Ad Hoc Rate Setting Committee

Meeting #3

March 19, 2026

carollo

Pajaro Valley Water Management Agency

Meeting #3 Agenda

1. Call to Order, Roll Call, Introductions
2. Committee Member Comments
3. Public Comments
4. Consider Corrections to Meeting #2 (Jan. 27, 2026) Meeting Summary
5. Consider Appointment of Ad Hoc Rate Setting Committee Applicant(s)
6. Receive Presentation and Discuss Updated Revenue Requirements, Cost Allocations, Preliminary Rates, and Capital Project Unit Costs
7. Review Schedule and Next Steps
8. Adjournment

1

Call to Order, Roll Call, Introductions

2

Committee Member Comments

3

Public Comments

4

Consider Corrections to Meeting #2 (Jan. 27, 2026) Summary

5

Consider Appointment of Ad Hoc Rate Setting Committee Applicant(s)

6

Receive Presentation and Discuss Updated Revenue Requirements, Cost Allocations, Preliminary Rates, and Capital Project Unit Costs

6.1 Background and Recap

Meeting Objectives

- Discuss updated revenue requirements
  - Updated FY 25/26 budget
  - Updated reserve balance
  - Recalibrated revenue requirement
- Cost of service results
- Preliminary rates

Scope of Work Review

PROJECT MANAGEMENT

Task 1. Kick-Off & Data Collection

- Finalize project schedule
- Confirm goals and objectives
- Data collection and review

Task 2. Model Update

- Update model
- Reflect any changes since last study
- Model training workshop

Task 3. Revenue Requirement Analysis

- Review fiscal policies
- Build three (3) capital funding scenarios

Task 4. Cost of Service Analysis

- Evaluate usage data and demand forest
- Review and update cost allocation

Task 5. Rate Design Analysis

- Calculate rates
- Review existing vs proposed rates
- Confirm equitability

Task 6. Study Report

- Draft report
- Final report

Task 7. Presentations

- RAC committee meetings
- Board of director presentations
- Community outreach presentations

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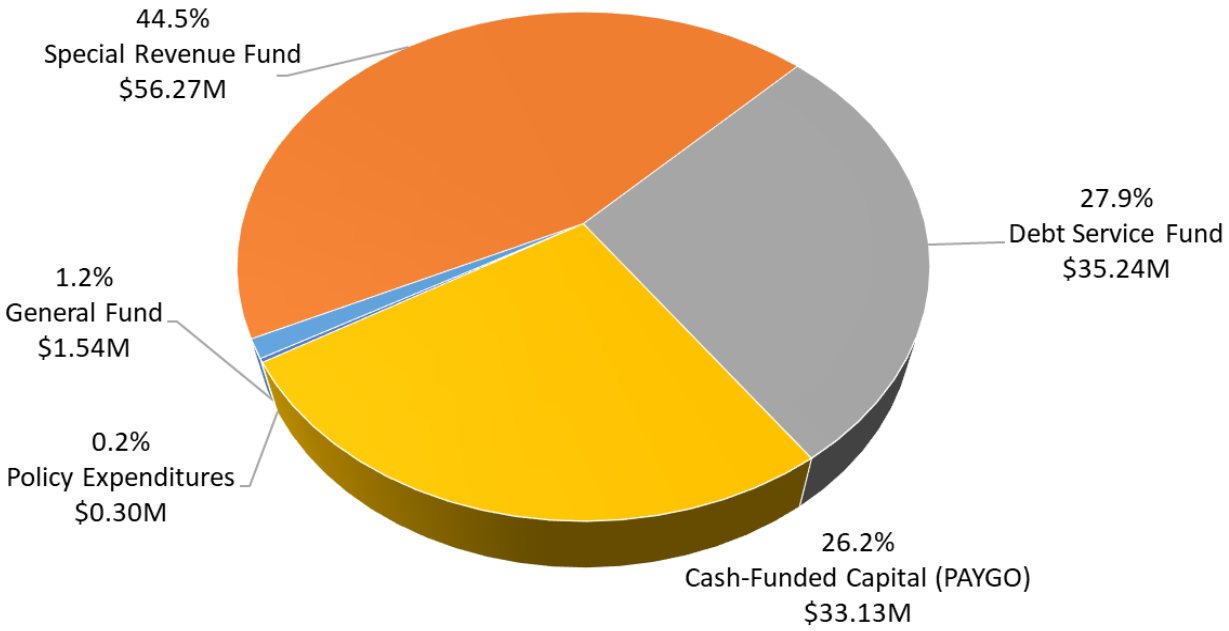
6.2

