

The RW program is associated with offsetting the demands of inefficient and excessive use and RW program costs are therefore allocated to inefficient and excessive use only (usage in Tiers 3 and 4 and 10 percent of commercial use, which is considered inefficient and is allocated at the same rate as average of residential inefficient and excessive usage). The RW program provides recycled water and offsets potable water use which is then available for Tiers 3 and 4. To determine the recycled water costs to be assigned to Tiers 3 and 4, Raftelis obtained the recycled water system's costs from the District based on Updated RW Expansion Capital Cost provided in March 2022. Phase 1 cost is \$1,150/AF and Phase 2 RW expansion cost is \$2,000/AF in today's dollars, which gives a ratio of 1:1.74. Phase 2 was developed to offset the excessive use in Tier 4. Therefore, this ratio is utilized for the RW Program funding ratio between Tier 3 and Tier 4 to reflect that Tier 4, excessive usage, should carry the burden of the higher costs to fund the more extensive RW program. Tier 4 therefore pays more to fund this alternative source of water required to offset Tier 4 demands. Revenues from this cost component are collected in a restricted reserve used to meet the debt service requirements associated with the recycled water system, which provides supplemental water and frees up valuable potable water resources to offset the demand imposed by inefficient and excessive use. The rates for the recycled water program to Tiers 3 and 4 are shown in Table 5-19.

¹⁷ Rounded to the nearest cent.

¹⁸ Rounded to the nearest cent. Calculation of Unit Costs shown in Table 5-15.

Table 5-19: RW Program Funding for Potable Water Rate Calculations

Line No.	Water Usage	Budgeted Water Sales	Equivalent Factor	Equivalent Usage	Unit Rate (\$/ccf) ¹⁹
		A	B (Table 5-14)	C = A x B	D = A7 x B
1	Tier 1 - Essential Use	1,504,371	0.00	0	\$0.00
2	Tier 2 - Efficient Use	875,709	0.00	0	\$0.00
3	Tier 3 - Inefficient Use	83,556	1.00	83,556	\$2.33
4	Tier 4 - Excessive Use	77,790	1.74	135,288	\$4.05
5	Uniform - Commercial Use	355,313	0.14	48,662	\$0.32
6	Total	2,896,740		267,506	
7	Unit RW Program Rate ²⁰	\$2.33 / ccf			

Conservation programs are targeted to meet the demands of inefficient and excessive use and therefore conservation costs are applied only to inefficient and excessive use, as shown in Table 5-20. There is no good rationale to differentiate the costs and therefore the unit conservation cost per unit of water in Tiers 3 and 4 is the same. The conservation program costs include rebates for customer investments in indoor and outdoor water use efficiency devices and appliances, participation in regional water use efficiency programs, District staff costs and costs to participate in community events to educate the public about water use efficiency practices. A portion of these costs amounting to \$200,000 are recovered through the Tier 2 and Tier 4 rates.

Table 5-20: Conservation Program Funding (aka Conservation) Rate Calculations

Line No.	Water Usage	Budgeted Water Sales	Equivalent Factor	Equivalent Usage	Unit Rate (\$/ccf) ²¹
	A	B	C (Table 5-14)	D = B x C	E = B7 x C
1	Tier 1 - Essential Use	1,504,371	0.00	0	\$0.00
2	Tier 2 - Efficient Use	875,709	0.00	0	\$0.00
3	Tier 3 - Inefficient Use	83,556	1.00	83,556	\$1.02
4	Tier 4 - Excessive Use	77,790	1.00	77,790	\$1.02
5	Uniform - Commercial Use	355,313	0.10	35,531	\$0.10
6	Total	2,896,740		196,878	
7	Unit Conservation Rate ²²	\$1.02 / ccf			

¹⁹ Rounded to the nearest cent.

²⁰ Rounded to the nearest cent. Calculation of Unit Costs shown in Table 5-15.

²¹ Rounded to the nearest cent.

²² Rounded to the nearest cent. Calculation of Unit Costs shown in Table 5-15.

