

SLVWD Rate Increase FAQ

Prepared by Friends of San Lorenzo Valley Water

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The Board of Directors of the San Lorenzo Valley Water District (SLVWD) voted 4-1 on December 7, 2023 to propose a new rate structure for the years 2024 thru 2028. If this new rate structure takes effect as planned on March 1, 2024, (after a Proposition 218-required public hearing) it will result in significant rate increases for all SLVWD customers, but some will be affected more dramatically than others. The details are complicated, and SLVWD's online FAQs and its *Notice of Prop 218 Public Hearing* (mailed to all ratepayers) may leave readers with unanswered questions and/or inaccurate impressions (e.g., about how individual bills will change). For this reason, the Friends of San Lorenzo Valley Water (FSLVW) is providing this more extensive FAQ as a public service to provide SLVWD customers with accurate and useful information about the proposed rate structure.

[NOTE: The Board approved proposed rate structures for both water and wastewater, but SLVWD provides wastewater service to only 56 customers; consequently, this FAQ solely addresses proposed SLVWD water rates.]

What is happening and why?

SLVWD needs to increase its revenue to pay its bills, but as a publicly controlled local service provider, it cannot arbitrarily increase its rates. Proposition 218 requires organizations like SLVWD to base their rates on the actual cost of service and to explicitly promote public participation in the rate-setting process. The two key steps in this process are: (1) determining revenue requirements, and (2) designing a corresponding rate structure. Proposition 218 also allows a Board-recommended rate increase to be rejected if it is formally opposed by more than half the ratepayers.

To conform with Proposition 218, it is standard practice for water districts to hire an outside firm with special expertise to perform a rate study; this was last done in 2017, and a new rate study is typically performed every five years or so. SLVWD chose the consulting firm Raftelis, which began work in the summer of 2023. Raftelis presented the results of their study at multiple meetings of the Budget and Finance Committee and the Board of Directors in the Fall. Public input and guidance from the Board resulted in a final recommendation for a proposed rate structure which the Board approved by a 4-1 vote on December 7th.

The new rate structure is designed to meet SLVWD's anticipated revenue requirements for the next five years. It does this using a new tiered-rate system intended to minimize the negative

impacts on low- and moderate-use residential customers. The impact will be felt most dramatically by residential customers who use a lot of water outdoors.

SLVWD will host a **public workshop** from **10:00 AM to noon on Saturday January 20th** at Highlands Park Senior Center, 8500 Hwy 9, Ben Lomond to promote a constructive public dialogue surrounding the proposed rate structure. A final public hearing will be held on February 15th, and the new rate structure, if approved, will take effect on March 1, 2024.

PART 1: REVENUE NEEDS

About 85% of SLVWD's revenue comes from water rates paid by customers. In order to continue operating in the face of increasing costs, SLVWD needs to periodically review and revise these rates. To develop a rate structure capable of meeting its financial needs through 2028, SLVWD followed an industry-standard process focused on two key questions: (1) how much revenue is needed? (2) what rate schedule will generate this revenue as reliably and equitably as possible? This first section of our FAQ focuses on the first of these two questions.

Why is it necessary to increase rates?

Operating costs have been steadily increasing for water districts across all of California. In addition, SLVWD's operating costs are inherently higher than those of many other districts because of the unique challenges presented by the mountainous topography of the San Lorenzo Valley. Furthermore, SLVWD needs to pay for repairs caused by the CZU fire and last winter's storms (for which it will be only partially reimbursed by FEMA) and to continue to address long-deferred maintenance and upgrades to essential infrastructure.

SLVWD can only contend with these increased expenses via some combination of improved cost-savings, additional sources of revenue, and higher rates. SLVWD has taken multiple steps to reduce operating expenses (e.g., hiring an in-house engineering staff to reduce consulting costs). SLVWD has also successfully applied for and received several grants for infrastructure upgrades and fire hardening. Additional grants and cost savings are clearly a priority, but for the purposes of the rate study, they cannot be assumed. As a consequence, SLVWD must adopt some sort of rate increase.

