DRAFT

Finance Committee Meeting Minutes
San Juan Water District
November 12, 2025
1:00 p.m.

Committee Members: Mike McRae, Director (Chair)
Manuel Zamorano, Director (Member)

District Staff: Adam Larsen, General Manager
Donna Silva, Director of Finance & Human Resources
Tony Barela, Director of Operations
Andrew Pierson, Director of Engineering
Greg Zlotnick, Director of Water Resources & Strategic Affairs
Devon Barrett, Customer Service Manager
Michael Spencer, Water Treatment Plant Manager
Teri Grant, Board Secretary/Administrative Assistant

Members of the Public: User 01
George Machado, SJWD Board Director
Pam Tobin, SJWD Board Director
Entela Fallstead, SJWD Employee
Meera Deshmane, SJWD Retail Customer

1. **Review General Manager Reimbursements (W & R)**
   There were no credit card charges or reimbursement requests from the General Manager.

2. **Review Check Register from October 2025 (W & R)**
   The Committee reviewed the October 2025 check register and found it to be in order.

3. **Review of Legal Bills (W & R)**
   The Committee reviewed the legal bills and found them to be in order. Director McRae requested that all legal bills be included in the spreadsheet such as any Prop. 218 attorney invoices.

4. **Treasurer's Report – Quarter Ending September 30, 2025 (W & R)**
   Ms. Silva provided a staff report which will be included in the Board packet. She informed the committee that the overall portfolio increased by $985,197.25 for an ending balance of $61.52 million as of September 30, 2025.

5. **Retail Rate Structure Analysis (R) – General Discussion and Customer Comments**
   Ms. Silva provided the committee with a document titled, "Summary of Issues Expressed and Guiding Principles for Retail Rate Structure Analysis." She explained that she put the summary together based on comments made at previous meetings. A copy will be attached to the meeting minutes.

Director McRae stated that the Committee has direction from the Board to create a roadmap/scope of work for the Retail Rate Structure Analysis and would like an independent third party to make a recommendation at a later date regarding the District's rates.

Ms. Meera Deshmane, a SJWD Retail customer, conducted a presentation titled, "Appeal for Water Retail Rate Reduction," which will be attached to the meeting minutes. In response to Ms. Deshmane's comment regarding data requests, GM Larsen explained that he would like to hold off compiling the data until the Board has given staff direction regarding the work that they want a consultant to perform since it will require numerous staff hours and he would like to avoid a duplication of work for staff.

GM Larsen noted that the rates that the Board previously approved were justified and were reviewed by legal counsel.

Director McRae requested that Ms. Deshmane provide a presentation at the January public workshop and he plans to also provide a presentation at a higher level.

The committee discussed the need to proceed carefully regarding this project and look at the whole customer base since it could affect the District's financials, customer water bills and create a negative outcome. In addition, they discussed having a consultant take an impartial look at all possible rate structures. GM Larsen voiced concern about conducting another Prop. 218 process next year since one was just completed this year.

Ms. Silva commented that Ms. Deshmane made some good points, but wants to make sure that the Board understands the full ramifications of moving to the model that she is suggesting. In addition, Ms. Silva commented that if the District took the path to calculate the cost of service for each individual home or if the District figured out which customers benefited from various CIP projects then that would add a level of complexity that would create rate volatility for the customers and make it harder to manage, implement and track. She suggested that the Board look at the policy considerations, what they want to achieve, look at the defensible rate structures utilized in California and then decide which rate structure best achieves their desired policy.

GM Larsen commented that the weighted average is something that the Board should look at. He recommended that another Prop. 218 consultant be brought in for the Board to gain further knowledge about revisions to Prop. 218 and for the Board to provide direction to staff regarding what to look at.

Director McRae suggested that a consultant firm be contacted and asked to present, at little to no charge, on the challenges and risks of various rate structures and Prop. 218; however, this would not be to analyze the District's rate structure. He requested that this topic be added to the Board agenda for the November 19th Board meeting for discussion and possible action.

6. Other Finance Matters (W & R)
There were no other matters discussed.

7. Public Comment
There were no public comments.

The meeting was adjourned at 2:40 p.m.

Summary of Issues and Guiding Principles for Retail Rate Structure Analysis

1. Equitable allocation of operating and capital costs:
    a. Should the District continue using the postage stamp approach to allocating fixed costs? Or,
    b. Should operations and capital projects only be assigned to those that directly and immediately benefit (potential emergency use excluded)? Example: gravity zone, vs. pump zone, capital projects (such as Kokila Reservoir and Cavit Stallman pipeline…benefitting customers differently, pipe lengths and operational costs of each zone).
        i. Preliminary issues identified:
            1. If we were to segregate the costs of the pump zone and the related CIP, where do you stop?
                a. When you start down the road of assigning CIP projects to specific parcels you need to know where to stop, or if it's even possible to define the benefit to a parcel. It gets really complicated, quickly.
            2. It also can create extreme price volatility.
            3. It would likely require a look back and refund/supplemental billing since all customers have paid for all projects thus far.

2. Proportion of Fixed vs. Variable Rate:
    a. Fixed vs. variable ratio is too high. How about a 50-50?
    b. Do not change the fixed vs. variable ratio, happy with how proactive SJWD is with maintaining the system in good working condition, unlike neighboring water districts. Also good to be humble and look at other ways to make sure the rate structure is right for the customers.

3. Allocation of Fixed portion of the rate:
    a. Having a fixed rate causes per unit price of water to be higher for low water use customers.
        i. Note: this exists for all water districts that have a fixed component to their rates, it is an inherent issue with having a fixed vs. variable rate structure.
    b. Consider abandoning the weighted average method of determining the fixed cost for 1" and below meters. Instead, have a separate fee for each individual meter size.

c. Do not replace < 1-inch meters with 1-inch meters, increases customers bill without providing a useful benefit.
d. Consider treating all meters 1-inch and below the same without distinction.
e. Consider allocating fixed costs based on consumption instead of access to the system (meter size)

4. Concerns with change:
    a. If we stray from case law guidance or rate consultant advice and do something different with our rates, we put the District at risk of lawsuit and of losing the lawsuit.
    b. If we change the rate structure it could raise the rates on a lot of customers and cause issues, potential legal issues, even if they are legal, it could still provoke a legal challenge. We must be very careful with change.
5. Guiding Principles Expressed:
    a. Whatever we do, we must put the customers first because we exist to serve them.
    b. Rates should be fair to all customers.

6. One customer claimed our rates are the highest in the region.

7. Other Issues not identified but that should be considered:
    a. Prevent rate volatility
    b. Ensure revenues are adequate to cover costs
    c. Avoid unnecessary complexity
    d. Customers do not like to be nickeled and dimed
    e. Customers do not like drought rates – they do not take well to being told to use less, but pay more.
    f. How to incentivize conservation, or penalize the lack thereof, without jeopardizing financial stability and angering customers. This is to comply with the upcoming conservation regulations.

