

SCOTTS VALLEY WATER DISTRICT 2026 RATE STUDY

Special Board Meeting – April 15, 2026



**Water Resources
Economics**

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



Agenda

- Rate study overview
- Financial plan
- Current rate structure
- Proposed rate scenarios from March 12th Board Meeting
- Revised rate scenarios
- 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

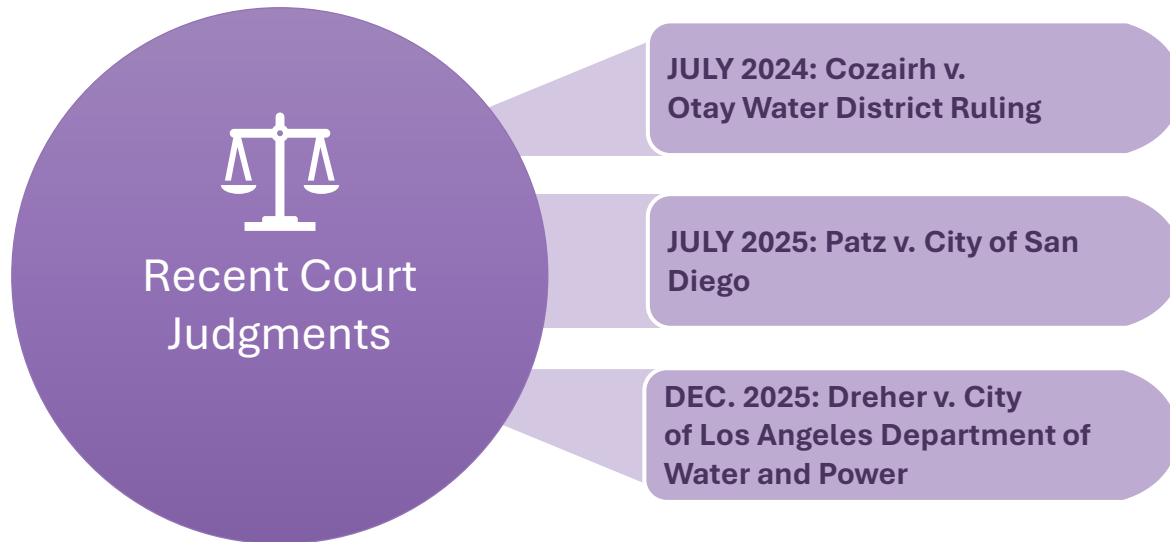
Have we adequately demonstrated the proportionality of the rates?

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



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

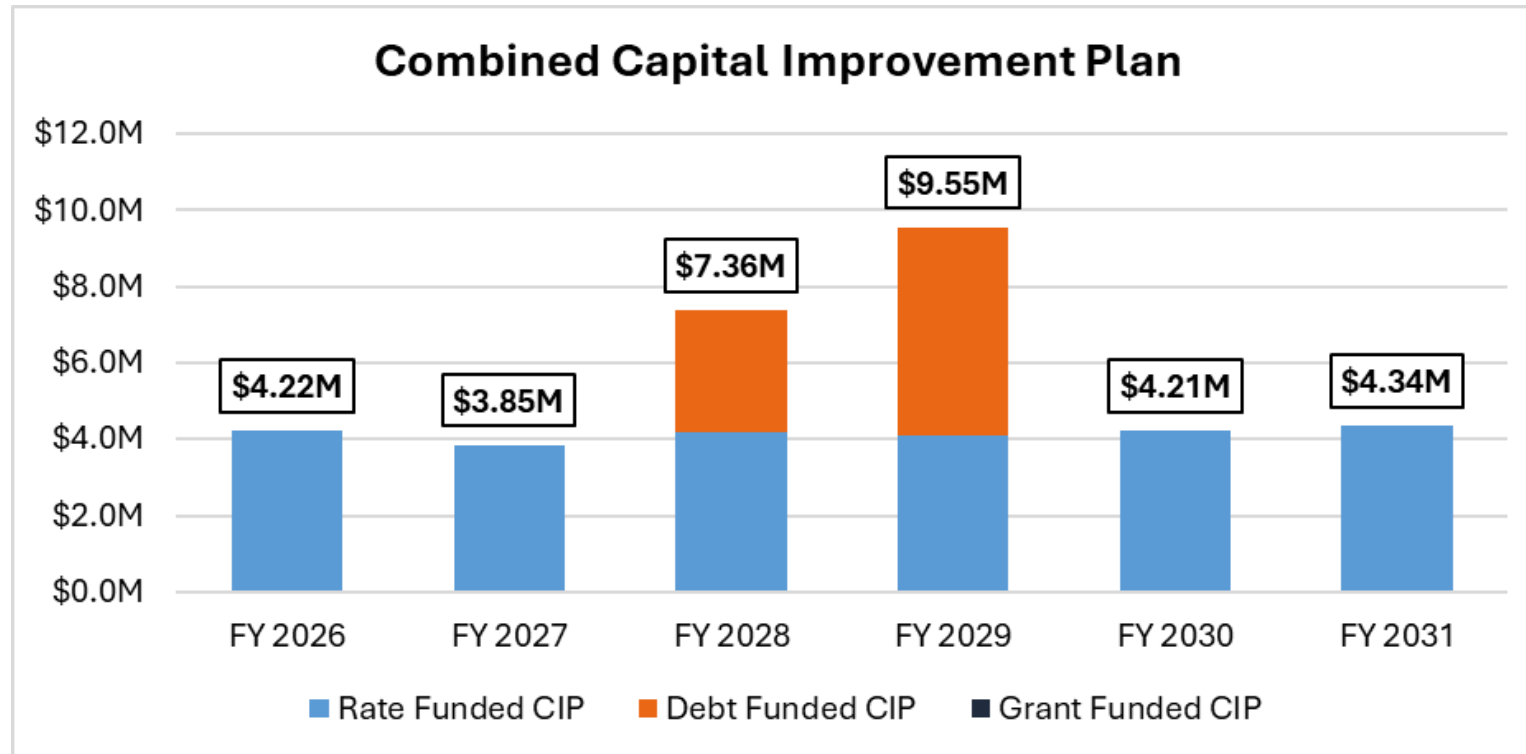
Financial Plan



**Water Resources
Economics**

Financial Plan Changes since March 12th Board Meeting

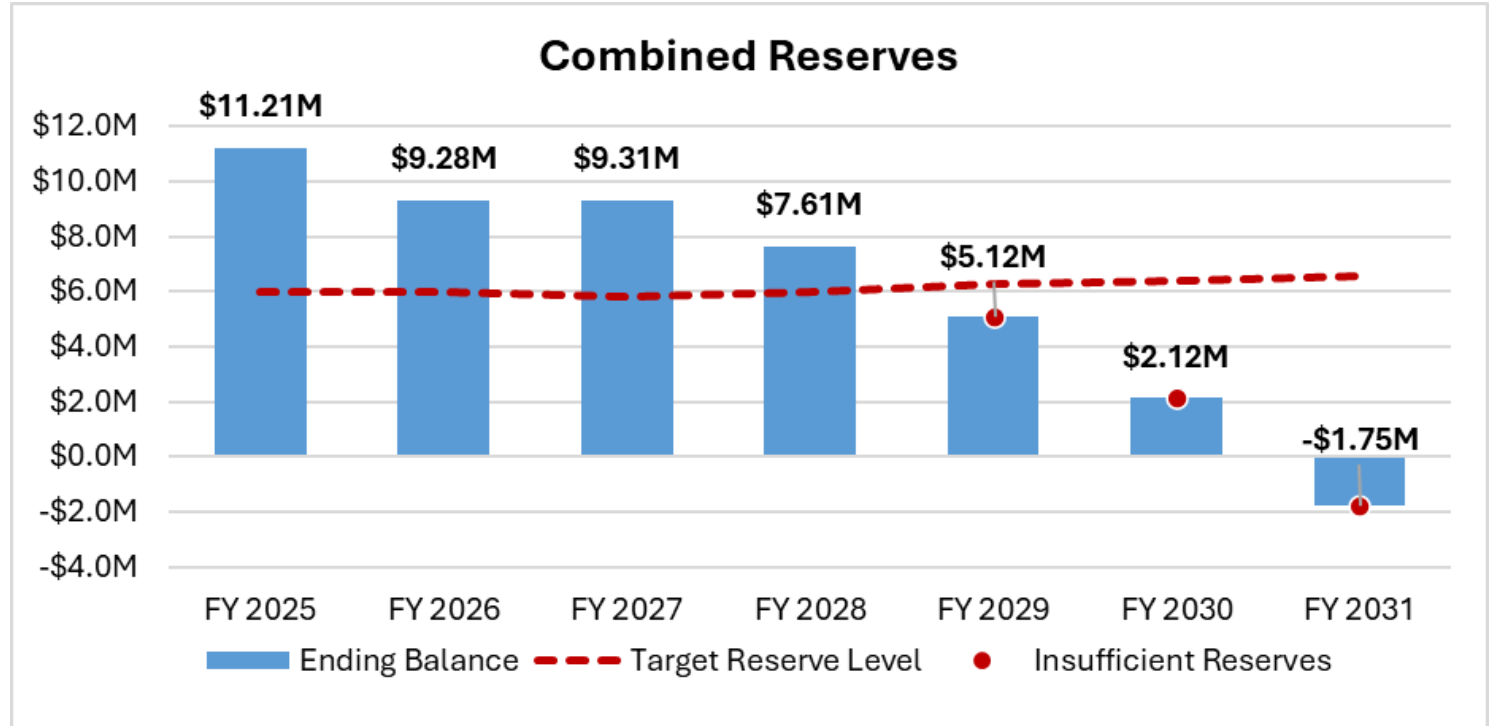
- Potable CIP increased by **\$900K** due to updated Grace Way Well costs
- Total CIP now **\$5.6M** per year on average



