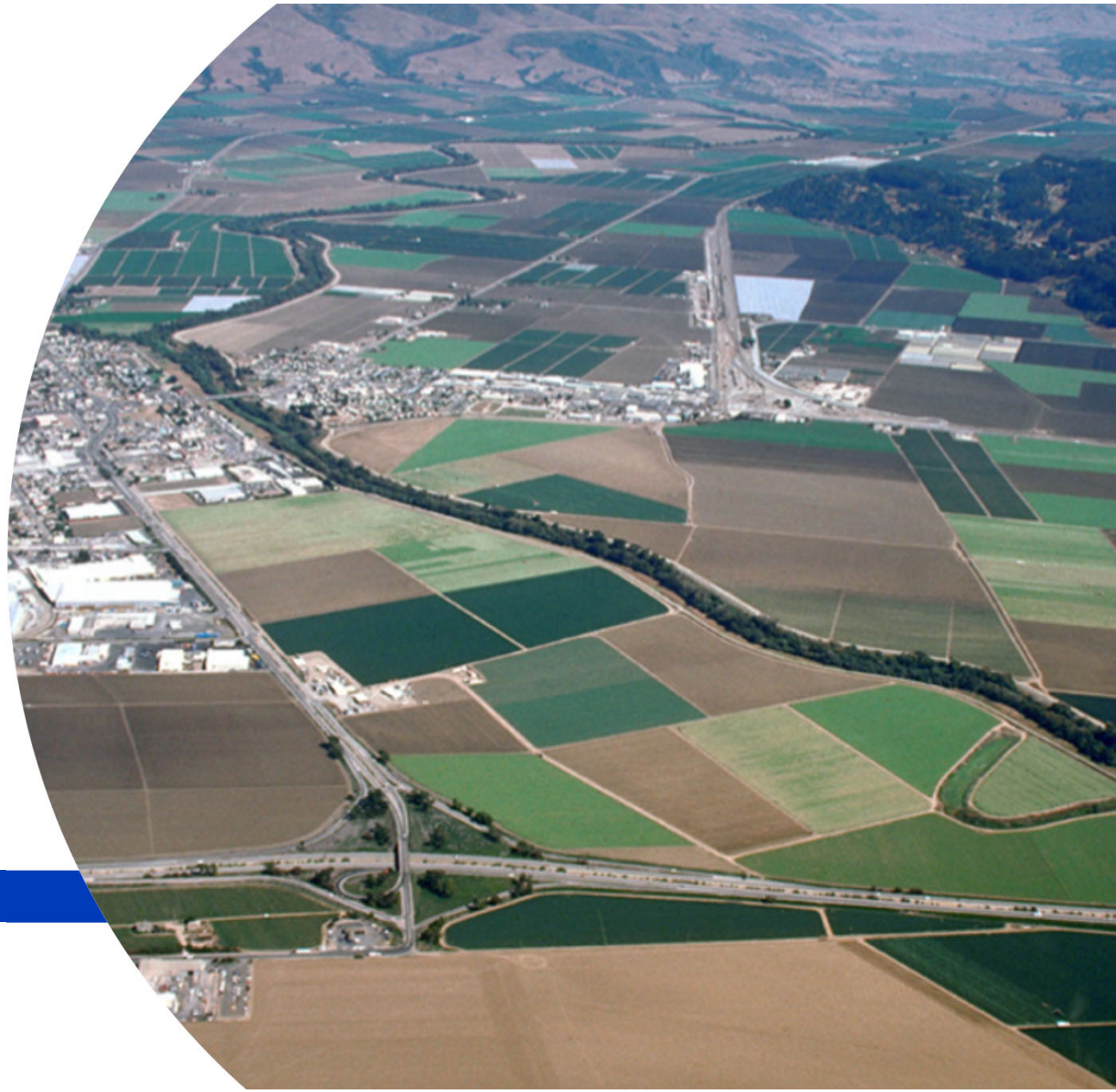
Rate Setting

Board of Directors Meeting

September 16, 2026



carollo

Pajaro Valley Water Management Agency

Agenda

01 | Introduction

02 | Cost of Service Rate Study Overview

03 | Cost of Service Analysis and Study Results

04 | Q&A and Next Steps

Introduction

Pajaro Valley Water Management Agency

- **Authority:** Special District formed by the CA State Legislature in 1984; Groundwater Sustainability Agency in 2015
- **Mission:** To achieve sustainable groundwater resources in the Pajaro Valley for its vibrant agricultural, commercial, industrial, and residential communities for today and future.
- **Multi-Jurisdictional:** Portions of Santa Cruz, Monterey, and San Benito Counties

Purpose of the Cost of Service Rate Study

The Agency completes a cost of service rate study every 5 years in order to set rates for the next 5 years. The rate study considers several factors, including:

- Increased operating costs and capital project costs
- Capital project funding sources
- Supplemental water facilities
- Continued conservation efforts
- Groundwater basin sustainability

PV Water Team

Brian Lockwood

General Manager

Pajaro Valley Water Management Agency

Nancy Trevino

Finance & Admin Services Manager

Pajaro Valley Water Management Agency

Shinehah Bigham

O&M Manager

Pajaro Valley Water Management Agency

Ellen Cross

Facilitator – Strategy Driver Inc.

