PV Water Funding Solutions to Achieve Sustainable Groundwater Resources

Proposed Cost of Service Increases
Board of Directors Meeting

April 21, 2021, 7:00 p.m. - GoToMeeting

Phone Access: 1 (877) 309 2073; Code: 347-473-301#

Internet Access: https://www.gotomeet.me/PVWater/board-of-directors

Pajaro Valley Water Management Agency

Presentation Outline

- Background Information
- BMP Implementation Revenue Needs and Proposed Rates
- Proposed Rates to meet Revenue Needs
- Current Legal Procedures for the Increase of Agency Service Charges
- Questions

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
- February 17, 2021: Board adopted Cost of Service Rate Study & Procedures Resolution
- March 2, 2021: Mailed delivered water charge public hearing / Proposition 218 notices (met requirement of mailing notices greater than 45 days' notice ahead of April 21, 2021 Board meeting)
- April 2 and 9, 2021: Published augmentation charge public hearing notices in Pajaronian and on www.PVWater.org
- 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

Meetings Where Rates Have Been Discussed

Meeting	Meeting Date
PV Water Board of Directors Meetings (7:00 p.m.)	February 17, March 17, & April 21
PV Water Administration & Finance Committee (3:00 p.m.)	March 9, & April 13
Farm Bureau Legislative Committee Meetings (11:30 a.m.)	11:30 am on March 3, & April 7
Rate Setting Workshops	March 18 at 3:00 p.m. March 23 at 8:00 a.m. April 7 at 7:00 p.m.

Fact Sheet

PV Water · Funding Pajaro Valley Water Solutions

Purpose

The Pajaro Valley Water Management Agency (PV Water) is proposing new rates effective July 2021. The new rates are required to fund the implementation of critical water supply projects and programs needed to achieve sustainable groundwater resources in the Pajaro Valley as mandated by the Sustainable Groundwater Management Act. The 2014 Basin Management Plan (BMP) Update documents the need for additional water supply projects. The College Lake Integrated Resources Management Project, the Watsonville Slough System Managed Aquifer Recharge & Recovery Projects, and water conservation programs are designed to tackle major threats to the Pajaro Valley: groundwater overdraft, seawater intrusion, and groundwater quality degradation.

Existing Revenues and Expenditures

Revenues are primarily generated by consumer charges (pumped groundwater or augmentation charges and delivered water charges for irrigation supply in the coastal areas). Rate revenues as documented in the Fiscal Year 2019/20 Audited Financial Statements was $14.7 million. Forecasted revenues between Fiscal Years Ending June 30, 2021 and June 30, 2026 of approximately $72.9 million are insufficient to support the planned BMP projects.

The Agency's existing expenditures are categorized into 5 components: 1) Administration; 2) Operations, including the supplemental water production and delivery through the Coastal Distribution System (CDS); 3) Metering; 4) Basin Management Planning; and 5) Capital Projects. Forecasted expenditures between Fiscal Years Ending June 30, 2021 and June 30, 2026 are approximately $140.4 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 PV Water has received grant funding for past projects, grants or low-interest loans were not assumed. Should PV Water receive grants or low interest loans, it may be possible to lessen the rate increases.

2021 Cost of Service Rate Study

The purpose of the Rate Study is to evaluate, explain, and substantiate the Agency's revenue needs and proposed new augmentation and delivered water charges. The Rate Study also serves to provide the documentation necessary to meet Proposition 26, Proposition 218, and other legal requirements. The Rate Study is available online at the following location: https://www.pvwater.org/images/2021-Cost-of-Service-Rate-Study-Final_Feb.2021_Final.pdf

Existing & Proposed Rates

Rate Class	FY 2019/20 Existing Rate	FY 2020/21 Existing Rate	FY 2021/22 Proposed	FY 2022/23 Proposed	FY 2023/24 Proposed	FY 2024/25 Proposed	FY 2025/26 Proposed
Augmentation Charge – Inside DWZ	$338/AF	$338/AF	$363/AF	$391/AF	$420/AF	$452/AF	$486/AF
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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 0.5 AF/year*

PV Water · Frequently Asked Questions - Rate Setting

Why are rate increases necessary?

Revenues are currently insufficient to fund projects and programs necessary to address groundwater overdraft and seawater intrusion and achieve sustainable groundwater resources. The need for additional water supply projects has been well documented in the BMP. Drought conditions further heighten the need to create additional water sources and increase conservation. The proposed rates are designed to provide funding to initiate these critical projects.

Was the same methodology utilized in the 2015 Rate Setting Process?

Yes, the cost of service allocation completed in this study follows the same methodology that was used in the 2015 Proposition 218 Service Charge Report and affirmed by the California Court of Appeal in the Pendry-Griffith Decision. The methodology follows the principles developed by the American Water Works Association.

Will we have to repeat this process in five years?

Five years of rates are being proposed. The proposed FY 2025/26 (year 5) rates will remain in place until another Study is performed. Each year's noticed rate is the maximum rate the Agency can charge.

Will the rates change annually based on inflation?

No, the rates have built-in cost escalators to fund on-going Operations and Maintenance and projected debt and capital costs. The rates cannot exceed the rates noticed for that fiscal year. The PV Water Board always has the option of limiting the increase, should additional revenues not be necessary (for instance if grants are received to fund proposed projects). PV Water pursues available grant funding aggressively and has had great previous success.

When do the new rates become effective?

The new rate structure would be timed to go into effect with the beginning of the next fiscal year, which is July 1, 2021. Each subsequent increase would also be implemented on July 1.

How often am I billed?

The billing schedule will remain as it is now: quarterly for metered well users and annually for rural residential accounts.

What measures did the Agency take to gather community input?

The rate change recommendations were presented to and reviewed by a community-based Ad Hoc Funding Committee.

Where can I learn more?

Please visit pvwater.org for more information, or call the office at (831) 722-9292. The Board of Directors monthly meetings are held on the third Wednesday of the month at 7:00 p.m., presently by teleconference due to COVID-19. Please check the website or call the office to confirm the board meeting date, time, and location.