Finally, Table 5-21 shows the offset applied per the District's current policy objective to provide rate incentives for essential and efficient indoor use. A portion of the property taxes received by the District are used to offset the essential and efficient usage rate. The offset applies to indoor/domestic use in Tier 1 and commercial indoor use.

- To minimize customer impacts and provide incentives for essential and efficient use, a portion of property tax revenues are used to provide a revenue offset for efficient indoor and efficient commercial indoor use.
- Note that it is assumed that efficient usage for commercial is 90 percent of total use, and of that 90 percent, the indoor usage is 90 percent. Therefore, indoor usage is 81 percent (90 percent x 90 percent) of total commercial use. The revenue offset is applied to 81 percent of total commercial use to determine the revenue offset for the commercial class.
- Note that \$0.12 /ccf is applied to the efficient indoor use in Tier 1, and since commercial rates are uniform, the incentive becomes \$0.10 /ccf when applied to the full commercial use. Cell site leasing revenue, miscellaneous revenue, and the remaining property tax revenue is used to offset revenue requirements for fixed service charges. Note that all user classes benefit from this offset. Most irrigation customers have associated domestic usage which also benefits from the revenue offset.

Table 5-21: Revenue Offset Rate Calculations

Line No.	Water Usage	Budgeted Water Sales	Equivalent Factor	Equivalent Usage	Unit Rate (\$/ccf) ²³
		A	B (Table 5-14)	C = A x B	D = A7 x B
1	Tier 1 - Essential Use	1,504,371	1.00	1,504,371	-\$0.12
2	Tier 2 - Efficient Use	875,709	0.00	0	\$0.00
3	Tier 3 - Inefficient Use	83,556	0.00	0	\$0.00
4	Tier 4 - Excessive Use	77,790	0.00	0	\$0.00
5	Uniform - Commercial Use	355,313	0.81	287,804	-\$0.10
6	Total	2,896,740		1,792,175	
7	Unit Rev Offset Rate ²⁴	-\$0.12 / ccf			

In summary, the cost allocation methodology developed herein allocates the costs to customers, meters, and usage. Customer costs are the same for each account and other base fixed costs and a portion of peaking costs are allocated proportionally to the capacity of each meter. The remaining costs are allocated to each usage class in accordance with the demand they place on the system. The usage of each customer class is defined and the costs associated with the usage of each customer type provides the revenue to be recovered from that customer class. The rationale for allocating conservation costs and supplemental water costs allows the development of inclining tiered rates to provide incentives for conservation in the inefficient and excessive water usage tiers identified within each customer class. This methodology meets the requirements of Proposition 218 and Article X of the California Constitution.

²³ Rounded to the nearest cent.

²⁴ Rounded to the nearest cent. Calculation of Unit Costs shown in Table 5-15.

Table 5-22 shows the total rates derived from the individual rate components shown in Table 4-3, and Table 5-18 to Table 5-21.

Table 5-22: Proposed Commodity Rate Calculation²⁵

Water Usage Rates	Water Supply	Peak Delivery	RW	Conservation	Rev Offset	Proposed Rates
	A	B	C	D	E	F = A + B + C + D + E
Tier 1 - Essential Use	\$3.66	\$0.05	\$0.00	\$0.00	-\$0.12	\$3.59
Tier 2 - Efficient Use	\$3.66	\$0.32	\$0.00	\$0.00	\$0.00	\$3.98
Tier 3 - Inefficient Use	\$3.66	\$0.25	\$2.33	\$1.02	\$0.00	\$7.26
Tier 4 - Excessive Use	\$3.66	\$0.41	\$4.05	\$1.02	\$0.00	\$9.14
Uniform - Commercial Use	\$3.66	\$0.11	\$0.32	\$0.10	-\$0.10	\$4.09

5.3. Proposed Rates

5.3.1. MONTHLY SERVICE CHARGES

Based on the revenue requirements shown in Table 5-1 and the Monthly Service Charge calculations in Table 5-16, the proposed Monthly Service Charges for FY 2026 are shown in Table 5-23 below. All rates and charges are rounded up to the nearest cent to ensure adequate cost recovery.