This being said, reasonable people can question whether SLVWD has overestimated or underestimated its future revenue requirements (and, hence, the size of the required rate increase). The primary argument against the new rate structure is that SLVWD should find a way to operate more cost efficiently (presumably, with a smaller staff). The primary counter-argument is that SLVWD has reduced costs, and nobody has yet figured out how it can save significantly more. While the Board can make cost reduction a priority for the to-be-hired General Manager, arbitrarily limiting its rates to a level too low to meet its obligations is not a financially responsible way to proceed.

Who performed the rate study, and what were its key findings with regard to revenue needs?

The firm Raftelis performed the rate study over approximately six months. They were hired because a rate study is a highly complex undertaking requiring specialized expertise that local water districts do not have on staff. Raftelis is a reputable consulting firm, that has conducted rate studies in large and small districts across the state, including City of Santa Cruz Water Department and Soquel Creek Water District. They relied on SLVWD staff and Board to provide data, insights, and priorities particular to SLVWD, and then conducted their analysis and offered options based on that input.

Raftelis found that, in addition to ongoing cost increases due to inflation and more dramatic cost increases tied to materials and construction, SLVWD is facing specific and substantial short-term and long-term challenges that require increased revenues:

- Damage from the CZU fire and 2022-23 winter storms (only partially reimbursed by FEMA)
- Watershed protection and fire hardening infrastructure
- Long-delayed infrastructure repair and upgrades
- Increased state regulatory requirements
- Costs associated with state-mandated aquifer protection through the Santa Margarita Groundwater Agency
- Rebuilding reserves badly depleted by repair costs from the CZU fire and 2022-23 winter storms

The rate study employed a financial model that accounted for both anticipated annual operating expenses and the essential infrastructure projects identified in SLVWD's capital improvement plan. In order to meet the revenue requirements, Raftelis recommended rate increases of 10% in each of the next two years, and 7% in each of the remaining three years. (These percentages do not include the current \$9.67 fire surcharge, which will end in 2026 and will not be replaced.)

How do SLVWD water rates compare to other districts in the state?

SLVWD has among the highest rates in the state, particularly in light of the new proposal. SLVWD has published a chart showing that a "typical" residential customer consuming 6 CCF of water per month throughout the year will pay \$124 per month under the 2024 SLVWD rate structure. (1 CCF (100 cubic feet) is equal to 748 gallons of water. 6 CCF is approximately the amount of water the average household of three people in SLV would use if it met the state standard for indoor use of about 50 gallons per person per day.) The same monthly consumption would cost around \$70 in Marin County, \$71 in the City of Santa Cruz, \$98 in Scotts Valley, \$107 in the Soquel Creek Water District (increasing to \$132 on March 1, 2024, if a proposed rate increase is approved), and \$142 in Monterey.

FSLVW attempted a more detailed cost and rate comparison with districts more similar to SLVWD — a small customer base widely dispersed over mountainous terrain — but found the analysis too complex to be meaningful, largely due to the effect of different costs of living on staff salaries, among other factors.

Why have SLVWD expenses and water rates increased so dramatically over the past two decades?

National and state trends in water rates

Rapidly escalating costs are not unique to SLVWD. Over the past two decades, water rates across the country have increased faster than the rate of inflation (and faster than rates for other utilities), especially in the drought-prone West. For example, increasing costs drove up residential water bills an average of 7% per year from 2007 to 2014, double the rate of inflation, for a majority of Californians. (See: [Keeping Water Affordable: Accounting for the Drivers Behind Increasing Rates.](#))

The harsh reality is that, despite improvements in operating efficiency, the cost of reliably delivering clean, safe water continues to rise, due to replacing aging infrastructure, complying with increasingly stringent water quality standards, addressing more variable climate effects, and responding to ever-increasing State reporting requirements and unfunded mandates.

