

# SCOTTS VALLEY WATER DISTRICT 2026 RATE STUDY

Board of Directors Meeting – March 12, 2026



**Water Resources  
Economics**

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



# Agenda

- Rate study overview
- Financial plan
- Rate structure
- Preliminary rate options
- Discussion & next steps

# Rate Study Overview



**Water Resources  
Economics**

# Rate Study Process

## Policy Framework

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

**What are our priorities and values?**

## Financial Plan

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

**How much revenue do we need?**

## Cost-of-Service Analysis

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

**Who should pay for what?**

## Rate Design

Identify Appropriate Rate Structure Changes and Calculate Proposed Rates

**What are the impacts of the proposed rate structure?**

## Documentation

Develop a Study Report to Provide Transparency and Defensibility

**Is there a report that shows the proportionality of the rates?**

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

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



# Proposition 218

## Due to a Series of Court Rulings on Water Rates

**Water and Wastewater is a Property-Related Service**

**Rates Need to be Proportional to the Level of Service**

*This is the nexus requirement.*

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

*We need to show the math behind our work.*

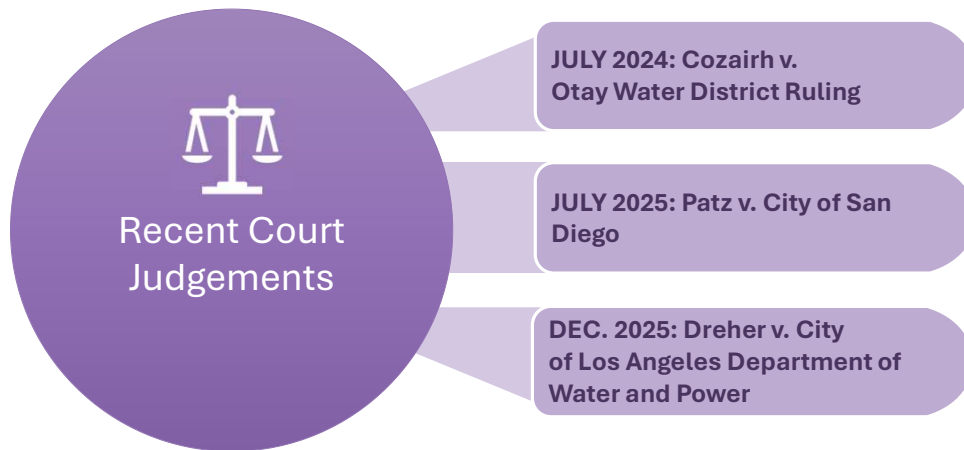
*“Demonstrate the Cost Basis” per the San Juan Capistrano decision.*

## Implications

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

**We Cannot Have Rates that Subsidize Certain Customers**

# Recent Proposition 218 Litigation



## • Implications:

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

# Project Schedule

Task	Key Deadlines
Task 1: Project Initiation & Management	-Nov 5, 2025: Kick-off meeting
Task 2: Board Policy Workshop	-Nov 13, 2025: Board Policy Workshop
Task 3: Financial Plan Development	-Dec 2025-Jan 2026: Review financial plan analysis with District staff
Task 4: Cost-of-Service Analysis	-Jan-Feb 2026: Review cost-of-service analysis with District staff
Task 5: Water Rate Development	-Feb-Mar 2026: Review preliminary rates with District staff
<b>Task 6: Presentation of Preliminary Results</b>	<b>-March 12, 2026: Review preliminary results at regular Board meeting</b>
Task 7: Report Preparation	-April 2026: Draft rate study report to District staff -May 2026: Final rate study report to District staff
Task 8: Prop 218 Public Hearing Support	-May 14, 2026: Board to receive report -May 22, 2026: Deadline to mail out public hearing notices -July 23, 2026: Proposition 218 Public Hearing (special Board Meeting) -Jan 1, 2027: New rates effective

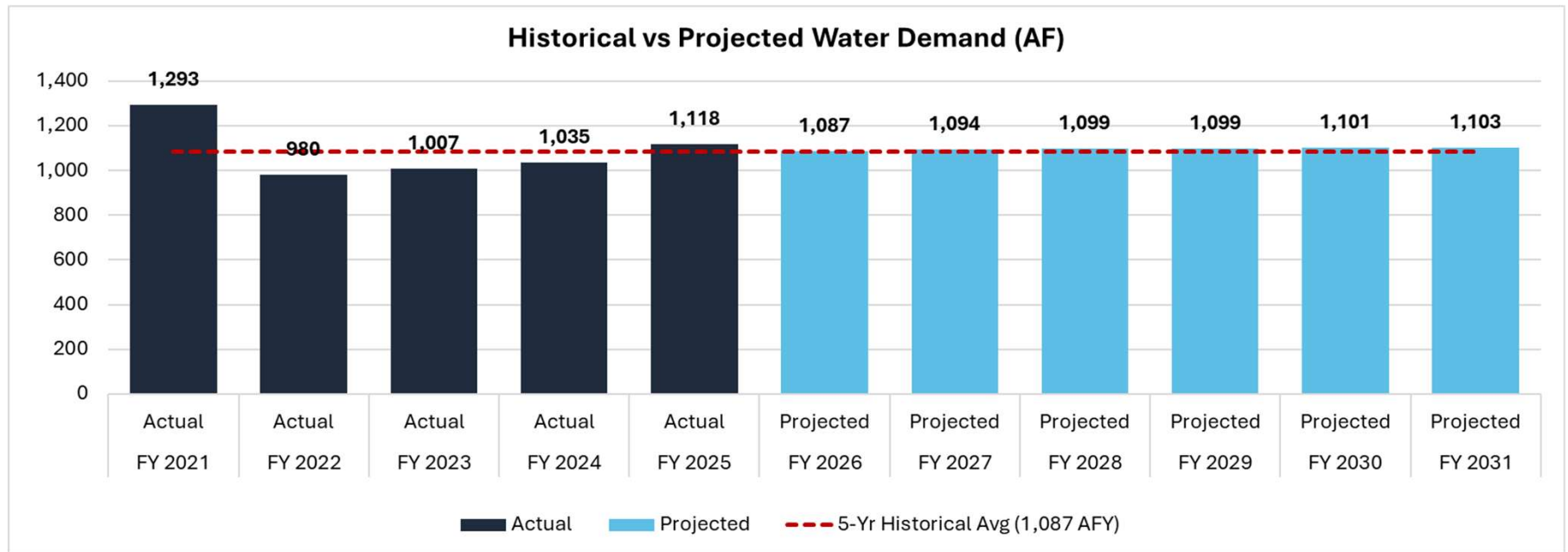
# Financial Plan



**Water Resources  
Economics**

# Key Financial Plan Assumptions: Water Demand

- FY 2026 projected water demand set equal to 5-year historical average
- Projected increases in FY 2027-FY 2031 due to new development\*