Rate Structures Identified

1. Flat Rate – one rate charged to all customers regardless of amount of water used, or customer class.
2. Declining Block Rate - uses a fixed and variable rate. The variable rate decreases as consumption increases. The more water a customer uses, the lower the price they pay for each additional unit. Used to encourage water consumption.

3. Uniform Rate – uses a fixed and a variable rate. The variable rate is fixed. It does not change with the amount of consumption, and it is the same rate for all customer classes.
4. Seasonal Rate – uses a fixed and a variable rate. The variable rate changes based on the time of year, typically charging more during peak usage periods like summer and less during off-peak times like winter.
5. Inclining Block Rate – uses a fixed and variable rate. The variable rate increases as water consumption rises. The inclining rate blocks must be tied to increased costs.
6. Budget/Individualized Rates – uses a fixed and variable rate. Each customer receives a personalized water budget, designed to meet their specific indoor and outdoor water needs, or to comply with the state conservation regulations (what they state thinks that customer should be able to use, which is likely lower). Not sure how the variable rate is set, but if the customer uses more than their budget, there would be a penalty.
7. Drought Rates – drought rates are a temporary increase in water rates implemented during periods of drought to encourage conservation and offset lost revenue due to decreased water sales. They could be needed in any of the above rate structures, except flat rate, if the fixed portion of the rate is not sufficient to cover fixed costs.

Note that all the rate structures identified above use a fixed and a variable rate except the flat rate. Therefore, the conversation about how much to put on the fixed vs. variable rate, whether or not all costs should be shared with all customers in the fixed portion of the rate and how to allocate the fixed rate amongst the various customers is applicable to most of the rate structures.

Policy Considerations for Ratemaking (Per Michael Colantuono)

1. Full cost recovery (or conscious subsidies)
2. Revenue Stability
3. Administrability – transparency and understandability
4. Legal Compliance
5. Fairness and equity
6. Other policy goals
    a. Conservation
    b. Economic development
    c. Avoiding rate shock
    d. Avoiding unnecessary or unjustified change

Presented to the Finance Committee

on November 12, 2025

By Meera Deshmane, Retail Rate Payer

Appeal for Water Retail Rate Reduction

SJWD Rate Review Roadmap Meeting

Meera Deshmane

November 12, 2025

Agenda

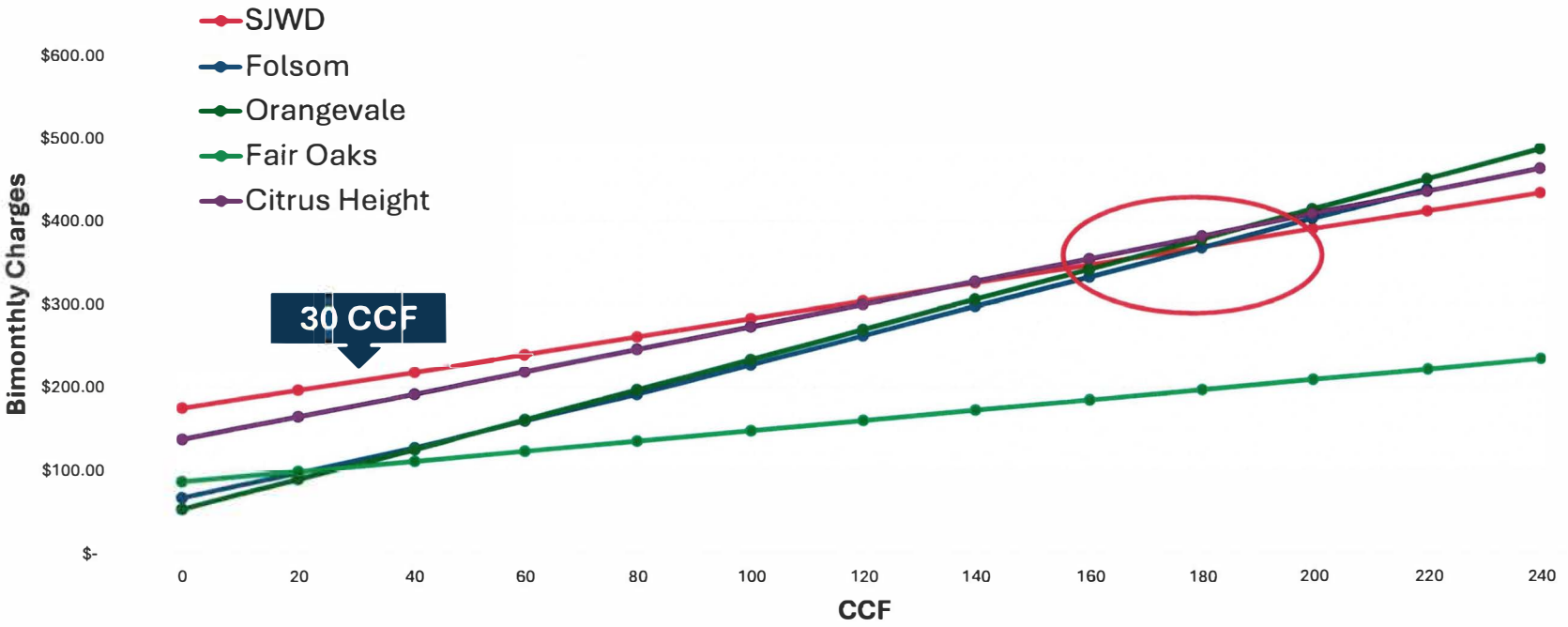
1. Why request a retail rate review and a change to the rate structure?
2. Steps in retail rate determination
3. Issues with current retail rates
4. Conclusion

Key Observations

- Our reduced water usage did not reflect $$$ savings in our bills!
- SJWD retail charges are higher than all water agencies that buy wholesale water from SJWD!
- We live in Folsom, but we pay ~1.5X more in water bills than other Folsom residents!
  - $242 vs $168 bimonthly bill @ 30CCF
- We pay more than 4x in fixed base charge vs other Folsom residents!!
- Bills increased by 42% since 2019 with normal water use!
- This prompted us to explore why we pay so much more.

