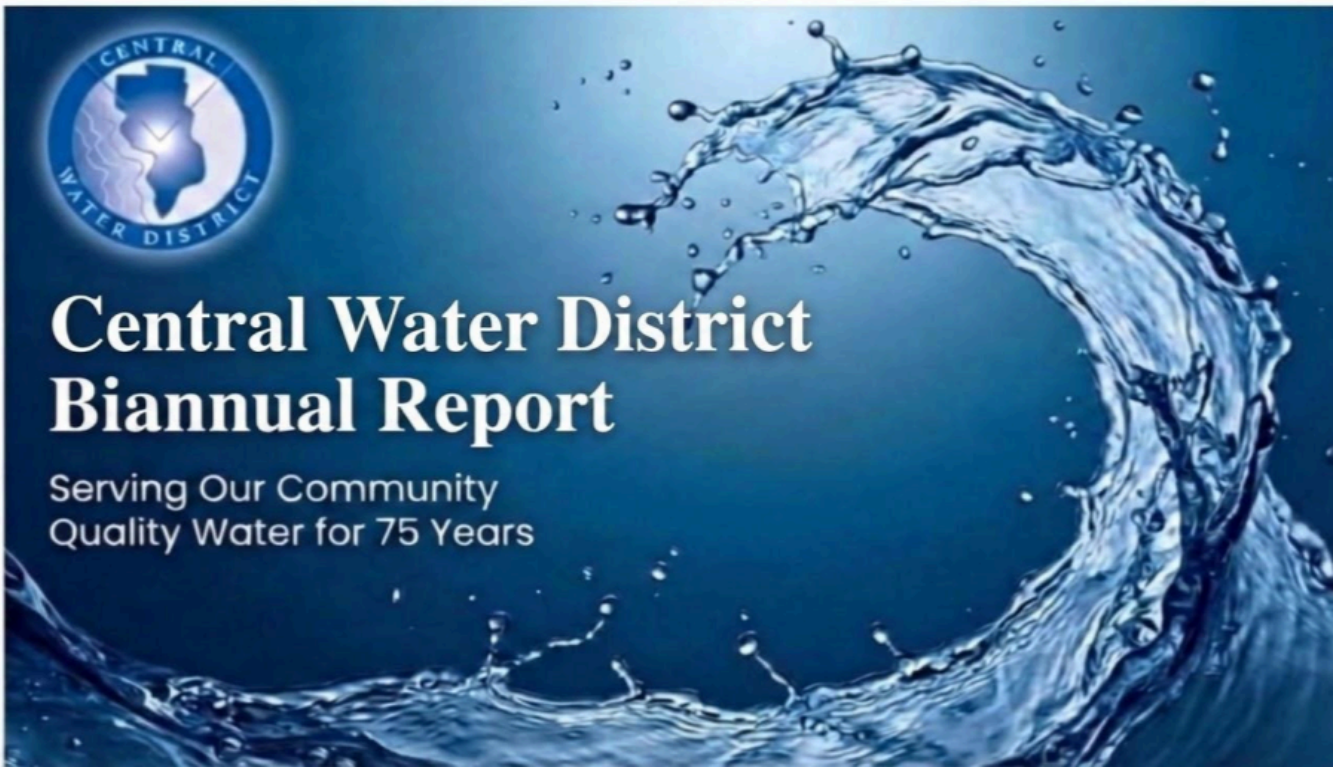

400 Cox Road
Aptos, California 95003

P.O. BOX 1869
Aptos, California 95001

Email: admin@centralwaterdistrict.us.com
Website: www.centralwaterdistrict.us.com

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TO THE BOARD OF DIRECTORS

Strategic Highlights

The Central Water District is proud to be seventy-five (75) years young, serving 826 customers with the highest quality water. Our success is a testament to the strong leadership and vision of both past and present elected Boards of Directors, as well as the dedication of our past and current employees. Together, we manage numerous priorities, including providing exceptional customer service, managing and conserving existing resources, and developing the infrastructure needed for our community's future. This commitment has allowed the Central Water District to provide the lowest water rates in Santa Cruz and Monterey counties, setting an example of how a public agency can thrive.

Financial Highlights

In Fiscal Year 2024-25 the current water rate structure brought in the required revenue to achieve the District's annual financial goals The District's overall financial position can be summarized as follows:

- The District's net position at year end 6/30/25 increased slightly by $100,144.
- Total revenues increased 13.1% over the previous year's total revenue.
- Total expenses increased 7.4% over the previous year's total expenses.

Operating Highlights

The Central Water District has continued to actively provide the best service and water quality to its customers. Some activities include:

- The ongoing meter replacement program.
- Installation of new water sample stations.
- Purchase of a new trailer-mounted generator in 2021 (Grant Awarded).
- Recent clearing of fire brush and tree removal at two main locations (Grant Awarded).
- New Operations vehicle purchased in 2022.
- SCADA improvements at pertinent locations.
- Upgrades to Wells 4, 10 and 12.
- Upgrades to Morrison Tank .
- **New Well 14 (In Progress).**

2025-2026 BOARD OF DIRECTORS

Robert Marani - Board President

Frances Basich Whitney- Vice President

Marco Romanini - Board Secretary

John Previsich - Director

Robert Postle - Director

DISTRICT MANAGER

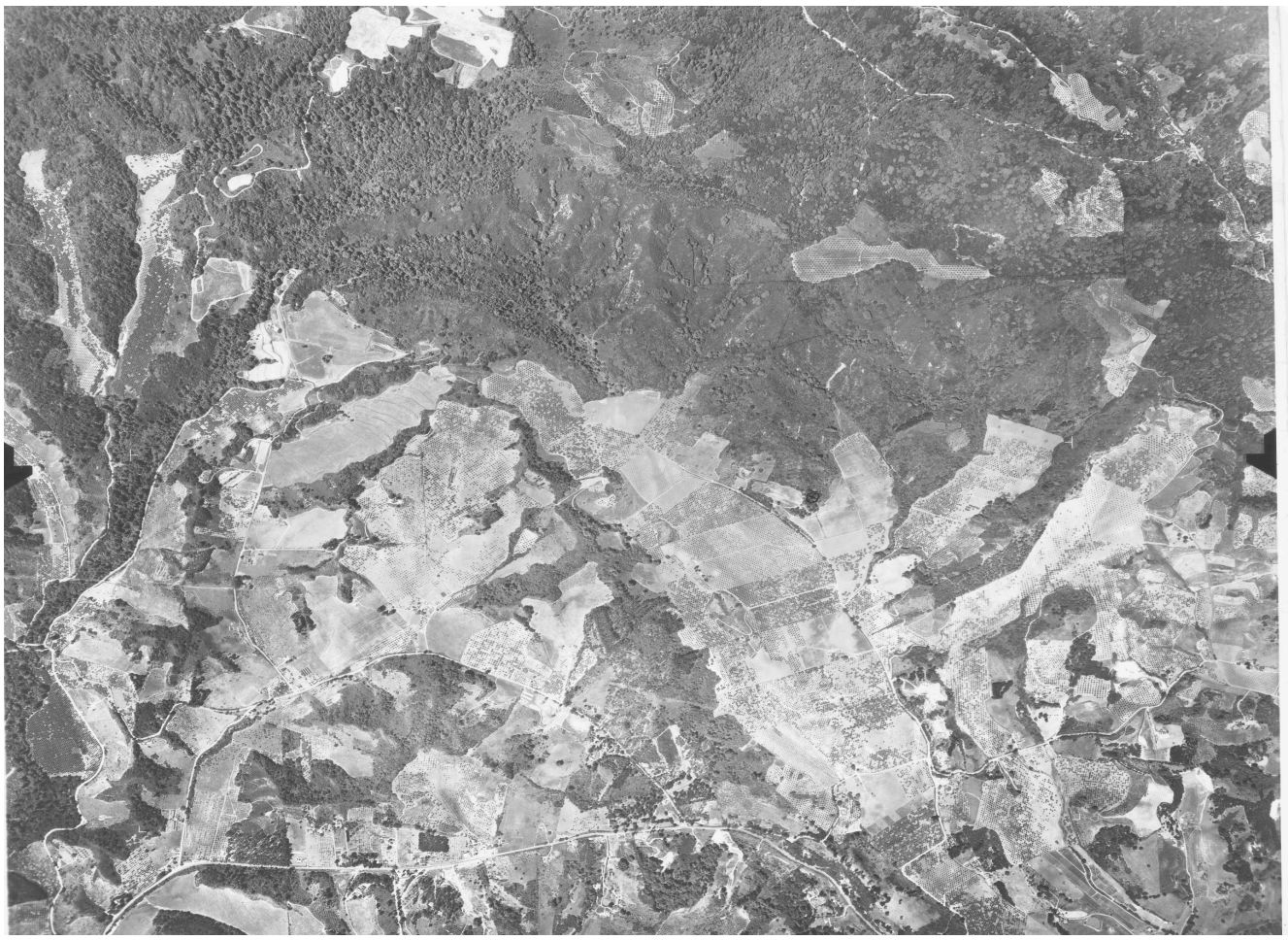
Ralph Bracamonte

DISTRICT LEGAL COUNSEL

Heidi A. Quinn, Esq.

INDEPENDENT AUDITOR

C.J. Brown & Company, CPAs



Aerial Photo of the District 1958

History

In 1949, local residents began meeting at Pleasant Valley School to discuss the dire shortage of potable water in the area. They organized a committee, headed by Lester Morrison, to sponsor the formation of a county water district to be called Central Santa Cruz County Water District.

In November of 1950, voters adopted a proposition to organize the District, and the Santa Cruz County Board of Supervisors adopted a resolution declaring the District duly formed. Boundaries of the new District were contiguous with the Oakdale and Pleasant Valley School Districts. The five members of the first Board of Directors were Roy R. Day, Harry M. Gregg, John Karchesz, Lester Morrison, and Ed Wennerholm. Board meetings were originally held at Pleasant Valley School, then at a cabin located on Harry Gregg's property. Later, the regular meeting place was changed to the pumphouse on Cox Road, which is the present site of the

District Office. On January 5th, 1951 the District was incorporated as a Special District in the State of California.

In August of 1951, voters authorized the sale of general obligation bonds for construction of a well, and storage and distribution facilities. Bonds in the amount of $140,000 were issued July 1, 1953, and paid off in 1990. Meanwhile, in April of 1953, Central Santa Cruz County Water District entered into an agreement to lease, for $25 per month, the Valencia Water Works from Jesse and Fern Nicholson, with an option to purchase the facilities and assets. In September of 1953, after the availability of an adequate water supply had been determined, the Valencia Water Works was purchased by the District for $1,500. In its annual report of 1952, Valencia Water Works numbered its customers at 24. By December 1953, Central Santa Cruz County Water District was serving 80 customers.

In early 1978 the District entered into an agreement with Soquel Creek County Water District to build an intertie connection on Huntington Drive for emergency use by either district. At this time, the District is only able to transfer water to Soquel Creek Water District.

In July of 1978, the District applied for a loan and grant under the California Safe Drinking Water Bond Law of 1976 for facility improvements. The application contained a project cost of $1,385,520, which was reduced in March of 1979, to $1,123,520; of this amount, $156,000 was the District's share. Completed improvements included the construction of Well 10, the Valencia Booster Pump Station, a telemetering system, and installation of approximately 24,560 feet of mainline piping. Construction commenced in 1978, and in November of 1982 the remaining portion of the loan and the uncompleted portion of the original project were cancelled. In all, the District borrowed $653,806.03 in State funds.

On December 10, 1980, the name of the District was shortened to Central Water District. The District Office was destroyed by the earthquake of October 17, 1989, and replaced with a new office/warehouse building, dedicated in July of 1991.