STRATEGY DRIVER INC
STRATEGY DRIVES RESULTS

Carollo Project Team

Richard Gutierrez

Project Manager

Paul Friedlander

Principal-in-Charge

Jennifer Ivey

Financial Lead

Kim Lightner

Senior Analyst

Isalah Barnes

QA/QC

Study Scope of Work

TASK 1

Kick-Off & Data Collection

TASK 2

Model Update

TASK 3

Revenue Requirement Analysis

TASK 4

Cost of Service Analysis

TASK 5

Rate Design Analysis

TASK 6

Study Report

TASK 7

Public Meetings

Purpose of Ad-hoc Rate-setting Committee

- Review and evaluate rate study findings and recommendations
- Provide feedback to Agency leadership
- Provide recommendations to the Board
- Support implementation of adopted rates

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

Cost of Service Rate Study Overview

Industry best practice for equitable rate making includes three steps

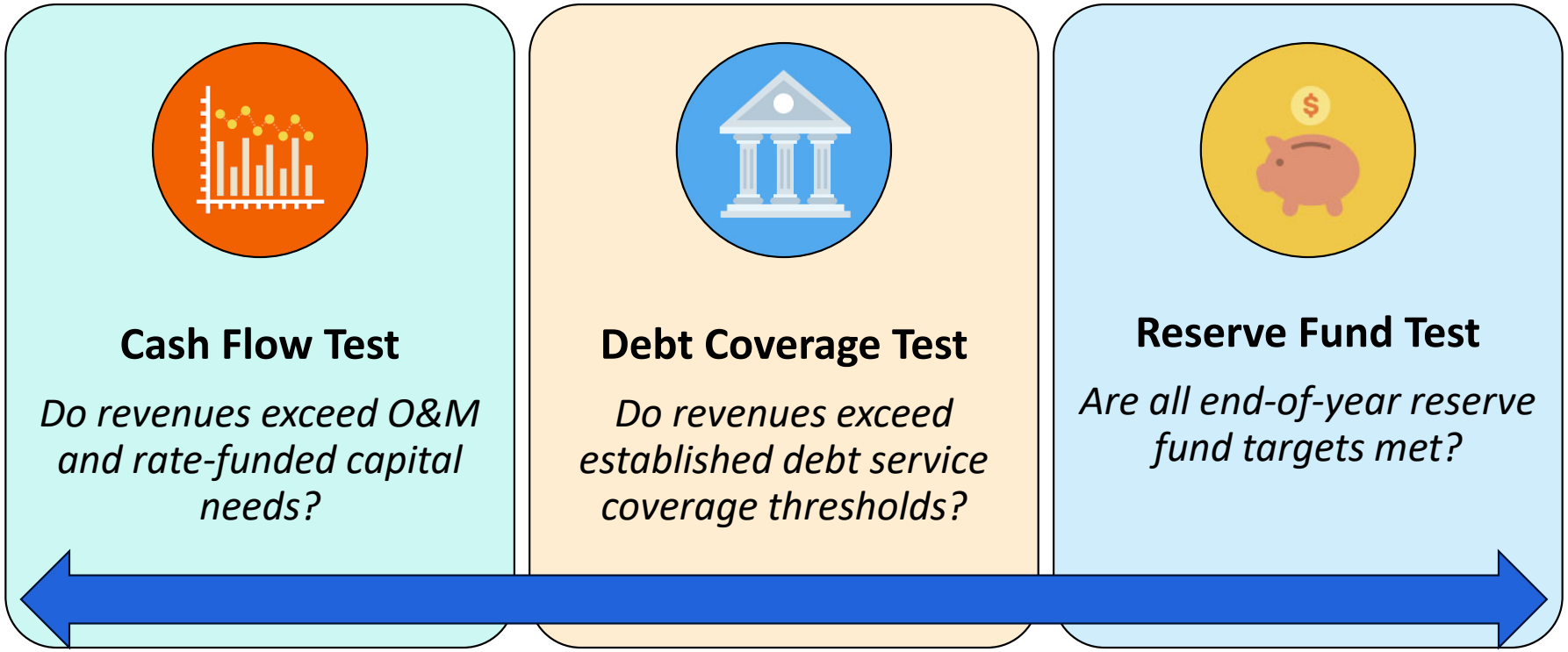
—

Revenue Requirement Analysis
How much revenue is required to fully fund O&M and capital?