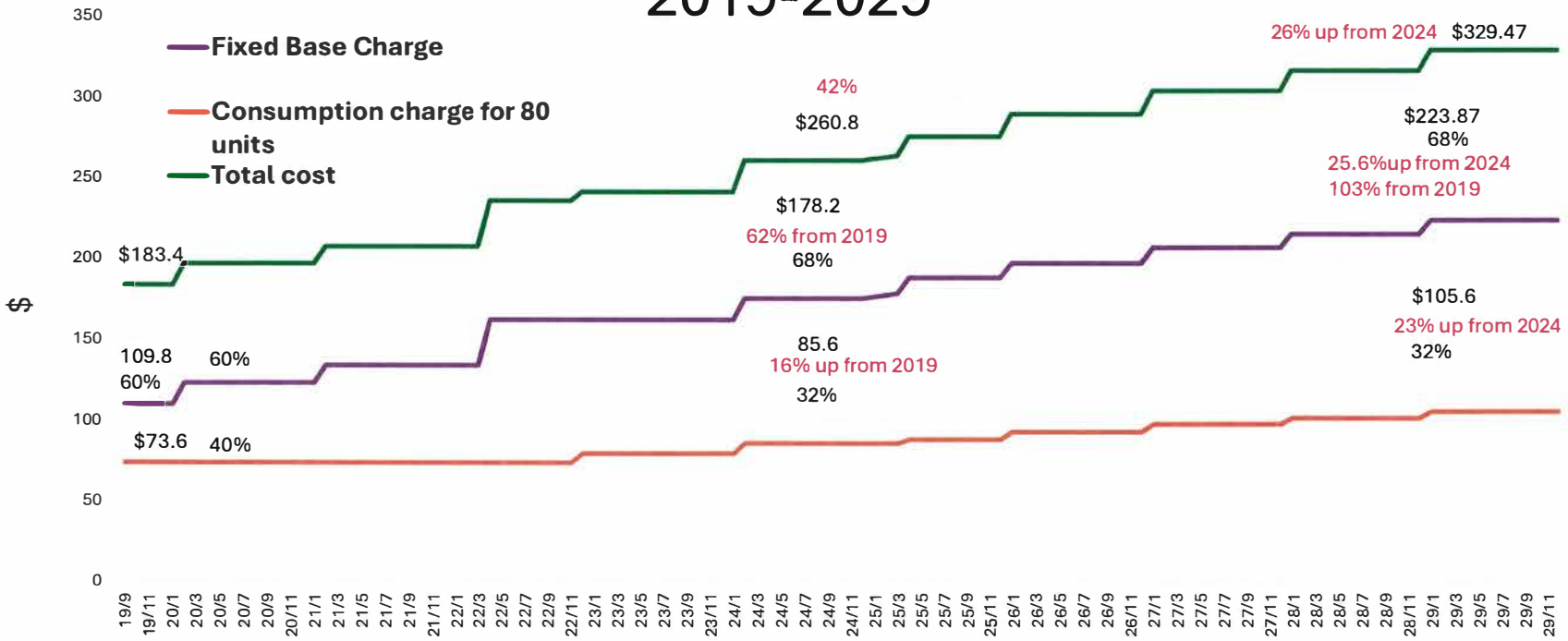
Water Districts Rate Comparison

San Juan Vs Folsom , Orangevale, Fair Oaks, Citrus Heights Bimonthly Water Charges



To break even with our neighboring districts, we need to consume at least 160 CCF bimonthly which we never can!
My bimonthly usage average for the last 8 years is 45 CCF.

SJWD Fixed & Variable Bimonthly Rate Increases
2019-2029



2019-2024: Total cost rise 42%
Fix rate rise: 62%
Variable rate rise 16%

2024-2029: Proposed cost rise 26%
Fix rate rise 25.6%
Variable rate rise 23%

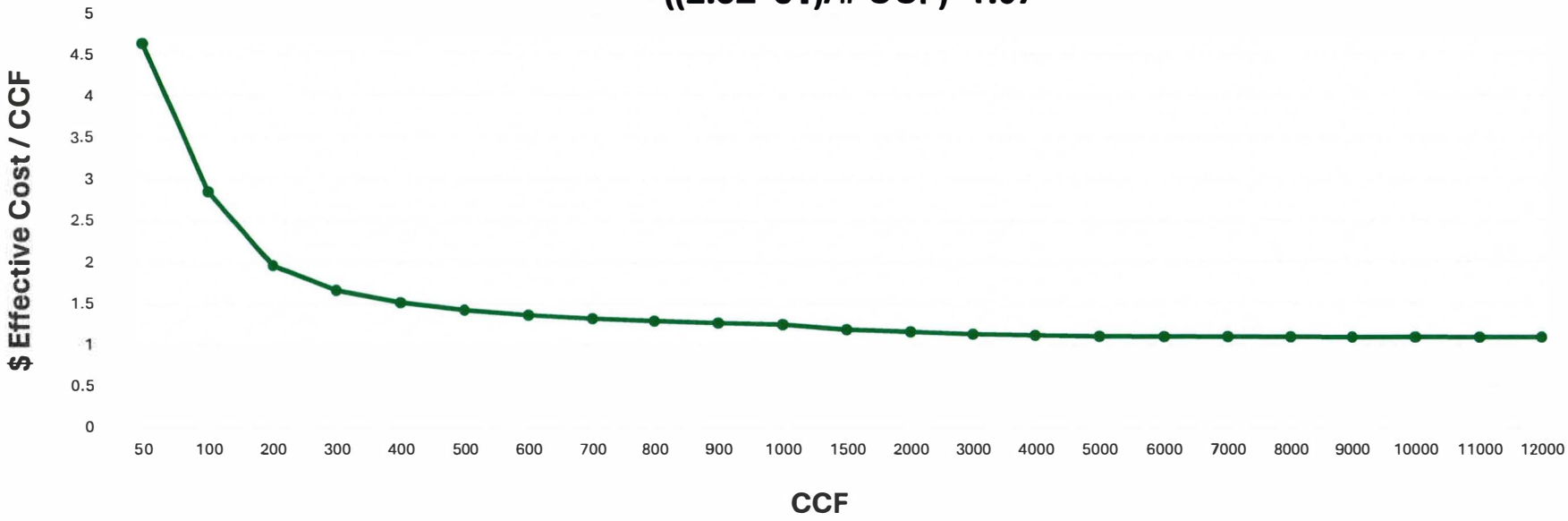
Cost/CCF Consumption Dependence

Effective Cost = Cost / Consumption in CCF

Bimonthly Rate

Effective cost = (2.92 *61 +1.07*CCF)/# CCF

= ((2.92*61)/# CCF)+1.07



For customers with high water usage , the effective cost goes as low as $1.07 /CCF.

Request for a Retail Rate Review & Change to the Rate Structure

- I am a resident of Folsom. Yet, forced to pay 3-4 times higher cost for water. SJWD has the highest retail rate among all agencies that it provides wholesale water to.
- I pay a very high fixed base rate for conservative consumption (3.5 x Folsom rate). I pay an unfairly high cost as a conservative user compared to a high-consumption customer.
- Against the AWWA guidelines, I have been forced to pay for a 1-inch meter when I have a smaller capacity ¾ -inch size meter.
  - I will be limited by the code-compliant pipe size on my property for future rate changes.
- For decades, I have been charged more than what the AWWA guidelines recommend. The rate computation uses an SJWD-specific, unjustified method and an unjustified parameter.
- My water charges force me to pay for the cost of service that my property does not benefit from, or I do not receive. (CIP List, energy cost, meter size capacity)
- I am not receiving the protection from the laws of Proposition 218.
- I have not received proportionate credit for my property tax that SJWD receives for serving my county.