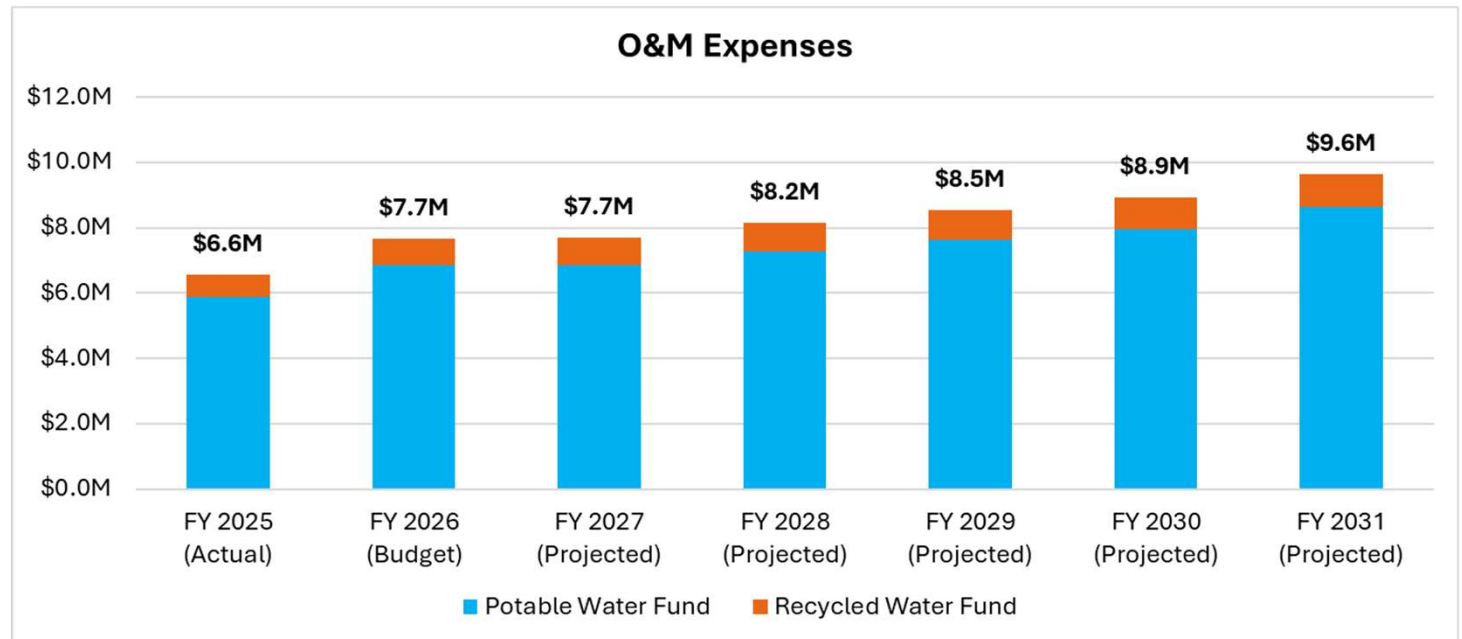


*\*Conservatively assuming 12 new connections per year on average based on planned construction*

# Key Financial Plan Assumptions: O&M Expenses

- O&M expenses projected to increase by 4.7% per year on average

Expense Type	Assumed Annual Inflation
General	3%
Salaries	5%
Benefits	8%
Utilities	5%
Chemicals	5%
Recycled Water Treatment Plant	5%



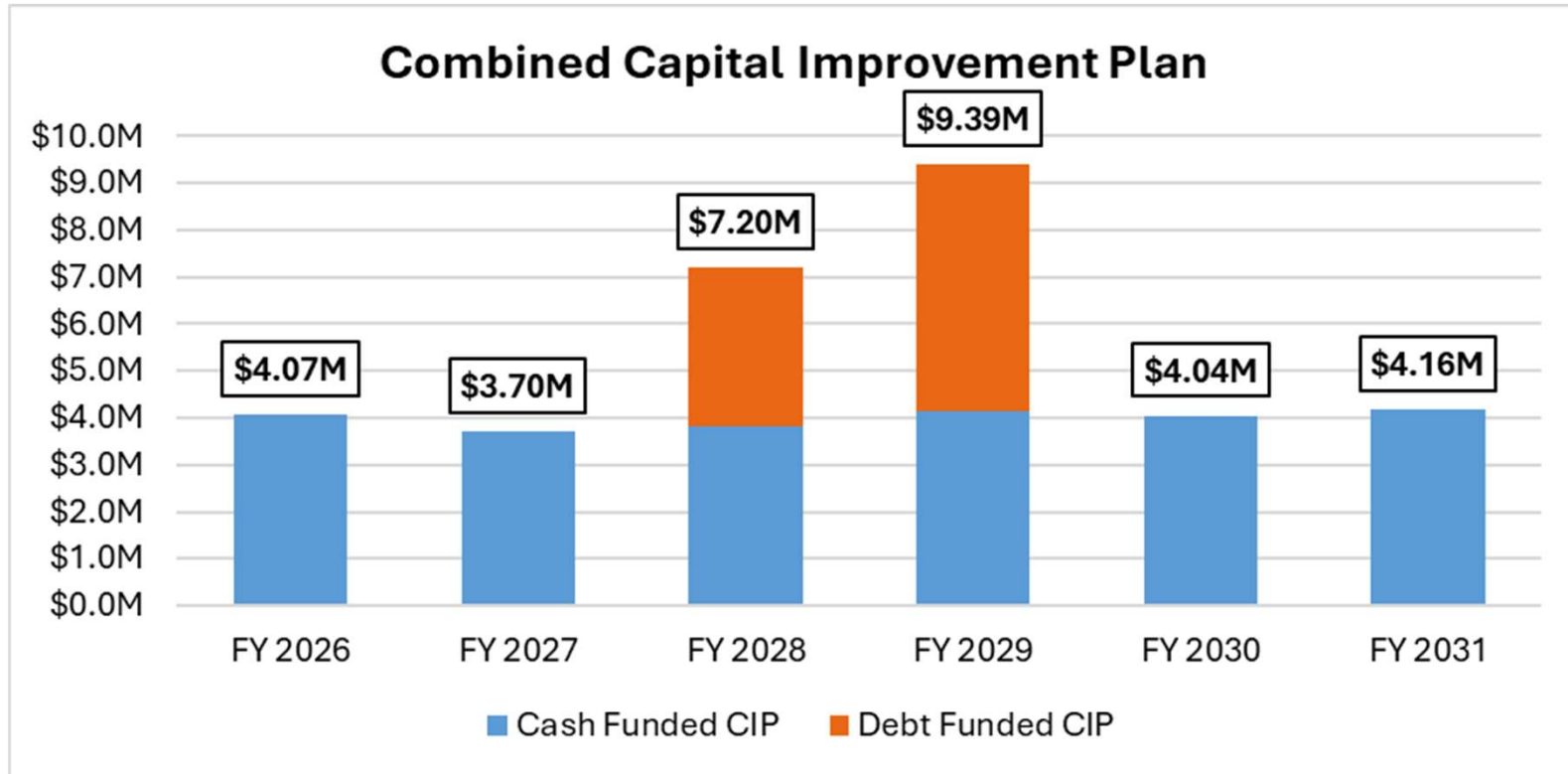
# Key Financial Plan Assumptions: CIP

- \$8 million in project costs assumed to be debt financed (*identified in red below*)
- All other project costs are “levelized” on an annual basis and assumed to be cash funded by rates/reserves

CIP Project Costs (Current Dollars*)	FY 2026	FY 2027	FY 2028	FY 2029	FY 2030	FY 2031	Total
<b>Potable Water Fund</b>							
<i>Bethany Tank Rehabilitation</i>	\$481,387		<b>\$3,000,000</b>	<b>\$3,000,000</b>			\$6,481,387
<i>Mt. Roberta Tank Replacement</i>			\$100,000	<b>\$1,000,000</b>			\$1,100,000
<i>Villa Fontenay Tank Replacement</i>			\$100,000	<b>\$1,000,000</b>			\$1,100,000
All Other Potable CIP Projects (Levelized)	\$3,483,669	\$3,483,669	\$3,483,669	\$3,483,669	\$3,483,669	\$3,483,669	\$20,902,013
<b>Subtotal</b>	<b>\$3,965,055</b>	<b>\$3,483,669</b>	<b>\$6,683,669</b>	<b>\$8,483,669</b>	<b>\$3,483,669</b>	<b>\$3,483,669</b>	<b>\$29,583,400</b>
<b>Recycled Water Fund</b>							
All Recycled Water CIP Projects (Levelized)	\$107,500	\$107,500	\$107,500	\$107,500	\$107,500	\$107,500	\$645,000
<b>Subtotal</b>	<b>\$107,500</b>	<b>\$107,500</b>	<b>\$107,500</b>	<b>\$107,500</b>	<b>\$107,500</b>	<b>\$107,500</b>	<b>\$645,000</b>
<b>Total</b>	<b>\$4,072,555</b>	<b>\$3,591,169</b>	<b>\$6,791,169</b>	<b>\$8,591,169</b>	<b>\$3,591,169</b>	<b>\$3,591,169</b>	<b>\$30,228,400</b>

\*Costs shown are in current dollars and do not yet include inflationary adjustments

