Mr. Tom Weddle, General Manager
Crestline Village Water District
777 Cottonwood Drive
Crestline, CA 92325

May 28, 2026

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Crestline Village Water District
777 Cottonwood Drive.
Crestline, CA 92325

Re: Crestline Village Water Rate Study for Fiscal Years 2026-27 Through 2030-31

Dear Mr. Weddle:

Webb Municipal Finance (WMF) is pleased to submit the water rate study for fiscal years 2026-27 through 2030-31 to Crestline Village Water District (District). Our recommendations are briefly summarized as follows:

- Proposed Water Revenue increases:
    - Jul1 1, 2026: Various rate increases, depending on connection size, to better align with cost of service.
    - July 1, 2027: 4%
    - July 1, 2028: 4%
    - July 1, 2029: 3%
    - July 1, 2030: 3%
- Readiness-to-serve charge modifications – The costs allocated to the capacity portion of the monthly readiness-to-serve charge have been reapportioned to each account based on each account's metered capacity ratio. While current monthly charges range from $35.50 for a 5/8 x 3/4-inch connection to $73.50 for a 4-inch connection, the proposed monthly charges would range from $38.00 for a 5/8 x 3/4-inch connection to $150 for a 4-inch connection.
- Consumption rate structure – The number of tiers should be reduced from two tiers to a single tier.

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1. EXECUTIVE SUMMARY

The following documents the process by which the water rates were updated for Crestline Village Water District (District). This study covers water rates for fiscal years beginning 2026-27 through 2030-31.

Projected Revenue Requirements

To determine the revenue requirements for the years covered this in this study, a projection of the annual operating and capital expenses of the District were prepared. Based on current adopted rates, impacts to changes in the District's reserve balances and the District's capital improvement program were analyzed. The resulting information was used to determine the additional revenue needed through increased rates. The following table summarizes the results of this analysis.

Table 1: Schedule of Projected Revenue Requirements and Ending Reserve Balance

Fiscal Year	2026/27	2027/28	2028/29	2029/30	2030/31
Revenues	$ 5,055,392	$ 5,250,693	$ 5,454,141	$ 5,622,306	$ 5,796,254
Expenses	$ 4,188,090	$ 4,393,276	$ 4,609,837	$ 4,838,495	$ 5,080,021
Net Income	$ 867,302	$ 857,417	$ 844,304	$ 783,811	$ 716,233
CIP Projections	$ 920,000	$ 920,000	$ 920,000	$ 920,000	$ 920,000
Beginning Reserve Balance	$ 3,384,920	$ 3,332,222	$ 3,269,639	$ 3,193,943	$ 3,057,754
Impacts from CIP and Operations	$ (52,698)	$ (62,583)	$ (75,696)	$ (136,189)	$ (203,767)
Ending Reserve Balance	$ 3,332,222	$ 3,269,639	$ 3,193,943	$ 3,057,754	$ 2,853,987

The projections show increases in revenue requirements needed to fund projected expenses and to maintain adequate reserves. Proposed rate increases are projected to cover both increases in revenue requirements and reserve balances when taking into account all projected operating expense increases and projected capital project expenses during the period of the study.

Water Rate Structure

The District has a single customer class and all customers are subject to the same rate structure. The District's current water rate structure comprises two components: readiness-to-serve charge rates and consumption charge rates. Readiness-to-serve charges are charged monthly. Consumption charges are billed monthly based on a two-tier consumption charge structure, which increases based on ranges of consumption. The District's current rate structure, which includes periodic rate increases, has been in place since July 1, 2020 as adopted by board resolution no. 460.

Rate Structure Modifications

The following modifications are proposed to the rate structures. No modification to customer class is proposed.