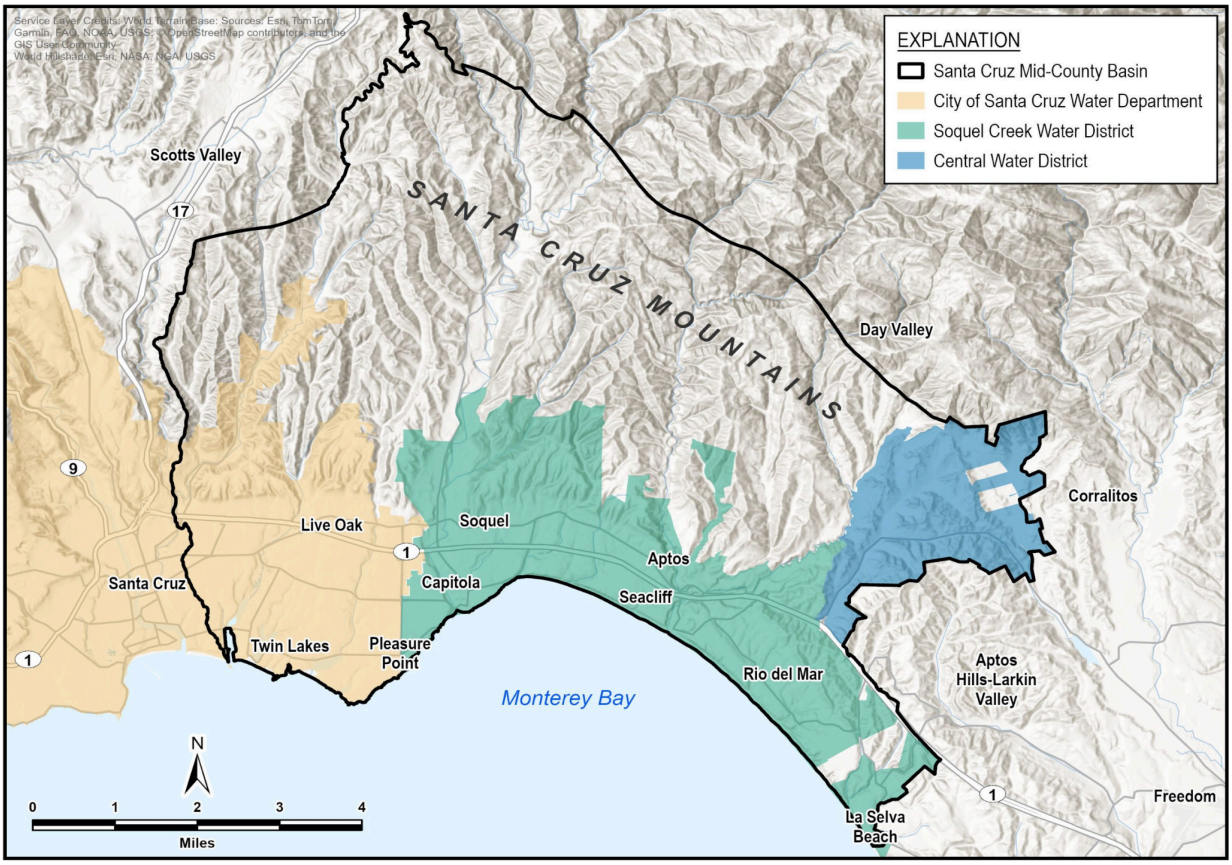
On July 19, 1994, the District entered into a Joint Exercise of Powers Agreement with Soquel Creek Water District to establish a Groundwater Management Plan Committee. The action was taken pursuant to State Assembly Bill 3030. The governing board of each agency adopted a joint groundwater management plan for the Soquel-Aptos area on April 2, 1996.

In 2016, the Sustainable Groundwater Management Act (SGMA) led to the formation of the Santa Cruz Mid-County Groundwater Agency (MGA). Established through a Joint Exercise of Powers Agreement among the County of Santa Cruz, the City of Santa Cruz, Central Water District, and Soquel Creek Water District on March 17, 2016, the MGA serves as the Groundwater Sustainability Agency (GSA) for the Santa Cruz Mid-County Groundwater Basin.

The MGA's governance rests with an 11-member Board of Directors, which includes two representatives from each member agency and three public representatives appointed by the member directors. The member agencies share the cost of funding the MGA, and is now implementing a Groundwater Sustainability Plan (GSP) for the Santa Cruz Mid-County Groundwater Basin under SGMA. Beyond groundwater management, the Central Water District also runs a water quality monitoring program, distributing results to customers via an Annual Water Quality Report, and a backflow prevention program to protect the quality of water within its distribution system.

As a member of the Santa Cruz Mid County Groundwater Agency, the District actively manages the Basin within its boundaries.

Santa Cruz Mid-County Ground Water Agency Base Map



Background

Central Water District, with an estimated population of 2,700 to 3,000 people, presently serves 907 customers with domestic, fire, irrigation, public and commercial service connections. Situated in the foothills of the Santa Cruz Mountains east of Aptos, it covers a service area of approximately five square miles. The elevation of the service area ranges from a low of about 150 feet to over 1,100 feet above sea level. Most customers are residential users located on rural sites of one acre or more. In Fiscal Year 2024/25 residential customers consumed 91.98 million gallons of water, whereas multi-family customers, consisting of 238 units, collectively consumed 11.18 million gallons of water or 9.72% of the total water that was pumped. The District's 14 commercial / agriculture accounts consumed 11.81 million gallons of water in FY 2024/25 or 10.27% of the total water that was generated.

In general, District customers use more water than urban residents, owing to larger home sites, bigger dwellings, and more landscaping or garden areas. In addition, the sandy soil requires more than average volumes of water to irrigate. The average daily water consumption per residential service during Fiscal Year 2024/25 was 277 gallons; and the usage for the District's two multi-family sites was 47.6 gallons per unit per day. The District's

total average usage in FY 2024/25 was 28,746 gallons per acre within the District's five square miles (3,200 acres). Locally, Santa Cruz City residents' water usage averaged 44 gallons per person. The District's customer usage may be higher than other local agencies, but it is important to consider that a substantial portion of this water is recycled to the aquifer through septic system recharge. In fact, Santa Cruz County designated most of the area within the Central Water District boundaries as a Primary Recharge Area, while limiting future parcel size to a ten-acre minimum. It is also worth noting that large portions of the Pleasant Valley area are irrigated to support apple and grape crops. The District is a sparsely populated area, almost entirely dependent upon septic systems, so export of wastewater to the Monterey Bay and the impact upon groundwater resources are minimal to none. An in-depth 2004 hydrological report prepared for the Soquel Creek Water District revealed that consumptive use was an important factor in determining impact on groundwater conditions. However, the report also stated that a substantial portion of the water that the Central Water District extracted was returned (47% in 1997). In 2016, Hydrometrics Water Resources calculated the return to be even higher.

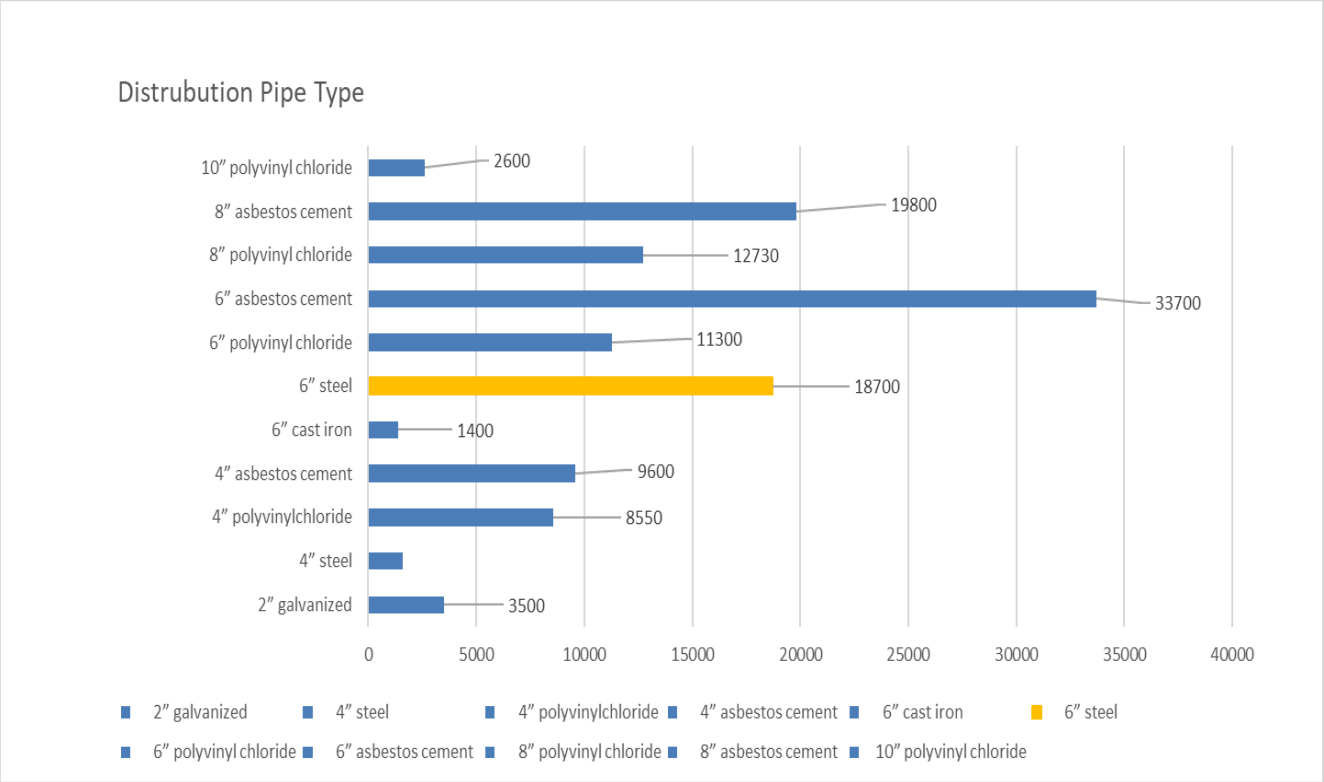
In terms of future boundary growth, the District anticipates truly little, except for potential restricted agricultural land that could be annexed to the District. In fact, the Sphere of Influence established for the District by the Local Agency Formation Commission (December 1986) limited the maximum size of the District. However, the present boundary plan does not address the possible infilling of new residential customers within the service area. Since the State of California and County of Santa Cruz Planning Department recently streamlined the permitting process for ADU construction, the District expects to see an increase in accessory dwelling units (ADUs) in the coming years.

The North Santa Cruz County Water Master Plan Study - Final Report, June 1985, estimated that, considering the Santa Cruz County General Plan densities, the District could expect 918 customers by the year 2000 and 944 customers at buildout. A 1994 Central Water District buildout study, based on a computer-generated model of the District highlighting vacant parcels, indicated that the earlier projections were overstated. In all, Central Water District is one of only two districts in Santa Cruz County capable of meeting the demand for water at buildout with current facilities in place. As of June 30, 2025, the total number of active services was 907.

