



PAJARO VALLEY WATER MANAGEMENT AGENCY

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Ad-Hoc Funding Committee
July 25, 2013, 1:00 p.m.

1432 Freedom Blvd.
Watsonville, CA 95076

AD-HOC FUNDING COMMITTEE MEETING MINUTES

1. Meeting called to order

Roll call of Appointed Committee Members: The Ad-Hoc Funding Committee Meeting of the Pajaro Valley Water Management Agency was called to order in the UC Ag Ext Conference Room, 1432 Freedom Blvd., Watsonville, CA, at 2:07 p.m. by Committee Chair Dave Cavanaugh.

Committee Members Present: Dave Cavanaugh (Chair), Amy Newell, Paul Faurot, Skip Fehr, Frank Capurro, John E. Eiskamp, Stuart Kitayama, Dick Piexoto, Tom Karn, Stephen Rider, Chuck Allen, Steve Palmisano, Bill Lipe, John Martinelli

Committee Members Absent: None

Staff Members Present: Mary Bannister, General Manager (GM)
Brian Lockwood, Staff Hydrologist (SH)
Laura Taay, Administrative Analyst (AA)
Tony Condotti, Agency Counsel

Others Present: Kirk Schmidt
Rosemarie Imazio
Margie Kay
Ted Remde
Warren Koenig
Lou Carella
Pierce Rossum

2. Committee comments: None

3. Public comments: None

4. Consider approval of minutes from June 7 and July 10, 2013 meetings:

The minutes of the meetings were accepted, noting two typos that will be corrected.

5. Basin Management Plan (BMP) Update:

Lou Carella of Carollo Engineers gave an overview of the Basin Management Planning effort, including a summary of the recommended projects and programs, anticipated costs, and a cash flow model developed for the BMP and used to estimate preliminary impacts on the Agency's budget.

6. Legal Environment:

Tony Condotti gave an overview of the legal framework of Proposition 218, including: 1) Taxes, including General and Special; 2) Assessments; 3) Property Related Fees and Charges. The Agency is not able to levy taxes due to its Enabling Act. Assessments have the advantage of providing a stable source of revenue and the disadvantage of not permitting tiered or conservation pricing. The Agency's existing Augmentation Charge is a property related fee or charge. The Augmentation Charge is not a tax and as such is not subject to Proposition 26. The Augmentation Charge is subject to Proposition 218. Noteworthy procedural requirements of Proposition 218 include a Majority Protest and potentially a ballot vote requiring a 2/3 majority to pass. Noteworthy substantive requirements of Proposition 218 state that the service must be actually used by or immediately available to fee payers, and that revenues from charge must not be used for "general governmental services" such as police, fire, ambulance or library services. The Agency Act says an augmentation charge may be levied to pay cost of 'purchasing, capturing, storing, and distributing supplemental water for use within the boundaries of the agency.'" (Water Code App. § 124-1001.) "Supplemental water" means surface water or groundwater imported from outside the watershed or watersheds of the groundwater basin, flood waters that are conserved and saved within the watershed or watersheds which would otherwise have been lost or would not have reached the groundwater basin, and recycled water. (Water Code App. § 124-316.)

7. Rate Setting Process

Pierce Rossum gave an overview of the rate setting process, and in particular, conducting a Cost of Service (COS) Study. The purpose of the COS is to provide sufficient revenues to adequately fund expenditures and reserves, and to determine the cost-of-service rate and charge levels that are consistent with legal requirements. The COS addresses legal, financial and operational objectives. The COS process includes three main analysis components: 1) Revenue Requirement Analysis; 2) Cost of Service Analysis; and 3) Rate-Design Analysis. Developing the COS is a five step process that requires identifying: 1) Agency Expenses; 2) Revenue Sources; 3) Functional Service Categories and Allocations, which were identified in the 2010 Cost of Service Study as a) Supplemental Water Service, b) Delivered Water Service, c) Customer Metering, d) Customer Billing, and e) Delivered Water Zone Service; 4) Cost of Service tied to each functional category; 5) Customer Rate Categories. The COS will identify whether the potential water rate revenues pass two tests: a Cash Flow Test and a Coverage Test. The COS analysis answers the questions of what is the service and who benefits. Examples of water rates and charges may be: Fixed and/or Variable, Land Based Assessments, Consumptive Charges, Tiered or Uniform, and/or follow a Zone Based Structure. General rate design objectives include developing stable and sufficient revenues while minimizing unnecessary changes. In addition, rates should incentivize efficient water use while discouraging wasteful use. Rates should promote vertical and horizontal rate equity, while maintaining simplicity and being clear, legal and defensible. The Rates and Cost of Service Study will be prepared to comply with Proposition 218. The presentation is attached and available on the website (pvwater.org).

8. Consider regular meeting dates/times

The committee discussed holding future meetings on the fourth Thursday of each month from 3:00 p.m. to 5:00 p.m.

9. Upcoming Meetings and Next Steps

The next meeting is scheduled for August 22 from 3:00 p.m. to 5:00 p.m.

10. New Business:

None

11. Adjournment at 4:15 p.m.

12. Future Meetings

- A. Administrative/Finance Committee — September 10, 2013, 12:30 p.m. – 1:30 p.m., PVWMA Conference Room, 36 Brennan Street, Watsonville, CA.
- B. Board of Directors — September 18, 2013, 7:00 p.m., City Council Chambers, 275 Main Street, Fourth Floor, Watsonville, CA.
- C. Ad Hoc Funding Committee (AHFC) – September 26, 2013, 3:00 p.m. – 5:00 p.m., City of Watsonville Water Resources Center, 500 Clearwater Lane, Watsonville, CA



Brian Lockwood, Sr. Water Resources Hydrologist

8-23-2013
Date Approved