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

Status Quo Financial Plan: Combined Funds

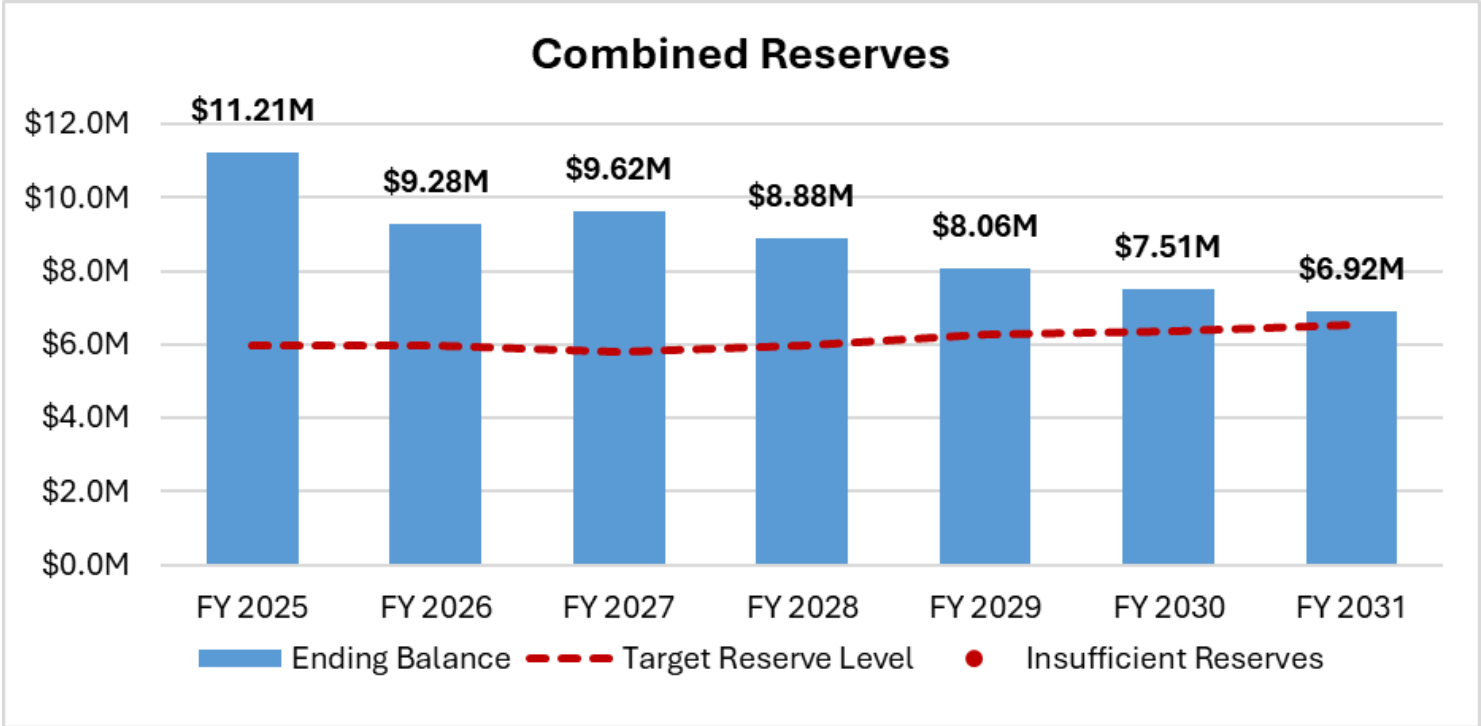
Fiscal Year	Effective Month	Potable Revenue Adjustment	Recycled Revenue Adjustment
FY 2027	Jan. 2027	0.0%	0.0%
FY 2028	Jan. 2028	0.0%	0.0%
FY 2029	Jan. 2029	0.0%	0.0%
FY 2030	Jan. 2030	0.0%	0.0%
FY 2031	Jan. 2031	0.0%	0.0%



Proposed Financial Plan: Combined Funds

Potable revenue adjustments increased from 6.5% to 7.0% per year to cover additional Grace Way Well project cost

Fiscal Year	Effective Month	Potable Revenue Adjustment	Recycled Revenue Adjustment
FY 2027	Jan. 2027	6.5% 7.0%	4.0%
FY 2028	Jan. 2028	6.5% 7.0%	4.0%
FY 2029	Jan. 2029	6.5% 7.0%	4.0%
FY 2030	Jan. 2030	6.5% 7.0%	4.0%
FY 2031	Jan. 2031	6.5% 7.0%	4.0%



Current Rate Structure



Water Resources
Economics

Current Rate Structure

- 1) Monthly fixed charge by meter size
- 2) Volumetric rate per hundred gallons
 - Potable:
 - Single family residential: 4 tiers
 - Multi-family residential: 4 tiers (*same rates as single family but smaller tier allotments*)
 - Commercial/Industrial/Institutional (CII): Uniform
 - Landscape potable: Uniform
 - Recycled: Uniform

Proposed Rate Scenarios (March 12th Board Meeting)



Water Resources
Economics

Proposed Rate Options from March 12th Board Meeting

- Potable volumetric rate structure options:
 - Option 1: 3 tiers (same for all customer classes)
 - Option 2: Uniform (same for all customer classes)

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

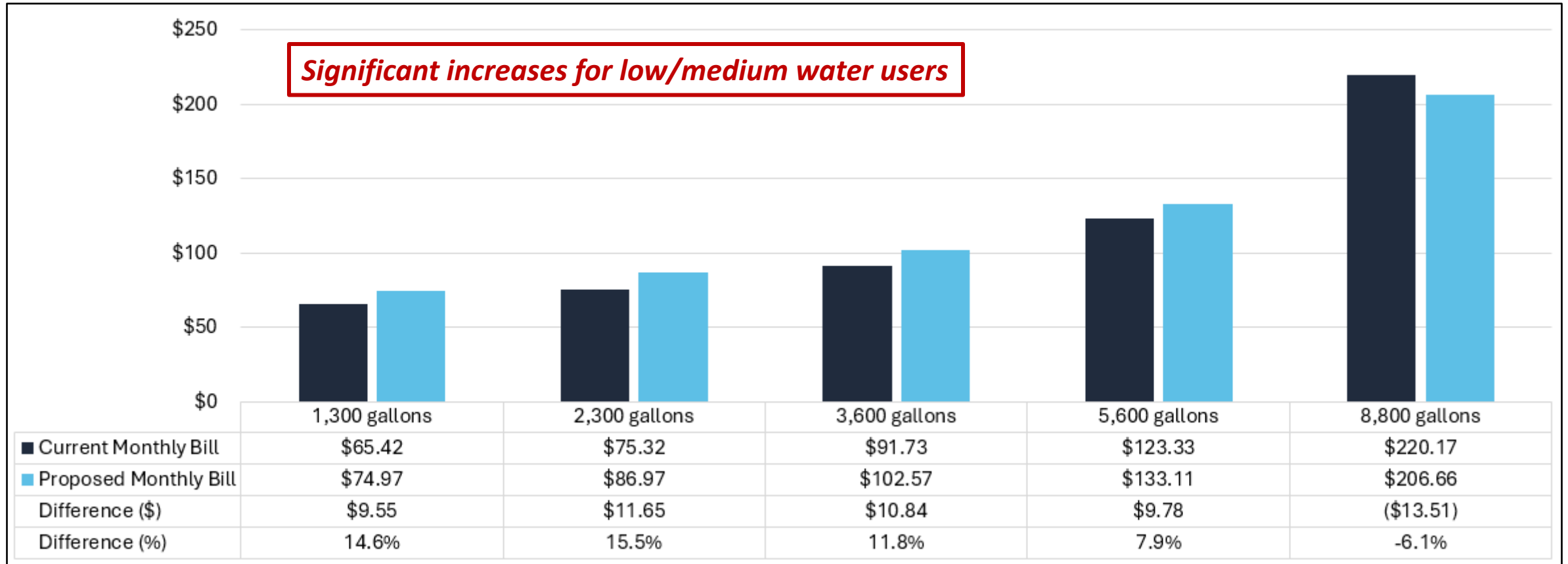
Notes:

1. Based on typical indoor water use (average water use during winter low)
2. Based on typical outdoor water use (average water use during summer peak)

Proposed Five-Year Rate Schedule – March 12th

Proposed Rates	Proposed FY 2027	Proposed FY 2028	Proposed FY 2029	Proposed FY 2030	Proposed FY 2031
Monthly Basic Meter Charge					
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
Potable Volumetric Rates (per 100 gallons)					
Option 1 (Three Tiers)					
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
Option 2 (Uniform)					
Uniform	\$1.77	\$1.89	\$2.02	\$2.16	\$2.31
Recycled Volumetric Rates (per 100 gallons)					
Uniform	\$2.04	\$2.11	\$2.19	\$2.27	\$2.35

Single Family Residential Bill Impacts: Option 1 (Three Tiers)



Very Low Use
[10th percentile]

Low Use
[25th percentile]

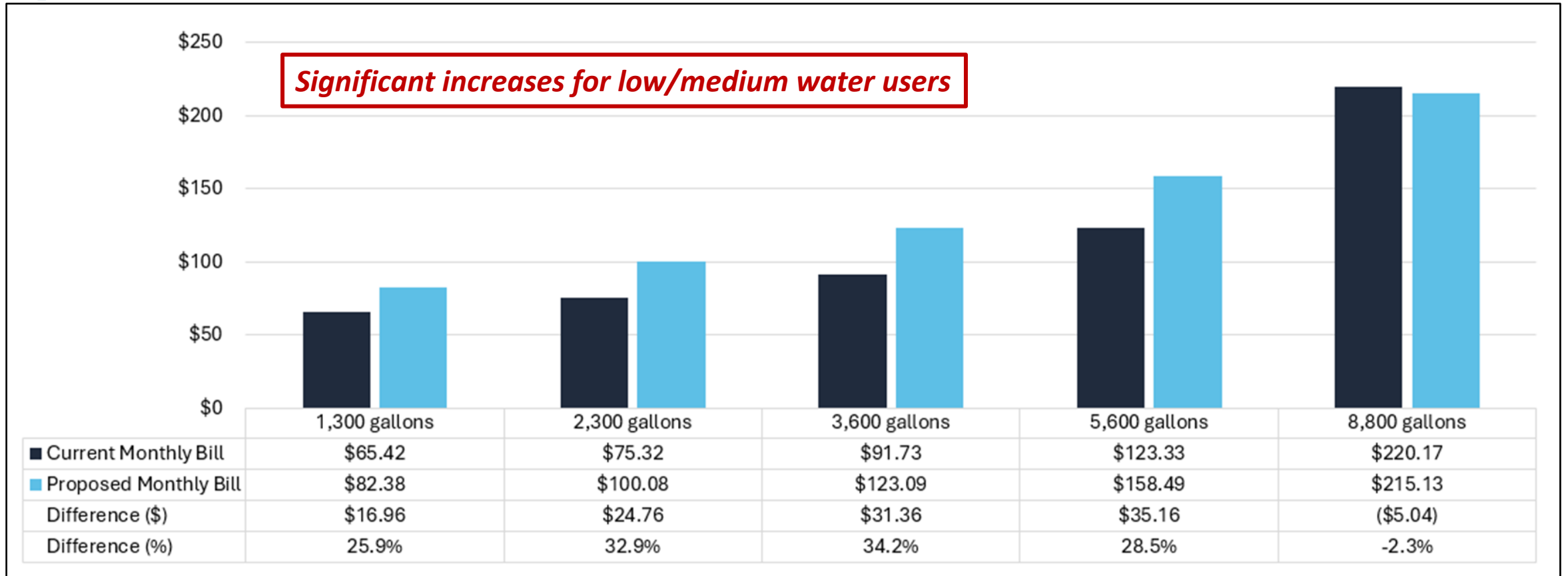
Medium Use
[Median]

High Use
[75th percentile]

Very High Use
[90th percentile]

Note: Monthly bills are based on a 5/8-inch meter; proposed bills are based on rates for 2027

Single Family Residential Bill Impacts: Option 2 (Uniform)



Very Low Use
[10th percentile]

Low Use
[25th percentile]

Medium Use
[Median]

High Use
[75th percentile]

Very High Use
[90th percentile]

Note: Monthly bills are based on a 5/8-inch meter; proposed bills are based on rates for 2027

Revised Rate Scenarios



**Water Resources
Economics**

Revised Option 1 (*per Board direction on March 12th*)

- Same 3-tier rate structure for all customers, with the following adjustments:

- Reduce fixed charge revenue from 36% to 35%
- More capacity costs allocated to higher tiers

Monthly Tier Allotments

Tier 1: 0-5,000 gallons

Tier 2: 5,001-8,500 gallons

Tier 3: > 8,500 gallons

- Pros:

- Reduced bill impacts for single family residential customers with low/medium water use

- Cons:

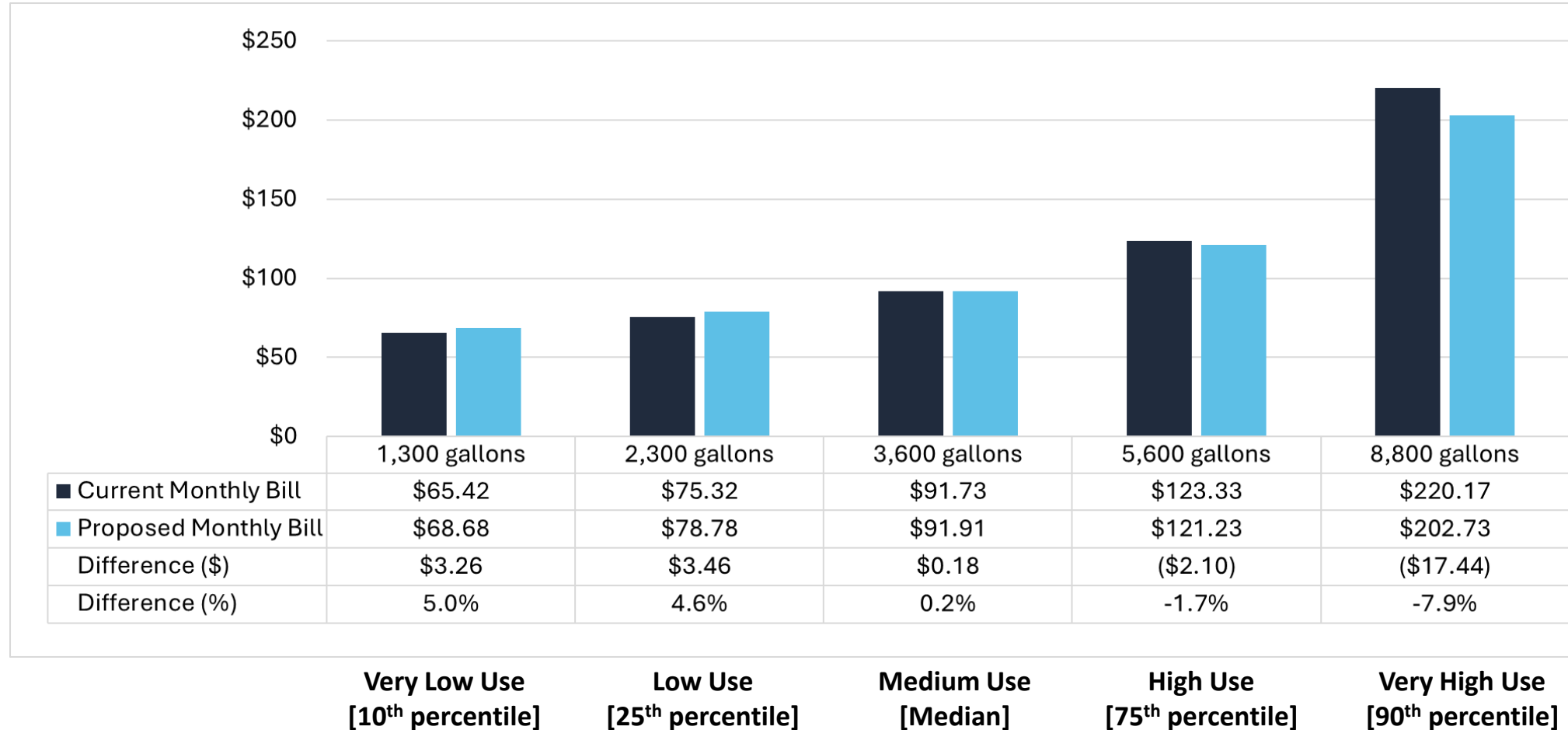
- Significantly higher bill increases for non-residential customers with high water use

