2026 Cost of Service Rate Study

Board of Directors Meeting

June 17, 2026

carollo

Pajaro Valley Water Management Agency

Ad-hoc Rate-setting Committee provided input throughout study

- **Chair:** Kirk Schmidt, *Santa Cruz County Farm Bureau*
- **Vice Chair:** Stephen Rider, *PV Water Board of Directors*
- Tom Broz, *PV Water Board of Directors*
- CJ Miller, *PV Water Board of Directors*
- Beau Kayser, *City of Watsonville*
- Robert Rodoni, *Monterey County Farm Bureau*
- Alan Thorne, *Coastal Landowner*
- Don Olsen, *Water District Representative*
- Paul Lego, *Water Mutual Representative*
- John Larse, *Coastal Water User*
- Doug Daykin, *Rural Residential*
- Aaron Dillon, *Inland Landowner*
- Richard Opie, *Inland Water User*
- Robert Wall, *Small / Beginning Grower*
- Two seats vacant, *Industrial & At-Large*

PV Water staff and Carollo met with Committee throughout the study

Nov. 13, 2025

- State of the Basin
- Capital needs
- Overview of 2021 study
- Rate-setting process

Jan. 27, 2026

- Revenue requirement scenarios
- Introduction to cost of service

March 19, 2026

- Updated revenue requirements
- Cost allocations
- Preliminary rates

May 28, 2026

- Rural residential usage
- Updated revenue increases
- Proposed rates

Summary of Important Committee Discussions

Differences between Delivered Water, Outside DWZ Augmentation, and Inside DWZ Augmentation Charges

- Motion to eliminate Inside DWZ Augmentation Charge was seconded but failed by vote
- Motion to recommend the rates as presented at the May 28 meeting was seconded and passed by vote

Evaluation of existing and updated Capital Project Unit Costs

- Committee expressed concerned over escalating costs relative to benefits

Updated Rural Residential Consumptive Use Estimate

- Previous estimate of 0.5 acre-feet per residence was based on 2009-2013 data and used for 2015 and 2021 studies
- Reduced to 0.4 acre-feet per residence based on best available data from 2021-2025

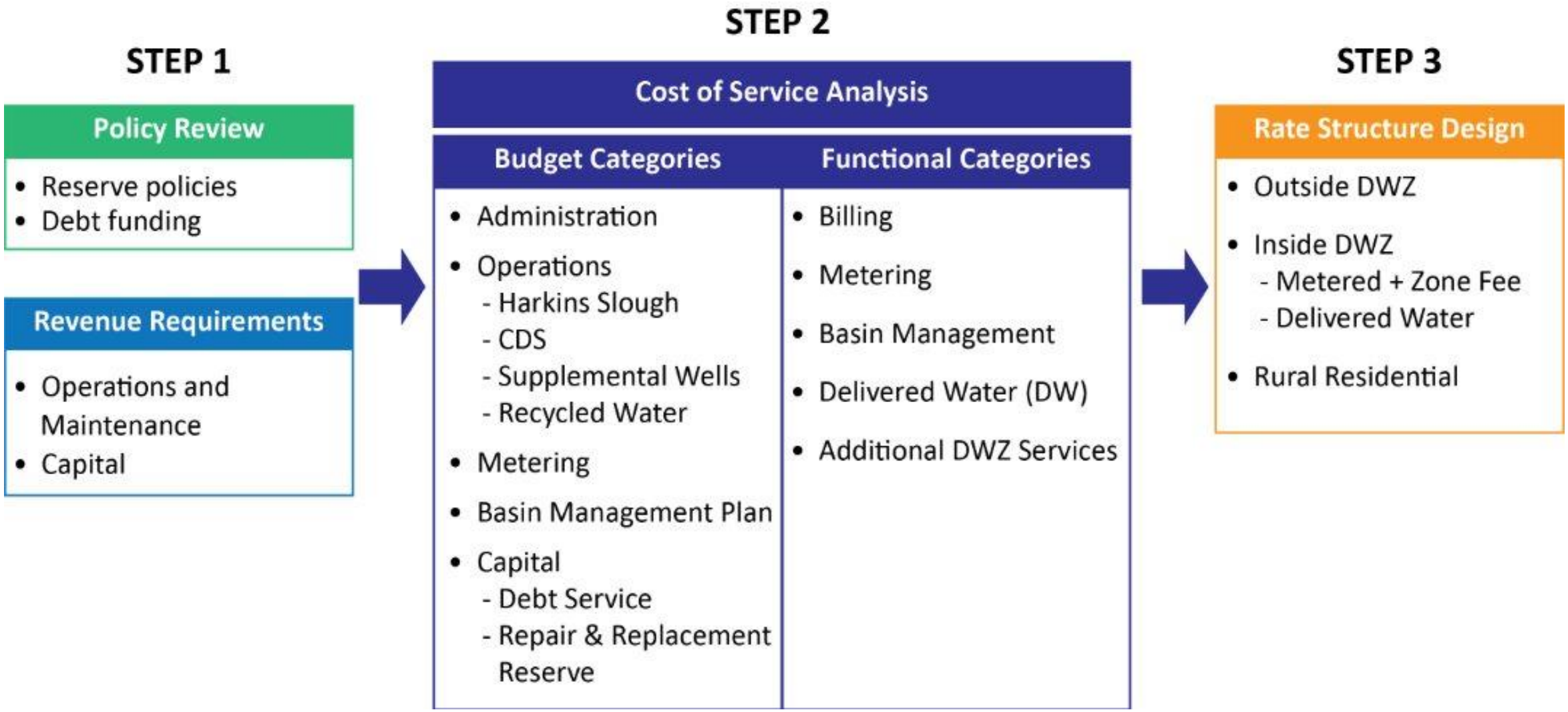
Updated Rural Residential Usage Calculation