Updated Revenue Requirements Overview & Results -

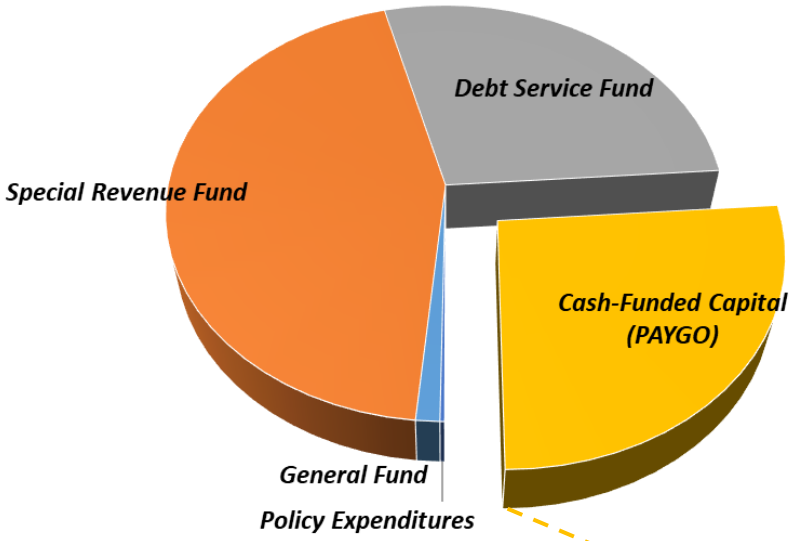
Projected Expenditures

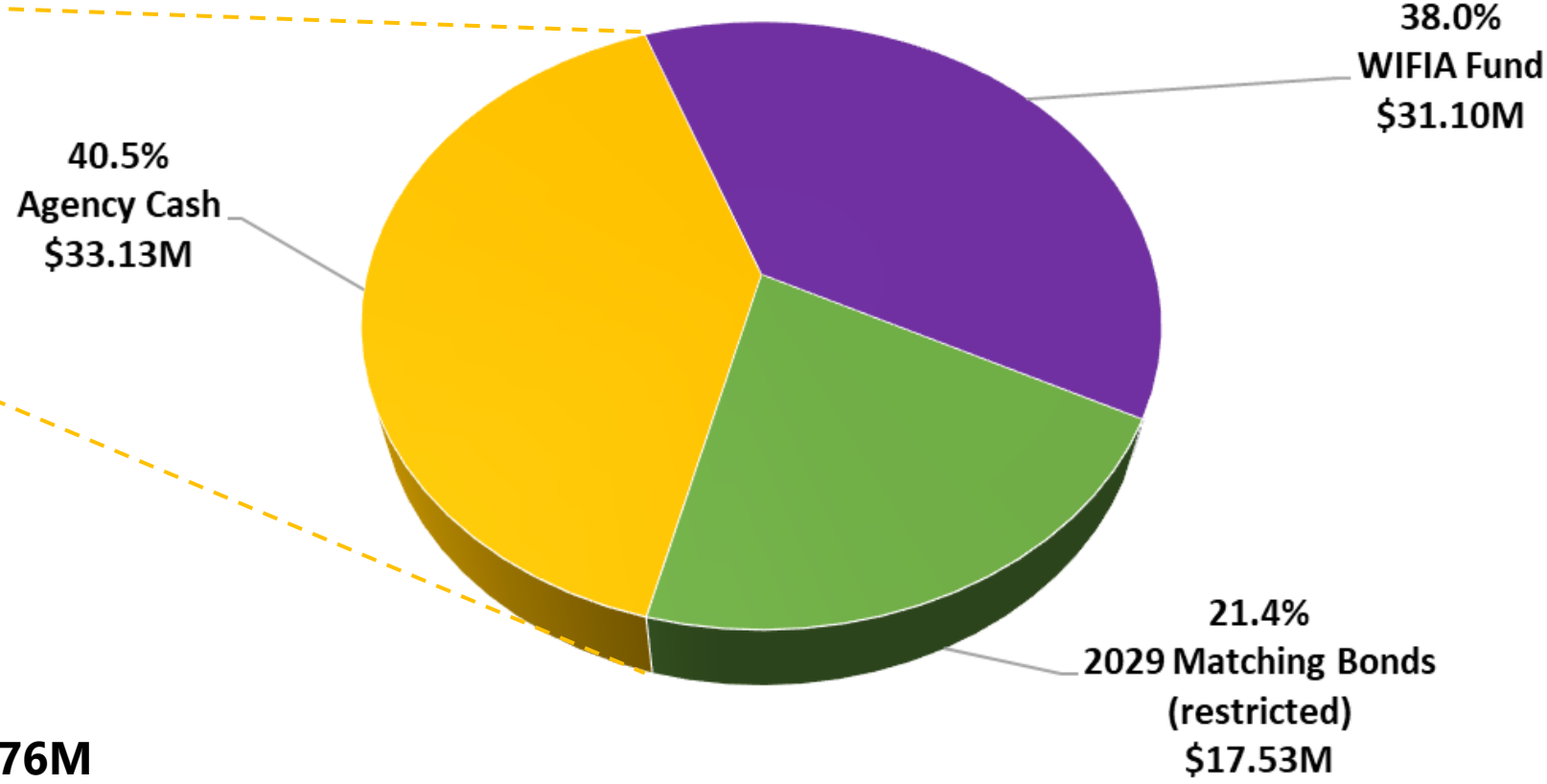
	FYE 2027	FYE 2028	FYE 2029	FYE 2030	FYE 2031	TOTAL
General Fund	$ 276,257	$ 314,839	$ 297,420	$ 334,959	$ 316,617	$ 1,540,092
Special Revenue Fund	9,993,465	10,668,647	10,978,075	11,880,283	12,753,143	56,273,613
Debt Service Fund	5,933,222	5,798,414	6,748,951	8,386,342	8,369,408	35,236,337
Cash-Funded Capital (PAYGO)	10,540,000	2,807,937	11,303,282	7,800,000	676,000	33,127,219
Policy Expenditures	100,000	100,000	100,000	-	-	300,000
TOTAL EXPENDITURES	**$ 26,842,944**	**$ 19,689,837**	**$ 29,427,729**	**$ 28,401,584**	**$ 22,115,168**	**$ 126,477,262**



Projected Expenditures
~$126.48M
(FYE 2027-2031)

CIP and Funding Sources





Anticipated CIP ~$81.76M
(FYE 2027-2031)

CIP and Funding Sources

CIP SUMMARY

	FYE 2027	FYE 2028	FYE 2029	FYE 2030	FYE 2031	TOTAL
Watsonville Slough System Managed Aquifer Recharge & Recovery Project	$ 6,000,000	$ 32,000,000	$ 20,200,000	$ -	$ -	$ 58,200,000
Basin Monitoring Wells Expansion Project	2,500,000	-	-	-	-	2,500,000
Watsonville Recycled Water Facility CIP	490,000	1,407,000	8,538,000	7,800,000	676,000	18,911,000
Supplemental Well No. 3 Improvements Project	1,500,000	-	-	-	-	1,500,000
Meter Shop	50,000	500,000	100,000	-	-	650,000
CIP SUMMARY	**$ 10,540,000**	**$ 33,907,000**	**$ 28,838,000**	**$ 7,800,000**	**$ 676,000**	**$ 81,761,000**

CIP FUNDING SOURCES

	FYE 2027	FYE 2028	FYE 2029	FYE 2030	FYE 2031	TOTAL
WIFIA Fund	$ -	$ 31,099,063	$ -	$ -	$ -	$ 31,099,063
2029 Matching Bonds (restricted)	-	-	17,534,718	-	-	17,534,718
Grants	-	-	-	-	-	-
Additional Bond Proceeds	-	-	-	-	-	-
Agency Cash	10,540,000	2,807,937	11,303,282	7,800,000	676,000	33,127,219
Total CIP FUNDING SOURCES	**$ 10,540,000**	**$ 33,907,000**	**$ 28,838,000**	**$ 7,800,000**	**$ 676,000**	**$ 81,761,000**

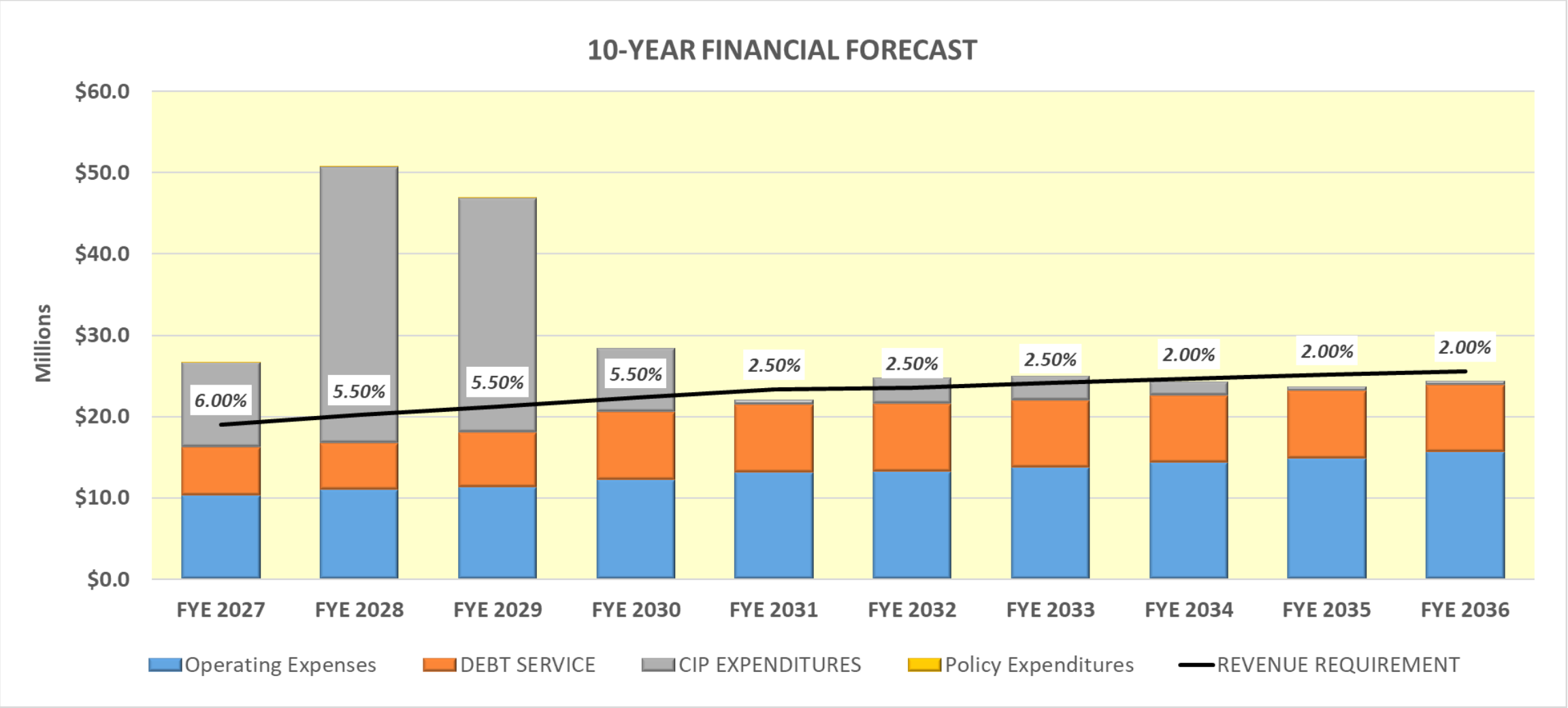
Revenue Requirement Analysis – No Rate Increases