Table 5-23: FY 2026 Monthly Water Service Charges

Meter Size	Proposed FY 2026	Current FY 2025	\$ Change	% Change
5/8"	\$21.18	\$18.77	\$2.41	12.8%
3/4"	\$28.98	\$25.68	\$3.30	12.9%
1"	\$44.58	\$39.50	\$5.08	12.9%
1-1/2"	\$83.57	\$74.05	\$9.52	12.9%
2"	\$161.55	\$143.13	\$18.42	12.9%
10"	\$1,595.00	\$1,413.04	\$181.96	12.9%

²⁵ Totals may not add due to rounding.

5.3.2. CAPITAL FACILITY CHARGES

The District is retaining the previously approved Capital Facilities Charges that are published in the 2023 Proposition 218 Notice. Table 5-24 shows the published monthly capital charges for FY 2026, effective July 1, 2025.

Table 5-24: FY 2026 Published Monthly Water Capital Facility Charges

Meter Size	Proposed FY 2026	Current FY 2025	\$ Change	% Change
5/8"	\$8.69	\$6.95	\$1.74	25.0%
3/4"	\$13.02	\$10.42	\$2.60	25.0%
1"	\$21.69	\$17.35	\$4.34	25.0%
1-1/2"	\$43.38	\$34.70	\$8.68	25.0%
2"	\$86.75	\$69.40	\$17.35	25.0%
10"	\$1,000.00	\$800.00	\$200	25.0%

5.3.3. COMMODITY RATES

Based on the revenue requirements shown in Table 5-1 and the calculated Commodity Rate components summarized in Table 5-22, a comparison of the current and proposed commodity rates for FY 2026 are shown in Table 5-25 below.

Table 5-25: FY 2026 Proposed Water Commodity Rates

Water Usage Rates	Proposed FY 2026	Current FY 2025	\$ Impact	% Impact
Tier 1 - Essential Use	\$3.59	\$3.26	\$0.33	10.1%
Tier 2 - Efficient Use	\$3.98	\$3.63	\$0.35	9.6%
Tier 3 - Inefficient Use	\$7.26	\$6.96	\$0.30	4.3%
Tier 4 - Excessive Use	\$9.14	\$8.93	\$0.21	2.4%
Uniform - Commercial Use	\$4.09	\$3.75	\$0.34	9.1%

5.3.4.PRIVATE FIRE RATES

The proposed Private Fire Rates are shown in Table 5-27 and reflect the changes to the fixed charges for the fire demand component at each fire line size.

Table 5-26 shows the private fire demand revenue requirement from Table 5-11. In addition, all private fire services have a 5/8-in meter attached to each that also requires maintenance and replacement services. In addition to the fire demand component, private fire services also share the service and capacity component equivalent for the 5/8-in meter as shown in Table 5-27.

Table 5-26: Fire Demand Rate Calculation

Private Fire Service			FY 2026
Revenue Requirements for Peaking (Table 5-11)			\$31,705
Units of Service (Table 5-5 – FDU/yr)			288,512 FDU's
Unit Cost of Service			\$0.110 / FDU

Meter Size	Accounts	Fire Demand Factor	Fire Demand Rate ²⁶
	A	B (Table 5-5)	C = \$0.110 x B
4"	28	38.32	\$4.22
6"	93	111.31	\$12.24
8"	46	237.21	\$26.07
10"	4	426.58	\$46.88

Table 5-27: FY 2026 Proposed Private Fire Service Rates

Meter Size	Accounts	Fire Demand	Service & Capacity	Proposed Rates	Current Rates	\$ Change	% Change
	A	B (Table 5-26)	C (Table 5-15)	D = B + C	E	F = D - E	G = F / E
4"	28	\$4.22	\$15.60	\$19.82	\$17.93	\$1.89	10.5%
6"	93	\$12.24	\$15.60	\$27.84	\$25.76	\$2.08	8.1%
8"	46	\$26.07	\$15.60	\$41.67	\$39.25	\$2.42	6.2%
10"	4	\$46.88	\$15.60	\$62.48	\$59.55	\$2.93	4.9%

