

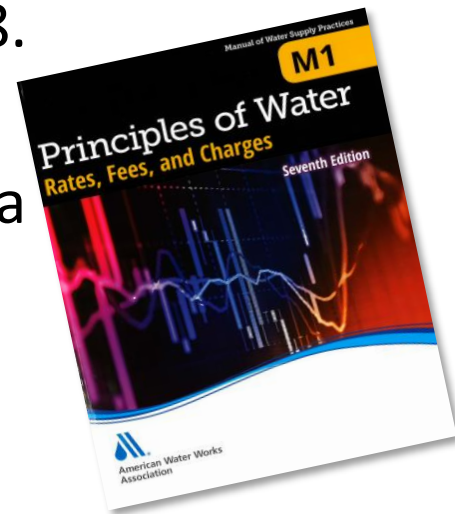
WATER ADVISORY GROUP

2026 WATER RATE STUDY OVERVIEW

July 2, 2025

PURPOSE OF NEW RATE STUDY

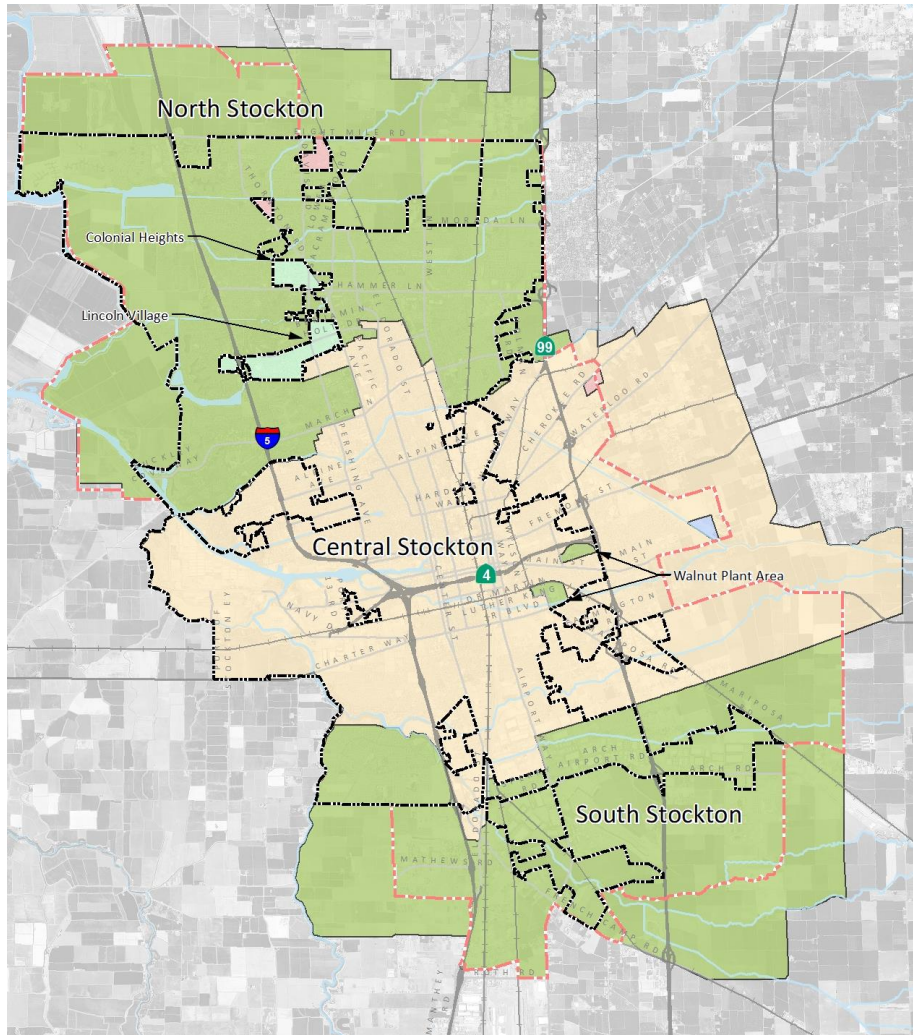
- Develop a rate that demonstrates fairness and equity across all customers.
- Required to comply with Proposition 218.
- Prepared every 5 years.
- Reflect prudent financial planning criteria
 - Maintain Legally Required Debt Service Coverage Ratios
 - Fund Continued Operations
 - Adequate Rate Funding of Capital Projects
 - Meet Target Reserve Ending Balances
- Develop the study using accepted methodologies tailored to the City's system and customer characteristics



