

PAJARO VALLEY WATER MANAGEMENT AGENCY
NOTICE OF PUBLIC HEARING
ON PROPOSED AUGMENTATION CHARGE INCREASE

NOTICE IS HEREBY GIVEN that on May 20, 2015 at 7:00 p.m. at the Watsonville City Council Chambers, 275 Main Street, 4th Floor, Watsonville, CA 95076, the Pajaro Valley Water Management Agency (Agency) Board of Directors will hold a public hearing to consider the adoption of a proposed ordinance to increase the Agency augmentation charge. All property owners and other interested persons are invited to attend the hearing and present written and/or oral comments on or protests against the proposed rate increase. This notice provides information concerning the proposed augmentation charge increase.

What is the Pajaro Valley Water Management Agency and why was it formed?

The Agency is a water management agency formed to manage the water in the Pajaro Valley groundwater basin. The basin is in an overdraft condition, which means that the groundwater being extracted from the basin regularly exceeds the amount recharged or replenished to the basin from rain, runoff and natural processes. With the Valley located near the coast, this overdraft leads to seawater intrusion into the groundwater basin, which can render the groundwater unusable. The principal purpose of the Agency is to reduce overdraft, retard seawater intrusion and protect the quantity and quality of the water in the groundwater basin.

What is the Agency augmentation charge?

State law authorizes the Agency to levy a groundwater augmentation charge on the extraction of groundwater from groundwater wells within the Agency in order to pay the costs of purchasing, capturing, storing and distributing supplemental water, and to pay for the activities required to prepare and implement the Agency's 2014 Basin Management Plan Update (Basin Management Plan or BMP). Supplemental water means water imported into the basin, conserved floodwater, and recycled water. The Agency has levied an augmentation charge since 1994.

What are the completed supplemental water projects?

The Agency has completed three supplemental water projects that work together to provide supplemental water to reduce overdraft, retard seawater intrusion, and improve and protect the groundwater basin supply: (1) Watsonville Recycled Water Facility - provides tertiary treated recycled water for agricultural use and includes inland wells that are used to improve the water quality for agricultural purposes; (2) Harkins Slough Project - diverts excess wet-weather flows from Harkins Slough to a basin that recharges the groundwater, which then is available to be extracted and delivered for agricultural use and to recharge the local aquifer; and (3) Coastal Distribution System (CDS) – 20 miles of pipeline that deliver the blended recycled water and Harkins Slough Project water for agricultural use along the coast. Together, these Agency facilities have delivered over 25,000 acre feet (or over 8 billion gallons) of supplemental water for irrigation since 2002.

Four additional capital projects are underway now, ahead of schedule, in order for the Agency to take advantage of \$3 million in drought emergency and other grant funds, and low interest (1%) drought relief loans. These projects include additional tank storage at the Watsonville Recycled Water Facility, over 6,000 feet of additional CDS pipeline, new pipelines to improve water quality from blend wells, and monitoring wells.

What is the service to be funded by the increased augmentation charge?

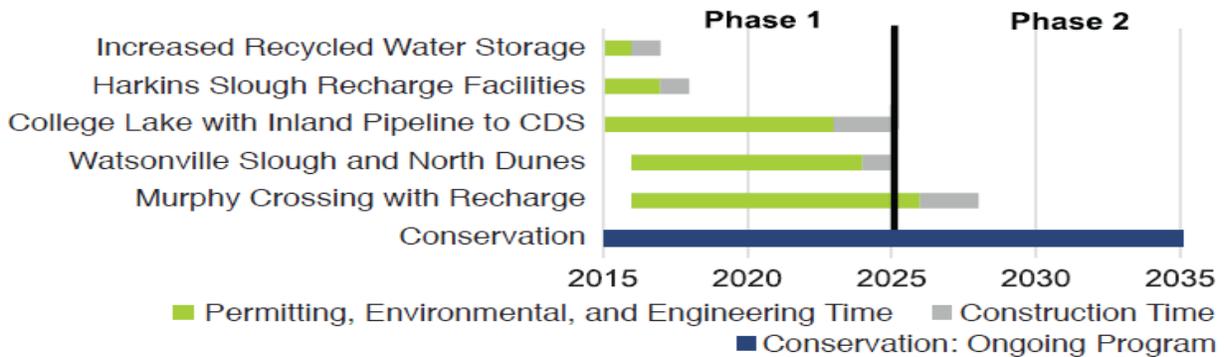
The increased augmentation charge would fund the costs of the Agency supplemental water service, which is the (a) purchase/acquisition, capture, storage and distribution of supplemental water through the completed and pending supplemental water projects described above and the additional and new

projects described below, and including the planning, design, financing, construction, operation, maintenance, repair, replacement and management of these project facilities, and (b) activities required to prepare and implement the Agency Basin Management Plan, including basin management monitoring and planning to manage the existing projects and to implement future supplemental water projects that would further reduce groundwater overdraft and retard seawater intrusion. The cost of the service also includes ongoing debt payments related to the design and construction of the completed and future projects.

The Agency provides the supplemental water service to property owners with wells in order to: reduce overdraft; retard seawater intrusion; maintain the benefit of ongoing groundwater extraction by property owners; secure the basin water supply; promote water conservation; and, avoid direct groundwater regulation by Agency-imposed or court-ordered pumping limits and thereby preserve the ability of well owners throughout the basin to continue extracting groundwater without regulatory limits. The 2014 Sustainable Groundwater Management Act further requires that groundwater basins in the state be brought into balance and managed sustainably.

Why is the Agency proposing an augmentation charge increase?

The Agency is proposing the augmentation charge increase in order to cover the costs of the supplemental water service described above. In addition to operation and maintenance of the completed projects, the Agency will be moving forward with projects identified in the Agency Basin Management Plan.