	FYE 2027	FYE 2028	FYE 2029	FYE 2030	FYE 2031
Beginning Agency Cash Balance	***$ 31,079,267***	***$ 22,894,512***	***$ 22,000,541***	***$ 11,366,054***	***$ 1,679,004***
Cash Reserve Target (180 days)	*$ 5,064,520*	*$ 5,415,070*	*$ 5,555,618*	*$ 6,015,245*	*$ 6,432,453*
TOTAL REVENUES *before Rate Increase*	**$ 18,658,189**	**$ 18,792,938**	**$ 18,783,306**	**$ 18,696,872**	**$ 18,761,359**
TOTAL EXPENDITURES	**$ 26,844,971**	**$ 50,785,972**	**$ 46,952,510**	**$ 28,383,922**	**$ 22,088,992**
CASH FLOW SURPLUS/DEFICIT before Increase	***$ (8,184,755)***	***$ (893,971)***	***$ (10,634,487)***	***$ (9,687,050)***	***$ (3,327,633)***
RESERVE TARGET SURPLUS/DEFICIT before Increase	**$ 17,829,992**	**$ 16,585,472**	**$ 5,810,436**	***$ (4,336,241)***	***$ (8,081,081)***
DEBT COVERAGE SURPLUS/DEFICIT before Increase	**$ 1,268,601**	**$ 854,283**	***$ (580,995)***	***$ (3,564,318)***	***$ (4,325,515)***
DSCR before Rate Increase (target of 1.2x)	***1.41 x***	***1.35 x***	***1.11 x***	***0.77 x***	***0.68 x***
Ending Agency Cash Balance	***$ 22,894,512***	***$ 22,000,541***	***$ 11,366,054***	***$ 1,679,004***	***$ (1,648,629)***
Cash Reserve Target (180 days)	*$ 5,064,520*	*$ 5,415,070*	*$ 5,555,618*	*$ 6,015,245*	*$ 6,432,453*
REVENUE SURPLUS/(SHORTFALLS)	**$ 1,268,601**	**$ 854,283**	***$ (580,995)***	***$ (4,336,241)***	***$ (8,081,081)***
Calculated Revenue Increase	***0.00%***	***0.00%***	***9.84%***	***73.42%***	***136.82%***

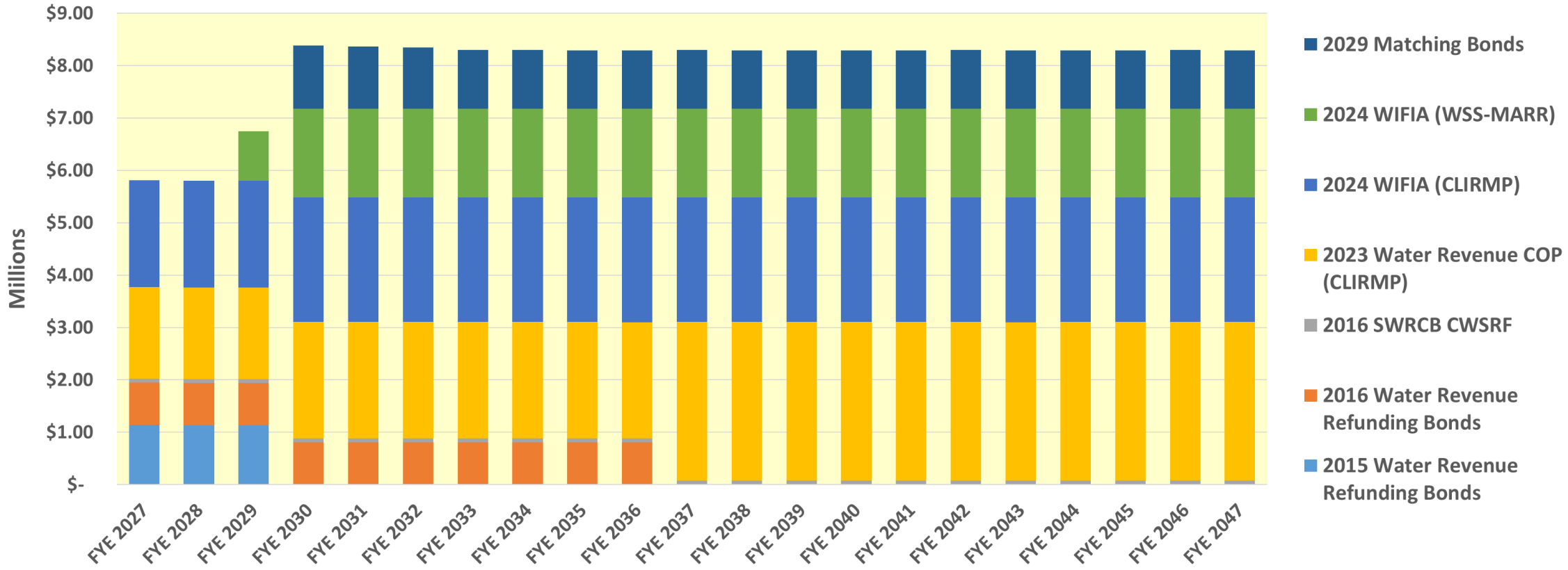
Revenue Requirement after Rate Increases