# Key Financial Plan Assumptions: CIP Summary



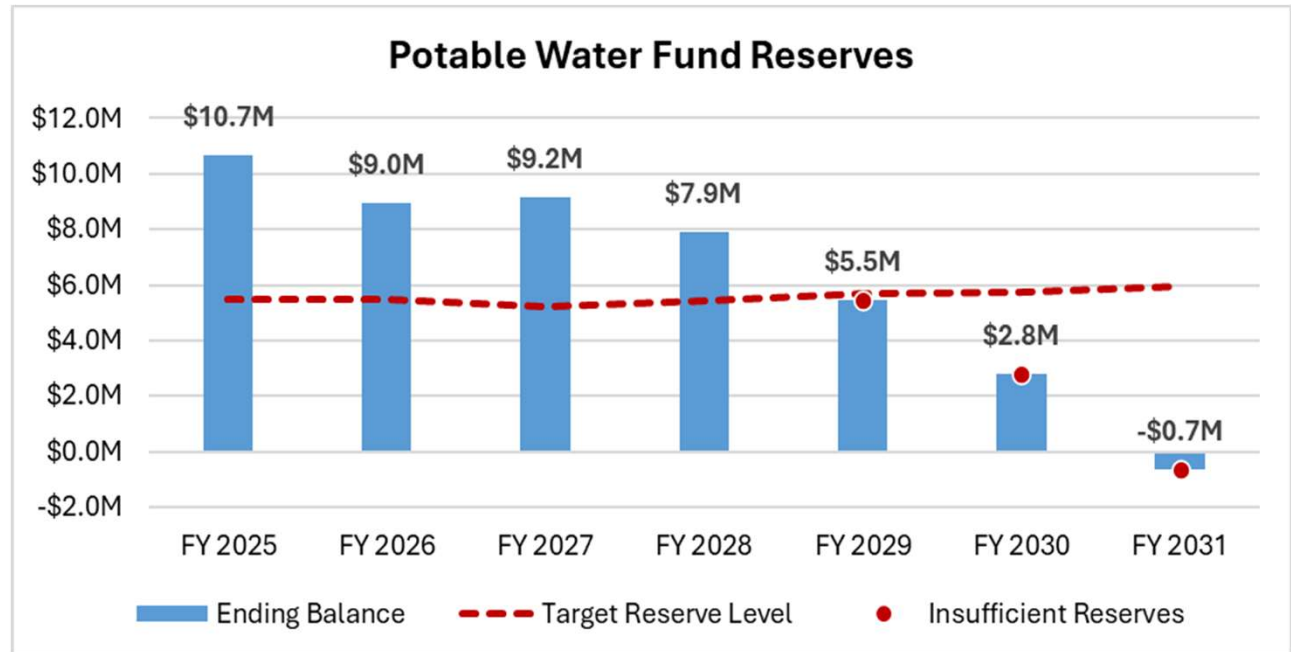
*\*Costs shown include inflationary adjustments of 3% per year beginning in FY 2027*

# Financial Policies/Requirements

- Reserve target (~\$6 million in FY 2026):
  - Operating Reserve: 90 days of operating expenses
  - Rate Stabilization Reserve: 20% of volumetric water sales revenue
  - Emergency Reserve: 2.5% of asset valuation
  - Capital Reserve: 1 year of depreciation
  - Debt Service Reserve: 100% of debt service
- Debt service coverage requirement:
  - Net revenues must equal at least 1.20 times annual debt service

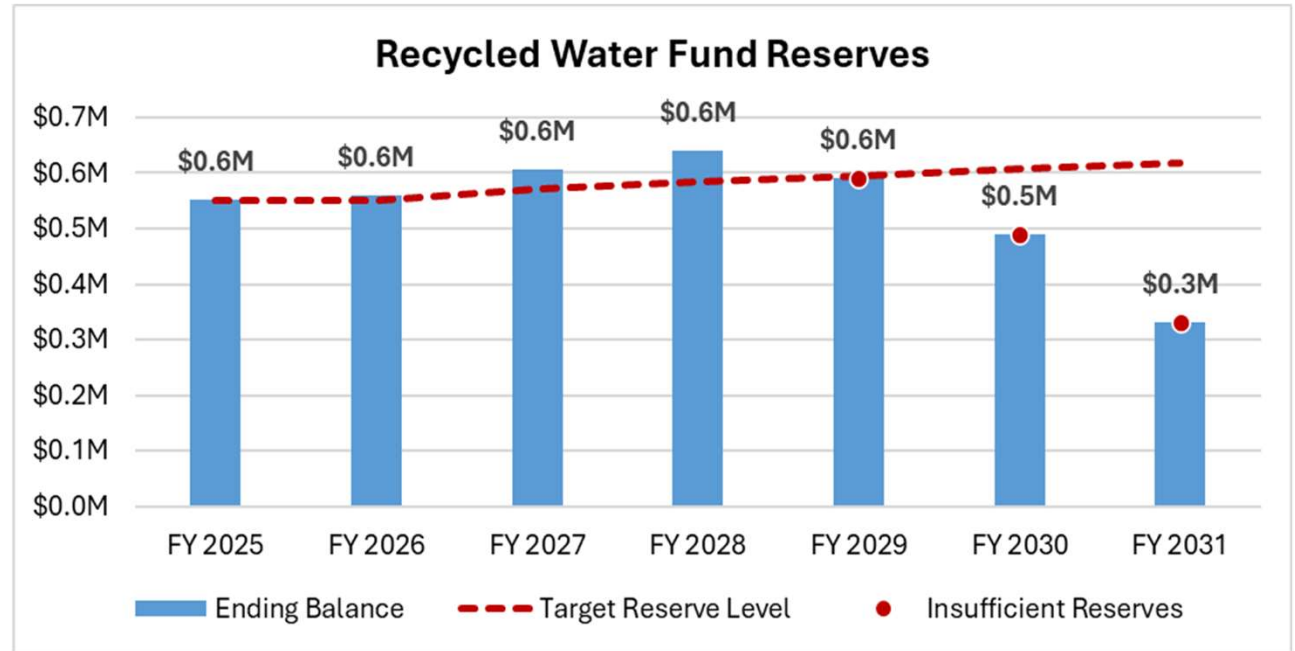
# Status Quo Financial Plan: Potable Water Fund

Fiscal Year	Effective Month	Revenue Adjustment
FY 2027	Jan. 2027	0%
FY 2028	Jan. 2028	0%
FY 2029	Jan. 2029	0%
FY 2030	Jan. 2030	0%
FY 2031	Jan. 2031	0%



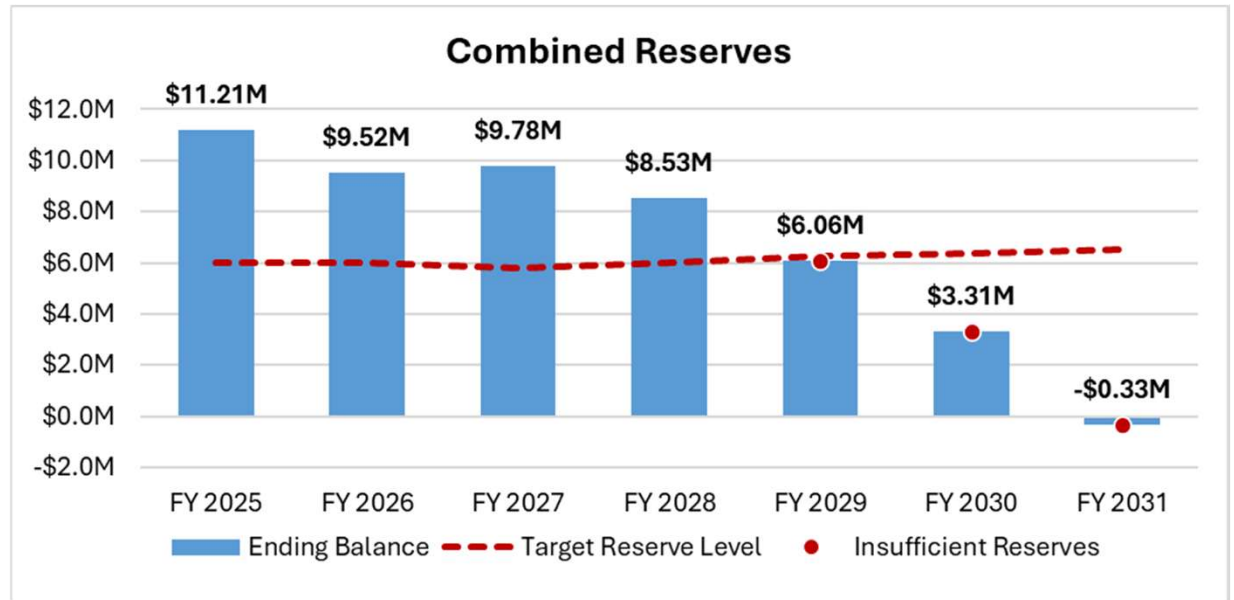
# Status Quo Financial Plan: Recycled Water Fund