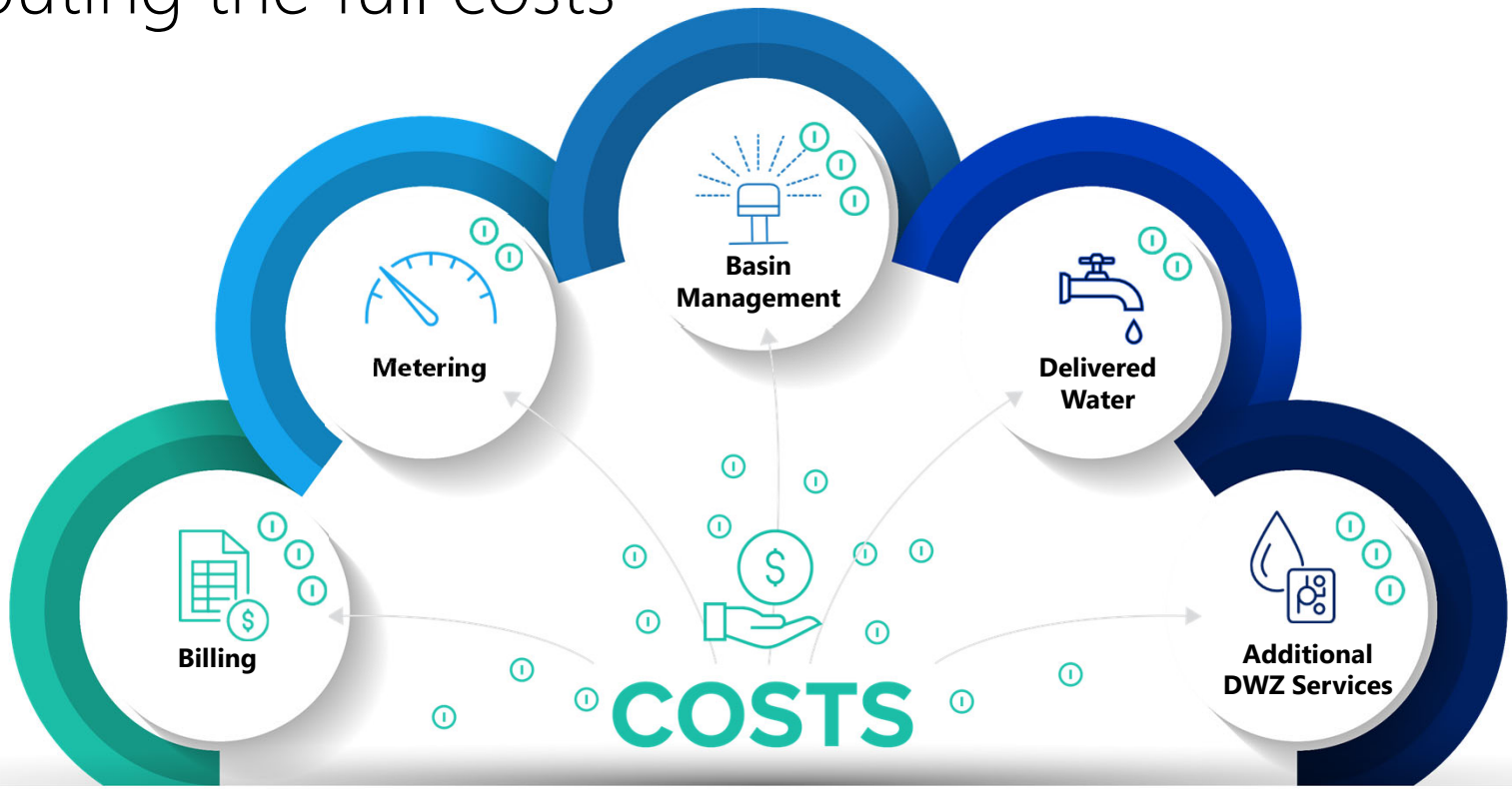
Cost-of-Service Analysis
How much of those costs are attributable to each customer class?

Rate Design
How should those costs be recovered from each customer class?

Carollo determines the revenue requirement by using these three tests



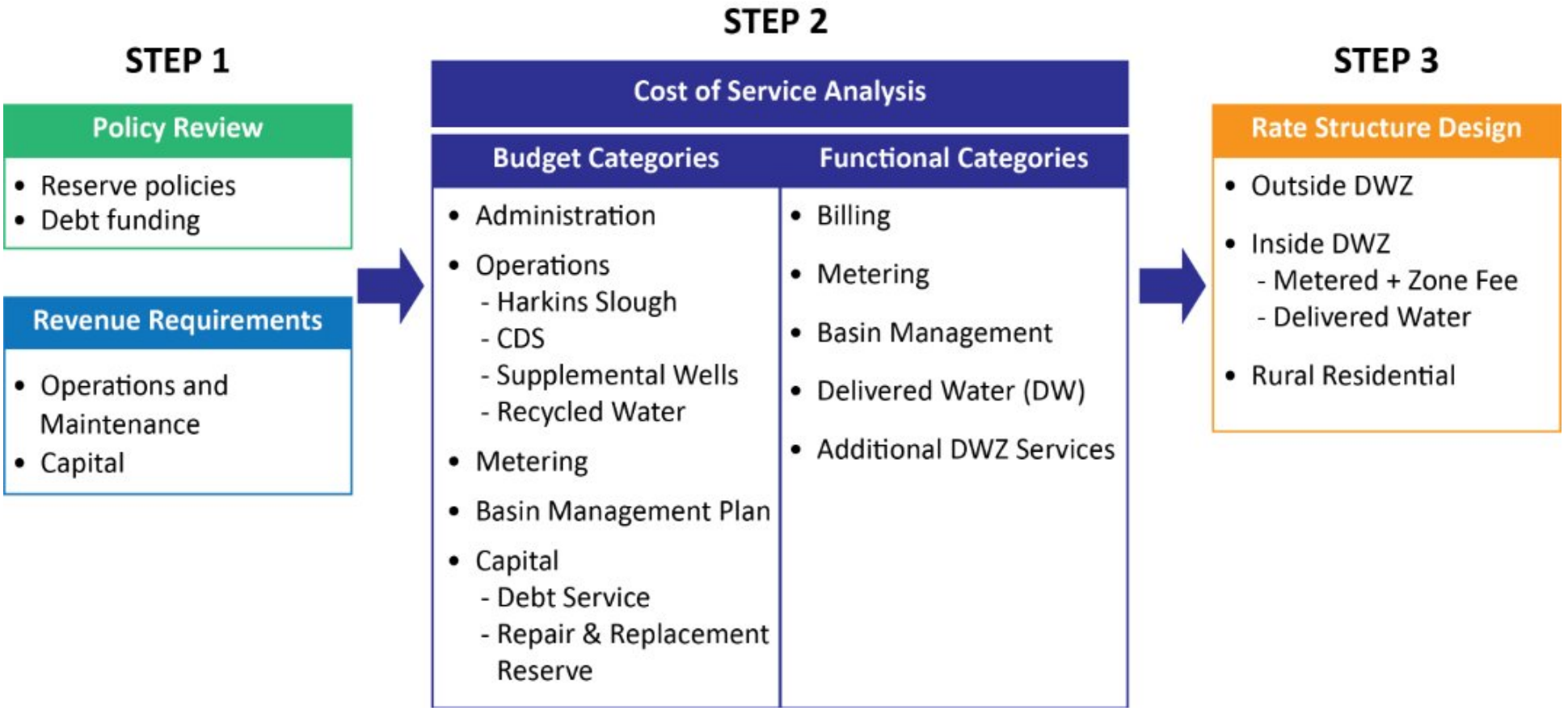
Cost of service analysis provides a rational basis for distributing the full costs



