Board of Directors Meeting

February 17, 2021

Teleconference Meeting

Pajaro Valley
Water Management Agency

Agenda

- Background
- BMP Implementation Revenue Needs and Proposed Rates
- Proposed Rates to meet Revenue Needs
- Current Legal Procedures for the Increase of Agency Service Charges
- Schedule & Public Outreach Program

Ad Hoc Funding Committee Members

Committee Member	Representative Entity
Rosemarie Imazio, Chair	Coastal Landowner
Tom Broz, Vice Chair	Pajaro Valley Water Management Agency
Javier Zamora	Pajaro Valley Water Management Agency
Amy Newell	Pajaro Valley Water Management Agency
Kirk Schmidt	Santa Cruz County Farm Bureau
Beau Kayser	City of Watsonville
Gary Vincelet	Water District Representative
Robert Johnson	Water District Representative
Sandra Hoppe	Small / Beginning Grower
Dick Peixoto	Inland Landowner
Stuart Kitayama	Coastal Agricultural Water User
Adriana Silva	Inland Agricultural Water User
Not Filled	Industrial Representative
Not Filled	Water Mutual Representative
Not Filled	Rural Residential Water User
Not Filled	Monterey County Farm Bureau
Not Filled	At Large

2021 Cost of Service Rate Study

2021 Rate Setting Effort – Assumptions

- ***Cost Escalation***
  - General inflation – **3%**
- ***Financial Targets***
  - Operating Reserve Target– **180 days of O&M expenses**
  - Debt Service Coverage Ratio Target – **1.15x**
- ***Future Bond Assumptions***
  - Payment Term – **30 years**
  - FY 2021/22 Interest Rate – **4%**
  - Beyond FY 2021/22 Interest Rate – **5%**
  - Estimated principal and interest payments for future debt provided by NHA (Agency's municipal advisor)

Carollo evaluated three financial performance tests

Cash Flow Test

Do revenues exceed O&M and rate-funded capital needs?

Debt Coverage Test

Do revenues exceed debt service coverage thresholds?

Reserve Fund Test

Are all end-of-year reserve fund targets met?

Total Capital Funding Needs

Capital Project	FY 2020/21	FY 2021/22	FY 2022/23	FY 2023/24	FY 2024/25	FY 2025/26	TOTAL
Harkins Slough Recharge Facilities Upgrades	$0	$1,530,000	$1,850,000	$1,930,000	$4,100,000	$0	**$9,410,000**
Struve Slough with Recharge Basins	220,000	1,080,000	-	11,800,000	-	-	**$13,100,000**
College Lake	3,673,000	13,133,075	33,564,300	13,985,125	-	-	**$64,355,500**
Basin Monitoring Improvements	-	-	1,500,000	-	-	-	**$1,500,000**
RW Facility Disk Filter Upgrade - Phase II	100,000	-	-	-	-	-	**$100,000**
0.5MG Storage Tank/UV Expansion - Phase III	250,000	2,000,000	-	-	-	-	**$2,250,000**
CDS F-Line Expansion	1,500,000	-	-	-	-	-	**$1,500,000**
BMP Update	250,000	150,000	-	-	-	-	**$400,000**
Conservation	400,000	400,000	400,000	400,000	400,000	400,000	**$2,400,000**
Adaptive Management Plan (AMP)	100,000	100,000	100,000	100,000	100,000	100,000	**$600,000**
Total Capital Funding Need	**$6,493,000**	**$18,393,075**	**$37,414,300**	**$28,215,125**	**$4,600,000**	**$500,000**	**$95,615,500**

Capital Funding Source	FY 2020/21	FY 2021/22	FY 2022/23	FY 2023/24	FY 2024/25	FY 2025/26	TOTAL
CDS F-Line Grant (Prop 84)	$2,084,642	$906,840	$0	$0	$0	$0	$2,991,482
RWF Disk Filter (Phase II) - Grant (Prop 1)	1,433,836	205,156	-	-	-	-	$1,638,992
RWF Disk Filter (Phase II) - SRF Loan	1,496,930	191,494	-	-	-	-	$1,688,424
Groundwater Sustainability Grant (Prop 68)	177,688	322,311	-	-	-	-	$499,999
RWF UV Expansion (Phase III) - Grant	-	87,500	700,000	-	-	-	$787,500
RWF UV Expansion (Phase III) - SRF Loan	-	-	1,462,500	-	-	-	$1,462,500
College Lake – Potential Grant	-	6,000,000	4,000,000	-	-	-	$10,000,000
Cash on Hand	9,343,055	-	-	-	-	-	$9,343,055
Total Capital Funding Sources	**$14,536,151**	**$7,713,301**	**$6,162,500**	**$0**	**$0**	**$0**	**$28,411,952**
Total Remaining Capital Funding Need	**~ $67.2 million**						

**Excludes restricted reserves. Cash on hand can be used in any fiscal year, as needed.*

Financial Outlook *without* Revenue Increases, Additional Bonds, or College Lake Grant

	FY 2020/21	FY 2021/22	FY 2022/23	FY 2023/24	FY 2024/25	FY 2025/26
Revenue Increase	-	-	-	-	-	-
Bond Issuance	-	-	-	-	-	-
Cash Flow Surplus/(Deficit)	$3.20 million	-$0.94	-$34.07	-$60.96	-$64.06	$0.91
Debt Service Coverage Ratio	1.96 x	1.81 x	1.65 x	1.62 x	1.76 x	1.62 x
Total Cash on Hand & Reserves Ending Balance	$8.73 million	$2.90	-$30.11	-$56.83	-$59.97	-$59.36
Operating Reserve, days of O&M	180 days	49 days	-1,358 days	-2,155 days	-2,199 days	-2,109 days

