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To: Board of Directors, Clearlake Oaks County Water District
From: Samantha Ryan, Rural Community Assistance Corporation (RCAC)
Date: April 10, 2026
Subject: Water Rate Schedule Recommendation for FYE 2027 – FYE 2031

Purpose

Rural Community Assistance Corporation (RCAC) worked with Clearlake Oaks County Water District (CLOCWD) to prepare a 5-year Water Rate Study to evaluate revenues, expenses, and the adequacy of current customer charges.

During the rate study analysis, RCAC projected costs forward using water system budget, water system actuals, and inflation factor. RCAC found that:

- Current water fund sales revenues are not sufficient to cover ongoing expenses. The CLOCWD water fund is projected to lose approximately $2,750,000 over FYE 2027 – FYE 2031 if water rates are not increased.
- Current Capital Replacement Plan (CRP) water fund sales revenues are not sufficient to cover ongoing capital replacement work and project. The CLOCWD CRP water a fund is projected to lose approximately $475,000 over FYE 2027 – FYE 2031 if CRP-Water rates are not increased.

The water rate schedule is based on the current rate structure and is being submitted to the Board for consideration. The Board may accept the water rate schedule and then decide if they would like to proceed with a rate increase and the Proposition 218 process.

Summary

The industry standard is to conduct a water rate study every five years to ensure revenues are covering expenses and costs are being applied to customer classes in a fair and equitable manner. As a public entity, CLOCWD must ensure rate structures are consistent with current Proposition 218 case law, which has specific guidance on what is considered fair and equitable ways to distribute costs to customers.

CLOCWD requested a water rate analysis to evaluate for these primary areas:

- Current rate study was conducted in 2021 and produced a rate schedule for FYE 2022 – FYE 2026.
- Water reserves have been decreasing in recent years due to a negative operating balance in the water fund.

A water rate study consists of 3 analyses:

- **Revenue requirement analysis** - Determines the total revenue needed to sustain system operations, fund capital improvements, and meet reserve requirements over a five-year planning horizon. Projected expenses are compared against anticipated revenue to assess whether current rate levels are sufficient to cover all costs.

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- **Cost of service analysis** - Allocates system costs to specific customer classes. This includes distinguishing between fixed costs (incurred regardless of water usage, such as infrastructure and administrative expenses) and variable costs (incurred based on water usage, such as electricity and chemical treatment).
- **Rate structure analysis** – Establishes how costs are recovered through rates. Fixed costs are typically assigned to base charges (often based on meter size, reflecting each customer's potential demand on the system), while variable costs are recovered through volumetric usage rates tied to actual water consumption.

RCAC conducted this water rate study on behalf of Clearlake Oaks County Water District (CLOCWD) to establish rates that allow CLOCWD to operate and maintain the water system for the next five years. RCAC analyzed data for fiscal year ending 2023 (FYE 2023), FYE 2024, FYE 2025 and budgeted data for FYE 2026 to project costs forward for FYE 2027 through FYE 2031.

With the projected expenses, the current rates are expected to leave CLOCWD water fund and CRP-Water fund with a net loss of approximately $3,225,000 based on water sales revenue. Some of this loss could be made up with non-operating revenue but RCAC recommends all operating expenses be covered by operating revenue.

Current Rate Summary						
	2027	**2028**	**2029**	**2030**	**2031**	**5-Year Total**
Total Expenses	$2,252,182	$2,370,277	$2,476,117	$2,589,193	$2,705,783	$12,393,551
Income Generated by Current Rates	$1,833,827	$1,833,827	$1,833,827	$1,833,827	$1,833,827	$9,169,135
Net Loss or Gain (Short/Over to Reserves)	-$418,355	-$536,450	-$642,290	-$755,366	-$871,955	-$3,224,417
Net Cash Flow (Contribution to Reserves)	-$418,355	-$536,450	-$642,290	-$755,366	-$871,955	-$3,224,417

RCAC recommends CLOCWD increase rates to ensure that operating revenues are sufficient to cover operating expenses and that CRP revenues are sufficient to cover CRP expenses.