Readiness-To-Serve Charge Rates

Low readiness-to-serve charge rates shift more revenue generation to consumption charges, thereby making customer bills more responsive to customer demands. Increases or decreases in demand are more noticeable on bills with low readiness-to-serve charges. It is critical that the readiness-to-serve charges generate sufficient revenue so that they are consistent with the fixed costs associated with cost of service. While the District's current readiness-to-serve charges are low for connections across all capacity ratings, they do not currently reflect the cost of service for each capacity rating. The proposed readiness-to-serve charge rates maintain the District's desire to maintain low readiness-to-serve charges, while more accurately reflecting the cost of service for each connection's capacity rating. Proposed changes to these rates can be seen in the table below:

Table 2: Proposed Monthly Readiness-To-Serve Rates

Connection Size	FY 2026/27	FY 2027/28	FY 2028/29	FY 2029/30	FY 2030/31
5/8" x 3/4"	$ 38.00	$ 39.52	$ 41.10	$ 42.33	$ 43.60
3/4"	$ 40.00	$ 41.60	$ 43.26	$ 44.56	$ 45.90
1"	$ 45.00	$ 46.80	$ 48.67	$ 50.13	$ 51.63
1" (Resedential Fire Service)	$ 47.00	$ 48.88	$ 50.84	$ 52.37	$ 53.94
2"	$ 75.00	$ 78.00	$ 81.12	$ 83.55	$ 86.06
3"	$ 100.00	$ 104.00	$ 108.16	$ 111.40	$ 114.74
4"	$ 150.00	$ 156.00	$ 162.24	$ 167.11	$ 172.12

Consumption Charge Rates

CVWD charges its customers for water consumption on a two-tier rate structure. This study maintains that two-tiered rate structure to follow with cost-of-service for its two sources of water. The recommended rates can be seen below:

Table 3: Proposed Consumption Rates

Tier	FY 2026/27	FY 2027/28	FY 2028/29	FY 2029/30	FY 2030/31
0-800 Cubic Feet	$ 6.00	$ 6.24	$ 6.49	$ 6.68	$ 6.88
>800 Cubic Feet	$ 10.00	$ 10.40	$ 10.82	$ 11.14	$ 11.47

The proposed rates in the table above are appropriate for years of normal water supply. During droughts, it is recommended that the CVWD implement a water shortage rate. These adjustments would be applied only when regional water supply reductions during droughts or for prolonged emergency outages are implemented. Applying those factors to rates used in normal years will minimize the revenue shortfall caused by significant or prolonged conservation, which could jeopardize the District's reserves.

Customer Bill Impact

The impact on customer bills due to these modifications in fiscal year 2026-27 will vary depending on the size of customers' meters and their monthly water use. The overall revenue increase proposed for July 1, 2026 will vary with each bill. The following table summarizes monthly costs for representative customers.

Table 4: Customer Bill Impact

	Residential Low Use	Residential Moderate Use	Residential High Use	2" Connection
Assumptions				
Water Consumption (HCF)	3	15	43	46
Meter Size	5/8" x 3/4"	5/8" x 3/4"	5/8" x 3/4"	2"
Bill with current rates				
Resdiness-to-serve charge	$ 35.50	$ 35.50	$ 35.50	$ 46.50
Consumption charge	$ 15.30	$ 81.60	$ 295.80	$ 318.75
Total Bill	$ 50.80	$ 117.10	$ 331.30	$ 365.25
Bill with proposed rates				
Resdiness-to-serve charge	$ 38.00	$ 38.00	$ 38.00	$ 75.00
Consumption charge	$ 18.00	$ 118.00	$ 398.00	$ 428.00
Total Bill	$ 56.00	$ 156.00	$ 436.00	$ 503.00
Change in bill (proposed less current)	$ 5.20	$ 38.90	$ 104.70	$ 137.75
Total percentage change	10.24%	33.22%	31.60%	37.71%

With the proposed modifications to rates and rate structure, customers whose connections have larger capacity ratings will see a larger portion of the increase in their bill from readiness-to-serve charges, while a vast majority of customers with the 5/8 x 3/4-inch connection will see a 4% increase in their readiness-to-serve charge in year one. Total percentage change in customer bills are dependent on consumption.