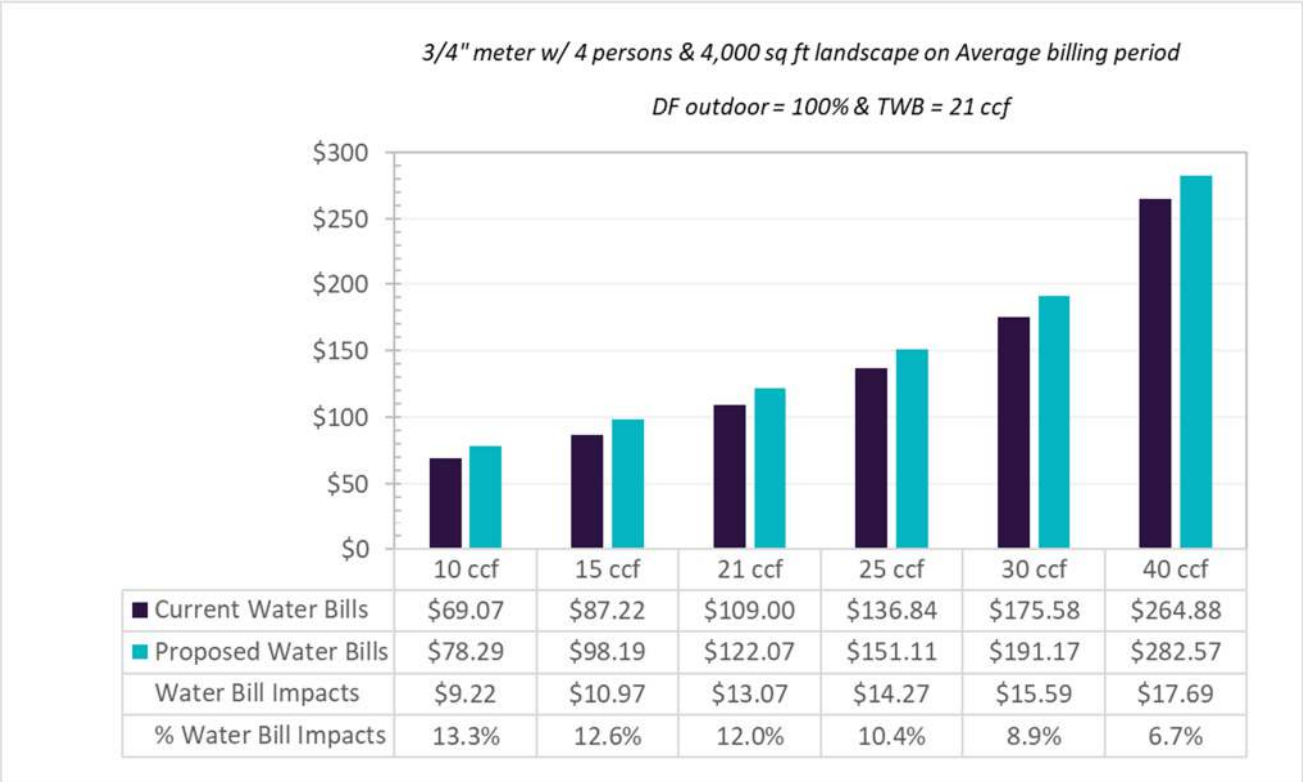
²⁶ Rounded to the nearest cent

6. Customer Impact Analysis

6.1.1.FY 2025 CURRENT RATES TO FY 2026 RATES

Figure 6-1 shows a breakdown of water bills at various water usage levels for a single-family residential user with four occupants and a 4,000 sq. ft. landscape area serviced by a 3/4-in meter at current water rates compared to proposed FY 2026 rates. The water bill increase would range from \$9.22 to \$17.69 per month, depending on the monthly billed water usage. The bill impacts shown are from changes in water service and capital charges.