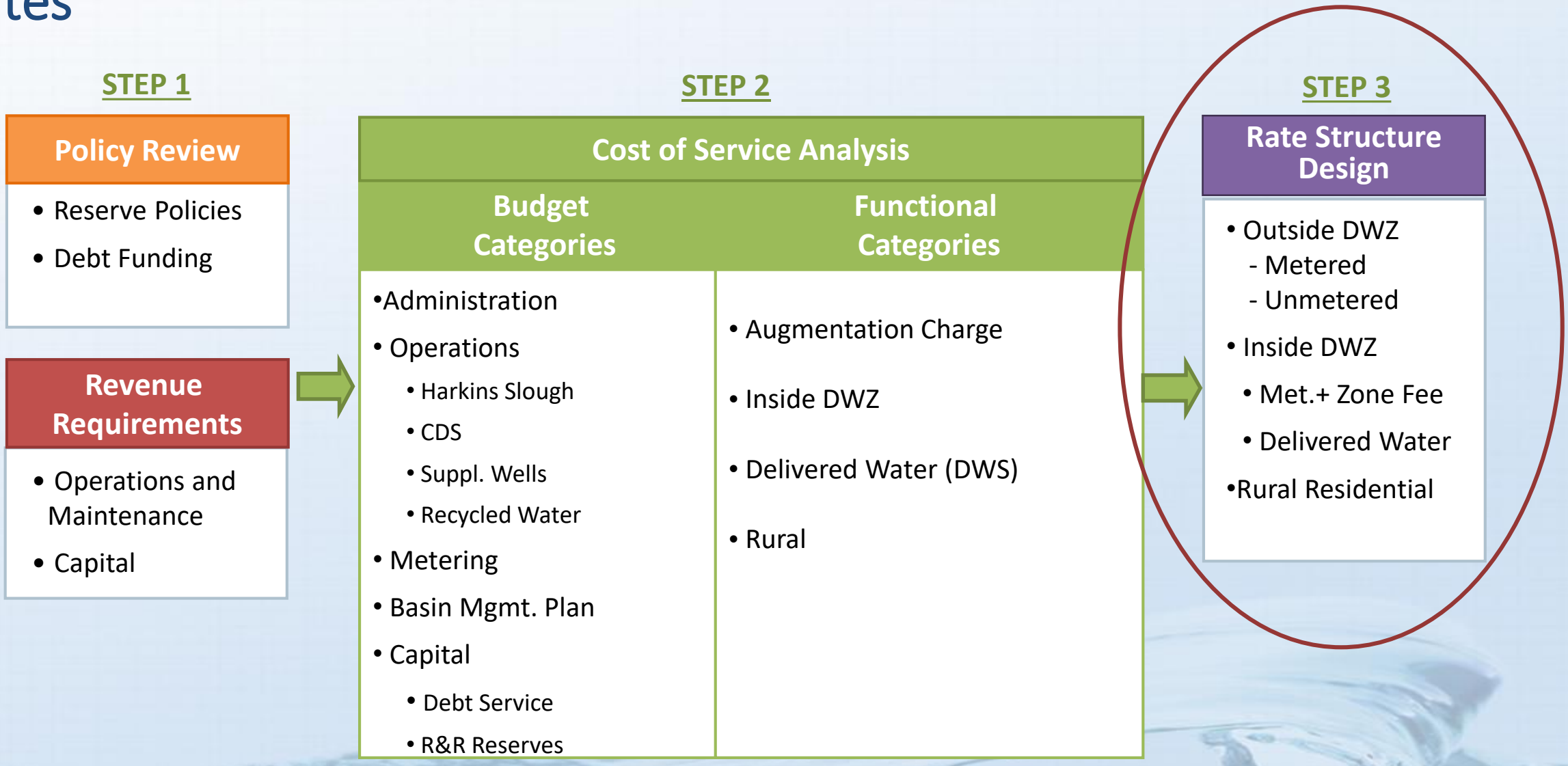
Scenario 1: Financial Outlook *without* $10M College Lake Grant

	FY 2020/21	FY 2021/22	FY 2022/23	FY 2023/24	FY 2024/25	FY 2025/26
Revenue Increase	**-**	**5.2%**	**6.8%**	**6.8%**	**6.8%**	**6.8%**
Bond Issuance	**-**	**$46.5 million**	**-**	**$25.5 million**	**-**	**-**
Cash Flow Surplus/(Deficit)	$3.20 million	$2.67	$2.29	$2.27	$2.97	$3.83
Debt Service Coverage Ratio	1.96 x	1.64 x	1.46 x	1.48 x	1.61 x	1.79 x
Total Cash on Hand & Reserves Ending Balance	$8.73 million	$40.33	$7.57	$8.40	$9.80	$13.18
Operating Reserve, days of O&M	180 days	180 days	180 days	180 days	180 days	180 days