PV Water Board of Directors

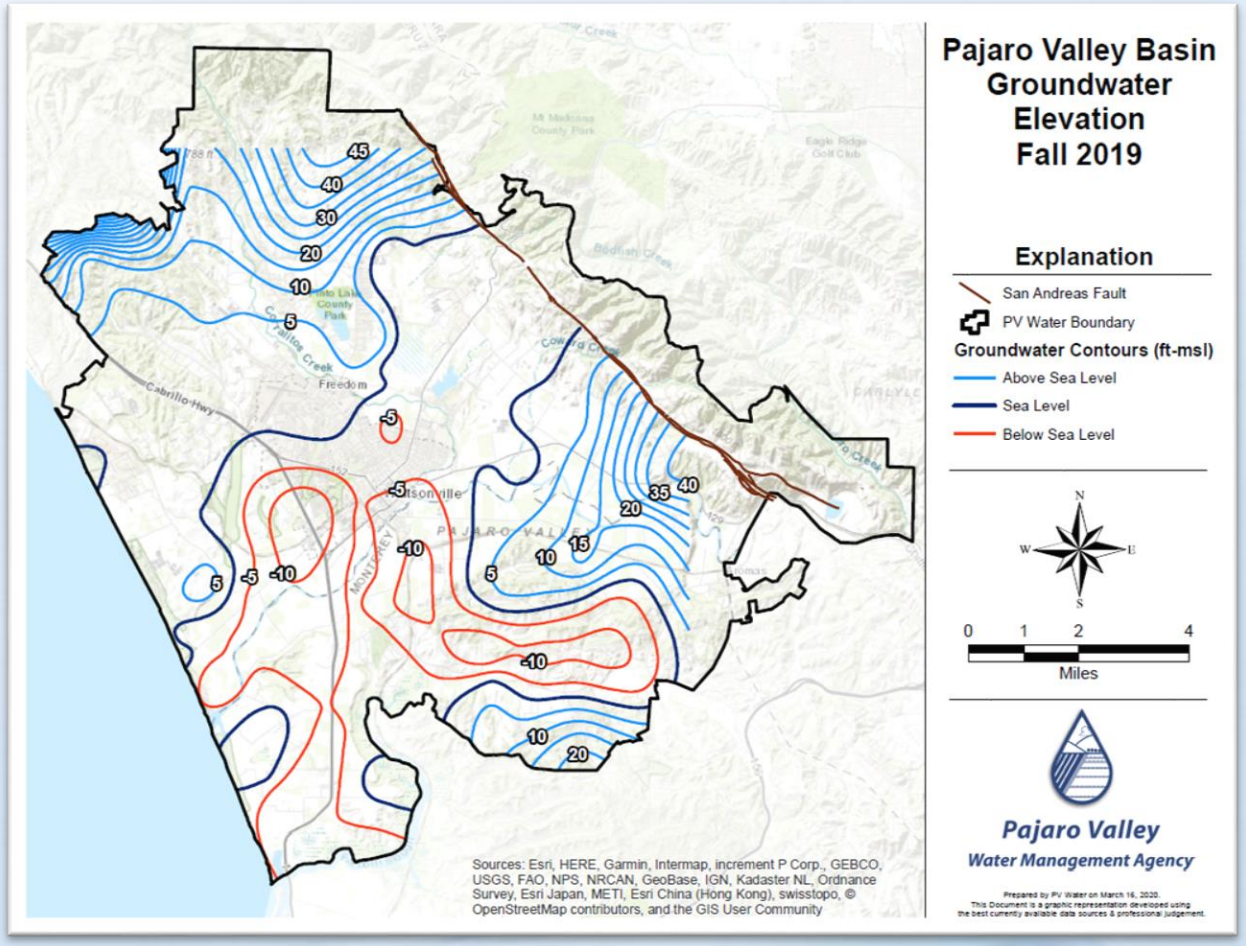
Elected
Amy Newell, Chair, Division C
Bob Culberson, Vice Chair, Division D
Mary Bannister, Division A
Stephen Rider, Division B

Appointed
Javier Zamora, Monterey County
Tom Broz, Santa Cruz County
Vacant, City of Watsonville

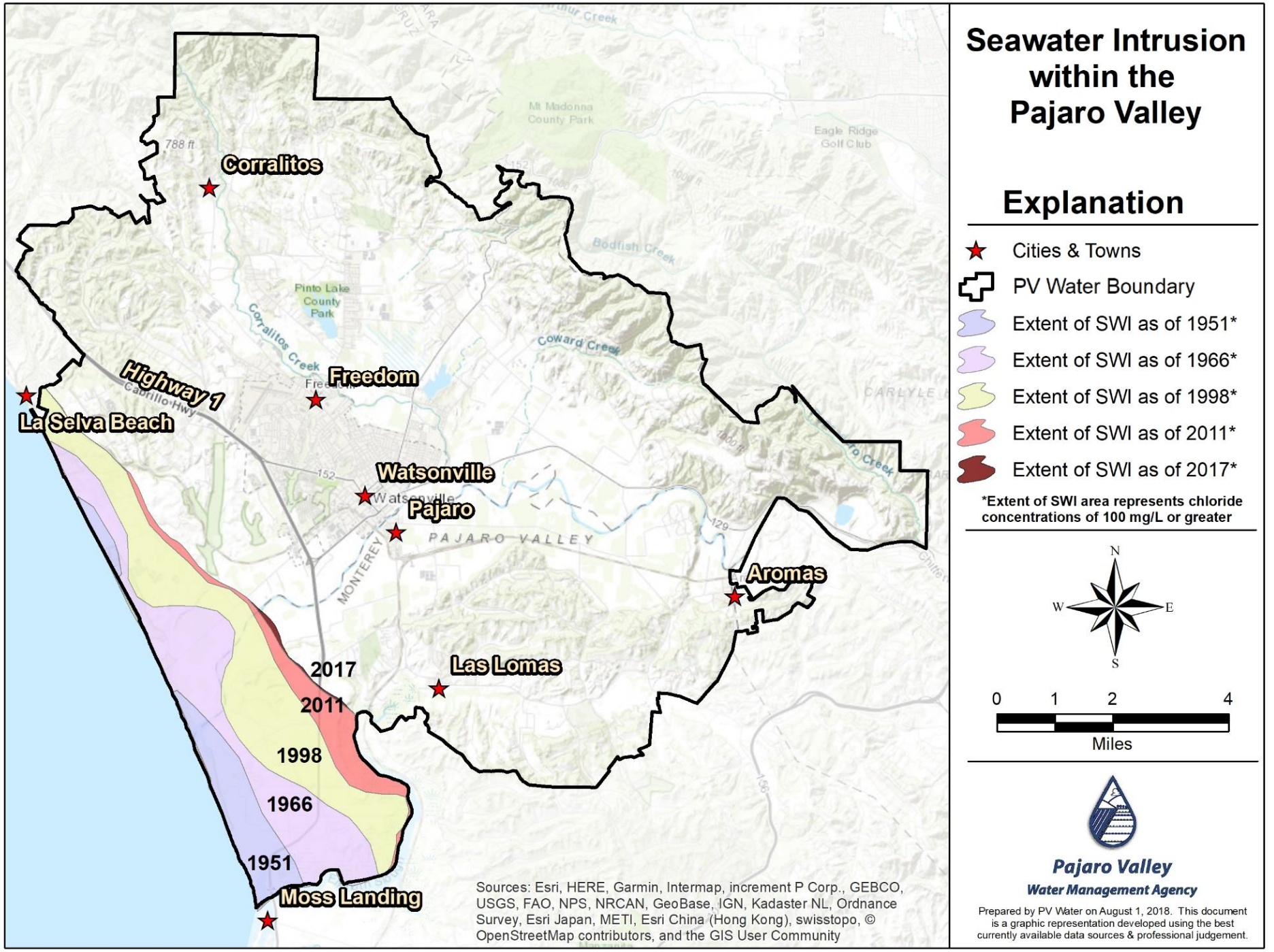
PV Water is a public agency whose mission is to protect and preserve the water resources within the agency's jurisdiction, generally the greater coastal Pajaro Valley. Please call the office at (831) 722-9292 or visit our website at pvwater.org for more information.