Unfunded mandates are particularly burdensome for small districts like SLVWD because they are unable to spread these new expenses across a large, urban customer base. A notable example is the Santa Margarita Groundwater Agency (SMGWA), established in 2017 (with SLVWD as a founding member) as required by the State's 2014 Groundwater Sustainability Act. SMGWA is responsible for overseeing use of the over-drafted groundwater aquifers that SLVWD shares with neighboring water agencies, and for developing and implementing plans to bring this use to a sustainable level. SLVWD contributes about \$150,000 per year toward the cost of operating SMGWA, as well as a significant amount of staff time (not tracked as a separate line item in the operating budget) spent monitoring creeks and groundwater wells and participating in meetings with counterparts at neighboring water agencies.

Local factors driving up SLVWD expenses

In addition to these nationwide trends, three key local factors have played a critical role in driving up SLVWD expenses over the past two decades: (1) a significant increase in the number of connections and the size of the service area, (2) a history of under-investment in infrastructure in a system cobbled together from many small water mutuals, many created to serve rustic summer cabins, and (3) a location subject to frequent natural disasters (wildfires, winter storm flooding and wind damage, landslides, and earthquakes). These factors interact in complicated ways, so no one simple narrative accounts for SLVWD's expense increases.

SLVWD has added approximately 2,000 ratepayers since 2006 (a 23% increase), mostly from the mergers with Felton (2007) and Lompico (2016). Incorporating these districts into SLVWD's service area significantly increased the distances traversed for service calls and supervision of infrastructure projects. With the Lompico merger, the staff structure was updated, and a few new positions were created, reflecting the overall increase in workload. Currently, the staff is working to annex the 152 connections serving Bracken Brae and Forest Springs, small water mutuals that had their water systems destroyed in the 2020 CZU Fire.

This increase in number of connections and the size of the service area is only part of the story, though. SLVWD's expenses for salaries and benefits roughly doubled from 2013 to 2023, while the cost of living increased by only a factor of 1.4. During this time period, however, the number of SLVWD employees increased by roughly 1.4 as well (from around 25 to around 35). This increase was driven by a variety of factors in addition to the increased number of connections with the addition of Lompico.

SLVWD has dramatically increased its capital expenditures during the last two decades, and particularly in the last four years. For example, when SLVWD started tackling major upgrades to pipelines and tanks in 2018, it had to substantially increase staffing to handle the increased workload. SLVWD now has a District Engineer, an Assistant Engineer, a GPS specialist, a construction quality control inspector, and an environmental planner who works almost exclusively on permitting issues. An HR clerk was also added to deal with increased reporting requirements and COVID-related personnel issues.

Due to SLVWD's origin as an amalgamation of small historic water mutuals, often initially constructed for vacation use only, its infrastructure is inherently costly to operate and maintain. In the years leading up to 2018, this challenge was compounded by insufficient funding, resulting in a significant backlog of deferred maintenance and infrastructure upgrades. Then, just as SLVWD was beginning to more effectively confront these issues, the 2020 CZU Fire and the 2022-2023 winter storms inflicted substantial damage.

The CZU Fire and the winter storms had financial impacts on SLVWD beyond the more obvious ones associated with rapidly re-establishing water service and replacing and repairing damaged infrastructure. These two back-to-back natural disasters, together with the slow rate of reimbursement from FEMA for the repairs, caused SLVWD to draw down its financial reserves to dangerously low levels. One of the goals of the proposed rate increase, and one of the drivers for making it significantly greater than the rate of inflation, is to raise levels of reserves to best-practices standards for operations and capital projects.

The bottom line

The bottom line is that the new rate structure reflects both SLVWD's anticipated increases in operating expenses and an ambitious plan for capital expenditures that are essential in order for SLVWD to respond to fire and storm damage, replace leaking mains to reduce water loss,

replace under-sized distribution lines to increase fire-fighting capacity, create additional water storage for use in emergencies, improve system-wide reliability, and install new meters that will allow customers to track their usage in real-time so they can better control their own costs.

As noted above, a dramatic increase in capital projects, whether to implement infrastructure upgrades or repair damages resulting from natural disasters, inevitably produces a corresponding rise in operating expenses. Staffing needs to be increased, and while engineering consultants and construction companies employed to undertake infrastructure projects are charged to the capital part of SLVWD's biennial budget, most of the staff time spent on planning and overseeing infrastructure projects is charged to the operating budget, even though these tasks go beyond routine operation of the system.

