



**SERRANO WATER DISTRICT  
NOTICE OF PUBLIC HEARING REGARDING  
PROPOSED RATE INCREASES AND ADJUSTMENTS  
TO THE RATES FOR WATER SERVICE CHARGES**

The Serrano Water District (SWD or District) will conduct a public hearing on June 15, 2021 at 8:30 AM, or as soon thereafter as practicable, in the Board Room of the District's administrative office, located at 18021 Lincoln Street, Villa Park, California 92861, to consider adopting increases in and adjustments to the volumetric (usage) rates and service (fixed) charges for water service, including annual cost of living adjustments and pass-throughs of water supply costs imposed on the District.

***In response to the Governor's Executive Orders regarding COVID-19, some Board Members may be participating in this meeting via teleconference from remote locations. The Public may participate in the board meeting, and this public hearing, in person at the Serrano Water District Board Room subject to social distancing requirements established in the Executive Order or by participating by teleconference by visiting [www.serranowater.org](http://www.serranowater.org) for login or call information.***

**Persons desiring to participate in the public hearing in person at the District are asked to notify SWD Clerk of the Board at least 24 hours prior to the public hearing on June 15 in order to ensure that all required social distancing requirements can be observed during the public hearing and the June 2021 SWD Regular Board meeting.**

**I. INTRODUCTION AND REASONS FOR THE PROPOSED RATE INCREASE**

The principal reason for the proposed rate increases is the need to pay for costly improvements to aging water storage and supply facilities owned by SWD, which must be replaced or rehabilitated so the District can continue to supply safe and reliable potable water to its customers at a reasonable cost. The facilities requiring replacement and/or rehabilitation, include the Irvine Lake Spillway and Outlet tower, the District's Smith Reservoir, portions of the District's distribution pipe lines, retrofits and improvements to the District's Howiler Water Treatment Plant, and other required facility repairs and replacements. Together, these critical capital projects are estimated to cost the District approximately \$53,100,000. All these capital improvements must be undertaken by the District in the next ten years to ensure the District's continued ability to store, treat and deliver potable in accordance with all Federal and State and Local water quality and facility safety requirements. The District is working with financial and engineering consultants to evaluate the most cost-effective means to finance these necessary improvements. In order to fund the final design, engineering, and construction of these facilities, and to pay the debt service on these improvements, an annual rate increase of between 4 and 5% per year in addition to annual cost-of-living adjustments and pass-through of increased third-party water supply cost, is proposed for the five-year period commencing July 1, 2021.

As further background, SWD is an independent water district established in 1927 under the Irrigation District Act, with a five-member elected Board of Directors. The District serves potable water to a population of 6,464 people in the City of Villa Park and a small area of the City of Orange within a 4.7 square mile area. The District service area is largely built out with primarily large lot single family homes, one shopping center and an office building, schools, and a City Hall complex for the City of Villa Park. SWD is one of a few water districts in Orange County that owns and operates a surface water treatment

plant. SWD has 43 miles of pipe, two wells, a surface water treatment plant, two storage tanks, and a surface water reservoir (Irvine Lake/Santiago Reservoir).

### **Significant Capital Work Required at Santiago Reservoir and Elsewhere in SWD's Service Area**

In 1931, SWD (formerly known as Serrano Irrigation District), Carpenter Irrigation District, and The Irvine Company completed a project that secured local water rights and, more importantly, Villa Park's and a portion of the City of Orange's current water supply reliability. This important project resulted in the construction of the current Santiago Dam and Reservoir (also known as Irvine Lake) which is owned between Serrano Water District (25%) and Irvine Ranch Water District (75%). For the last 90 years, the Santiago Reservoir has been utilized for capturing and storing base and storm flows from Santiago Creek, and other water sources, ensuring SWD residents a safe, secure, and cost-effective water supply.