Cost of Service Analysis

Cost of Service Analysis and Study Results

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

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:*

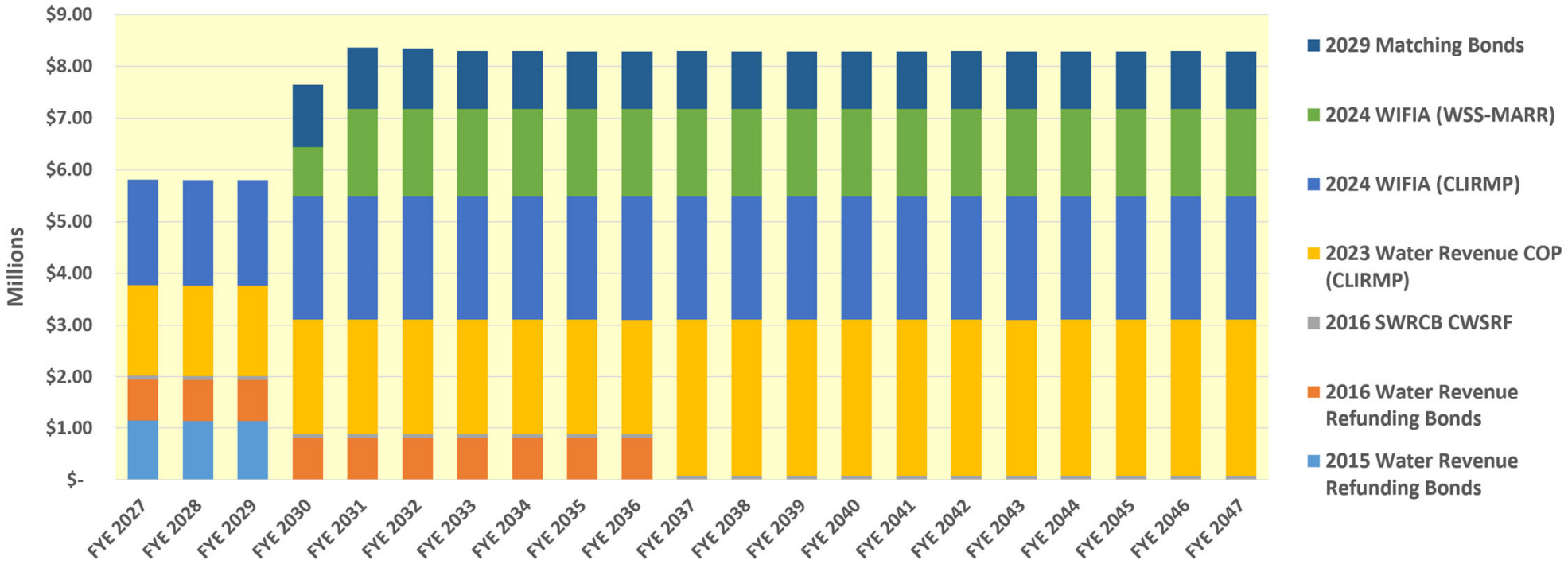
- *Aromas Water District*
- *Central Water District*
- *San Andreas Mutual Water Company*

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**

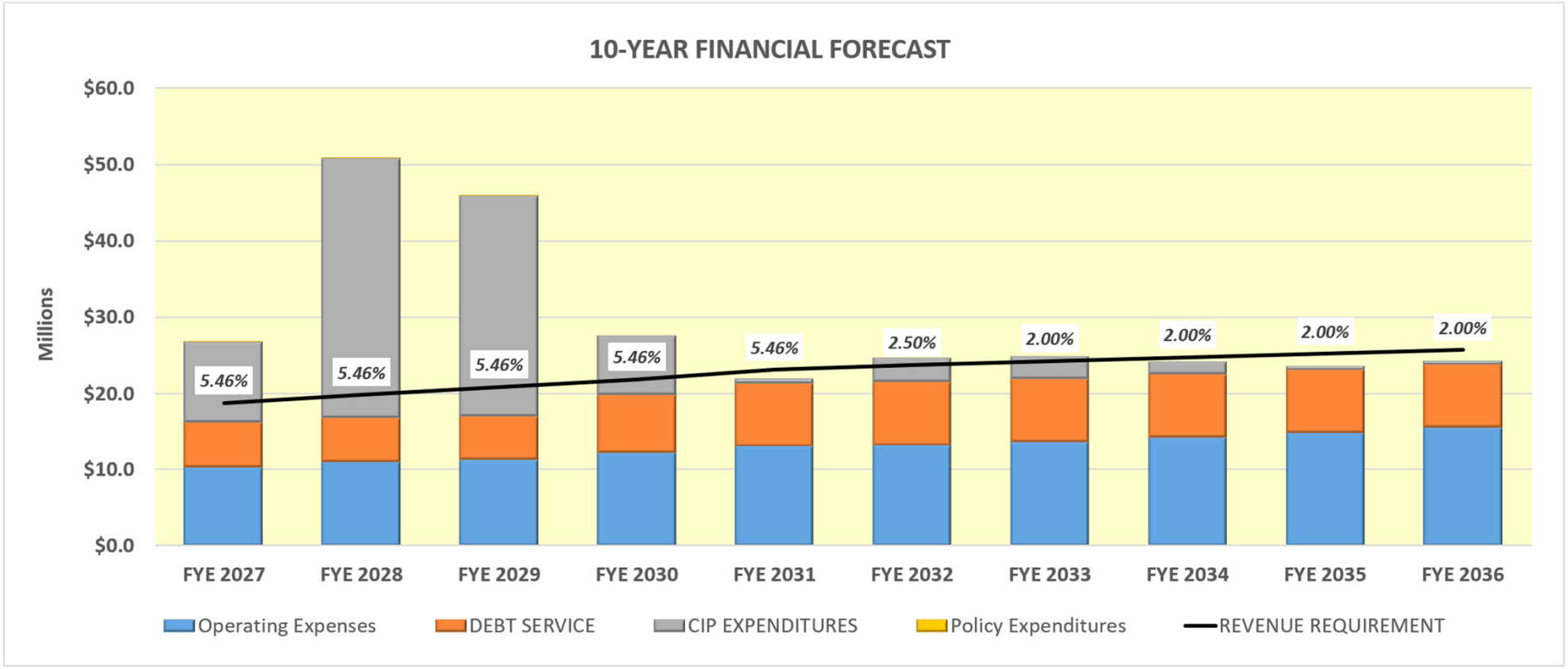
Aggregate Outstanding and Anticipated Debt Service