Sustainable Groundwater Management Act

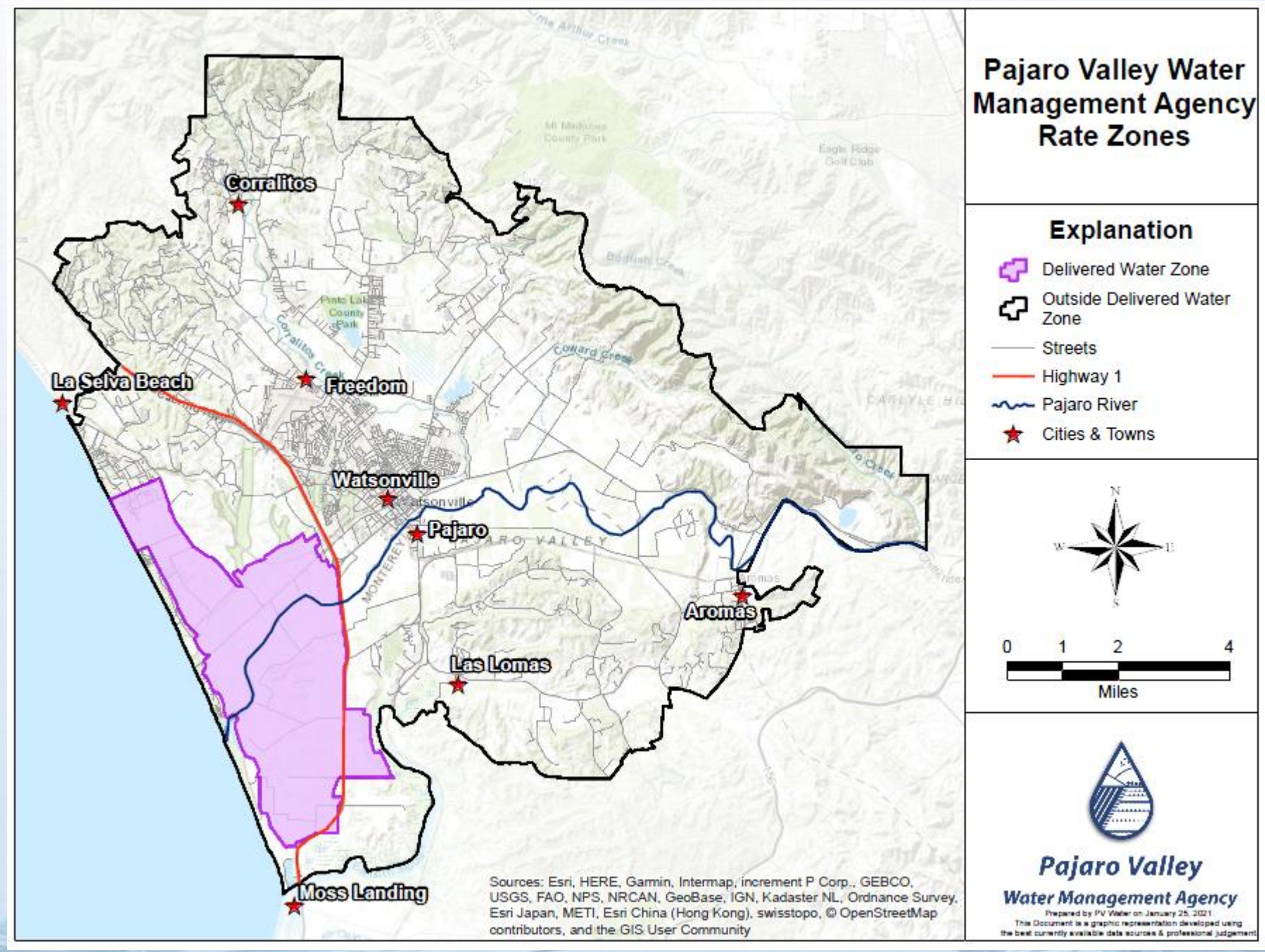
- The Sustainable Groundwater Management Act (SGMA - September 2014) requires that high priority, critically overdrafted groundwater basins such as the Pajaro Valley Basin achieve sustainable groundwater resources by 2040.
- If not, the State Water Resources Control Board has the authority to impose pumping restrictions to achieve sustainability.



**** To maintain local control, we need to achieve sustainable groundwater resources.***


Seawater Intrusion within the Pajaro Valley
Explanation
Cities & Towns
PV Water Boundary
Extent of SWI as of 1951*
Extent of SWI as of 1966*
Extent of SWI as of 1998*
Extent of SWI as of 2011*
Extent of SWI as of 2017*
*Extent of SWI area represents chloride concentrations of 100 mg/L or greater
N
W
E
S
0 1 2 4
Miles
Corralitos
Freedom
Highway 1
La Selva Beach
Watsonville
Pajaro
PAJARO VALLEY
Aromas
Las Lomas
Moss Landing
2017
2011
1998
1966
1951
Mt Madonna County Park
Eagle Ridge Golf Club
Pinto Lake County Park
Corralitos Creek
Bodfish Creek
Coward Creek
MONTEREY
Sources: Esri, HERE, Garmin, Intermap, increment P Corp., GEBCO, USGS, FAO, NPS, NRCAN, GeoBase, IGN, Kadaster NL, Ordnance Survey, Esri Japan, METI, Esri China (Hong Kong), swisstopo, © OpenStreetMap contributors, and the GIS User Community
Pajaro Valley
Water Management Agency
Prepared by PV Water on August 1, 2018. This document is a graphic representation developed using the best currently available data sources & professional judgement.

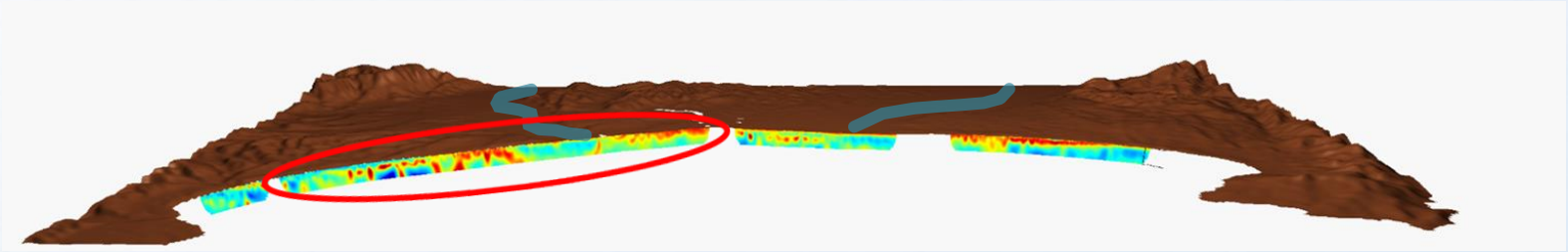
Delivered Water Zone, with F-Pipeline Service Area