2. INTRODUCTION

Study Purpose

The purpose of this study is to conduct a cost-of-service analysis that will determine rates that will recover the cost of providing the District's water service. The cost-of-service analysis determined how much revenue should be generated by each component of the rate structures so that rate payers are charged for their proportionate share of the cost of providing service. The cost-of-service analysis is tailored specifically to the District.

Study Process

The comprehensive rate study was conducted using a four-step process. Revenue requirements were first projected to determine the total revenue required to be collected through rates. The revenue projection covers a period of 5 years and is based on operations, maintenance, capital improvement projects, and reserve requirements. The cost-of-service analysis allocates projected expenses across customer classes in proportion to their use of the system. Rates are then designed so that rate payers are charged equitably. The impact on customers is then determined by comparing charges based on the current rate structure to the proposed rates.

Communication with the Board of Directors and District staff occurred throughout the period of the rate study. Input received during this process was used to direct the work performed and is reflected in the rates documented in this report.

Revenue Requirements

To determine the revenue requirements for the period covered by the rate study, an analysis was performed using budget and actual operating, maintenance, and capital expenses for the District from fiscal years 2023-24 and 2024-25. Revenue requirements for each year were then projected for the five-year period. Revenue from this period was then compared to projected revenue requirements to determine the revenue increase required for each fiscal year.

Assumptions and Projections

Revenue increase projections incorporate anticipated operating and maintenance expense increases, contributions to the District's reserve balances, changes to the District's customer base, and changes in the cost of water purchased from Crestline-Lake Arrowhead Water Agency (CLAWA). The assumptions shown in the below were used to project expenses from Fiscal year 2026-27 through 2030-31.

Table 5 – Projected Cost Increase and Growth Assumptions

	FY 2026-27	FY 2027-28	FY 2028-29	FY 2029-30	FY 2030-31
Annual Account Growth Rate	0.00%	0.00%	0.00%	0.00%	0.00%
Salaries and Wages	3.00%	3.00%	3.00%	3.00%	3.00%
Benefits	3.00%	3.00%	3.00%	3.00%	3.00%
Construction and Maintenance Cost Inflation	5.00%	5.00%	5.00%	5.00%	5.00%
CLAWA Rate Increases	9.50%	9.50%	9.50%	9.50%	9.50%

Water Supply Expenses

The projected water supply expenses includes cost for running wells to pump groundwater and water purchased from CLAWA. Purchased water volume is not expected to change significantly during the period of this study.

Cost increases for purchased water are based on CLAWA's adopted rate schedule for tax exempt/public agency customers. The current rate schedule is set to expire at the end of fiscal year 2029/30. The assumptions in the table above include a 9.5% increase for fiscal year 2030-31 consistent with prior years which is beyond the period covered by CLAWA's current study. CLAWA may make changes to their rates upon the expiration of their current rate schedule which could result in cost increases that differ from the assumptions used in this study. The District should monitor rates for purchased water and adjust for differences between published and actual rates.

Operating and Maintenance Expenses and General and Administrative Expenses

Projected operating and maintenance expenses and general and administrative expenses are projected to increase annually based on the assumptions presented in the previous table.

Capital Expenses

The District also budgets for planned capital improvement projects which are funded through rate revenue and capital reserve funds. These projects cover maintenance and replacement of aging infrastructure. Planned projects for the period covered by this study can be seen in the following table. The average annual expense for these projects is $920,000.

Actual expenses fluctuate year to year based on the timing and progress of projects. As revenue is collected from rates, they fund the capital reserve balance and projects are then funded from this balance. This process allows the District to smooth costs over a longer period of time and creates more stable rates.

The following table provides information on the planned capital improvement projects for the District for the next 5-year period.