WHAT THE RATES CURRENTLY SUPPORT

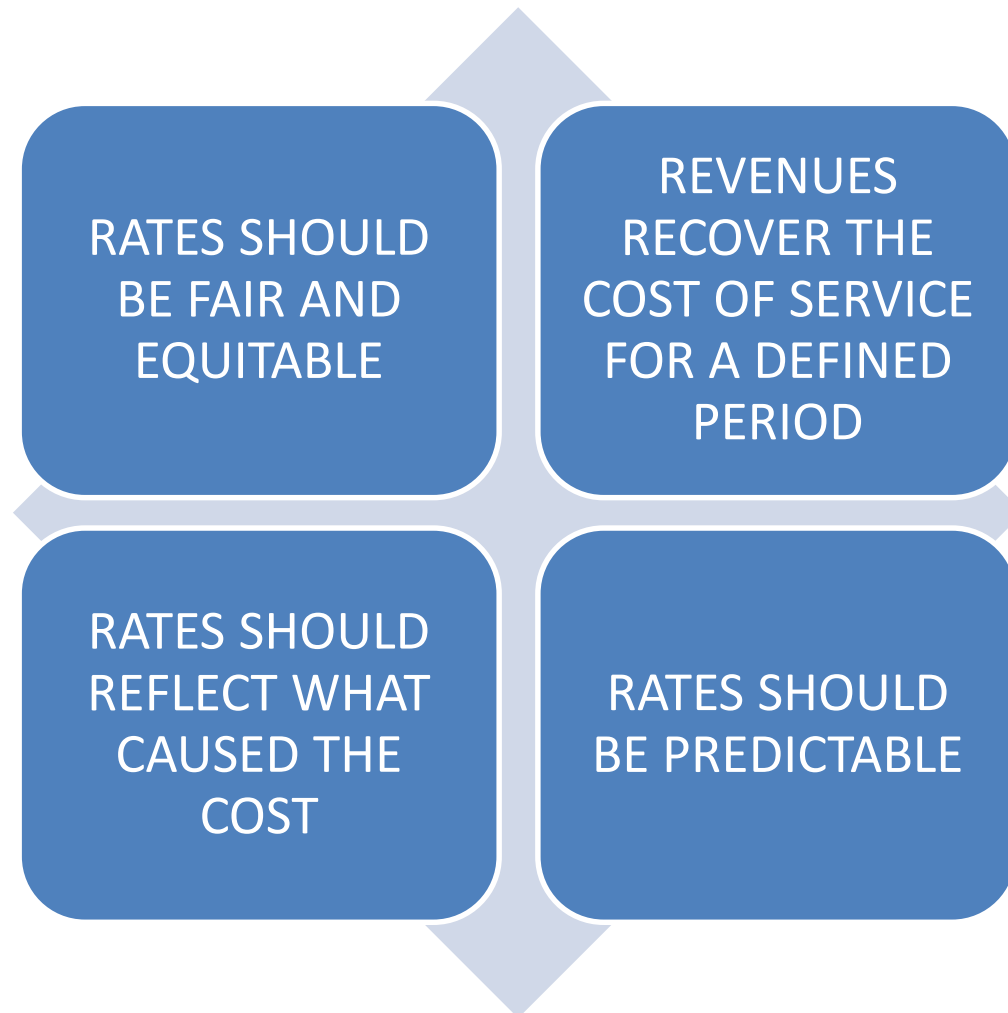
- Maintain a comprehensive water transmission and distribution system, including:
 - 7 reservoirs
 - 9 active groundwater wells
 - 600 miles of pipeline
 - Over 50,000 water meters
 - 7,500 fire hydrants
- Serve a population of more than 180,000 residents
- Produce approximately 9 billion gallons of potable water annually
- Operate the Delta Water Treatment Plant with a treatment capacity of up to 30 million gallons per day
- Capital Improvement Program (CIP) projects for system repairs and upgrades
- Water resource planning and conservation programs