New rates are based on the approved BMP projects and proposed timetable. The projects are described in more detail in the BMP. The current augmentation charge and other available revenue are not sufficient to cover the costs of the service.

What property owners would be subject to the increased augmentation charge?

The increased charge would be levied against every owner of real property within the Agency with a groundwater well (excluding the area east of the San Andreas Fault, which is unaffected by the Pajaro basin overdraft and seawater intrusion).

How was the augmentation charge increase determined?

Agency staff, with the assistance of Carollo Engineers, analyzed and developed the augmentation charge increase that is being recommended to the Agency Board of Directors. Complete information concerning the calculation of and reasons for the increased charge are set forth in the Agency *Proposition 218 Service Charge Report* dated January 2015.¹ The increase also is supported by the

¹ The Agency concurrently is processing a proposed increase of its delivered water charge levied against property owners that receive water service through the CDS. Because the delivered water service and supplemental water service utilize the same Agency facilities, the Agency combined the evaluation of the two service charge increases into a single Service Charge Report. The report also explains how Agency costs are allocated between the supplemental water service (augmentation charge) and delivered water service (delivered water charge).

Agency's 2014 Basin Management Plan (BMP) Update and other documents described in the Service Charge Report. The Service Charge Report and Basin Management Plan are available for public review and/or copying during normal business hours at the Agency office at 36 Brennan Street, Watsonville, CA 95076. The documents also are available on the Agency website, www.pvwater.org.

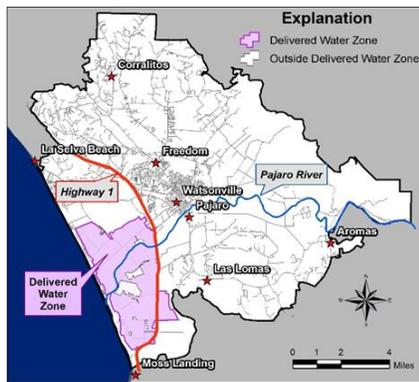
How was the increased augmentation charge calculated?

The increased charges were calculated based on three landowner groups and the costs of the service were allocated to these groups: (1) owners of wells with meters inside the Delivered Water Zone (DWZ), which is the area able to receive water from the CDS as described and shown in the Service Charge Report; (2) owners of wells with meters outside the DWZ; and (3) owners of wells without meters (which includes the unmetered rural residential wells). The Agency's revenues and expenses were evaluated to determine the net revenue requirements for the service to be recovered from the rate increase. A cost of service analysis (the Service Charge Report) was conducted to allocate the revenue requirements to the Agency's cost categories to reflect the different service levels attributable to the landowner groups. Costs were allocated based on the estimated percentage of staff time spent on various functions, costs of pumping/pressurizing the water supply in the CDS, and relative consumption of water by the various landowner groups. The cost apportionment and calculation are described in detail in the Service Charge Report.

What are the proposed increased augmentation charges?

The 2015-19 augmentation charges would be:

Customer Group	Current Rates	Average	Proposed	Proposed	Proposed	Proposed	Proposed
	FY 2014/15	Percent Increase	Rates FY 2015/16	Rates FY 2016/17	Rates FY 2017/18	Rates FY 2018/19	Rates FY 2019/20
Augmentation Charge, Metered Users - Outside DWZ (\$/AF)	\$179	6.6%	\$191	\$203	\$217	\$231	\$246
Augmentation Charge, Metered Users - Inside DWZ (\$/AF)	\$215	9.5%	\$235	\$258	\$282	\$309	\$338
Augmentation Charge, Unmetered (Rural Residential) ¹ (\$/Year per Residence)	\$101	6.0%	\$92	\$97	\$103	\$109	\$115
Delivered Water Charge (\$/AF)	\$338	3.0%	\$348	\$359	\$369	\$380	\$392



¹Because the unmetered wells lack a meter, the augmentation charge cannot be calculated based on actual well pumping data. Therefore, the augmentation charge would be levied on an estimate of well usage of 0.5 acre-feet/residence/year (down from the prior estimate of 0.59 AFY). This estimate is calculated and explained in the Service Charge Report. If an unmetered well owner would prefer to pay the augmentation charge based on actual usage, then the owner may install a meter and thereafter be billed based on the metered pumping amount.

A property owner may determine the specific amount of the proposed augmentation charge for a particular parcel by (1) determining the applicable well owner group, and (2) applying the appropriate augmentation charge rate to the amount of pumped groundwater. A property owner may contact the Agency office (see below for contact information) for assistance in applying the rate table and calculating or estimating its augmentation charge under the proposed increase.

When would the increased charges become effective?

Following the public hearing, and assuming there is not a majority protest against the charge increase, the charge would become effective July 1, 2015.

Are there any Agency rules that govern this proceeding?

Yes. The Agency Board of Directors has adopted a resolution with public hearing notice and majority protest procedures that will govern the Agency proceedings for the consideration and approval of the proposed augmentation charge increase (Resolution No. 2015-04). These procedures provide important instructions and direction to the public, landowners, tenants, and Agency directors and staff. The resolution is available at the Agency office, 36 Brennan Street, Watsonville, CA 95076, and the Agency website, www.pvwater.org. Interested persons are encouraged to review the resolution for the specific rules concerning the protest hearing.

How can someone get additional information?

If you have any questions regarding the proposed augmentation charge increase, or if you would like to submit a comment or protest regarding the proposed increase before the public hearing, then please review the Agency website and/or contact the Agency office at 36 Brennan Street, Watsonville, CA 95076 or 831-722-9292.

Dated: March 30, 2015

/S/ Mary Bannister

Mary Bannister, General Manager