Steps in Retail Rate Determination

Step 1: Revenue estimate

To determine revenue estimates for recovering the district's fixed and variable costs of distributing potable water to the retail service area.

Step 2: Rate structure

To implement the rate structure that adequately recovers the district's cost and applies rates fair to all customers. To ensure compliance with laws.

Step 3: Rate Calculation

To calculate the rate with accuracy using justified methods and parameters.

Govt Codes that Guide the Rate Structures, Fees and Charges

- **Proposition 218: Right to Vote on Taxes Act 1996**
  - *'Specifically, local governments must make sure that no property owner's fee is greater than the proportionate cost to provide the property-related service to his or her parcel. Like assessments, this requirement may result in local governments setting property-related fee rates on a block-by-block, or parcel-by-parcel basis.'*
- **Section 6 Article 13D: Assessment and Property-Related Fee Reform 1996**
  - *'Requirements for Existing, New, or Increased Fees and Charges. A fee or charge shall not be extended, imposed, or increased by any agency unless it meets all of the following requirements:*
    1. *Revenues derived from the fee or charge shall not exceed the funds required to provide the property-related service.*
    2. *Revenues derived from the fee or charge shall not be used for any purpose other than that for which the fee or charge was imposed.*
    3. *The amount of a fee or charge imposed upon any parcel or person as an incident of property ownership shall not exceed the proportional cost of the service attributable to the parcel.*
    4. *No fee or charge may be imposed for a service unless that service is actually used by, or immediately available to, the owner of the property in question. Fees or charges based on potential or future use of a service are not permitted. Standby charges, whether characterized as charges or assessments, shall be classified as assessments and shall not be imposed without compliance with Section 4.'*
- **CHAPTER 3.8. Cost-of-Service Analysis [390 - 390.1] 2023**
  '(b) "High water users" means the top 10 percent of water, in terms of volume of water consumed.'
- **AB 1827: As amends the law on November 18, 2024**
  - ***'3750.6. (a) The fees or charges for property-related water service imposed or increased pursuant to Section 6 of Article XIII D of the California Constitution may include the incrementally higher costs of water service due to any of the following:***
    (1) The higher water usage demand of parcels.
    (2) The maximum potential water use.
    (3) Projected peak water usage.
    (4) Any combination of paragraphs (1) to (3), inclusive.'

    (b) *'(1) The incrementally higher costs of water service associated with higher water usage demands, the maximum potential water use, or projected peak water*

    (2) In addition to any other method consistent with Section 6 of Article XIII D of the California Constitution, the incrementally higher costs of water service associated with higher water usage demand, maximum potential water use, or projected peak water usage may be allocated among customer classes, within customer classes, or both, based on meter size or peaking factors, as those methods reasonably assess the water service provider's cost of serving parcels that increase water usage demand, maximum potential water use, or projected peak water usage.'

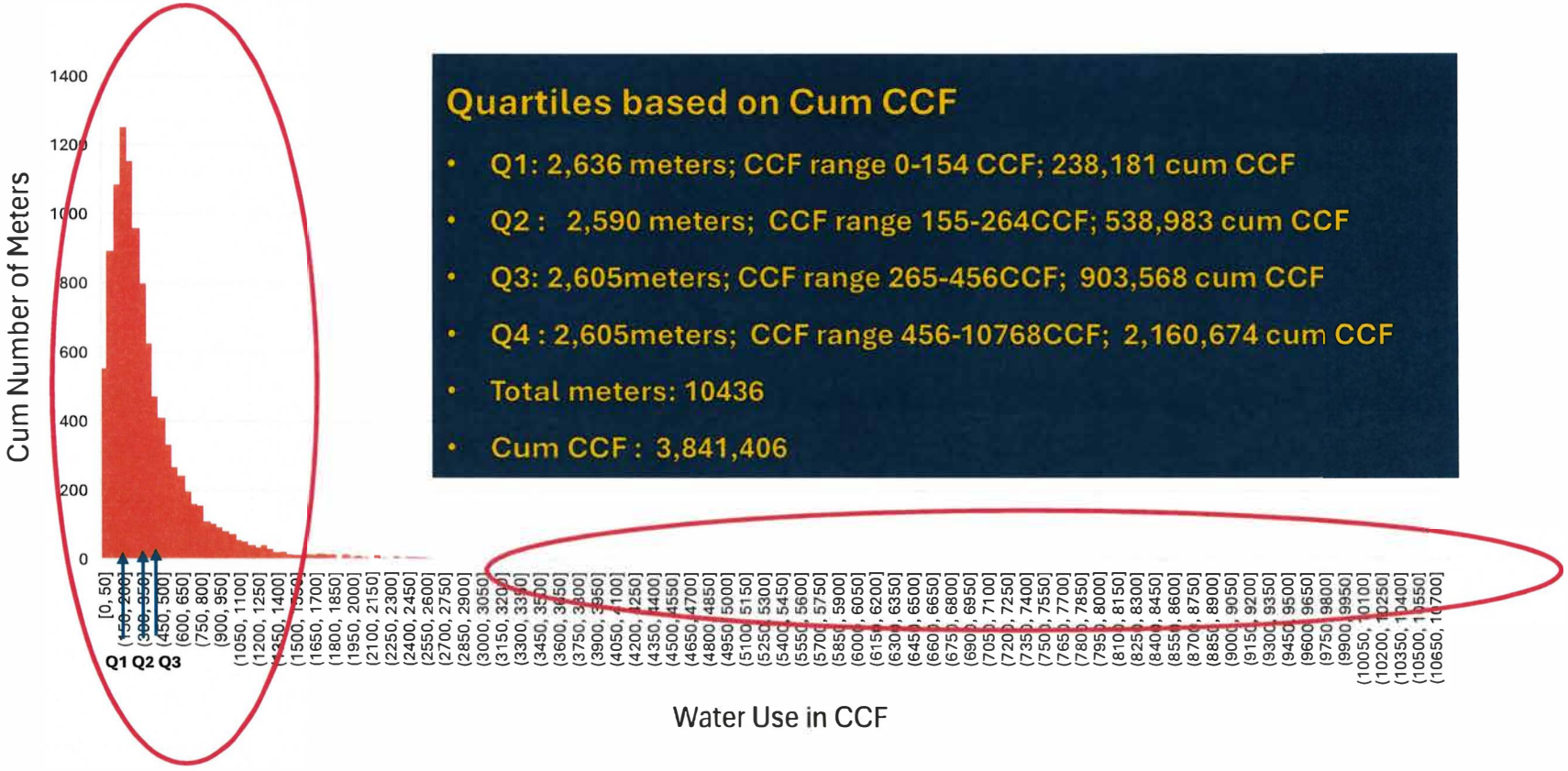
    (c) This section is declaratory of existing law.

