Fact Sheet

ACWA
Association of California Water Agencies

AB 2180 (Ward)

Clarifying Proportional Water Rates Under Proposition 218

March 2026

Background and Existing Law

Proposition 218, adopted by voters in 1996, requires that water rates be proportional to the cost of service attributable to each parcel.

Public water agencies rely on professional cost-of-service studies and established rate-setting practices to comply with these constitutional requirements. Many agencies use uniform "flat" or tiered-rate structures to reflect differences in water use and the higher incremental costs associated with serving higher usage.

While courts have previously upheld tiered water rates supported by cost-of-service analysis, recent appellate decisions have produced conflicting interpretations of how proportionality must be demonstrated. This uncertainty increases litigation risk and creates unpredictability for agencies and their customers.

The Challenge

Recent appellate rulings have introduced ambiguity into how water agencies may structure and defend tiered rates. As a result, agencies:

- Face increased litigation risk from challenges brought by high-volume water users
- May be forced to spend significant public resources defending rates that were developed using accepted professional standards
- May be discouraged from adopting rate structures that promote water use efficiency and reflect higher incremental costs of service

Without legislative clarification, agencies and customers will continue to face costly and unnecessary legal disputes and struggle to make needed investments to maintain safe, reliable, and affordable service.

How AB 2180 Would Help

AB 2180 would clarify how agencies may comply with Proposition 218's proportionality requirement by codifying the framework established in *Dreher v. Los Angeles Department of Water and Power*.

Specifically, the bill would affirm that:

> AB 2180:
> Clear rules.
> Defensible water rates.
> Reduced litigation risk.

- Costs related to water supplies, infrastructure, and system-wide peak demand may be allocated using reasonable methodologies without tracing specific water sources to individual parcels.
- Agencies may use any reasonable method, supported by existing or projected data, to allocate service costs.
- Agencies are not required to determine the exact cost of service for each parcel.
- Uniform and tiered rate structures are permissible when based on reasonable cost allocation principles.

Why This Matters

Clarifying the proportionality standard will:

- Provide predictability and consistency for public water agencies statewide
- Reduce unnecessary litigation and associated costs
- Allow agencies to confidently develop constitutionally sound rates
- Support rate structures that reflect the real costs of delivering reliable water service

By providing clear statutory guidance, AB 2180 will help ensure stable, defensible water rates for California communities.

Contact

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