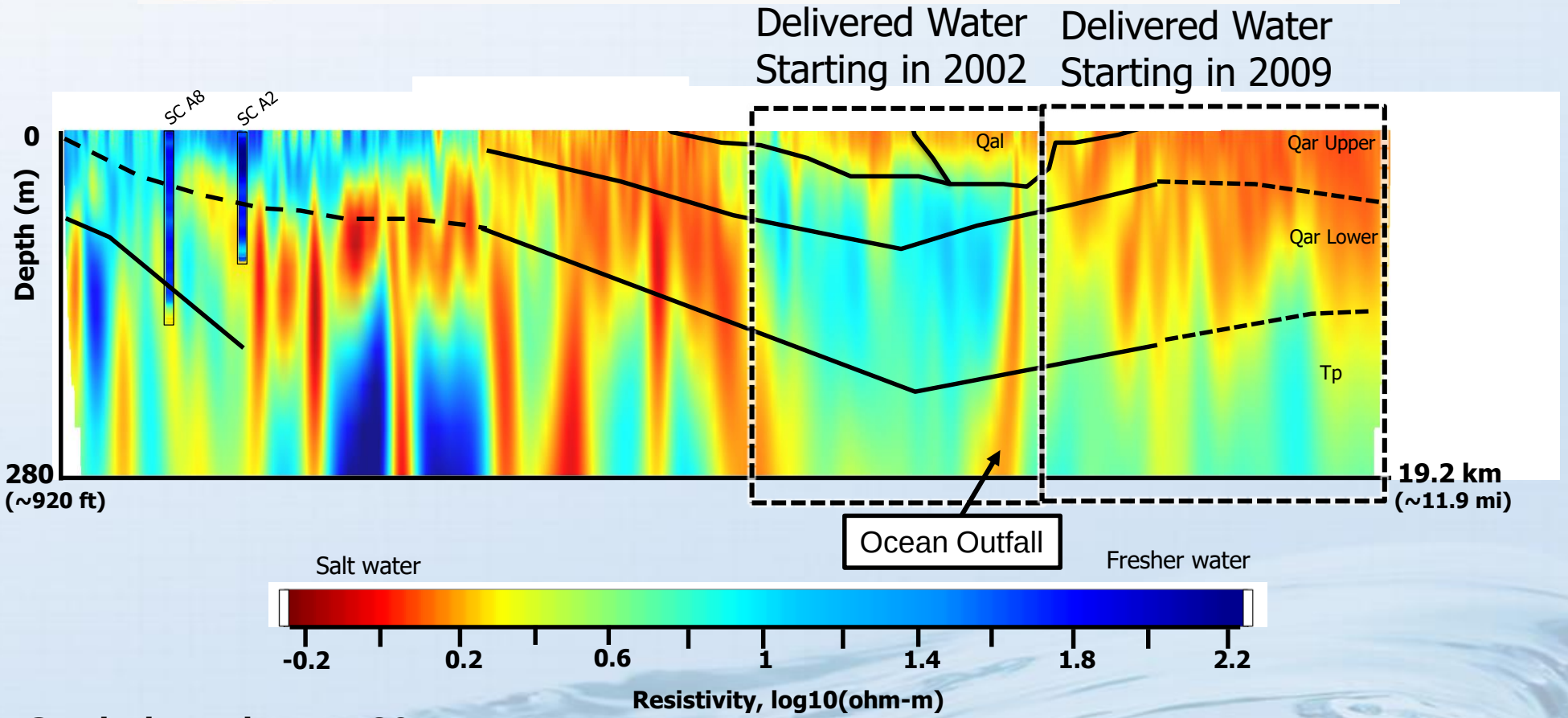


Existing Water Supply Facilities to Reduce Overdraft & Seawater Intrusion

- **Harkins Slough Facility**
  - Managed Aquifer Recharge & Recovery
  - Stream flow diversion
  - 10,000 AF recharged since 2002
- **Recycled Water Facility**
  - 4,000 AFY irrigation season capacity since 2009
  - Drought tolerant supply
  - Reduces discharge of secondary effluent to marine sanctuary
- **Coastal Distribution System**
  - Over 21 miles of water conveyance pipeline
- **Blend Supplies**