CITY OF STOCKTON WATER SERVICE AREAS



- **MUD** serves North and South Stockton
- **California Water Service Company** serves Central Stockton

THE PHILOSOPHY OF RATE MAKING



APPROACH TO ESTABLISHING COST-BASED RATES

Revenue Requirement

Compare the revenue of the utility to the expenses to evaluate the level of overall rates



Cost of Service

Equitably allocates the revenue requirement between the various customer classes of service



Rate Design

Design rates for each class of service to meet the revenue needs of the water utility, along with any other rate design goals and objectives

OVERVIEW OF THE REVENUE REQUIREMENT

Compares utility revenues to expenses

- Determines the level of revenue (rate) adjustment necessary

Uses prudent financial planning criteria

- Maintaining sufficient ending reserve balances
- Attaining target debt service coverage (DSC) ratio

Reviews a specific time period

- On a five-year cycle

Analyzes utility on a “stand-alone basis”

- No transfer of funds from the General Fund
- Rates need to support operations and capital

Utilizes the “cash basis” methodology

- Generally accepted method for municipal utilities

OVERVIEW OF THE COST OF SERVICE

What is cost of service?

- Analysis to equitably allocate the revenue requirement to the customer classes of service

Why cost of service

- Generally accepted as “fair and equitable”
- Avoids subsidies
- Revenues reflect costs
- Meets the proportionality requirements of Proposition 218

Objectives of Cost of Service

- Determine if subsidies exist
- Develop average unit costs

RATE DESIGN

Reflect the findings
of the revenue
requirement and
cost of service
analyses

Meet the rate
design goals and
objectives of the
City

Produce sufficient
revenues to meet
the target revenues
of the utility, and
each class of service

Are cost-based and
equitable

2021 RATE INCREASES

- Phased Rate Increase in Effect July 2021 to June 2026

Fiscal Year	Water Rate Increase
2021/2022	0.0%
2022/2023	3.5%
2023/2024	3.5%
2024/2025	4.0%
2025/2026	4.0%

HOW THE MONEY WAS USED

- Meet legally required debt service coverage ratios
- Fund increased purchase water costs
- Fund operations and maintenance activities
- Fund construction of capital improvement
 - Groundwater Recharge Project
 - DWTP Campus Improvement Project
 - Advanced Metering Infrastructure
 - Treatment at Well SSS8
 - Rehab of Reservoirs and wells
 - Security improvements at remote sites
 - Lateral pipeline replacement

HOW THE MONEY WAS USED

- Maintained sufficient revenue while having reduced water consumption:
 - Droughts
 - State mandated conservation savings
- Legally met the required debt service coverage ratios
- Paid for the increased cost of purchased water
- Invested in assets and maintenance activities

2026 RATE STUDY – Key Assumptions

- Starting point is the FY 24/25 and FY 25/26 budgets
 - Projected through FY 33/34
 - O&M expenses are escalated annually at approx. ~5%
 - Primarily driven by inflation, labor contract and purchase water estimates
- Independently calculate rate revenues
 - Based on current rate structure and recent customer characteristics (i.e., accounts, consumption)
- Capital funding plan is based on current water master plan.
 - Identified system replacement needs, deficiencies, and expansion related projects
 - Assumes no new debt in draft analysis
- Maintains financial planning criteria

2026 RATE STUDY – Key Assumptions (Cont'd)

- Cost of service analysis is being developed
 - Meet the requirement of Proposition 218
 - Provides the basis for fixed and consumption charges
- Rate design analysis is in development
 - Preliminary direction is to maintain current rate structure and customer classes of service (rate schedules)
 - Evaluating tier structure for residential customers
 - Updating conservation surcharge rates (previously called drought surcharge rates)
- Any proposed rate structure changes will need to be developed within the cost of service analysis

Next Steps

- July 10, 2025 - Informational discussion with the Council Water Committee
- August 12, 2025 - Request Council to award a contract to HDR Engineering
- August 27, 2025 - Project Kickoff Meeting with MUD Staff
- February 4, 2026 – Return to WAG with preliminary rate study results