In 2018, after Lake Oroville's spillway failure, California's Division of Safety of Dams (DSOD) required all dam spillways to be thoroughly inspected. After our inspection, DSOD mandated the Irvine Lake spillway be replaced within the next ten years. In addition to the spillway, DSOD required a seismic stability analysis to be performed on the Santiago Reservoir outlet tower, which is the structure that controls water flow from the dam to our surface water treatment plant. Due to the results of that seismic stability analysis, DSOD required the replacement of the outlet tower as well.

After 90 years of service, these all-important and legally mandated improvements at Santiago Reservoir are necessary to insure SWD's continued ability to take its share of local water and storage rights in the Santiago Reservoir, thereby reducing the requirement that SWD purchase more expensive imported water from the Municipal Water District of Orange County (MWDOC). After years of review and analysis, preliminary plans for the replacement of the spillway and outlet tower have been approved by SWD and the other co-owner of Santiago Reservoir, the Irvine Ranch Water District (IRWD). SWD is in the process of evaluating the most cost-effective solution for paying the very substantial cost of the District's 25% share of these mandated facility replacements and improvements at Santiago Reservoir. To this end, the District is actively applying for grants and low interest loans from both the State and the Federal Government that, if successfully obtained, will help SWD to reduce the anticipated cost of 44 million dollars for SWD to fund its portion of the spillway and outlet tower replacement costs at Santiago Reservoir.

Significant capital work away from Santiago Reservoir will also be required in the next five years in order to keep the District's water treatment and delivery system safe and functioning properly. Within the last five years SWD conducted a corrosion and structural seismic study of Smith Reservoir Tank and Pump Station which were constructed in phases in the early 1970's. The results of the study concluded that the corrosion of the Smith Reservoir, as well as the construction techniques used at that time, do not meet current seismic standards, so retrofitting is not an option. Accordingly, replacement of this six million-gallon tank is required to meet State standards at a cost in excess of \$6 Million. Design and construction is to occur between 2022 and 2026. Additionally, SWD is preparing for significant replacement/upgrades of infrastructure at the Howiler Treatment Plant over the next 10 years at an estimated minimum capital cost of \$2 Million as well as planning the repair and replacement of aging distribution pipelines at a capital cost of at least \$1 Million per year.

In all these new costs associated with maintaining the safe and reliable operation of the District's aging infrastructure, you may be assured that SWD will always look out for, and do, whatever is in the best interest of the District's ratepayers. SWD will continue to keep our customers updated on the progress of the two projects at Santiago Dam, as well as the work at the Smith Reservoir, Howiler Treatment

Plant, and other District facilities. For more detailed information on these projects, please visit SWD's website at <https://www.serranowater.org> and/or IRWD's website at <https://www.irwd.com/construction/dam-safety-program>.

**Additional Background Regarding the Need for the Rate Increase:**

SWD purchases imported water from MWDOC during dry years, which in turn purchases a substantial portion of its water supplies from the Metropolitan Water District of Southern California (MWD). MWD imports water from two sources: the Colorado River via the Colorado River Aqueduct, and the Sacramento-San Joaquin Delta via the over 400-mile California Aqueduct. Likewise, Orange County Water District (OCWD) is the regional groundwater management agency. OCWD is responsible for replenishing groundwater supplies used by SWD from multiple sources, including MWDOC imported water, local Santa Ana River runoff, and advanced wastewater treatment from an OCWD facility where recycled water is purified to the quality of distilled water and placed back in the groundwater basin. Costs of MWDOC and OCWD supplies are anticipated to increase significantly over the next five years—further driving the critical need for the rate increases proposed herein.

