

# **Ratepayer Advocate Report**

**Review of 2025 Retail Water Rate Cost  
Analysis and Rate Design**

**November 25, 2024**





# **SANTA CLARITA VALLEY WATER AGENCY**

## **Ratepayer Advocate Report**

Prepared for:

Santa Clarita Valley Water Agency  
Board of Directors  
27234 Bouquet Canyon Road  
Santa Clarita, CA 91350  
(661) 297-1600

Prepared by:

**RATEPAYER ADVOCATE**  
ROBERT D. NIEHAUS, INC.  
140 East Carrillo Street  
Santa Barbara, CA 93101  
(805) 962-0611

RDN Project Number 368



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# EXECUTIVE SUMMARY

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## Study Objective

The purpose of this study is to review the proposed revenue adjustments and rates; and ensure that they align with standard rate design practice and that they represent the best possible rates for customers served by Santa Clarita Valley Water Agency (SCV Water). SCV Water was created to improve water system efficiency in the Santa Clarita Valley through the merger of three smaller water agencies which are now known as divisions; Newhall Water Division (NWD), Santa Clarita Water Division (SCWD), and Valencia Water Division (VWD). The Board of Directors retained the Ratepayer Advocate to represent SCV Water customer interests in the rate design process, and to ensure that customers have a qualified and objective voice in how their proposed revenue adjustments are determined, and rates are calculated.

According to the American Water Works Association's Manual 1 (AWWA M1), water rates should:

- **Ensure Revenue Sufficiency:** Rates should recover the annual cost of service and provide revenue stability,
- **Minimize Rate Impact:** While rates are calculated to generate sufficient revenue to cover operating and capital costs, they should be designed to minimize the impacts on customers,
- **Be Equitable:** Rates should be fairly allocated among all customers based on their estimated demand characteristics, and
- **Be Practical:** Rates should be simple in form; therefore, adaptable to changing conditions, easy to administer, and easy to understand for customers.

## Summary of Recommendations

The primary objectives of this review are to determine if the proposed rate adjustments are supported by appropriate plans, regulatory requirements and policy objectives, and that the associated revenue requirements are appropriately allocated among the Agency's customers commensurate with their service requirements while maintaining customer affordability.

### Review of Current Rates

Currently, all customers have the same rate structure based on their meter size and total water use. The Ratepayer Advocate agrees that the Agency maintains this rate structure for fairness and transparency. Proposed rates should recover costs commensurate with service requirements.

### Key Assumptions

The Ratepayer Advocate proposed a data-driven approach to customer growth forecasts which leverage historical growth rates, derived from historical billing records, by division and meter sizes to forecast account growth for the Agency. SCV Water chose to proceed with the growth rates defined by the Ratepayer Advocate. SCV Water staff directed the Ratepayer Advocate to utilize customer water use during FY 2023-24 as a basis to project water demand over the five-year study period. The Ratepayer Advocate found this forecasting approach to be reasonable as FY 2023-24 represents a near normal year as usage trends. The Ratepayer Advocate calculated the total use for each meter size in all three divisions during FY 2023-24. Total use was divided by the corresponding



number of accounts to derive per account usage. The per account usage values were multiplied by the number of forecasted accounts in each year to generate the Agency's usage projections for the study period.

The Ratepayer Advocate supported Agency staff in determining escalation factors for operating and maintenance expense which are reasonable and based on the best available data. Sources include US Bureau of Labor Statistics indices, and Engineering News-Record's Building Cost Index, among others. Agency specific revenues and expenses are escalated using its historical change found in its financial records. The Ratepayer Advocate confirmed the projections and agreed that they represent industry standard categories. The Ratepayer Advocate recommends updating these escalation factors periodically as they fluctuate year-over-year.

### **Financial Planning/Revenue Requirements**

O&M expense, CIP expense, and debt service payments were forecasted over the five-year rate setting period using escalation factors, and other operating revenue and non-operating revenue were used to offset the total cost to determine "rate revenue requirements" (revenue needed to be generated from customer rates) for each year of the study period. The Agency's current cost breakdown between fixed and variable costs are approximately 77 percent and 23 percent, respectively.

To achieve the Agency's financial goals of maintaining the aggressive CIP schedule, debt service coverage, and reserve levels, the Ratepayer Advocate recommends revenue adjustments of 9.5 percent for the first and second years and a 9.0 percent annual adjustment for the subsequent three years. The Board of Directors selected this financial option on November 19th, 2024, and new proposed rates created based on this plan will be proposed to customers via Proposition 218 notices.

### **Cost of Service Analysis**

The Ratepayer Advocate reviewed the Agency's COS analysis to ensure that costs were allocated among customers commensurate with their service requirements. SCV Water selected the "base-extra capacity" cost-of-service method promulgated in AWWA's M1 to allocate costs to individual functions, which are typical industry standard activities, then the costs of each function were distributed to appropriate cost causative components, which are defined by the cost driving elements. The Ratepayer Advocate determined that the results of the COS form a reasonable and equitable basis for designing rates. The remaining share of approximately one percent should be recovered from public fire protection service accounts. Recycled water service costs were computed separately from the potable water cost of services.

### **Rate Setting**

The Ratepayer Advocate conducted an extensive review of proposed rates and validated that the rates meet all conditions set forth by the AWWA M1. Legacy Debt obligations and revenues collected to pay for the debt were excluded from the rate calculation and treated as direct pass-through charges for SCWD and VWD. The proposed rates will collect 66 percent of revenue from variable charge and 34 percent from fixed monthly service charges.

### **Bill Impacts**

The Ratepayer Advocate reviewed the affordability analysis completed by the Agency and found that its findings were robust. Under the proposed revenue adjustments, a low-income customer who uses the average amount of water bill will remain under the Environmental Protection Agency's (EPA) goal of 2.5 percent of their gross income for water service. Low income is defined by the State of California's income eligibility for the California Alternate Rates for Energy (CARE) Program. In the fifth year, the average customer's annual bill is approximately 1.44 percent of the low income, and just over 1.55 percent if legacy debt is included.

## Recommendations for Future Improvements

While the proposed rates adhere to all California law and represent the lowest impact on current customers, future rate studies can implement additional improvements to the overall rate structure and process. Outlined below are the improvements recommended by the Ratepayer Advocate.

- **Consider a Water Budget Rate Structure:**

The State is increasingly advocating for a Water Budget Rate Structures, recognizing their potential to promote water conservation and fairness in billing. This structure is based on individual water needs, considering factors such as household size, property size, and landscaping requirements, rather than relying solely on consumption. By considering these specific needs, the structure encourages more efficient water use, providing an equitable approach to rate-setting that ensures customers are billed based on their unique circumstances. This rate structure also promotes revenue stability as customers adjust to using their allocated water amount. By learning to manage their consumption within these parameters, the Agency can benefit from increased predictability in water usage, allowing for more accurate forecasting of future water demand. This, in turn, helps the Agency set more precise revenue requirements in future rate studies.

- **Conduct a Risk Assessment Study:**

The proposed financial plan relies on drawing significant funds from the Agency's reserve balances to mitigate the need for rate increases. To address this concern, RDN recommends that the Agency conduct a comprehensive risk assessment, incorporating a historical review of emergencies, unanticipated expenses, and an evaluation of the current system's condition. This assessment will offer valuable insights into the state of the Agency's infrastructure and help the board assess financial risk in the coming years. By understanding potential risks and vulnerabilities, the Agency will be better positioned to manage emergency situations without compromising financial stability. Additionally, the findings from this assessment will provide the data needed to establish reserve target levels in a more informed, data-driven manner, ensuring that the Agency maintains a healthy financial position while safeguarding service reliability.

- **Perform a Cost of Service Analysis for Recycled Water Customers:**

As the recycled water system continues to expand, a cost-of-service analysis specifically for the recycled water system is important. The agency is investing substantial resources into building the system, and a formal study will help determine the actual costs associated with recycled water production and distribution. A cost-of-service analysis will also enable the Agency to set appropriate rates for recycled water customers, promoting transparency in how those services are funded. Furthermore, understanding these costs will inform future investment decisions and help the Agency allocate resources effectively, ensuring that the expansion of recycled water service remains financially viable and aligned with broader sustainability goals.

# 1. INTRODUCTION

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## Agency Overview

SCV Water was formed in January 2018 through a merger, by an act of the State Legislature Senate Bill (SB) 634, converging three agencies, Newhall County Water District (NCWD), Santa Clarita Water District (SCWD), and Valencia Water Company (VWC). These are now referred to as divisions, representing their respective service areas while retaining their original names. The Agency serves a population of approximately 223,794 through 74,500 water service connections in the Santa Clarita Valley, with a service area spanning over 195 square miles.

The Agency's water supply comes from two sources: local groundwater pumped from the Alluvium Aquifer and the Saugus Formation and State Water Project water imported from Northern California. The Agency is proposing to expand the use of recycled water to offset future potable water demand. The Agency assumes water demand over the next five years which will range between 47,049 Acre Feet per Year (AFY) and 49,628 AFY for this study.

## Legal Framework

Article XIII C (Proposition 26), Article XIII D, Section 6 (Proposition 218) and Article X, Section 2 of the California Constitution govern the principles applicable to this rate study. Additionally, SCV Water must abide by SB-634 as a condition of its creation.

### California Constitution-Article XIII C (Proposition 26)

The application of Proposition 26 in the structuring of water rates is presently undetermined. The San Juan decision briefly touched upon one aspect of the Article XIII C provisions enacted by Proposition 26, finding that tiered water charges would not appropriately be characterized as penalties. Other aspects of the application of Proposition 26 to tiered rate structures may be addressed in future judicial decisions and legislative enactments.

The voters in the State approved Proposition 26 on November 2, 2010. Proposition 26 amended Article XIII C of the State Constitution to expand the definition of "tax" to include "any levy, charge, or exaction of any kind imposed by a local government" with listed exceptions. By means of these exceptions, Article XIII C classifies several types of charges, in addition to property-related charges, that are not taxes, such as charges for specific services or benefits, regulatory charges and penalties.

Article XIII C's definition of "tax" lists the following exceptions: (1) a charge imposed for a specific benefit conferred or privilege granted directly to the payer that is not provided to those not charged, and which does not exceed the reasonable costs to the local government of conferring the benefit or granting the privilege; (2) a charge imposed for a specific government service or product provided directly to the payer that is not provided to those not charged, and which does not exceed the reasonable costs to the local government of providing the service or product; (3) a charge imposed for the reasonable regulatory costs to a local government for issuing licenses and permits, performing investigations, inspections, and audits, enforcing agricultural marketing orders, and the administrative enforcement and adjudication thereof; (4) a charge imposed for entrance to or use of local government property, or the purchase, rental, or lease of local government property; (5) a fine, penalty, or other monetary charge imposed by the judicial branch of government or a local government, as a result of a violation of law; (6) a charge imposed as a condition of property development; and (7) assessments and property-related fees imposed in accordance with the provisions of Article XIII D.

Proposition 26 also provides that the local government bears the burden of proving by a preponderance of the evidence that a levy, charge, or other exaction is not a tax, that the amount is no more than necessary to cover the reasonable costs of the governmental activity, and that the manner in which those costs are allocated to a payer bear a fair or reasonable relationship to the payer's burdens on, or benefits received from, the governmental activity. Like the proportionality requirements of Article XIII D, assessment of rates under these requirements, if applicable, would be supported by the cost of service approach.

### California Constitution-Article XIII D, Section 6 (Proposition 218)

In November 1996, California voters passed Proposition 218, the "Right to Vote on Taxes Act." This constitutional amendment protects taxpayers by limiting the methods by which local governments can create or increase taxes, fees and charges without taxpayer consent. Between 2002 and 2017, California courts have ruled that fees associated with providing water services are "property-related" and thus under the jurisdiction of Prop 218. The principal requirements for fairness of the fees, as they relate to public water service, are as follows:

1. Revenues derived from the fee or charge shall not exceed the funds required to provide the property related service.
2. Revenues derived by the fee or charge shall not be used for any other purpose other than that for which the charge was imposed.
3. The amount of the fee or charge imposed upon any parcel shall not exceed the proportional cost of service attributable to the parcel.
4. Reliance by an agency on any parcel map, including, but not limited to, an assessor's parcel map, may be considered a significant factor in determining whether a fee or charge is imposed as an incident of property ownership for purposes of this article.

The rates developed in this Report use a methodology to establish an equitable system of charges that recover the cost of providing service and fairly apportion costs to each customer as required by Proposition 218.

### 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 efficiency which this Study achieves.

### Senate Bill-SB 634

Senate Bill 634 provided for the creation of SCV Water and an independent Ratepayers Advocate and was approved by the Governor of California October 15, 2017.

Section 2. The Santa Clarita Valley Water Agency is hereby created, organized, and incorporated. The agency shall be managed as expressly provided in this act and the agency may exercise the powers in this act that are expressly granted or necessarily implied. The agency may include contiguous or noncontiguous parcels of both unincorporated and incorporated territory and territory included in any public district having similar powers. As

used in this act and unless otherwise indicated by its context, “agency” means the Santa Clarita Valley Water Agency.