Table 6 – Capital Improvement Plan

Capital Improvement Plan	Estimated Cost
Painting 3 Tanks and Replacement of Level Indicators	$ 300,000.00
Generators for Horst & Pioneer	$ 150,000.00
Generator for District Office	$ 50,000.00
Crane Truck Replacement	$ 80,000.00
Brooks Tank Road Shoring and Pacing	$ 84,000.00
Sealing Inside of Water Truck	$ 25,000.00
Vault at Brookside - Pressure Relief Valve	$ 25,000.00
Replace Wylerhorn Drive Water Main	$ 500,000.00
Oil Mill Springs New Vertical Well and Garage	$ 500,000.00
Saxon Tank Interior Repairs	$ 200,000.00
Water Meter Replacement	$ 1,000,000.00
Total Capital Improvement Plan Estimated Costs	$ 2,914,000.00

Revenue Increases

The table below provides information on increases in annual revenue, the revenue requirement for each year, and its impact on total fund balance for the District. Increases to revenue are calculated to match revenue requirements while maintaining adequate reserve balances. With higher percentage increases to revenue earlier in the period covered by this study, changes in fund balance will be positive and then slightly decline in fiscal years 2029/30 and 2030/31.

Table 7 – Net Income and Changes in Ending Reserve Balances

Fiscal Year	2026/27	2027/28	2028/29	2029/30	2030/31
Revenues	$ 4,840,392	$ 5,035,693	$ 5,239,141	$ 5,407,306	$ 5,581,254
Expenses	$ 4,188,090	$ 4,393,276	$ 4,609,837	$ 4,838,495	$ 5,080,021
Net Income	$ 652,302	$ 642,417	$ 629,304	$ 568,811	$ 501,233
CIP Projections	$ 583,000	$ 583,000	$ 583,000	$ 583,000	$ 583,000
Beginning Reserve Balance	$ 3,384,920	$ 3,454,222	$ 3,513,639	$ 3,559,943	$ 3,545,754
Impacts from CIP and Operations	$ 69,302	$ 59,417	$ 46,304	$ (14,189)	$ (81,767)
Ending Reserve Balance	$ 3,454,222	$ 3,513,639	$ 3,559,943	$ 3,545,754	$ 3,463,987

Cost-Of-Service Analysis

The next step in this process is determining the cost of the services provided by the District. A cost-of-service analysis is used to determine rates which proportionately allocate costs between demand services and customer services.

The basis for demand services is dependent on water demand changes seasonally and during peak hours, pumping expenses, water treatment expenses, and the cost of water purchased from CLAWA. Customer services are based on customer services which are not dependent on demand. Examples of this include the cost of meter reading, billing services, accounting, customer service, and a portion of distribution mains which supply water to customers.

District staff provided directions on how individual expenses were to be classified as either a demand service or customer service.

Allocation Factors

Within the demand service function, allocations are made to varying levels of service. With these allocations, rates can be designed to proportionately charge customers based on their demands at each level of service.

Base Demand

Base demand represents non-seasonal demand when irrigation is minimal and during times of the day when water use is low. During these times, minimal extra capacity is required for peaking. The base demand was derived from the District's customer billing data.

Peak Demand

Peak demand represents high demand throughout the year when irrigation usage increases plus maximum day demand. The District does not directly meter maximum day demand, which is typically the case for most water systems. Hence, estimates were required.

3. COST-OF-SERVICE ALLOCATION

The Tables below shows the 2025-26 fiscal year revenue requirement allocated into the demand and customer services categories. Cost allocated to base demand represents costs associated with the District's primary source of water pumped from wells. Costs allocated to peak demand represents costs associated with the purchase and delivery of water purchased from CLAWA. Costs allocated to service charges represent costs which are not dependent on demand.