SWD is committed to providing the highest quality services at the lowest possible rates for its customers. While the District continually strives for cost reductions and better utilization of the assets it holds, it also requires rate adjustments to allow the District to continue operating its facilities in a safe manner, including replacement/rehabilitation of aging capital infrastructure at Santiago Reservoir and other locations throughout SWD's service area (as described above), and the installation of new wellhead treatment to address emerging contaminants identified by the State of California and the EPA. Additionally, the District, which has not raised rates since 2015, must keep pace with the rate of inflation. As such, the District is proposing to adjust the annual rates proposed herein to correspond to any increase in the rate of inflation within the region over the next five years. This adjustment will ensure the District is able to generate sufficient revenue to pay for the rising costs on materials to treat and deliver water, compensate employees to attract and maintain a high-performing team, and mitigate rising imported water prices, among other reasons. To that end, the District hired an independent consultant, Fieldman & Rolapp, to determine how best to meet its revenue requirements and to keep pace with projected cost increases over a five-year period. Based on this evaluation, and as described below, SWD has determined that rate adjustments and increases described below are critical for SWD to continue to meet all federal, state, and local requirements for safety and drinking water quality.

Additionally, there are costs imposed on SWD by outside wholesale water agencies, costs which have not yet been established. These costs are anticipated to rise each year over the next five years. SWD is therefore also proposing in this Notice to "pass through" future increases in the costs of imported water imposed on SWD by MWDOC and MWD and in the costs of replenishment water imposed by OCWD on SWD.

Even with the implementation of its proposed new rate structure, SWD's rates will remain lower than the rates of many of the surrounding water suppliers, some of which—unlike SWD—receive property tax revenues that subsidize their overall water cost. A copy of the recent rate survey SWD conducted of rates of nearby water agencies is available for review at the offices of the District and is also available online at [www.serranowater.org](http://www.serranowater.org).

**II. PROPOSED RATES AND CHARGES—2021-2026**

For the reasons identified and explained herein, the District is proposing to adjust and increase the rates for its water service for five years as reflected in Tables 1 and 2 below. If approved by the SWD Board on June 15, 2021, the proposed revised rates in Tables 1 and 2 will take effect on and after July 1, 2021. Rates will increase each July 1 thereafter up to the amounts set forth in Tables 1 and 2 below plus (1) any adjustments for “pass through” costs and inflation as authorized each year for five years per Government Code § 53756,<sup>1</sup> (2) any demand reduction rate adjustments, as set forth in Section V, Table 3, that may be necessary as a result of state or regionally imposed mandatory cutbacks in water use.

Table 1: Readiness to Serve (RTS)/Fixed Meter Charge* (SFR (Single Family Residential), MFR (Multifamily Residential), Non-Residential, Agriculture, Commercial)						
Meter Size (In Inches)	Current	July 1, 2021	July 1, 2022	July 1, 2023	July 1, 2024	July 1, 2025
1" and under	\$32.21	\$33.82	\$35.51	\$37.11	\$38.78	\$40.52
1.5"	\$35.69	\$37.47	\$39.35	\$41.12	\$42.97	\$44.90
2"	\$39.12	\$41.08	\$43.13	\$45.07	\$47.10	\$49.22
3"	\$46.01	\$48.31	\$50.73	\$53.01	\$55.39	\$57.89
4"	\$52.92	\$55.57	\$58.34	\$60.97	\$63.71	\$66.58
6"	\$94.23	\$98.94	\$103.89	\$108.56	\$113.45	\$118.55

\*Readiness to serve charge includes 1 billing unit or 100 cubic feet (HCF) delivered per month. Volumetric rate starts when water use exceeds 1 unit of water.

Table 2: Commodity/Volumetric Rates for Monthly Service* (each HCF- Hundred Cubic Feet)						
Customer Class	Current	July 1, 2021	July 1, 2022	July 1, 2023	July 1, 2024	July 1, 2025
SFR, MFR, Non-Residential, Commercial, Agriculture	\$3.75	\$3.94	\$4.13	\$4.32	\$4.51	\$4.72

\* Commodity/Volumetric Charge is triggered for use monthly that exceeds one unit of water per month.