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Proposed Water Fund Rate Schedule

The water fund projections were developed using the FYE 2026 adopted budget. The rate study budget was set at 5.25% above CLOCWD's adopted FYE 2026 budget. This adjustment reflects higher costs observed in FYE 2025 actuals, including bank fees, memberships, subscriptions and dues, supplies, and increased allowances for repairs and replacement of minor assets.

From this baseline, costs were escalated annually by 4% to account for inflation. Exceptions were made for utilities, which were projected at 7% annually, and CalPERS costs and unfunded liabilities, which were incorporated based on dollar amounts provided directly by CalPERS.

PROPOSED WATER FUND RATES						
Meter Size	Current Rates	2027	2028	2029	2030	2031
5/8"	$35.20	$50.39	$53.13	$55.50	$57.98	$60.57
3/4"	$35.20	$75.58	$79.70	$83.26	$86.97	$90.85
1	$110.20	$125.97	$132.83	$138.76	$144.95	$151.42
1.5	$220.29	$251.95	$265.67	$277.52	$289.90	$302.83
2	$352.35	$403.12	$425.07	$444.03	$463.84	$484.53
3	$660.68	$806.23	$850.14	$888.06	$927.68	$969.06
4	$1,101.16	$1,259.74	$1,328.34	$1,387.60	$1,449.49	$1,514.16
Rate per 1 Gallons	$0.00305	$0.00287	$0.00303	$0.00316	$0.00330	$0.00345
Rate per HCF	$2.28	$2.15	$2.27	$2.36	$2.47	$2.58

RESULTS OF PROPOSED WATER FUND RATES						
	2027	2028	2029	2030	2031	5 Years
Total Expenses	$1,744,117	$1,836,809	$1,915,976	$2,001,045	$2,088,227	$9,586,174
Total Revenue	$1,744,117	$1,836,809	$1,916,872	$2,000,506	$2,087,871	$9,586,174
Net Loss or Gain	$0	$0	$895	-$539	-$356	$0
Net Cash Flow	$0	$0	$895	-$539	-$356	$0

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Proposed CRP-Water Fund Rate Schedule

The water fund projections were developed using the adopted FYE 2026 budget. From this baseline, costs were escalated annually by 5% to account for construction cost inflation. No exceptions were made to the main assumption.

PROPOSED CRP-WATER FUND RATES						
Meter Size	Current Rates	2027	2028	2029	2030	2031
5/8"	$17.46	$18.61	$19.54	$20.52	$21.54	$22.62
3/4"	$17.46	$27.92	$29.32	$30.78	$32.32	$33.94
1	$38.36	$46.53	$48.86	$51.30	$53.87	$56.56
1.5	$72.65	$93.05	$97.70	$102.59	$107.72	$113.11
2	$115.51	$148.88	$156.33	$164.15	$172.36	$180.98
3	$214.42	$297.75	$312.64	$328.28	$344.71	$361.95
4	$355.88	$465.23	$488.50	$512.94	$538.60	$565.54
Rate per 1 Gallons	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
Rate per HCF	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00

RESULTS OF PROPOSED CRP-WATER FUND RATES						
	2027	2028	2029	2030	2031	5 Years
Total Expenses	$508,065	$533,468	$560,141	$588,148	$617,556	$2,807,377
Total Revenue	$508,041	$533,455	$560,140	$588,160	$617,581	$2,807,377
Net Loss or Gain	-$23	-$13	-$1	$12	$25	$0
Net Cash Flow	-$23	-$13	-$1	$12	$25	$0

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Combined Rate Schedule Summary and Results