Sec. 2.5. The purpose of the agency is to unify and modernize water resource management within the Santa Clarita Valley through the efficient, sustainable, and affordable provision, sale, management, and delivery of surface water, groundwater, and recycled water for municipal, industrial, domestic, and other purposes at retail and wholesale within the territory of the agency and to do so in a manner that promotes the sustainable stewardship of natural resources in the Santa Clarita Valley.

Sec. 4.(h) The indebtedness of the Newhall County Water District and the Santa Clarita Water Division, a retail division of the Castaic Lake Water Agency, that exists as of December 31, 2017, including acquisition costs, tax obligations, and debt financing of capital improvement projects, shall be borne by retail divisions of the agency that correspond with the Newhall County Water District and Santa Clarita Water Division areas, respectively, and paid for from the revenues of the corresponding retail divisions. Any indebtedness incurred by the agency shall not be limited by this subdivision.

(l) The agency may treat the retail divisions as a single unit for purposes of operations and expenses to the extent that it is economically beneficial for the operations of the agency as a whole, but as long as any preexisting indebtedness of a retail division remains outstanding, that indebtedness shall continue to be allocated to that retail division and paid from that retail division’s rates and charges. When all such preexisting indebtedness has been retired, the agency shall dispense with the retail divisions for all purposes as soon as feasible.

Sec. 14(b) On or before January 1, 2019, the agency shall develop a rate setting process that includes an independent ratepayer advocate to advise the board of directors and provide information to the public before the adoption of new wholesale and retail water service rates and charges. The ratepayer advocate shall be selected by and report directly to the board of directors and shall be independent from agency staff. The ratepayer advocate shall advocate on behalf of customers within the agency’s boundaries to the board of directors. The ratepayer advocate shall have access to all pertinent agency documents and information to independently advise the board of directors and inform the public. The board of directors shall develop and adopt any necessary rules and procedures to further define the role of the ratepayer advocate. The board of directors shall not eliminate the ratepayer advocate role before January 1, 2023. On and after January 1, 2023, the board of directors may eliminate the ratepayer advocate role with an affirmative vote of four-fifths of its membership.

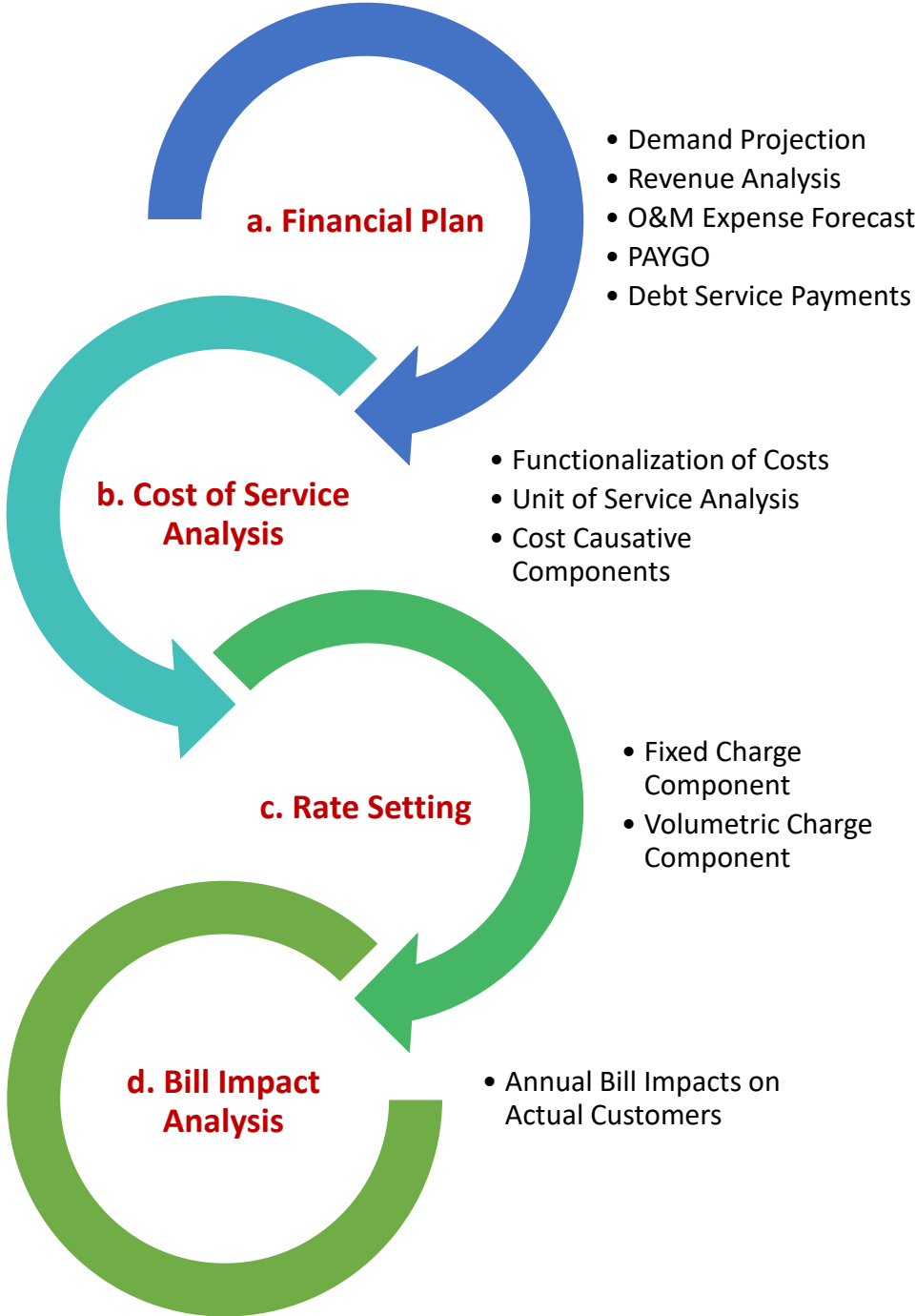
Sec. 21. The agency may impose and collect capacity charges and connection fees pursuant to Section 66013 of the Government Code.

## **Methodology**

SCV Water developed rates using principles set forth by the American Water Works Association (AWWA) Principles of Water Rates, Fees, and Charges - Manual of Water Supply Practices (M1). Cost of service principles endeavor to distribute costs to customers commensurate with the service requirements each place on the water system. SCV Water used the base-extra capacity method, described in the AWWA M1. This method conforms to Proposition 218 requirements and industry standards while meeting the other goals and objectives outlined in this report.

Figure 1 presents a typical process of multi-level analyses used to complete a rate study. Between each step outlined, the Ratepayer Advocate reviewed the work undertaken by SCV Water to ensure that the methods used properly accounted for customer concerns.

*Figure 1. Road Map of the Rate Study Process*



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## 2. REVIEW OF RATE STUDY

### Current Rates

SCV Water serves customers from three previously separate water agencies. Prior to the merger, each agency had separate administrative structures as well as financial plans and rates. Since 2021, customers of the three water agencies have been consolidated and costs to provide service have been spread amongst all customers. As a result, all customers are assessed the same fixed and variable charges. However, the SCWD and VWD rates include Legacy Debt payments per Senate Bill (SB) 634, that requires the payments to be collected from the retail divisions who owed the debt prior to the merger.

SCV Water’s current rates are shown in Table 1. Note that the fixed monthly service charges in Table 1 do not include Legacy Debt payments. SCWD and VWD Legacy Debt payments are shown in Table 2. Table 3 shows the fixed charges for customers with a private fire connection. The current rate schedule includes one more year of rate increases based on the 2021 Proposition 218 Hearing. All fixed charges are based on AWWA standard meter ratios, with larger meters paying a higher monthly fee based on their potential flow ratios. Recycled water customers pay a slightly lower variable charge for water use compared to potable water customers. The scheduled rate adjustment for FY 2026 is also shown and represents a 6.5 percent increase over the current fiscal year.

*Table 1. Current Rates*

Fixed Charges		
Meter Size	FY 2025 monthly	FY 2026 monthly
5/8"	\$16.47	\$17.54
3/4"	\$22.21	\$23.65
1"	\$33.67	\$35.86
1 1/2"	\$62.33	\$66.39
2"	\$96.73	\$103.02
2 1/2"	\$113.93	\$121.33
3"	\$176.99	\$188.49
4"	\$291.64	\$310.60
6"	\$578.27	\$615.86
8"	\$922.23	\$982.17
10"	\$1,323.51	\$1,409.54
12"	\$2,470.04	\$2,630.59
Potable Variable Charges		
Variable	FY 2025 per ccf	FY 2026 per ccf
All Use	\$2.52	\$2.68
Recycled Variable Charges		
Variable	FY 2025 per ccf	FY 2026 per ccf
All Use	\$2.02	\$2.14



**Table 2. Current Monthly Legacy Debt Charges by Division**

Legacy Debt Charges		
Meter Size	Santa Clarita Division	Valencia Water Division
5/8"	\$6.80	\$4.34
3/4"	\$10.20	\$6.50
1"	\$17.01	\$10.84
1 1/2"	\$34.02	\$21.68
2"	\$54.42	\$34.69
2 1/2"	\$64.63	\$41.20
3"	\$102.05	\$65.05
4"	\$170.08	\$108.41
6"	\$340.15	\$216.83
8"	\$544.24	\$346.92
10"	\$782.35	\$498.70
12"	\$1,462.65	\$932.36

**Table 3. Private Fire Charges**

Private Fire Fixed Charges		
Meter Size	FY 2025 monthly	FY 2026 monthly
3/4"	\$6.90	\$7.34
1"	\$7.60	\$8.10
1 1/2"	\$9.37	\$9.98
2"	\$11.49	\$12.24
2 1/2"	\$12.55	\$13.37
3"	\$16.44	\$17.51
4"	\$23.52	\$25.03
6"	\$41.20	\$43.87
8"	\$62.41	\$66.47
10"	\$87.17	\$92.83
12"	\$157.89	\$168.15
14"	\$232.15	\$247.24
16"	\$329.75	\$351.18
18"	\$523.89	\$557.94
20"	\$660.03	\$702.93

## Key Assumptions

FY 2026 was selected as the test year for which costs are to be analyzed and rates to be established for this study. The financial plan was built for the next ten years, FY 2026 through FY 2035 with a detailed revenue adjustment plan. The Agency’s fiscal year starts on July 1 and ends on June 30.

## Demand Projections

Accurately forecasting customer demand has key implications for revenue sufficiency. The Ratepayer Advocate reviewed SCV Water's internally created demand projections, and the projections developed for the previous study. RDN found that the previous study overestimated account growth and thus revenues for the study period when compared to the actual change since 2021. Analysis of the Agency's updated account growth forecasts was done utilizing historical and actual meter counts data from fiscal years 2021 through 2024. The forecasting approach for the meter counts was based on the division-specific trend while considering the predicted development by division and facility capacity meter estimates provided by the Engineering Services Section (ESS) and the timing of the new installations.

Regression modeling was used in the process to predict future values based on data categorized by division and meter size. Using historical information, the model was optimized and then adjusted to remain within reasonable ranges based on historical and future growth rates. The ultimate forecast dataset blends forecasts with historical data, providing accuracy for decision-making. The linear model was selected for its ability to interpret and simplicity. It estimates the relationship between the fiscal year (x) and the forecasted values (y). The formula for the model is:

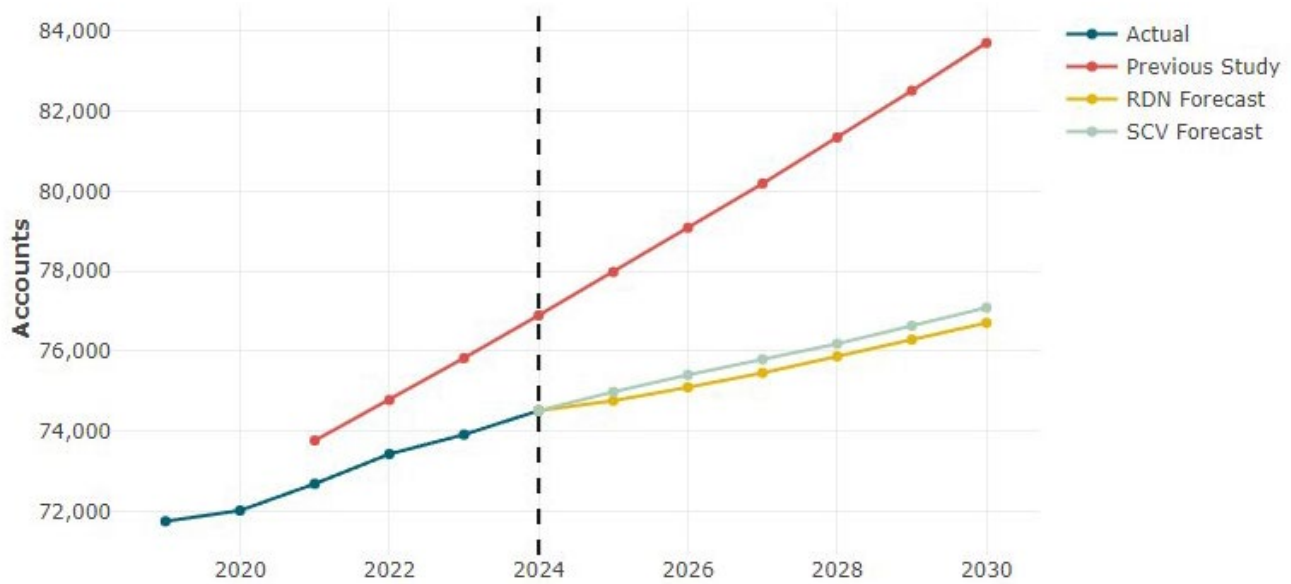
$$y = \beta_0 + \beta_1 \cdot x$$

Where:

- *y is the forecasted account value.*
- *x is the predictor variable (fiscal year).*
- *$\beta_0$  is the intercept.*
- *$\beta_1$  is the slope coefficient.*

Figure 2 shows a comparison of the account growth outputs for the previous rate study, SCV Water's initial forecast, and the forecast completed by the Ratepayer Advocate. Ultimately, staff agreed to implement RDN's growth projections, as the regression model outlined above was determined to represent the most reliable approach.