Fiscal Year	Effective Month	Revenue Adjustment
FY 2027	Jan. 2027	0%
FY 2028	Jan. 2028	0%
FY 2029	Jan. 2029	0%
FY 2030	Jan. 2030	0%
FY 2031	Jan. 2031	0%



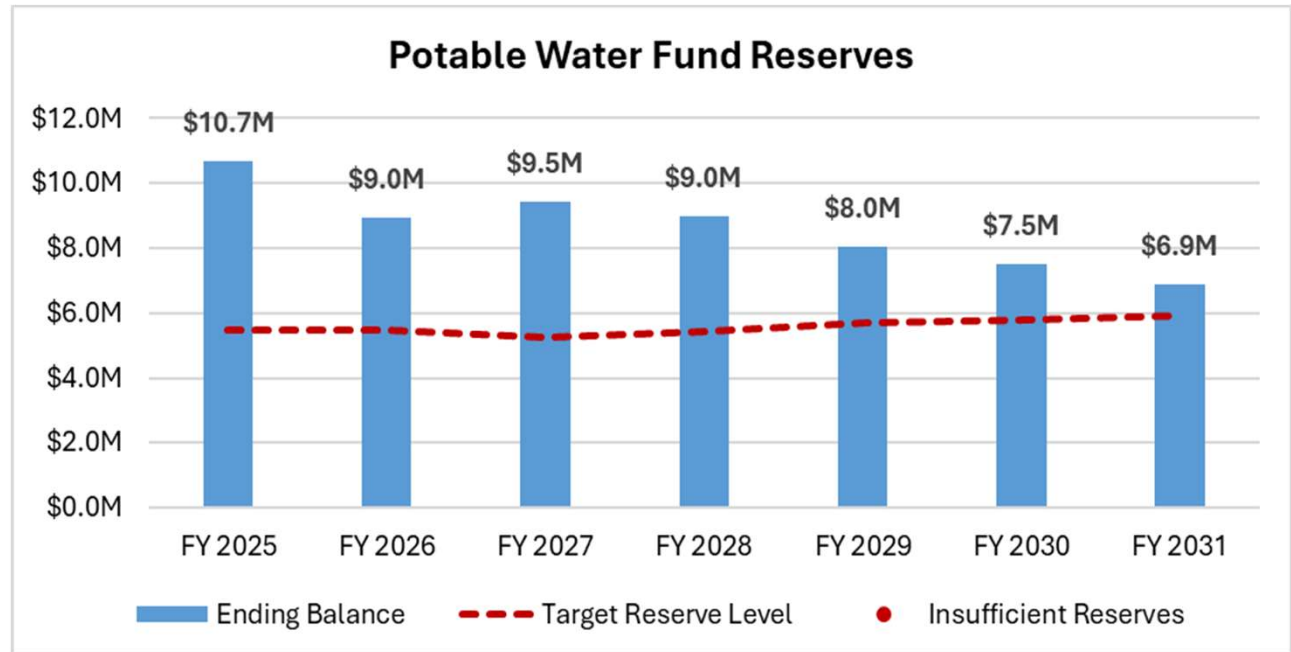
# Status Quo Financial Plan: Combined Funds

Fiscal Year	Effective Month	Potable Revenue Adjustment	Recycled Revenue Adjustment
FY 2027	Jan. 2027	0.0%	0.0%
FY 2028	Jan. 2028	0.0%	0.0%
FY 2029	Jan. 2029	0.0%	0.0%
FY 2030	Jan. 2030	0.0%	0.0%
FY 2031	Jan. 2031	0.0%	0.0%



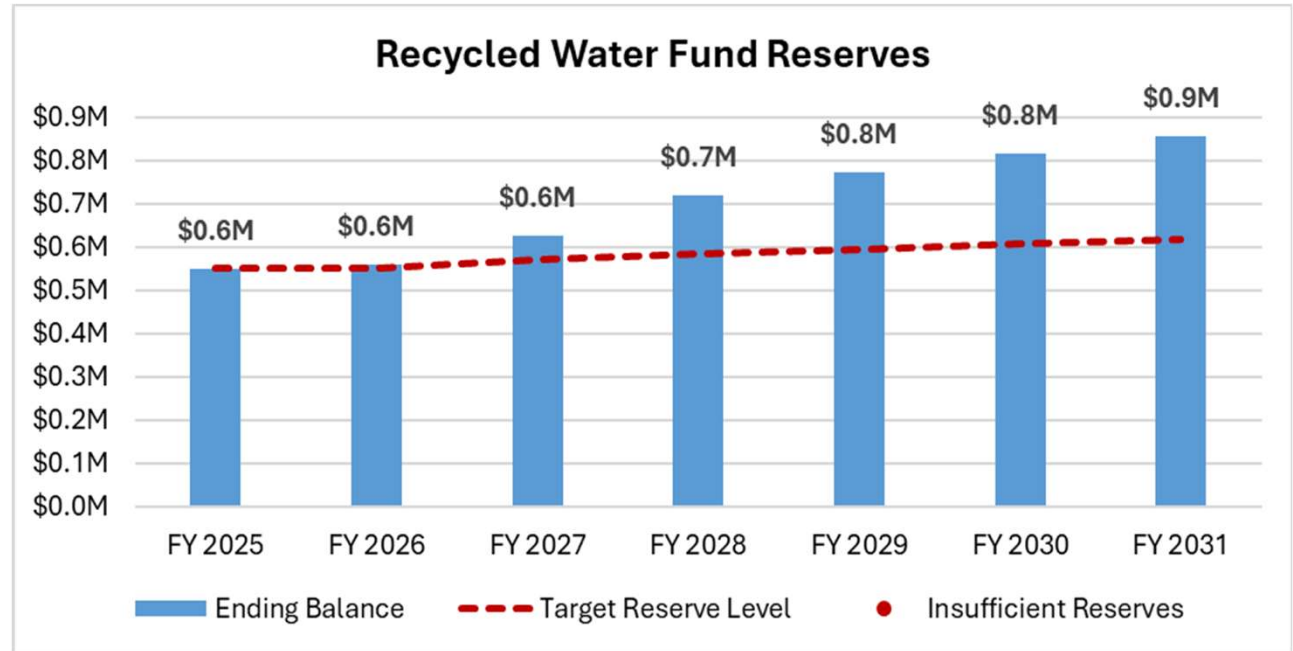
# Proposed Financial Plan: Potable Water Fund

Fiscal Year	Effective Month	Revenue Adjustment
FY 2027	Jan. 2027	6.5%
FY 2028	Jan. 2028	6.5%
FY 2029	Jan. 2029	6.5%
FY 2030	Jan. 2030	6.5%
FY 2031	Jan. 2031	6.5%