	FYE 2027	FYE 2028	FYE 2029	FYE 2030	FYE 2031
Beginning Agency Cash Balance	***$ 31,079,267***	***$ 23,247,612***	***$ 23,759,315***	***$ 15,580,081***	***$ 9,469,119***
Cash Reserve Target (180 days)	*$ 5,064,520*	*$ 5,416,513*	*$ 5,560,518*	*$ 6,023,955*	*$ 6,445,361*
Proposed Rate Increase	***6.00%***	***5.50%***	***5.50%***	***5.50%***	***2.50%***
cumulative rate Increase	*6.00%*	*11.83%*	*17.98%*	*24.47%*	*27.58%*
TOTAL REVENUES *before Rate Increase*	**$ 18,658,189**	**$ 19,857,210**	**$ 20,885,226**	**$ 21,907,375**	**$ 23,161,470**
additional revenue from current year's rate increase	353,100	344,330	363,268	383,248	183,785
TOTAL EXPENDITURES	**$ 26,844,971**	**$ 50,788,900**	**$ 46,962,446**	**$ 28,401,584**	**$ 22,115,168**
CASH FLOW SURPLUS/DEFICIT after Increase	***$ (7,831,655)***	**$ 511,703**	***$ (8,179,234)***	***$ (6,110,962)***	**$ 1,230,087**
RESERVE TARGET SURPLUS/DEFICIT after Increase	**$ 18,183,092**	**$ 18,342,802**	**$ 10,019,563**	**$ 3,445,164**	**$ 4,253,845**
DEBT COVERAGE SURPLUS/DEFICIT after Increase	**$ 1,621,701**	**$ 2,259,957**	**$ 1,874,258**	**$ 11,770**	**$ 232,205**
DSCR after Rate Increase (target of 1.2x)	***1.47 x***	***1.59 x***	***1.48 x***	***1.20 x***	***1.23 x***
Ending Agency Cash Balance	***$ 23,247,612***	***$ 23,759,315***	***$ 15,580,081***	***$ 9,469,119***	***$ 10,699,206***
Cash Reserve Target (180 days)	*$ 5,064,520*	*$ 5,416,513*	*$ 5,560,518*	*$ 6,023,955*	*$ 6,445,361*

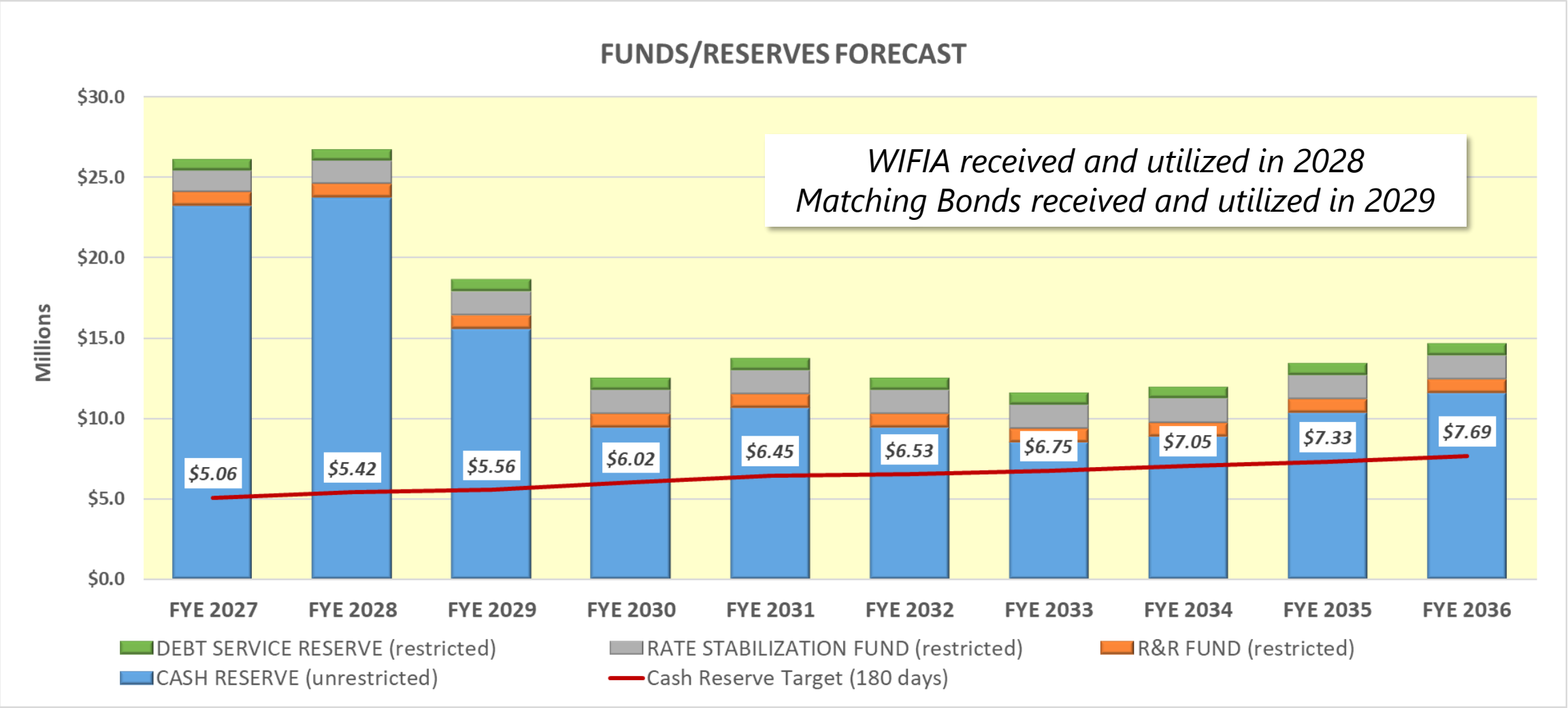
10-Year Financial Forecast



Aggregate Outstanding and Anticipated Debt Service



Funds/Reserves Forecast



6.3

Cost of Service and Preliminary Rate Analysis

Cost of Service bridges the gap between revenue increases and rates

STEP 1

Policy Review

- Reserve Policies
- Debt Funding

Revenue Requirements

- Operations and Maintenance
- Capital

STEP 2

Cost of Service Analysis

Budget Categories	Functional Categories

•Administration
• Operations
  • Harkins Slough
  • CDS
  • Suppl. Wells
  • Recycled Water
• Metering
• Basin Mgmt. Plan
• Capital
  • Debt Service
  • R&R Reserves
	• Billing
	• Metering
	• Basin Management
	• Delivered Water (DW)
	• Additional DWZ Services

STEP 3

Rate Structure Design

- Outside DWZ
- Inside DWZ
  - Met.+ Zone Fee
  - Delivered Water
- Rural Residential

Changing times triggers changing allocations

2015 (Planning)	2026 (Implementation/Operations)

• Basin Management Plan (BMP) and Sustainable Groundwater Management Act (SGMA) set the stage for groundwater sustainability and implementation of projects
• Key drivers – drought, overdraft, seawater intrusion
	• Major projects:
	  • New surface water supply (College Lake)
	  • Water distribution system expanded
	  • Recycled Water Facility capital improvements
	  • New supplemental wells
	  • Aquifer recharge project WSS-MARR in final stages of implementation
	• More costs allocated to produce and deliver water
	• Less grant funding and more competition

Definition of Functional Categories

- **Billing:** costs associated with preparing and managing customer bills. Applies to all water users based on usage.
- **Metering:** costs associated with installing, maintaining, and reading meters. Applies to all metered water users based on meter size.
- **Basin Management:** costs associated with planning, constructing, operating, and maintaining supplemental water supply facilities. Applies to all water users.
- **Delivered Water:** costs associated with delivering water to the users. Applies to delivered water users.
- **Additional Services for Metered Water Users in DWZ:** costs associated with providing redundant water supply to metered water users within the DWZ. Applies to users within DWZ served by or able to immediately connect to CDS.