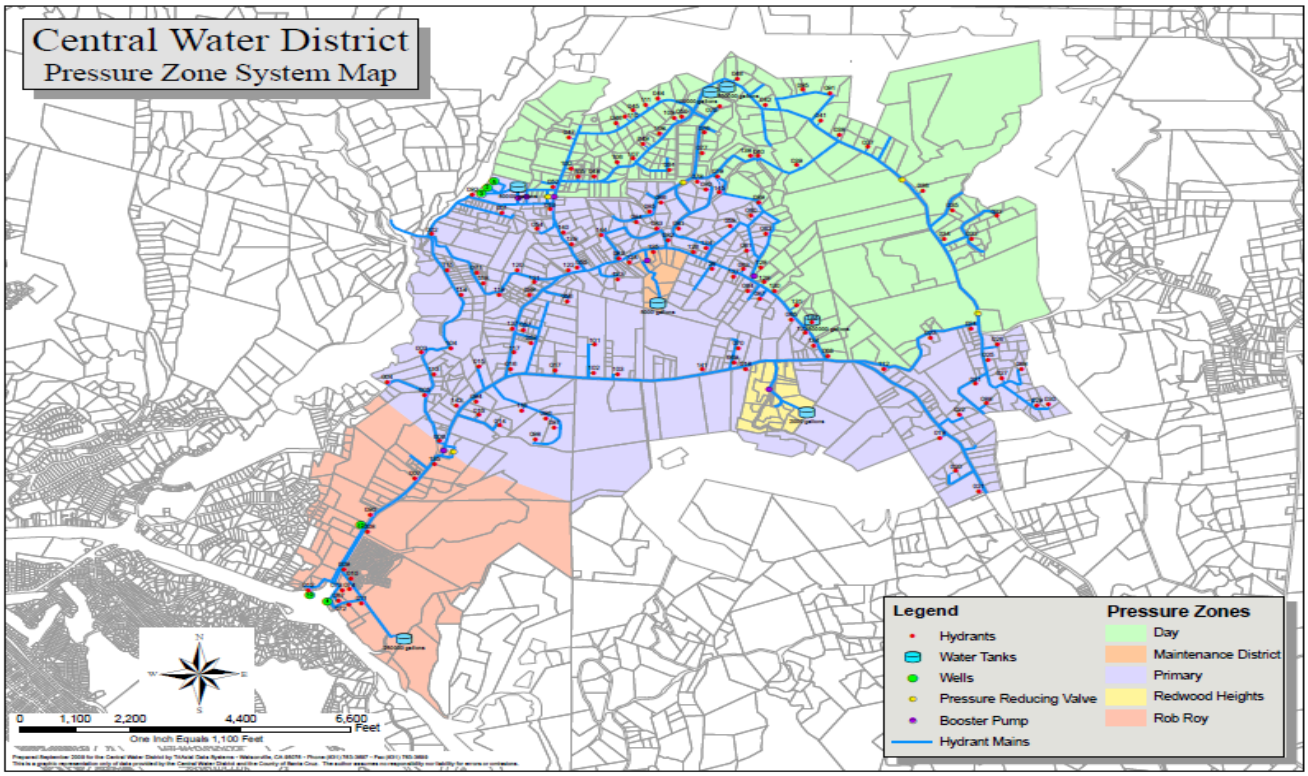
Facilities

The District's water distribution system includes approximately 24.2 miles of pipe ranging from 2 to 10 inches in diameter. Most of these mains are in good condition and are appropriately sized. However, the system does contain about three miles of older 6-inch steel pipe, originally installed in the 1950s (known as "surplus WWII invasion pipe"). This older piping, primarily located along Day Valley Road, requires the most maintenance. As a result, its replacement is scheduled as part of the District's Capital Improvement Plan.
As mains are replaced, the District evaluates them for adequate sizing at that location. For instance, in 2018-2019, nearly one mile of old steel main on Valencia Road was replaced, and the pipe size was increased from 6 inches in diameter to 8 inches.

Water System Asset Allocations by Water Pipe Type



The District's distribution system is separated into five pressure zones. Each zone is supplied either by pressure-reducing valves or by a combination of booster pumps and storage tanks.



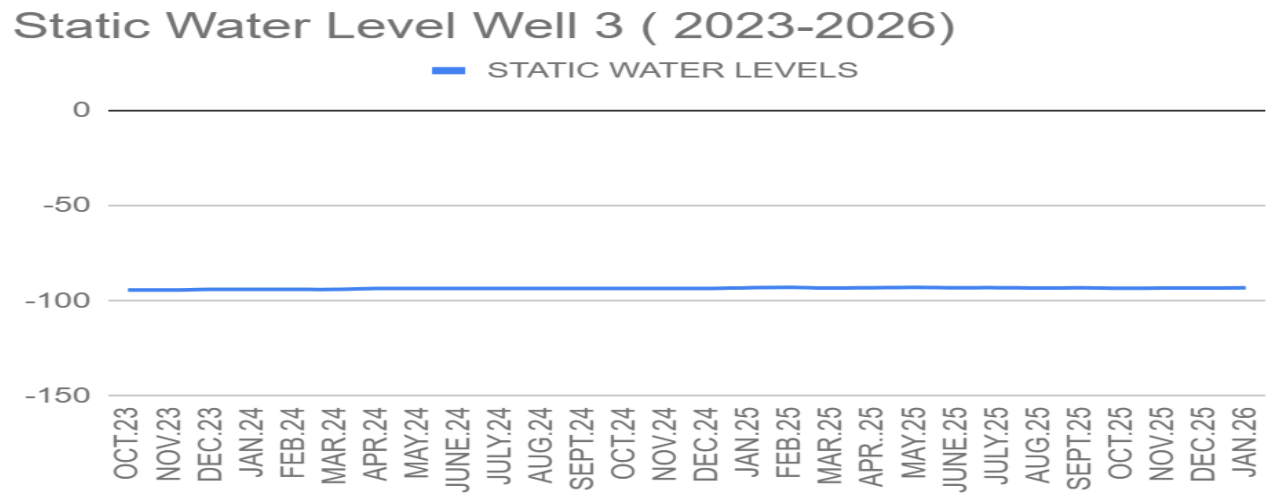
The District maintains seven storage tanks, offering a total storage capacity of 1.217 million gallons. These tanks, which range in size from 1,800 to 500,000 gallons, are constructed from either steel or polyethylene. The State of California Department of Water Resources has confirmed that this total storage capacity is sufficient to meet both current demands and the projected storage needs at buildout. In 2023, the District's staff replaced a 5,000-gallon steel tank in the Maintenance District Zone with a new tank of the same capacity. In 2022 the District replaced part of the top vent of the Morrison Tank and recoated the complete top of the tank with a rut-preventing two-part epoxy paint.

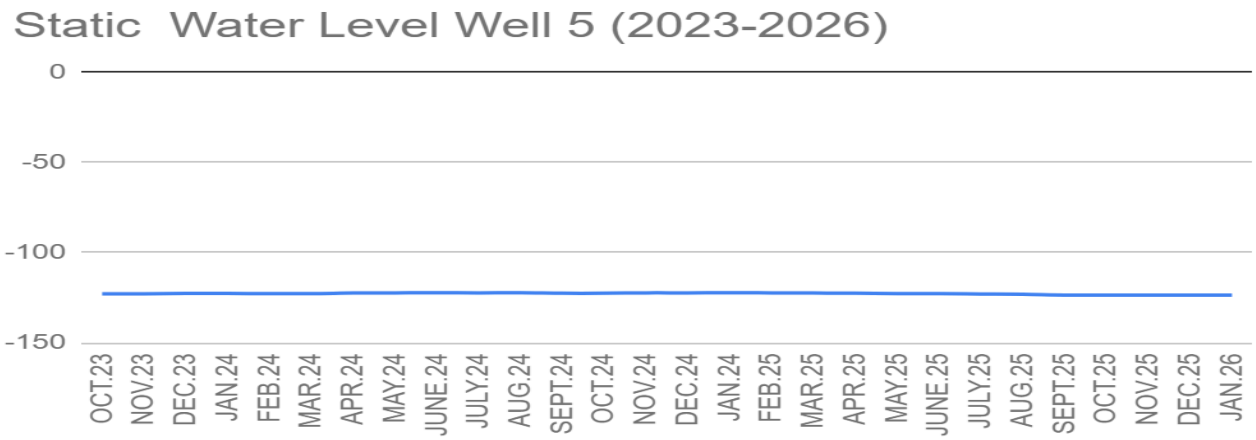
Three wells that provide the District's water supply are Wells 4, 10, & 12. These wells are located in the Rob Roy Well Field, within the District's service area. Wells 4 & 10 pump water from the Aromas Red Sands Aquifer; and Well 12 pumps water from the interface between the Aromas Red Sands Aquifer and the Purisima Aquifer yielding the highest quality water. Water quality in the Rob Roy Well Field is excellent and serves as a vital source for District customers. Wells 4, 10, and 12 do have detectable levels of Hexavalent Chromium (Chromium-6), ranging from a low of 5 parts per billion (ppb) up to 13 ppb in Well 10. Notably, Well 12 supplies the majority of the water served to our customers with the lowest levels of Hexavalant Chromium of 5 (ppb).

The District also has three other wells, Wells 2, 3 & 5 also known as the Cox Well Field, that are currently inactive/disconnected and have not been used since 2012 due to high iron and manganese content. These wells pump water from the Purisima Aquifer; and at one time, the District attempted to blend the water with water from the Rob Roy Well Field, but this was not successful. . Production from Well 12 on Freedom Boulevard has, for the most part, replaced production from the Cox Well Field, thereby improving water quality for customers.

Cox Well Field Static Water Table

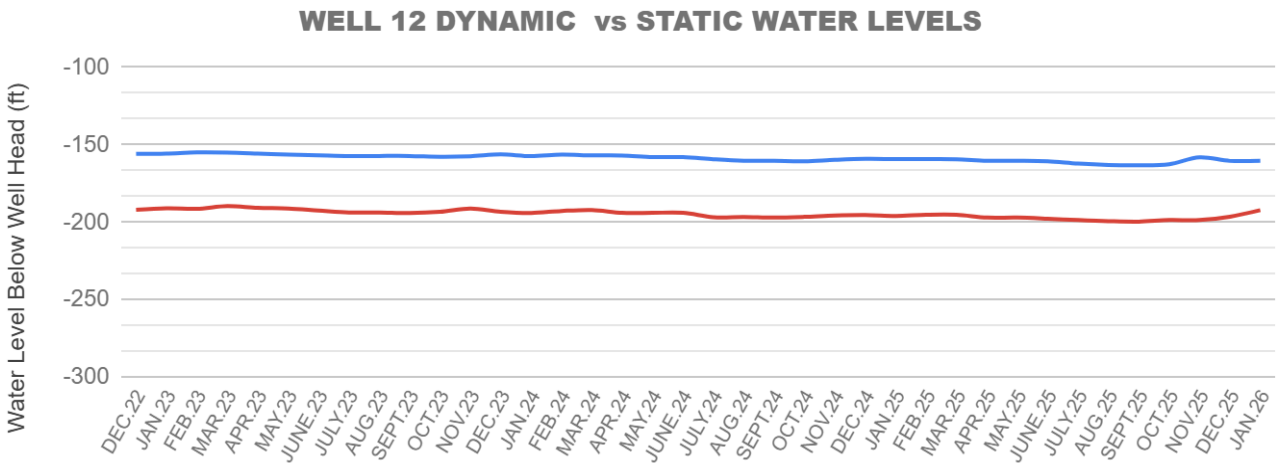
The static level of the water table in the Cox Well Field is currently 10 feet higher than the highest levels previously recorded (1967/68), a condition District staff attribute to a major shift in production to the Rob Roy Well Field, which does not pull from the same Aquifer. See the graphs below.





Rob Roy Well Field Static Water Table

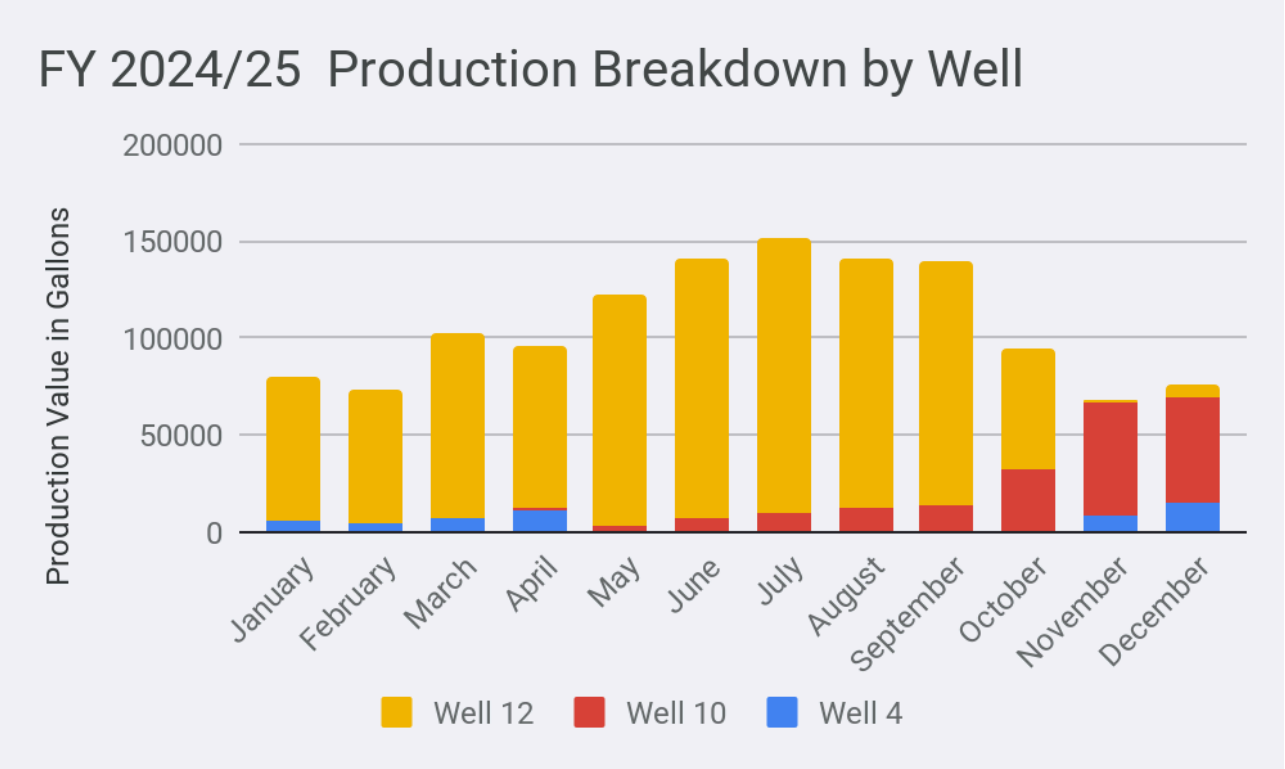
The static level of the water table in the Rob Roy Well Field is also very stable and has not been overdrawn. Well 12 went online in 1999 and the static water table has remained the same over the past 26 years. See the graph below.