Proposed Rates – Revised Option 1

Proposed Rates	Current	Proposed FY 2027	Proposed FY 2028	Proposed FY 2029	Proposed FY 2030	Proposed FY 2031
Monthly Basic Meter Charge						
5/8-inch	\$52.55	\$55.55	\$59.17	\$63.02	\$67.12	\$71.49
5/8-inch Rate Assistance (Residential)	\$36.79	\$38.88	\$41.41	\$44.11	\$46.98	\$50.04
5/8-inch Fire Service (Residential/Commercial)	\$13.90	\$10.65	\$11.35	\$12.09	\$12.88	\$13.72
3/4-inch (Multi-Residential, incl. Fire Service)	\$66.44	\$66.19	\$70.50	\$75.09	\$79.98	\$85.18
3/4-inch	\$73.46	\$76.53	\$81.51	\$86.81	\$92.46	\$98.47
1-inch	\$115.43	\$118.50	\$126.21	\$134.42	\$143.16	\$152.47
1.5-inch	\$229.81	\$223.43	\$237.96	\$253.43	\$269.91	\$287.46
2-inch	\$369.92	\$349.34	\$372.05	\$396.24	\$422.00	\$449.43
3-inch	\$767.76	\$748.06	\$796.69	\$848.48	\$903.64	\$962.38
4-inch	\$1,357.55	\$1,335.65	\$1,422.47	\$1,514.94	\$1,613.42	\$1,718.30
6-inch	\$2,706.40	\$2,741.66	\$2,919.87	\$3,109.67	\$3,311.80	\$3,527.07
Potable Volumetric Rates (per 100 gallons)						
Tier 1	\$0.99	\$1.01	\$1.08	\$1.16	\$1.24	\$1.33
Tier 2	\$1.58	\$2.53	\$2.70	\$2.88	\$3.07	\$3.27
Tier 3	\$2.86	\$2.71	\$2.89	\$3.08	\$3.29	\$3.51
Tier 4	\$3.44	N/A	N/A	N/A	N/A	N/A
Uniform – Commercial/Industrial/Institutional (CII)	\$1.61	N/A	N/A	N/A	N/A	N/A
Uniform – Landscape Potable	\$2.65	N/A	N/A	N/A	N/A	N/A
Recycled Volumetric Rates (per 100 gallons)						
Uniform	\$2.01	\$2.11	\$2.19	\$2.27	\$2.35	\$2.43

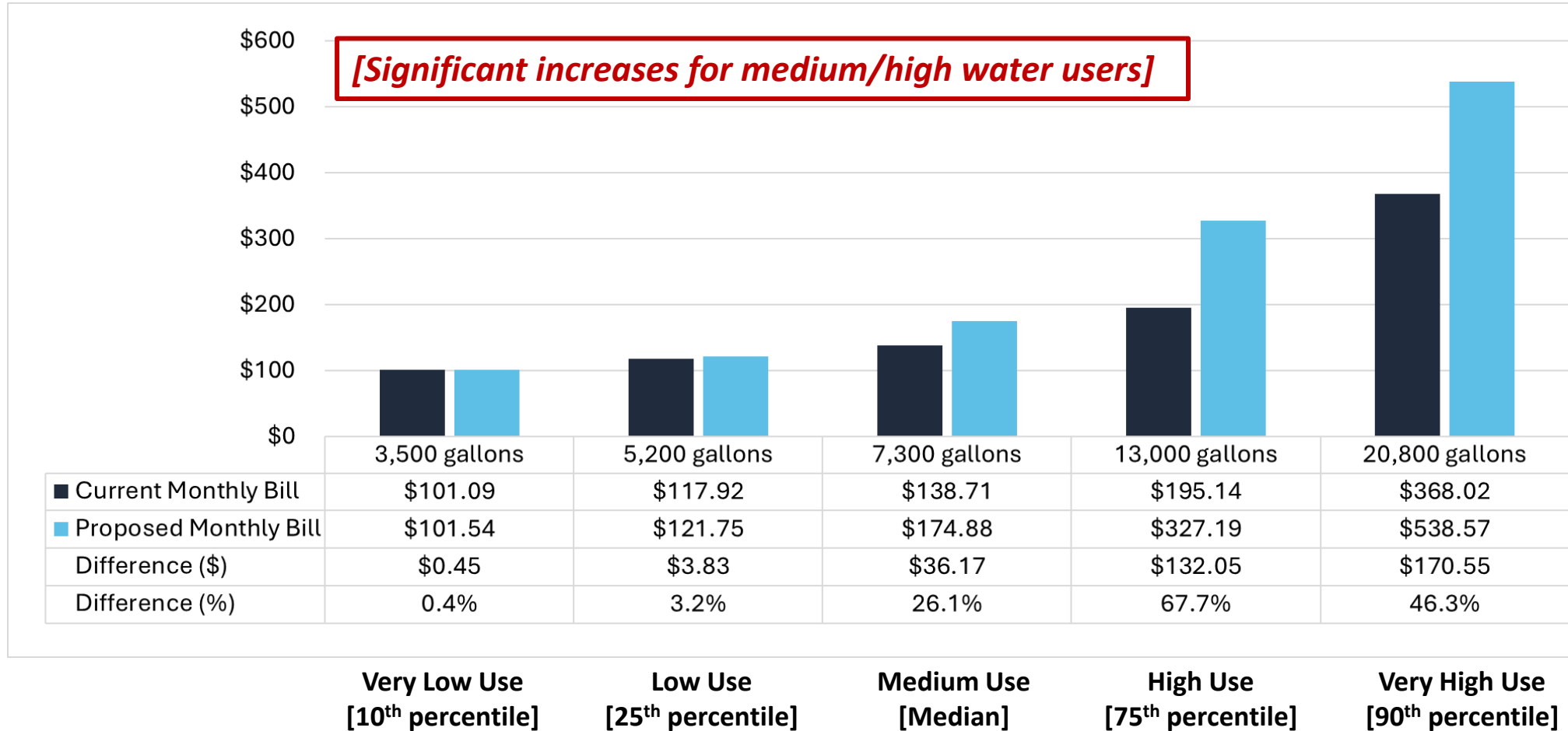
**All Rate Assistance (Residential) and Qualifying Medical Needs (Residential) water use to be charged at the Tier 1 rate*

Single Family Residential Bill Impacts: Revised Option 1



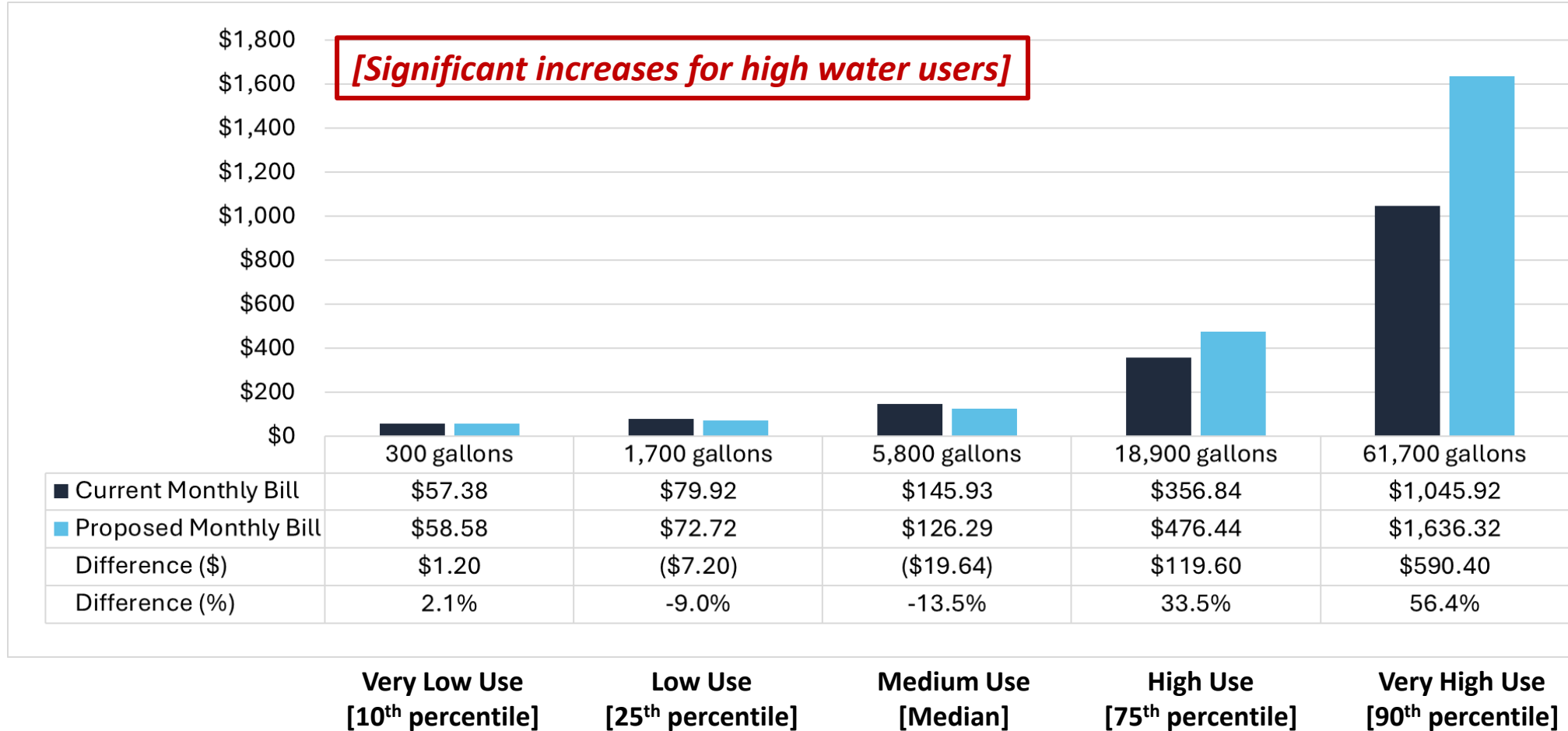
Note: Monthly bills are based on a 5/8-inch meter; proposed bills are based on rates for 2027