Functional Allocation Index and Categories

ALLOCATION INDEX	BILLING	METERING	BASIN MANAGEMENT	DELIVERED WATER	ADDITIONAL DWZ SERVICES
Billing Only	100.00%				
Metering Only		100.00%			
Groundwater Only			100.00%		
Delivered Water Only				100.00%	
Additional DWZ Services Only					100.00%
Salaries & Wages	13.65%	21.26%	58.97%	5.04%	1.08%
Basin Consumption			83.87%	16.13%	
Harkins Slough			34.35%	65.65%	
Coastal Distribution			99.92%	0.08%	
Supplemental Wells			72.84%	27.16%	
Recycled Water Facility			78.94%	21.06%	
College Lake WTP			77.00%	23.00%	
Facility Operations			*71.83%*	*28.17%*	
Existing Debt	*0.00%*	*0.00%*	*96.14%*	*0.00%*	*3.86%*
Capital Projects	*0.00%*	*1.07%*	*95.12%*	*0.00%*	*3.82%*
Capacity & Demand			96.14%	0.00%	3.86%
As All Others	0.00%	0.00%	0.00%	0.00%	0.00%
AS O&M	*3.91%*	*10.15%*	*66.95%*	*18.69%*	*0.31%*
Resulting Allocation	***1.79%***	***4.93%***	***82.50%***	***8.56%***	***2.22%***

		BILLING	METERING	BASIN MANAGEMENT	DELIVERED WATER	ADDITIONAL DWZ SERVICES
FYE 2027-2031 Average	*$ 20,189,181*	361,268	995,130	16,655,198	1,729,160	448,424

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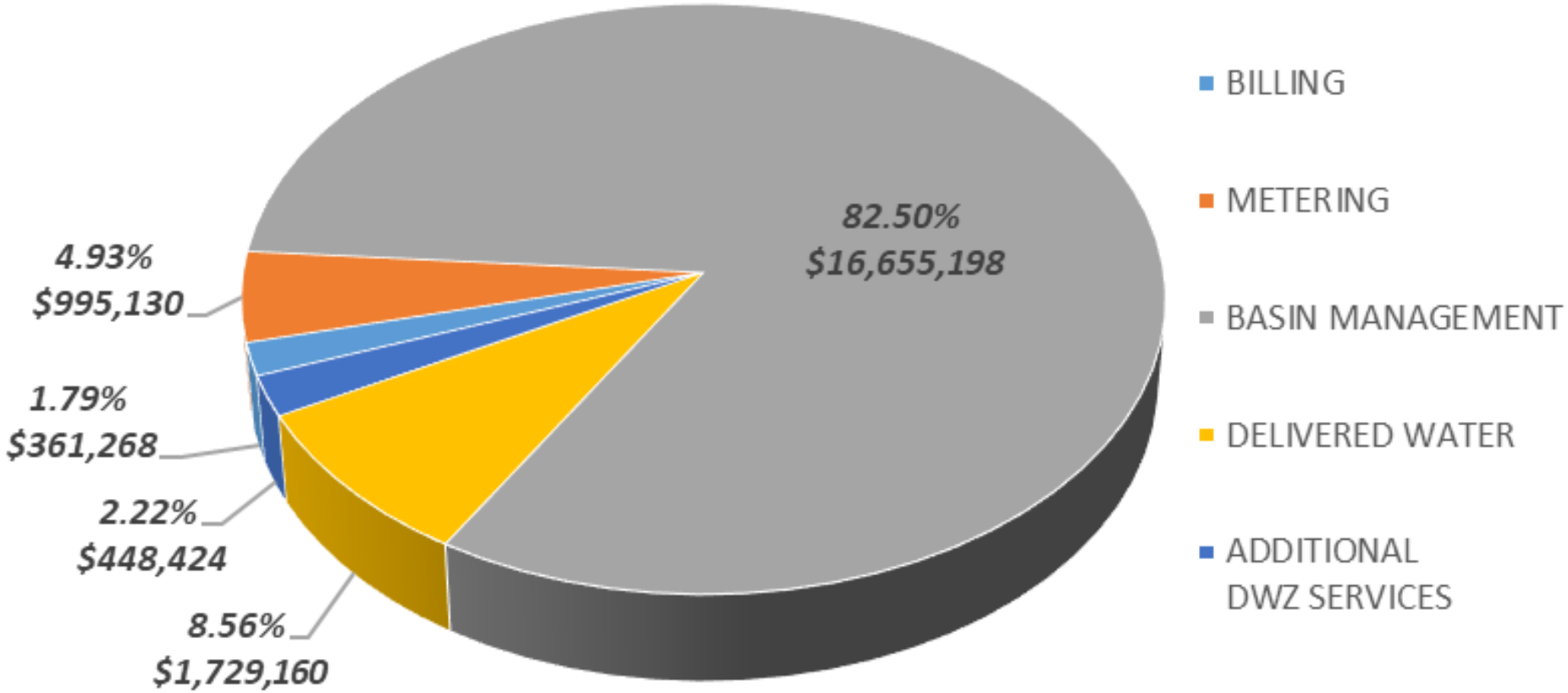
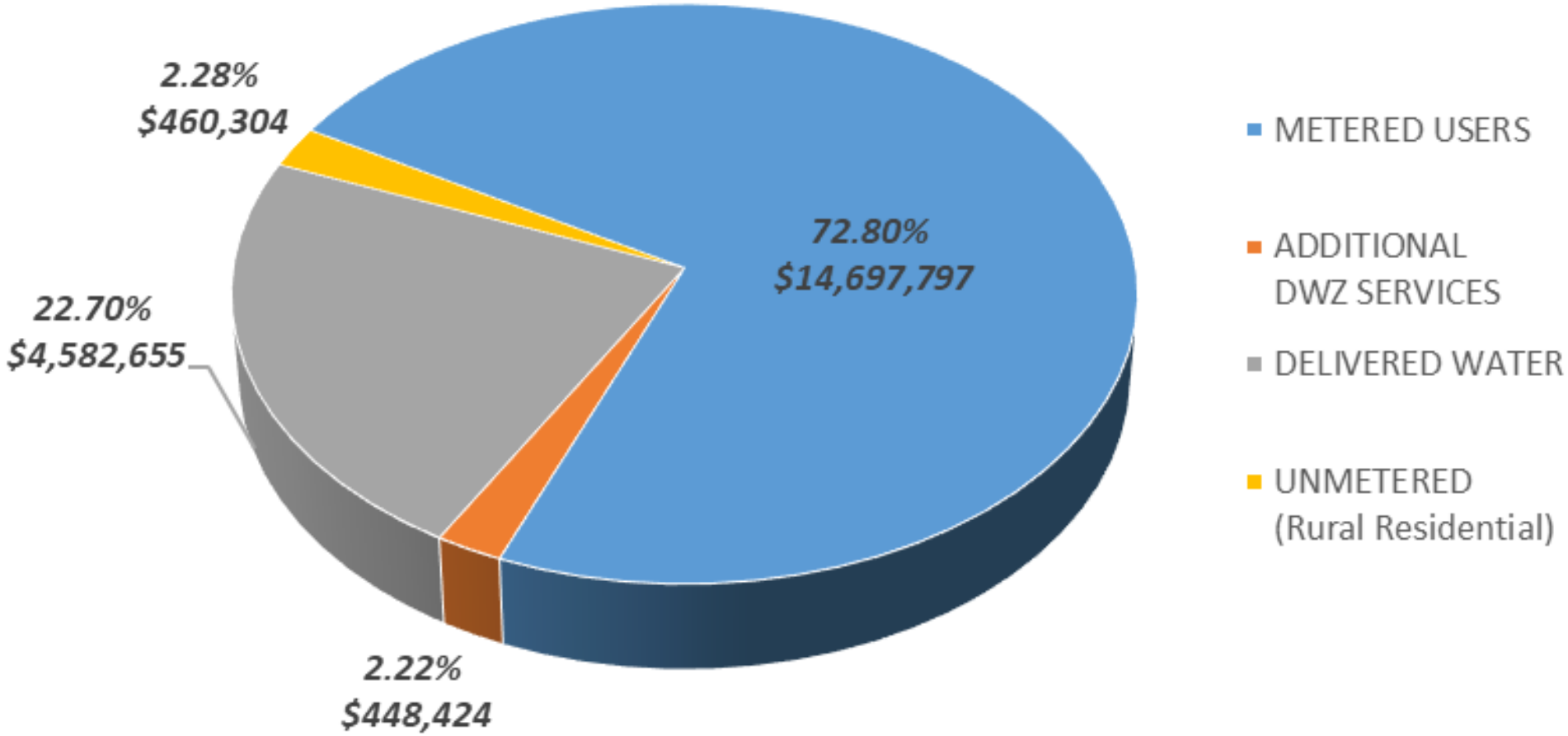
Multi-Year Functional Allocation