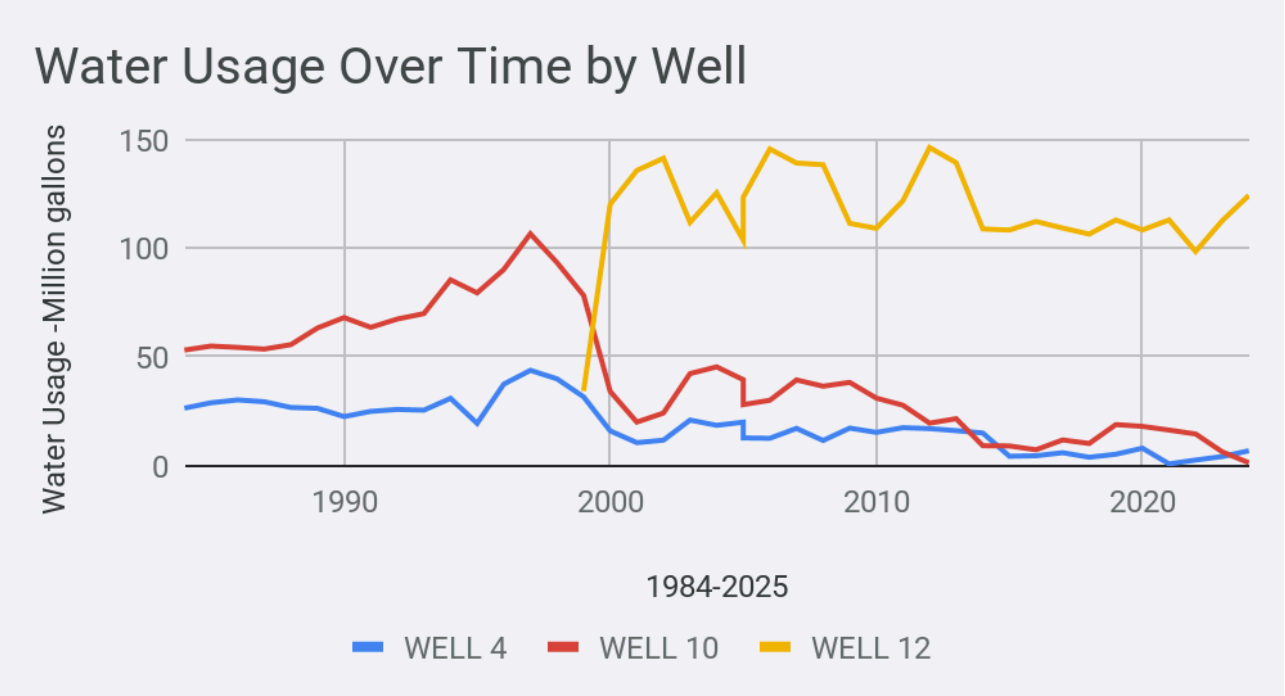


The District is currently drilling a new well, Well 14, that is expected to significantly enhance the water supply for years to come. This new well will be capable of meeting high summer demands and facilitating the transfer of higher quality water across all pressure zones.

Production and Consumption Information

In Fiscal Year 2024/25 the District produced 132.7 million gallons or 405 acre feet of water, and customers consumed 115 million gallons or 353 acre feet of water. Approximately 17 million gallons ran to waste due to flushing programs, tank cleaning, and known leaks. These amounts account for 94.2% of the water produced. The remaining 6.8% is unaccounted for water loss. In all there was a 13% increase in production and a 10% increase in consumption in Fiscal Year 2024/25. See tables below.

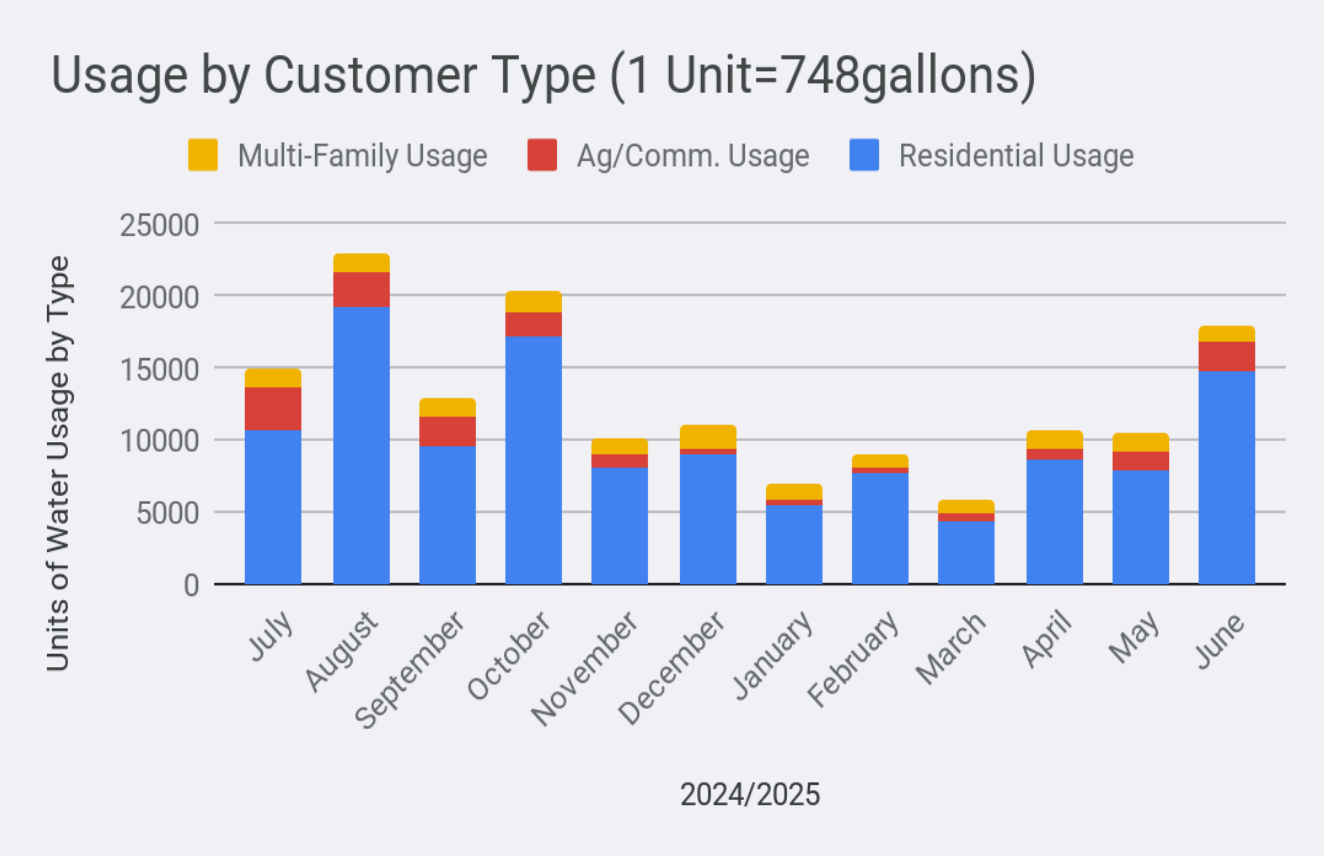




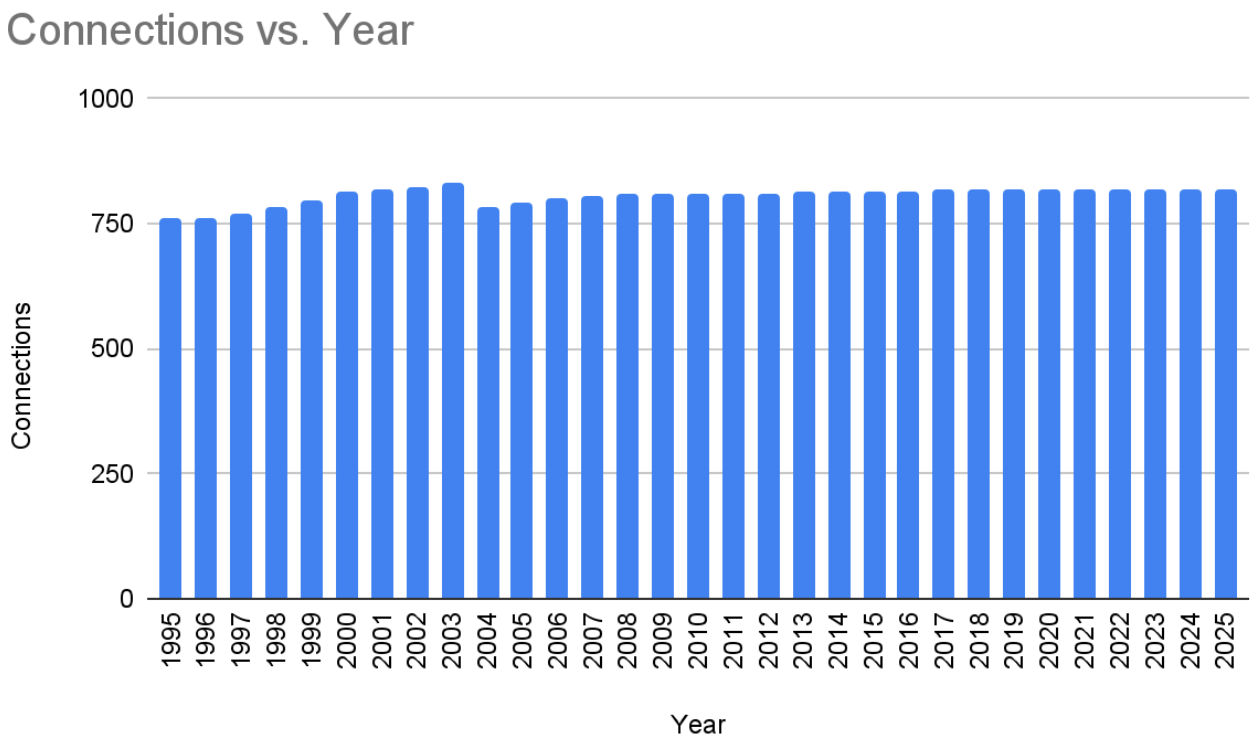
Key observations from the above Water Usage Chart:

- **WELL 12:** The highest usage, especially from the late 1990s onward.
- **WELL 10:** The highest usage in the 1980s and latter 1990s, dropping significantly in recent years, particularly since the 2010s.
- **WELL 4:** The lowest overall water usage across the entire time period.

Residential customer usage accounts for the vast majority of all units consumed. In FY 2024-25 residential usage made up 80.97% of the total usage. Residential usage peaked in August with a consumption of 19,277 units of water, and was at its lowest in March with a consumption of 4,418 units. Multi-family and Agriculture/Commercial water usage were significantly less, accounting for 9.74% and 9.30% of the total usage, respectively. As seen in the graph below, residential water usage is strongly affected by seasonal precipitation, whereas multi-family usage is the most stable throughout the fiscal year.



