2025 Water Rate Study

Questions

What are the main drivers of this proposed water rate increase?

Main drivers of increasing costs are:

- Increased operating costs – both electricity and insurance cost have increased 32% and 60% respectively over the last 3 years.
- NCSD is required by contracts to buy an increased volume of supplemental water – an additional $2.7 M (or 30 %) of our water operating budget.
- Increased capital improvements for funded replacement for our existing system
    - We need to replace aging equipment. Some are over 30 years old and are routinely replaced in any water utility.
    - Due to inflation, the replacement costs have increased more than what analyzed from the last rate study.

What will the increase of the average bill be starting February 1, 2026?

The average bill will go up 9.3%. See Table 22, page 24 of the 2025 Water Rate Study for the complete table.

Will this proposed water rate increase fund the Dana Reserve Project?

No, the Dana Reserve is fully responsible for funding all necessary infrastructure upgrades required for the project. The Annexation Agreement available on the District's website confirms this. Existing water customers will not subsidize this project.

Any capital improvement costs related to the Dana Reserve will be covered by fees and charges paid by the developer, not by current ratepayers.

Can any of the capital improvements that are mentioned in the 2025 Water Rate Study be deferred?

Please refer to Table 12, page 15 of the 2025 Water Rate Study. The only the capital improvement projects under "Fund 805 Replacement" are proposed to be funded by the water rates. These projects are existing infrastructure that need to be replaced or upgraded. Deferring these projects would put the District at risk.

For example, the Eureka Well project was already deferred for several years. This well used to be one of the main production wells for the District. The current nitrate issues from the two of our existing wells has created an urgency to move forward with this project.

Why are the proposed rate increases so dramatic, could we have single digit increases for 5 years? The increase cost of supplemental water will add about 30% to our existing water budget. There was no feasible scenario that allowed for single digit increases for 5 years without depleting our reserves.

Are the District water and sewer bills combined in the monthly billing cycles?

Yes, that is why the average customer bill is a little over $200 since it combines both water and sewer service costs. The current monthly residential sewer bill is $63.20, and the average customer water bill is $142.96.

How would the new Dana Reserve Project affect the proposed water rates?

If the Dana Reserve Project were completely built out today, the water rate increases would have been lower since the cost of services would be spread over a larger customer base. This 2025 Water Rate Study assumes a phasing in of the development; hence other than assumed inflationary adjustments starting in fiscal year 2032, there are no planned increases after the 3 years that is proposed.

Will the newly annexed Dana Reserve project and future annexations pay a higher water rate?

Yes, the Dana Reserve and any annexations from November 2024 onward would pay the higher annexation usage rate. For example, starting February 2026, the existing District customers would pay $9.09 per hundred cubic feet (HCF, or 748 gallons), and the annexed customers would pay $10.46 per HCF.

Would reserves be used to increase current capacity to accommodate new growth? No. New development pays capacity charges to receive services from the District. Even for the Dana Reserve development, the developers will pay for the infrastructure through capacity charges for infrastructure that is needed to serve the project.

The District is trying to increase revenue, but what about decreasing expenses? The District is always looking at ways to operate efficiently. Currently, the District is looking at solar panels to address the rising cost of power and an automatic meter reading system to decrease costs to read meters and manage customer water accounts. In addition, the District remains vigilant in seeking grants to help pay for projects.

If we have an 85 year contract with the City of Santa Maria, when is the next increase in water supply projected? By Fiscal Year 2025-2026 the District is required to take/pay for 2,500 acre feet of water.

If the County approves new construction, does NCSD have a plan to cover the increase in service needs? Yes, through capacity charges and a water accounting system. Existing customers do not pay for growth – new customers do.

Why are businesses and homes charged differently? Commercial accounts must have an irrigation meter. This is necessary so that commercial accounts can separate domestic water consumption from landscape water consumption for the purpose of billing sewer usage. Homes are charged a flat rate for sewer usage. Commercial sewage is charged to a business dependent on the strength of sewage they generate and it is important to understand the amount of the different strengths as they can significantly impact the wastewater treatment plant operations.

Is the AWWA (American Water Works Association) an industry standard? Yes, it is actually a national standard. The 2025 Water Rate Stude uses methodologies from the AWWA to determine costs of service for the System. AWWA is an industry trade organization that provides guidance on operations and management of water utilities. Through their Manual M1, general guidelines and principles are

provided to assist agencies with the design of water rates such that the rates may be consistent with local requirements while also recognizing state laws and legal framework. The guidelines and principles in the AWWA Manual M1 have been used to conduct this Study and to design the District's water rates while also following Proposition 218.

How were District tiers developed? They were originally developed based on average water consumption and District objectives.