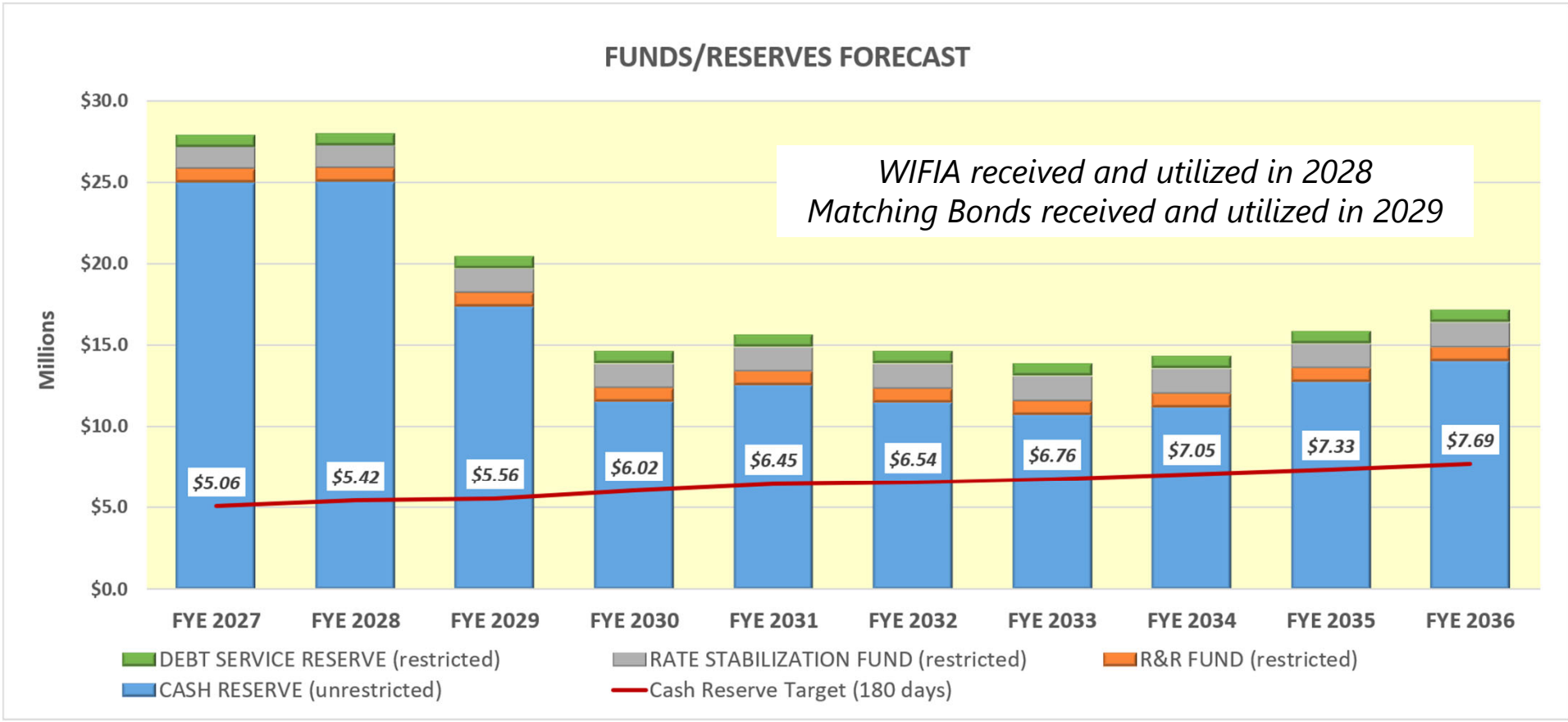
Proposed Rate Increases and Revenue Requirement