SUPPLIER*	PREVIOUS RR USAGE *(based on 2015 report: 2009 ~ 2013 data)*	UPDATED RR USAGE *(based on 2021 ~ 2025 data)*
Number of Connections	1,852	1,933
5 Year Total Usage	4,822	3,733
5-Year Average Acreage	964	747
TOTAL:	**0.52 AF/Residential**	**0.39 AF/Residential**

** Based on data from:*

- *Aromas Water District*
- *Central Water District*
- *San Andreas Mutual Water Company*

2026 Study followed the same steps as the 2021 Study



Summary of Study Assumptions

Cash Reserve Policy

- O&M Reserve Requirement: 180 days of O&M expenses
- Rate Stabilization Fund: Build from $1.1 to $1.5 million by FYE 2029
- Repair and Replacement Fund: Target 25% of annual depreciation

Debt Service Coverage Ratio

- Legal requirement is 1.10x
- Target requirement for study is 1.20x

Future Debt Assumptions

- 30-year term
- 5.0% interest rate

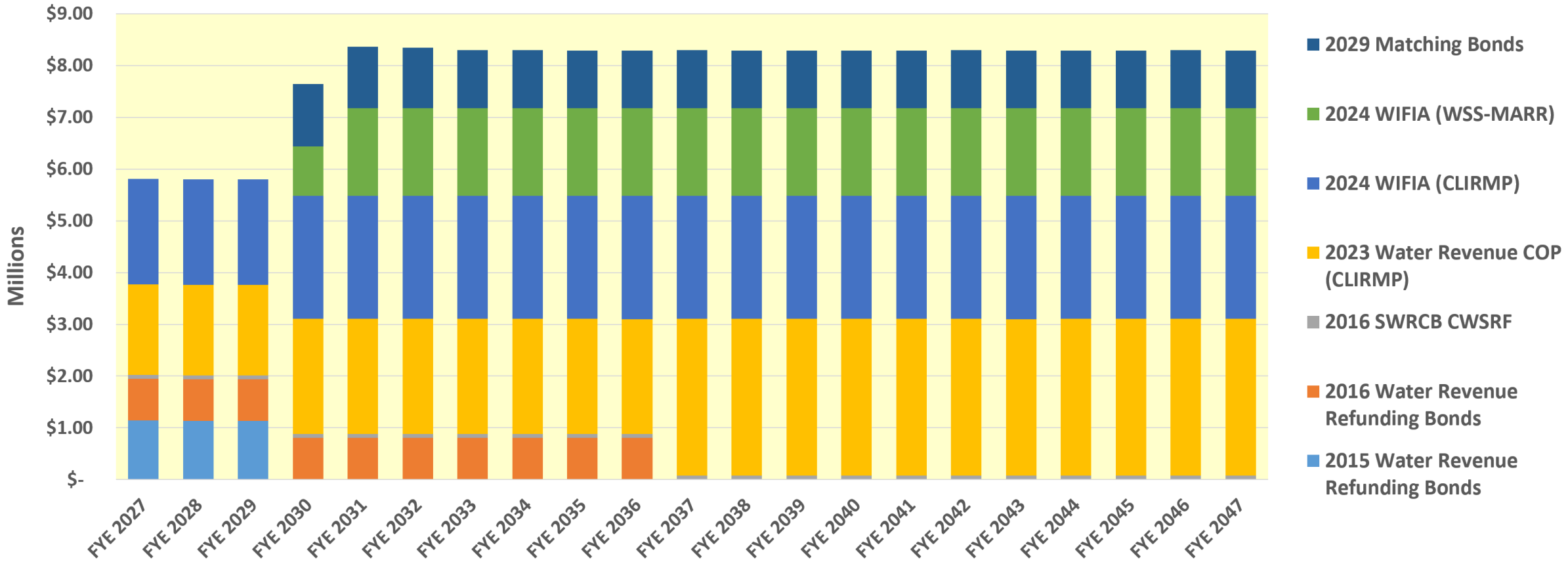
Starting Cash Balance (as of 06/30/2025): $24,286,258