**Figure 2. Account Growth Projection Comparison**



In order to estimate demand, the Agency first determined the average consumption per meter size while accounting for both wet and dry years. The Agency also reviewed the State Water Resources Control Board's proposed rulemaking, which could be updated in the future to require an additional 15% or 20% reduction in consumption by 2040. The Agency has been monitoring water use to comply with the Water Conservation Act of 2009 (Senate Bill X7-7). According to the data, SCV Water customers have continued to meet their conservation goals after SB X7-7 went into effect. Since FY 2024 was a normal year that generally followed the pattern of dry to wet years, the Agency utilized that year's consumption data as an average to forecast the next five years consumption. The product of the average consumption per meter size and the anticipated meter counts, respectively, was then used to compute the expected consumption demand. Over the five year study period, SCV Water's forecasted increase in consumption was offset by the Agency's conservation goals. The Ratepayer Advocate found this forecasting approach to be reasonable. Figure 4 shows the projected water consumption for the rate-setting period based on the account growth and per account use projections described.

**Table 4. Consumption Forecast by SCV Water**

Consumption	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029	FY 2030
ccf	20,494,678	21,064,263	21,194,674	21,326,775	21,475,985	21,618,189

**Escalation Factors**

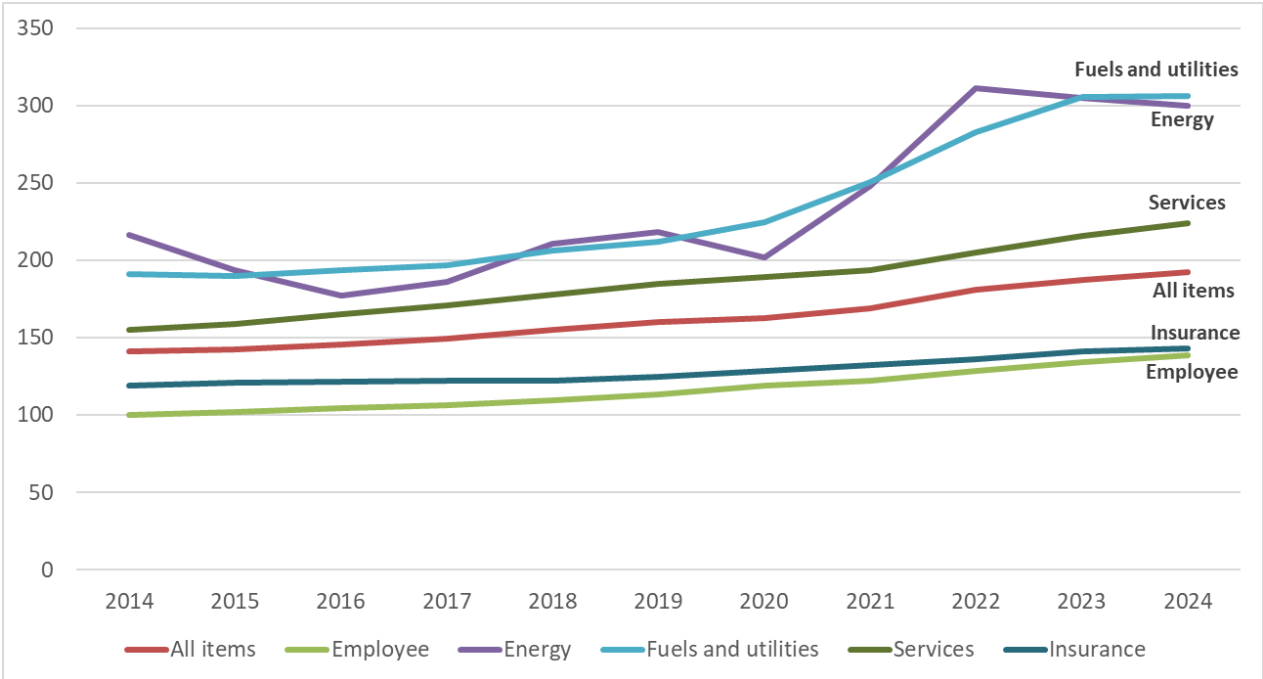
Costs were based on recent financial data and operating budgets. Projections were developed using escalation factors specific to each type of cost incurred. The Ratepayer Advocate supported Agency staff to find escalation factors which are reasonable and based on the best available data.

The Overall escalation factor is derived solely from the All Items series of the BLS Los Angeles-Long Beach-Anaheim CPI. The All Items series represents a broad measure of the average change in prices over time for a wide array of

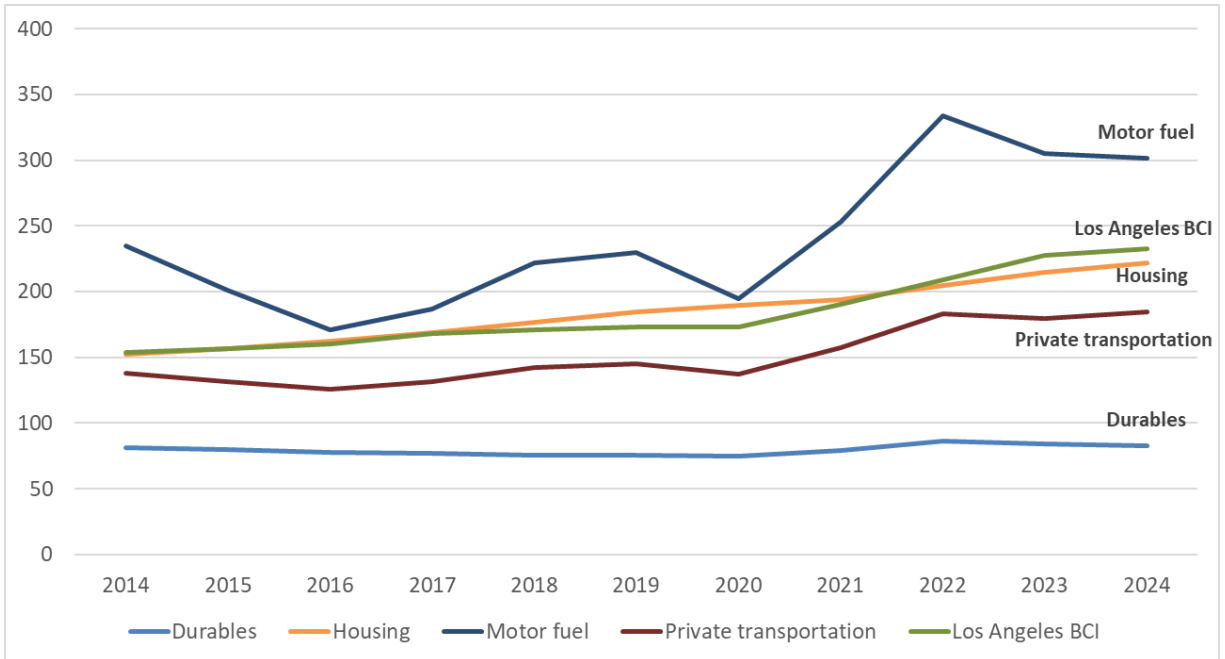
goods and services. The market basket includes categories such as food and beverage, housing, apparel, transportation, medical, and other goods and services. The Utilities escalation factor is derived from the Fuels and utilities and Energy series of the BLS Los Angeles-Long Beach-Anaheim CPI. RDN recommended a weighted average of the Energy and Fuels and utilities data sets to form a combined Utilities inflation factor. This escalation factor accurately captures the costs associated with energy consumption and utility service. The Employee escalation factor is derived from QCEW data on the average weekly wage for employees in the Water, Sewage and Other Systems industry group. The Equipment escalation factor is derived from the Durables, Private transportation, and Services series of the BLS Los Angeles-Long Beach-Anaheim CPI. RDN recommended staff take a weighted average of the Durables, Private transportation, and Services data sets to form a combined Equipment inflation factor. The Fuels and Automobile escalation factor is derived from the Private transportation, Fuels and utilities, and Motor fuel series of the BLS Los Angeles-Long Beach-Anaheim CPI. RDN recommended taking a weighted average of the Private transportation, Fuels and utilities, and Motor fuel data sets to form a combined Fuels and Automobile inflation factor. The Construction escalation factor is derived using ENR’s BCI for the selected geography. ENR publishes a building cost index for Los Angeles, San Francisco, California, and the National level. RDN analyzed all four indices and, in coordination with staff, ultimately selected the index which best represents the building cost environment in the Agency. The Housing escalation factor is derived solely from the Housing series of the BLS Los Angeles-Long Beach-Anaheim CPI. This series includes various subcategories that cover shelter, fuel and utilities, and household operations. The Insurance escalation factor is derived solely from the Federal Reserve Bank of St. Louis’ Producer Price Index for Premiums for Commercial Insurance. This index tracks the insurance costs for both liability and property coverage for businesses in the United States.

Table 5 and Table 6 display historical index values gathered from the sources listed above. These indices form the basis of the escalation factor derivation.

**Table 5. Los Angeles-Long Beach-Anaheim Consumer Price Index for Selected Series**



**Table 6. Los Angeles-Long Beach-Anaheim Consumer Price Index for Selected Series**



For each factor, RDN derives the one-year, two-year, three-year, five-year, ten-year, and twenty-year average annual changes. Subsequently, RDN assigns one of these values to each factor for every year of the study, representing the anticipated annual inflation for each expense category. The eight variables for which escalation factors are derived represent seven different expense categories. Expense categories are escalated differently because inflationary trends differ greatly depending on the nature of the expense. The following section lists the seven escalation categories and provides the type of costs included in each category:

- **Overall** – includes general, everyday expenses such as postage, supplies, and travel.
- **Utilities** – includes gas, electricity, water, and other utility costs.
- **Employee** – includes payroll-related expenses, such as regular and overtime pay.
- **Equipment** – includes hardware, machinery, and raw materials.
- **Fuels and Automobile** – includes motor fuel costs and fleet vehicle expenses.
- **Housing** – includes property tax and rental expenses.
- **Construction** – includes most capital improvement costs and any regular structural maintenance.
- **Insurance** – includes commercial insurance costs

Table 7 shows the escalation factors calculated for SCV Water with RDN’s assistance.

**Table 7. Escalation Factors Based on RDN Calculations**

Expense Category	One Year	Two Year	Three Year	Five Year	Ten Year	Twenty
Utilities	-0.58%	1.71%	6.76%	7.19%	4.22%	4.58%
Overall	2.68%	3.08%	4.52%	3.79%	3.14%	2.72%
Employee	3.32%	3.92%	4.34%	4.08%	3.32%	3.32%
Equipment	0.44%	-0.14%	2.96%	2.88%	1.47%	0.94%
Fuels & Automobile	1.47%	1.00%	6.00%	5.79%	3.48%	3.46%
California BCI	2.38%	5.26%	8.00%	7.27%	4.97%	4.09%
Los Angeles BCI	2.34%	5.51%	6.94%	6.07%	4.22%	3.69%
San Francisco BCI	2.42%	5.06%	8.88%	8.29%	5.62%	4.44%
National BCI	2.09%	3.21%	6.28%	6.23%	4.42%	3.74%
Housing	3.29%	4.10%	4.60%	3.74%	3.83%	3.23%
Insurance	1.20%	2.61%	2.63%	2.79%	1.84%	1.29%

**Escalation Factor Calculation**

All data series include annual index values spanning from 2004 to the present year, 2024, with the annual 2024 value calculated based on available monthly data through May 2024. To calculate the factor, we first determine the annual percentage change between each consecutive year. Next, RDN analyzes short, medium, and long-term trends within all series: short-term trends are represented by the one and two-year average annual rates, medium-term trends by the three and five-year average annual rates, and long-term trends by the ten and twenty-year average annual rates. Table 8 displays the escalation factors used to project expenses through the rate setting period.