Figure 6-1: SFR Total Monthly Bills at Different Usage Levels at Current and Proposed FY 2026 Rates



7. Recycled Water Revenue Requirements and Proposed Rates

7.1. Recycled Water System

In FY 2015, the District completed the expansion of its recycled water system, including water recycling plant (WRP) upgrades to tertiary treatment processes and recycled water distribution system pipeline expansion. In FY 2019, the District completed the Phase II expansion of the Recycled Water Distribution System. With the Recycled Water Expansion Project's completion, all recycled water customers (existing and converted customers) are now supplied with high quality tertiary recycled water. The following sources financed the recycled water expansion capital cost for both phases: State Revolving Fund (SRF) Loan, grants, and the restricted reserve (revenues from Tier 3 and Tier 4 potable usage dedicated to recycled water expansion) and recycled water charges from recycled water customers.

7.2. Projected Recycled Water Sales

The District has completed the Phase II Recycled Water Retrofit Project and anticipates serving 276 Recycled Water accounts in FY 2026. The projected recycled water sales for FY 2026 are estimated at 1,150 AF.

7.3. Revenue Requirement and Proposed Rates

In FY 2015, the District began separating recycled water costs into an independent Recycled Water Enterprise Fund. Table 7-1 summarizes the recycled water revenue requirements from rates for FY 2026. Recycled water O&M expenses and supply (Line 1) and Other Revenue Requirements (Line 6) will be partially offset by restricted reserve funding (Line 8), capital charges (Line 9), MWD LRP Rebates (Line 10), and several other sources of revenues (Lines 11, 12, 13). The remaining revenue requirement to be recovered from recycled water rates is shown in Line 16. The line items shown below are further detailed in Appendix 3 – Cash Flow Analysis for Recycled Water Funds, developed by District Staff and provided to Raftelis as the basis for the cost of service analysis.

Recycled water is supplemented with potable water when adequate recycled water is insufficient to meet demand. Therefore, the meter service charges and capital facility charges for potable and recycled water are the same.

Table 7-1: Recycled Water Revenue Requirement from Rates

Line No	Recycled Water Rev Requirements	FY 2026	Note
1	Recycled Water O&M Expenses	\$2,162,858	Appendix 3
2	Plus (+) Other Revenue Requirements		
3	Cash Outlays	\$148,000	
4	Implementation Adjustment	\$21,028	
5	Debt Service	\$2,079,500	
6	Subtotal Plus (+) Other Revenue Requirement	\$2,248,528	
7	Less (-) Other Revenues		
8	Restricted Reserves Funding of Debt Service	-\$803,607	Appendix 3
9	Recycled Water Meter Capital Charge Funding of Debt	-\$274,246	Appendix 3
10	MWD Rebates	-\$264,825	Appendix 3
11	MNWD Payment for RW Service to Golf Course	-\$11,000	Appendix 3
12	Restricted Reserve Revenue	-\$623,539	Appendix 3
13	Property Taxes	-\$104,000	Appendix 3
14	Subtotal Less (-) Other Revenues	-\$2,081,217	
15	Less (-) Operating Reserve Funding	\$9,114	
16	Total Revenue Requirements from Recycled Water Rates	\$2,321,056	

All recycled water customers connected to the recycled water distribution system will be assessed the same Monthly Service Charges (Table 7-2) and Capital Facility Charges (Table 7-3) as potable customers to recover the customer service, meter service, a portion of capacity, and other recycled water related fixed costs and to pay for capital improvements to the expanded recycled water system. Recycled water customers benefit from supplemental potable water, and therefore the meter service and capital facility charges are equivalent to potable water.

Table 7-2: FY 2026 Proposed Monthly Service Charges

Meter Size	# of RW accounts	FY 2026 Proposed	FY 2025 Current	\$ Change	% Change
5/8"		\$21.18	\$18.77	\$2.41	12.8%
3/4"		\$28.98	\$25.68	\$3.30	12.9%
1"		\$44.58	\$39.50	\$5.08	12.9%
1-1/2"	28	\$83.57	\$74.05	\$9.52	12.9%
2"	247	\$161.55	\$143.13	\$18.42	12.9%
10"	1	\$1,595.00	\$1,413.04	\$181.96	12.7%
Total Service Charge Revenue	276	\$526,054	\$466,075		

The District is retaining the previously approved Capital Facilities Charges that are published in the 2023 Proposition 218 Notice. Table 7-3 shows the published monthly capital charges for FY 2026, effective July 1, 2025.