CIP and Funding Sources

	FYE 2027	FYE 2028	FYE 2029	FYE 2030	FYE 2031	TOTAL
CIP SUMMARY						
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**

	FYE 2027	FYE 2028	FYE 2029	FYE 2030	FYE 2031	TOTAL
CIP FUNDING SOURCES						
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**

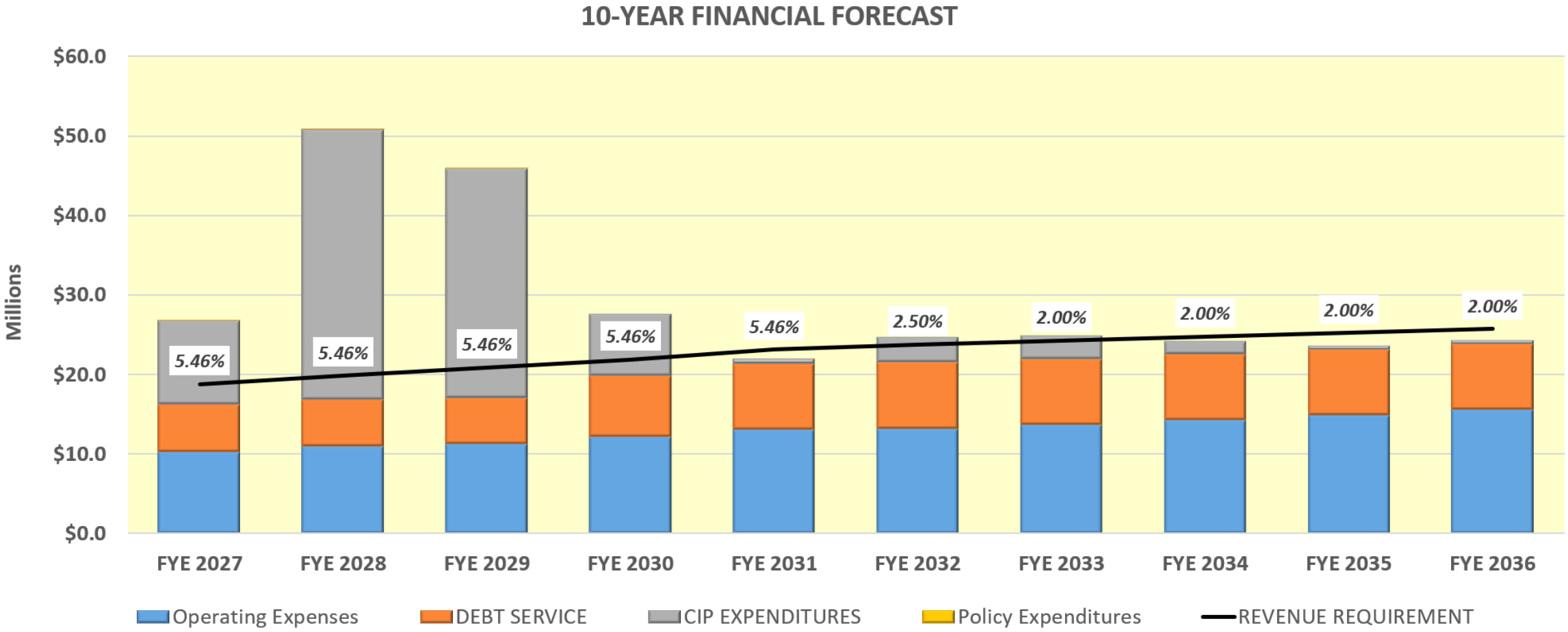
Aggregate Outstanding and Anticipated Debt Service