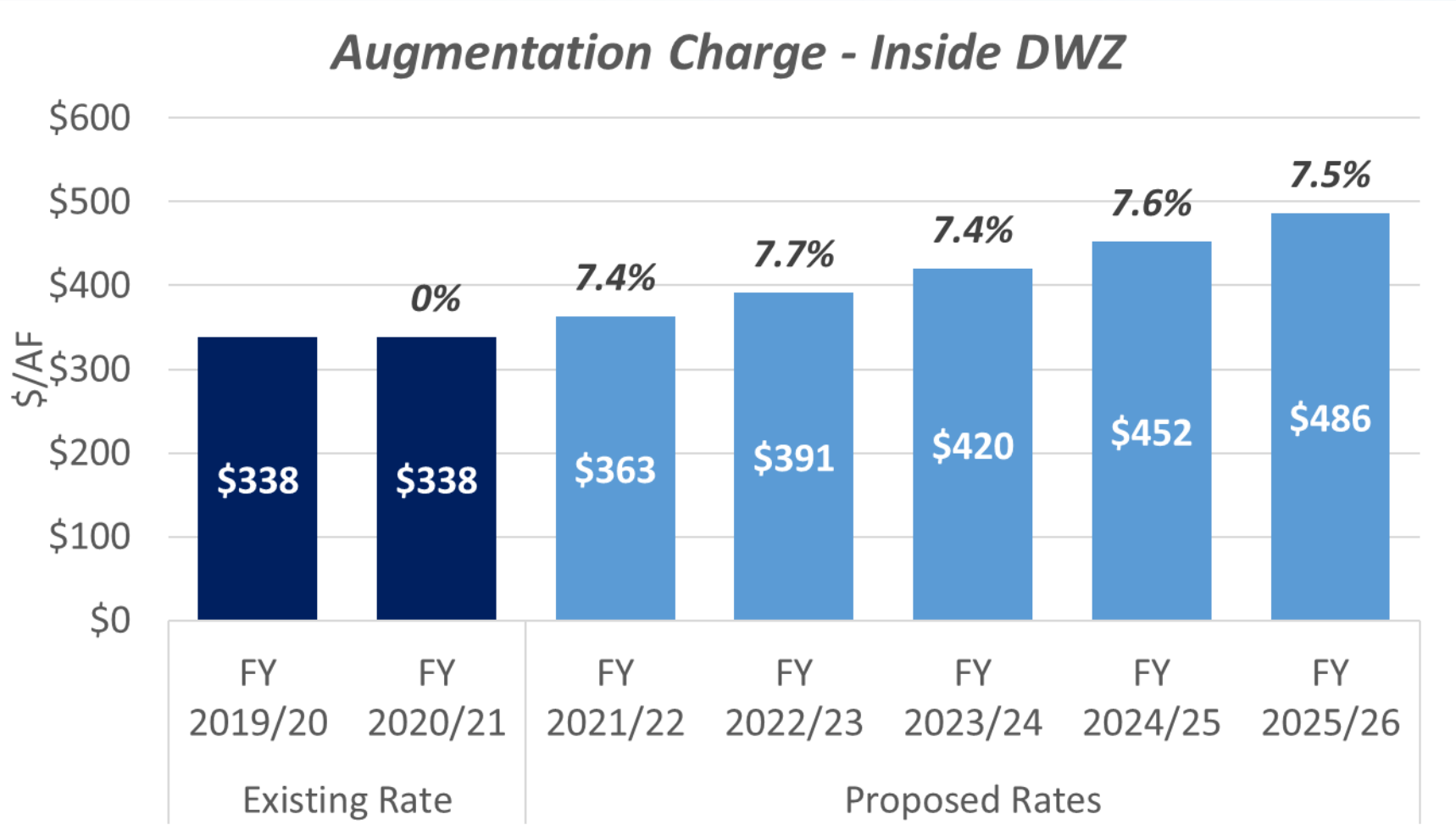
Scenario 2: Financial Outlook *with* $10M College Lake Grant

	FY 2020/21	FY 2021/22	FY 2022/23	FY 2023/24	FY 2024/25	FY 2025/26
Revenue Increase	**-**	**4.7%**	**6.1%**	**6.1%**	**6.1%**	**6.1%**
Bond Issuance	-	**$35.5 million**	-	**$25.5 million**	-	-
Cash Flow Surplus/(Deficit)	$3.20 million	$2.79	$2.50	$2.36	$2.93	$3.64
Debt Service Coverage Ratio	1.96 x	1.70 x	1.54 x	1.54 x	1.66 x	1.81 x
Total Cash on Hand & Reserves Ending Balance	$8.73 million	$35.67	$7.10	$8.49	$9.76	$12.95
Operating Reserve, days of O&M	180 days	180 days	180 days	180 days	180 days	180 days

Cost of Service bridges the gap between revenue increases and rates



Scenario 1: Rates *without* $10M College Lake Grant Augmentation Charge – Inside DWZ