Table 7-3: FY 2026 Published RW Capital Facility Charges

Meter Size	Proposed FY 2026	Current FY 2025	\$ Change	% Change
5/8"	\$8.69	\$6.95	\$1.74	25.0%
3/4"	\$13.02	\$10.42	\$2.60	25.0%
1"	\$21.69	\$17.35	\$4.34	25.0%
1-1/2"	\$43.38	\$34.70	\$8.68	25.0%
2"	\$86.75	\$69.40	\$17.35	25.0%
10"	\$1,000.00	\$800.00	\$200.00	25.0%

Table 7-4 derives the revenue required from the recycled water commodity rate (Line 3) by subtracting the Monthly Service Charge Revenue (Line 2) shown in Table 7-2 from the Total Revenue Requirements (Line 1). The unit recycled water commodity rate is calculated using the net revenue requirements from recycled water commodity rates (Line 3) divided by projected recycled water sales (Line 4). The recycled water commodity rate for FY 2026 is \$3.59 / ccf or \$1,564 / AF, which is 90% of the Tier 2 potable water commodity rate for FY 2026 and provides an economic incentive for irrigation customers to convert to recycled water.

Table 7-4: FY 2026 Recycled Water Commodity Rate Calculation

Line No.	Description	FY 2026
1	Total Revenue Requirements from Recycled Water Rates	\$2,321,056
2	Less (-) Monthly Service Charges (Table 7-2)	-\$526,054
3	Net Revenue Requirements from Recycled Water Usage Rate	\$1,795,002
4	Projected Recycled Water Sales (ccf)	500,940
5	Unit Recycled Water Usage Rate (\$/ccf)	\$3.59
6	Unit Recycled Water Usage Rate (\$/AF)	\$1,563.80
7	% of Tier 2 Potable Rate	90.2%

APPENDICES

APPENDIX 1: PASS-THROUGH WATER SUPPLY COST

		2024/25 Budget		2025/26 Budget	
		Jul 2024	Jan 2025	Jul 2025	Jan 2026
1	Total Period Demand (AF)	4,000	3,000	3,870	3,130
2	Total Annual Demand (AF)		7,000		7,000
3	MWD Period Demand (AF)	2,225	1,225	2,095	1,355
4	MWD Annual Demand (AF)		3,450		3,450
5	MWD Untreated Commodity Rates				
6	System Access Rate	389.00	463.00	463.00	492.00
7	System Power Rate	182.00	159.00	159.00	179.00
8	MWD Tier 1 Rate	332.00	290.00	290.00	313.00
9	Subtotal Untreated Full Service	903.00	912.00	912.00	984.00
10	Treatment Surcharge	353.00	483.00	483.00	544.00
11	Total Treated Full Service Rate	1,256.00	1,395.00	1,395.00	1,528.00
12	Total Treated Full Service Annual Cost	2,794,600	1,708,875	2,922,525	2,070,440
13	MWD Fixed Charges				
14	Capacity Reservation Charge	73,391	86,970	91,404	101,951
15	Readiness To Serve Charge	390,157	389,650	407,731	425,188
16	Total MWD Fixed Charges		940,169		1,026,274
17	Total MWD Cost		5,443,644		6,019,239
18	Total MWD Unit Cost (\$/AF)		1,578		1,745
19	Baker Water Treatment Plant				
20	Period Demand MWDOC (AF)	1,525	1,525	1,775	1,775
21	Period Demand Irvine Lake (AF)	250	250		
22	Annual Demand (AF)		3,550		3,550
23	Baker Raw Water Cost	1,580,250	1,596,000	1,618,800	1,746,600
24	Baker O&M Unit Cost (per AF)	297	297	330	330
25	Baker O&M Annual Cost	527,175	527,175	585,750	585,750
26	Total Period Baker Water Treatment Plant Cost	2,107,425	2,123,175	2,204,550	2,332,350
27	Total Annual Baker Water Treatment Plant Cost		4,230,600		4,536,900
28	Baker Water Treatment Plant Unit Cost(\$/AF)		1,192		1,278
29	Regional Pipeline Operations & Maintenance				
30	SCP Surcharge	8.38	8.38	8.38	8.38
31	SAC Surcharge	1.12	1.12	1.15	1.15
32	SCWD/JRWSS Operations & Maintenance		8,000		8,000
33	Total Regional Pipeline Operations & Maintenance	16,863	24,863	16,916	24,916
34	Total Purchased Water Cost				
35	MWD Treated Water Cost		5,443,644		6,019,239
36	Baker Raw Water Cost		3,176,250		3,365,400
37	Baker O&M Cost		1,054,350		1,171,500
38	Regional Pipeline O&M Cost		41,725		41,832
39	Total Purchased Water Cost		9,715,969		10,597,971
40	Percent Increase Budget to Budget per Unit		8.39%		9.08%
41	Overall Imported Water Effective Rate				
42	Fiscal Year Cost per Acre Foot Purchased		1,388		1,514
43	Fiscal Year Cost per CCF Purchased		3.1864		3.4757
44	Fiscal Year Rate per CCF Sold		3.33		3.66