Multi-Family Residential Bill Impacts: Revised Option 1



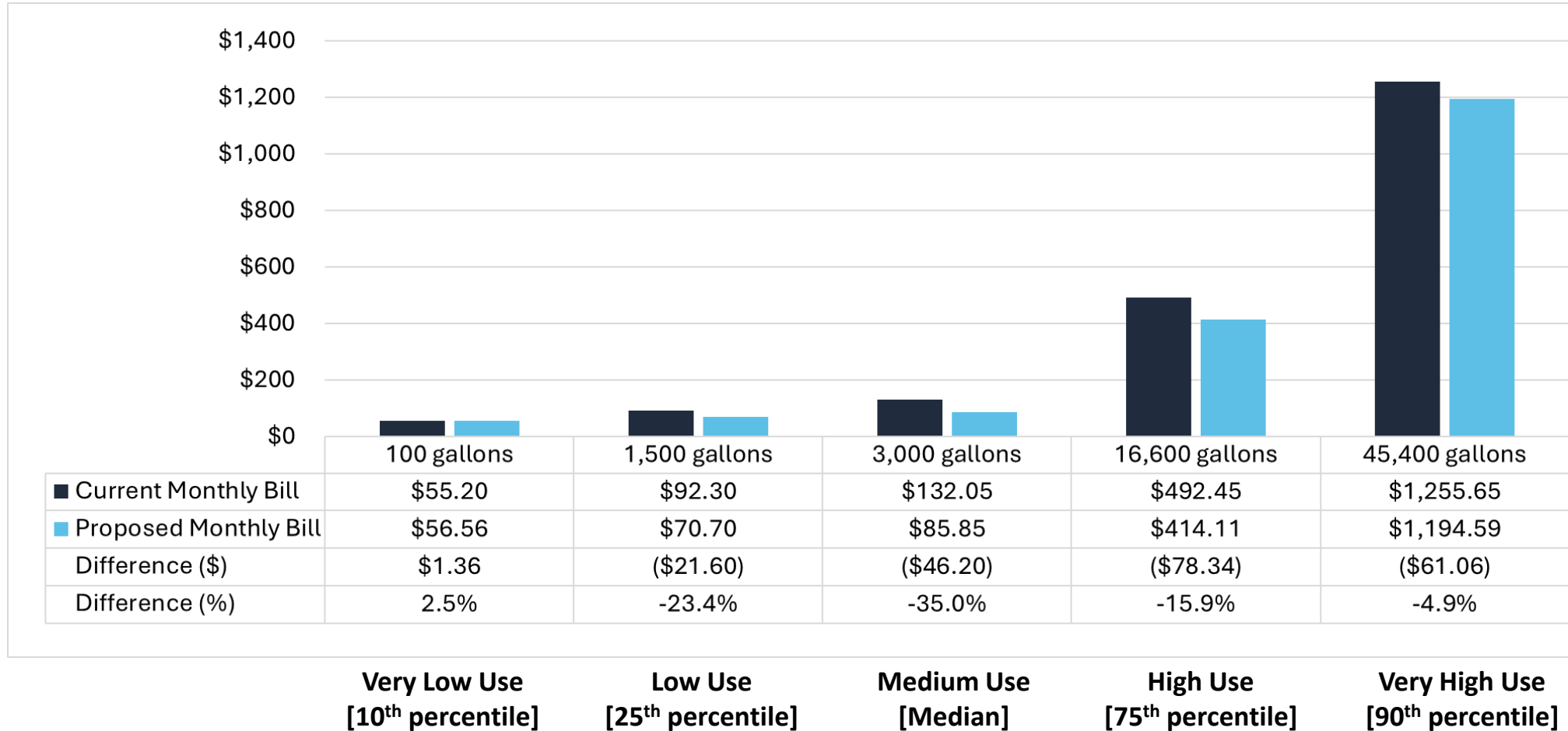
Note: Monthly bills are based on a 3/4-inch meter and 5 dwelling units; proposed bills are based on rates for 2027

Commercial/Industrial/Institutional Bill Impacts: Revised Option 1



Note: Monthly bills are based on a 5/8-inch meter; proposed bills are based on rates for 2027

Landscape Potable Bill Impacts: Revised Option 1



Note: Monthly bills are based on a 5/8-inch meter; proposed bills are based on rates for 2027

Revised Option 2

- Differences from Revised Option 1:
 - 3 tiers for residential customers only
 - Uniform rates for non-residential
- Pros:
 - Reduced bill impacts for non-residential customers
 - More consistent with current rate structure
- Cons:
 - Higher bill increases for residential customers with medium to very high water use

Revised Option 2: Residential Tier Allotments

- Proposed tier allotments per dwelling unit are the same for single family and multi-family:

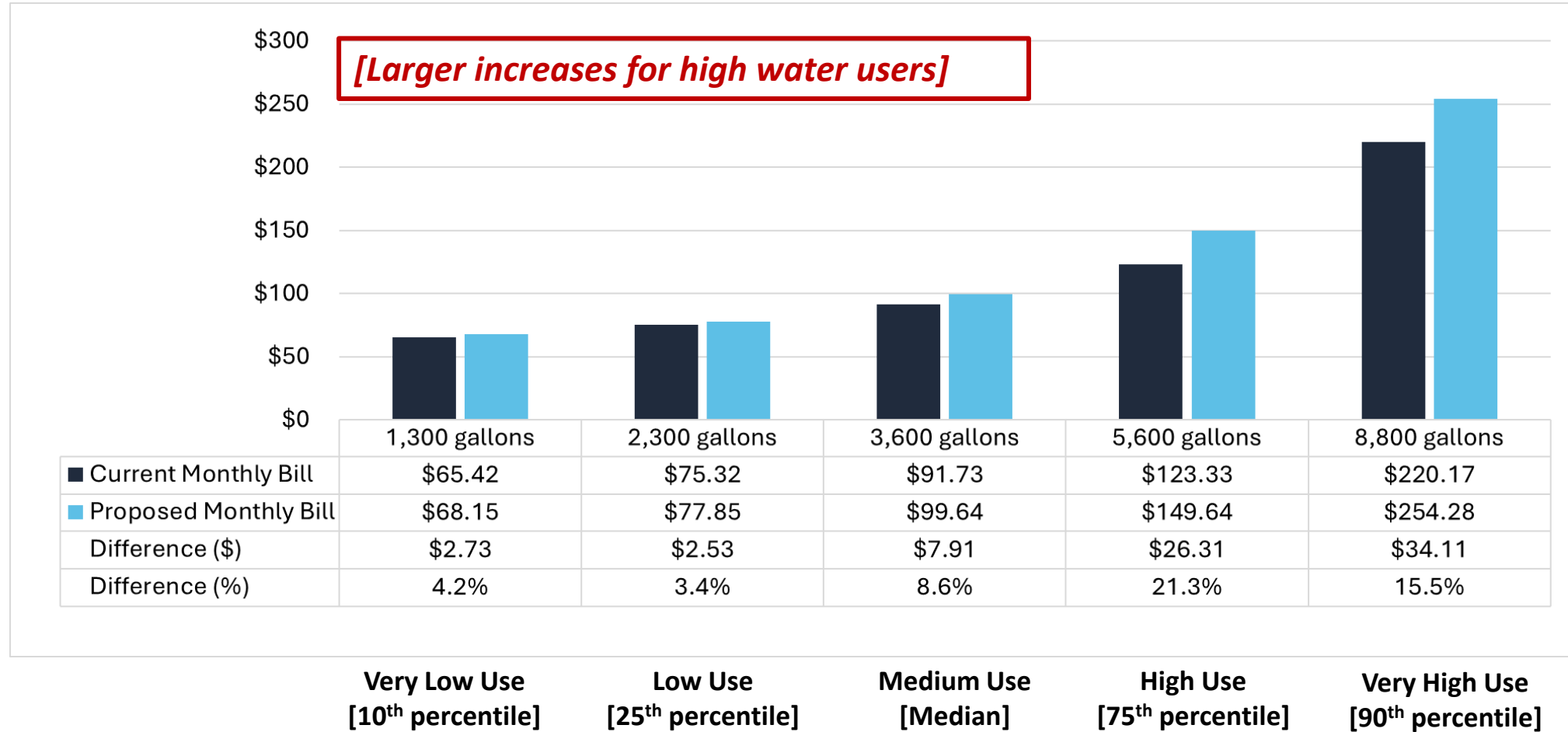
Monthly Allotment	Current (Single Family Residential)	Current (Multi-Family Residential)	Proposed (Single & Multi-Family Residential)
Tier 1	0-3,000 gallons	0-3,000 gallons	0-3,000 gallons
Tier 2	3,001-6,000 gallons	3,001-3,200 gallons	3,001-6,000 gallons
Tier 3	6,001-7,000 gallons	3,201-7,000 gallons	> 6,000 gallons
Tier 4	> 7,000 gallons	> 7,000 gallons	N/A