The District currently maintains 826 water connections. As seen in the graph below, in 2003, fire service connections were separated from the total to provide a clearer count of actual water service connections.



Financial Summary

Statement of Financial Position

A key question regarding the District's financial health is: "Is the District better off or worse off as a result of this year's activities?"

The Statement of Net Position and the Statement of Revenues, Expenses, and Changes in Net Position reporting generated during the District's FY 2024/25 Financial Audit provided the necessary information to answer this question, by considering all of the current year's revenues and expenses.

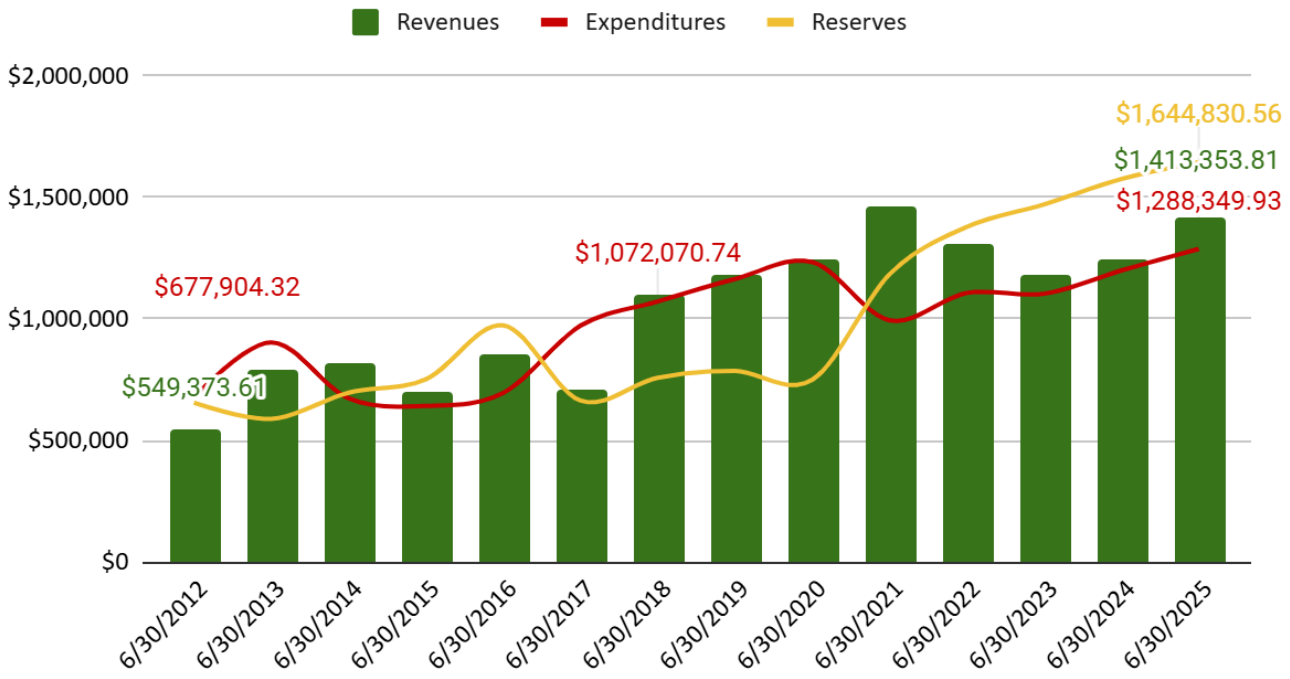
In all, the District's financial standing remains strong, as evidenced by a $100,144 increase in Net Position resulting from this year's activities. However, it is important to note that Net Position is not the sole indicator of overall financial health, as it can be influenced by significant expenditures, such as the ongoing and substantial Well 14 Capital Improvement Project.

Financial Highlights

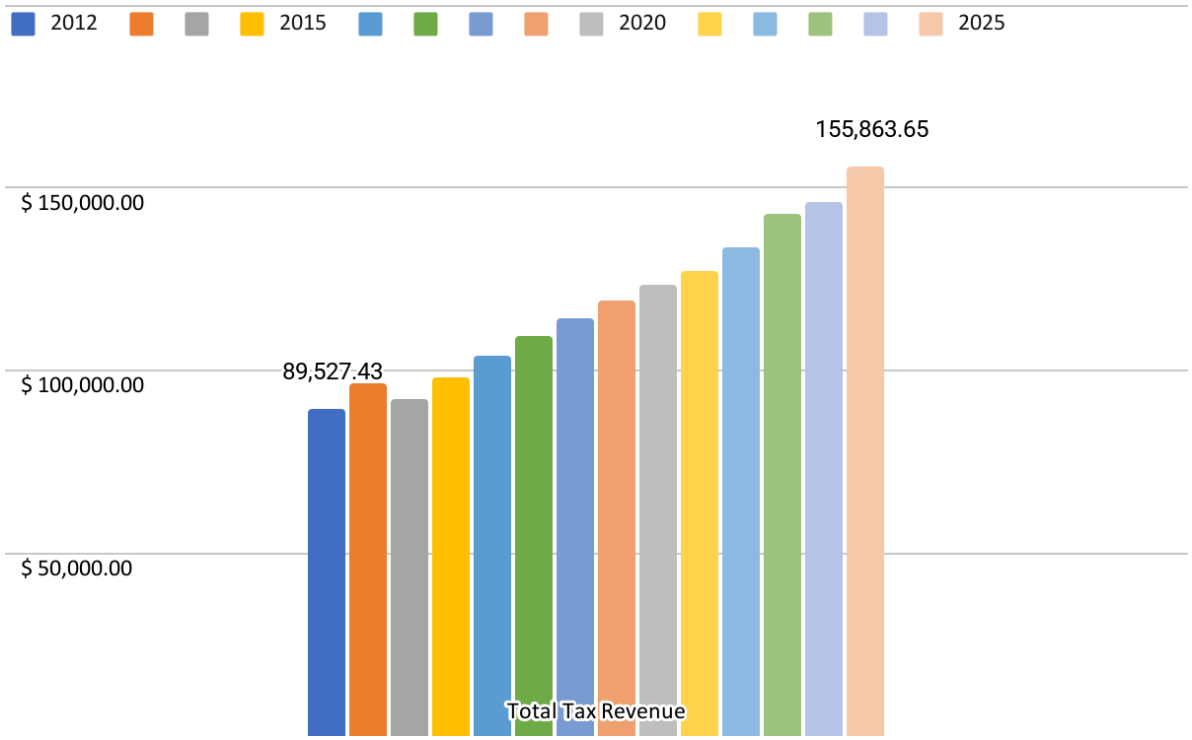
- In Fiscal Year 2024/25, the District's total revenues increased 11.64% or $164,570. The total revenue for FY2024/25 was $1,413,354. In Fiscal Year 2023/24, the District's total revenues increased 5.15% or $64,304 to $1,248,784.

- In Fiscal Year 2024/25, the District's total expenses increased 7.40% or $88,724 to $1,288,350. In Fiscal Year 2023/24, the District's total expenses increased 8.67% or $95,712 to $1,199,626.

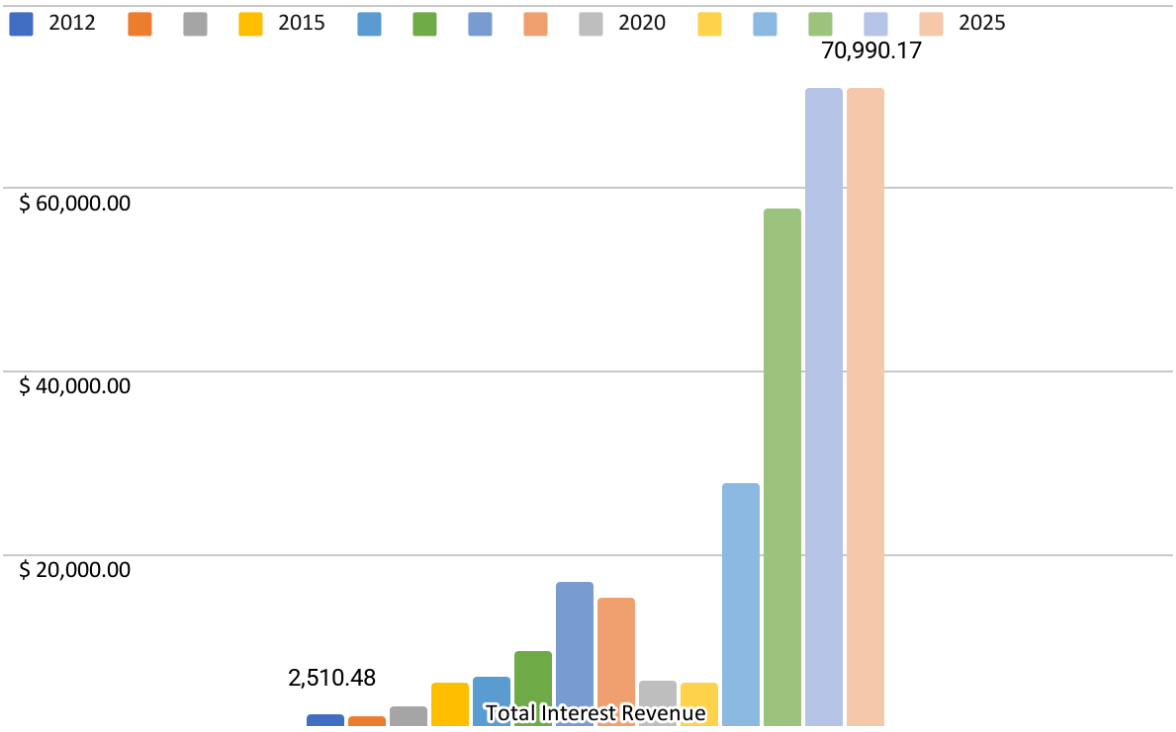
Revenues, Expenditures & Reserves



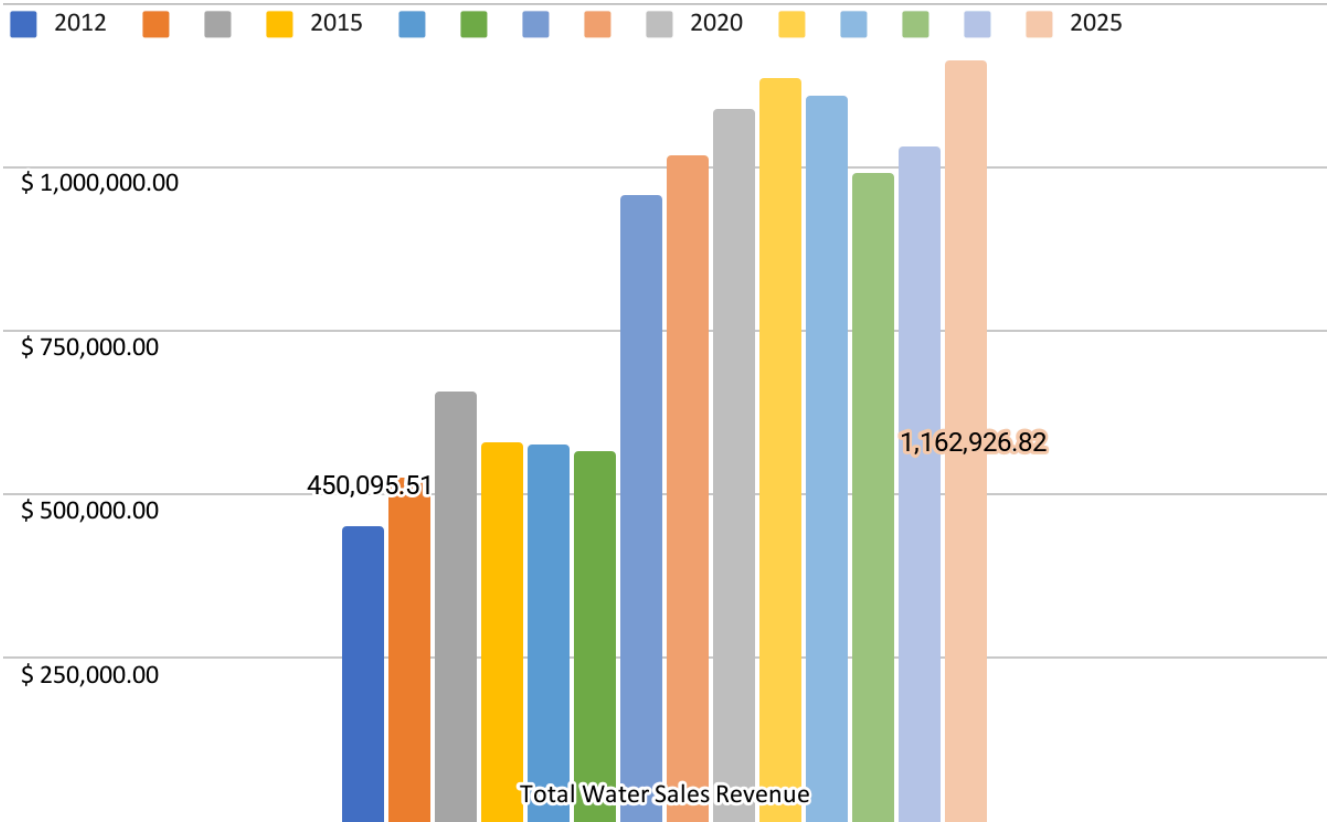
The majority of *non-operating revenue* received is from tax revenue. In FY 2024/25 $155,864 in Tax Revenue was collected. This was a 6.19% increase from the previous fiscal year's tax revenue of $146,209. See the below graph.