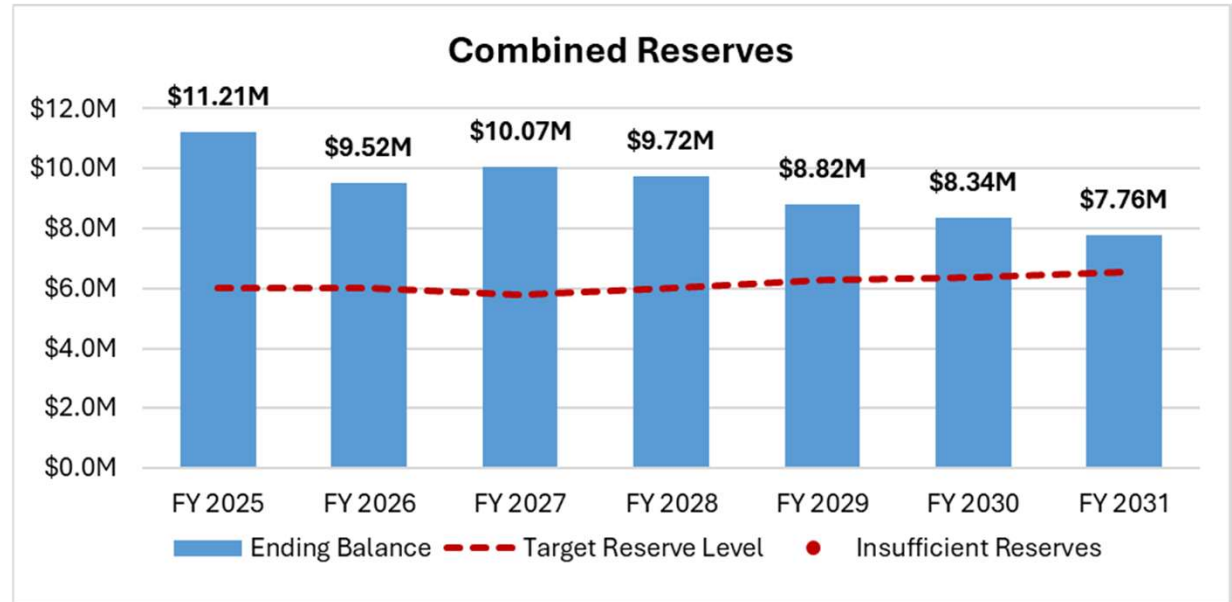
# Proposed Financial Plan: Recycled Water Fund

Fiscal Year	Effective Month	Revenue Adjustment
FY 2027	Jan. 2027	4.0%
FY 2028	Jan. 2028	4.0%
FY 2029	Jan. 2029	4.0%
FY 2030	Jan. 2030	4.0%
FY 2031	Jan. 2031	4.0%



# Proposed Financial Plan: Combined Funds

Fiscal Year	Effective Month	Potable Revenue Adjustment	Recycled Revenue Adjustment
FY 2027	Jan. 2027	6.5%	4.0%
FY 2028	Jan. 2028	6.5%	4.0%
FY 2029	Jan. 2029	6.5%	4.0%
FY 2030	Jan. 2030	6.5%	4.0%
FY 2031	Jan. 2031	6.5%	4.0%



# Revenue Adjustment Summary

Fiscal Year	Potable Water Revenue Adjustments	Recycled Water Revenue Adjustments
FY 2017 Adopted	25.0%	25.0%
FY 2018 Adopted	15.0%	15.0%
FY 2019 Adopted	10.0%	5.0%
FY 2020 Adopted	10.0%	3.0%
FY 2021 Adopted	10.0%	3.0%
FY 2022 Adopted	5.0%	5.0%
FY 2023 Adopted	5.0%	5.0%
FY 2024 Adopted*	5.0%	10.0%
FY 2025 Adopted	5.0%	10.0%
FY 2026 Adopted	5.0%	10.0%
<b><i>FY 2027 Proposed</i></b>	<b>6.5%</b>	<b>4.0%</b>
<b><i>FY 2028 Proposed</i></b>	<b>6.5%</b>	<b>4.0%</b>
<b><i>FY 2029 Proposed</i></b>	<b>6.5%</b>	<b>4.0%</b>
<b><i>FY 2030 Proposed</i></b>	<b>6.5%</b>	<b>4.0%</b>
<b><i>FY 2031 Proposed</i></b>	<b>6.5%</b>	<b>4.0%</b>

\*Note that 3% potable revenue adjustments were implemented in FY 2024 (lower than the 5% adopted adjustment)

# Rate Structure



**Water Resources  
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# Current Potable Fixed Charges

MONTHLY RATE SCHEDULE - POTABLE WATER					
BASIC METER CHARGE	Effective 1/1/2022	Effective 1/1/2023	Effective 1/1/2024	Effective 1/1/2025	Effective 1/1/2026
<b>Meter Size</b>					
5/8"	\$44.07	\$46.28	\$47.67	\$50.05	\$52.55
5/8" Rate Assistance (Residential)	\$30.85	\$32.40	\$33.37	\$35.04	\$36.79
5/8" Fire Service (Residential/Commercial)	\$11.66	\$12.24	\$12.61	\$13.24	\$13.90
3/4" (Multi-Residential, incl Fire Service) *	\$55.73	\$58.51	\$60.27	\$63.28	\$66.44
3/4"	\$61.61	\$64.69	\$66.63	\$69.96	\$73.46
1"	\$96.81	\$101.65	\$104.70	\$109.94	\$115.43
1 1/2"	\$192.74	\$202.38	\$208.45	\$218.87	\$229.81
2"	\$310.24	\$325.75	\$335.52	\$352.30	\$369.92
3"	\$643.91	\$676.10	\$696.38	\$731.20	\$767.76
4"	\$1,138.55	\$1,195.48	\$1,231.34	\$1,292.91	\$1,357.55
6"	\$2,269.80	\$2,383.29	\$2,454.79	\$2,577.53	\$2,706.40

# Current Potable Volumetric Rates

<b>VOLUMETRIC RATES</b> <b>(Per 100 Gal)</b>	<b>Effective</b> <b>1/1/2022</b>	<b>Effective</b> <b>1/1/2023</b>	<b>Effective</b> <b>1/1/2024</b>	<b>Effective</b> <b>1/1/2025</b>	<b>Effective</b> <b>1/1/2026</b>
<b>Tiers for Residential Units with Individual Meters</b>					
0 TO 3,000	\$0.83	\$0.87	\$0.90	\$0.94	\$0.99
3,001 TO 6,000	\$1.33	\$1.39	\$1.43	\$1.50	\$1.58
6,001 TO 7,000	\$2.40	\$2.52	\$2.60	\$2.73	\$2.86
OVER 7,000	\$2.88	\$3.03	\$3.12	\$3.28	\$3.44
<b>Tiers for Multi-Residential Units with Master Meters</b>					
<b>**</b>					
0 TO 3,000	\$0.83	\$0.87	\$0.90	\$0.94	\$0.99
3,001 TO 3,200	\$1.33	\$1.39	\$1.43	\$1.50	\$1.58
3,201 TO 7,000	\$2.40	\$2.52	\$2.60	\$2.73	\$2.86
OVER 7,000	\$2.88	\$3.03	\$3.12	\$3.28	\$3.44
<b>UNIFORM RATES</b>					
<b>(Per 100 Gal)</b>	<b>Effective</b> <b>1/1/2022</b>	<b>Effective</b> <b>1/1/2023</b>	<b>Effective</b> <b>1/1/2024</b>	<b>Effective</b> <b>1/1/2025</b>	<b>Effective</b> <b>1/1/2026</b>
Commercial, Industrial, Institutional (CII)	\$1.35	\$1.42	\$1.46	\$1.53	\$1.61
Landscape Potable	\$2.22	\$2.33	\$2.40	\$2.52	\$2.65
Qualifying Medical Needs Residential	\$1.33	\$1.39	\$1.43	\$1.50	\$1.58
Rate Assistance (Residential)	\$0.83	\$0.87	\$0.90	\$0.94	\$0.99

