File #: 25-909 **Agenda Date:** 10/1/2025 **Agenda #:** 16.

DATE: October 1, 2025

TO: Honorable Mayor and City Councilmembers

FROM: Water Utilities Department

TITLE: **PUBLIC HEARING TO APPROVE ADJUSTMENTS TO CUSTOMER RATES FOR WATER, RECYCLED WATER, AND WASTEWATER**

RECOMMENDATION

Staff recommends that the City Council hold a public hearing and adopt resolutions approving the following rate adjustments for calendar years 2026 and 2027:

- A 6% average increase in City water rates in both 2026 and 2027
- A 4% average increase in City wastewater rates in both 2026 and 2027
- Increases to the City Watershed Protection Charge
- Increase to Fire Protection Line Service Charge per connection.
- Adjustments to external water agency pass-through costs from the San Diego County Water Authority and Metropolitan Water District

BACKGROUND AND ANALYSIS

The City of Oceanside supplies potable and recycled water to approximately 44,800 potable connections over a 42 square-mile area. In 2024, the City delivered a total of 21,423 acre-feet of water that is safe, reliable, properly metered, and available at all times. Ongoing capital projects to improve system reliability and expand local, more stable water sources are intended to mitigate the need for future rate increases associated with the rising cost of imported water and reliance on a limited and uncertain resource.

The City's water and wastewater rates are structured to recover costs through both fixed monthly charges and volumetric charges based on consumption.

The proposed rate adjustments would take effect on January 1 of both 2026 and 2027. City-controlled water rates would increase an average of 6% each year, as shown in Attachment 2. Wastewater rates are proposed to increase an average of 4% in both years as shown in Attachment 3. Similarly, The Watershed Protection Charge is proposed to increase by 14.8% in 2026 and 3.2% in 2027, as described later in this staff report.

The City-controlled portion of the rate increase is necessary to meet ongoing cost increases for utilities, chemicals, equipment, and materials, as well as to address construction cost inflation. It is

also required to fund the replacement of aging infrastructure, maintain system reliability, expand local water supply, and meet debt coverage requirements.

Pass-through costs from the San Diego County Water Authority (SDCWA) and Metropolitan Water District of Southern California (MWD) are updated annually based on those agencies' adopted rates and the amount of imported water purchased. These pass-through charges are explained below in the Water section. There are no external provider costs that impact wastewater rates; they are entirely based on the City's cost to provide the service.

It is important to note that, even with the proposed water rate and external provider rate increases, Oceanside's water rates remain below the median for the region as shown in Attachments 4 and 5.

Revenue Requirement and Debt Coverage

The Water and Wastewater Financial Model includes a determination of the Wastewater and Water Funds' revenue requirements. The revenue requirement is the amount needed each year to fund the water and wastewater utilities. The water and wastewater rates and charges are set to ensure these needs are met; if projected revenues fall short, adjustments are required.

When Council authorized the issuance of bond debt for wastewater infrastructure on April 3, 2013, for water infrastructure on June 26, 2013, and again for water infrastructure on June 17, 2020, the financing agreements included rate covenants requiring rates to be maintained at levels sufficient to pay debt service, provide adequate coverage, and meet all operating expenses. The proposed rate adjustments will meet these requirements, with an estimated coverage ratio of 1.4 in 2026 and 2027, meaning the utility will generate $1.40 in revenue for every $1.00 owed in debt service. The current bond covenants require a minimum ratio of 1.25, and having a slightly higher ratio is seen as a positive indicator by rating agencies, which can result in higher credit ratings and lower interest rates for bonds and loans, saving the city money in the long term.

A public notice required by Proposition 218 was mailed to each responsible party during the week of July 28, 2025. The notice included the time, date and location of the public hearing, the reasons for the proposed rate increases, and a table listing all proposed rates. Written protests under Proposition 218 may be submitted to the City Clerk's office prior to the hearing or delivered in person at the Council Chambers on the day of the public hearing, and must be accepted until the close of the hearing. As of September 17, 2025, the City had received 10 written protests

The notice also informed recipients of the process for objections under AB2257 and the City's "Exhaustion Ordinance" (Ordinance No. 25-OR0065-1). Written objections under AB2257 were required to be submitted by September 17, 2025. One timely objection letter was received, and the City's responses are summarized in Attachment 6 to this report, in accordance with AB2257.

WATER - Proposed Changes

The City's potable and recycled water rates are designed to recover the full cost of providing safe, reliable service through a combination of fixed service charges, and volumetric commodity charges, and pass-through charges.