**Table 8. 2025 Rate Study Escalation Factors**

Expense Escalation Factors	FY 2026	FY 2027	FY 2028	FY 2029	FY 2030
Overall Inflation Rate:	3.8%	3.8%	3.1%	3.1%	2.7%
Utility/Chemical Inflation Rate:	6.8%	4.2%	4.2%	4.2%	4.2%
Treatment Inflation Rate:	5.0%	5.0%	5.0%	5.0%	5.0%
Pumping and Wells Inflation Rate	5.0%	5.0%	5.0%	5.0%	5.0%
Employee Expenses Inflation Rate:	7.0%	7.0%	7.0%	4.0%	4.0%
Equipment Inflation Rate:	2.9%	2.9%	1.5%	1.5%	1.5%
Fuels and Automobile Inflation Rate:	5.8%	5.8%	3.5%	3.5%	3.5%
Construction Inflation Rate:	6.1%	6.1%	6.1%	6.1%	6.1%
Insurance Inflation (non-employee related)	10.0%	10.0%	10.0%	10.0%	10.0%
CIP Allocation	2.0%	2.0%	2.0%	2.0%	2.0%
Misc. Inflation Rate	1.0%	1.0%	1.0%	1.0%	1.0%
Salaries and Benefits	4.1%	3.3%	3.3%	3.3%	3.3%

**Equivalent Meter Size**

When designing a fixed monthly service charge, the potential demand or capacity requirements placed on the water system can be measured by the size of installed meters to receive services from the system. The safe operating flow (or capacity) of a particular size of meter is essentially the limiting factor in terms of the demand

that can be exerted on the water system through the meter. The ratio of the safe operating capacity of various sizes of meters relative to the capacity of a base meter may be used to determine appropriate charges for the larger meter sizes. Table 9 shows the equivalent meter ratios and capacity for each size meter used in the rate study. The equivalent meter ratios for retail water customers are based on the total flow in gallons per minute which can flow through the meter. Fire ratios for connections greater than 1 inch are calculated based on AWWA's practice of estimating the relative flow through pressure conduits as the diameter of the connection raised to power of 2.63.

**Table 9. AWWA Equivalent Meter Ratios**

Equivalent Meter Ratio		
Meter Size	Retail	Fire
5/8"	0.67	1.00
3/4"	1.00	1.00
1"	1.67	1.00
1 1/2"	3.33	2.90
2"	5.33	6.19
2 1/2"	6.33	17.98
3"	10.00	38.32
4"	16.67	111.31
6"	33.33	237.21
8"	53.33	426.58
10"	76.67	689.04
12"	143.33	964.66
14"		1350.53
16"		1890.74
18"		2647.03
20"		3705.84

**Financial Plan**

In collaboration with the Ratepayer advocate, SCV Water staff built a five-year financial model using key assumptions described in the previous section.

**Operating and Maintenance (O&M) Expense**

The itemized O&M expenses were carefully reviewed and forecasted for the study period using escalation factors. Table 10 shows SCV Water’s O&M Expenses by function for the study period.

**Table 10. O&M Expenses by Category<sup>1</sup>**

<b>Department</b>	<b>FY 2025</b>	<b>FY 2026</b>	<b>FY 2027</b>	<b>FY 2028</b>	<b>FY 2029</b>	<b>FY 2030</b>
Management	\$4,480,076	\$3,830,978	\$4,785,761	\$4,113,933	\$5,062,744	\$4,373,414
Finance, Admin & IT	\$25,136,847	\$24,758,564	\$28,350,867	\$30,617,170	\$31,943,318	\$33,710,057
Customer Care	\$3,433,737	\$3,566,013	\$3,686,933	\$3,802,756	\$3,921,523	\$4,038,267
Transmission & Distribution	\$11,613,472	\$11,474,363	\$12,432,056	\$13,200,556	\$13,716,433	\$14,252,244
Pumping & Wells	\$18,466,558	\$19,080,493	\$19,937,265	\$24,549,788	\$25,809,062	\$26,661,978
Water Resources	\$13,378,239	\$10,239,661	\$10,735,748	\$11,026,894	\$11,472,326	\$11,929,301
Source of Supply	\$11,643,543	\$12,565,496	\$13,275,454	\$14,026,107	\$14,830,450	\$15,675,083
Water Quality & Treatment	\$15,626,840	\$16,820,788	\$17,655,957	\$18,460,697	\$19,146,186	\$20,205,009
Engineering Services	\$4,059,892	\$4,358,129	\$4,511,864	\$4,663,439	\$4,815,798	\$4,968,455
<b>Total</b>	<b>\$107,839,204</b>	<b>\$106,694,486</b>	<b>\$115,371,906</b>	<b>\$124,461,339</b>	<b>\$130,717,841</b>	<b>\$135,813,808</b>

The Ratepayer Advocate reviewed the detailed O&M expense list provided in the rate model and discussed possible adjustments to these values with Agency staff. The rate study report developed by SCV Water details the cost saving and review measures taken as part of the study. Expected annual cost increases vary year by year, ranging from -1.1 percent to 8.1 percent. Fluctuations in the increase of yearly expenses are due to anticipated cost increases associated with additional staff hiring. Through the financial planning process, the Ratepayer Advocate determined that the current O&M levels represent necessary system expenses. SCV Water made every attempt to promote operational efficiency. Additionally, since the merger of the three agencies in 2018, the agency has enhanced economy of scale for its customers.

## **PAYGO**

SCV Water estimates an average minimum requirement of \$39 million per year for PAYGO (Pay as You GO) cash to fund rate-funded capital projects during the study period. Additionally, significant capital expenditures will be taken by issuing debt and receiving grant funding. Debt financed capital expenditures will enable the Agency to spread costs between current and future customers. It is important to note that the current capital plan was adjusted from earlier schedules which relied on matching Water Infrastructure Finance and Innovation Act (WIFIA) funding. It was determined in the financial planning stage that the significant PAYGO matching requirement of WIFIA financing would have too great an impact on customers. At the request of the Ratepayer Advocate, Agency staff reevaluated the capital plan, distributing PAYGO-funded capital projects more evenly over the next ten years to reduce spikes in the rate adjustments. Insufficient capital investment, however, will have negative impact on the reliability of the water system in the long term. Proper levels of outlays to repair or replace current system infrastructure insures the smooth day-to-day operation of the water system and could reduce overall costs in the long run, as it prevents catastrophic and emergency system failures, which would most likely require greater expense. Table 11 shows the total capital improvement projects by proposed funding source for the rate-setting period.

<sup>1</sup> Finance, Admin, & IT expense totals include unfunded pension liability expenses



*Table 11. Total CIP Expenditures by Funding Source*

<b>Funding Source</b>	<b>FY 2025</b>	<b>FY 2026</b>	<b>FY 2027</b>	<b>FY 2028</b>	<b>FY 2029</b>	<b>FY 2030</b>
2023 Bond	\$50,348,000	\$5,000,000	\$0	\$0	\$0	\$0
Future Bond	\$14,749,360	\$114,555,435	\$69,176,500	\$35,460,000	\$32,075,000	\$24,470,000
Grants - Debt	\$7,347,138	\$12,079,354	\$5,151,757	\$0	\$0	\$0
Grants - Pay-Go	\$3,626,672	\$5,886,991	\$0	\$0	\$0	\$0
PayGo	\$58,542,297	\$49,060,802	\$33,112,576	\$32,515,135	\$31,967,572	\$31,405,004
Restricted Capacity Fees	\$5,410,707	\$0	\$0	\$0	\$0	\$0
SWRCB Loan	\$10,000,000	\$0	\$0	\$0	\$0	\$0
<b>Total</b>	<b>\$150,024,174</b>	<b>\$186,582,582</b>	<b>\$107,440,833</b>	<b>\$67,975,135</b>	<b>\$64,042,572</b>	<b>\$55,875,004</b>

After reviewing the proposed plan, the Ratepayer Advocate believes that the capital plan represents the best value to current customers and agrees with the adjusted funding levels developed for the rate study.

### **Debt Service**

Consistent with the Facility Capacity Fee Study published in 2020, the Agency carefully separated the debt service obligations into two categories based on the use of the proceeds: repairs and replacements or future expansion project costs. The debt service obligations that are currently allocated to existing customers and included in this rate study are shown in Table 12. Legacy debt payments for the Taxable Refunding Series 2017, the 2018 Interfund Loan, and The VWD Acquisition Interfund Loan are also rate funded, but only through direct payments from the respective legacy division. Those payments are not included in the financial planning as they act primarily as a passthrough charge. The Agency plans to issue additional loans to pay for major infrastructure projects during the study period. SCV Water determined that a portion of the CIP plan should be funded by debt issuance. It is often prudent rate setting practice to develop debt issuances that can spread the costs of capital expenses among current and future customers who will all benefit from the facility. According to the AWWA M1 “An advantage of using long-term debt to fund major capital expenditures is that it results in a better matching of customers’ charges with the use of the facilities so that existing customers will not be paying 100 percent of the initial cost of facilities that will be used for many years.” Agency staff projected bond expense for a State Water Resources Control Board (SWRCB) Loan. The Ratepayer Advocate also determined that the proposed debt issuances benefit the current customers as they disburse the cost of capital expenses through time and that the future customers who benefit from these facilities will contribute over time as they join the system. This is consistent with AWWA recommendations.

**Table 12. Current and Proposed Debt Obligations Included in the Revenue Requirements for the 2025 Rate Study<sup>2</sup>**

<b>Current Rate Funded Debt Service</b>	<b>FY 2025</b>	<b>FY 2026</b>	<b>FY 2027</b>	<b>FY 2028</b>	<b>FY 2029</b>	<b>FY 2030</b>
1999A CAB Series	\$2,355,348	\$2,355,348	\$2,355,348	\$2,355,348	\$2,355,348	\$2,355,348
Tax-Exempt Refunding Series 2010 A	\$415,786	\$136,530	\$136,530	\$136,530	\$136,530	\$136,530
Taxable Refunding Series 2015 A	\$3,574,905	\$4,410,167	\$4,415,247	\$356,786	\$0	\$0
Taxable Refunding Series 2016 A	\$414,465	\$414,465	\$414,465	\$4,926,068	\$5,315,350	\$5,312,367
Tax-Exempt Series 2020 A	\$1,528,838	\$1,528,838	\$1,528,838	\$1,528,838	\$1,528,838	\$1,528,838
2023A Bond	\$2,192,575	\$2,192,575	\$2,192,575	\$2,192,575	\$2,192,575	\$2,192,575
SWRCB Loan	\$0	\$234,000	\$234,000	\$234,000	\$234,000	\$234,000
Taxable Refunding Series 2017*	\$5,878,507	\$6,008,323	\$6,151,421	\$6,717,781	\$828,544	\$823,609
2018 Interfund Loan*	\$2,278,550	\$2,282,999	\$2,285,556	\$2,288,565	\$2,281,619	\$2,274,284
VWD Acquisition Interfund Loan*	\$2,217,595	\$2,217,595	\$2,372,827	\$2,538,925	\$2,716,649	\$2,906,815
<b>Total Rate Funded Debt Service</b>	<b>\$20,856,569</b>	<b>\$21,780,840</b>	<b>\$22,086,807</b>	<b>\$23,275,415</b>	<b>\$17,589,453</b>	<b>\$17,764,366</b>

In addition to annual payments, debt agreements often require that a borrower maintain minimum net revenues in order to ensure that payments can be made. For debt issued by SCV Water the net operating revenue requirement (debt service coverage requirement, DSCR) is 125 percent of the total debt payment. In other words, the Agency must maintain net operating revenues (total revenue minus operating expenses) 1.25 times greater than the total annual debt payment or face negative consequences on their credit rating, or potentially, technical default.

## Reserves

Prudent fiscal management requires that the Agency maintains reserve balances to meet working capital requirements, meet unexpected increases in costs and provide for emergencies. Currently, SCV Water maintains five reserve funds: Capital Reserve, Emergency/Disaster Reserve, Operating Reserve, Revenue Rate Stabilization Reserve, and Water Supply Reliability Reserve.

- Capital Reserve – Amount of following fiscal year’s PAYGO
- Emergency/Disaster Reserve – 120 days of operating expenses
- Operating Reserve – 120 days of operating expenses and 120 days of debt service payments
- Revenue Rate Stabilization Reserve – 20 percent of annual operating revenue
- Water Supply Reliability Reserve – total costs of 1 year of water extraction

Table 13 shows the reserve targets for each year of the rate setting period based on the Agency’s reserve policy.