Table 8 – Cost-of-Service Allocation

	FY 2025/26 Revenue	Consumption Charge		Service Charge
		Base Demand	Peak Demand	
Source of Supply Expenses				
Source of Supply Expenses	$ 1,200	$ 840	$ 360	$ -
Supervision and Labor Expenses	$ 102,343	$ 71,640	$ 30,703	$ -
Maintenance of Structures and Improvements	$ 50,000	$ 35,000	$ 15,000	$ -
Purchased Wated	$ 386,000	$ -	$ 386,000	$ -
Pumping Expenses				
Maintenance and Repairs to Equipment	$ 25,000	$ 25,000	$ -	$ -
Maintenance and Repairs to Structures and Improvements	$ 20,000	$ 20,000	$ -	$ -
Fuel or Power Purchased	$ 80,000	$ 80,000	$ -	$ -
Water Treatment Expenses				
Supervision and Labor Expenses	$ 28,000	$ 28,000	$ -	$ -
Maintenance and Repairs of Buildings and Grounds	$ 10,000	$ 10,000	$ -	$ -
Maintenance and Repairs of Fixtures and Equipment	$ 17,000	$ 17,000	$ -	$ -
Transmission and Distrubution Expense				
Streets and Roads Maintenance	$ 52,000			$ 52,000
Maintenance and Repairs to T&D Mains	$ 125,000	$ 37,500	$ 12,500	$ 75,000
Locating Mains	$ 30,000	$ 9,000	$ 3,000	$ 18,000
Maintenance and Repairs to Reservoirs and Tanks	$ 70,000	$ 70,000	$ -	
Maintenance and Repairs to Services	$ 65,000	$ -	$ -	$ 65,000
Maintenance and Repairs to Hydrants	$ 12,000	$ 3,600	$ 1,200	$ 7,200
Maintenance and Repairs to Meters - Shop	$ 4,000	$ -	$ -	$ 4,000
Maintenance and Repairs to Meters - Field	$ 35,000	$ -	$ -	$ 35,000
Customer Accounts Expenses				
Meter Reading	$ 15,000	$ -	$ -	$ 15,000
Service Calls	$ 60,000	$ -	$ -	$ 60,000
Uncollectible Accounts	$ 1,000	$ -	$ -	$ 1,000
Administrative and General Expenses				
Administrative and General Wages	$ 450,000	$ -	$ -	$ 450,000
Administrative and General Wages - Field	$ 220,000	$ -	$ -	$ 220,000
Office and Other Expenses				
Office Supplies	$ 8,500	$ 5,100	$ -	$ 3,400
Conference, Travel, and Meals	$ 16,000	$ 9,600	$ -	$ 6,400
Bank Fees	$ 13,500	$ -	$ -	$ 13,500
Telephone and Internet	$ 26,000	$ 15,600	$ -	$ 10,400
Alarm Service	$ 1,700	$ -	$ -	$ 1,700
Utilities	$ 34,200	$ 20,520	$ -	$ 13,680
Dues and Subscriptions	$ 75,000	$ -	$ -	$ 75,000
Postage	$ 32,000	$ 19,200	$ -	$ 12,800
Software	$ 55,000	$ -	$ -	$ 55,000
Printing and Stationary	$ 17,000	$ 10,200	$ -	$ 6,800
Other	$ 15,000	$ 9,000	$ -	$ 6,000
Maintenance and Repairs - Vehicles	$ 60,000	$ 18,000	$ 6,000	$ 36,000
Maintenance and Repairs - Equipment	$ 30,000	$ 9,000	$ 3,000	$ 18,000