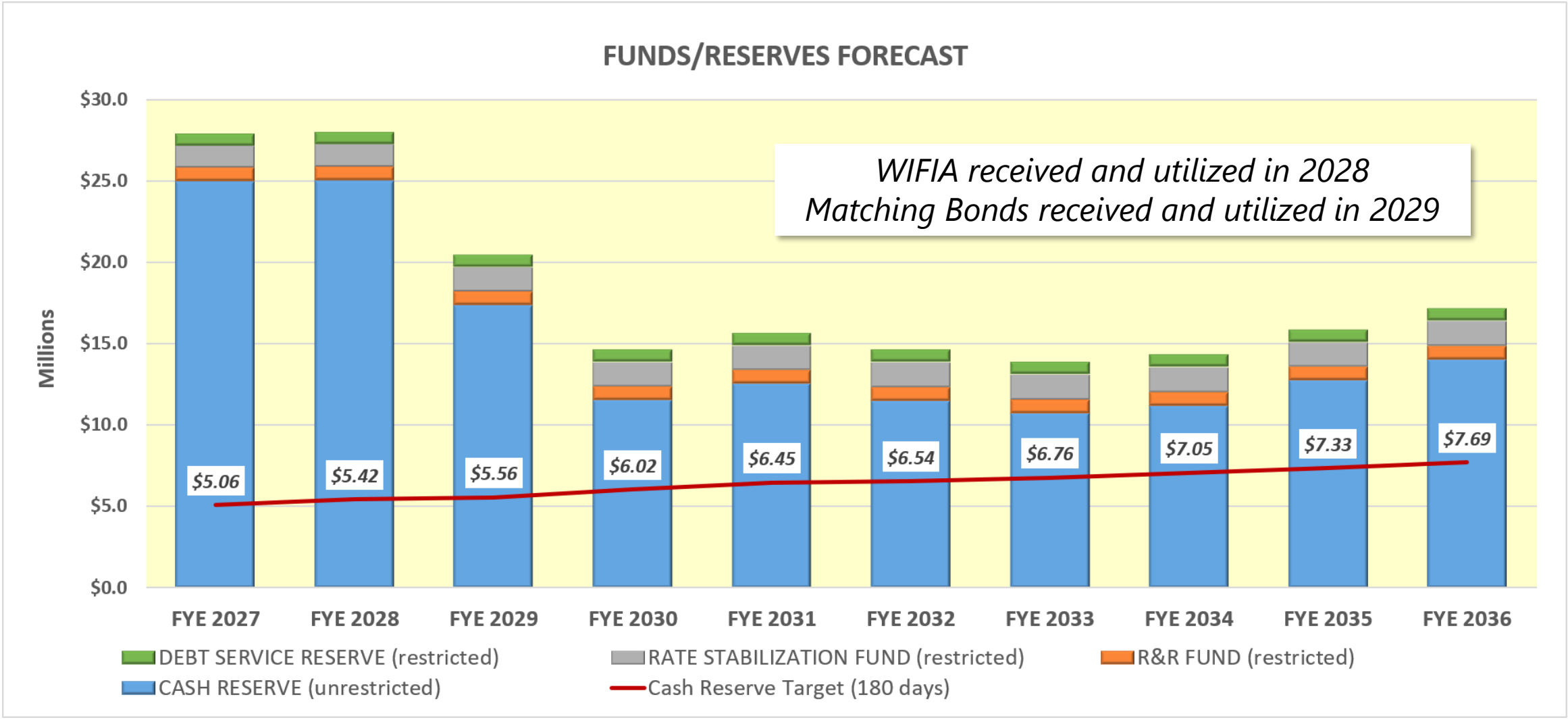
Proposed Rate Increases and Revenue Requirement