Geophysical Survey Shows Improvements

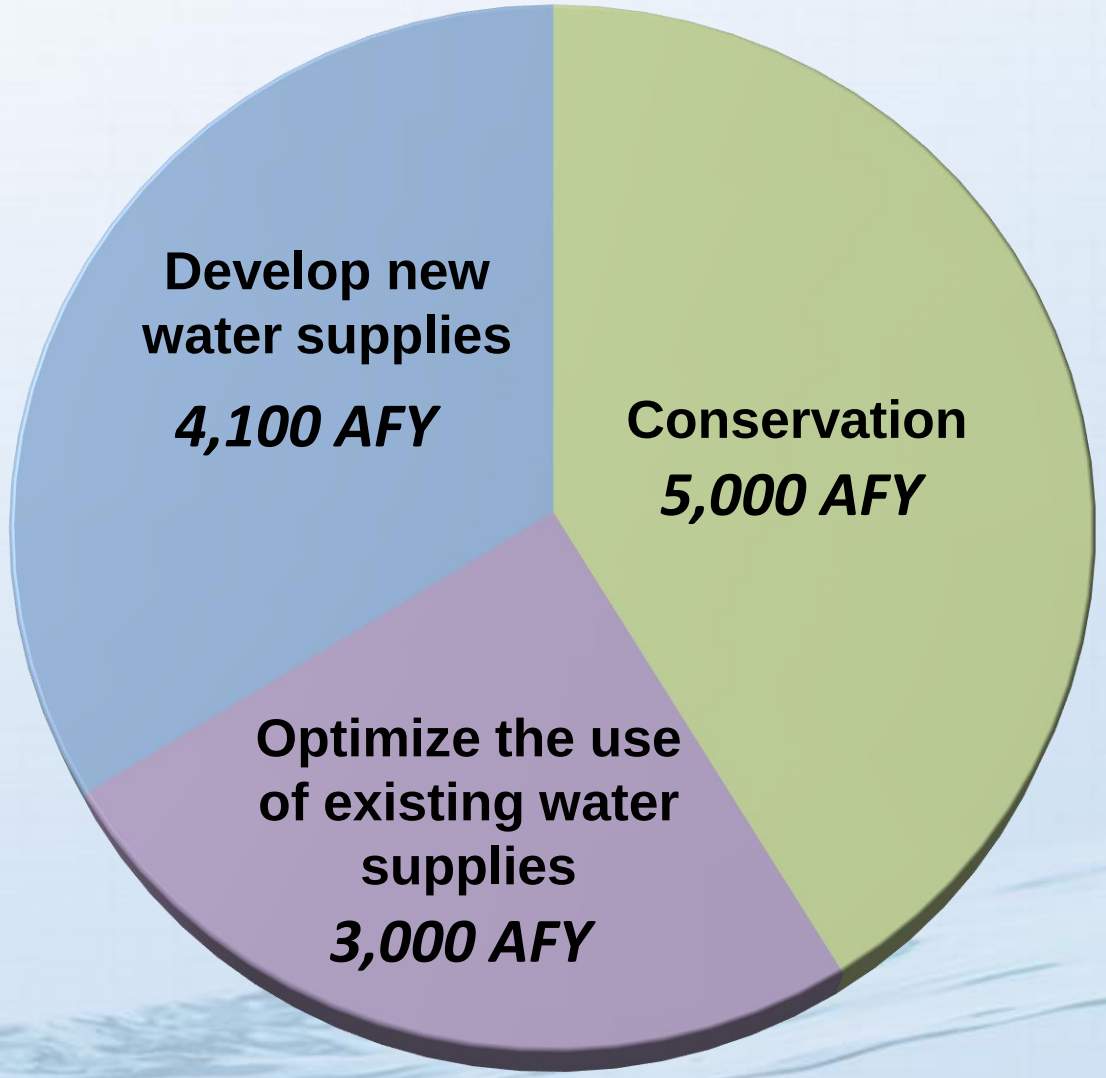




Goebel, et al, JoH, 2017

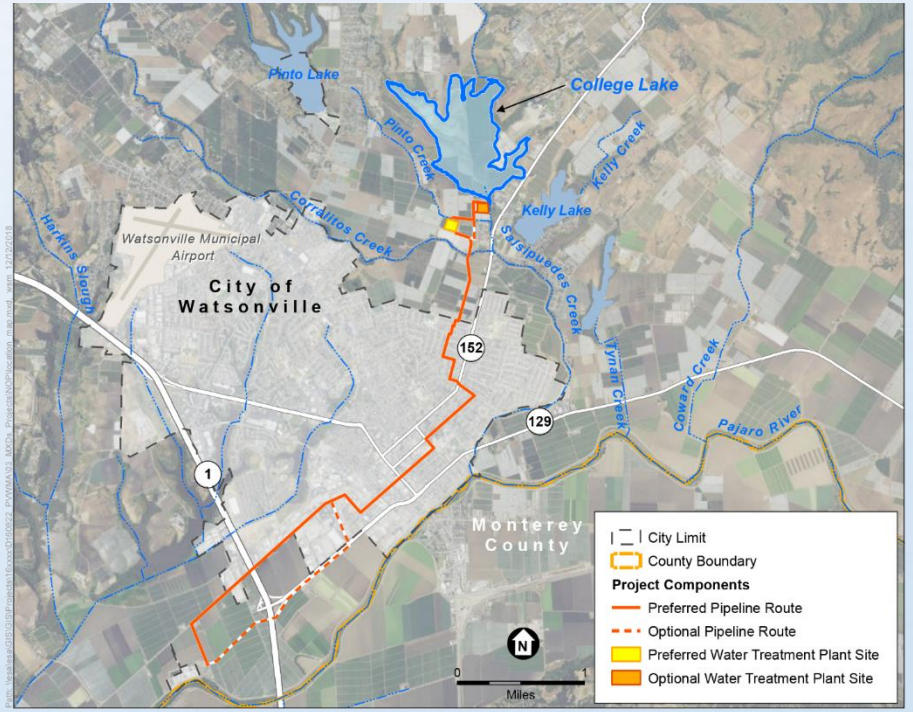
Geologic Cross Section: Hanson et al., 2002; Brabb et al., 1997

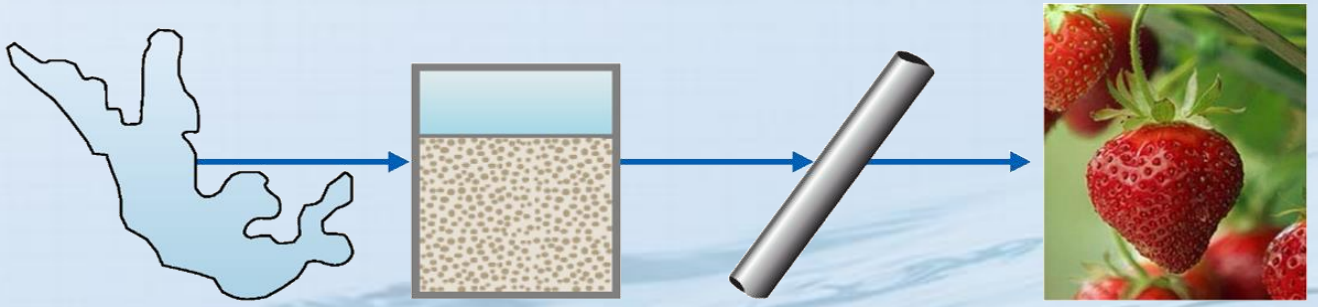
Basin Management Plan Update
contains three primary components to achieve 12,100 ac-ft/yr



College Lake Integrated Resources Management Project

- Projected Yield: 1,800 to 2,300 AFY
- Water Storage Area (285 acres, 1764 AF)
- Weir Structure, Screened Intake, and Pump Station
- Water Treatment Plant (~5 acres)
- Pipeline (~6 miles)

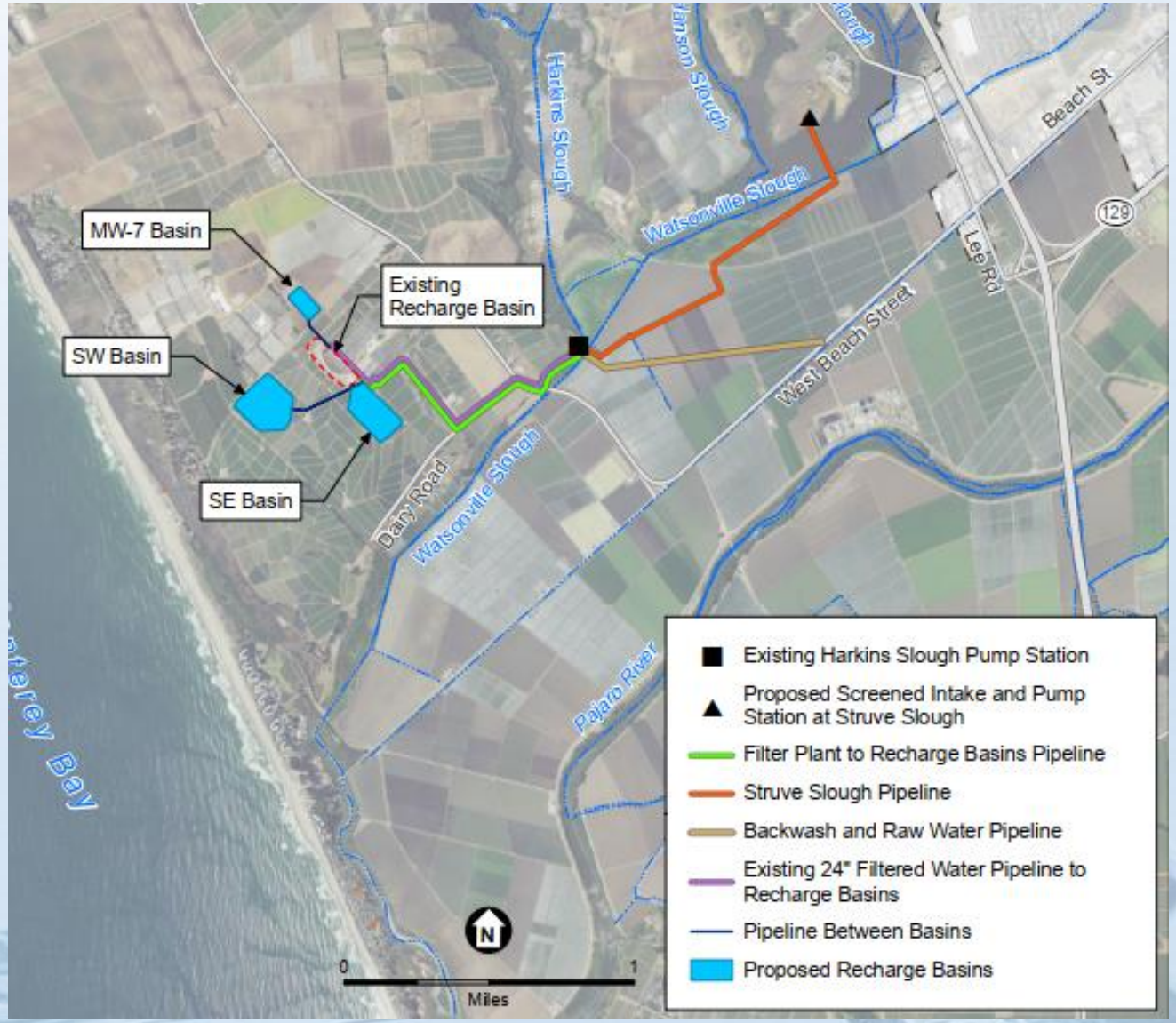




Source Treatment Conveyance End Users

Watsonville Slough System Managed Aquifer Recharge and Recovery Projects

- Harkins Slough Facilities Upgrade Project
- Struve Slough Project
- Goals:
  - Diversion, recharge & recovery of up to 4,000 AFY



