



STEERING COMMITTEE

Agenda Report

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File #: 2025-4572

Agenda Date: 11/19/2025

Agenda Item No: 5.

FROM: Robert Thompson, General Manager
Originator: Wally Ritchie, Director of Finance

SUBJECT:

RATE SETTING PROCESS

GENERAL MANAGER'S RECOMMENDATION

RECOMMENDATION: Recommend to the Board of Directors to:

Approve initiating the rate setting process a year early to allow Orange County Sanitation District to assess rates across the service area including new customer bases.

BACKGROUND

Orange County Sanitation District (OC San) completes a rate study every five years to determine customers' fair and equitable share of collection, treatment, and disposal costs, develop an accurate rate model, and establish a new five-year rate schedule which ensures full cost recovery and provides support for the Proposition 218 notifications. In March 2023, the Board of Directors adopted service fees for fiscal years 2023-2024 through 2027-2028.

OC San and Irvine Ranch Water District have been collaborating on the restatement of prior agreements and the transfer of flows that will effectively adjust the customer base of both agencies. The new customers that will have their regional sewer service provided directly by OC San were not part of the previous Proposition 218 process, therefore OC San cannot assess service fees directly on those properties which are anticipated to transfer to OC San on January 1, 2027.

RELEVANT STANDARDS

- Stable rates, no large unforeseen rate increases

PROBLEM

The new direct customers of OC San cannot be assessed sewer service fees until a new rate setting and Proposition 218 process has been completed and adopted.

PROPOSED SOLUTION

Initiate the rate setting process a year earlier than anticipated to be able to assess new customer service fees effective July 1, 2027.

TIMING CONCERNS

The rate setting process needs to commence in December 2025 to ensure new fees can be adopted for all customers and be effective on July 1, 2027.

RAMIFICATIONS OF NOT TAKING ACTION

OC San will not be collecting service fees from the new direct customers that will be receiving service. Without a new rate study and Proposition 218 process, OC San cannot equitably charge service fees to all the customers in the service area.

PRIOR COMMITTEE/BOARD ACTIONS

March 2023 - Approved Ordinance No. OC SAN-58 entitled: "An Ordinance of the Board of Directors of Orange County Sanitation District Adopting Regional Sewer Service Charges and Repealing Ordinance No. OCSD-49".

ADDITIONAL INFORMATION

Adopting service fees consists of multiple steps prior to the Board of Directors approving the new rates. The following timeline is necessary to meet the requirements to adopt service fees to be effective July 1, 2027:

December 2025	Issue a Request for Proposal for a Comprehensive Rate Study
March 2026	Award a contract for a Comprehensive Rate Study
December 2026	Receive and file the Comprehensive Rate Study
February 2027	Mail Proposition 218 Notifications and first reading of the Ordinance
March 2027	Public Hearing, Second Reading, and Adoption of the Ordinance
July 2027	Ordinance takes effect

CEQA

N/A

FINANCIAL CONSIDERATIONS

If the rate setting process is not completed a year earlier than anticipated, OC San will forego potential revenue from the new direct customer base.

ATTACHMENT

The following attachment(s) may be viewed on-line at the OC San website (www.ocsan.gov) with the complete agenda package:

N/A