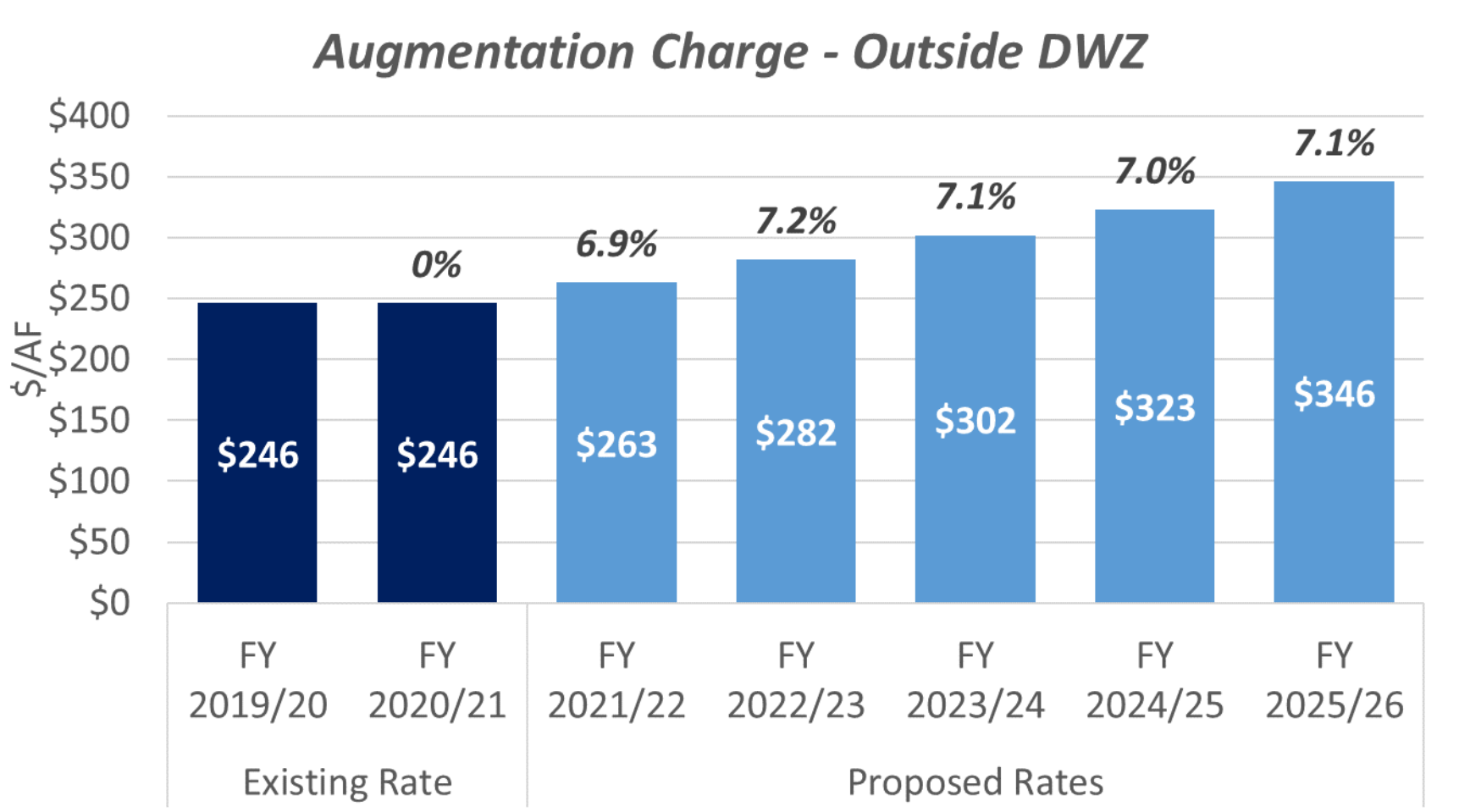


6-year Total Rate Increase*: **37.7%**

6-year Annual Average Rate Increase*: **6.3%**

*Under Scenario 2 (with $10M grant), total rate increase = **34.1%**, and annual avg. rate increase = **5.7%**

Scenario 1: Rates *without* $10M College Lake Grant Augmentation Charge – Outside DWZ



