

Staff Report

TO: Board of Directors
FROM: Jennifer Hanson, General Manager
DATE: April 22, 2026
SUBJECT: Workshop – Water Rate Implementation Guardrails

ADMINISTRATION

RECOMMENDATION:

Participate in a workshop discussion regarding the establishment of guidelines that can be included in a water rate adoption resolution.

BACKGROUND:

On May 27, 2026, the Board will conduct a public hearing on the newly proposed water rates, which if adopted are scheduled to take effect on January 1, 2027. The water rates are subject to the Proposition 218 process, which requires the District to notify property owners at least 45 days before potentially raising water rates, allowing them to provide written protests at or before the public hearing. The proposed rate increase could not be implemented if a majority (50% + 1) of affected property owners or tenants submit written protests. If the public hearing is held and a majority of eligible customers do not submit protests, the Board may consider adopting a resolution to implement the rates.

Based on input from the Board, staff is presenting this workshop item to allow the Board to discuss the implementation of the rates. It is common for water agencies' boards to include in the adopting resolution guidelines (or guardrails) regarding the actual implementation of rates, including provisions to ensure future year rate increases are considered in a transparent public process. Proposition 218 requires notice of maximum rates; however, the Board may direct staff to implement a rate lower than the noticed rates.

To enable the development of rate implementation guidelines, it is important for the Board to provide input to ensure appropriate guidelines are developed prior to May 27, 2026.

Potential items for rate implementation guidelines are summarized below:

- Board approval at a regular public meeting of any annual rate increase.

- Consideration of extraordinary revenue to reduce any particular annual rate increase. For example, if the District were to receive revenue from a water transfer or a state or federal grant, the Board could then direct a decrease in the proposed rate increase or no rate increase at all.
- Delay of rate increases. Please note that the Board already directed the delay of rate implementation from July 1, 2026, to January 1, 2027.
- Decreased rate increase based on lower-than-expected capital project delivery.

Please note that the above options are not all-inclusive, and the purpose of the workshop is to allow for discussion of all potential options for rate implementation, especially the process that Board wishes to undertake in considering potential rate increases in Years 2 through 5. Many of the options noted will decrease revenue. Once the Board provides input on potential rate guidelines, staff will conduct a more extensive analysis to determine financial impacts.

If the Board provides direction, staff and counsel will endeavor to capture the Board's direction in the draft rate increase resolution that the Board will consider at the public hearing to be held on May 27, 2026.

BUDGETARY IMPACT:

To be determined once preferred options are known.