	FYE 2027	FYE 2028	FYE 2029	FYE 2030	FYE 2031
Beginning Agency Cash Balance	***$ 33,159,267***	***$ 24,952,274***	***$ 24,964,475***	***$ 17,347,671***	***$ 11,550,403***
Cash Reserve Target (180 days)	*$ 5,064,520*	*$ 5,416,383*	*$ 5,560,356*	*$ 6,023,756*	*$ 6,445,121*
Proposed Rate Increase	***5.46%***	***5.46%***	***5.46%***	***5.46%***	***5.46%***
cumulative rate Increase	*5.46%*	*11.22%*	*17.29%*	*23.69%*	*30.45%*
TOTAL REVENUES *before Rate Increase*	**$ 18,445,472**	**$ 19,493,975**	**$ 20,512,212**	**$ 21,495,244**	**$ 22,717,507**
TOTAL EXPENDITURES	**$ 26,970,679**	**$ 50,914,344**	**$ 46,015,481**	**$ 27,663,465**	**$ 22,108,366**
CASH FLOW SURPLUS/DEFICIT before Increase	***$ (8,523,180)***	***$ (321,306)***	***$ (7,968,551)***	***$ (6,168,220)***	**$ 609,141**
RESERVE TARGET SURPLUS/DEFICIT before Increase	**$ 19,571,567**	**$ 19,214,585**	**$ 11,435,568**	**$ 5,155,694**	**$ 5,714,422**
DEBT COVERAGE SURPLUS/DEFICIT before Increase	**$ 905,034**	**$ 1,401,807**	**$ 2,274,268**	**$ 102,054**	***$ (387,478)***
DSCR before Rate Increase (target of 1.2x)	***1.35 x***	***1.44 x***	***1.59 x***	***1.21 x***	***1.15 x***

10-Year Financial Forecast



Funds/Reserves Forecast



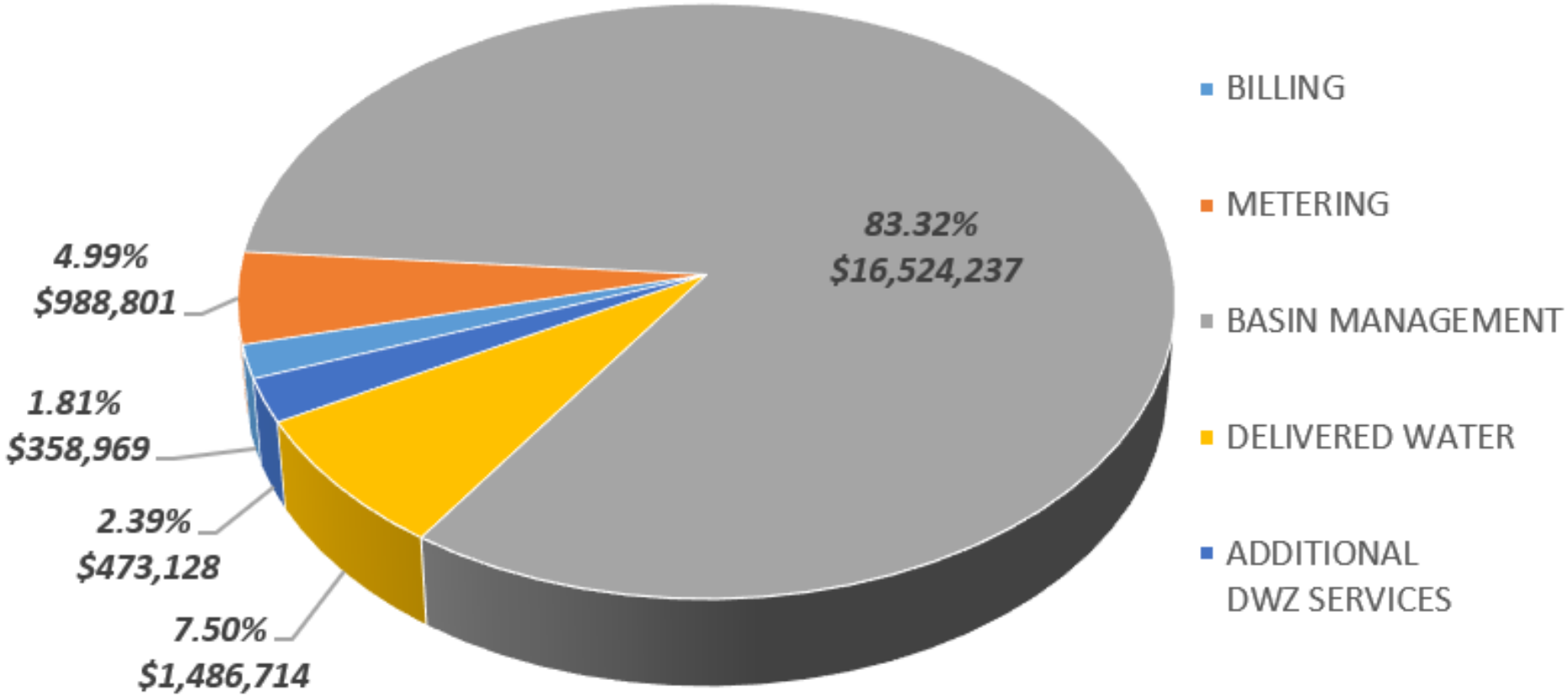
Changing times triggers changing allocations