Office Equipment Rental	$ 5,188	$ 1,556	$ 519	$ 3,113
General Supplies and Expenses	$ 13,000	$ 3,900	$ 1,300	$ 7,800
Small Tools Expense	$ 10,000	$ 3,000	$ 1,000	$ 6,000
Small Office Equipment	$ 20,000	$ 6,000	$ 2,000	$ 12,000
Communications Expense	$ 15,000	$ 4,500	$ 1,500	$ 9,000
Outside Services Employes	$ 200,000	$ 70,000	$ 10,000	$ 120,000
Personal Auto Expense	$ 1,800	$ 540	$ 180	$ 1,080
Insurance Expenses				
Liability and Casualty Insurance	$ 150,000	$ 75,000	$ 15,000	$ 60,000
Workers Compensation Insurance	$ 50,000	$ 25,000	$ 5,000	$ 20,000
Employee Benefits Expenses				
Paid Time Off	$ 130,000	$ 39,000	$ 13,000	$ 78,000
Comp Time Off	$ 5,000	$ 1,500	$ 500	$ 3,000
Holidays	$ 60,000	$ 18,000	$ 6,000	$ 36,000
Group Medical Insurance	$ 675,000	$ 202,500	$ 67,500	$ 405,000
Employer Payroll Taxes	$ 31,000	$ 9,300	$ 3,100	$ 18,600
Pension Plan Costs	$ 360,000	$ 108,000	$ 36,000	$ 216,000
General Plant Expenses				
Maintenance and Repairs of Structures	$ 55,000	$ -	$ -	$ 55,000
Maintenance and Repairs of Office Equipment	$ 5,000	$ -	$ -	$ 5,000
Maintenance and Repairs of General Equipment	$ 15,000	$ -	$ -	$ 15,000
Other Administrative and General Expenses				
Directors' Fees	$ 12,000	$ -	$ -	$ 12,000
	$ 4,055,431	$ 1,091,597	$ 620,362	$ 2,343,473

The resulting allocations divide the revenue requirement between the demand services and customer services. Revenue from customer services is billed through readiness-to-serve rates, which are fixed based on the size of the service connection and do not vary with demand. Revenue from demand services is charged through consumption rates and is dependent on demand. The analysis indicates that 58% of the revenue requirement is attributed to the service and 42% is allocated to demand.

Allocation Comparison

The next table compares the revenue from current rates *without* the proposed revenue increase with the cost-of-service allocations with the revenue increase. The table also shows that, if the District did not change its current rates, the revenue from consumption charges would fall short of the revenue needed from consumption charges after the reallocation of costs from the cost-of-service analysis and the increase in revenue by $412,486. This table also shows that the current readiness-to-serve charge revenue would fall short of what is indicated by the cost-of-service analysis by $169,104.

Table 9 – Comparison of Current Revenue with Cost of Service Allocation

	Current Rate Revenue	Cost of Service W/ Rate	Difference
Consumptions Rate Revenue	$ 1,348,772	$ 1,761,258	$ 412,486
Readiness-To-Serve Rate Revenue	$ 2,126,484	$ 2,295,588	$ 169,104
Totals	$ 3,475,256	$ 4,056,846	$ 581,590

4. RATE DESIGN

The results of the cost-of-service analysis was used to derive rates to be charges to District customers for both readiness-to-serve charges and consumption charges.

Current Rate Structure

The tables below summarize the District's current rates for its readiness-to-serve charges and consumption charges. This rate structure has been in place for many years. Customers are billed monthly for both charges on a single bill.

Table 10 – Current Readiness-To-Serve Rates

Meter Size	Current Rates	
5/8 x 3/4	$	35.50
3/4	$	36.50
1	$	39.75
1*	$	41.50
2	$	46.50
3	$	52.50
4	$	73.50

*Residential Fire Service Connection

Table 11 – Current Consumption Rates

Monthly Use	Current Rates	
0-1300 Cubic Feet	$	5.10
>1300 Cubic Feet	$	7.65

Readiness-To-Serve Charge Rates

Readiness-to-serve charge rates are fixed rates charged per account that recover the cost of the customer service function and a portion of the system maintenance and repair costs. These charge rates are graduated in proportion to the capacity of the service (i.e., size of the water meter) serving a property.