Data Analysis

SJWD Single-Family Residential Retail Consumption Data

July 2023-June 2024
<= 1” Meters

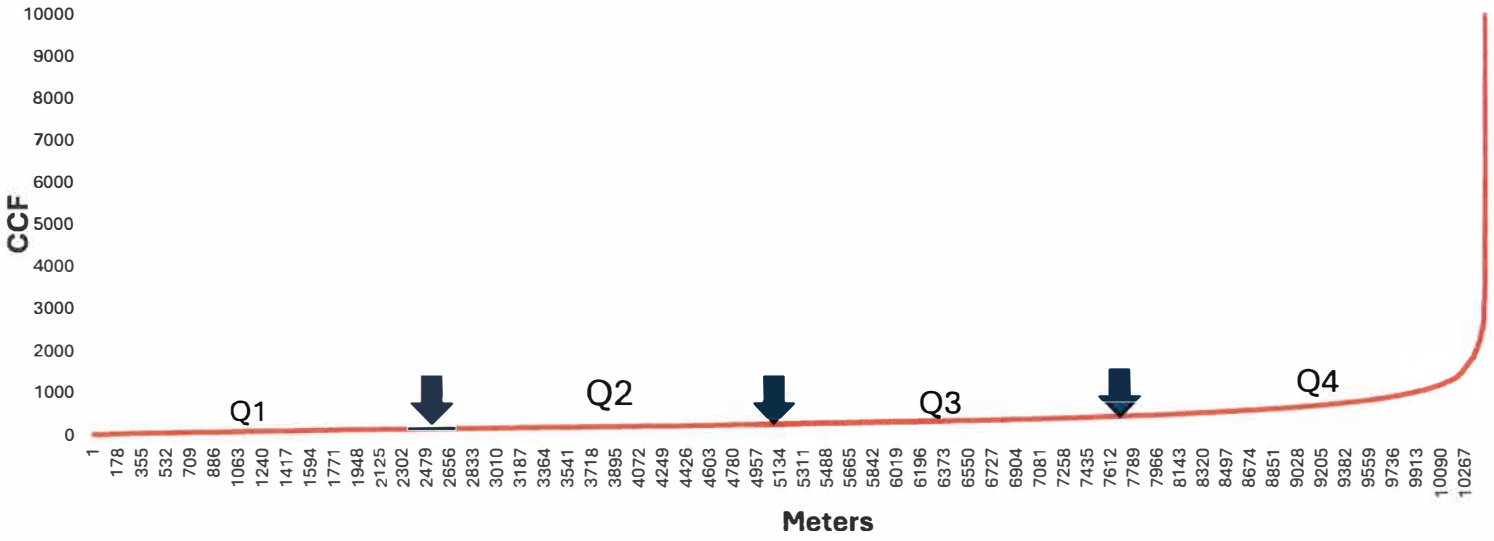
Single-Family Residential Water Usage <= 1" Meter Size (Nov 2025)



Quartiles based on Cum CCF

- Q1: 2,636 meters; CCF range 0-154 CCF; 238,181 cum CCF
- Q2 : 2,590 meters; CCF range 155-264CCF; 538,983 cum CCF
- Q3: 2,605meters; CCF range 265-456CCF; 903,568 cum CCF
- Q4 : 2,605meters; CCF range 456-10768CCF; 2,160,674 cum CCF
- Total meters: 10436
- Cum CCF : 3,841,406

Meters Vs CCF Data



Q1: 2636 accounts in Q1 consume cum 238,181 CCF with an individual max of 154 CCF (6.2% of total consumption).

Q2: 2590 accounts in Q2 consume cum 538,983 CCF with an individual max of 264 CCF (14% of total consumption).
Q1+Q2= 776,164 CCF

Q3: 2605 accounts in Q3 consume cum 903,568 CCF with an individual max of 456 CCF (23.5% of total consumption).
Q1+Q2+Q3=1,680,732 CCF

Q4: 2606 accounts in Q4 consume cum 2,160,674 CCF with an individual max of 10,768 CCF (56.3% of total consumption).
Q1+Q2+Q33+Q4=3,841,406 CCF

Analysis of SJWD Single-Family Homes Consumption Data

SJWD July 2023-June 2024 Residential Retail Distribution Data
<= 1" Meters (Nov 2025)

Observation: Consumption data is divided into quartiles.

Q1: There are 2,636 accounts in Q1 consuming a cumulative 238 181 CCF, with individual max at 154 CCF (6.2%)

Q2: There are 2,590 accounts in Q2 consuming a cumulative 538,983 CCF, with individual max at 264 CCF (14%) Q1+Q2= 776164CCF

Q3: There are 2,605 accounts in Q3 consuming a cumulative 903,568 CCF, with individual max at 456 CCF (23.5%) Q1+Q2+Q3=1,680732 CCF

Q4: There are 2,605 accounts in Q4 consuming a cumulative 2,160,674 CCF, with individual max of 10,768CCF (56.3%) Q1+Q2+Q3+Q4 = 3,841,406 CCF

Analysis: 10,436 meters used 3,841,406 CCF of water with 2025 rates

Q1: Customers used an average of 90 CCF last year for a cost of $1175, which means an effective cost of $11.63/CCF

Q2: Customers used an average of 208 CCF last year for a cost of $1288, which means an effective cost of $6.19/CCF

Q3: Customers used an average of 347 CCF last year for a cost of $1436 which means an effective cost of $4.14/CCF

Q4: Customers used an average of 829 CCF last year for a cost of $1953, which means an effective cost of $2.35/CCF

The last 5% use 21% of water and pay the least effective costs.