Resulting Customer Allocation

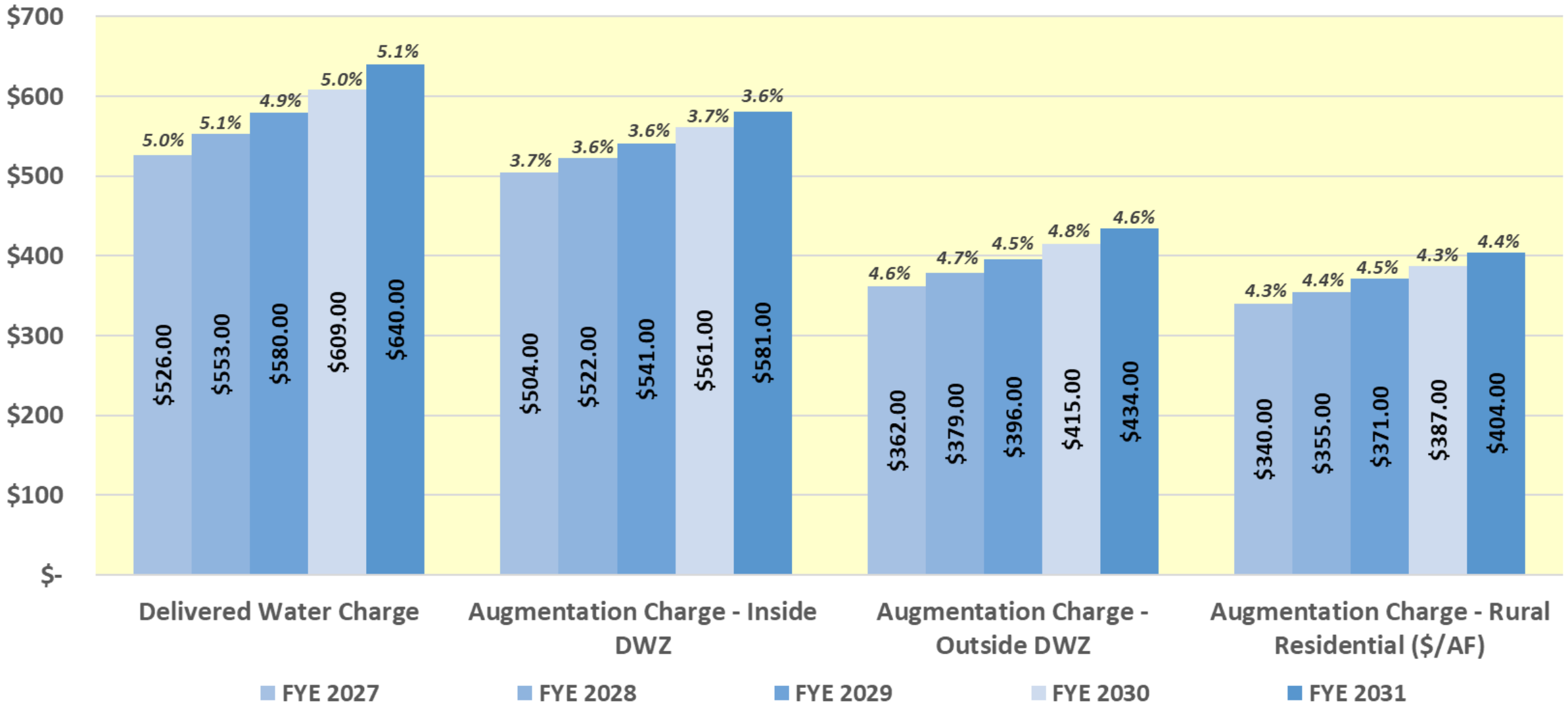


Preliminary Rates

RATES SUMMARY	FYE 2026	FYE 2027	FYE 2028	FYE 2029	FYE 2030	FYE 2031
Delivered Water Charge	$501.00	$526.00	$553.00	$580.00	$609.00	$640.00
Augmentation Charge - Inside DWZ	486.00	504.00	522.00	541.00	561.00	581.00
Augmentation Charge - Outside DWZ	346.00	362.00	379.00	396.00	415.00	434.00
Augmentation Charge - Rural Residential ($/res)	*163.00*	*170.00*	*177.50*	*185.50*	*193.50*	*202.00*
Delivered Water Charge	5.0%	5.0%	5.1%	4.9%	5.0%	5.1%
Augmentation Charge - Inside DWZ	7.5%	3.7%	3.6%	3.6%	3.7%	3.6%
Augmentation Charge - Outside DWZ	7.1%	4.6%	4.7%	4.5%	4.8%	4.6%
Augmentation Charge - Rural Residential ($/res)	*7.2%*	*4.3%*	*4.4%*	*4.5%*	*4.3%*	*4.4%*

NOTES:
**Rural residential customers are billed based on 0.5 AF per residence annually.*

