

Staff Report

TO: Board of Directors

FROM: Aurora Penaluna, Customer Service Administrator
Sandra Dunlap, Director of Finance

DATE: March 11, 2026

SUBJECT: Rules & Regulations Section 5.02.04 Early Application Discount

FINANCE

RECOMMENDATION:

Approve an update to the District's Rules & Regulations by removing Section 5.02.04 Early Application Discount, effective immediately.

BACKGROUND:

As part of the 2025 Cost of Service Study, staff evaluated the District's longstanding policy of providing a 5% pay-in-full discount to seasonal irrigation water customers. This discount was not incorporated into the current cost-of-service analysis. While staff recognizes the Board's desire to ensure the viability of agricultural production in the local area, the policy may create equity issues in the treatment of NID customers and compliance concerns under Proposition 218, staff recommends discontinuing the discount.

Proposition 218 Concerns: Water service is a property-related fee, and as such, water rates are tightly constrained under California Proposition 218. The standard is strict: each parcel may not be charged more than the proportional cost of service attributable to that parcel. Accordingly, discounts that are not supported by a cost-of-service analysis or funded from sources other than rate revenues create concerns with strict compliance with Proposition 218. The more appropriate and legally defensible approach is to discontinue to 5% discount.

Creating inequities between customer classes: Extending a discount to seasonal raw water customers introduces disparities among the District's customer base. Specifically, it creates an imbalance between treated water customers, annual raw water customers, and seasonal raw water customers by providing a financial benefit to only one segment. Even then, the 5% discount is only available to those that can

afford the lump sum payment up-front. This preferential pricing structure undermines principles of rate equity, as all customer classes rely on shared infrastructure and administrative support. As a result, offering a discount exclusively to seasonal raw water customers that can afford the up-front payment may be perceived as inequitable and could shift cost burdens to other customer groups.

Utility Billing Implementation: After extensive discussions, Tyler has confirmed that the current Utility Billing system does not support the “pay in full” and installment payment plan options required to properly administer the existing discount. As a result, implementing the District’s desired approach would necessitate a formal system enhancement.

Pursuing a modification of this scale presents several significant challenges. First, enhancement requests of this nature are costly, requiring both vendor development resources and internal staff time for requirements gathering, testing, training, and change management. These efforts would place additional pressure on the project budget and staff capacity.

Second, vendor-led system enhancements typically require a lengthy development cycle. The vendor has indicated that modifications of this complexity can take approximately 12 to 18 months to design, develop, test, and deploy. This timeline would extend well beyond the current project schedule and would likely delay the planned go-live date, which is currently targeted for November 2026.

Finally, introducing a major system modification at this stage increases overall project risk. It could affect system stability, require reconfiguration of related billing processes, and necessitate additional rounds of user acceptance testing. Collectively, these factors create schedule uncertainty and may compromise the broader implementation objectives.

For these reasons, proceeding with a system enhancement to accommodate the proposed discount structure presents substantial financial, operational, and timeline risks that should be carefully weighed against the anticipated benefits.

BUDGETARY IMPACT:

In 2025 discounts totaling more than \$177,000 were granted. If all other factors remain unchanged, discontinuing the discount policy would result in an increase in revenue of \$177,000 or more.

Attachments: (1)

- Section 5.02.04 of the Rules and Regulations

5.02.04 Early Application Discount

Applications for seasonal irrigation service received on or before April 1, together with full payment, shall have a 5% discount on their charges. This discount shall not apply to those types of entities referred to in Section 5.08.

eff. 3/10/93