Proposed Rates – Revised Option 2

Proposed Rates	Current	Proposed FY 2027	Proposed FY 2028	Proposed FY 2029	Proposed FY 2030	Proposed FY 2031
Monthly Basic Meter Charge						
5/8-inch	\$52.55	\$55.54	\$59.43	\$63.60	\$68.06	\$72.83
5/8-inch Rate Assistance (Residential)	\$36.79	\$38.88	\$41.61	\$44.53	\$47.65	\$50.99
5/8-inch Fire Service (Residential/Commercial)	\$13.90	\$11.04	\$11.82	\$12.65	\$13.54	\$14.49
3/4-inch (Multi-Residential, incl. Fire Service)	\$66.44	\$66.57	\$71.23	\$76.22	\$81.56	\$87.27
3/4-inch	\$73.46	\$76.47	\$81.83	\$87.56	\$93.69	\$100.25
1-inch	\$115.43	\$118.35	\$126.64	\$135.51	\$145.00	\$155.15
1.5-inch	\$229.81	\$223.03	\$238.65	\$255.36	\$273.24	\$292.37
2-inch	\$369.92	\$348.66	\$373.07	\$399.19	\$427.14	\$457.04
3-inch	\$767.76	\$746.47	\$798.73	\$854.65	\$914.48	\$978.50
4-inch	\$1,357.55	\$1,332.71	\$1,426.00	\$1,525.82	\$1,632.63	\$1,746.92
6-inch	\$2,706.40	\$2,735.51	\$2,927.00	\$3,131.89	\$3,351.13	\$3,585.71
Potable Volumetric Rates (per 100 gallons)						
Residential Tiered Rates						
Tier 1	\$0.99	\$0.97	\$1.04	\$1.12	\$1.20	\$1.29
Tier 2	\$1.58	\$2.50	\$2.68	\$2.87	\$3.08	\$3.30
Tier 3	\$2.86	\$3.38	\$3.62	\$3.88	\$4.16	\$4.46
Tier 4	\$3.44	N/A	N/A	N/A	N/A	N/A
Non-Residential Uniform Rates						
Commercial/Industrial/Institutional (CII)	\$1.61	\$1.71	\$1.83	\$1.96	\$2.10	\$2.25
Landscape Potable	\$2.65	\$2.32	\$2.49	\$2.67	\$2.86	\$3.07
Recycled Volumetric Rates (per 100 gallons)						
Uniform	\$2.01	\$2.11	\$2.19	\$2.26	\$2.34	\$2.43

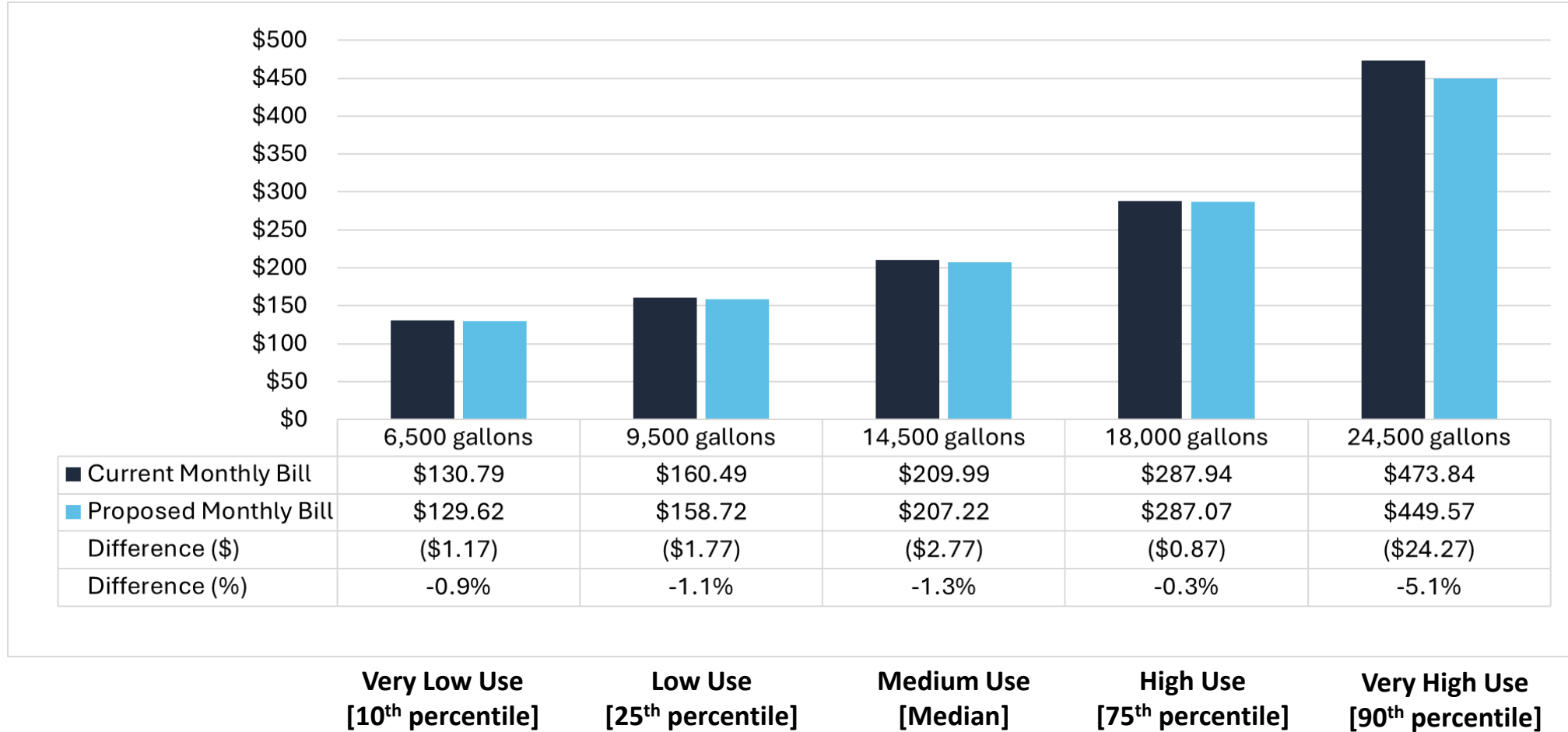
**All Rate Assistance (Residential) and Qualifying Medical Needs (Residential) water use to be charged at the Residential Tier 1 rate*