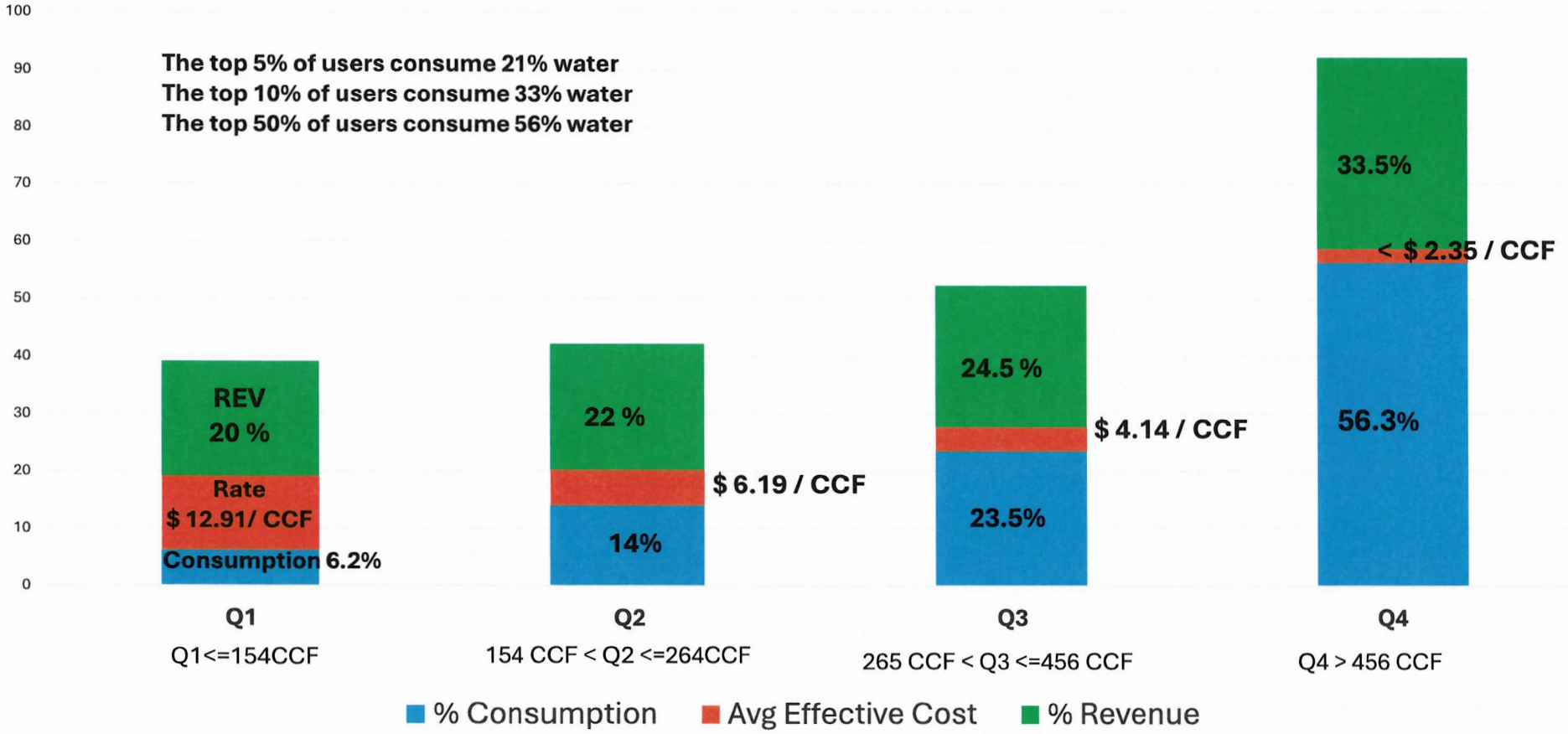
2024 Rate Model Revenue by Quartiles (Nov 2025)

Quartiles	Fixed	Variable	Total	% Total Revenue	% water use	Average Effective Cost/ CCF
Q1: 2636 Meters	$2.92x365x2636 = $2,809,449	$254,950	$3,064,399	**20%**	**6.2%**	**$12.91**
Q2: 2590 Meters	$2.92x365x2590 = $2,760,422	$576,712	$3,337,134	**22%**	**14%**	**$6.19**
Q3: 2605 Meters	$2.92x365x2605 = $2,776,409	$966,818	$3,743,227	**24.5%**	**23.5%**	**$4.14**
Q4: 2605 Meters	$2.92x365x2605 = 2,777,409	$2,3333527 .92	$5,110,937	**33.5%**	**56.3%**	**$2.35 reducing to $1.07**
		Total Revenue:	**$15,255,697**			

Unfair EFFECTIVE COST EQUITY for customers!!