The doubling of operating expenses between 2013 and 2023 was due to the combined effect of cost-of-living increases (a factor of 1.4) and the increase in staff (a factor of 1.4). Going forward, SLVWD should certainly do everything in its power to minimize the rate at which its operating expenses increase, but it cannot responsibly base its rate structure on speculative future cost savings that it has, as yet, no identified plan for achieving.

What has SLVWD done to minimize its operating expenses?

In recent years, SLVWD has reduced front-office costs through automated billing. It has reduced construction expenses by expanding its engineering department, enabling it to perform some work more cost-effectively in-house. Recent and in-progress infrastructure upgrades save money by reducing water leaks and shifting to lower-cost, time-of-use power rates. At times, the total amount spent on staff salaries has decreased due to retirements, departures of senior personnel, and job consolidations. Finally, since 2019, the budget has been reviewed annually to reduce costs, and this has led to the elimination of multiple programs, some of which SLVWD might ideally have retained.

What has SLVWD done to generate revenue from other sources?

SLVWD's non-rate-generated revenue comes primarily from property taxes and state grants. SLVWD hired a consultant in 2022 to assist with grant writing, and this investment paid off many times over. All told, SLVWD received over \$10 million in grant funding in the past three years. SLVWD has also pursued new avenues for collecting money owed by delinquent account holders. In addition, SLVWD looked into selling some of its surplus property, but it did not identify any good opportunities likely to yield significant revenue.

Isn't FEMA paying for most of the fire and storm damage? What about insurance?

Insurance for damage to infrastructure is not available (though SLVWD does have liability insurance). FEMA will pay up to 90% of the cost of repairs from the CZU Fire and up to 75% for repairs from storms. However, not all costs are covered (for example, most staff time associated with the repairs), and FEMA requires the repairs be completed before they will reimburse. Delays in receiving payments can take years, creating cash flow problems and additional financial burdens. CZU Fire recovery costs are being partially recovered by the five-year special CZU Fire Surcharge approved in 2022 that will ultimately bring in \$5 million for infrastructure repair. SLVWD's analysis of its revenue requirements takes all of these factors into account.

What infrastructure projects is SLVWD committing to?

Due to many years of insufficient revenue together with more recent fire and storm damage, SLVWD has developed a huge backlog of essential infrastructure improvement. In recent years, SLVWD has begun making significant progress on this front, but COVID and the CZU Fire caused major disruptions. The current budget includes roughly four dozen distinct active and planned infrastructure projects involving storage tanks, pipes, pumps, and other critical components of SLVWD's water delivery system. Some of these projects are being funded by previous loans, some will be partially funded by FEMA reimbursement, some are being funded by the special CZU Fire Surcharge, and some are being funded by grants. However, the remainder will need to be funded by an additional loan that the 2024-2028 rate increase is designed to cover. The advantage of using loans to pay for infrastructure repairs and upgrades is that it spreads the costs over 20 to 30 years, so that future beneficiaries of the improvements help pay for them.

Does the new rate structure have anything to do with future consolidations?

No. SLVWD is moving toward consolidating with two small mutual water companies north of Boulder Creek (Bracken Brae and Forest Springs) that were damaged by the CZU Fire, but expenses associated with these consolidations are being covered by state grants and (in the future) by these new ratepayers. SLVWD has no current plan to consolidate with Big Basin Water Company, given the lack of certainty that SLVWD can obtain funding for either the operating costs in excess of current revenue or the capital costs required to bring that system into compliance with state code. Moreover, as a public utility, SLVWD cannot use existing customer rates to purchase neighboring private water districts.