Single Family Residential Bill Impacts: Revised Option 2



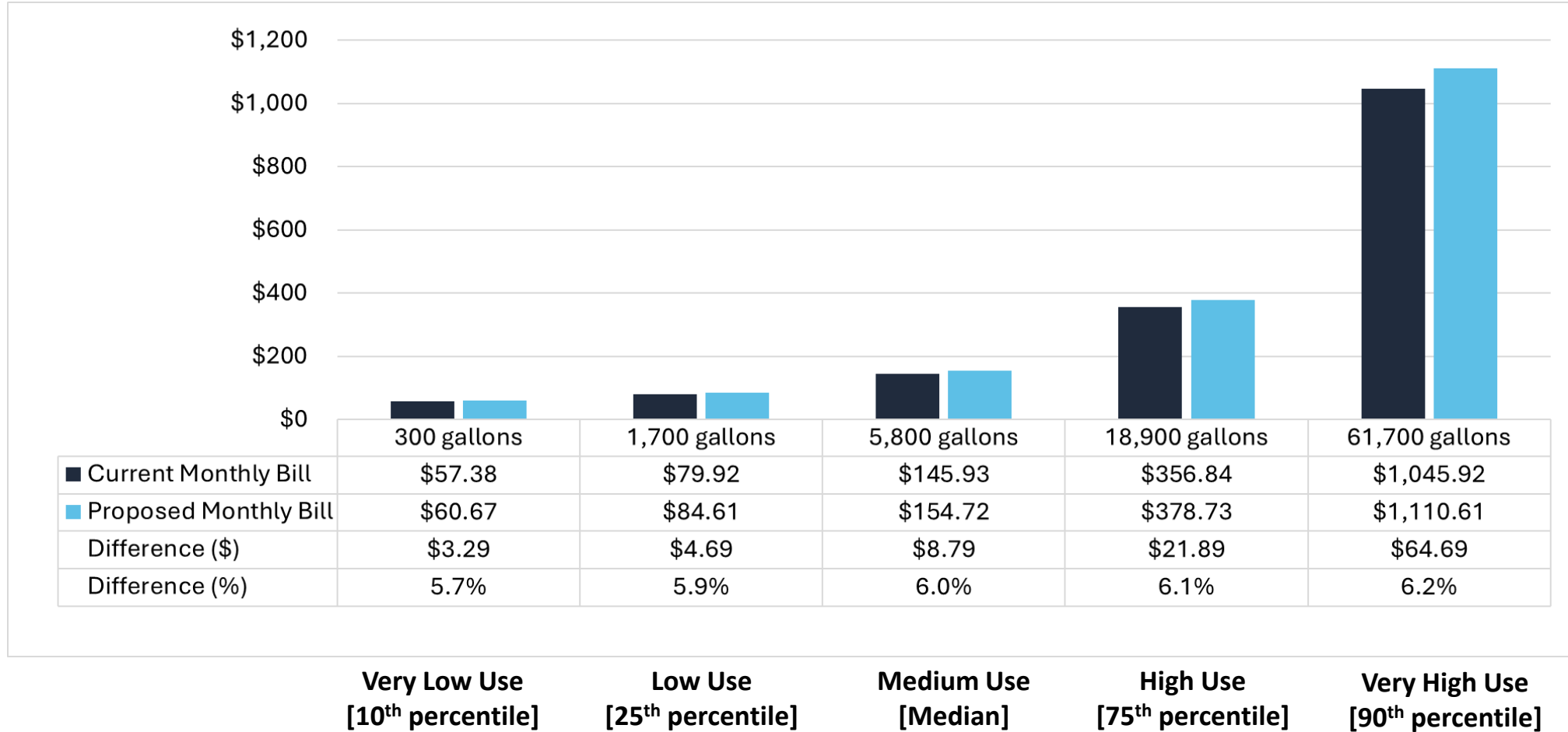
Note: Monthly bills are based on a 5/8-inch meter; proposed bills are based on rates for 2027

Multi-Family Residential Bill Impacts: Revised Option 2



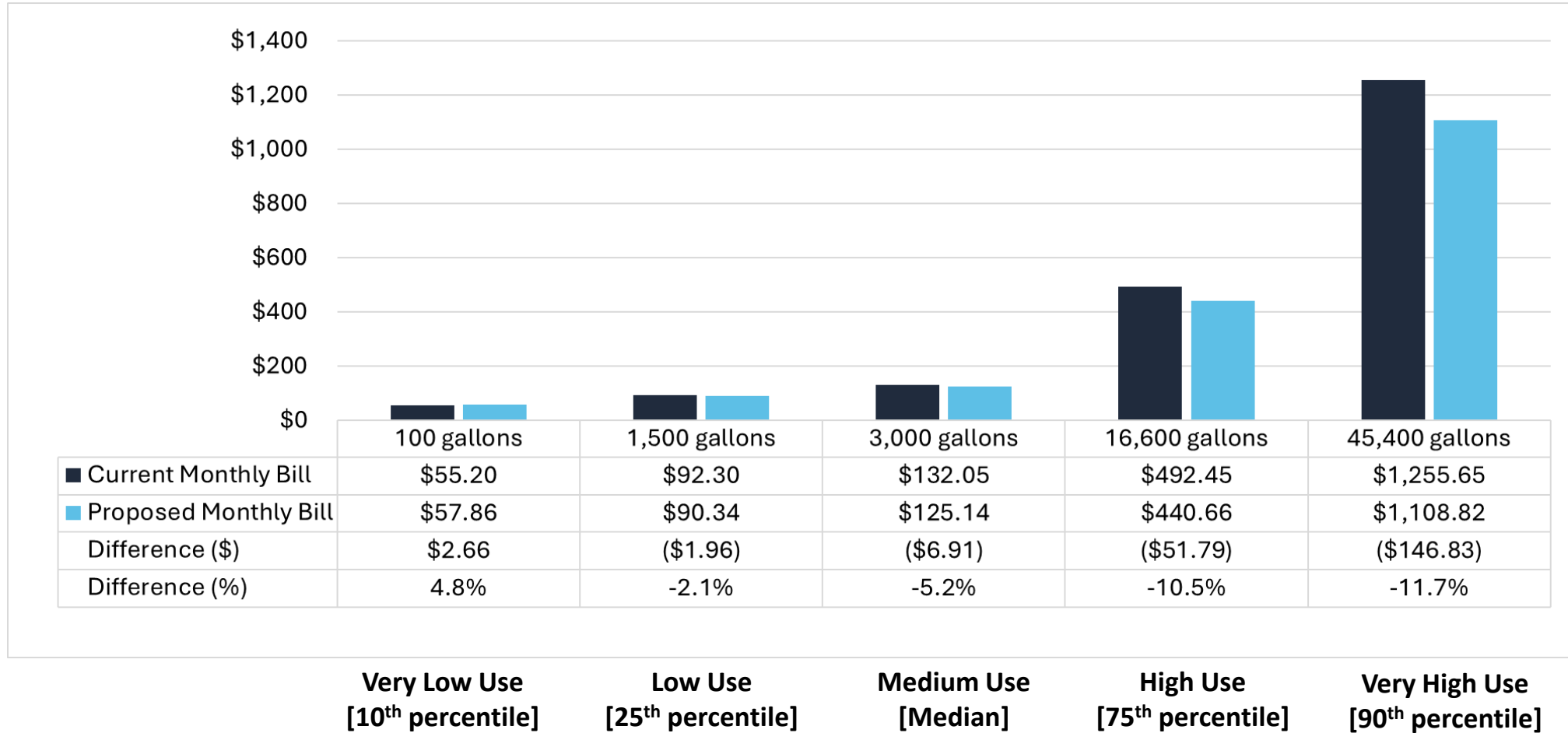
Note: Monthly bills are based on a 3/4-inch meter and 5 dwelling units; proposed bills are based on rates for 2027

Commercial/Industrial/Institutional Bill Impacts: Revised Option 2



Note: Monthly bills are based on a 5/8-inch meter; proposed bills are based on rates for 2027

Landscape Potable Bill Impacts: Revised Option 2



Note: Monthly bills are based on a 5/8-inch meter; proposed bills are based on rates for 2027

Summary

- **Revised Option 1** (3 tiers for all customers)
 - Pros: Reduced bill impacts for single family residences with low/medium water use
 - Cons: Severe bill impacts for non-residential customers with high use
- **Revised Option 2:** (3 tiers for residential / uniform for non-residential)
 - Pros: Smoother impacts overall; more consistent with current rates
 - Cons: Larger bill increases for single family residences with high water use

Discussion & Next Steps



**Water Resources
Economics**

Next Steps

- Draft report based on selected rate option
- **June 11, 2026:** Board to receive report and authorize Proposition 218 notice
- **July 10, 2026:** Deadline to mail out public hearing notices to all customers
- **Sep. 10, 2026:** Proposition 218 Public Hearing (special Board Meeting)
- **Jan. 1, 2027:** New rates effective