# Current Recycled Water Rates

<b>MONTHLY RATE SCHEDULE - RECYCLED WATER</b>					
<b>BASIC METER CHARGE</b>	<b>Effective 1/1/2022</b>	<b>Effective 1/1/2023</b>	<b>Effective 1/1/2024</b>	<b>Effective 1/1/2025</b>	<b>Effective 1/1/2026</b>
<b>Meter Size</b>					
5/8"	\$44.07	\$46.28	\$48.59	\$50.05	\$52.55
3/4"	\$61.61	\$64.69	\$67.92	\$69.96	\$73.46
1"	\$96.81	\$101.65	\$106.73	\$109.94	\$115.43
1 1/2"	\$192.74	\$202.38	\$212.50	\$218.87	\$229.81
2"	\$310.24	\$325.75	\$342.04	\$352.30	\$369.92
3"	\$643.91	\$676.10	\$709.91	\$731.20	\$767.76
4"	\$1,138.55	\$1,195.48	\$1,255.25	\$1,292.91	\$1,357.55
6"	\$2,269.80	\$2,383.29	\$2,502.45	\$2,577.53	\$2,706.40
<b>VOLUMETRIC RATES (Per 100 Gal)</b>	<b>Effective 1/1/2022</b>	<b>Effective 1/1/2023</b>	<b>Effective 1/1/2024</b>	<b>Effective 1/1/2025</b>	<b>Effective 1/1/2026</b>
Landscape Recycled	\$1.41	\$1.48	\$1.64	\$1.82	\$2.01

# Potable Volumetric Rate Structure

- Current
  - Residential: 4 tiers
  - All other customer classes: Uniform
- Option 1:
  - 3 tiers (same for all customer classes)
- Option 2:
  - Uniform (same for all customer classes)

# Potable Volumetric Rate Structure: Option 1

<b>Tier</b>	<b>Monthly Allotment (All Customers)</b>	<b>Rationale</b>
<b>Tier 1</b>	0-5,000 gallons	<i>Typical indoor water use (average water use during winter low)</i>
<b>Tier 2</b>	5,001-8,500 gallons	<i>Typical outdoor water use (average water use during summer peak)</i>
<b>Tier 3</b>	> 8,500 gallons	<i>All additional water use</i>

# Potable Volumetric Rate Structure: Option 1 vs. Current

Monthly Allotment	Alternative Option 1 (All Customers)	Current (Single Family Residential)	Current (Multi-Family Residential)
<b>Tier 1</b>	0-5,000 gallons	0-3,000 gallons	0-3,000 gallons
<b>Tier 2</b>	5,001-8,500 gallons	3,001-6,000 gallons	3,001-3,200 gallons
<b>Tier 3</b>	> 8,500 gallons	6,001-7,000 gallons	3,201-7,000 gallons
<b>Tier 4</b>	N/A	> 7,000 gallons	> 7,000 gallons

# Preliminary Rate Options



**Water Resources  
Economics**

## Current and Proposed Fixed Charges (FY 2027)

- Distributional impacts due to updated cost-of-service analysis

Monthly Basic Meter Charge (Potable and Recycled)	Number of Accounts	Current Charge	Proposed FY 2027 Charge	Difference (\$)	Difference (%)
5/8-inch	3,333	\$52.55	<b>\$59.37</b>	\$6.82	13.0%
5/8-inch Rate Assistance (Residential)	40	\$36.79	<b>\$41.56</b>	\$4.77	13.0%
5/8-inch Fire Service (Residential/Commercial)	521	\$13.90	<b>\$10.77</b>	(\$3.13)	-22.5%
3/4-inch (Multi-Residential, incl. Fire Service)	347	\$66.44	<b>\$70.13</b>	\$3.69	5.6%
3/4-inch	49	\$73.46	<b>\$82.26</b>	\$8.80	12.0%
1-inch	135	\$115.43	<b>\$128.05</b>	\$12.62	10.9%
1.5-inch	48	\$229.81	<b>\$242.52</b>	\$12.71	5.5%
2-inch	42	\$369.92	<b>\$379.88</b>	\$9.96	2.7%
3-inch	3	\$767.76	<b>\$814.86</b>	\$47.10	6.1%
4-inch	1	\$1,357.55	<b>\$1,455.88</b>	\$98.33	7.2%
6-inch	0	\$2,706.40	<b>\$2,989.76</b>	\$283.36	10.5%

# Proposed Volumetric Rates (FY 2027)

- Tiered rates differentiation:
  - Conservation costs allocated to Tier 3
  - Revenues offsets (i.e., property taxes) used to offset Tier 1

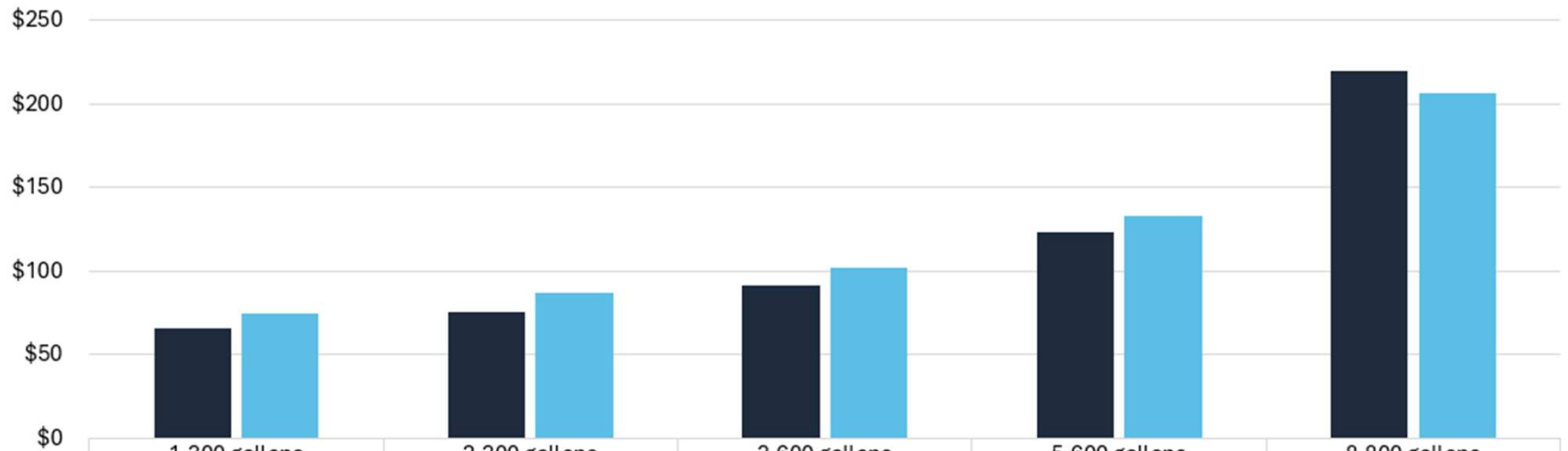
Proposed Potable Volumetric Rates	Base Delivery	Extra Capacity	Conser- vation	Revenue Offset	6.5% Revenue Adjustment	Total
<b>Option 1 (Three Tiers)</b>						
Tier 1 (0-5,000 gallons)	\$1.28	\$0.87	\$0.00	(\$1.02)	\$0.08	<b>\$1.20</b>
Tier 2 (5,001-8,500 gallons)	\$1.28	\$0.87	\$0.00	\$0.00	\$0.14	<b>\$2.29</b>
Tier 3 (> 8,500 gallons)	\$1.28	\$0.87	\$0.08	\$0.00	\$0.15	<b>\$2.38</b>
<b>Option 2 (Uniform)</b>						
Uniform	\$1.28	\$0.87	\$0.03	(\$0.52)	\$0.11	<b>\$1.77</b>