PART 2: NEW TIERED RATE STRUCTURE

The second key question addressed by the rate study was how to structure the revised rates so as to minimize the negative impact of higher water rates on those who can least afford to pay more. The rate structure also must conform to Proposition 218, which requires that rates

reflect the actual cost associated with producing and delivering water to individual ratepayers. The new rate structure seeks to achieve this by implementing different rates for different classes of customers, and, within the class of single-family residential customers, a tiered rate structure. This second section of our FAQ provides a detailed examination of this tiered-rate system and its intended benefits.

How does the proposed new tiered rate structure differ from the current one?

With the current rate structure, all customers pay the same amount for 1 CCF of water, \$12.66. In the proposed rate structure, different classes of customer pay different amounts for a given volume of water, based on SLVWD's costs to provide water service to each class. SLVWD is adopting tiered rates for single-family residential customers, with rates for low-volume users being about half those of high-volume users. The amount an individual bill will increase depends on the customer class (e.g., single-family residential versus commercial versus industrial versus irrigation), the size of the meter, and the amount of water used.

The other major change to the rate structure is that SLVWD will increase the fixed monthly base rate in order to better reflect its fixed costs to provide service. Also, SLVWD will now explicitly identify two separate components of this base rate: a service charge and a capital charge. The new "capital charge" category is designed to show how much of the revenue will be used to pay the interest and principal on loans for infrastructure upgrades. This may be confusing to some customers because the "capital charge" portion of the base rate was never previously listed separately. This may make it appear that the "capital charge" is a new charge, but it is not – it is merely an additional level of detail concerning the base rate.

SLVWD provides several tables listing the rate increase and its impact on ratepayer bills in the Proposition 218 notice mailed to all customers in late December and on the District website (click on "Water Rates Presentation Final Revised"):
<https://www.slvwd.com/projects/pages/2023-rate-study-prop-218-process>.

Why adopt tiered residential rates instead of keeping the current uniform volumetric rate?

Tiered rates serve at least three purposes:

First, they put more of the financial burden on those ratepayers using the most water. This is appropriate because the larger users place a greater burden on SLVWD's infrastructure by making it necessary to have larger intakes, bigger storage tanks, and larger diameter pipelines.

Second, tiered rates encourage conservation, which helps reduce overall costs to SLVWD by requiring fewer water treatment supplies and lower electricity costs for pumping groundwater to the surface as well as to storage tanks at higher elevations. In addition, using less water

benefits creek-side environments and fisheries and allows groundwater levels in aquifers to recover.

Third, a tiered rate system allows for a relatively low cost for the first tier, which helps offset the increase in the fixed base rate necessary to stabilize SLVWD's revenue.

Why raise the fixed base rate so much?

Operating and maintaining the infrastructure to bring water to each connection makes up about 94% of SLVWD's expenses. These expenses are fixed. They are independent of whether or not a customer actually uses any water. This on-demand capacity provides essential emergency services to individual customers such as "fire flow" (the amount of water necessary to fight a house fire), having the storage necessary for CalFire and local fire departments to fight wildfires, and supplying water when sources are off-line due to storms, landslides, or earthquakes.

Currently, SLVWD captures only about 37% of its costs through the fixed part of the bill. Compared to other districts, this percentage is on the low end, especially for mountainous, spread-out water districts like ours. Increasing the proportion of SLVWD's revenue that comes from the fixed portion of each bill to 45% provides SLVWD with more financial stability, because more of its revenue becomes independent of the amount of water used. In recent years, sizable revenue shortfalls have occurred when consumption dropped during droughts. (Note: In response to similar concerns, Soquel Creek Water District has proposed an increase in the fixed portion of their bills to about 55%, as well as steep Water Shortage Emergency Rates.)

How does the fire surcharge (\$9.67 per month, found on everyone's bill as part of the cost of water service) fit into the proposed rate structure?

The water rate schedule tables included in the Notice of Prop 218 Hearing do not include the CZU Fire Surcharge (although it is included in the Single-Family Water Impacts FY 2024 chart). This is because the surcharge is technically not part of the rate structure; more importantly, the surcharge ends in 2026, and will not be extended. The revenue generated from the CZU Fire Surcharge, as well as costs of CZU fire repairs in excess of the \$5M raised by the surcharge, have been factored into the revenue model used to calculate the proposed rates.