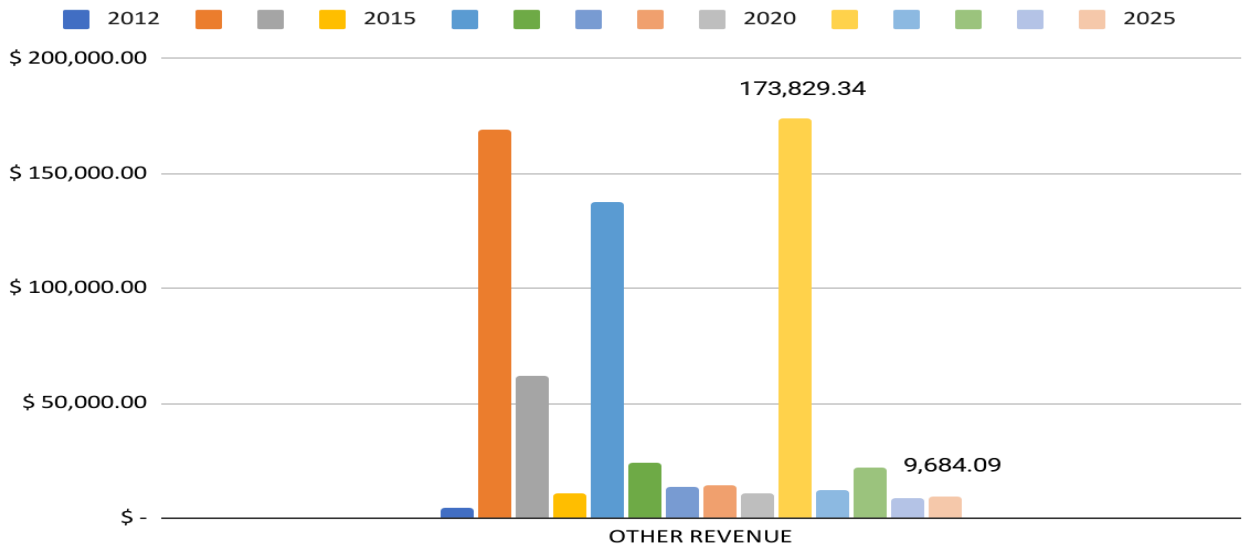
The District also received $70,990 in Interest Revenue in FY 2024/25. This was a $13,151 increase from the previous fiscal year's interest revenue of $57,839. See the graph below.



For Fiscal Year 2024/25, Water Sales revenue reached $1,162,927. This represents an increase of $130,319, or 12.6%, compared to the water sales revenue generated in the previous fiscal year.



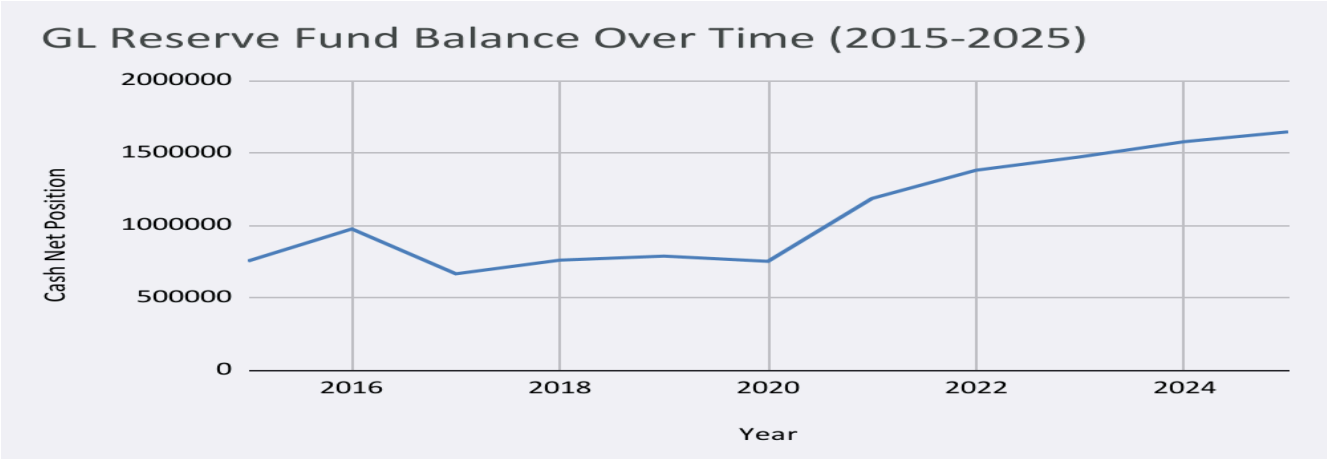
Other revenue sources include late fees, rebates, and grants. Approximately $1,100 in Grant Funds were utilized in 2025 for fire fuel reduction at several tank sites. See below.



Reserve Fund : Aggressive Growth in 2020-2025

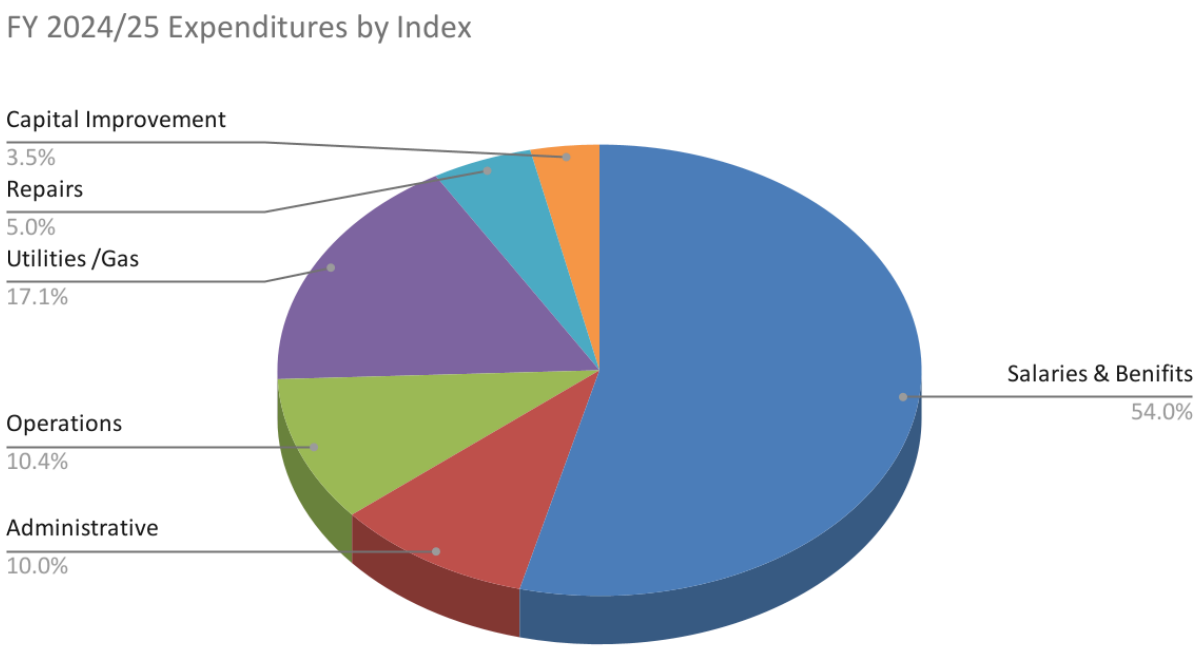
The most significant financial trend is the dramatic and sustained increase in the Cash Net Reserve Fund Position starting in 2021 and continuing through to 2025.

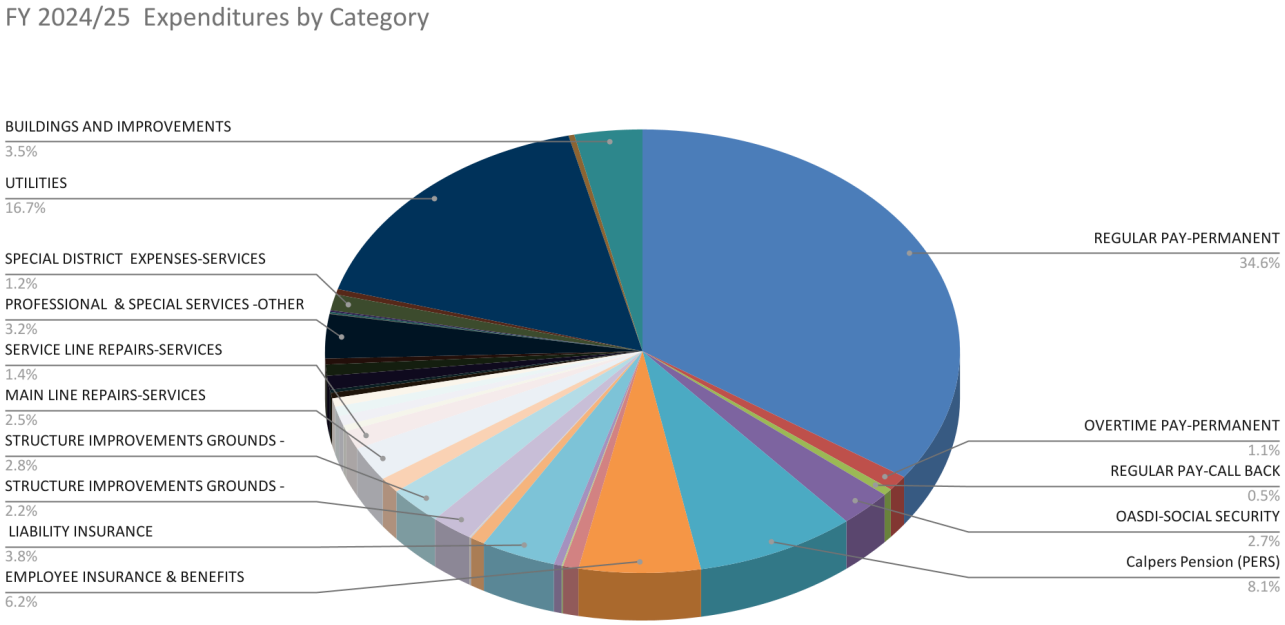
The balance experienced a period of explosive growth, increasing by approximately 119.3% from 2020 ($750,145) to 2025 ($1,644,830). Since 2021, the fund has consistently reached a new maximum each year, culminating at $1,644,830 in 2025. The District's Management Team deliberately worked to increase the reserve fund to finance the significant capital expenses associated with the drilling and development of a new water well, Well 14.



Expenditures

The following charts summarize the Central Water District's total expenditures during Fiscal Year 2024/25.