<sup>2</sup> Legacy debt payments for the Taxable Refunding Series 2017, the 2018 Interfund Loan, and The VWD Acquisition Interfund Loan are also rate funded, but only through direct payments from the respective legacy agency. Those payments are not included in the financial planning as they act primarily as a passthrough charge. Debt amounts do not include payments made through facility capacity fees (future customers)

**Table 13. 100 Percent Reserve Targets, FY 2025 – FY 2030**

Reserve	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029	FY 2030
Capital Reserve	\$49,060,802	\$33,112,576	\$32,515,135	\$31,967,572	\$31,405,004	\$36,379,716
Emergency/Disaster Reserve	\$35,453,985	\$35,077,639	\$37,930,490	\$40,918,796	\$42,975,728	\$44,651,115
Operating Reserve	\$38,900,095	\$38,783,477	\$41,637,998	\$44,775,282	\$46,842,898	\$48,517,304
Revenue Rate Stabilization Reserve	\$15,964,251	\$17,351,104	\$17,471,637	\$17,589,855	\$17,719,429	\$17,844,583
Water Supply Reliability Reserve	\$11,643,543	\$12,565,496	\$13,275,454	\$14,026,107	\$14,830,450	\$15,675,083
<b>Total Reserve Target</b>	<b>\$151,022,675</b>	<b>\$136,890,291</b>	<b>\$142,830,714</b>	<b>\$149,277,612</b>	<b>\$153,773,510</b>	<b>\$163,067,802</b>

When evaluating the reserve targets set by SCV Water staff, the Ratepayer Advocate relied on guidance contained within the AWWA white paper *Cash Reserve Policy Guidelines*<sup>3</sup>, which does not espouse a “one size fits all” approach to reserve design, “but instead identifies and provides guidance on the key considerations for utilities to assist in the development of appropriate reserve policies for their unique systems.” To mitigate customer rate impacts, the Agency agreed to set the reserve target levels for the rate-setting period at 80 percent of the current total reserve targets, excluding the CIP reserve. The CIP reserve reflects liquid funds used to pay for annual capital expenditures and will naturally increase and decrease depending on capital timing.

### Revenue Analysis

Revenues were calculated for the next five years using the current rates and projected demand discussed in the Demand Projections section. There were three distinct types of revenues identified in the rate study process: rate revenue, other operating revenue, and non-operating revenue. Other operating revenue and non-operating revenue are generally used to offset the total revenue requirements, resulting in a lower rate revenue requirement (the amount of revenues that need to be collected from customer rates).

- **Rate revenues:** revenues from variable charges and revenues from fixed charges
- **Other operating revenues:** miscellaneous revenues such as late fees, disconnection charges, and service connection fees
- **Non-operating revenues:** one-percent tax revenues, communication and rental income, investment revenues, settlement agreement revenues, grants and reimbursements, reimbursement from annexing parties, one-time water sakes, use of capacity

Table 14 displays the projected revenues by type for the study period. The Ratepayer Advocate reviewed all the assumptions made to arrive at the values presented in the rate model and found them to be based on a sound understanding of water system revenues. The amounts shown in this table are not yet adjusted with the proposed revenue increases. The purpose of the revenue analysis is to find revenue deficiency; thus, the projected revenues are estimated based on the status quo financial condition.

<sup>3</sup> 2018. AWWA Rates & Charges Committee

**Table 14. Projected Revenues by Type<sup>4</sup>**

Category	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029	FY 2030
<b>Rate Revenue</b>						
Service Charges	\$27,453,112	\$29,403,114	\$29,591,583	\$29,785,342	\$29,989,962	\$30,191,285
Usage Charges	\$51,979,889	\$56,938,869	\$57,353,066	\$57,750,399	\$58,193,649	\$58,618,096
<b>Total Rate Revenue</b>	<b>\$79,433,000</b>	<b>\$86,341,984</b>	<b>\$86,944,649</b>	<b>\$87,535,741</b>	<b>\$88,183,611</b>	<b>\$88,809,381</b>
<b>Other Operating Revenue</b>	<b>\$1,865,901</b>	<b>\$1,899,878</b>	<b>\$1,934,610</b>	<b>\$1,970,114</b>	<b>\$2,006,411</b>	<b>\$2,043,521</b>
<b>Non-Operating Revenues</b>						
1% Property Tax Revenue	\$34,630,270	\$35,689,956	\$36,782,069	\$37,907,600	\$39,067,573	\$40,263,041
Other Revenue	\$25,294,005	\$20,959,834	\$16,179,455	\$12,135,148	\$11,079,230	\$12,918,541
<b>Total Non-Operating Revenue</b>	<b>\$59,924,275</b>	<b>\$56,649,790</b>	<b>\$52,961,524</b>	<b>\$50,042,748</b>	<b>\$50,146,803</b>	<b>\$53,181,581</b>
<b>Total Revenue</b>	<b>\$141,223,176</b>	<b>\$144,891,652</b>	<b>\$141,840,783</b>	<b>\$139,548,604</b>	<b>\$140,336,825</b>	<b>\$144,034,483</b>

Use of one-percent property tax revenues

The Agency collects a one-percent property tax annually and uses part of the revenue to offset revenue deficiencies in the facility capacity charge revenues. Agency staff estimated between 6.7 million and 7.8 million dollars per year will be collected from facility capacity fees while the debt service payments for the new developments and expansions are estimated to be approximately \$18 million per year. After facility capacity fee shortfalls were calculated, the remaining property tax revenues total \$22.3 to \$30.0 million for the projected years. The available tax revenue will be used to offset the total revenue requirements. Table 15 shows the use of one percent property tax.

**Table 15. Use of 1 Percent Property Tax Revenues<sup>5</sup>**

Description	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029	FY 2030
1% Property Tax Revenue	\$34,630,270	\$35,689,956	\$36,782,069	\$37,907,600	\$39,067,573	\$40,263,041
FCF Revenues	\$6,700,000	\$6,901,000	\$7,108,030	\$7,321,271	\$7,540,909	\$7,767,136
Capacity Related Debt	\$19,068,965	\$18,481,892	\$18,590,931	\$18,121,984	\$18,070,420	\$18,066,220
<b>Remaining 1% Tax</b>	<b>\$22,261,305</b>	<b>\$24,109,064</b>	<b>\$25,299,168</b>	<b>\$27,106,887</b>	<b>\$28,538,062</b>	<b>\$29,963,957</b>

Figure 3 shows how revenue adjustments are determined in the rate setting process. Most water agencies achieve their financial target by the final year of the study period instead of making all necessary adjustments in the first year, which lessens the initial rate impact on customers.

<sup>4</sup> Legacy debt payments and facility capacity fee revenues are not included in the revenue, also, the decrease in non-operating revenues is attributable to a projected reduction in grant and settlement revenue. Rate revenues include the planned 6.5 percent revenue adjustment approved as part of the previous Proposition 218 process

<sup>5</sup> Capacity related debt is the remainder of debt which was determined to be allocated to future customers and not included in rate determinations

**Figure 3. Revenue Adjustments Calculation Method**

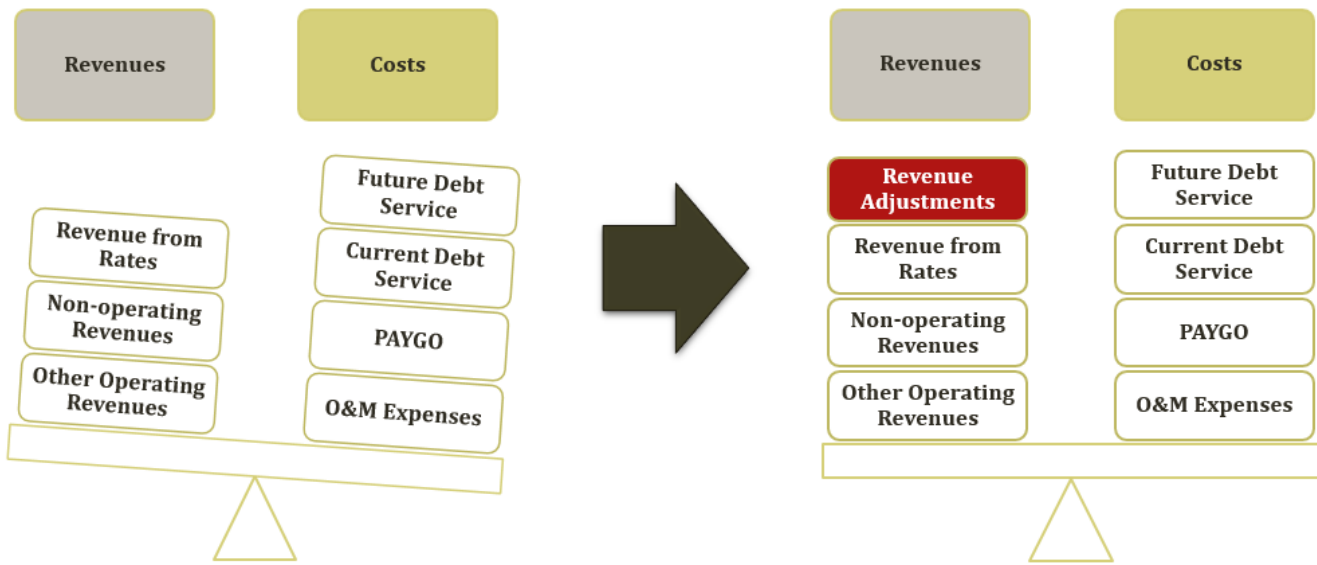


Table 16 shows the status quo financial plan based on the numbers outlined in this report. With no rate adjustments, cash balances will fall below reserve targets beginning in FY 2027 and the debt service coverage ratio will fall below requirements in FY 2028. Review of the status quo financial plan indicates that revenue adjustments are needed for the Agency to maintain financial stability, capital requirements, and debt service coverage ratios. If the agency does not maintain a positive financial position, larger adjustments will be needed in future years to make up for operating deficits, differed maintenance (capital costs are also increasing), and higher debt costs because of lower bond ratings. The Ratepayer Advocate determined that modest increases now better serve the Agency’s ratepayers than higher future rate increases.

**Table 16. Status Quo Financial Plan Under Current Rates<sup>6</sup>**

Category	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029	FY 2030
<b>Rate Revenue</b>	\$79,433,000	\$86,341,984	\$86,944,649	\$87,535,741	\$88,183,611	\$88,809,381
Other Operating Revenue	\$1,865,901	\$1,899,878	\$1,934,610	\$1,970,114	\$2,006,411	\$2,043,521
Non-operating Revenue	\$47,555,310	\$45,068,898	\$41,478,623	\$39,242,035	\$39,617,292	\$42,882,497
Operating Expenses	\$107,839,204	\$106,694,486	\$115,371,906	\$124,461,339	\$130,717,841	\$135,813,808
<b>Net Operating Revenue</b>	<b>\$21,015,007</b>	<b>\$26,616,275</b>	<b>\$14,985,975</b>	<b>\$4,286,552</b>	<b>-\$910,527</b>	<b>-\$2,078,409</b>
Debt Service	\$10,481,917	\$11,271,923	\$11,277,003	\$11,730,145	\$11,762,641	\$11,759,658
PayGo	\$58,542,297	\$49,060,802	\$33,112,576	\$32,515,135	\$31,967,572	\$31,405,004
<b>Total Net Revenue</b>	<b>-\$48,009,207</b>	<b>-\$33,716,450</b>	<b>-\$29,403,603</b>	<b>-\$39,958,728</b>	<b>-\$44,640,739</b>	<b>-\$45,243,071</b>
<b>Beginning Balance</b>	<b>\$235,344,280</b>	<b>\$187,335,073</b>	<b>\$153,618,623</b>	<b>\$124,215,019</b>	<b>\$84,256,291</b>	<b>\$39,615,552</b>
<b>Ending Balance</b>	<b>\$187,335,073</b>	<b>\$153,618,623</b>	<b>\$124,215,019</b>	<b>\$84,256,291</b>	<b>\$39,615,552</b>	<b>-\$5,627,519</b>
<b>Reserve Target</b>	<b>\$150,945,025</b>	<b>\$136,807,584</b>	<b>\$142,748,007</b>	<b>\$149,194,905</b>	<b>\$153,690,803</b>	<b>\$162,985,095</b>
DSCR	2.00	2.36	1.33	0.37	-0.08	-0.18

As part of the rate study process, staff developed six rate revenue adjustment options which were presented to the Finance and Administrative Committee on October 21, 2024. Table 17 shows the revenue adjustment scenarios produced by SCV Water staff. Each scenario will have a different impact on customers as well as agency finances. After careful review of each recommendation, the Ratepayer Advocate determined that Scenario 3 represents the best value for customers, offering the lowest possible revenue adjustments while ensuring the Agency can provide safe and reliable service during emergencies.