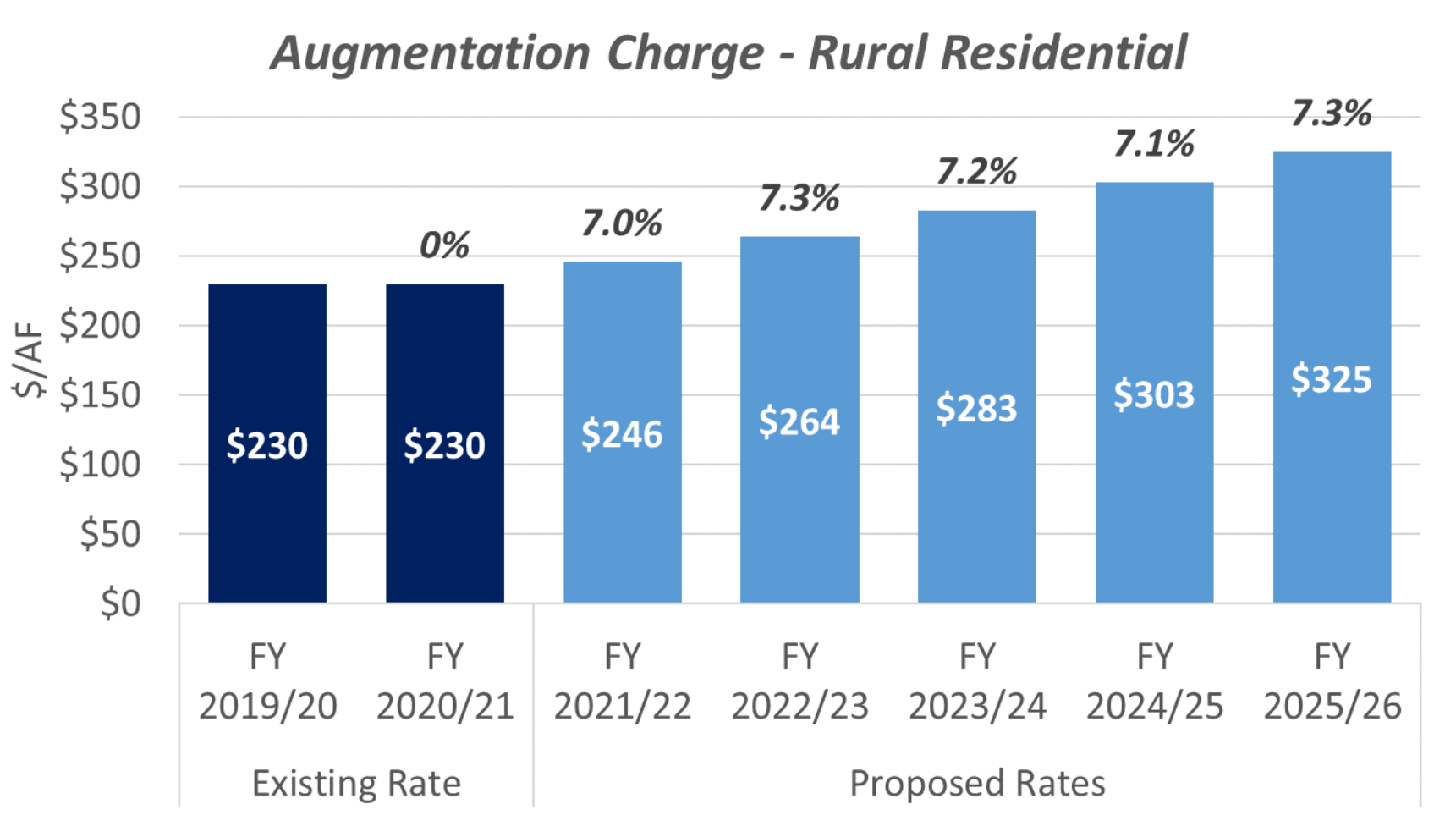
6-year Total Rate Increase*: **35.3%**

6-year Annual Average Rate Increase*: **5.9%**

*Under Scenario 2 (with $10M grant), total rate increase = **31.9%**, and annual avg. rate increase = **5.3%**

Scenario 1: Rates *without* $10M College Lake Grant Augmentation Charge – Rural Residential