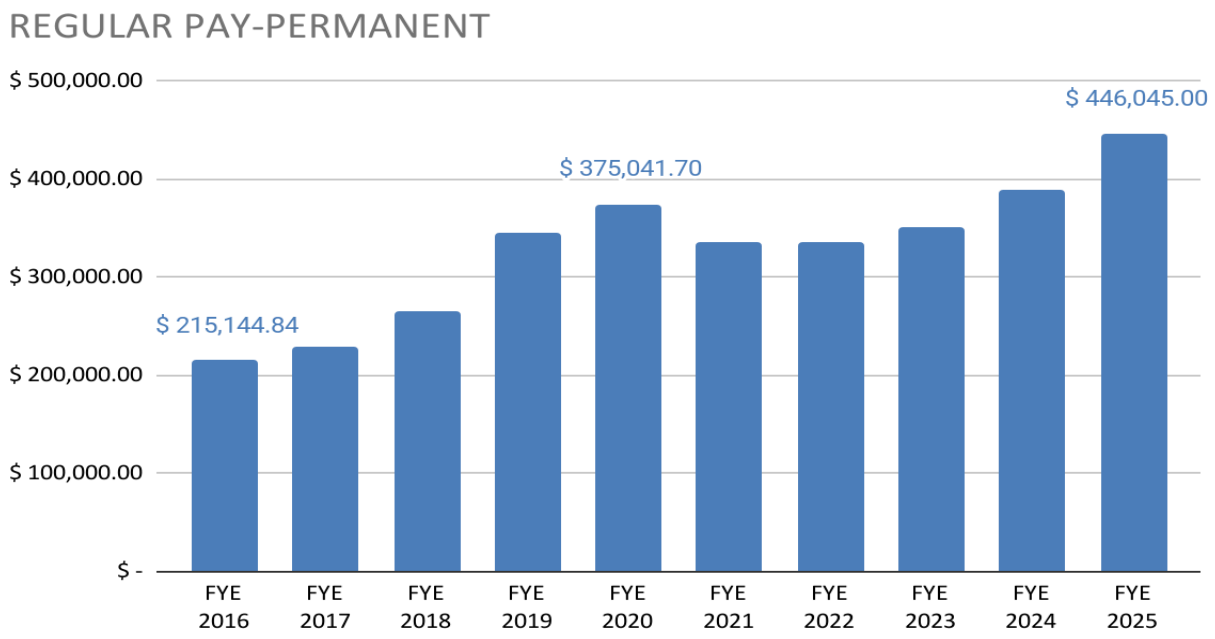
Employee Compensation

Based on recent American Water Works Association (AWWA) surveys and regional reports (2022–2025), water agencies have implemented significant pay and compensation increases to combat high vacancy rates, inflation, and competition for specialized technical roles. Compensation trends show a consistent upward trajectory, with salary increases for 2023–2024 ranging between 2.1% and 7.9% depending on agency size. The smaller the agency the higher the percentage.

Central Water District recently experienced significant staff turnover, including the replacement of its entire Operations staff due to retirements and to employers offering higher compensation.With that said, the most common staffing challenges the District will face in the coming years are as follows:

- **Cost of Living/Inflation**: Agencies, particularly those in high cost-of-living areas such as California, have had to increase employee compensation to ensure personnel retention.
- **Recruitment Competition:** Offering competitive compensation that aligns with private-sector salaries for specialized technical positions is now a necessity.
- **High Turnover and Aging Workforce :** The advancing age of the workforce and the resulting difficulty in recruiting new, trained personnel is at an all-time high.
- **Future Projections (2026–2030):** Continued pressure to increase salaries is anticipated, with projected increases in 2025 and 2026. For 2026, some agencies have already authorized Cost of Living Adjustments (COLAs) of 4.0%.

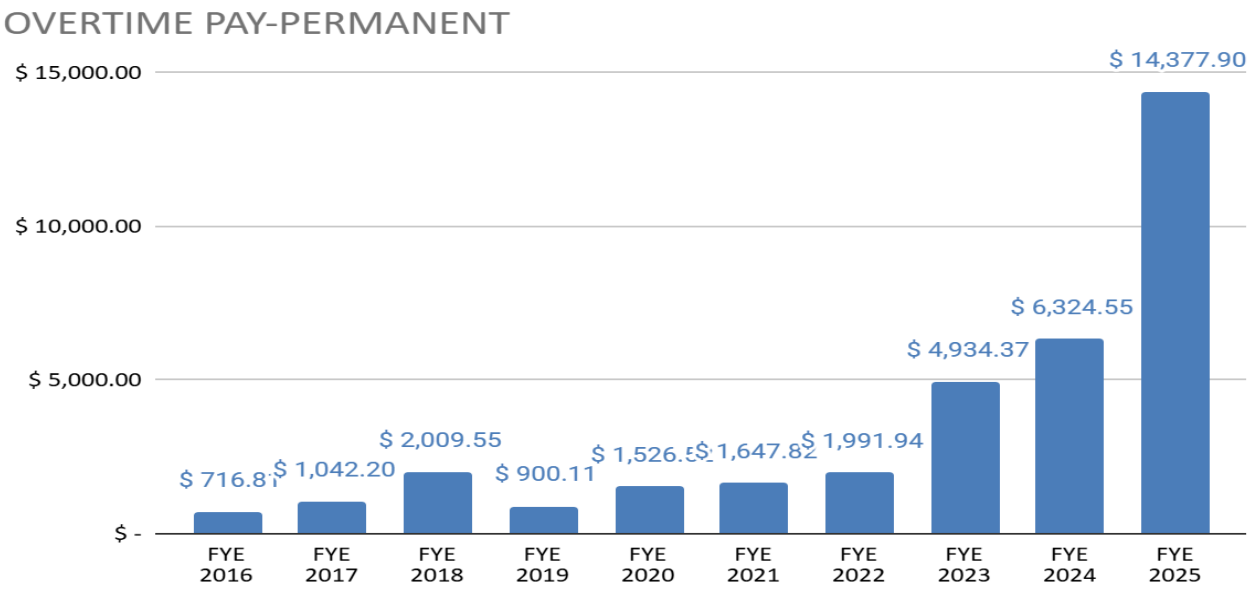
A graph summarizing District employee salaries for Fiscal Years 2016 - 2025 can be found on the following page.

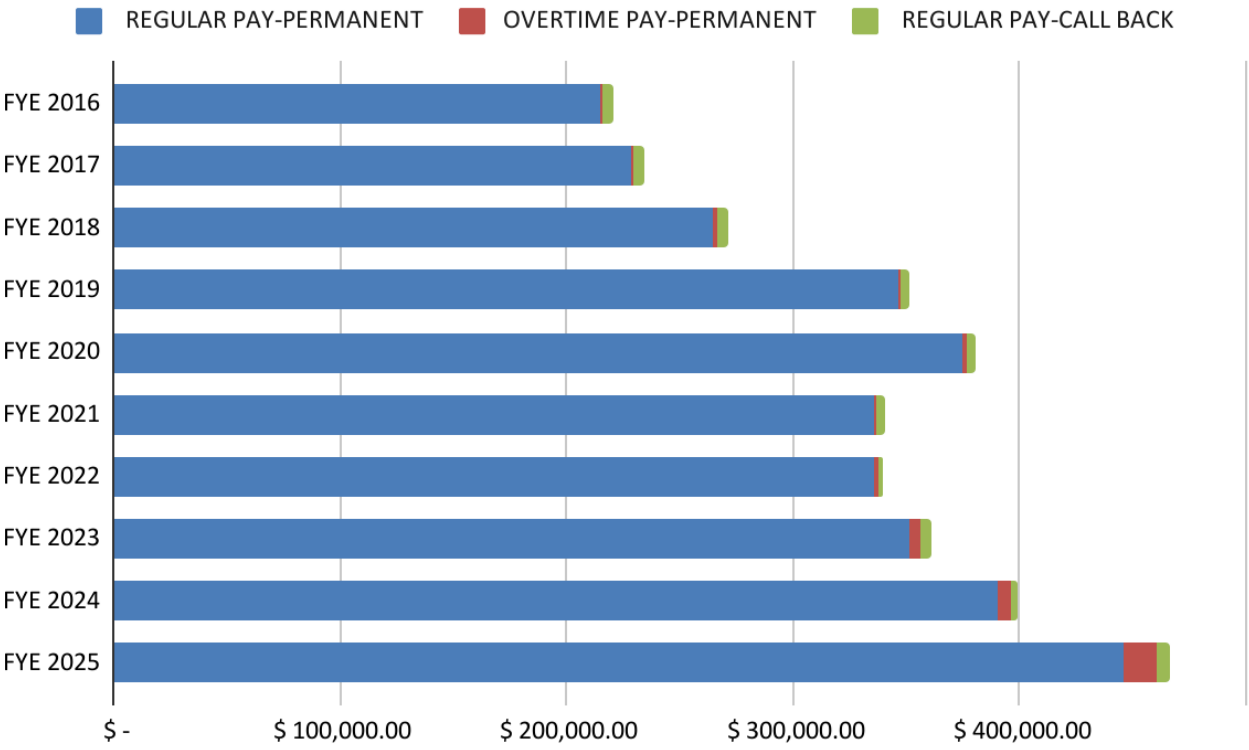


The District is currently observing a marked escalation in its overtime index, a clear indicator that a significant portion of the staff is routinely exceeding the standard workload of 70 hours per pay period. Any work performed beyond the standard workload (35 hours per week) is compensated using a straight hourly wage. This upward overtime trend can be primarily attributed to the following factors:

- **Aging Infrastructure:** The District's aging infrastructure—including pipelines, pumping stations, and treatment facilities— inherently increases the risk of service disruptions. This necessitates an immediate response by Operations staff, often outside of normal operating hours, to prevent service interruptions.
- **Increased PG&E Power Outages:** The growing frequency and duration of planned and unplanned Pacific Gas and Electric Company (PG&E) power outages pose a challenge. These outages require District personnel to rapidly deploy and manage the District’s emergency generators, implement manual operating protocols at key facilities, and perform post-outage system checks and recalibrations, all of which substantially increase required man-hours.

Fiscal year-end summaries of District employee overtime pay, and overtime pay compared to regular pay, can be found in the graphs on the following page.


OVERTIME PAY-PERMANENT
$ 15,000.00
$ 10,000.00
$ 5,000.00
$ -
$ 716.81
$ 1,042.20
$ 2,009.55
$ 900.11
$ 1,526.55
$ 1,647.82
$ 1,991.94
$ 4,934.37
$ 6,324.55
$ 14,377.90
FYE 2016
FYE 2017
FYE 2018
FYE 2019
FYE 2020
FYE 2021
FYE 2022
FYE 2023
FYE 2024
FYE 2025


REGULAR PAY-PERMANENT
OVERTIME PAY-PERMANENT
REGULAR PAY-CALL BACK
FYE 2016
FYE 2017
FYE 2018
FYE 2019
FYE 2020
FYE 2021
FYE 2022
FYE 2023
FYE 2024
FYE 2025
$ -
$ 100,000.00
$ 200,000.00
$ 300,000.00
$ 400,000.00