# Proposed Five-Year Rate Schedule

Proposed Rates	Proposed FY 2027	Proposed FY 2028	Proposed FY 2029	Proposed FY 2030	Proposed FY 2031
<b>Monthly Basic Meter Charge</b>					
5/8-inch	\$59.37	\$63.23	\$67.34	\$71.72	\$76.39
5/8-inch Rate Assistance (Residential)	\$41.56	\$44.27	\$47.15	\$50.22	\$53.49
5/8-inch Fire Service (Residential/Commercial)	\$10.77	\$11.48	\$12.23	\$13.03	\$13.88
3/4-inch (Multi-Residential, incl. Fire Service)	\$70.13	\$74.69	\$79.55	\$84.73	\$90.24
3/4-inch	\$82.26	\$87.61	\$93.31	\$99.38	\$105.84
1-inch	\$128.05	\$136.38	\$145.25	\$154.70	\$164.76
1.5-inch	\$242.52	\$258.29	\$275.08	\$292.97	\$312.02
2-inch	\$379.88	\$404.58	\$430.88	\$458.89	\$488.72
3-inch	\$814.86	\$867.83	\$924.24	\$984.32	\$1,048.31
4-inch	\$1,455.88	\$1,550.52	\$1,651.31	\$1,758.65	\$1,872.97
6-inch	\$2,989.76	\$3,184.10	\$3,391.07	\$3,611.49	\$3,846.24
<b>Potable Volumetric Rates (per 100 gallons)</b>					
<b>Option 1 (Three Tiers)</b>					
Tier 1 (0-5,000 gallons)	\$1.20	\$1.28	\$1.37	\$1.46	\$1.56
Tier 2 (5,001-8,500 gallons)	\$2.29	\$2.44	\$2.60	\$2.77	\$2.96
Tier 3 (> 8,500 gallons)	\$2.38	\$2.54	\$2.71	\$2.89	\$3.08
<b>Option 2 (Uniform)</b>					
Uniform	\$1.77	\$1.89	\$2.02	\$2.16	\$2.31
<b>Recycled Volumetric Rates (per 100 gallons)</b>					
Uniform	\$2.04	\$2.11	\$2.19	\$2.27	\$2.35

\*Under Option 1, all Qualifying Medical Needs Residential and Rate Assistance (Residential) water use would be charged at the Tier 1 rate.

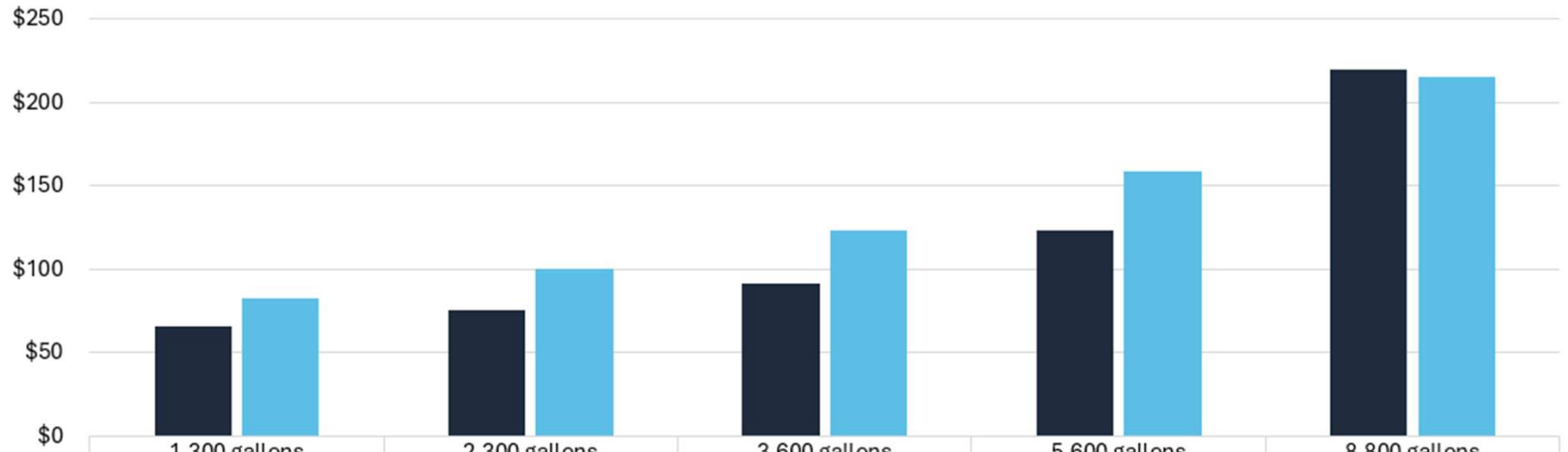
# FY 2027 Single Family Bill Impacts: Option 1 (Three Tier)



	1,300 gallons	2,300 gallons	3,600 gallons	5,600 gallons	8,800 gallons
■ Current Monthly Bill	\$65.42	\$75.32	\$91.73	\$123.33	\$220.17
■ Proposed Monthly Bill	\$74.97	\$86.97	\$102.57	\$133.11	\$206.66
Difference (\$)	\$9.55	\$11.65	\$10.84	\$9.78	(\$13.51)
Difference (%)	14.6%	15.5%	11.8%	7.9%	-6.1%

- Impacts are based on a 5/8-inch meter

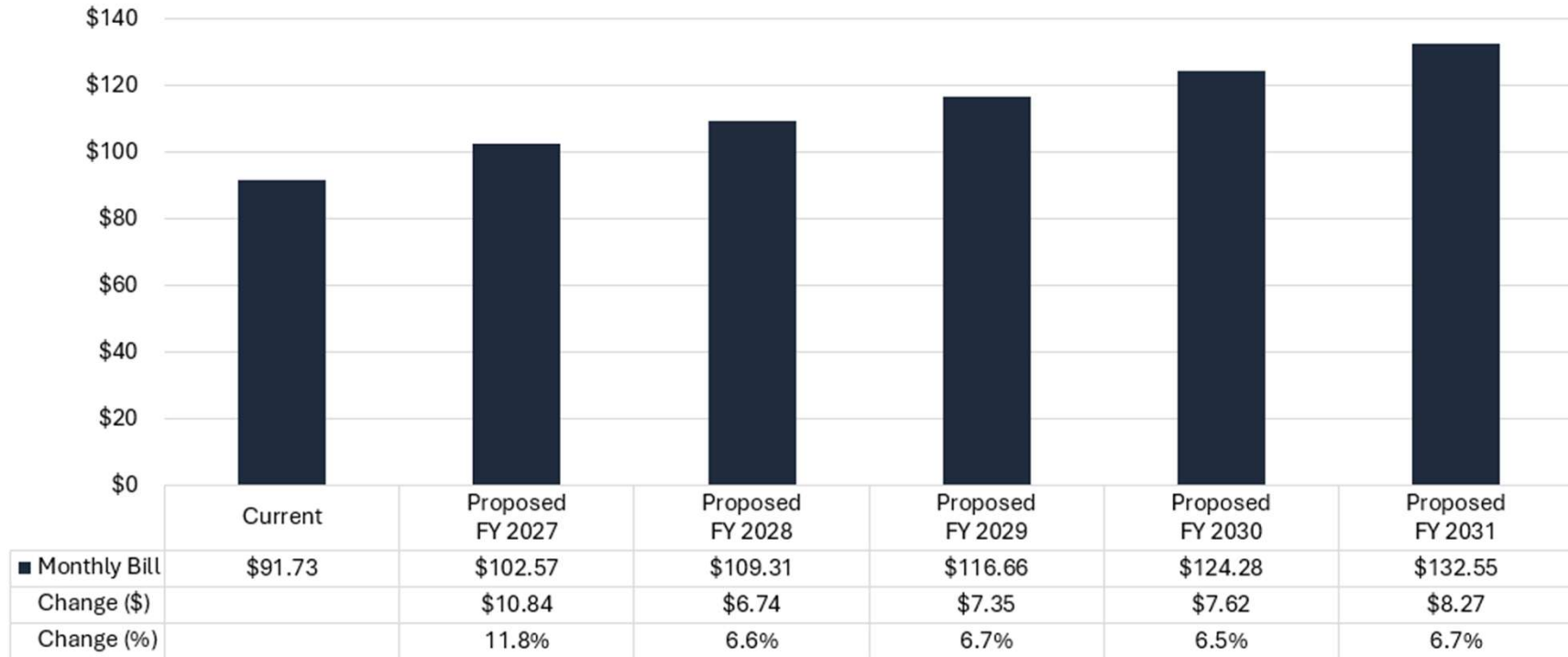
# FY 2027 Single Family Bill Impacts: Option 2 (Uniform)



	1,300 gallons	2,300 gallons	3,600 gallons	5,600 gallons	8,800 gallons
■ Current Monthly Bill	\$65.42	\$75.32	\$91.73	\$123.33	\$220.17
■ Proposed Monthly Bill	\$82.38	\$100.08	\$123.09	\$158.49	\$215.13
Difference (\$)	\$16.96	\$24.76	\$31.36	\$35.16	(\$5.04)
Difference (%)	25.9%	32.9%	34.2%	28.5%	-2.3%

