UNDERSTANDING INFLATIONARY RATE ADJUSTMENTS AND WHY THEY ARE BEING PROPOSED

Why are inflationary rate adjustments being requested?

Inflation is always with us. Some time periods of increase are higher than others. Inflation is a rise in the cost of goods and services. When the general price level rises, each unit of currency buys fewer goods and services. The effect is a reduction in the purchasing power of money.

Our District, like all other special districts who provide water and/or sewer services, can only obtain the monies to provide and maintain those services through the rates charged to the users of the services. The current Proposition 218 rate analysis has included estimated inflation as part of the overall rate assessment and development. That will address the effect of inflation for the next three years.

Where the potential impact of not adjusting for inflation comes into the picture are time periods after the proposed rate increases. For every year there is no inflationary rate increase, the impact of inflation will actually reduce the value of the yearly revenue of those rates generated for Years 1, 2 and 3. The District would be in the cycle of two steps forward, one step back in every subsequent year. To address this impact, this Proposition 218 process, as expressly permitted by Government Code Section 53756, is also proposing an inflationary rate increase for Water, Water Reclamation Facility (WRF) and Sewer for Years 4 and 5. Note that this inflationary rate increase in Years 4 and 5 is the only increase being proposed for the WRF.

What Does an Inflationary Pass-Through Mean?

Based on California Government Code Section 53756, An agency providing water, wastewater, sewer, or refuse collection service may adopt a schedule of fees or charges authorizing automatic adjustments that pass-through increases in wholesale charges for water, sewage treatment, or wastewater treatment or adjustments for inflation. CCSD is proposing to authorize future annual inflationary Water, WRF, and Sewer rate adjustments for an additional two years after the three years of proposed rate increases.

Most people are used to hearing the terms “Inflation” and “Consumer Price Index (CPI)” but aren’t familiar with the difference between the two. The Consumer Price Index is a measure of a segment of inflation, as experienced by people in their day-to-day life. It is a measure related to the consumer’s daily expenses (the average price by which a consumer buys the household things). CPI is an index which is part of inflation just like GDP, cost-of-living indices, producer price indices (PPIs), commodity price indices and core price indices.

Government Code Section 53756(b) provides that "The schedule of fees or charges may include a schedule of adjustments, including a clearly defined formula for adjusting for inflation." In the proposed rates, the future rate adjustments would be subject to a maximum annual increase based on the *percentage of change* in the CPI for California from the most recent December-to-December period, at time of implementation. The important part of this statement to understand is "percentage of change in the Consumer Price Index." The Inflationary Rate Adjustment would not be the current inflation rate. It would be the difference between the prior year's CPI (averaged over 12 months), and the most recently completed calendar year's CPI (average over 12 months). The difference between the two CPIs represents the "percentage of change" for the most recent December-December period.

As an example, calculating a "percentage of change" using the past two full calendar years for the State of California:

Calendar Year	***Annualized CPI Rate***	***Time Frame***
2020	1.7	January 2020 - December 2020
2021	4.2	January 2021 - December 2021
	2.5	*CPI% Incremental Change December 2020-December 2021*

This would be considered a "Maximum Annual Increase" (4.2-1.7=2.5). As a further example, IF an inflationary rate adjustment were being considered for 2023, the 2022 year end average CPI would be compared to the 2021 average CPI of 2021 which is 4.2, and the difference would be the resulting maximum annual increase.

The currently proposed Proposition 218 Inflationary Rate Adjustments for Years 4 and 5 would go into effect on July 1, 2025 and then on July 1, 2026. An adjustment implemented on July 1, 2025 would be based on the percent change of the CPI from its annualized position at December of 2023 to its annualized position at December of 2024.

Deferral of a future inflationary rate adjustment can be made up in a subsequent year. If the adjustment for July 1, 2025 is deferred for a year, it can be added to the adjustment for July 1, 2026. The proposed inflationary rate adjustments will be subject to future review and approval by the Board of Directors.

Please note that the "Inflationary Rate Adjustments" in your Proposition 218 Notification were not presented as part of the proposed three year rate adjustment for Water and Sewer rates. The Proposed Inflationary Rate Adjustments (Years 4 and 5) were identified as a singular proposed action for Water, Sewer and the Water Reclamation Facility, on the "PROP 218 WRITTEN PROTEST FORM."