The readiness-to-serve charge is set to generate the revenue required to cover the costs allocated to the customer service function, which was determined in the cost-of-service analysis. Costs are allocated to customers in proportion to the capacity of their services.

The table below set rates for readiness-to-serve charges designed to recover allocated revenue requirement costs for the customer service function of the District's operations.

Table 12 – Proposed Monthly Readiness-To-Serve Rates

Meter Size	FY 2026/27	FY 2027/28	FY 2028/29	FY 2029/30	FY 2030/31
5/8" x 3/4" Meter	$ 38.00	$ 39.52	$ 41.10	$ 42.33	$ 43.60
3/4" Meter	$ 40.00	$ 41.60	$ 43.26	$ 44.56	$ 45.90
1" Meter	$ 45.00	$ 46.80	$ 48.67	$ 50.13	$ 51.63
1" Residential Fire Service Meter	$ 47.00	$ 48.88	$ 50.84	$ 52.37	$ 53.94
2" Meter	$ 75.00	$ 78.00	$ 81.12	$ 83.55	$ 86.06
3" Meter	$ 100.00	$ 104.00	$ 108.16	$ 111.40	$ 114.74
4" Meter	$ 150.00	$ 156.00	$ 162.24	$ 167.11	$ 172.12

Consumption Charge Rates

The District's residential customers pay consumption charge rates in two tiers. These rates are based on their share of the demand service costs allocated to them in the cost-of-service analysis previously presented.

The rate for tier 1 is set to recover the revenue requirement for all costs allocated to the base demand function in the cost-of-service allocation. This function represents well water pumped and delivered by the District. The second tier's rate is set to recover the revenue requirement for all costs associated with the peak demand function of the cost-of service allocation. This function represents purchased water from CLAWA. This water is used primarily during peak usage times and when there is increased irrigation water consumption. As this water comes at a greater cost, the associated tier is higher.

The district's breakpoint between tier 1 and 2 was set at 1,300 CF of water. To more accurately reflect the cost of service for the District's two water sources, and set the breakpoint based on the percentage of well water consumption and purchased water consumption, customer consumption data and purchased water data were analyzed. Based on this information, setting a breakpoint of 800 CF of water appropriately allocates costs based on the water source.

The table below presents the proposed tiered rates for the District for consumption charges:

Table 13 – Proposed Consumption Rates

Consumption	FY 2026/27	FY 2027/28	FY 2028/29	FY 2029/30	FY 2030/31
0-800 Cubic Feet	$ 6.00	$ 6.24	$ 6.49	$ 6.68	$ 6.88
>800 Cubic Feet	$ 10.00	$ 10.40	$ 10.82	$ 11.14	$ 11.47

Water Shortage Rate Adjustments

The proposed rates should be considered adequate in years of normal water supply. During shortages that require customers to curtail water use, revenue shortfalls will occur. These shortfalls may be fiscally tolerable for a brief shortage. However, during a severe or prolonged drought or other emergency shortage, the District's reserves may be unable to offset the revenue shortfall because costs will not decrease by the same amount.

As a means of stabilizing revenue during declared emergency shortages, water agencies are integrating adjustment factors that are implemented *only* during water shortages. During a water shortage, the District should implement a range of actions to reduce water use and help ensure that demand for water does not exceed supply. Such actions may include public outreach campaigns, water efficiency customer assistance and rebate programs, operational changes, and prohibitions and restrictions on some water uses. In the more severe stages of shortage and when a regional water supply reduction is implemented during droughts, the District's Board of Directors would declare a water shortage emergency and have discretion to require mandatory water reductions and implement a water shortage rate adjustment to increase the existing rates to recoup lost revenue from reduced consumption. These adjustments would be temporary and would be returned to the regular schedule when the District's Board determines that the water shortage emergency is over.

The adjustment factors increase the consumption charges to cover fixed costs without generating a surplus. This revenue-neutral adjustment is correlated with the level of mandated reduction and is reduced as the shortage ends.