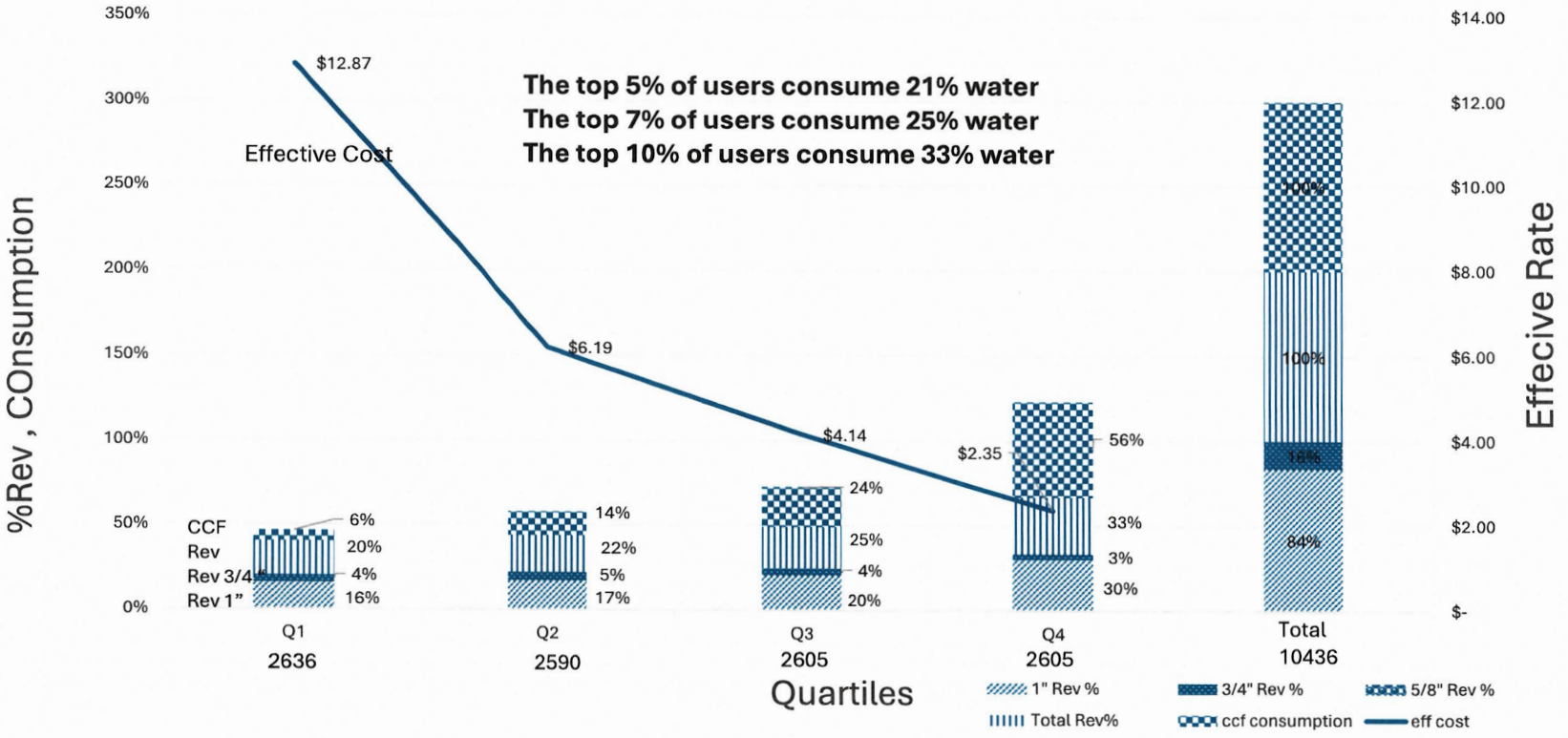
Comparison of Quartiles

Nov 25



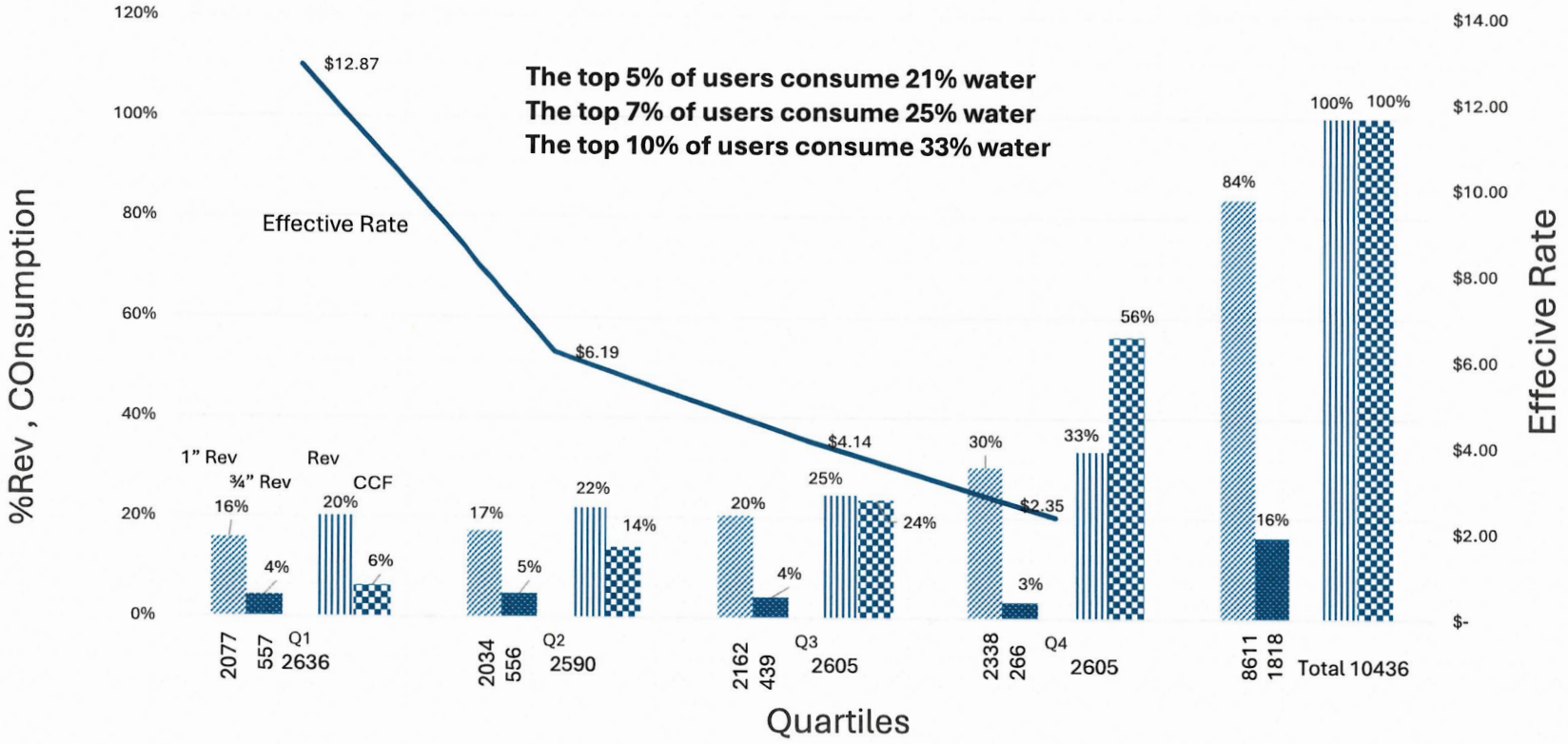
Comparison of Quartiles

%CCF and %Rev for <= 1inch & % Rev by Meter Size



Comparison of Quartiles

%CCF and %Rev for <= 1inch & % Rev by Meter Size



Comparison of Meter Sizes

- **The rate structure favors high consumption and charges more to conservative users.**
  - Q1 quartile customers use only 6% of water but pay 20% of revenue, showing much higher effective cost of water per CCF
  - Q2 quartile customers use only 14% of water but pay 22% of revenue, showing much higher effective cost of water per CCF.
  - Q3 quartile customers pay a proportional revenue for consumption
  - Q4 quartile customers use the largest 56% of water but pay only 33% of revenue, showing lowest effective cost of water per CCF.
- **1-inch meters contribute 84% of revenue compared to only 16% revenue by the 3/4- inch meters. Is it because the ¾ inch meters are smaller in number and also 3/4–inch meter customers consume less water!?**
- **1-inch Avg CCF = 387 CCF, ¾ inch AVG CCF = 287 CCF (71% of 1-inch)**
- **1-inch effective rate = $3.82/ CCF < ¾-inch effective rate = $4.90 / CCF**
- **Rate structure is unfair to smaller size meters. If scale factors are used for bigger meters, they should be applied for smaller meters as well. There should be no intended unfairness to smaller meters .**

Meter size	Meter Count	Consumption	Revenue	Avg Consumption	Avg Rev	Effective Rate	Continuous flow rate at 10ft/sec	Maximum Intermittent flow rate
1-inch	8611	3333089	12744009	387	$1480	$3.82	25GPM	50GPM
¾-inch	1818	506187	2479244	278	$1364	$4.90 (128%)	15GPM (60%)	35GPM (70%)

- AWWA Rate guidelines advise applying capacity scale factor of 0.6 to adjust the ¾ -inch rate compared to 1" meter rate.

Base Unit Rate for 1-in Meter = Estimated Revenue/ equivalent 1 in meters

Base unit rate for AWWA method= $12,262,700/10990= $3.06

Base Unit rate for SJWD= $12,262,700 / 9102 =3.69

Revenue= $12,262,700 ($12,078,673 w/o groundwater, $339000 due in 2027*)

Meter size in *Inches*	Actual <= 1-inch meter count	AWWA 1" EQ Meter capacity factor	1" Equivalent meter count	SJWD Scale factors	SJWD 1" EQ Meters	AWWA Rates/day ($3.06)	SJWD Rates /day ($3.69)	SJWD Overcharge per 61 days	2025 Rates w/o GW *	AWWA Rates/day *	SJWD Overcharge per 61 days *
5/8	27	0.4	11	0.75		$1.22	$2.77	$94.55	$2.72	$1.20	$92.72
3/4	2022	0.6	1213		8137	$1.83	$2.77	$57.34	$2.72	$1.81	$55.51
1	8800	1	8800			$3.06	$2.77	-$17.61	$2.72	$3.01	-$14.64
1 ½	125	2	250	2	250	$6.12	$7.37	$76.25	$7.29	$6.02	$77.47
2	163	3.2	522	3.2	522	$9.78	$11.81	$123.83	$11.67	$9.64	$123.83
3	24	6	144	6	144	$18.34	$22.15	$232.41	$21.9*	$18.07	$233.63
4	3	10	30	10	30	$30.57	$36.91	$386.74	$36.51*	$30.11	$390.40
6	1	20	20	20	20	$61.14	$73.82	$773.48	$73.02*	$60.22	$780.80
	11165		10990		9102						

Issues With the Current Retail Rates

Rate Revenue:

1. Revenue allocation should be based on the functionality of the distribution system to identify specific customer needs and the cost of service.
2. Accuracy and transparency with designated categories for emergency funds.
3. Rates are based on estimates. Overestimates increase the rates!