APPENDIX 2: O&M EXPENSES ALLOCATIONS TO WATER, RECYCLED WATER AND WASTEWATER FUNDS FOR FY 2026

	FY 2026	Water	Sewer	Recycled Water	Total
Source of Supply	\$10,742,971	\$10,742,971	-	-	\$10,742,971
Water Storage Operations	\$269,625	\$269,625	-	-	\$269,625
Treatment - Water	-	-	-	-	-
Pumping - Water	\$483,940	\$483,940	-	-	\$483,940
T&D - Water	\$616,875	\$616,875	-	-	\$616,875
Customer Accounts	-	-	-	-	-
Pumping - Sewer	\$482,460	-	\$482,460	-	\$482,460
Treatment Plant	\$2,839,163	-	\$2,839,163	-	\$2,839,163
Outside Treatment	-	-	-	-	-
Collections - Sewer	\$238,450	-	\$238,450	-	\$238,450
Tertiary Plant	\$585,508	-	-	\$585,508	\$585,508
T&D - Recycled	\$25,800	-	-	\$25,800	\$25,800
Operations Support	\$241,663	\$96,665	\$125,665	\$19,333	\$241,663
Fleet	\$406,660	\$162,664	\$211,463	\$32,533	\$406,660
Indirect Operating Costs	\$99,461	\$66,624	\$29,112	\$3,725	\$99,461
Administration	-	-	-	-	-
Information Technology	\$611,220	\$244,488	\$317,834	\$48,898	\$611,220
Indirect Administration Costs	\$1,944,515	\$777,806	\$1,011,148	\$155,561	\$1,944,515
Depreciation & Amortization	\$5,140,000	\$2,056,000	\$2,672,800	\$411,200	\$5,140,000
Interest Costs	\$2,006,336	\$950,400	\$361,600	\$694,336	\$2,006,336
Labor Costs	\$10,924,800	\$4,136,100	\$5,497,200	\$1,291,500	\$10,924,800
Total	\$37,659,446	\$20,604,158	\$13,786,895	\$3,268,394	\$37,659,446
Total Expenses (Less Depreciation & Interest)	\$30,513,110	\$17,597,758	\$10,752,495	\$2,162,858	\$30,513,110