- **City-controlled Potable and Recycled Water Rates:** This is comprised of a fixed monthly

service charge and a usage commodity charge. The base monthly service charge is paid regardless of water consumed at the property and is imposed proportionate to the water meter size. The proposed commodity charges for residential customers consist of two pricing tiers, expressed in units. *One unit is equal to 748 gallons or one hundred cubic feet (HCF).* Tiered systems have been used by the City and other water retailers for many years to incentivize customers to use less water, it also reflects the increased cost to provide storage or system capacity to meet peak demands, which is otherwise idle during non-peak winter months. Tier 1 water is considered “essential consumption” and is priced lower. Consumption above the Tier 1 limit falls within Tier 2 and is more expensive. Non-residential rates are not subject to a tier structure. These rates will increase an average of 6% across all rate categories in both 2026 and 2027

- **City-controlled Watershed Protection Charge**: This charge recovers the cost of the City’s watershed protection activities. The charge will increase from $0.27 per unit of water in 2025 to $0.31 in 2026 and $0.32 in 2027. This reflects an increase of 14.8% in 2026 and 3.2% in 2027. This fee supports the cost of meeting state and federal mandates under the National Pollution Discharge Elimination System (NPDES) permit, as well as a portion of the City’s flood control and storm drain system costs. The increase is necessary to fully fund the activities based on current regulations, memorandums of understanding with other co-permittees in the region, and anticipated updates to the NPDES permit requirements.

- **City-controlled Fire Protection Line Service Charge:** The fee is based on the number of fire service connections to the City’s water system and is independent of the water meter size. It recovers the cost to ensure a reliable water supply for fire protection, as well as the regular inspection, testing, and reporting required by the City’s cross-connection program for compliance with the California State Water Resources Control Board Division of Drinking Water requirements. The charge is recommended to increase from $22.03 in 2025 to $23.41 in 2026 and $24.81 in 2027. This represents a 6.3% increase in 2026 and a 6.0% increase in 2027.

- **MWD’s Readiness-to-Serve Charge (MWD RTS) Pass-through to City:** This is a fixed pass-through charge based on meter size that recovers the cost of standby and peak conveyance capacity and emergency storage. Although MWD increased its RTS rate charged to SDCWA, they are purchasing less water from MWD in the upcoming year. Since this charge is allocated based on the volume of water purchased, the lower volume offsets the MWD rate increase and results in a small decrease for Oceanside customers in 2026, before an increase in 2027. In 2026, the MWD RTS charge will decrease by $0.01 for a 5/8-inch meter, the typical size for a single-family residential meter, and then increase to $0.06 in 2027. This represents an average decrease of 1.6% in 2026, followed by an average increase of 11.7% in 2027 across all meter sizes.

- **SDCWA Infrastructure Access Charge (IAC) Pass-through to City**: This is a fixed pass-through monthly charge based on meter size that recovers the cost of maintaining connections to the SDCWA system. SDCWA’s unit cost of treated and untreated (raw) water increased following its Board’s approval in June 2025. The Infrastructure Access Charge is a melded rate reflecting the amount of treated and untreated water Oceanside anticipates purchasing from

SDCWA in the upcoming calendar years and the associated costs for Oceanside to receive this water through SDCWA infrastructure. The charge will be $4.55 for a typical 5/8-inch meter in 2026, and increase to $4.89 in 2027. This represents up to a 0.2% increase in 2026 and up to a 7.5% increase in 2027.

- **SDCWA Surcharge Pass-through to City:** This is a volumetric charge based on the amount of water consumed each month. It recovers the cost of purchasing water from SDCWA. The surcharge will increase to $4.35 per unit in 2026 and $4.99 per unit in 2027. This represents an increase of 25.4% in 2026 and 14.7% in 2027. This charge is expected to decline in the future as Oceanside continues to expand its local water supply.

Below in Table 1 is an example of water charges for a typical single-family residential customer with the proposed City rate and pass-through charge adjustments. It is important to note that the majority of projected cost increases result from the pass-through charges from MWD and SDCWA. A gallon of Oceanside tap water will retail for under two-cents, even with all the proposed water rate increases.

