

Attachment 6

Objections Received prior to close of business September 17, 2025, under AB2577 and City of Oceanside Administrative Exhaustion Ordinance (25-OR0065-1). The City received 1 letter under this process, the issues raised in the letter, as well as the City's response are outlined below.

1. "Notice of Public Hearing" was not in accordance with California Government Code 11346.5

- Response: Government Code Section 11346.5 applies to California State Government Agencies and defines how regulations are to be formulated and adopted. This Section of the Government Code does not apply in this case. The Notice of Public Hearing for the water and sewer fees was mailed to customers on July 30, 2025, providing more than 45 days prior to the public hearing, which is required under Proposition 218. The notice provided information on when and where the public hearing will be held, provided the basis for rate increases, provided the recommended maximum rates for both 2026 and 2027, and provided instructions on how to protest or object to the rate increases. Additionally, the City's Cost of Service Study was posted on line prior to the Notice of Public Hearing mailing, allowing for public review.

2. Which independent financial firm was used to conduct the rate study, and why are we double charged for pass-through fees?

- Response: The City procured the services of Carollo Engineers to perform the Cost of Service Study (COSS), which is the foundation for the recommended rate increases. The COSS report is posted on the City's website at this link:
<https://www.ci.oceanside.ca.us/home/showpublisheddocument/16873/638895527604100000>.

Carollo Engineers has been the City's financial consultant for Water Utilities rates for many years and has a strong understanding of the City's water and sewer usage patterns and the related financial impacts on both. The COSS follows industry and American Water Works Association Standards for such studies.

Pass-through charges for San Diego County Water Authority and Metropolitan Water District are made as separate charges on the water bill because the City does not set these charges directly, but must pay the agencies who initiate these charges (approved by their respective Boards of Directors); the city passes these fees on to the customer directly and they are subject to change based on the other Agencies' boards direction. These fees are not charged twice and are directly apportioned to the cost the City pays.

3. The hearing to determine whether to approve new rates is "Quasi-judicial public hearing," which requires that decisions made at such hearings to be based upon and supported by the "record" developed at the hearing.

- Response: The City Council is authorized to hold a public hearing regarding the proposed rate adjustments. The Council's consideration of the matter should be based on the testimony and evidence presented at the hearing. Under Proposition 218, protests from a majority of ratepayers would prevent the Council from adopting the proposed rates. After conducting the public hearing, and absent a majority protest, the Council may adopt, modify or deny the proposed rates.

4. The City of Oceanside cites the Proposition 218 Omnibus Implementation Act as an authority for the proposed Notice of Public Hearing or Rate increase, and is not in compliance with Proposition 218.

- Response: The City's notice and subsequent public hearing followed established precedents and regulations, including completing a cost of service study, upon which the proposed rate recommendations are based. The Notice of Public Hearing was mailed to customers on July 30, 2025, providing more than 45 days prior to the public hearing, which is required under Proposition 218. The notice provided information on when and where the public hearing will be held, provided the basis for rate increases, provided the recommended maximum rates for both 2026 and 2027, and provided instructions on how to protest or object to the rate increases. Additionally, the City's Cost of Service Study was posted on line prior to the Notice of Public Hearing mailing, allowing for public review.

5. The City of Oceanside's tiered rate structure violates Proposition 218 because the city's rates do not meet 218's "proportionality" and "immediately available" mandates, and are not cost-based per household. San Juan Capistrano's tiered water rate system is illegal. Charges cannot exceed the proportional cost of the service attributable to the parcel.

- Response: City staff is aware of court rulings on this issue. Government Code section 53750.6 clarifies that tiered water rates are allowable under Proposition 218 if based on higher water usage demands, maximum potential water use, or projected peak water usage: "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." The City's rate structure is based on American Water Works Association Standards. The cost-of-service allocation completed in the study is established on the base-extra capacity method as defined by the American Water Works Association (AWWA). Under the base-extra capacity method, revenue requirements are allocated based on the demand placed on the water system. Typically, the cost-of-service process includes three main steps; first revenue requirements are allocated to major system functions (functionalization), next those functionalized costs are allocated to billable rate components, and lastly the rate component costs are allocated to each customer class based on their use of the system. The City believes the approach used for rate setting is appropriate, proportional, and legal.

6. One more point is that the city of Oceanside does not even have a sewage meter, so the sewage tier charges and tier charges go beyond state and constitutional violations.

- Response: Sewer meters are not an industry standard for a variety of reasons, including cost. The city uses a practice of allocating sewer flow for single-family residential customers based on a Winter Quarter Average, which considers water use during the months of January, February and March, when outside water use (irrigation) is considered to be lowest and the flow to the sewer system is primarily from internal water use. Commercial, multi-family, and non-residential users are charged based on a percentage of their water use estimated to return to the sewer system. Industrial

special users are charged based on the constituent load in their wastewater stream. These practices are widely accepted industry standard and are designed to ensure that the sewer service a property receives is reasonably related to the amount charged to that property for the service, as required by Proposition 218.