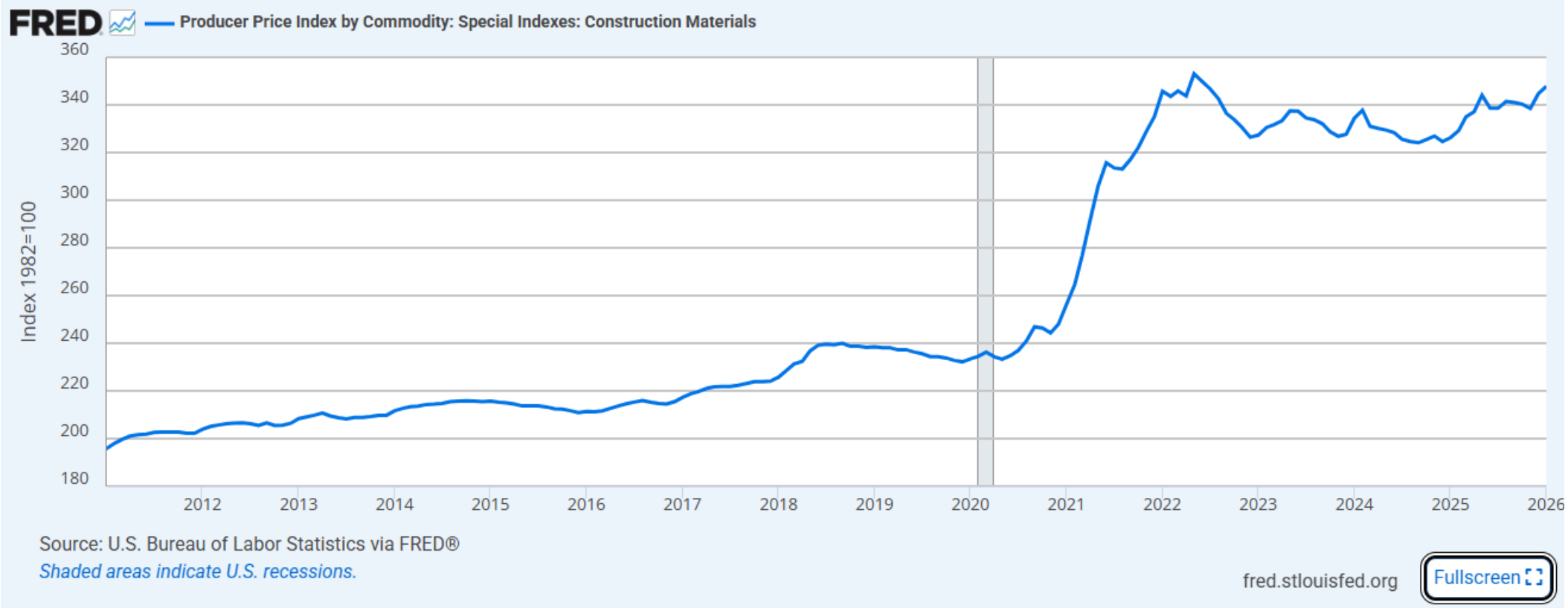
Preliminary Rates Summary



6.4 Capital Project Unit Costs

What has changed since BMP…

CPI escalation for construction materials increased more than 100%

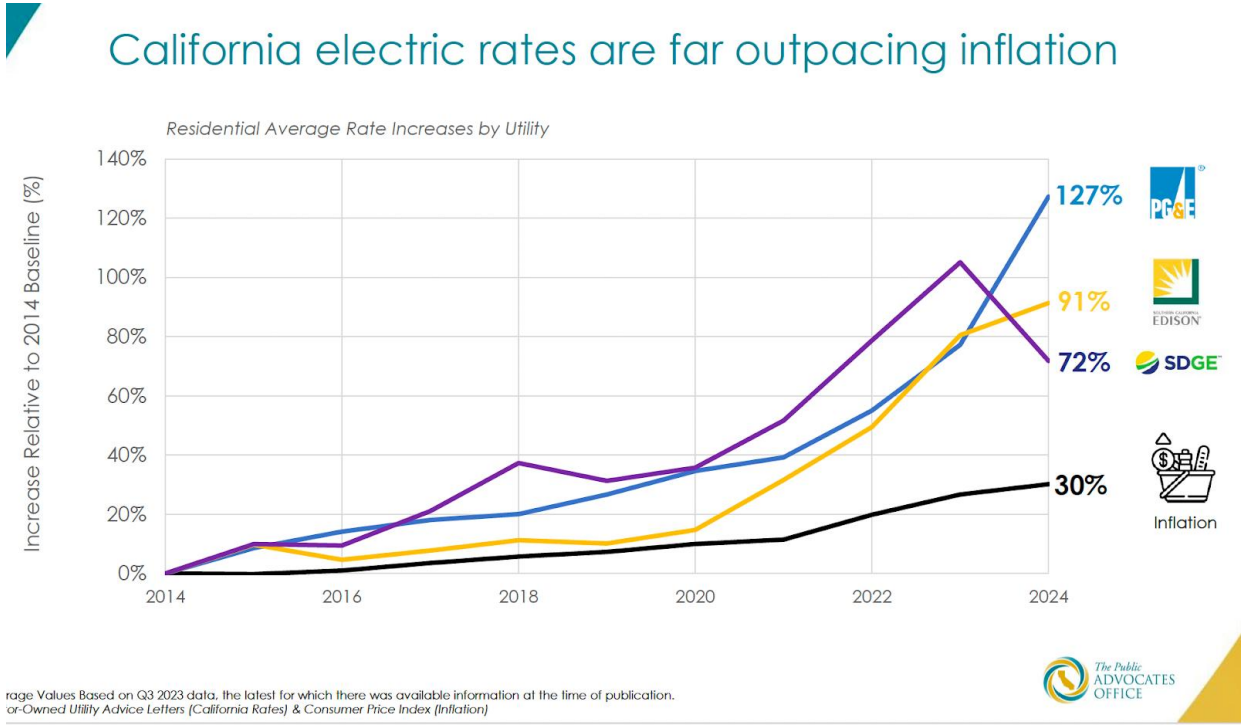


Source: Federal Reserve Economic Data, Federal Reserve Bank of St. Louis

Energy costs have also increased substantially, impacting operational costs

PG&E Energy Trend Analysis: 2019 to Present

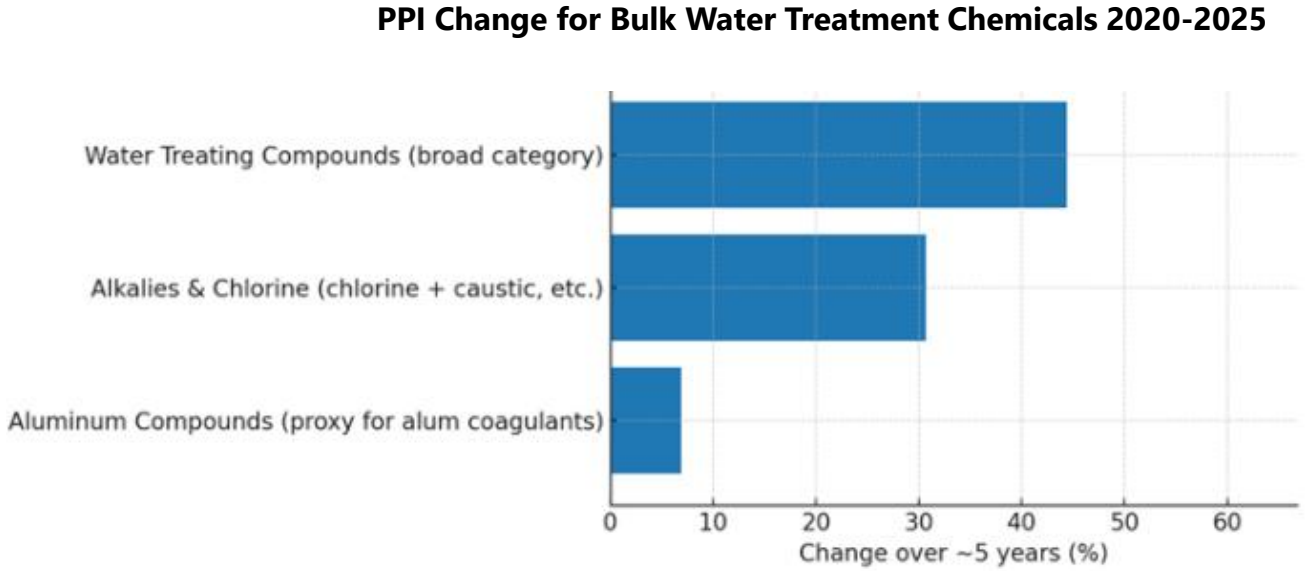
- 2019–2023 (Rapid Increase): Agricultural and business rates saw consistent, steep increases, driven by wildfire mitigation and grid infrastructure costs.
- 2022 Proposal: PG&E proposed significant increases for Agricultural-Bundled customers, including a move from ~25 cents/kWh to ~30 cents/kWh.
- 2024–2025 (High Peak): By early 2024, agricultural TOU (Time-of-Use) rates remained high, with Summer Peak rates often exceeding 50 cents/kWh on certain plans.
- Analysis of PV Water's rates shows an average of 49 cents per kWh for College Lake WTP operations and 31 cents per kWh for Harkins Slough Facilities