Table 1 Water Monthly Bill for Typical Single-Family Residential (5/8" meter and 10 units/month)

Description	**Current 2025**	**Proposed 2026**	**Proposed 2027**
Service Charge	**$ 20.42**	**$ 22.32**	**$ 23.66**
Tier 1 Water Commodity Charge (per 10 units)	29.90	31.20	33.00
Total Water Rates	**$ 50.32**	**$ 53.52**	**$ 56.66**
Watershed Protection Program Charge (per 10 units)	2.70	3.10	3.20
Total City-Water Charges	**$ 53.02**	**$ 56.62**	**$ 59.86**
Percent Change	n/a	7%	6%
MWD RTS (per Meter size)	0.61	0.60	0.67
SDCWA IAC (per meter size)	4.55	4.55	4.89
SDCWA Surcharge (per 10 units)	34.70	43.50	49.90
Total Pass-Through Charges	**39.86**	**48.65**	**55.46**
TOTAL BILL	**$ 92.88**	**$ 105.27**	**$ 115.32**
Overall Increase ($)		$ 12.39	$ 10.05
Overall Increase (%)		13.40%	9.5%

WASTEWATER - Proposed Changes:

Wastewater rates consist of a fixed service charge that is determined by the number of residential dwellings for residential customers or by water meter size for non-residential customers. Unlike water rates, they do not include pass-through charges from outside agencies.

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City-controlled Wastewater Rates: The flow charge is volumetric-based and is determined by the customer class. Both non-residential customers and customers in multi-family complexes have a flow charge that is based on a percentage of water used.

Residential accounts serving individual dwellings on a master meter, such as manufactured homes and master-metered single-family accounts, pay a flow charge based on the number of dwelling units. For single-family residential accounts, each customer's wastewater discharge is based on the winter quarter average (WQA). The WQA is based on water consumption during January, February, and March, when outdoor water use is typically at its lowest. It is reasonably assumed that of the most water is returned to the wastewater system. WQA rates are effective for one year, beginning in July, and are reset annually.

Below in Table 2 is an example of wastewater charges for a typical single-family residential customer with the proposed City wastewater rate increases.

Table 2. Wastewater Monthly Bill for Typical Single-Family Residential (Average 5.5 WQA)

Description	**Current 2025**	**Proposed 2026**	**Proposed 2027**
Customer Charge (per account)	$7.73	$8.04	$8.37
Residential Service Charge (per dwelling unit)	20.69	21.52	22.38
Total Fixed Charge*	**$28.42**	**$29.56**	**$30.75**
Flow Charge	30.80	32.04	33.32
TOTAL	**$59.22**	**$61.60**	**$64.07**
Increase ($)		$2.38	$2.47
Increase (%)	n/a	4%	4%
*Includes the fixed customer charge + the fixed service charge			

FISCAL IMPACT

The proposed water and wastewater rate adjustments are necessary to keep the utilities financially sustainable and aligned with long-term operating and capital needs. These adjustments will generate the revenue needed to operate, maintain, and improve the City's water and wastewater systems while meeting all debt service and coverage requirements. The increases have been factored into the Department's financial models to ensure projected revenues match anticipated expenditures in FY 2025-26 and beyond.

City-controlled Water Rate Six Percent Increase

The FY 2025-26 impact for the six-month period of January 2026 to June 2026, is projected to

increase revenues by an estimated $1,200,000. Revenues for a full year of the rate increase are estimated at $2,800,000 to meet expected expenditures. This revenue is included in the Department's rate modeling budget planning.

City-controlled Fire Service Charge Increase

The proposed adjustments to the Fire Service Charge is projected to increase revenues by an estimated $13,000. The additional revenue is included in rate modeling and supports the ongoing cost of this service.

City-controlled Watershed Protection Program Charge Increase

The increase in the Watershed Protection Program charge is projected to increase revenues by an estimated $49,000. This revenue is incorporated into the Department's financial planning to ensure sustained program funding.

City-controlled Wastewater Four Percent Increase

The FY 2025-26 impact for the six-month period of January 2026 to June 2026, is projected to increase revenues by an estimated $1,000,000. Revenues for a full year of the rate increase are estimated to be $2,000,000 to meet expected expenditures. This revenue is included in the Department's rate modeling budget planning.

COMMISSION OR COMMITTEE REPORT

The Utilities Commission approved staff's recommendations at its regularly scheduled meeting on July 15, 2025.

CITY ATTORNEY'S ANALYSIS

The referenced documents have been reviewed by the City Attorney and approved as to form.

Prepared by: John McKelvey, Principal Management Analyst
Reviewed by: Frederick Mayo, Water Utilities Director
Submitted by: Jonathan Borrego, City Manager

ATTACHMENTS:

1. Staff Report
2. Resolution Adopting Water Rates and External Water Provider Charge Increases
3. Resolution Adopting Wastewater User Rates and Special User Fees
4. Regional Water Rates Comparison
5. Regional Wastewater Rates Comparison
6. Objection Letter and City Responses under City's Exhaustion of Administrative Remedies Ordinance

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