**III. BASIS UPON WHICH THE RATES ARE CALCULATED AND INCREASED**

**Fixed and Volumetric Charges:** The rate structure for all SWD customers is composed of two primary components: (1) a Fixed Meter Charge, also known and referenced herein as a Readiness to Serve

<sup>1</sup> California Government Code section 53756 authorizes a water agency to adopt a schedule of fees or charges for up to five years with automatic adjustments that pass through increases in wholesale charges for water from other agencies, as well as adjustments for inflation, provided: (1) the pass through for inflation is pursuant to a pre-established annual formula or methodology; (2) the adjustment for inflation does not cause the fee/charge to exceed the cost of the agency providing the water service; (3) the wholesale water costs passed through from the other wholesale agency increase or decrease independently of any action taken by the retail water agency..

Charge, which is imposed based upon meter size and irrespective of how much water is used by a customer each month, and (2) a Commodity Charge, also known as a Volumetric Charge, which is based on the amount of water a customer uses each month. All SWD customers are billed monthly.

**Fixed Meter/Readiness to Serve Charge.** The Meter Fixed Charge is established based on the size of the water meter (in inches) installed at and serving a property and is the same each month regardless of how much water is used by a customer in each billing period. The charge is calculated to recover a portion of the SWD's fixed costs in providing water to each service connection, including administration, billing and collections, customer service, meter reading, meter maintenance, and a portion of costs associated with providing and meeting system capacity (including a portion of the District's costs of water treatment, distribution, and storage).

**Commodity/Volumetric Charge.** The Commodity/Volumetric Charge is currently set at \$3.75 per HCF, and is calculated based on the cost to the District of providing water, including the costs of the District treating local surface water stored in Santiago Reservoir and groundwater extracted from SWD's wells, as well as the cost of purchasing imported water from MWDOC for storage in Santiago Reservoir during dry years. The Commodity/Volumetric charge, among other things, recovers the cost to SWD of managing SWD's water resources, capital improvements program, and implementation of the District's conservation programs. The Commodity/Volumetric Charge structure consists of a single rate per unit of water consumed. One unit of water equals one hundred cubic feet (HCF) or 748 gallons. The first HCF of water used by a SWD customer is included as a component of the Fixed Meter/Readiness to Serve Charge. Each HCF, or portion thereof, above one HCF, is charged to SWD customers per the volumetric rate in Table 2.

#### **IV REASONS FOR THE RATE INCREASES IN TABLES 1 AND 2: TO PAY FOR REQUIRED SANTIAGO RESERVOIR REPLACEMENT FACILITIES, REPLACEMENT OF SMITH RESERVOIR, OTHER NEEDED CAPITAL FACILITY WORK, AND INCREASED OPERATIONAL COSTS TO ADDRESS NEW WATER QUALITY REQUIREMENTS**

The principal reason for the approximately four to five percent rate increases per year—reflected in both the Fixed Meter/RTS (Table 1), and the Commodity/Volumetric Rates (Table 2), from 2021 to 2026, is the approximately \$44 million cost to SWD, plus debt service, of replacing and rehabilitating the Santiago Reservoir Spillway and Outlet Tower (“Dam Project”) as required by the California DSOD, and design/replacement of the Smith Reservoir. As further illustrated in the proforma materials and SWD Capital Facilities Report, available for public review at Serrano Water District and on the SWD website, the District will be required to fund its share of the Dam Project and the Smith Reservoir Project, as well as numerous other capital rehabilitations and replacements, between 2023 and 2026. In order to obtain favorable financing terms, the District will need to build up its capital reserves between 2021 and 2025 such that the total portion of the Capital Improvement Projects financed by the District is approximately \$30 million with the remainder of the \$44 million paid either from the collection of rates (current funds) and from amounts placed in reserve accounts in prior years in anticipation of the Santiago Dam and Smith Reservoir Projects. The total debt service paid during the life of both projects at Santiago Reservoir is projected to be up to \$21 million (SWD's share) depending on whether State or Federal low interest loans or grants are ultimately secured by the District for the Santiago Dam Project. A detailed analysis of total capital requirements and associated debt service can be found in Exhibit 1, attached hereto.