APPENDIX 3: CASH FLOW ANALYSIS FOR WATER AND RW FUND

Water Cash Flow			FY 2026
BEGINNING RESERVE BALANCES			\$12,716,535
OPERATIONS & MAINTENANCE CASH FLOW			
O&M REVENUES			
Revenues under current rates			
Fixed Service Charges			\$1,513,643
Fire Service Charges / Flood Meters			\$16,280,895
Unrestricted Commodity Rates			\$14,757,869
Additional Fixed Revenue Required			\$617,934
Fiscal Year	Adjustments	Effective Months	
FY 2026	12.65%	12	\$617,934
MWD Pass-through Rev Projections			
FY 2026			\$955,924
Total Unrestricted Water Service Rate Revenue			\$16,331,728
Other Sources of Cash			
Funding from Restricted Reserve for Conservation Program			\$200,000
Property Taxes - General Fund Revenue			\$303,944
Property Taxes (Funds Tier 1 Offset)			\$216,056
Operating Grants & Reimbursements			\$0
Miscellaneous Revenue			\$31,000
Cellular Site Lease Revenue (Funds Tier 1 Offset)			\$280,000
Other Non-operating Revenue			\$8,000
Other Income (R-6 Partners)			\$125,000
Investment Income			\$350,000
Subtotal Other Sources of Cash			\$1,514,000
<i>Source: 2025-26 Budget Cash Flow - Processed.xlsx, WS CF</i>			
TOTAL O&M REVENUES (Unrestricted)			\$17,845,728
O&M REVENUE REQUIREMENTS			
Water Purchased Costs			\$10,597,971
Other Operating Expenses			\$6,999,988
Subtotal Other Sources of Cash			\$17,597,959
TOTAL O&M REVENUE REQUIREMENTS			\$17,597,959
OTHER REV REQUIREMENTS			
Restricted Reserves Funding of Conservation Program			\$200,000
Restricted Reserves Funding of RW Conversion Program			\$623,438
Total Transfer to Restricted Reserves			-\$823,438
ANNUAL O&M SURPLUS (DEFICIT)			\$247,769

Recycled Water Cash Flow			FY 2026
BEGINNING RESERVE BALANCES			\$0
OPERATIONS & MAINTENANCE CASH FLOW			
O&M REVENUES			
Revenues under current rates			\$2,099,406
Fixed Service Charges			\$462,835
Commodity Rates			\$1,636,571
Additional Fixed Service Revenue Required			\$58,549
Fiscal Year	Adjustments	Effective Months	
FY 2026	12.65%	12	\$58,549
FY 2027	5.00%	12	
FY 2028	5.00%	12	
FY 2029	5.00%	12	
FY 2030	5.50%	12	
FY 2031	5.50%	12	
FY 2032	5.50%	12	
FY 2033	5.50%	12	
FY 2034	5.50%	12	
RW Commodity Increase Required			\$160,301
Year	Rate Action		
FY 2026	RW Commodity Increase		\$160,301
FY 2027	RW Commodity Increase		
FY 2028	RW Commodity Increase		
FY 2029	RW Commodity Increase		
FY 2030	RW Commodity Increase		
FY 2031	RW Commodity Increase		
FY 2032	RW Commodity Increase		
FY 2033	RW Commodity Increase		
FY 2034	RW Commodity Increase		
Total Unrestricted RW Service Rate Revenue			\$2,318,255
Other Sources of Cash			
Restricted Reserves Funding of Debt Service			\$803,607
Recycled Water Meter Capital Charge Funding of Debt Service			\$274,246
MWD LRP Rebate			\$264,825
MNWD Payment for RW Service to Golf Course			\$11,000
Misc. Income			\$623,539
Property Taxes			\$104,000
Subtotal Other Sources of Cash			\$2,081,217
TOTAL O&M REVENUES (Unrestricted)			\$4,399,472
O&M REVENUE REQUIREMENTS			
General & Administrative			
Operations & Maintenance			\$2,162,858
Other Operating Expenses (Cash Outlays)			\$148,000
Subtotal O&M			\$2,310,858
OPEB (115 Trust)			
DEBT SERVICE			
Recycled Phase I			
Recycled Phase II - SRF			
2022 Refunded SRF Bonds			\$2,079,500
2022 Project Financing Bonds			
Subtotal Debt Service			\$2,079,500
TOTAL O&M REVENUE REQUIREMENTS			\$4,390,358
ANNUAL O&M SURPLUS (DEFICIT)			\$9,114
TOTAL ANNUAL RESERVE IMPACT			\$9,114