The FSLVW calculations shown in the table below also include the CZU fire surcharge. Note that SLVWD's water rate schedule tables for 2027 and 2028 do not reflect the reduction in total charges that results from the sunseting of the fire surcharge.

PART 3: CUSTOMER IMPACT

The previous two sections focused on SLVWD's revenue needs and its decision to implement a tiered rate structure. The new rate structure is designed to meet SLVWD's revenue needs and to be more equitable than the previous uniform volumetric rate structure; however, it is also more complicated to analyze. In this third and final section, FSLVW's goal is to provide customers with more detailed information about how they can expect their water bill to change.

Why didn't SLVWD provide more specifics on how the proposed rate structure will impact individual ratepayer bills?

SLVWD might ideally have provided a user-friendly app that would allow individual customers to compare their current and future bills under a variety of usage scenarios. However, this would have entailed additional costs, and SLVWD has consistently minimized its investment in public outreach as part of its commitment to control operating expenses. As a public service, FSLVW is attempting to voluntarily augment SLVWD's efforts in this area via the specific examples in the table below.

What is the general impact of tiered residential rates on water bills?

With water in Tier 3 costing almost twice as much as water in Tier 1, the largest increases in bills will be seen by SLV residents with large gardens and landscapes or pools that require large volumes of water in the summer months. During a normal winter, when there is very little outside water use, nearly all residential customers will pay for water at the Tier 1 rate. In the summer, ratepayers with small or water-efficient gardens will see most of their water usage billed at the Tier 2 and 3 rates, whereas households with large irrigated areas and/or features like turf, vegetable gardens, or pools that result in high demand will have most of their use billed at the Tier 3 rate.

How will the proposed rate increase impact specific family households?

FSLVW has conducted additional analysis to help single-family residential ratepayers understand how the rate increase and the new tiered rate structure will affect them.

The table below provides estimates of the total bills for four types of users:

- Small households (1-2 people) with no outside irrigation;
- Larger households (3-4 people) with little or no outside irrigation;
- Small households with water-efficient landscaping;
- Small households with large irrigated areas and/or features like turf, vegetable gardens or pools that result in high summer demand.

The table provides estimates of annual water costs using the current rate structure and the proposed rate structure in 2024 and 2028. (The costs in years 2025-2027 will increase gradually between 2024 and 2028.) These estimates include the CZU Fire Surcharge, which sunsets in 2026, and take into account the effect of tiered rates on customers whose usage varies seasonally. The calculations in the table show that customers with heavier summer usage due to outdoor irrigation and/or pools will see the biggest impact on their bills, both in absolute dollars and in percentage increase in annual cost. They bear a much larger burden of the rate increase. Note that 3-4 person households with no garden will experience the smallest percentage increases over the five years, particularly in the first year.

ESTIMATED ANNUAL COST OF PROPOSED RATE INCREASE BY RATEPAYER TYPE

Ratepayer type	Current annual cost	Annual cost in 2024 with proposed rates	2024 increase in annual cost over current	Annual cost in 2028 with proposed rates	2028 increase in annual cost over current
1–2-person household*	\$995.88	\$1,097.16	\$101.28	\$1,322.88	\$327.00
3-4-person family, no garden**	\$1,451.64	\$1,484.40	\$32.76	\$1,845.36	\$393.72
1-2 person with moderate garden***	\$1,818.78	\$1,965.85	\$147.07	\$2,370.79	\$552.01
1-2 person with very large garden****	\$3,439.26	\$4,068.45	\$629.19	\$5,181.97	\$1,742.71
*3 units/month year-round					
**6 units/month year-round					
***12-14 units/month in summer; 8-10/month in spring and autumn; 3/month in winter; 8.4 units average					
****30-40 units/month in summer; 10-20/month in spring and autumn; 3/month in winter; 19 units average					

(Note: Contact FSLVW if you would like access to the full data analysis. The data in the table is based on typical usage for calendar year 2022, which was a relatively normal water year. The SLV had a very wet winter and relatively cool summer in 2023, so if one had used consumption in 2023 as typical it would have underestimated water bills in future years.)