Additionally, between 2021 and 2026, the District anticipates experiencing increased groundwater treatment costs of approximately \$165,000 per year as a result of the State of California's regulation of Per- and polyfluoroalkyl substances ("PFAS") and the District's decision to implement ion exchange treatment at the District's groundwater wells in order to meet the new PFAS water quality requirements.

The \$53.1 million in capital expenditures is driving the need for the District's rate increases reflected in Tables 1 and 2 because the District, as reflected in Exhibit 1, will need to build up its capital reserves prior to the award of pertinent construction contracts, and will thereafter need to re-pay principal and interest on the Dam Project and the Smith Reservoir Project. Repayment will need to be funded by rates. Additionally, the increased costs of operation and maintenance for PFAS removal are also driving the need to raise rates, though to a smaller degree.

## **V. PASS THROUGH, INFLATION, AND DEMAND REDUCTION ADJUSTMENTS**

Commencing July 1, 2021 and at any time through and including June 30, 2026, the District is proposing to automatically pass through to SWD customers any annual increases in the rates that SWD is charged by its two primary wholesalers, the MWDOC, and the OCWD. The District also proposes to make annual adjustments for inflation within the District's service area to both the Fixed Meter/RTS and Commodity/Volumetric rates.

**A. Pass-Through of MWDOC Rates, Fees and Charges, and OCWD Replenishment Assessments and Other Charges, Assessments and Fees.** As noted in Section I, MWDOC is the District's wholesale supplier of untreated imported water. When the supplies of native Santiago Creek water stored in Santiago Reservoir are insufficient to meet the demands of the District's customers, the District purchases imported water from MWDOC, and MWDOC bills the District for those deliveries at MWDOC's then current rates. The MWDOC charges include MWDOC's cost of purchasing the imported water from the MWD as well as other fees and charges imposed by MWDOC each year on its retail water customers. The District has no ability to control the amounts MWDOC charges its retail water agencies for imported water each year.

OCWD is the manager of the groundwater basin underlying SWD and other areas in northern and central Orange County. The District's wells produce groundwater from a groundwater basin replenished by OCWD from a variety of sources. OCWD annually adopts and imposes replenishment assessments to cover its groundwater management and replenishment activities, and a basin equity assessment to discourage groundwater production in excess of levels set by OCWD for all groundwater producers.

Per California Government Code Section 53756, therefore, SWD proposes to adjust its rates on July 1 of each year to pass through both (a) the entirety of any annual increase in MWDOC rates, fees and charges imposed on the District by MWDOC for imported water purchases and other MWDOC charges, beginning with the first District purchase of imported water from MWDOC after July 1, 2021, and (b) the entirety of any increase in replenishment assessments, basin equity assessments, and other charges and fees adopted or imposed by OCWD after July 1, 2021, relating to groundwater produced by the District. These pass-through rate adjustments are proposed to remain in effect for five years, until June 30, 2026.

MWDOC and OCWD annual rate increases are unknown at this time; however, no pass-through event shall increase rates in a manner that results in SWD exceeding its cost of providing water service. Prior to implementing pass through increases from MWDOC and OCWD, SWD will provide written notice of

the rate increase or increases to customers not less than 30 days prior to the effective date of the increase.

**B. Proposed Annual Inflation Adjustment: Fixed Meter/RTS Charge and Commodity/Volumetric Water Rate.** Pursuant to California Government Code Section 53756, the District proposes to adjust its Fixed Meter/RTS Charge and Commodity/Volumetric Water Rate annually, commencing July 1, 2022, by an amount equal to the amount of the annual increase in the U.S. Department of Labor’s Consumer Price Index, All Urban Consumers, for the Los Angeles--Riverside--Orange County, California area. This annual adjustment is proposed to remain in effect for five years, until June 30, 2026.