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)

Consultant 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

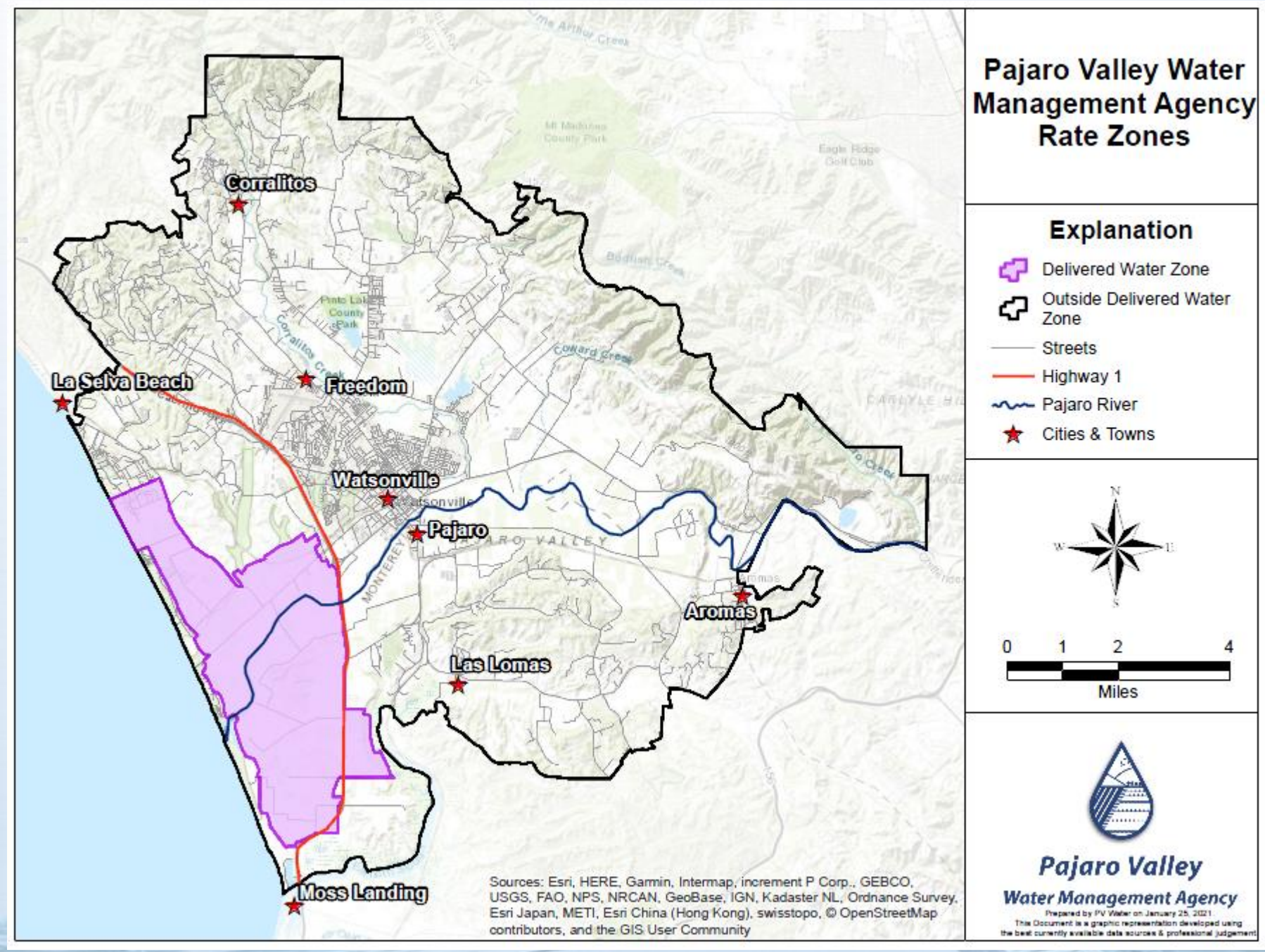
Capital Project	FY 2020/21	FY 2021/22	FY 2022/23	FY 2023/24	FY 2024/25	FY 2025/26	TOTAL
Harkins Slough Recharge Facilities Upgrades	$0	$1,530,000	$1,850,000	$1,930,000	$4,100,000	$0	**$9,410,000**
Struve Slough with Recharge Basins	220,000	1,080,000	-	11,800,000	-	-	**$13,100,000**
College Lake	3,673,000	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
Cash on Hand	9,343,055	-	-	-	-	-	$9,343,055
Total Capital Funding Sources	**$14,536,151**	**$1,713,301**	**$2,162,500**	**$0**	**$0**	**$0**	**$18,411,952**