Are there any programs to assist low-income households with these increased costs?

SLVWD has a Rate Assistance Program (RAP) for low-income households, which currently provides a \$15/month subsidy. To qualify, ratepayers must show that they are enrolled in PG&E’s CARE program, pay the residential water bill, and receive the water bill in their

name. Here is the link with more information regarding how to apply:

<https://www.slvwd.com/customer-service/webforms/rate-assistance-program>

SLVWD requires that bills be in the name of the property owner, so renters are ineligible.

FSLVW is advocating for increases in the RAP subsidy to roughly match the proposed annual increases in the fixed portion of the bill for the five-year rate study period. In January the SLVWD Board of Directors will consider this proposal and others to increase the RAP if and when new rates are adopted and at the start of the 2025 fiscal year on July 1, 2024. Under Proposition 218, revenue from customer water rates cannot be used to pay for rate assistance programs. The limited amount of non-ratepayer revenue limits the size of the RAP the District can provide.

SLVWD is investigating other avenues beyond the RAP for assisting low-income renters.

How will the new rates impact the school district and other nonresidential users?

Under the proposed new rate system, the rates are tiered only for single-family residential customers; all others categories of customers pay flat volumetric rates for water usage plus meter charges that depend on the size of the connection. Apartment buildings and mobile home parks are classified as “commercial” under the new rate structure. Schools are classified as “industrial” because their usage pattern (and therefore impact on infrastructure requirements) is more similar to industrial customers than it is to single-family residential customers.

The flat rate the school district will pay in the first year is \$12.03 per unit of water, which is less than the \$12.66 they are paying currently. Under the new rate structure, shifting more of the revenue to the fixed basic charge largely offsets this decrease in the cost of water. As a result, the change in the school district’s bill will be very small in 2024, and they are not subject to tiered rates. As one of the largest volume water users in the valley — approximately 6.6 million gallons in fiscal year 2022-23 — had the schools been subject to tiered rates, their water bills would have skyrocketed. In years 2025-2028, the increase in the cost of water for the school district will be similar to the 10%/7%/7%/7% annual adjustment imposed across all categories.

What is the reasoning behind the “intertie” rate?

Several members of the public had questions at the December 7th SLVWD Board meeting about the “intertie” rates shown in SLVWD’s slide presentation. These charges for water sent to nearby water providers (e.g., Big Basin Water Company, Scotts Valley Water District, Mt. Hermon Association) through intertie pipelines (which, by law, can be used only under emergency conditions) are not part of the Proposition 218 process. These were displayed purely for informational purposes, and will be a subject of future negotiations. As such, a longer discussion of the intertie rate is beyond the scope of this FAQ.

ADDENDUM: EXPLANATION OF THE PROPOSITION 218 PROCESS

How does the Proposition 218 protest process work?

The Proposition 218 voting process differs from the more familiar one in which the outcome is determined by a majority of the yes-or-no votes actually cast. Here, those wishing to oppose the rate increase must submit the Protest Ballot included in the *Notice of Prop 218 Hearing* mailing. The proposed rate increase will be rejected only if more than 50 percent of the ratepayers submit a protest.

What would happen if the proposed rate increase were to be rejected?

Since there is consensus on the board that a rate increase is imperative, SLVWD would probably restart the rate study process and devise a new rate increase proposal as soon as possible. Given the complicated process involved, it could take six or more months before a revised rate increase could be implemented.

Note that if this were to occur, the new rate proposal would need to address the additional six months or more of insufficient revenue (totaling at least half a million dollars) and the reserve funds would likely be depleted further. This could expose SLVWD to increased financial risks in the event of, say, further storm damages this winter.

What does FSLVW recommend?

FSLVW has prepared this FAQ with the objective of providing accurate information for ratepayers regarding the rate increase proposal, including its historical background, rationale, and financial impact on ratepayers. FSLVW is preparing a separate document expressing our reasons for supporting the proposed rate structure.