**(billed for 0.5 AF/year)*

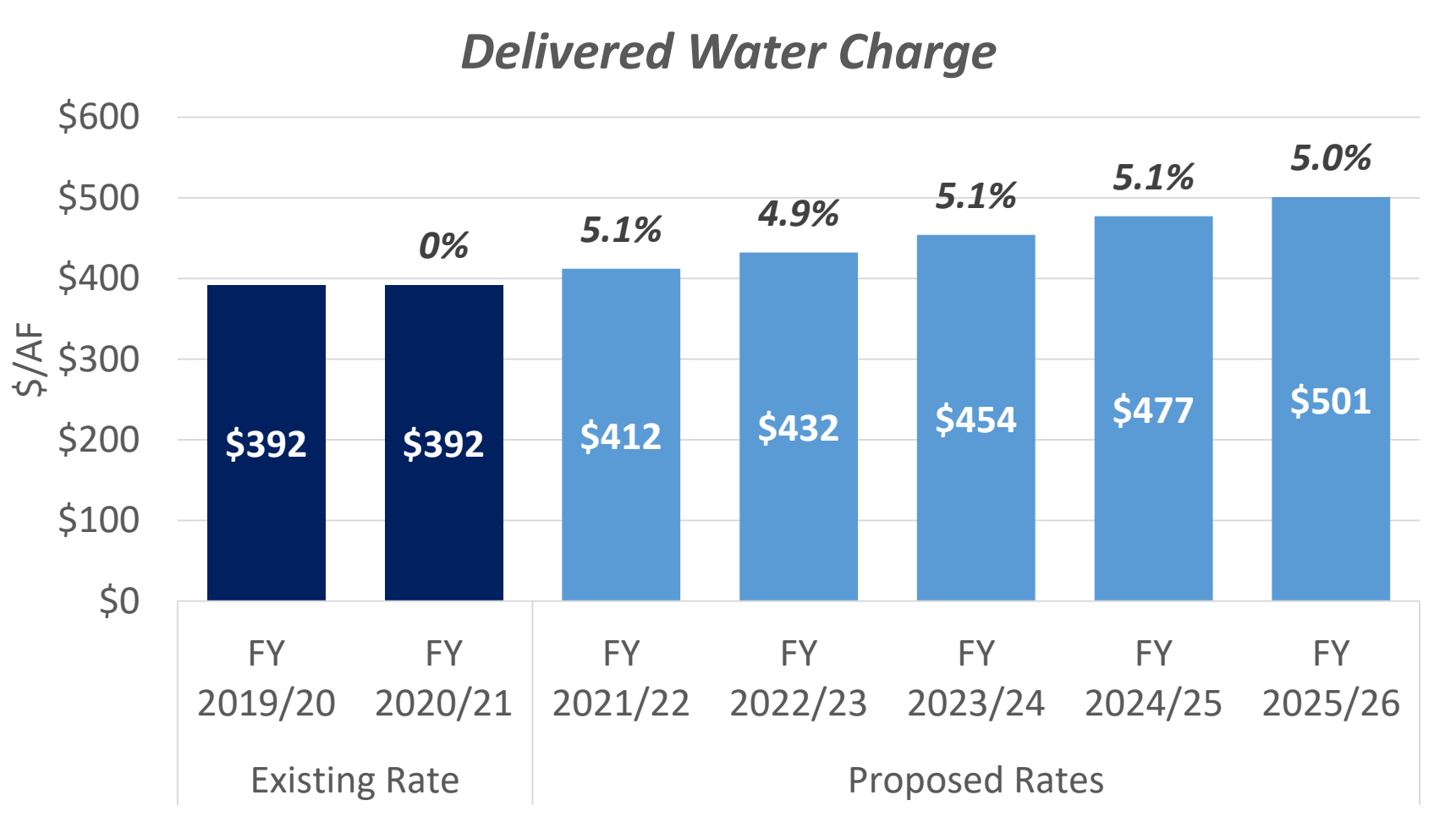


6-year Total Rate Increase*: **35.8%**

6-year Annual Average Rate Increase*: **6.0%**

*Under Scenario 2 (with $10M grant), total rate increase = **32.5%**, and annual avg. rate increase = **5.4%**

Scenario 1: Rates *without* $10M College Lake Grant Delivered Water Charge



6-year Total Rate Increase*: **25.1%**

6-year Annual Average Rate Increase*: **4.2%**

*Under Scenario 2 (with $10M grant), total rate increase = **22.2%**, and annual avg. rate increase = **3.7%**

Scenario 1: Rates *without* $10M College Lake Grant
Summary of Proposed Rates

Rate Class	FY 2019/20 Existing Rate	FY 2020/21 Existing Rate	FY 2021/22	FY 2022/23	FY 2023/24	FY 2024/25	FY 2025/26
Augmentation Charge – Inside DWZ	$338/AF	$338/AF	$363/AF	$391/AF	$420/AF	$452/AF	$486/AF
Augmentation Charge – Outside DWZ	$246/AF	$246/AF	$263/AF	$282/AF	$302/AF	$323/AF	$346/AF
Augmentation Charge – Rural Residential*	$115/ Residence	$115/ Residence	$123/ Residence	$132/ Residence	$142/ Residence	$152/ Residence	$163/ Residence
Delivered Water Charge	$392/AF	$392/AF	$412/AF	$432/AF	$454/AF	$477/AF	$501/AF

**Rural Residential users are billed for 0.5 AF/year*

Pajaro Valley Water Solutions

Current Legal Requirements and Process

Current Legal Requirements and Process

- PVWMA fee litigation history
  - *Pajaro Valley Water Management Agency v. Amrhein* (2007)
  - *Griffith v. Pajaro Valley Water Management Agency* (2013)
- Today will focus on…
  - Current legal requirements
    - Substantive requirements and limitations
    - Process
  - Changes since 2015

Legal – State Constitution

- Cal. Constitution articles XIII A, XIII C and XIII D govern local agency taxes, fees, and assessments
- XIII A, XIII C and XIII D added and amended by Props. 13 (1978), 218 (1996) and 26 (2010)
- XIII D – property-related service charges
  - Both substantive and procedural requirements
  - References to Prop. 218 usually mean this
- XIII C – fees and charges other than property-related charges
  - Just substantive requirements
  - References to Prop. 26 usually mean this

Legal – PVWMA Charges

- Two service charges
  - Delivered water charge (delivery of irrigation water in coastal zone)
  - Augmentation charge (groundwater pumping charge)
- Property-related service charges under Prop. 218?
  - Delivered water charge – clearly yes
  - Augmentation charge – uncertain
    - In *Griffith v. PVWMA* (2013), Court of Appeal concluded yes
    - Therefore, in 2015 treated as property-related service charge

Legal – *City of San Buenaventura v. United Water Conservation District* (2017)

- UWC District groundwater pumping charge imposed on well operators to fund groundwater replenishment and overdraft protection
- California Supreme Court decided
  - Groundwater pumping charge is not a property-related service charge subject to Prop. 218
  - *Griffith v. PVWMA* was wrong on this point
  - Pumping charge is subject to Prop. 26
  - Pumping charge is permissible "nontax fee," so long as it does not exceed the reasonable costs of providing the service and conferring the benefit

Legal – What now post-*San Buenaventura*?

- Delivered water charge
  - Property-related service charge subject to Prop. 218 substantive and procedural requirements
- Augmentation charge
  - Nontax fee subject to Prop. 26 substantive requirements
  - Also subject to substantive requirements in PVWMA Act
  - For procedure,
    - Nothing in constitution
    - PVWMA Act requires ordinance and noticed hearing, but does not specify hearing procedure
    - Government Code provides notice and hearing rules

Legal – Delivered Water Charge

- Substantive requirements
  - Revenue cannot exceed funds required to provide the service and cannot be used for any other purpose
  - Charge amount imposed on any parcel cannot exceed the proportional cost of service attributable to the parcel
  - Service must be used by or immediately available to the property
  - Charge cannot be imposed for general governmental services
- Process
  - Prepare service charge report
  - Identify the parcels subject to the charge

Legal – Delivered Water Charge

- Process (cont.)
  - Schedule public hearing
  - Mail public hearing notice to each affected parcel owner at least 45 days before hearing
  - Conduct public hearing and receive protests and comments
  - Determine whether there is majority protest
    - Majority protest = written protests against the charge submitted by majority of parcel owners
  - Abandon proceedings if majority protest
  - Adopt ordinance increasing the charge if no majority protest