Source: CPUC Public Advocates Office

The increasing cost of chemicals and fuel has impacted operational costs for the WTP

- Water Treatment chemical costs increased 45% between 2020-2025
- Chlorine Costs increased 30%
- Alum Coagulant Costs increased 8%



Source: Locus Technologies, Producer Price Index, Federal Reserve Economic Data

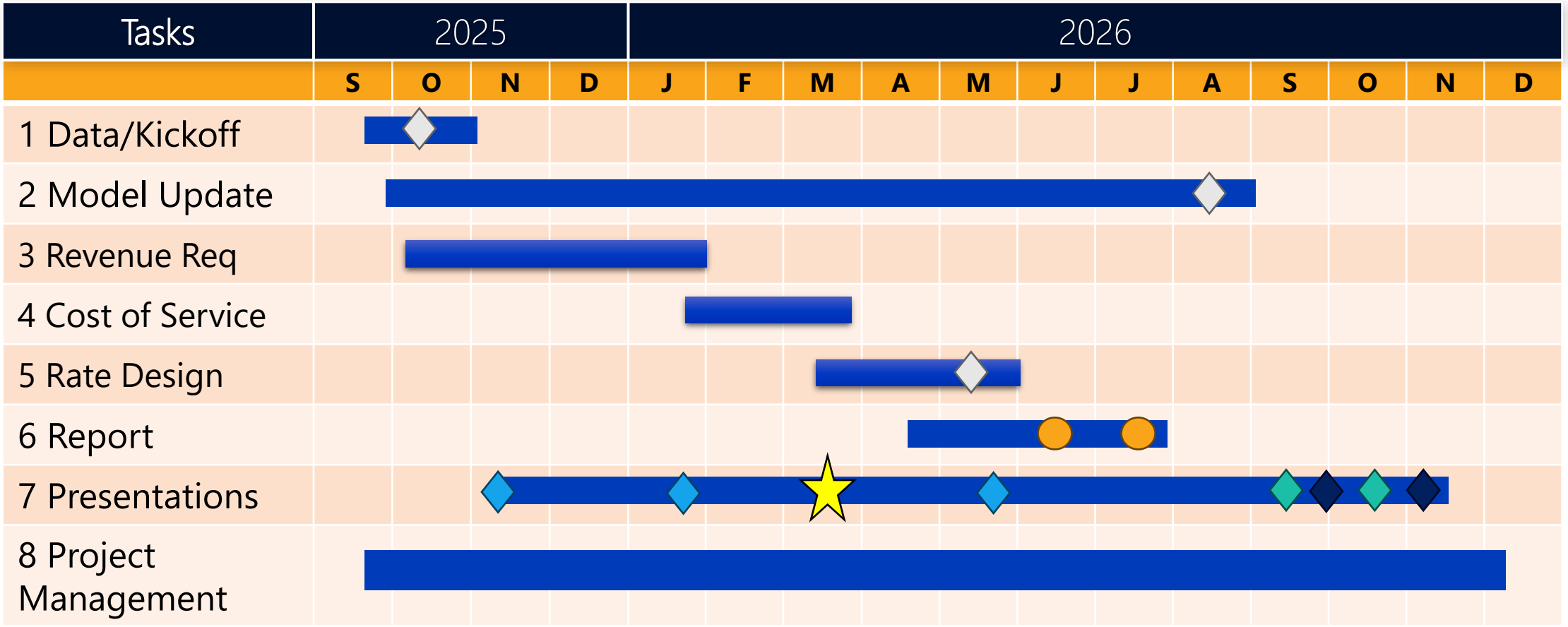
Capital Project Annualized Costs/Acre-Foot (AF)

	Harkins Slough	Struve Slough	College Lake
Average Annual Production (AF)	**318**	**896**	**2,000**
Total Capital Costs			
BMP 2011 dollars	$5,800,000	$14,700,000	$31,500,000
BMP 2026 dollars	$9,200,000	$23,400,000	$48,300,000
Updated Capital Costs 2026 dollars	$11,500,000	$42,200,000	$85,900,000
Annual Operational Costs			
BMP 2011 dollars	$90,000	$130,000	$340,000
BMP 2026 dollars	$140,000	$210,000	$540,000
Updated Annual O&M costs 2026 dollars	$150,000	$244,000	$990,000
Annualized Costs			
BMP 2011 dollars	$510,000	$1,200,000	$2,600,000
BMP 2026 dollars	$670,000	$1,560,000	$3,330,000
Annualized Costs (2026 dollars)	$820,000	$2,680,000	$5,960,000
$/AF			
BMP 2011 dollars (original yields)	$500 /AF	$1,000 /AF	$1,000 /AF
BMP 2011 dollars (adjusted for yield)	$1,600 /AF	$1,340 /AF	$1,300 /AF
BMP 2026 dollars	$2,110 /AF	$1,740 /AF	$1,670 /AF
Updated 2026 Costs (Amortized Capital and O&M)	**$2,580 /AF**	**$2,990 /AF**	**$2,980 /AF**
Update 2026 Costs (O&M only)	**$472 /AF**	**$272 /AF**	**$495 /AF**

7

Review Schedule and Next Steps

Schedule


Tasks
2025
2026
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1 Data/Kickoff
2 Model Update
3 Revenue Req
4 Cost of Service
5 Rate Design
6 Report
7 Presentations
8 Project Management
Team Meeting
RAC Meeting
Board Presentation
Community Outreach
Deliverable

Next Steps

- Finalize rates
- Finalize Cost of Service Report
- Hold additional public meetings
- Present to Board for Action
- Anticipated new rates would take effect December 1, 2026

Next Meeting Date

- AdHoc Committee Meeting No.4 as necessary
  - May 28th @ 1 PM or other?

Thank you.

Comments / Questions?

Visit our website: pvwater.org

Email: lockwood@pvwater.org

Adjournment