	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



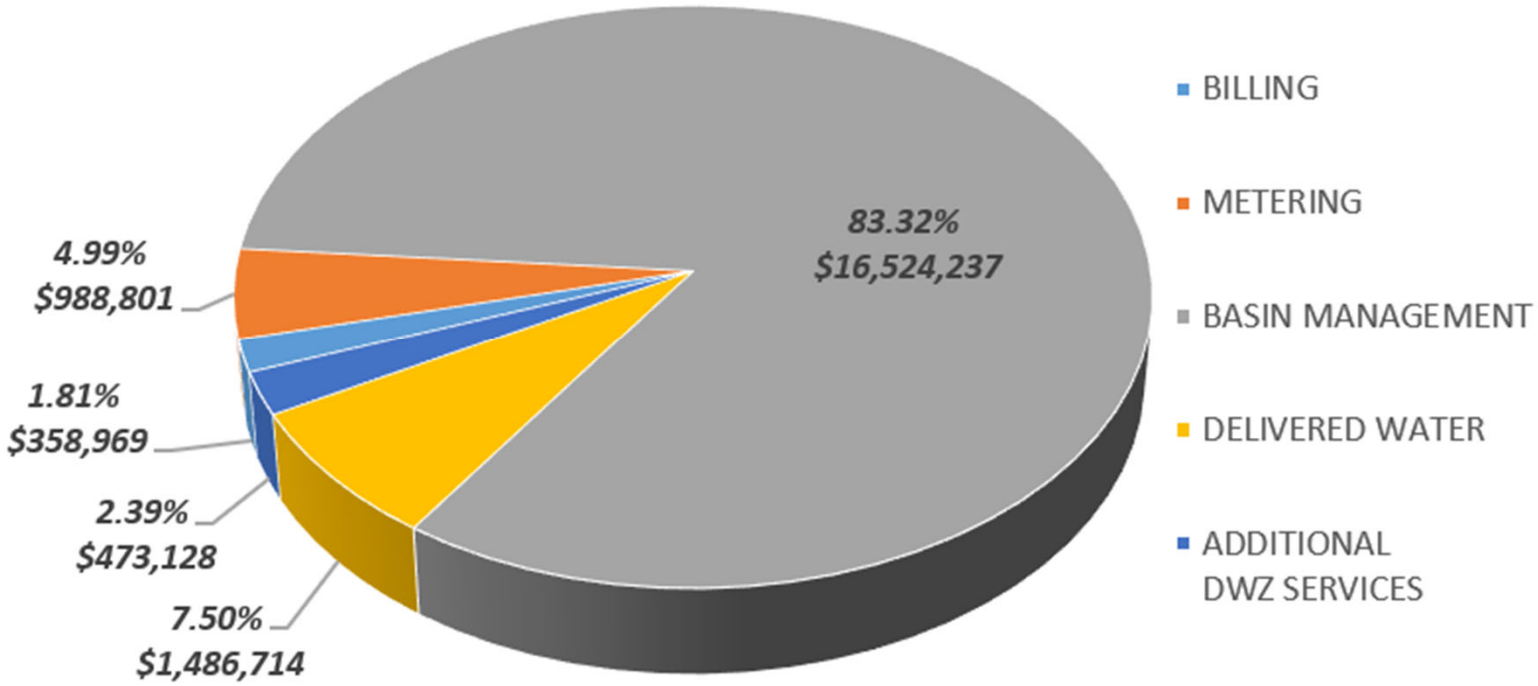
Changing times triggers changing allocations