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

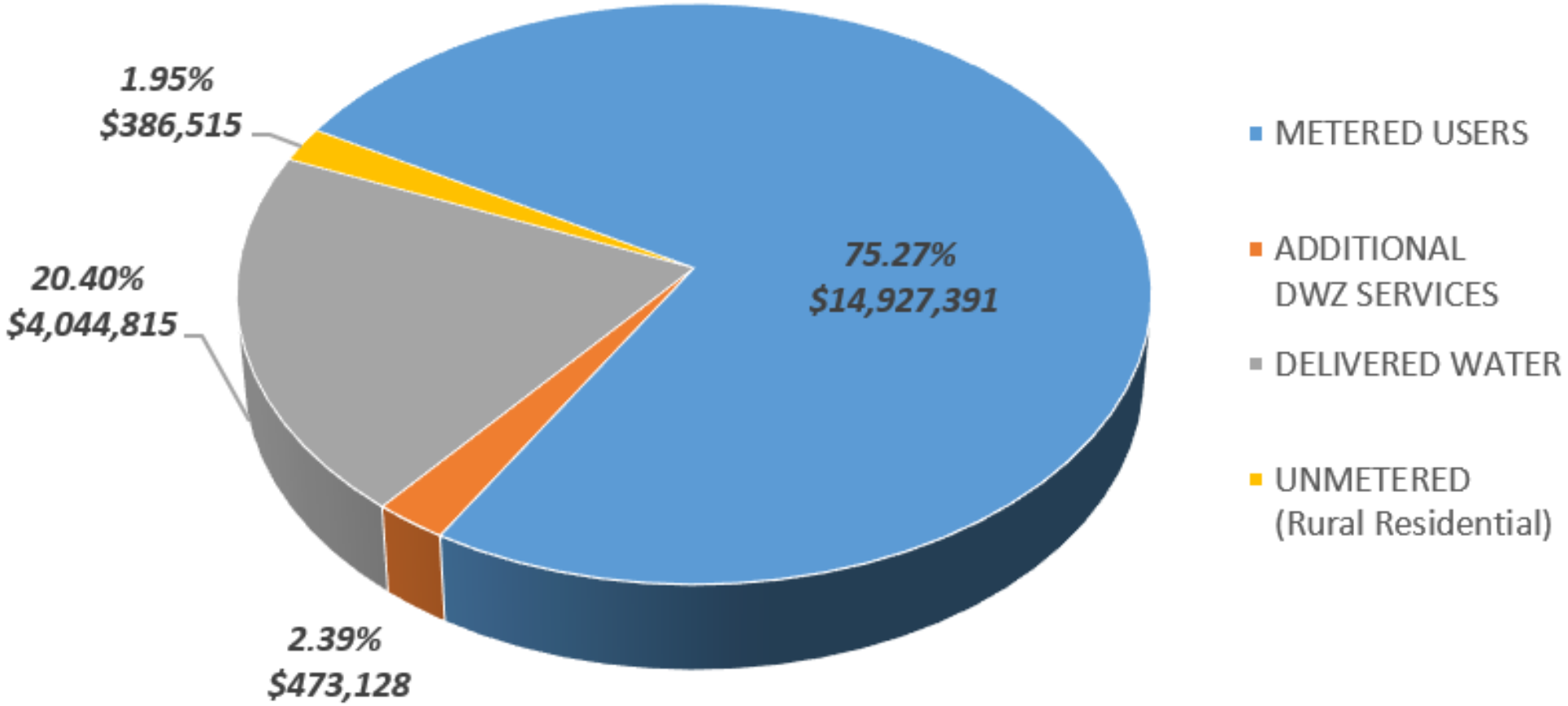
Definition of Functional Categories

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 partially redundant water supply to metered water users within the DWZ. Applies to users within DWZ served by or able to connect to CDS.