Legal – Augmentation Charge

- Substantive requirements
  - Charge amount cannot be more than necessary to cover the reasonable costs of the governmental activity
  - Costs must be allocated in a manner that bears fair or reasonable relationship to the payor's burdens on, or benefits received from, the activity
  - PVWMA Act requirements, limitations, and findings
- Process
  - Prepare service charge report (combined with delivered water charge)
  - Schedule public hearing (to be coordinated with delivered water charge)

Legal – Augmentation Charge

- Process (cont.)
  - Public hearing notice
    - Publish twice in local newspaper of general circulation; first at least 10 days prior to the hearing date, and second 5 days later
    - Post on Agency website and in agenda posting location
    - Mail to anyone who's requested such notices
  - Conduct public hearing and receive comments
  - Adopt ordinance increasing the charge

Significantly, no majority protest proceeding

Schedule & Public Outreach Program

PV Water Solutions Process & Schedule

- June 2019: Board direction to Initiate Cost of Service Rate Study
- November 2019: Board forms Ad Hoc Funding Committee (AHFC)
- April 2020: Board direction to halt AHFC (COVID-19)
- August 2020: Board direction to reconvene AHFC
- Ad Hoc Funding Committee Meetings, Nov. 2020 through Feb. 2021
- By March 5, 2021
  - Mail delivered water charge public hearing / Proposition 218 notices greater than 45 days' notice ahead of April 21, 2021 Board meeting
- By April 11, 2021
  - Publish, post, and mail augmentation charge public hearing notices
- April 21, 2021 Board Meeting
  - Hold public hearing; receive and consider comments and (for delivered water charge) protests
  - Determine if a majority protest exists to Delivered Water rate increase
  - If no majority protest, Board may adopt the Delivered Water Rate Ordinance
  - Board may adopt the Augmentation Charge Rate Ordinance
- July 1, 2021 – If adopted new rates, would become effective

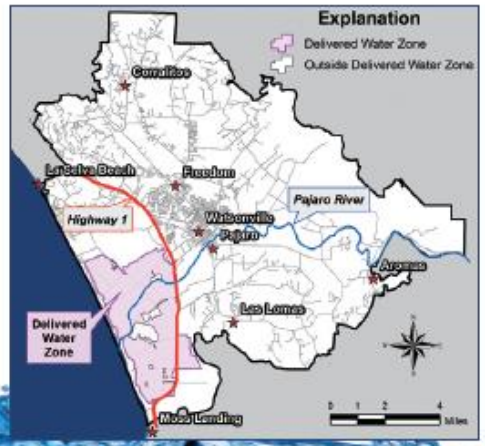
Type of Meeting	Meeting Frequency	Location
PV Water Board of Directors Meetings	February 17, March 17, & April 21	Via GoToMeeting, check the webpage for details
PV Water Administration & Finance Committee	March 9, & April 13	Via GoToMeeting, check the webpage for details
Farm Bureau Legislative Committee Meetings	March 3, & April 7	Via Farm Bureau Zoom
Rate Setting Workshops (Community Meetings)	Plan to host 3 meetings: Morning, Afternoon, & Evening (2 in March, 1 in April)	Via GoToMeeting, details to come.

Tri-Fold Flyer, 2015

The need for additional water supply projects has been well documented in the Basin Management Plan (BMP), and the ongoing drought has exacerbated the problem. The College Lake surface water project and programs like aggressive conservation are designed to tackle two major threats to the Pajaro Valley: groundwater overdraft and seawater intrusion.

Existing Revenues

Revenues are primarily generated by user charges (pumped groundwater or augmentation charges and delivered water charges for irrigation supply in the coastal areas). Existing rate revenues of roughly $11 Million are insufficient to support the planned BMP projects. Additionally, revenues are expected to fall as conservation programs are expanded and water use declines from current drought levels.

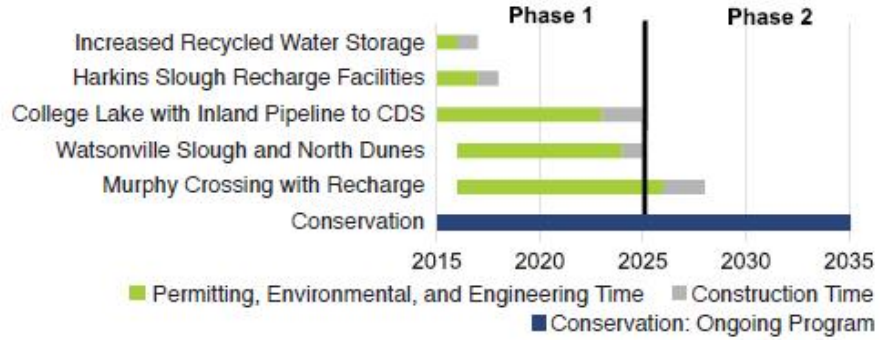


Existing Expenditures

The Agency's existing expenditures are categorized into 5 components:
(1) Administration
(2) Operations, including Recycled Water Supply, and Coastal Distribution System (CDS)
(3) Metering
(4) Basin Management Planning; and
(5) Capital Projects. Forecasted Fiscal Year 14/15 expenditures are $11.5 Million.

Basin Management Plan Capital Projects

New rates are based on the approved BMP projects and proposed timetable. Construction of these projects is projected to be debt funded. Although the Agency has received grant funding for past projects, grants or low-interest loans were not assumed. Should the Agency receive grants or low interest loans, it may be possible to lessen the rate increases.