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

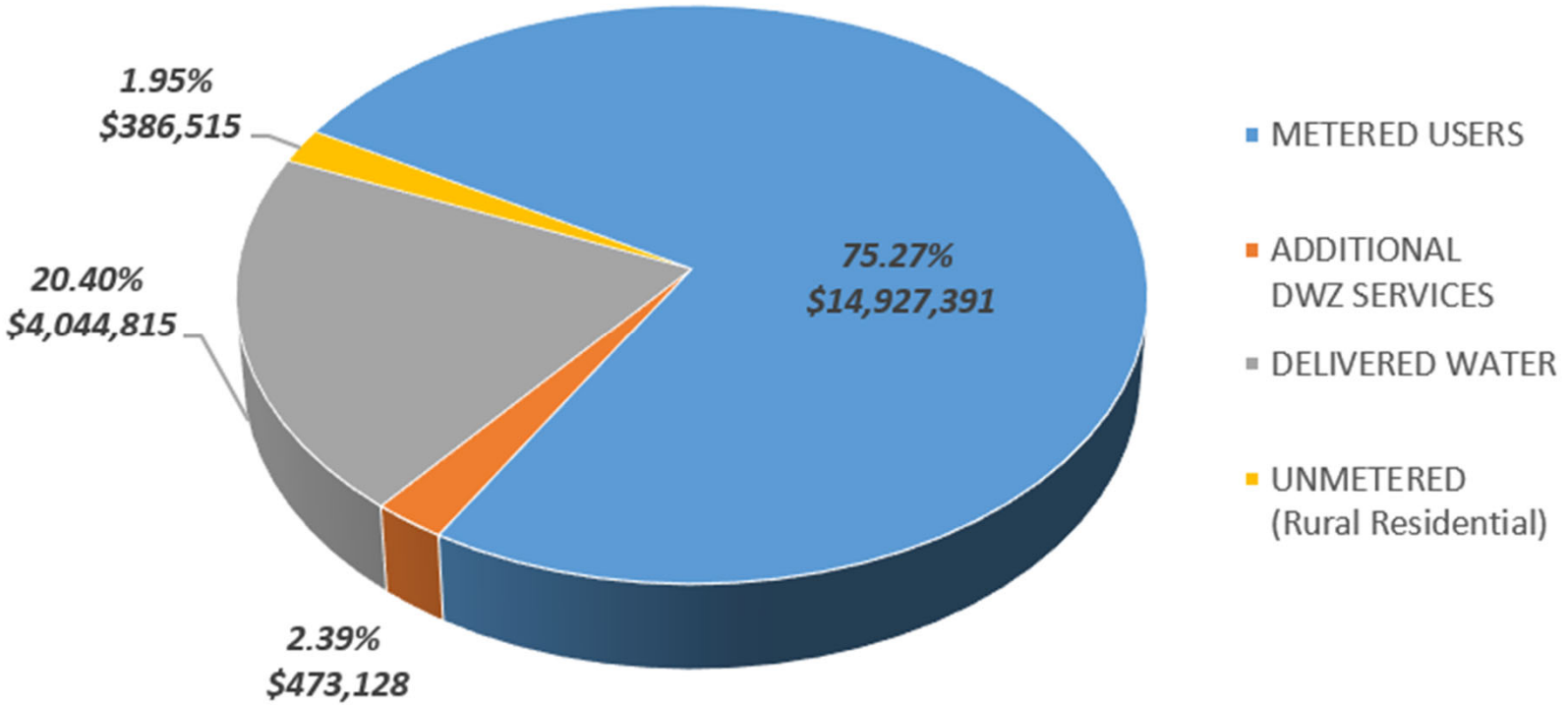
Definition of Functional Categories

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



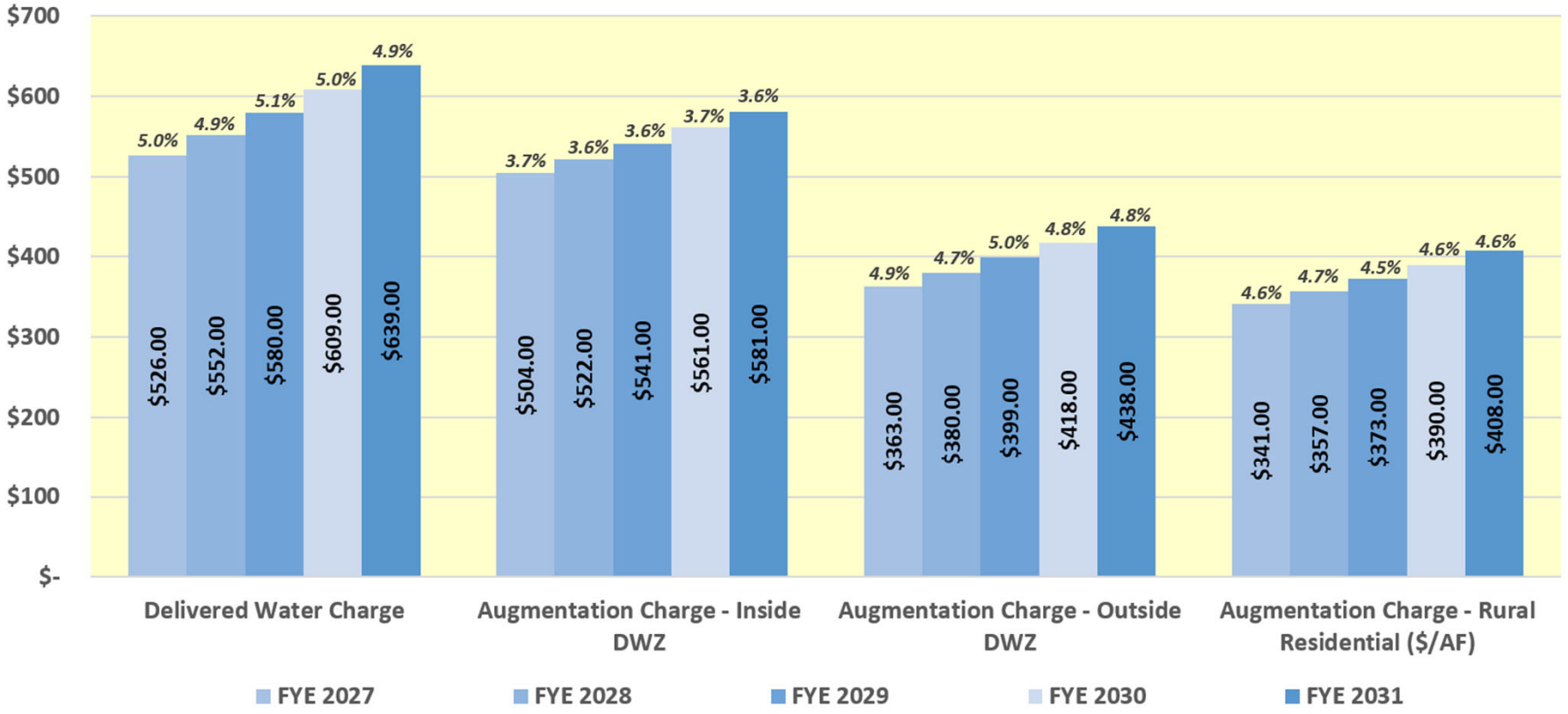
Recommended Rates

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:

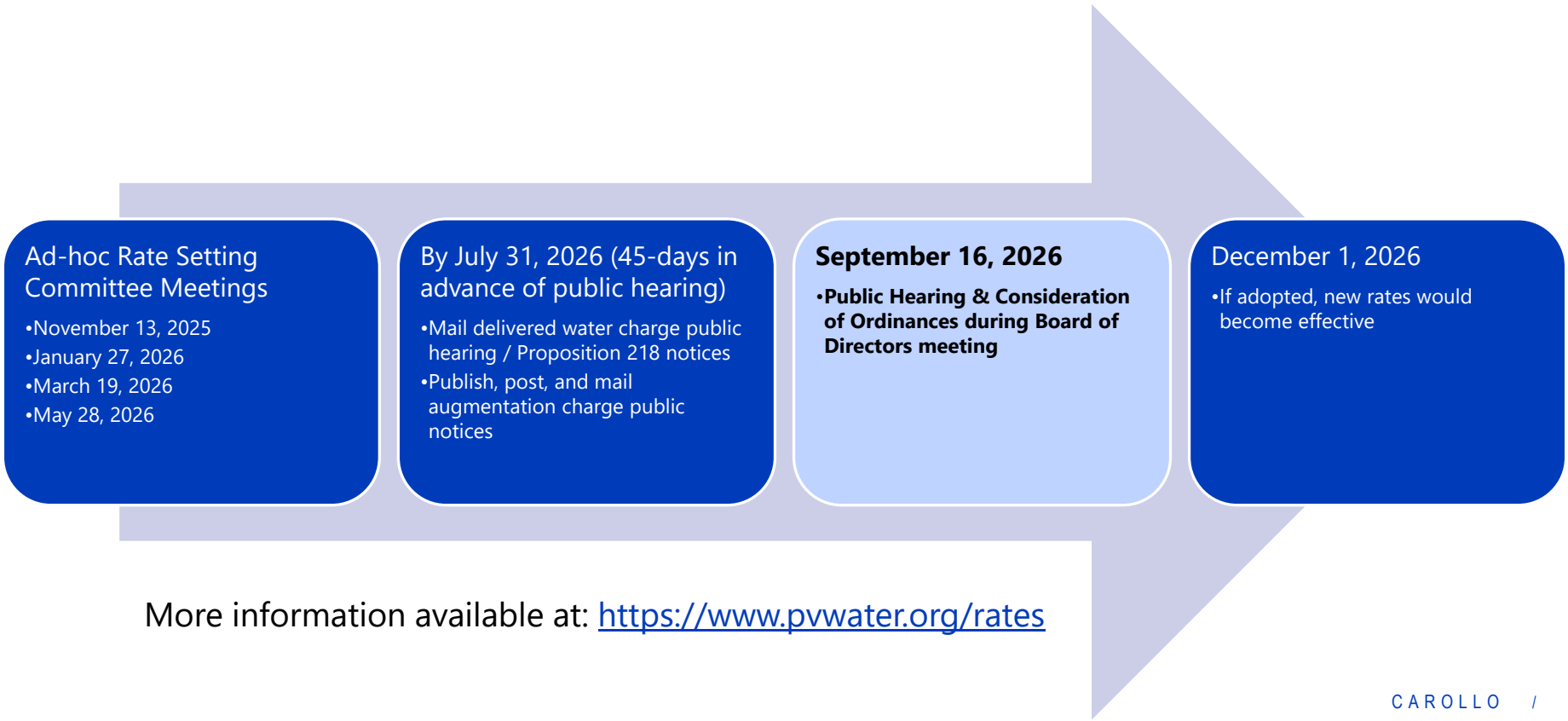
** Beginning in FYE 2027, rural residential's estimated consumption will be billed based on 0.4 AF per residence annually, pending adoption of the rate-setting ordinances.*

Recommended Rates



Q&A and Next Steps

Schedule for Public Meetings and Adoption of Ordinance



More information available at: https://www.pvwater.org/rates

Notice of Public Hearing on Proposed Augmentation and Delivered Water Charge Increases

- Staff mailed Notices printed in English & Spanish to every delivered water, metered well, and rural residential customer on or about June 30, 2026
- Staff published Notice on PVWater.org on June 30, 2026

  https://www.pvwater.org/notice-of-public-hearing-on-proposed-augmentation-charge-and-delivered-water-charge-increases
- Staff published the notice in the Pajaronian on July 3, 2026
- Staff included a copy of the Notices in the July 15, 2026, Board of Directors Agenda Packet

PAJARO VALLEY WATER MANAGEMENT AGENCY

NOTICE OF PUBLIC HEARING
ON PROPOSED AUGMENTATION AND DELIVERED WATER CHARGE INCREASES

Para obtener la version en Español, visite la página web:
www.pvwater.org/media-items/notices/

NOTICE IS HEREBY GIVEN that on September 16, 2026, at 7:00 p.m. at the Watsonville City Council Chambers, 275 Main Street, 4th Floor, Watsonville, CA 95076, the Pajaro Valley Water Management Agency ("Agency") Board of Directors will hold a public hearing to consider adopting of proposed ordinances to increase the Agency augmentation charge and delivered water charge. All property owners and other interested persons are invited to attend the hearing and present written and/or oral comments on the proposed rate increase and, for the delivered water charge increase, to submit written protests pursuant to Proposition 218 (Cal. Const. Art. XIIID § 6. This notice provides information concerning the proposed augmentation and delivered water charge increases.

The augmentation charge is a charge on the extraction of groundwater from groundwater wells within the Agency in order to pay the costs of purchasing, capturing, storing and distributing supplemental water, and to pay for the activities required to prepare and implement the Agency's Basin Management Plan: Groundwater Sustainability Plan Update 2022 ("GSU22"). To slow the advance of seawater intrusion and eliminate groundwater overdraft, the Agency delivers supplemental water for agricultural use in the areas near the coast and served by the Coastal Distribution System ("CDS"). State law authorizes the Agency to sell and levy a charge for the delivery of the supplemental water to property owners and farmers within the delivered water service area who request delivered water service from the Agency. The delivered water charge is the charge levied by the Agency on customers who request and receive supplemental water from the CDS. See www.pvwater.org for more information about the augmentation and delivered water charges and the proposed increases (including a more detailed public hearing notice, a cost of service charge rate study with information concerning the calculation of and reasons for the increased charges, the proposed ordinance increasing the charges, and Resolution No. 2026-08 that sets forth public hearing and notice procedures that will govern the augmentation charge and delivered water increase proceedings) or contact the Agency office at 36 Brennan Street, Watsonville, CA 95076 or 831-722-9292.

Dated: July 1, 2026

/S/ Brian Lockwood
Brian Lockwood, General Manager