Allocation to Functional Categories



Allocation to Rate Components



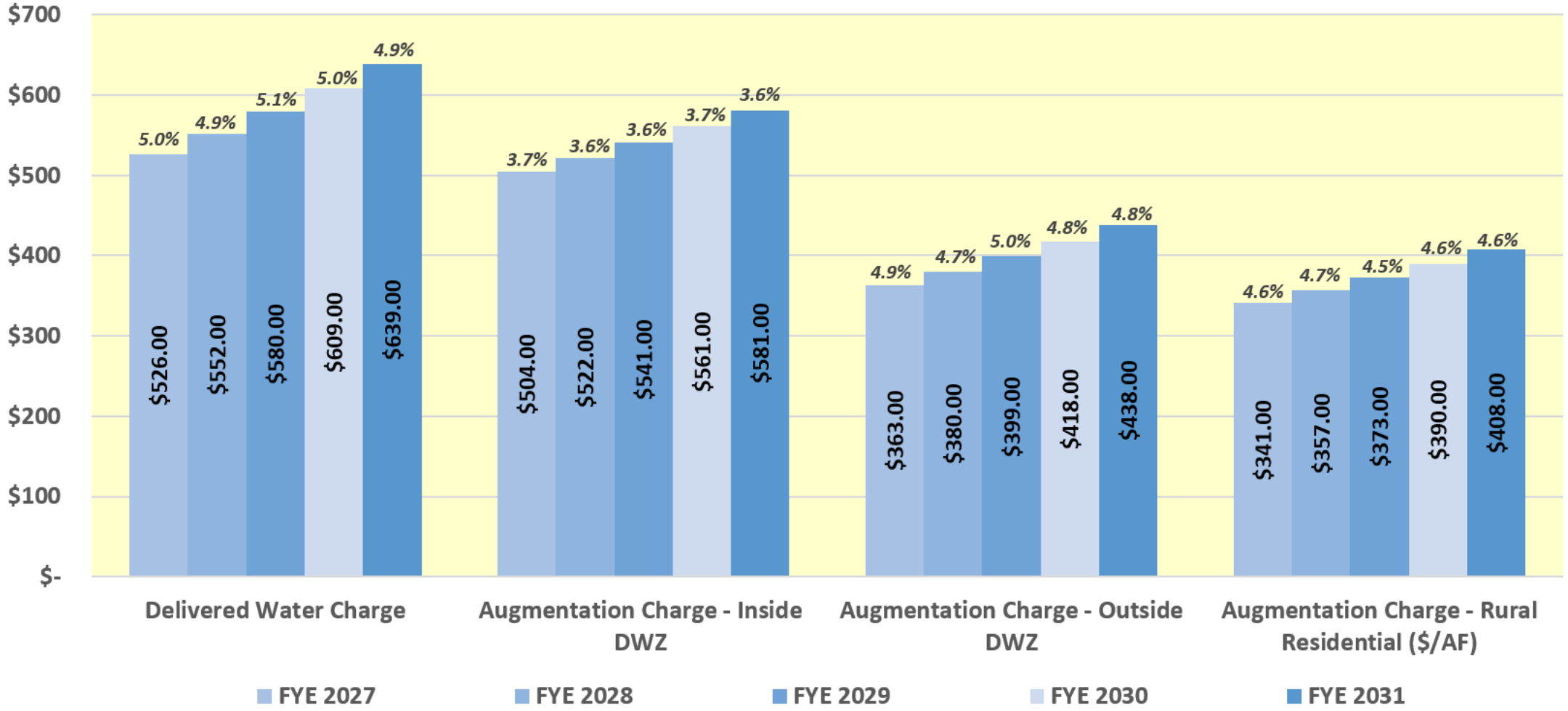
Recommended Rates

RATES SUMMARY	FYE 2026	FYE 2027	FYE 2028	FYE 2029	FYE 2030	FYE 2031
Delivered Water Charge	$501.00	$526.00	$552.00	$580.00	$609.00	$639.00
Augmentation Charge - Inside DWZ	486.00	504.00	522.00	541.00	561.00	581.00
Augmentation Charge - Outside DWZ	346.00	363.00	380.00	399.00	418.00	438.00
Augmentation Charge - Rural Residential ($/AF)	326.00	341.00	357.00	373.00	390.00	408.00
Augmentation Charge - Rural Residential ($/res)	*163.00*	132.00	140.00	147.00	155.00	164.00
Delivered Water Charge	5.0%	5.0%	4.9%	5.1%	5.0%	4.9%
Augmentation Charge - Inside DWZ	7.5%	3.7%	3.6%	3.6%	3.7%	3.6%
Augmentation Charge - Outside DWZ	7.1%	4.9%	4.7%	5.0%	4.8%	4.8%
Augmentation Charge - Rural Residential ($/AF)	7.2%	4.6%	4.7%	4.5%	4.6%	4.6%
Augmentation Charge - Rural Residential ($/res)	*7.2%*	*-19.0%*	*6.1%*	*5.0%*	*5.4%*	*5.8%*