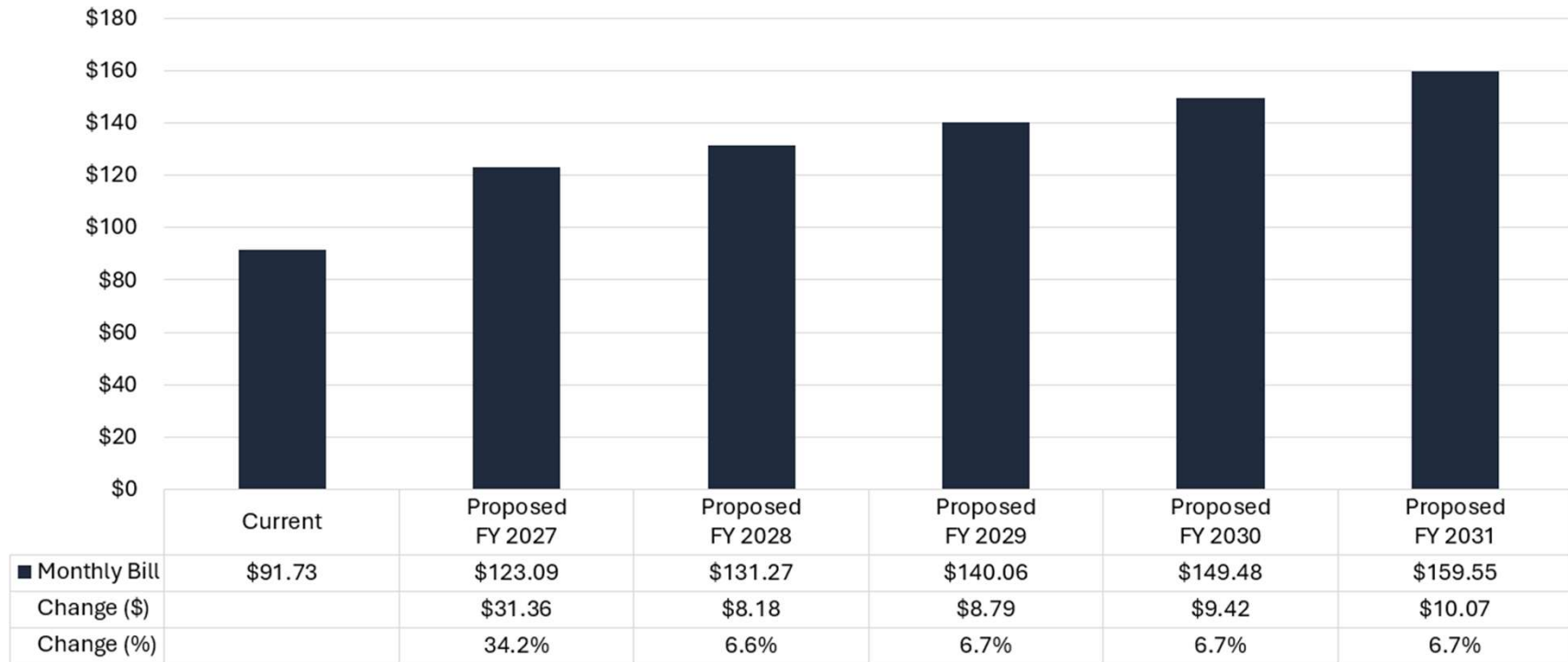
- Impacts are based on a 5/8-inch meter

# Single Family 5 Year Bill Impacts: Option 1 (Three Tier)



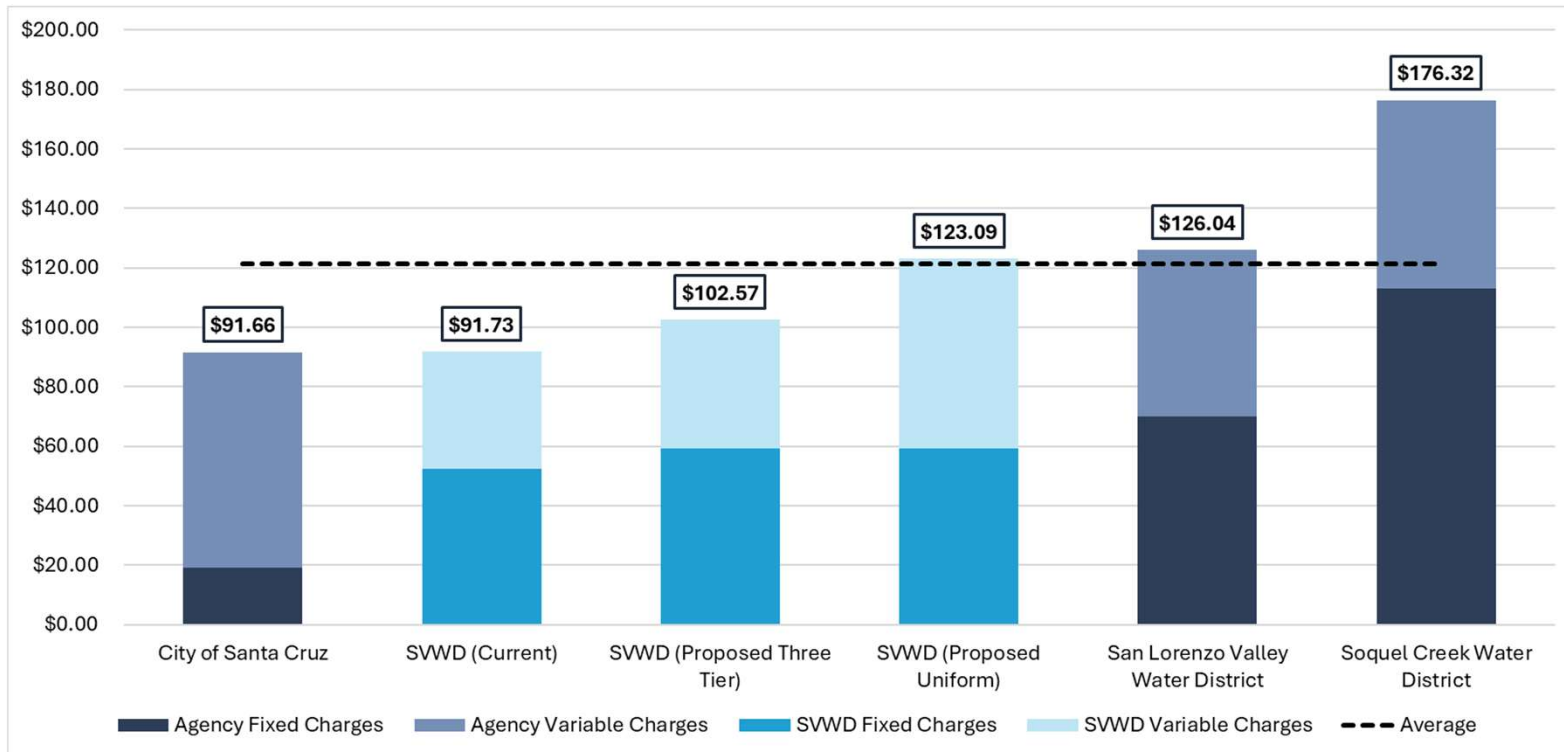
- Impacts are based on single family median usage of 3,600 gallons and a 5/8-inch meter

# Single Family 5 Year Bill Impacts: Option 2 (Uniform)



- Impacts are based on single family median usage of 3,600 gallons and a 5/8-inch meter

# FY 2027 Single Family Monthly Bill Comparison



- Impacts are based on adopted FY 2027 rates for neighboring agencies effective on 7/1/2026 or 1/1/2027 for a 5/8-inch meter assuming 3,600 monthly usage in gallons

# Discussion & Next Steps



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## Next Steps

- Update rates based on Board feedback
- Begin drafting rate study report based on Board direction
- Upcoming meetings:
  - May 14, 2026: Board to receive report and authorize Proposition 218 notice
  - July 23, 2026: Proposition 218 Public Hearing (special Board Meeting)



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Value and Price  
of Water Service**