Total Remaining Capital Funding Need	**~ $77.2 million**

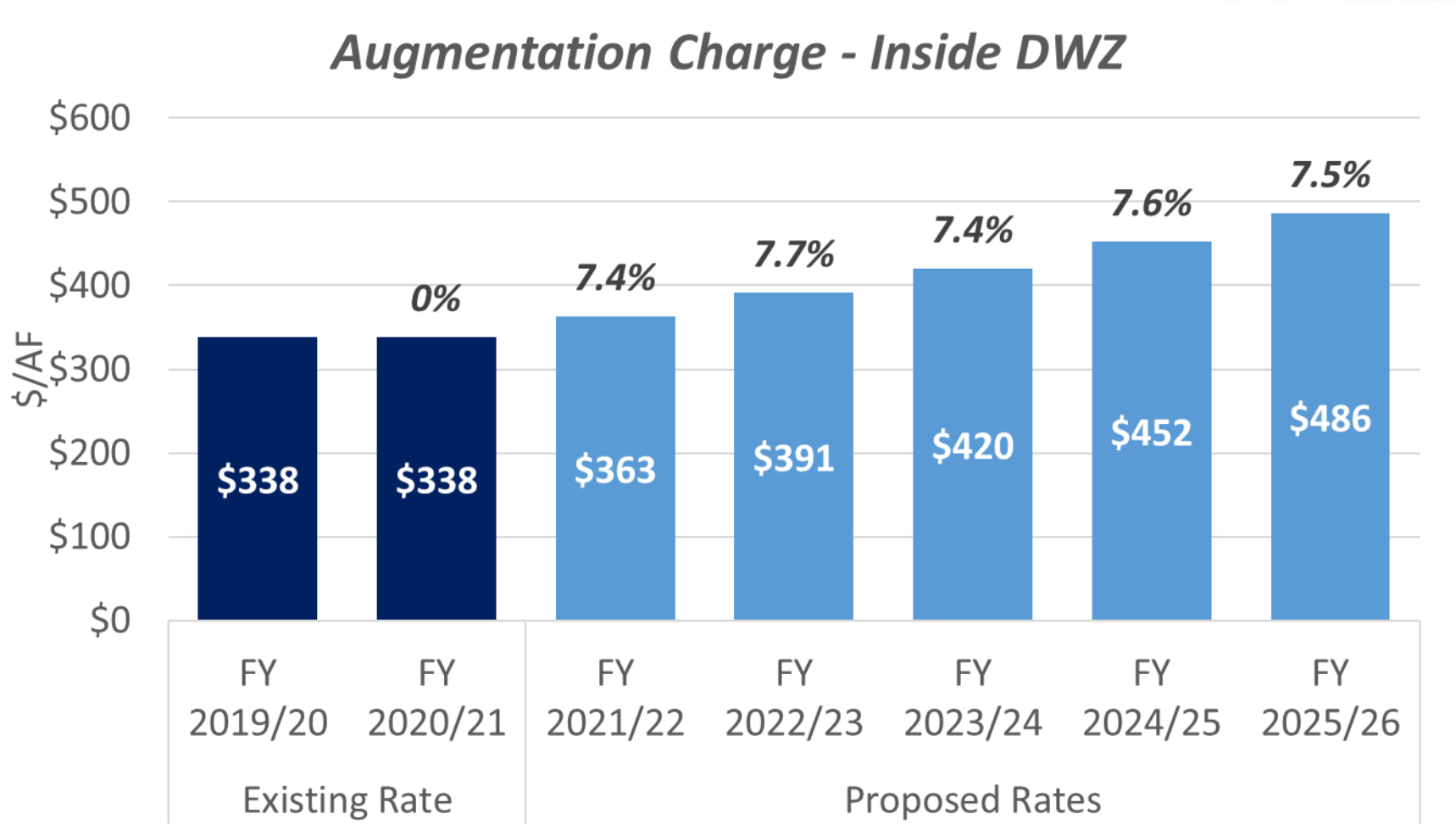
**Excludes restricted reserves. Cash on hand can be used in any fiscal year, as needed.*