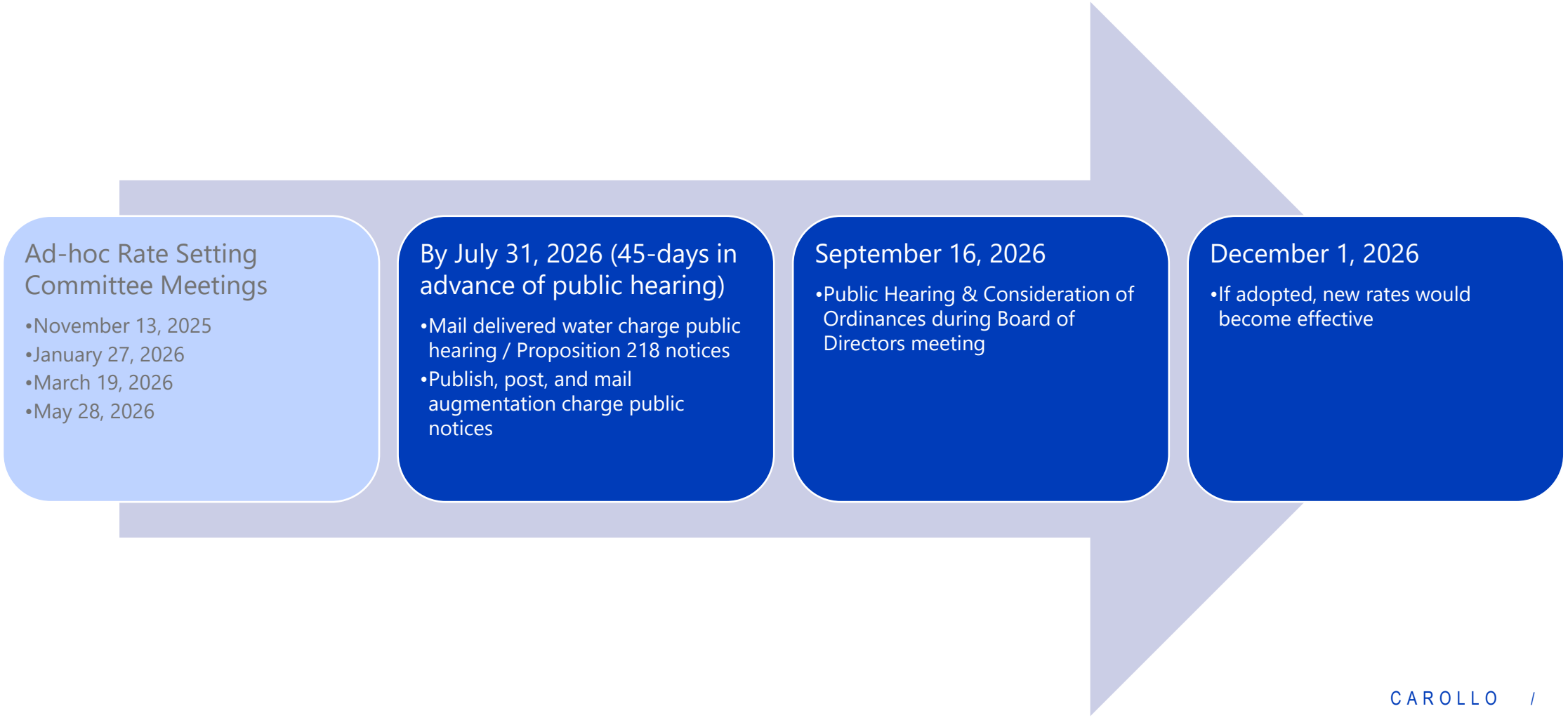
NOTES:

** Beginning in FYE 2027, rural residential's estimated consumption will be billed based on 0.4 AF per residence annually, pending adoption of the rate-setting ordinances.*

Recommended Rates



Schedule for Public Meetings and Adoption of Ordinance



Recommended Board Actions

Receive comments, if any, from Ad Hoc Rate Setting Committee members and/or members of the public present

Adopt the 2026 Cost of Service Rate Study

Adopt Resolution 2026-08 Adopting Procedures for Public Hearing, Notice, and Protest Concerning Proposed Revisions to Augmentation Charge and Delivered Water Charge

Questions?