**Table 17. SCV Water Revenue Adjustment Scenarios**

Scenario	FY 2026	FY 2027	FY 2028	FY 2029	FY 2030
Scenario 1	13.0%	13.0%	9.5%	8.0%	8.0%
Scenario 2	6.5%	0.0%	0.0%	0.0%	0.0%
Scenario 3	9.5%	9.5%	9.0%	9.0%	9.0%
Scenario 4	9.0%	9.0%	8.5%	8.5%	8.5%
Scenario 5	8.5%	8.5%	8.0%	8.0%	8.0%
Scenario 6	8.0%	8.0%	7.5%	7.5%	7.5%

Table 18 shows the updated financial plan with the proposed Scenario 3 revenue adjustments. The updated financial plan maintains the required DSCR for each year of the rate setting period. Additionally, as part of the financial planning SCV Water staff agreed that an 80 percent target for reserves, excluding the CIP reserves, would be sufficient to mitigate the impacts on customers. The Scenario 3 financial plan will maintain the reserve level

<sup>6</sup> The status quo financial plan includes the already prescribed 6.5 percent rate increase for FY 2026. The status quo financial plan does not include revenues from capacity fees, 1% property taxes allocated to growth related debt, nor the debt allocated to future users as neither will impact rates. The status quo financial plan also excludes legacy debt payments and revenues as these are passthrough charges that will offset.

above 80 percent of reserves target by the end of FY 2030. Under the proposed plan, current reserves are spent to accomplish full PayGo funding and minimizing the impact on customers. This result was achieved by efficient O&M and capital planning which included the use of reserves, tax revenues, and bond issuances to mitigate fiscal impact on customers. The Ratepayer Advocate reviewed all assumptions and worked with SCV Water staff to produce accurate and economically rigorous revenue and expense projections. Ultimately, this financial plan will continue the high level of service that SCV Water is known for as well as increase the opportunities for cost savings in the long run through increased customer integration.

**Table 18. Proposed Financial Plan Based on Scenario 3 Revenue Adjustments<sup>7</sup>**

Category	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029	FY 2030
Rate Revenue	\$79,433,000	\$81,074,263	\$81,640,462	\$82,195,687	\$82,804,225	\$83,392,012
Additional Rate Revenue	\$0	\$7,702,055	\$16,248,493	\$25,228,918	\$35,155,494	\$46,096,781
Other Operating Revenue	\$1,865,901	\$1,899,878	\$1,934,610	\$1,970,114	\$2,006,411	\$2,043,521
Non-operating Revenue	\$47,555,310	\$45,068,898	\$41,478,623	\$39,242,035	\$39,617,292	\$42,882,497
Operating Expenses	\$107,839,204	\$106,694,486	\$115,371,906	\$124,461,339	\$130,717,841	\$135,813,808
<b>Net Operating Revenue</b>	<b>\$21,015,007</b>	<b>\$29,050,609</b>	<b>\$25,930,281</b>	<b>\$24,175,416</b>	<b>\$28,865,582</b>	<b>\$38,601,004</b>
Debt Service	\$10,481,917	\$11,271,923	\$11,277,003	\$11,730,145	\$11,762,641	\$11,759,658
PayGo	\$58,542,297	\$49,060,802	\$33,112,576	\$32,515,135	\$31,967,572	\$31,405,004
<b>Total Net Revenue</b>	<b>-\$48,009,207</b>	<b>-\$31,282,116</b>	<b>-\$18,459,298</b>	<b>-\$20,069,864</b>	<b>-\$14,864,631</b>	<b>-\$4,563,658</b>
<b>Beginning Balance</b>	<b>\$235,344,280</b>	<b>\$187,335,073</b>	<b>\$156,052,957</b>	<b>\$137,593,659</b>	<b>\$117,523,795</b>	<b>\$102,659,165</b>
<b>Ending Balance</b>	<b>\$187,335,073</b>	<b>\$156,052,957</b>	<b>\$137,593,659</b>	<b>\$117,523,795</b>	<b>\$102,659,165</b>	<b>\$98,095,506</b>
<b>Reserve Target</b>	<b>\$150,945,025</b>	<b>\$137,294,451</b>	<b>\$144,936,868</b>	<b>\$153,172,678</b>	<b>\$159,646,025</b>	<b>\$171,120,977</b>
DSCR	2.00	2.58	2.30	2.06	2.45	3.28

## Revenue Requirements

The rate revenue requirement for FY 2026 is \$94.5 million. The rate revenue requirement represents the total costs used in the cost of service and rate design analyses. Rates per customer reflect their portion of that revenue requirement which can be attributed to each based on their number of bills, meter size, and total water use. To calculate revenue requirements, the calculation shown in Table 19 is used for FY 2026. Future year revenue adjustments will be applied directly to the user rates and do not require an additional cost of service analysis.

<sup>7</sup> Reserve targets in the proposed plan reflect the increase in revenues which impacts the target of the Revenue Rate Stabilization Reserve that is based on 20 percent of rate revenues.

**Table 19. FY 2026 Rate Revenue Requirement Calculation**

<b>Rate Component</b>	<b>Revenue Requirement</b>
Operating Expense	\$106,694,486
+	
Debt Service	\$11,271,923
+	
PayGo	\$49,060,802
-	
Other Operating Revenue	\$1,899,878
-	
Non-operating Revenue	\$45,068,898
+	
Net Revenue	-\$30,856,979
=	
<b>Revenue Requirement</b>	<b>\$89,201,455</b>

### Cost of Service Analysis

The purpose of a Cost of Service (COS) analysis is to allocate costs among customers commensurate with their service requirements. SCV Water employed the “base-extra capacity” cost-of-service method promulgated in AWWA’s M1, whereby costs are first allocated to individual functions, which are typical industry standard activities, then the costs of each function are distributed to appropriate cost causative components, which are defined by the cost driving elements. The results of the COS form a reasonable, equitable, basis for designing rates. Figure 4 displays a typical flow of a process for the COS analysis.

**Figure 4. A typical Flow for Cost of Service Analysis Process**





Operating costs were functionalized based on input from Agency staff with expertise on the system. Total capital expense for the study period, which includes PayGo and debt funded capital projects, was utilized in the analysis as opposed to capital project expense for the test year since a single year of capital spending may not capture accurate distribution of the necessary CIP costs to repair/rehabilitate system assets. The Ratepayer Advocate reviewed the functional categories and ensured that they met AWWA guidelines. The functions of the system for both operating and capital expenses include:

- **Source of Supply** – costs associated with water supply such as chemicals, power, water purchase costs
- **Pumping and Wells** – costs associated with general pumping, maintenance and repair of wells, and energy use
- **Water Treatment** – costs associated with treatment of water
- **Transmission and Distribution** – costs associated with transmitting and distributing water to customers
- **Engineering** – costs associated with engineering and inspection labor
- **Customer Accounts** – costs associated with customer related functions
- **Administrative and General** – costs associated with administrative and general functions
- **Water Resources** – costs associated with public outreach, water acquisition, and reporting
- **Recycled Water** – costs directly related to providing recycled water service

Table 20 shows the test year O&M expenses distributed into the system functions.

*Table 20. Functionalization of Operating & Maintenance Costs*

O&M Function	Operating Expense
Source of Supply	\$12,422,458
Pumping	\$18,907,248
Water Treatment	\$16,820,788
Transmission and Distribution	\$10,731,663
Engineering	\$4,358,129
Customer Accounts	\$4,096,513
Administrative and General	\$28,589,542
Water Resources	\$10,205,539
Recycled Water	\$562,605

Table 21 shows the 10-year CIP expenses distributed into the system function. The total test year non-operating expenses (PayGo and debt service) are allocated based on the percentage of ten-year CIP expenses.

*Table 21. Functionalization of Capital Costs*

CIP Function	CIP Expense	Percent of Total
Source of Supply	\$0	0.0%
Pumping	\$116,171,978	16.9%
Water Treatment	\$182,999,004	26.7%
Transmission and Distribution	\$203,425,731	29.7%
Engineering	\$20,862,354	3.0%
Customer Accounts	\$0	0.0%
Administrative and General	\$59,816,602	8.7%
Water Resources	\$90,103,661	13.1%
Recycled Water	\$12,520,000	1.8%

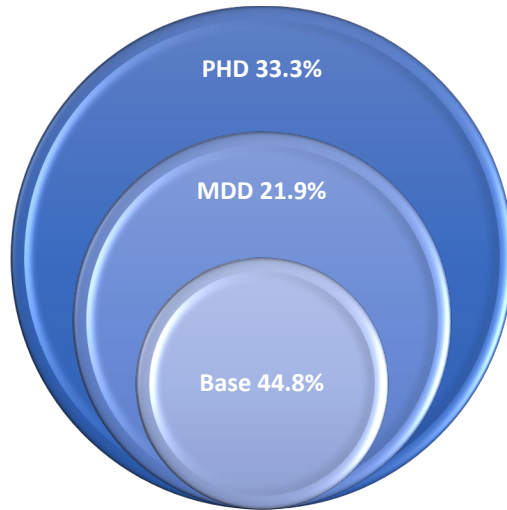
According to the AWWA, for a water system to provide adequate service to its customers at all times, it must be capable of meeting not only the annual volume requirements, but also the peak demand - the maximum rate at which water is consumed. Therefore, the capacities of the various facilities must meet the maximum coincidental demand of all customers. Following cost allocation into the functional categories listed above, each functional cost was then distributed amongst cost causative components based on the designed capacity of each facility. Eight cost causation factors commonly used in COS analyses were used by SCV Water:

- Water Supply – water purchase costs, chemicals, pumping costs
- Base – delivering water to customers under average demand conditions
- Maximum Day Demand (MDD) – the costs of delivering water to customers on the day with the highest demand
- Peak Hourly Demand (PHD) – the costs of delivering water to customers in the hour with the highest demand on the highest day
- Meters - the costs of servicing meters
- Customer Service – billing and other customer service-related costs
- Fire Protection – the costs of providing water service for public and private fire protection services
- Recycled Water – the direct cost of recycled water service

Each water service facility designed solely to meet average daily demand (Base) should have 100 percent of its cost assigned to the base cost component. Facilities designed to meet the extra demand requirements should be assigned to MDD and PHD. Depending on the basis of infrastructural design and type of services the functionalized costs should be distributed to applicable cost components.

Since daily production data was not available, the methodology approved by the AWWA for calculating the MDD is used; maximum month demand divided by days in the month. PHD was calculated by multiplying MDD by a peaking factor of 1.5 (the lowest factor recommended by the State Board's Division of Drinking Water). Accordingly, the costs associated with a function which requires extra capacity service requirements (typically distribution systems and storages) were distributed to the base, MDD, and PHD cost components for 44.8%, 21.9%, and 33.3%, respectively.

Figure 5. Base, MDD, PHD Calculation



The number of bills in one year (the number of accounts multiplied by 12) serves as the basis for distributing billing and customer service costs such as meter reading, customer billing, and other customer service related costs. The number of equivalent meters is used to measure meter related service costs. Table 22 shows the functions allocated to cost components as well as the allocation of non-operating expenses (PayGo and Debt Service), other operating revenues (allocated based on operating expenses), non-operating revenues (allocated based on non-operating expenses), and net balances (allocated based on non-operating expenses). The total revenue requirements under each cost category are divided by the number of units to apply those costs between customer classes and fixed and variable charges. Direct fire costs and recycled water costs are applied directly to the respective customer classes.

Table 22. Cost Allocation to Cost Components and Unit Costs

Function	Supply	Base	MDD	PHD	Meters	Customer	Fire	Recycled
Source of Supply	\$12,422,458	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Pumping	\$9,692,529	\$4,124,953	\$2,018,193	\$3,071,573	\$0	\$0	\$0	\$0
Water Treatment	\$2,853,972	\$6,252,221	\$3,058,990	\$4,655,605	\$0	\$0	\$0	\$0
Transmission and Distribution	\$0	\$6,921,042	\$3,386,220	\$159,150	\$0	\$0	\$265,250	\$0
Engineering	\$0	\$1,950,909	\$954,511	\$1,452,710	\$0	\$0	\$0	\$0
Customer Accounts	\$0	\$0	\$0	\$0	\$530,500	\$3,566,013	\$0	\$0
Administrative and General	\$10,570,601	\$8,080,810	\$3,953,653	\$3,684,075	\$247,821	\$1,665,852	\$123,911	\$262,819
Water Resources	\$10,205,539	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Recycled Water	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$562,605
Non-Operating Expense	\$0	\$23,173,241	\$11,337,844	\$17,255,543	\$2,197,132	\$5,162,471	\$0	\$1,206,495
Other Operating Revenues	-\$814,570	-\$486,656	-\$238,104	-\$231,899	-\$13,859	-\$93,162	-\$6,930	-\$14,698
Non-Operating Revenues	\$0	-\$17,310,547	-\$8,469,436	-\$12,889,991	-\$1,641,270	-\$3,856,396	\$0	-\$901,259
Net Balance	\$0	-\$11,851,880	-\$5,798,704	-\$8,825,292	-\$1,123,716	-\$2,640,329	\$0	-\$617,058
Total Revenue Requirement	\$44,930,529	\$20,854,093	\$10,203,167	\$8,331,473	\$196,608	\$3,804,449	\$382,231	\$498,904
Unit of Service	21,064,263	21,064,263	32,435	49,404	506,814	918,192		
Unit Cost	\$2.13	\$0.99	\$314.57	\$168.64	\$0.39	\$4.14		

After the O&M expense and capital costs were allocated by cost causation factors and the nature of the costs had been identified (fixed or variable). The results show that 77 percent of test year costs are fixed and the remaining 23 percent are variable costs.