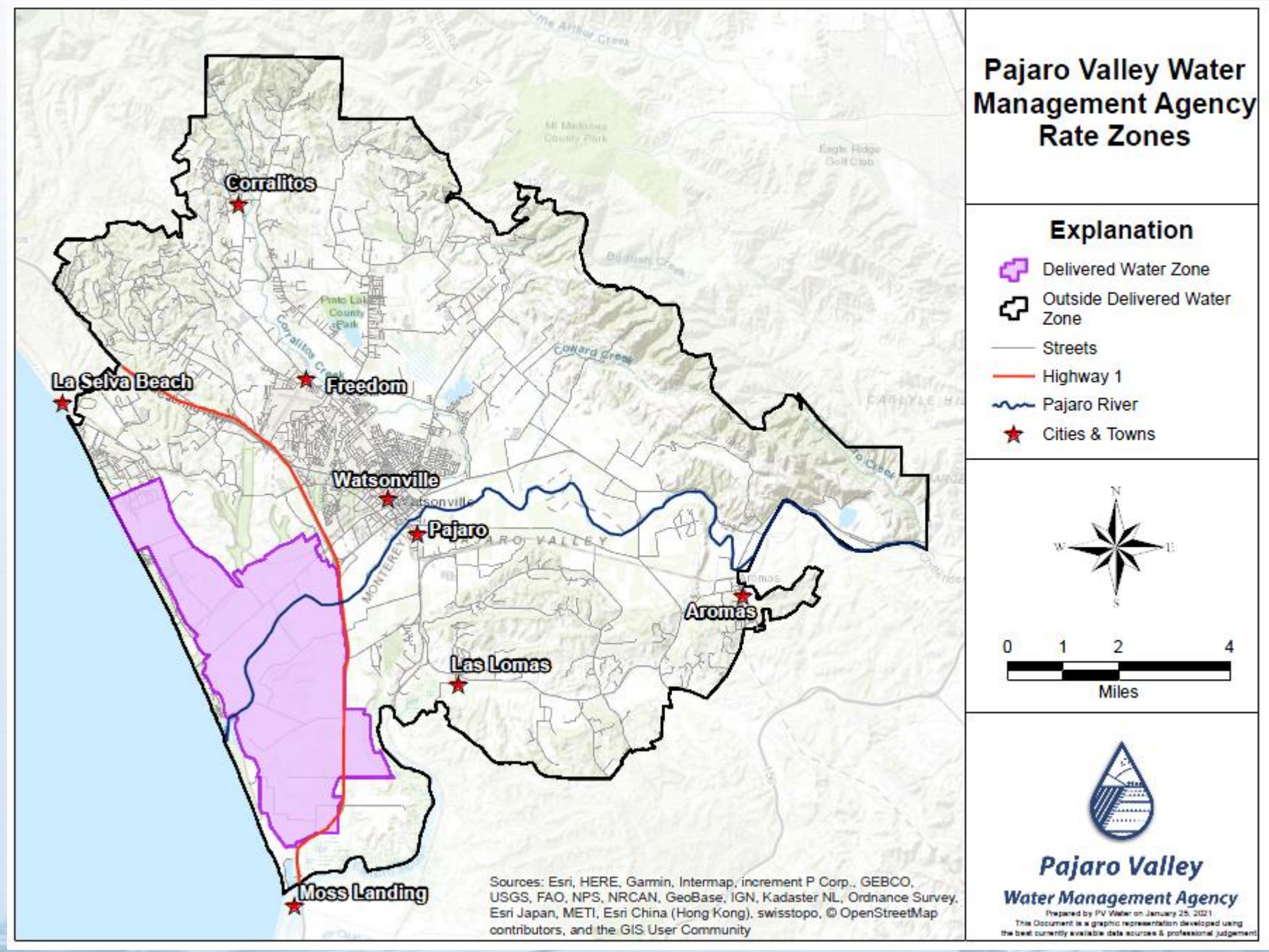


User Group	Current FY 2014/15 Rates	Proposed FY 2015/16 Rates	Proposed FY 2019/20 Rates
Augumentation Charge, Metered Users - Outside Delivered Water Services Area	$179/AF	$191/AF	$246/AF
Augumentation Charge, Metered Users - Inside Delivered Water Services Area	$215/AF	$235/AF	$338/AF
Augumentation Charge, Unmetered[1] - (Rural Residents)	$102/year per residence	$92/year per residence	$115/ year per residence
Delivered Water Charge	$338/AF	$348/AF	$392/AF

Note: 1. Unmetered Customers are now charged for an estimated annual consumption of 0.6 AF per year for each known residence connected to an unmetered well. The proposed rate estimates 0.5 AF consumption due to conservation.

AF = Acre Feet = 325,851 gallons of water

Delivered Water Zone, with F-Pipeline Service Area



Be Involved

Type of Meeting	Meeting Frequency	Location
PV Water Board	Typically meets on the third Wednesday of the Month	Via GoToMeeting, check the webpage for details
PV Water Administration & Finance Committee	Typically meets on the second Tuesday of the Month	Via GoToMeeting, check the webpage for details
PV Water Projects & Facility Operations Committee	Typically meets on the last Wednesday of the Month	Via GoToMeeting, check the webpage for details
Ad Hoc Sustainable Groundwater Planning Advisory (GSU22) Committee	Typically meets on the second Thursday of the Month	Via GoToMeeting, check the webpage for details

Thank you.

Comments / Questions?

Visit our website: pvwater.org
Email: lockwood@pvwater.org