Delivered Water Zone, with F-Pipeline Service Area



Augmentation Charge – Inside DWZ

Proposed rates assuming no new grants

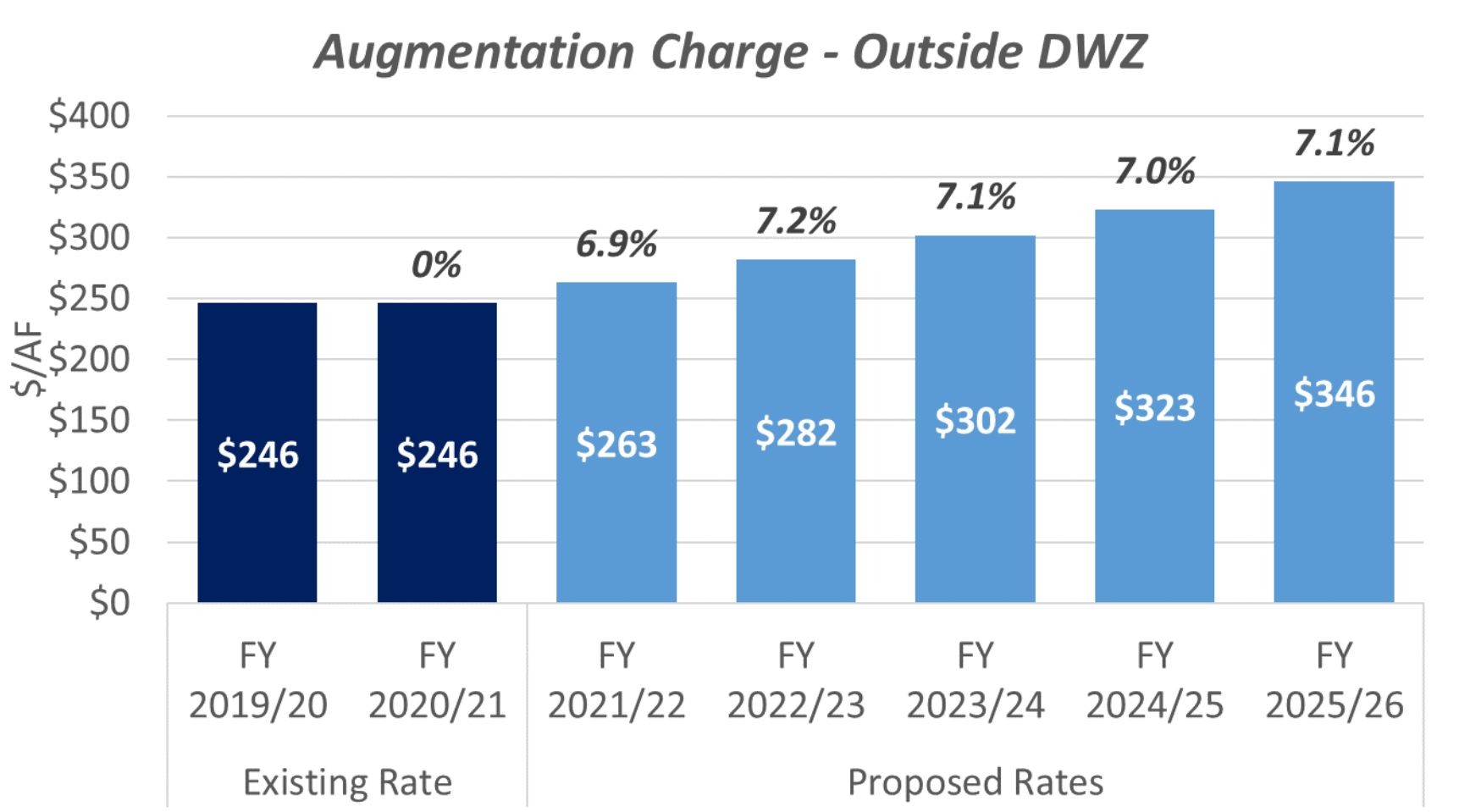


6-year Total Rate Increase*: **37.7%**

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

Augmentation Charge – Outside DWZ

Proposed rates assuming no new grants

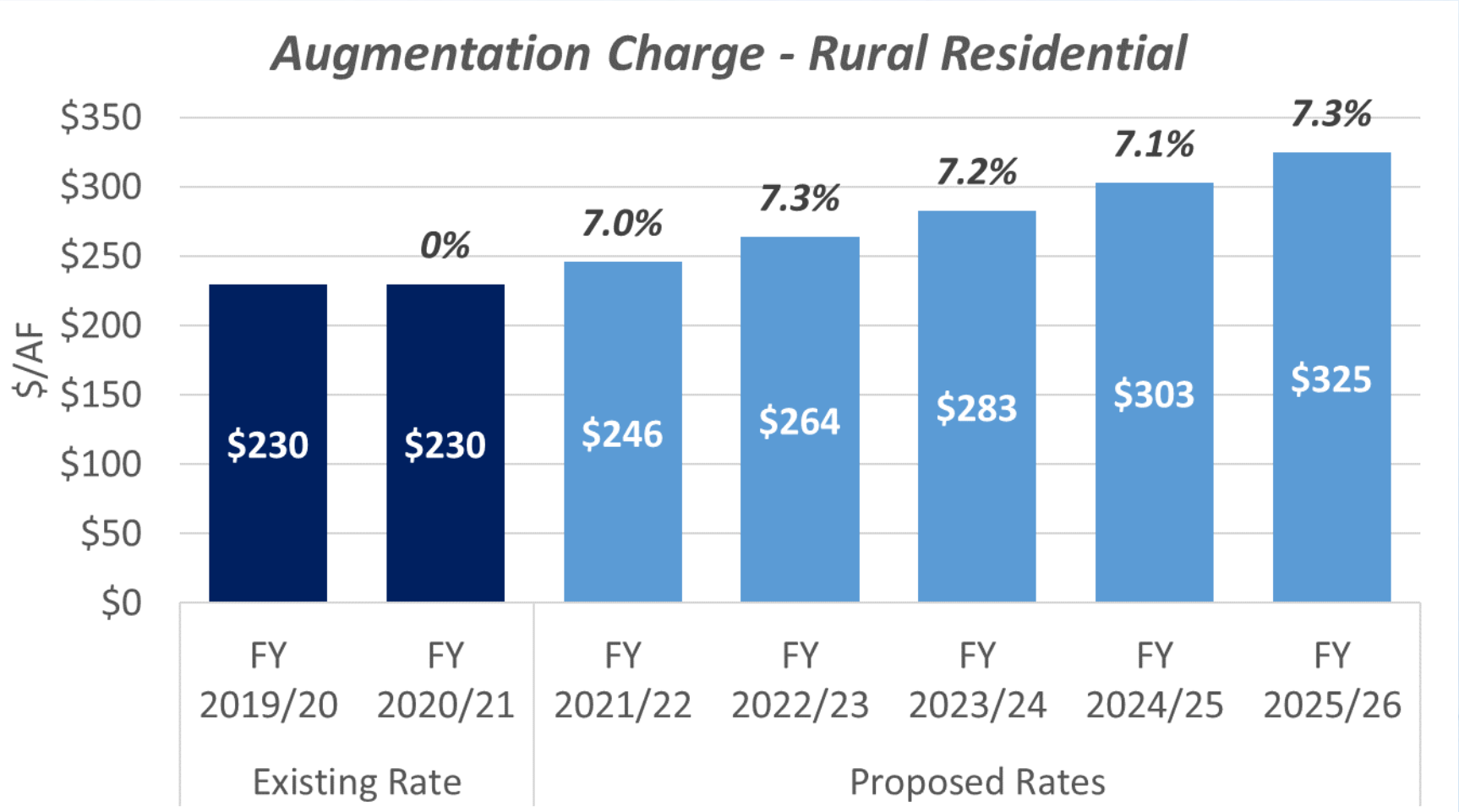


6-year Total Rate Increase*: **35.3%**

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

Augmentation Charge – Rural Residential

Proposed rates assuming no new grants



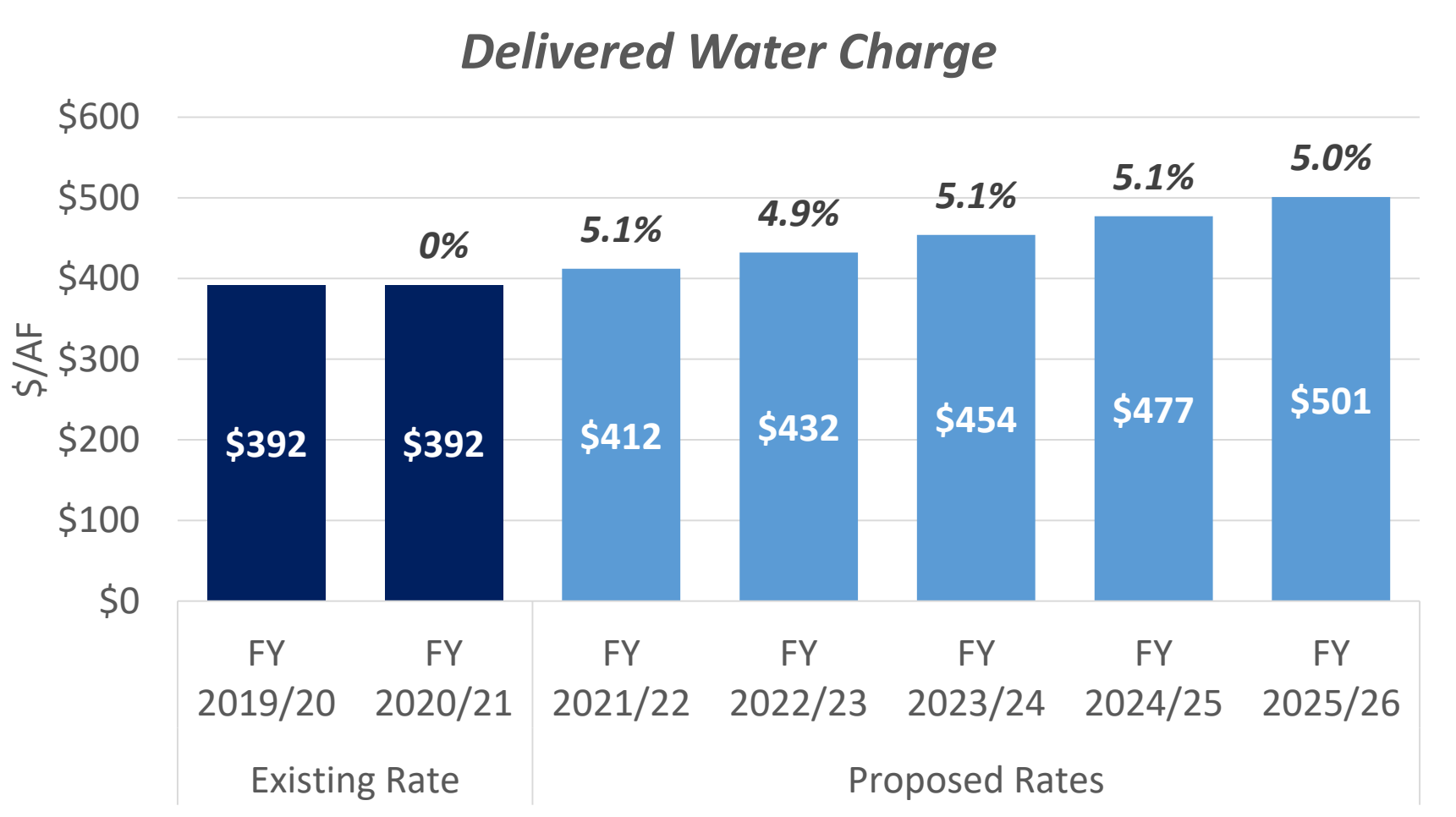
6-year Total Rate Increase*: **35.8%**

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

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

Delivered Water Charge

Proposed rates assuming no new grants



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

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

Summary of Proposed Rates

Rate Class	FY 2019/20 Existing Rate	FY 2020/21 Existing Rate	FY 2021/22 Proposed	FY 2022/23 Proposed	FY 2023/24 Proposed	FY 2024/25 Proposed	FY 2025/26 Proposed
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Thank you.

Comments / Questions?

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