The Ratepayer Advocate reviewed all COS assumptions used in the rate analysis and determined that the methods were consistent with rate setting practice as outlined by the AWWA M1 manual. The proposed COS analysis will improve customer equity by distributing costs fairly among all customers via cost based rates.

## Rate Design

The final step of a rate study is designing rates. Rates must be designed to equitably recover the rate revenue requirements from each customer given the projected customer demand identified as a result of the COS analysis. In reviewing the Agency's proposed water rates, the Ratepayer Advocate used the following criteria:

- 1) Ensure revenue sufficiency: rates should recover the costs of services to ensure that the Agency continues to provide safe and quality services to their customers
- 2) Minimize rate impacts: while rates are calculated to generate sufficient revenue to cover all costs, they should be designed to minimize, as much as possible, financial impacts on all customers across the board
- 3) Be equitable: rates should be proportionally allocated among all customers based on their demand characteristics and service requirements
- 4) Be practical: rates should be simple in form and, therefore, adaptable to changing conditions, easy to administer, and easy to understand.

SCV Water uses a uniform variable rate, which is a constant unit price for all metered volumetric units of water used. The AWWA M1 addresses some concerns about applicability of designing a uniform rate to all water customers since potential cost of service differentials are harder to recognize unless each customer class has its own uniform rate that reflects their service requirements. AWWA M1 states that utilities might consider a uniform rate for all customers when:

- customer groups or service classes exhibit similarities in usage (demand) characteristics,
- varying rates by customer or service classification are undesirable from equitability or other perspectives,
- simplicity and customer understanding of the rate structure are valued highly,
- rate uniformity adequately addresses economic efficiency and conservation concerns,
- rate structures that vary charges by usage block or other means are not justifiable, or
- cost and usage data by customer or service classifications are not available or too costly to develop<sup>8</sup>

The Ratepayer Advocate recommends the Agency to consider designing tiered rates that reflect unique costs specific to procuring different water sources in a future rate study to further improve equity among all customers.

### Fixed Charge vs. Variable Charge

A fixed monthly service charge is the minimum bill a customer will be charged regardless of the volume of water use. One of the most common practices in rate making to maintain financial stability is to increase the portion of revenues recovered by fixed charges when designing rates. Variable charges are the portion of rates that vary based on the amount of water use. Higher variable charges discourage wasteful use by sending customers a price

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<sup>8</sup> American Water Works Association, *Principles of Water Rates, Fees and Charges* (Seventh Edition, 2017), Chapter IV.2, 109

signal. Generally speaking, a higher fixed charge indicates a higher bill for small users and a lower fixed charge indicates a higher bill for larger users. SCV Water's current fixed costs represent 77 percent of total costs. Although it promotes revenue stability to collect all fixed costs from fixed charges, higher fixed charges are deemed to create unreasonable financial burden on some customers. It is a common rate making practice to collect a portion of fixed costs from variable charges to mitigate rate impacts and promote conservation. The current rates were designed to collect 71 percent of revenues from variable charges and 29 percent from fixed charges. Because of use reductions, the projected revenues from fixed rates are 35 percent in FY 2025. The current rates, which were designed to collect 29 percent of total revenue collected from fixed charges, present a significant financial challenge as water consumption dropped considerably in the past couple of years. To mitigate this risk in the future, the Agency proposes a shift in the revenue collection structure to 34 percent from fixed charges. This adjustment is reasonable, as significant revenue insufficiency could negatively impact customers in the long run due to insufficient capital project execution and/or deferred maintenance.

### **Proposed Rates**

The proposed one uniform variable rate and a fixed monthly service charge that vary based on the meter size and customer class. Potable water and recycled water customers will have the same meter charges depending on their meters size because the cost to serve these meters is the same whether potable or recycled water passes through. Fixed charges for private fire customers reflect the different costs to maintain the peak use of fire connections. Variable rates are designed to collect any costs not collected through the fixed charge that are identified for each customer class. Variable charges for recycled water customers are slightly lower than those of potable water customers due to the cost of service analysis. Private fire connections do not pay variable rates as all the associated costs are collected through the fixed charge. Finally, a pass-through fixed Legacy Debt charge will be included in the bills of SCWD and VWD customers to comply with the terms of Senate Bill 634. NWD did not carry over any debt from pre-merger system; therefore, there are no additional Legacy Debt charges for these customers.

In future years, the rates are multiplied by the proposed revenue adjustments. The proposed potable water rates, Legacy Debt charges, recycled water rates, and private fire protection charges for the study period are shown in Table 23 through Table 25, respectively.

**Table 23. Proposed Potable and Recycled Water Rates**

<b>Fixed Charges</b>					
<b>Meter Size</b>	<b>FY 2026</b>	<b>FY 2027</b>	<b>FY 2028</b>	<b>FY 2029</b>	<b>FY 2030</b>
5/8"	\$17.10	\$18.83	\$20.65	\$22.64	\$24.82
3/4"	\$23.60	\$25.99	\$28.50	\$31.25	\$34.26
1"	\$36.60	\$40.31	\$44.19	\$48.46	\$53.13
1 1/2"	\$69.09	\$76.10	\$83.44	\$91.48	\$100.30
2"	\$108.08	\$119.05	\$130.53	\$143.11	\$156.91
2 1/2"	\$127.58	\$140.52	\$154.07	\$168.93	\$185.22
3"	\$199.07	\$219.26	\$240.41	\$263.59	\$289.00
4"	\$329.04	\$362.43	\$397.37	\$435.69	\$477.70
6"	\$653.99	\$720.34	\$789.79	\$865.95	\$949.45
8"	\$1,043.92	\$1,149.83	\$1,260.70	\$1,382.26	\$1,515.54
10"	\$1,498.84	\$1,650.90	\$1,810.09	\$1,984.62	\$2,175.99
12"	\$2,798.61	\$3,082.54	\$3,379.77	\$3,705.66	\$4,062.97
<b>Potable Variable Charges</b>					
<b>Variable</b>	<b>FY 2026</b>	<b>FY 2027</b>	<b>FY 2028</b>	<b>FY 2029</b>	<b>FY 2030</b>
All Use	\$2.77	\$3.03	\$3.29	\$3.58	\$3.89
<b>Recycled Variable Charges</b>					
<b>Variable</b>	<b>FY 2026</b>	<b>FY 2027</b>	<b>FY 2028</b>	<b>FY 2029</b>	<b>FY 2030</b>
All Use	\$2.21	\$2.41	\$2.62	\$2.84	\$3.08

**Table 24. Legacy Debt Charges for SCWD and VWD, FY 2025-26 to FY 2029-30**

<b>Legacy Debt Payments</b>		
<b>Meter Size</b>	<b>Santa Clarita Division</b>	<b>Valencia Water Division</b>
5/8"	\$5.26	\$4.88
3/4"	\$7.89	\$7.32
1"	\$13.14	\$12.20
1 1/2"	\$26.29	\$24.40
2"	\$42.06	\$39.03
2 1/2"	\$49.95	\$46.35
3"	\$78.87	\$73.19
4"	\$131.44	\$121.98
6"	\$262.88	\$243.97
8"	\$420.61	\$390.34
10"	\$604.63	\$561.12
12"	\$1,130.40	\$1,049.05

*Table 25. Private Fire Charges*

Private Fire Fixed Charges					
Meter Size	FY 2026	FY 2027	FY 2028	FY 2029	FY 2030
3/4"	\$4.27	\$4.70	\$5.16	\$5.65	\$6.20
1"	\$4.27	\$4.70	\$5.16	\$5.65	\$6.20
1 1/2"	\$4.59	\$5.05	\$5.54	\$6.07	\$6.66
2"	\$5.13	\$5.65	\$6.19	\$6.79	\$7.45
2 1/2"	\$7.08	\$7.80	\$8.55	\$9.38	\$10.28
3"	\$10.45	\$11.51	\$12.62	\$13.84	\$15.18
4"	\$22.55	\$24.84	\$27.23	\$29.86	\$32.74
6"	\$43.41	\$47.82	\$52.43	\$57.48	\$63.03
8"	\$74.79	\$82.38	\$90.33	\$99.04	\$108.59
10"	\$118.29	\$130.29	\$142.85	\$156.63	\$171.73
12"	\$163.96	\$180.60	\$198.01	\$217.10	\$238.04
14"	\$227.91	\$251.03	\$275.23	\$301.77	\$330.87
16"	\$317.43	\$349.63	\$383.34	\$420.31	\$460.83
18"	\$442.76	\$487.68	\$534.70	\$586.26	\$642.78
20"	\$618.22	\$680.94	\$746.60	\$818.58	\$897.52

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### 3. BILL IMPACTS

Bill Impact analysis was one of the most critical technical jobs tasked to the Ratepayer Advocate by the Board members. The Ratepayer Advocate undertook the task to find the lowest possible rates using a data analytics approach. The rates we find will also generate sufficient revenue to cover all costs necessary for the Agency to continue providing safe and reliable services to its customers.

#### Bill Impact on Hypothetical Customers

The Ratepayer Advocate first performed a bill impact analysis for a hypothetical customer. The gap between the current and proposed rates in the monthly bill will become wider as the usage level goes up. The bill impacts do not include the impacts of legacy debt payments, which will differ depending on the service location of the customer. Figure 6 and Figure 7 show the bill impacts on a hypothetical customer with ¾ inch and 2-inch meter by usage.

Figure 6. Bill Impact on ¾" Meter Customers by Usage

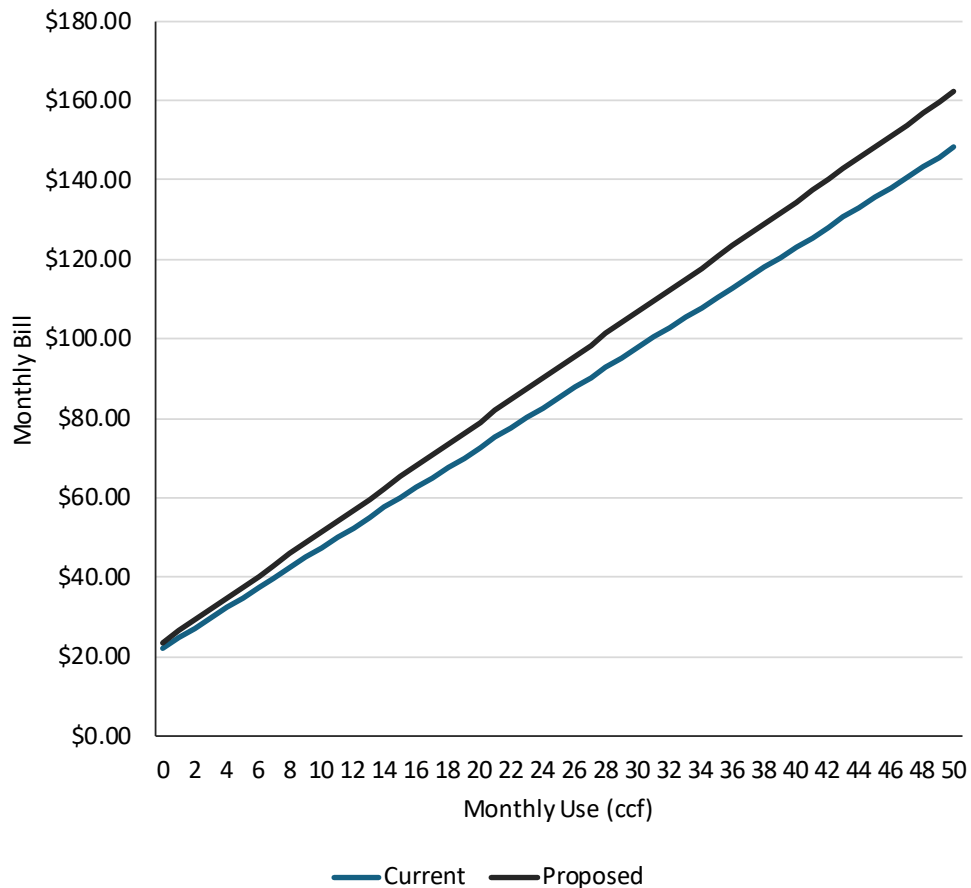
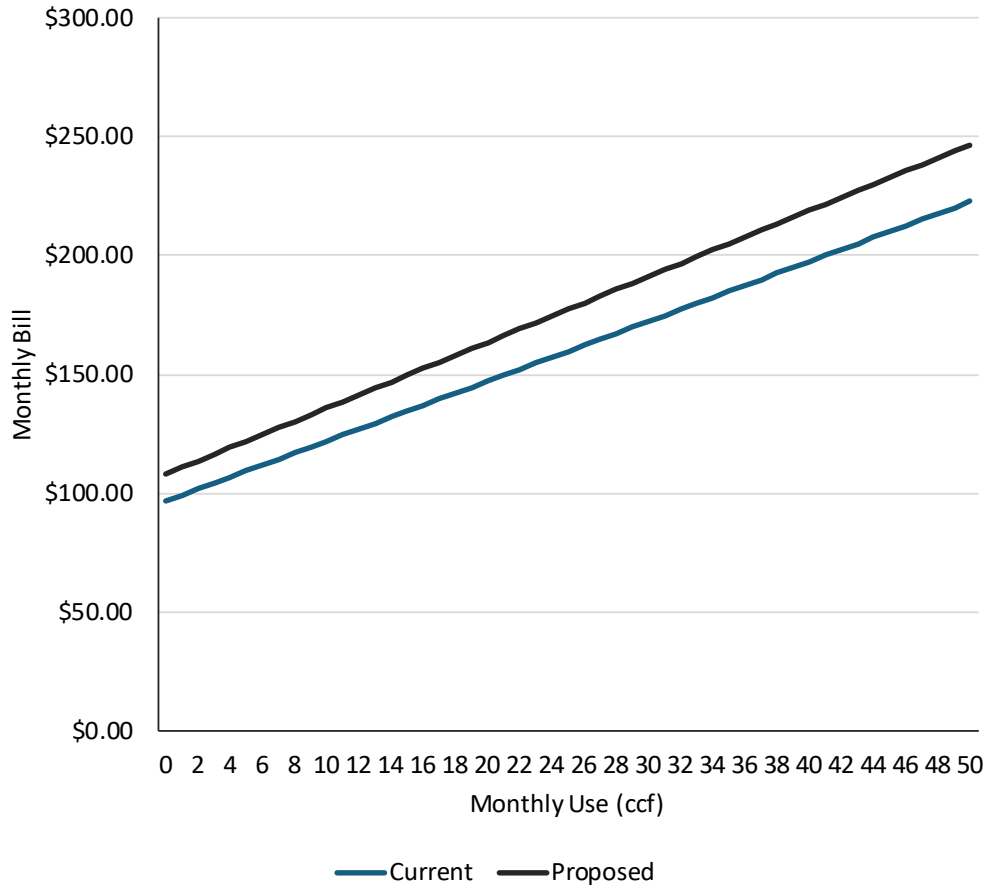