Rate Schedule Summary (Water and Water-CRP combined)						
Meter Size	Current Rates	2027	2028	2029	2030	2031
5/8"	$52.66	$69.00	$72.67	$76.02	$79.52	$83.19
3/4"	$52.66	$103.50	$109.02	$114.04	$119.29	$124.79
1	$148.56	$172.50	$181.69	$190.06	$198.82	$207.98
1.5	$292.94	$345.00	$363.37	$380.11	$397.62	$415.94
2	$467.86	$552.00	$581.40	$608.18	$636.20	$665.51
3	$875.10	$1,103.98	$1,162.78	$1,216.34	$1,272.39	$1,331.01
4	$1,457.04	$1,724.97	$1,816.84	$1,900.54	$1,988.09	$2,079.70
Rate per 1 Gallons	$0.00305	$0.00287	$0.00303	$0.00316	$0.00330	$0.00345
Rate per HCF	$2.28	$2.15	$2.27	$2.36	$2.47	$2.58

Proposed Rate Summary (Water and Water-CRP combined)						
	2027	2028	2029	2030	2031	5-Year Total
Total Expenses	$2,252,182	$2,370,277	$2,476,117	$2,589,193	$2,705,783	$12,393,551
Income Generated by Proposed Rates	$2,252,158	$2,370,264	$2,477,012	$2,588,666	$2,705,452	$12,393,551
Net Loss or Gain	$(23)	$(13)	$894	$(527)	$(331)	$(0)
Net Cash Flow	$(23)	$(13)	$894	$(527)	$(331)	$(0)

Affordability as % of the median household income (assumes 600 cubic feet of water usage per month)						
Meter Size	Current Rates	2027	2028	2029	2030	2031
5/8"	2.55%	3.15%	3.32%	3.47%	3.63%	3.80%
3/4”	2.55%	4.48%	4.72%	4.94%	5.16%	5.40%

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Recommendations
RCAC recommends CLOCWD:

- Adopt the proposed rate schedules to ensure financial sustainability.
- Ensures rates are sustainable for CLOCWD while also assessing the affordability to your customers.
    - The State Water Resources Control Board drinking water needs assessment measures affordability by dividing the annual bill (assuming 600 cubic feet or 4,388 gallons of water usage per month) by the median household income (MHI). Based on the %MHI, water system bills are categorized as no risk, medium risk, or high risk for affordability.

State Water Resources Control Board Needs Assessment: Affordability as %MHI		
No Risk	Medium Risk	High Risk
<1.5%	1.5% - 2.5 %	>2.5%

    - RCAC's rate model calculates affordability by taking the average residential bill for the water system and dividing it by the MHI.
- Review revenues versus expenditures every year to ensure that the rates cover all costs to the system.
- Strive to be transparent. Successful utilities are those that are transparent to their customers regarding their day-to-day operations, including successes and struggles. Promote your services to your customers and continuously educate them on why it is necessary to raise and adjust rates.
- Consider increasing non-operational revenue. For example, CIP reserves could be moved to and maintained in the highest interest-bearing accounts available to offset inflation unless the cost of doing so is more than the interest earned on the account.
- Work with the billing software provider to streamline reports, billing codes, and application of billing charges. Clearer, more consistent data will make future rate studies faster and more accurate.
- For future rate studies, the current practice of billing certain master-metered accounts based on an equivalent number of 5/8-inch connections was not evaluated in detail. A targeted review of usage characteristics and resulting revenue outcomes may be warranted to support alignment with cost-of-service principles.

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Next Steps

1. The Board can decide to accept the Water and CRP-Water schedule as is or request edits.
2. The Board can decide to pursue the proposed rates and instruct CLOCWD staff to begin the Prop 218 process by mailing out Prop 218 notices at least 45-days in advance of the Prop 218 hearing.
3. At the Prop 218 hearing, the Board may adopt rates. If 50% + 1 of the parcel owners protest the rates in writing, the Board cannot adopt the rates.
4. If adopted, new rates to go into effect July 1, 2026.

Please contact Samantha Ryan, Assistant Field Manager, at Samantha.ryan@rcac.org or (707) 572-7465 with any questions.