Water Resources Economics

Sanjay Gaur

Founder / President

sgaur@water-economics.com

water-economics.com

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



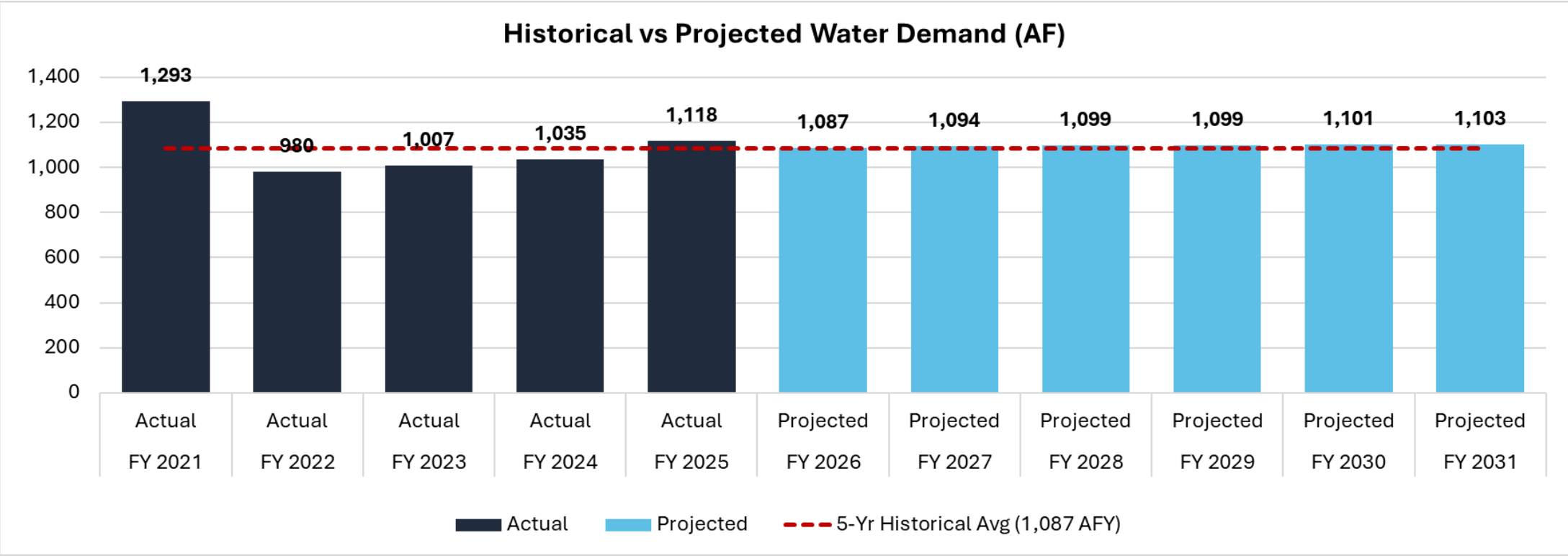
Back-up Slides



**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*

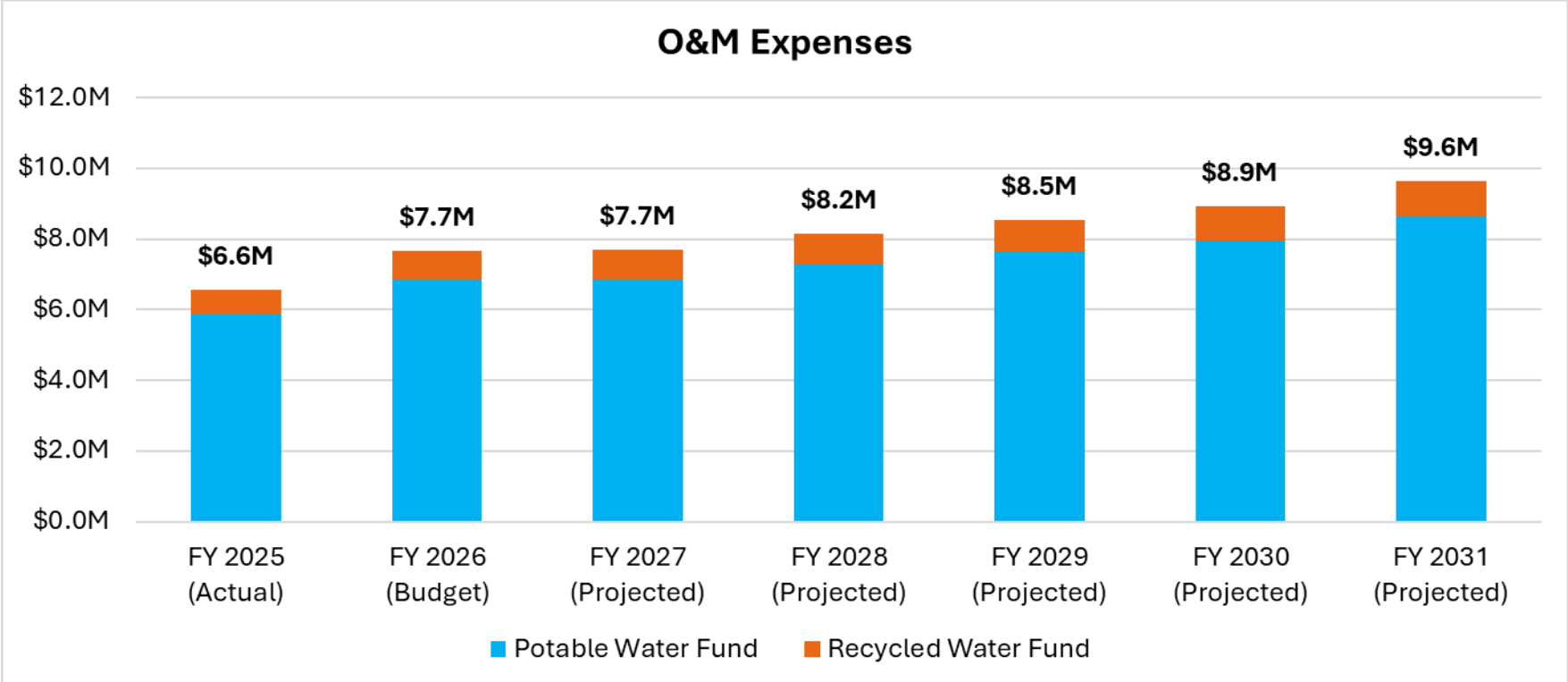


*Conservatively assuming 12 new connections per year on average based on planned construction

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
Potable Water Fund							
<i>Bethany Tank Rehabilitation</i>	\$481,387		\$3,000,000	\$3,000,000			\$6,481,387
<i>Mt. Roberta Tank Replacement</i>			\$100,000	\$1,000,000			\$1,100,000
<i>Villa Fontenay Tank Replacement</i>			\$100,000	\$1,000,000			\$1,100,000
All Other Potable CIP Projects (Levelized)	\$3,633,669	\$3,483,669	\$3,483,669	\$3,483,669	\$3,483,669	\$3,483,669	\$21,802,013
Subtotal	\$3,965,055	\$3,483,669	\$6,683,669	\$8,483,669	\$3,483,669	\$3,483,669	\$29,583,400
Recycled Water Fund							
All Recycled Water CIP Projects (Levelized)	\$107,500	\$107,500	\$107,500	\$107,500	\$107,500	\$107,500	\$645,000
Subtotal	\$107,500	\$107,500	\$107,500	\$107,500	\$107,500	\$107,500	\$645,000
Total	\$4,222,555	\$3,741,169	\$6,941,169	\$8,741,169	\$3,741,169	\$3,741,169	\$31,128,400

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

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

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%
FY 2027 Proposed	6.5%-7.0%	4.0%
FY 2028 Proposed	6.5%-7.0%	4.0%
FY 2029 Proposed	6.5%-7.0%	4.0%
FY 2030 Proposed	6.5%-7.0%	4.0%
FY 2031 Proposed	6.5%-7.0%	4.0%

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

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
Meter Size					
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

VOLUMETRIC RATES (Per 100 Gal)	Effective 1/1/2022	Effective 1/1/2023	Effective 1/1/2024	Effective 1/1/2025	Effective 1/1/2026
Tiers for Residential Units with Individual Meters					
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
Tiers for Multi-Residential Units with Master Meters					
**					
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
UNIFORM RATES (Per 100 Gal)					
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

**All Rate Assistance (Residential) water use is currently charged the Residential Tier 1 rate; all Qualifying Medical Needs (Residential) water use is currently charged the Residential Tier 2 rate.*

Current Recycled Water Rates

MONTHLY RATE SCHEDULE - RECYCLED WATER					
BASIC METER CHARGE	Effective 1/1/2022	Effective 1/1/2023	Effective 1/1/2024	Effective 1/1/2025	Effective 1/1/2026
Meter Size					
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
VOLUMETRIC RATES (Per 100 Gal)	Effective 1/1/2022	Effective 1/1/2023	Effective 1/1/2024	Effective 1/1/2025	Effective 1/1/2026
Landscape Recycled	\$1.41	\$1.48	\$1.64	\$1.82	\$2.01