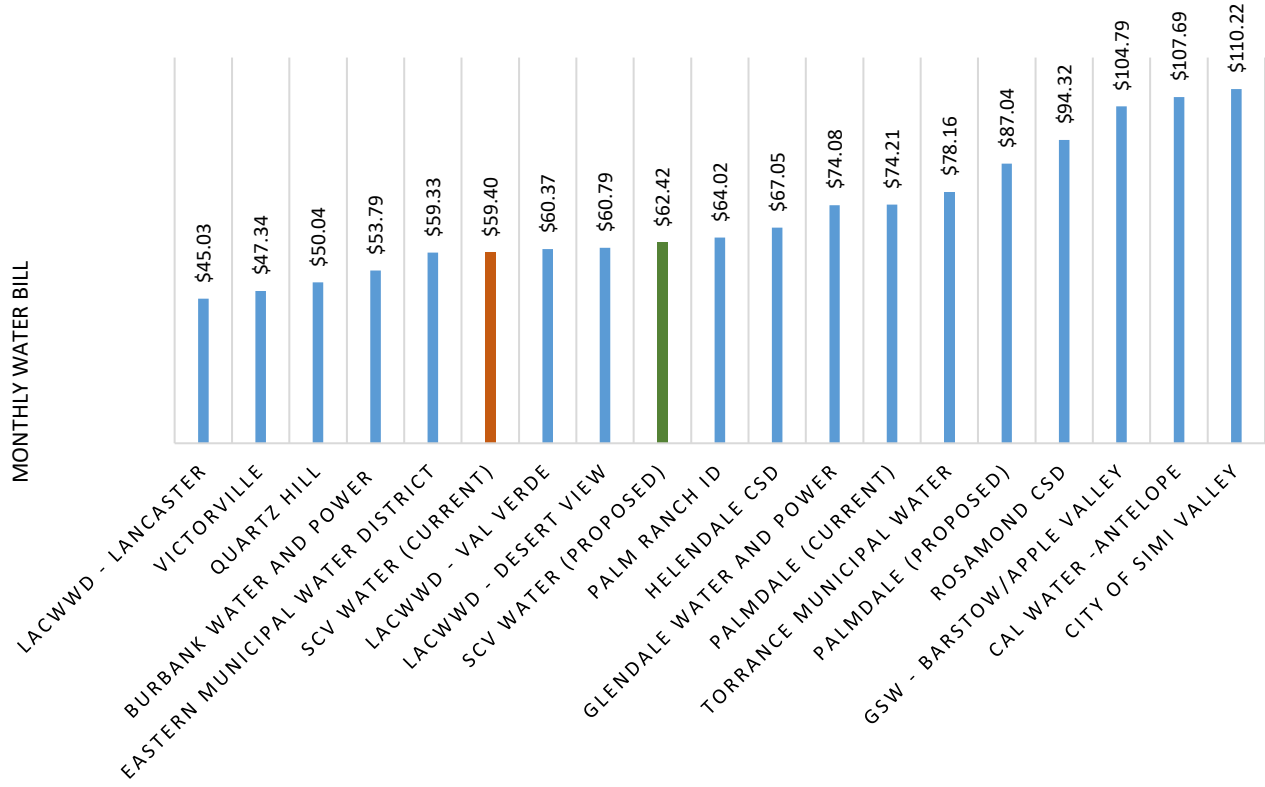
Figure 7. Bill Impact on 2" Meter Customers by Usage



## Rate Comparison

Finally, the Ratepayer Advocate performed a bill comparison with other local water agencies. There are significant differences in the rates and rate structures of water providers in the neighboring communities of SCV Water. Some differences are because of administrative paradigms, which are unique to each agency. For example, investor-owned utilities are allowed to make a profit on their water service, whereas municipal ones are not. Furthermore, customer rates can be affected by outside funding sources such as property taxes and transfers. Additionally, the cost associated with different water sources may affect rates. Finally, the rate structure itself may influence which types of users pay a proportion of costs. Figure 8 shows the projected water rates in November 2024 for eighteen local providers at 14 ccf of use. Additionally, to ensure equal comparison, all variables were controlled or when possible, i.e., lot size, meter size, and season. Also shown are the proposed rates for SCV Water. Individual water rates range between \$45.03 and \$110.22 at 14 ccf of use. The new rates proposed by SCV Water will fund O&M expenses, contribute to reserves, and allow significant CIP spending while maintaining a lower than average rate.

Figure 8. Water Bill Comparison<sup>9</sup>



<sup>9</sup> SCV rates do not include legacy debt charges

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# FREQUENTLY ASKED QUESTIONS (FAQ)

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As a conclusion to this technical report, we will attempt to address potential customer questions that may arise from its reading in an FAQ format. This FAQ represents the Ratepayer Advocate's earnest attempt to address ratepayer concerns in a simple, non-technical, language. Additional questions regarding the proposed rates should be directed to Anthony Elowsky Financial Analyst and Ratepayer Advocate.

## *Q1. Who decides what to charge?*

- A. The proposed rates are based on detailed Cost of Service principles. The costs associated with different functions are allocated to customers based on their service requirements. Additionally, fixed and variable costs are allocated to fixed and variable rates based on industry standards for revenue recovery. Not all fixed costs can be recovered from fixed charges since this will create a huge financial burden on small users. Each customer's water rates are based on a mathematical formula that finds the optimal rate (lowest- financial impact on customers) while the amount of revenue necessary to keep SCV Water working.

## *Q2. Do I have any say in the ratemaking process?*

- A. SCV Water contracted a third-party, objective, Ratepayer Advocate to represent the concerns of customers. Additionally, customers can make their opinion known at any Board meeting, workshop, or hearing. Before new rate schedule is passed, customers have a chance to protest any increases using the Proposition 218 process, which is mandated under California Law. Customers with any concerns should reach out to the Ratepayer Advocate and share their concerns throughout the process.

## *Q3. What happens if proposed revenue adjustments are not implemented?*

- A. If the proposed rates are not adopted, it is very likely that SCV Water will see revenue deficits in the coming years. At first, this will mean spending reserves to pay for daily operations, but as time goes on, necessary maintenance will be postponed, which will lead to a reduction in service and could possibly lead to catastrophic failures of the water system. All of the expenses which need to be recovered through rates are necessary expenses needed to maintain the water system to provide safe services for their customers. The Ratepayer Advocate reviewed all their expenses and ensured that no unreasonable expenses are included in the rate calculation.

#### ***Q4. What do my rates pay for?***

- A. Your rates pay for the day to day operation of the water system which includes: pumping, treatment, testing, and billing, as well as needed replacement and repairs of system infrastructure. Additionally, water rates pay for customer service costs, public outreach, and conservation programs.

#### ***Q5. Will my rates go up?***

- A. Operating cost increases along with projected customer conservation have or will cause a revenue shortfall for SCV Water in the long term. In order to continue serving their customers at the same level, SCV Water must increase rates to bridge the difference between income and expense. Customer rates reflect the actual cost of service, so if costs increase, so will rates.

#### ***Q6. How did you decide what needs to be repaired or replaced?***

- A. SCV Water has detailed master plans and CIP plans which were developed by engineering experts with an extensive knowledge of the water and recycled infrastructure. The system components have service lifespan estimates that have been developed through years of trial and error and engineering experience. SCV Water uses these lifespan estimates to predict which parts of the system will need to be replaced at what time, or if the infrastructure is better off being repaired.

#### ***Q7. Why are you taking out loans, isn't that more expensive?***

- A. Financing capital projects allows the costs to be spread between current customers and future customers. Without loans, current customers would have to pay for all CIP up front with cash which would lead to significant rate increases. Additionally, in order to build up enough cash to pay for larger projects, replacements would likely need to be deferred far longer than is advisable.

#### ***Q8. Why do I have to pay for infrastructure that only new customers benefit from?***

- A. Infrastructure that benefits new customers is actually paid for by Facility Capacity Charges (FCFs) and Regional Capacity Charges; one time fees that developers pay when they build a new community. FCFs are calculated to collect enough revenue to pay for all new system development, so that current customers don't share the burden. The capital budget included in the rates is only for projects that benefit current customers.

#### ***Q9. If I use less water, will I pay less?***

- A. Yes. A portion of every water bill is based on metered water use. If you use less water, this portion of your bill will decrease. Because of the limited supply and tendency for drought, it is in the best interest of everyone to use less water. This is one case where doing the right thing will put more money in your pocket.

### ***Q10. How did you decide what should be fixed vs. variable charge?***

- A. Fixed costs are costs that don't change based on the amount of water customer uses, whereas variable costs fluctuate based on water use. Examples of fixed charges include administrative costs, billing costs, wages, supply costs, and maintenance. Examples of variable costs include pumping power, PFAS treatment, chemicals, and purchased water. A perfect rate structure would have all fixed costs, which represent 77 percent of all costs, recovered by fixed charges; however, this design would reduce conservation signals in the rates and would have a huge impact on customers that use small amount of water. It is therefore necessary to have a balance between fixed and variable charges which reward a customer for saving water and recovers enough revenue to fund operations.

### ***Q11. How often will my rates increase?***

- A. If the current rate study is adopted, it allows for one rate adjustment per year for the next five years. If rate increases end up not being needed (more revenue than expected was collected or expenses don't increase as quickly as projected), the Board of Directors can decide not to increase rates or introduce lower rate increases during a particular year. Customers can also lower the overall impact of rate increases during this period by reducing water use.

### ***Q12. Who approves the rates?***

- A. The Board of Directors must vote on the proposed rates and rates can only be adopted after a public hearing. If more than 50 percent of all customers protest the rates, then no rate changes can be adopted.

### ***Q13. What were the considerations used in the rate design?***

- A. When setting rates, four most important elements of rate setting practices should be considered; **Revenue Sufficiency**: Rates should recover the annual cost of service and provide revenue stability. **Rate Impact**: While rates are calculated to generate sufficient revenue to cover operating and capital costs, they should be designed to minimize the impacts on customers. **Equitability**: Rates should be fairly allocated among all customers based on their estimated demand characteristics. **Practicality**: Rates should be simple in form and, therefore, adaptable to changing conditions, easy to administer, and easy to understand.

### ***Q14. What does SCV Water do to keep water rates as low as possible?***

- A. SCV Water has significantly cut expenses through economies of scale. Individual expenses are now spread among more customers due to the merger. Additionally, there were three redundant administrative structures before the merger, now there is just one. In order to maintain service at the current, optimal level, SCV Water must continue to diligently monitor its water supply. Testing and treatment make up a considerable expense as does the pumping,