**C. Special Rate Adjustments: Demand Reduction Adjustments During Mandatory Cutbacks.** Fluctuating availability of water resulting from drought or other water events may result in state-mandated or regional water use cutbacks. Cutbacks may cause SWD to experience lower water sales, and, therefore, less water revenue. To help mitigate future losses in revenue from reduced sales and ensure that SWD is able to continue to provide safe drinking water to its customers during a drought scenario without the requirement of conducting an additional Proposition 218 Hearing, SWD is proposing to authorize adjustments to the rates of the Volumetric Commodity Charge (Demand Reduction Rate Adjustments) during declared water shortage stages or state mandated reductions in the level of potable water usage as described in Table 3.

SWD may implement Demand Reduction Rate Adjustments for the Commodity charge as necessary following a water shortage declaration or water usage reduction mandate imposed by the State or a regional regulatory authority, with formal Board adoption, depending on the level of water use cutbacks required, to ensure that SWD recovers enough revenue to meet its ongoing expenses in a mandatory cutback scenario. Under the proposed Demand Reduction Rate Adjustments in Table 3, the rates for the Volumetric/Commodity Charge then in effect will be adjusted in accordance with SWD's projected losses per Table 3. Table 3 shows the maximum adjustments in the rates of the Volumetric/ Commodity Charge that may be implemented by SWD during varying levels of mandatory reductions in water usage imposed by state and/or regional agencies. Adjustments in Table 3 may continue only for as long as the state/regional non-discretionary demand reduction mandates remain in place.

Table 3: Maximum Demand Reduction Rate Adjustment - \$/HCF for Potable Water Commodity Charges				
Demand Reduction Level	FY 2022	FY 2023	FY 2024	FY 2025
6-10% Reduction	\$0.41	\$0.43	\$0.45	\$0.47
11-20% Reduction	\$0.83	\$0.86	\$0.90	\$0.94
21-30% Reduction	\$1.24	\$1.30	\$1.35	\$1.42
31-40% Reduction	\$1.65	\$1.73	\$1.81	\$1.89

**VI. Public Hearing and Written Protests.** Any record owner of a parcel upon which any of the rates and charges above described are proposed to be imposed, and any tenant directly liable for the payment of water service charges (i.e., a customer of record who is not a property owner) may submit a written protest to the proposed rate increases proposed herein; however, only one protest will be counted per identified parcel.

Any written protest must:

1. state that the identified property owner or tenant is opposed to the proposed water rate increases;

2. provide the location of the identified parcel (by street address, assessor's parcel number, or customer account number); and,
3. include the name and signature of the property owner or tenant submitting the protest.

Written protests may be submitted by mail or in person to the Clerk of the Board of Directors at 18021 Lincoln Street, Villa Park, California 92861 (District Offices), or at the Public Hearing that will be held at District Offices on June 15, 2021. However, to be counted and considered by the Board, written protests must be received at District Offices prior to the close of the public comment portion of the Public Hearing on June 15, 2021.

Any protest submitted via e-mail or other electronic means will **not** be accepted as a valid written protest. Please indicate on the outside of any envelope mailed to the District, the following, "*Attention: Rate Hearing Protest.*"

The Board of Directors will accept and consider all written protests and will hear and consider all oral comments regarding the proposed rate increases at the Public Hearing. Oral comments at the Public Hearing will not qualify as valid protests unless accompanied by a written protest containing the information identified in this Section VI. Upon the conclusion of the Public Hearing, the Board of Directors will consider evaluate and count any written protests received prior to the close of the public hearing.

If written protests are not presented by a majority of the property owners and/or tenants of the identified parcels subject to the proposed rate increases, the Board of Directors will be authorized to adopt the proposed rate increases.

Additional details regarding the proposed rates are available at the District offices (location noted above) or on the District's website at <https://www.serranowater.org>.

If you have any questions regarding the proposed rates or the amount of the water service charges that may be imposed on your property, please contact the District at (714) 538-0079 or via email at [info@serranowater.org](mailto:info@serranowater.org).