Issues With the Current Retail Rates

Rate Structure:

1. **The fixed base component of the rate is too high (>80%)**
   - It unfairly impacts the customers with low consumption, forcing a higher effective cost of water.
   - SJWD Ignores the AWWA guidelines of using capacity scale factors to represent load on the distribution system for ¾ and 5/8-inch meter sizes. SJWD uses a method of weighted average that shifts the rate burden from 1-inch to all other meters while discounting the 1-inch meters.

Issues With the Current Retail Rates (Continued)

- Capital improvement projects' costs are high due to the sparsely populated areas. High-density homes pay more than their share of the actual cost of service because the burden of improving infrastructure is shared equally among all residential customer classes, irrespective of the benefits they receive from the projects.

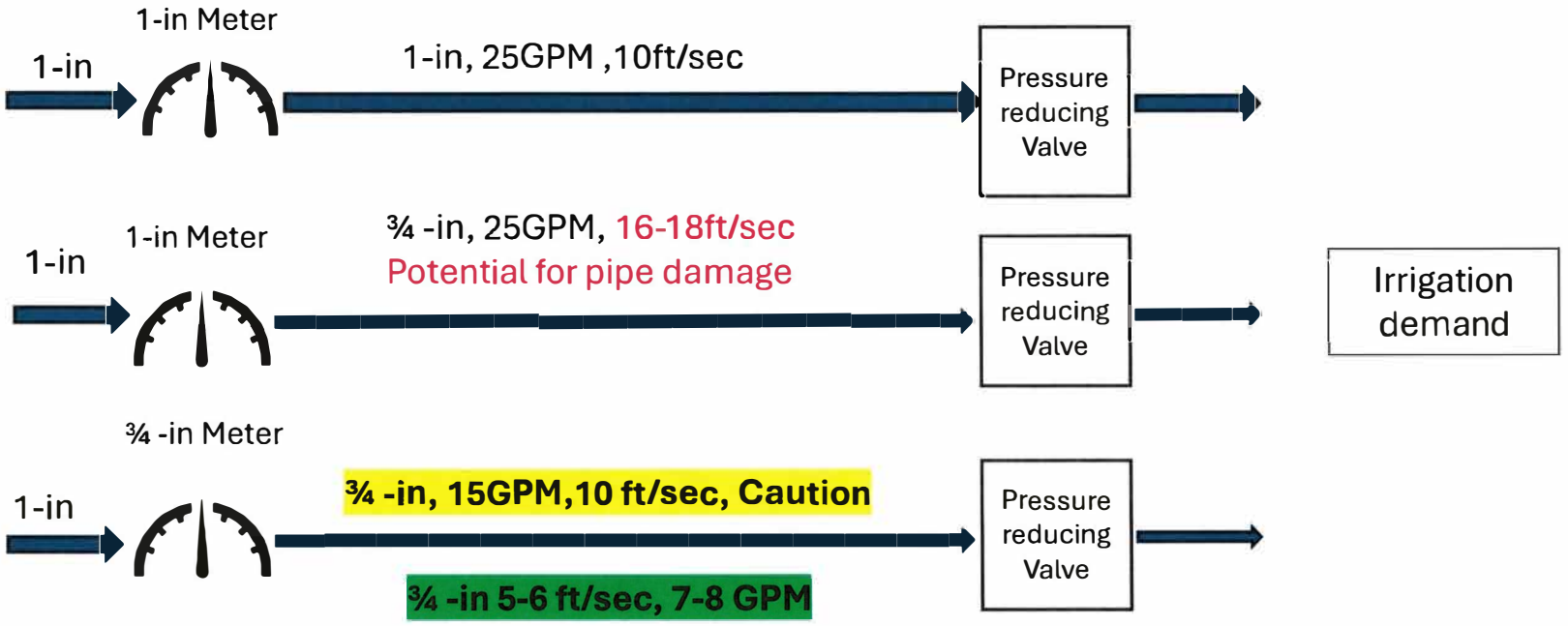
- The list of CIP projects does not represent all service areas proportionate to the revenue and property taxes received.
  - Based on CIP lists since 2006, the Highest budget of Sac county specific CIP was <27% (2012) .

Issues With the Current Retail Rates

Rate Computation:

1. **Uses the weighted averages method using an unjustified scaling number to merge the 5/8, ¾, and 1-inch meters in one <= 1 inch category.**
   - Artificially boosting the unit rate used to compute rates for all meter sizes higher than 1-inch.
   - Discounting the 1-inch meter rate by 25%, an incorrectly computed number has been in use since 2006.
   - Charges the 5/8 and ¾ inch meters higher than recommended by AWWA capacity scaling factors.
   - The method results in computing a higher increased unit rate, then discounts 1-inch meters and increases rates for all other meters.

Meter Size Matters



For schedule 40 PVC pipes:
A 1-inch meter with a 1-inch diameter pipe will result in a 25GPM flow rate at 10 ft /sec velocity.
A 1-inch meter with a ¾ inch pipe, at 25 GPM, will raise the flow rate in the pipe to 16-18 ft/sec, close to a max flow rate, with a specification for potential caution for pipe damage.
A ¾ -in meter with a ¾ inch pipe will require the flow rate to be limited to 15 GPM to maintain 10ft/sec velocity. This means that replacing a 3/4-in meter with a 1-in meter does not increase the capacity due to the pipe size limit. Safe velocity is 5-6 ft/sec for cold water. The pipe size and length will influence the pressure loss, affecting the flow rate and the demand.

Conclusions

- SJWD needs to do a thorough Rate Review and an extensive update to the outdated rate structure for fairness, correctness, and compliance with the laws and industry standards.
    1. Rate methodology for function-based rates
    2. Prop 218 requirements: Rate correlation with the cost of service specific to cost-driving factors within a class of customers
    3. AWWA guidelines for capacity ratios applied to all meter sizes
    4. Calculations using data-driven, justifiable parameters
    5. Proper credit of property tax revenue to where it belongs.
    6. The fixed base rate has to be balanced with the commodity rate for
        1. Fairness
        2. Conservation
        3. Compliance with COS requirements of Prop 218