CENTRAL WATER DISTRICT
BENEFITS EXPENSE

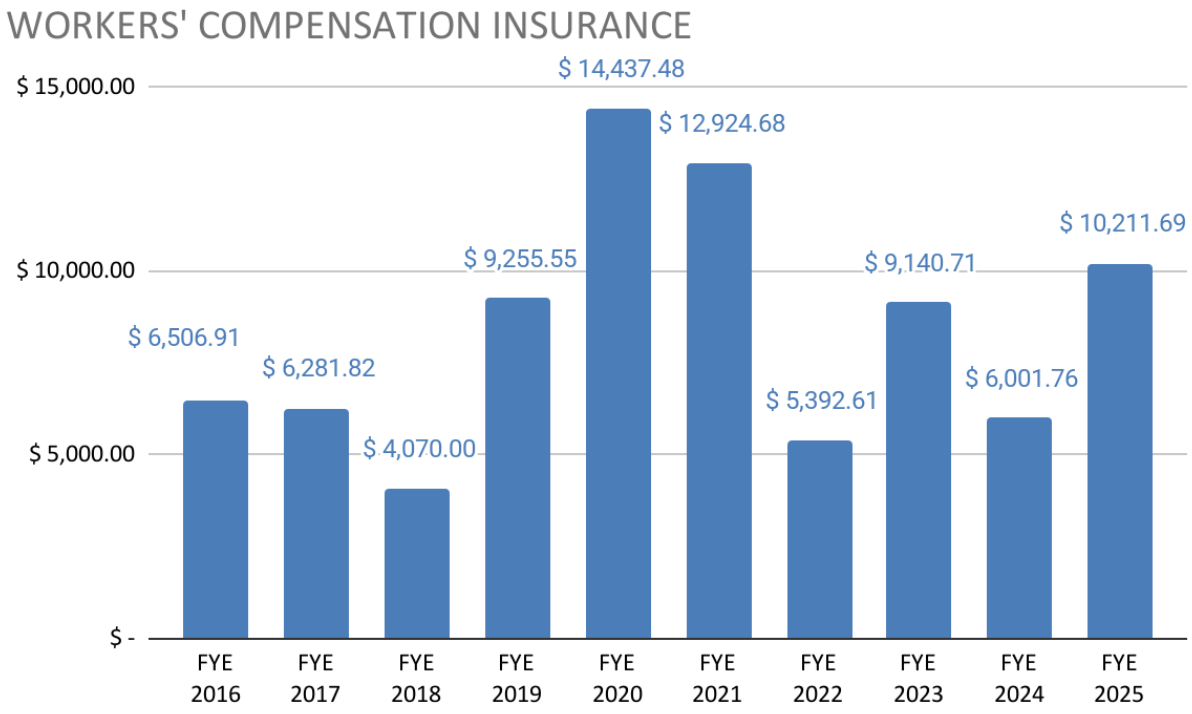
Administrative Staffing Expenses

Administrative benefit costs for employees, often ranging from 1.25 to 1.5 times the base salary, include non-wage expenses like payroll taxes (e.g., unemployment, FICA, etc.), insurance (e.g., workers' compensation, health, etc.), and other benefits (e.g., cell phone allowance, etc.). These, along with training, equipment, and administrative staff support, represent indirect expenses.

Key contributors to rising Administrative benefit costs include the following:

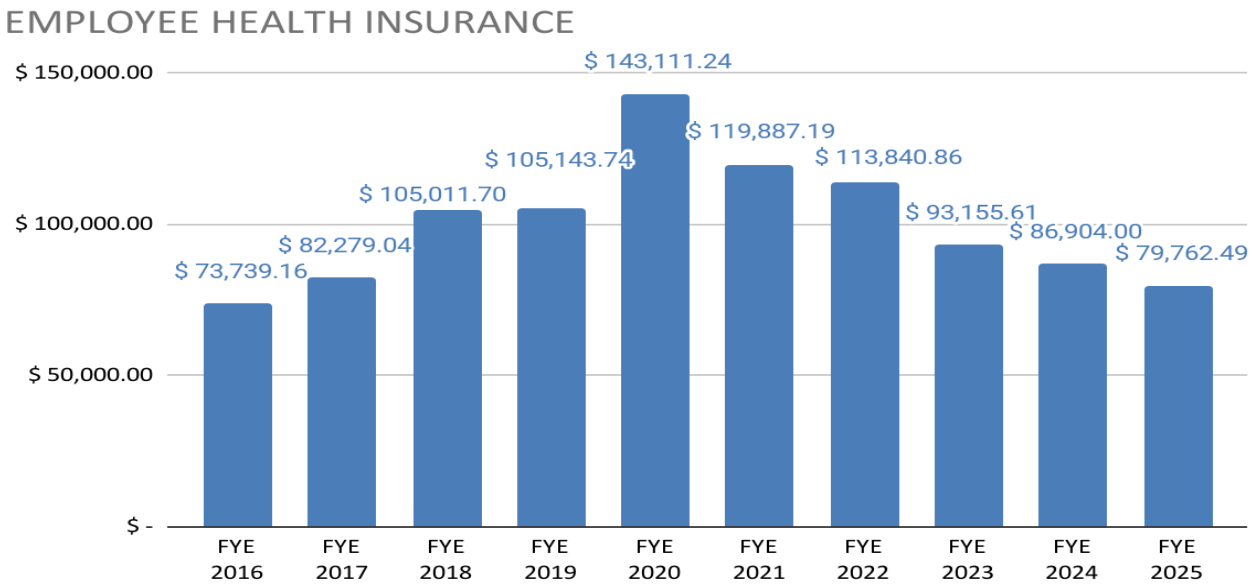
- **Benefits & Insurance:** Workers' Compensation Insurance, Health Insurance, and Retirement plan contributions.
- **Payroll Taxes & Compliance:** Social Security, Medicare, and HR-related compliance costs.

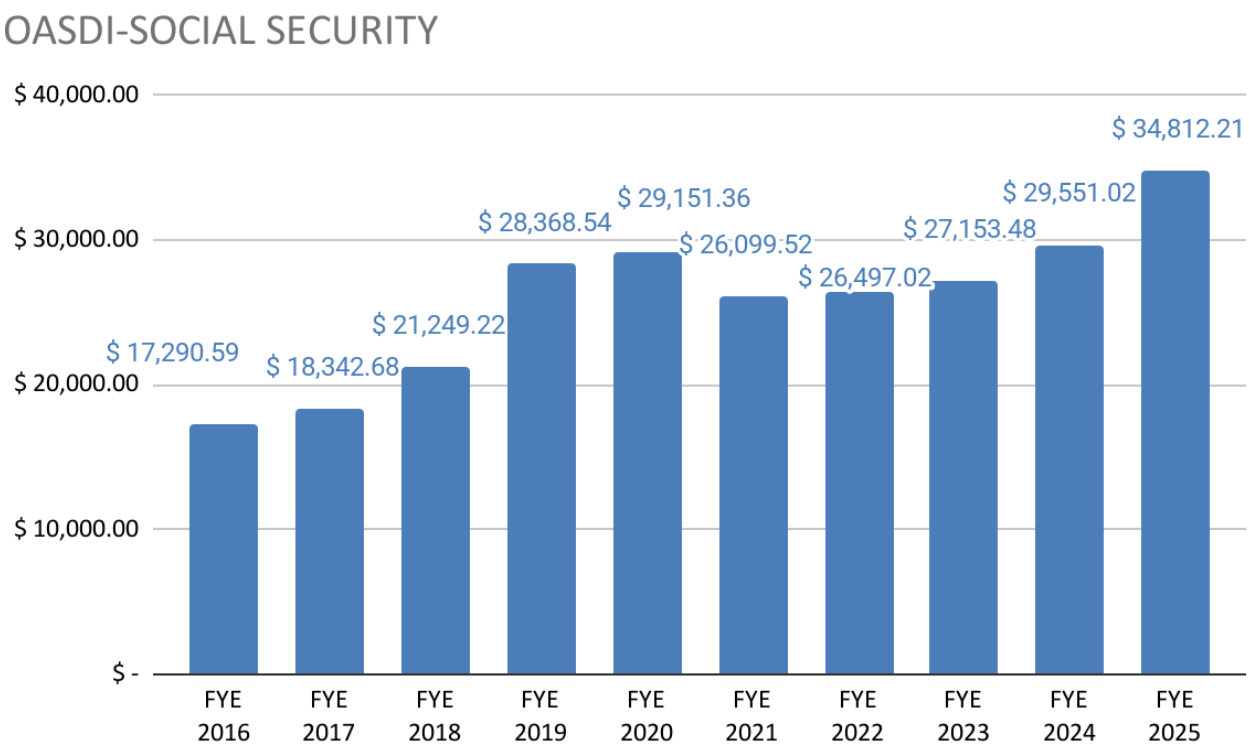
The fiscal year-end graphs found below and on the following pages, show the increasing and often fluctuating costs associated with the District's Administrative benefit costs.



Based on ACWA JPIA (Association of California Water Agencies Joint Powers Insurance Authority) reports, the health insurance pool implemented significant, consistent rate reductions for its self-funded PPO medical plans in recent years, despite broader market inflation. However, since 2024, rates have increased 10-12% annually. Key findings regarding ACWA JPIA health insurance rates are as follows:

- PPO Reductions & Increases: Following a period of stability (no rate changes in 2019, 2020, or 2021), the JPIA reduced self-funded PPO medical plan rates by 5% in 2022 and another 10% in 2023. In more recent years, post-pandemic health insurance rates have increased 10-12% annually to address inflation and other cost pressures. Nonetheless, ACWA JPIA is committed to balancing rate increases with excess funds in order to stabilize the experience of their members.
- Cumulative Savings: In 2023 JPIA's self-funded PPO medical plan rates were 15% lower than they were in 2018. Although health insurance costs are now on the rise, ACWA JPIA's dedication to passing on available savings to its members remains unchanged.
- Strategic Cost Control: The 2023 reduction mentioned above was largely attributed to the loss of two high-cost claimants, and the strategic cease in purchasing stop loss coverage. Additionally, the transition to a new Pharmacy Benefit Manager (CarelonRx) for 2024 was projected to bring further savings.

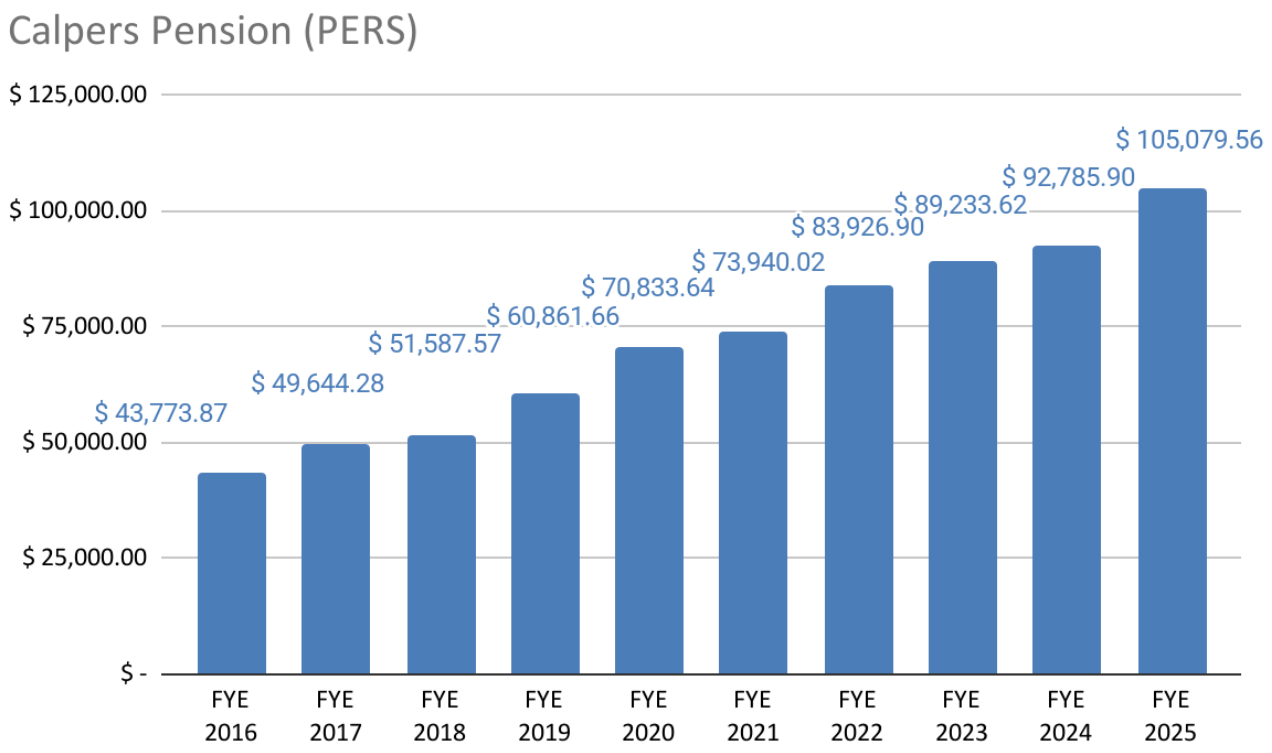


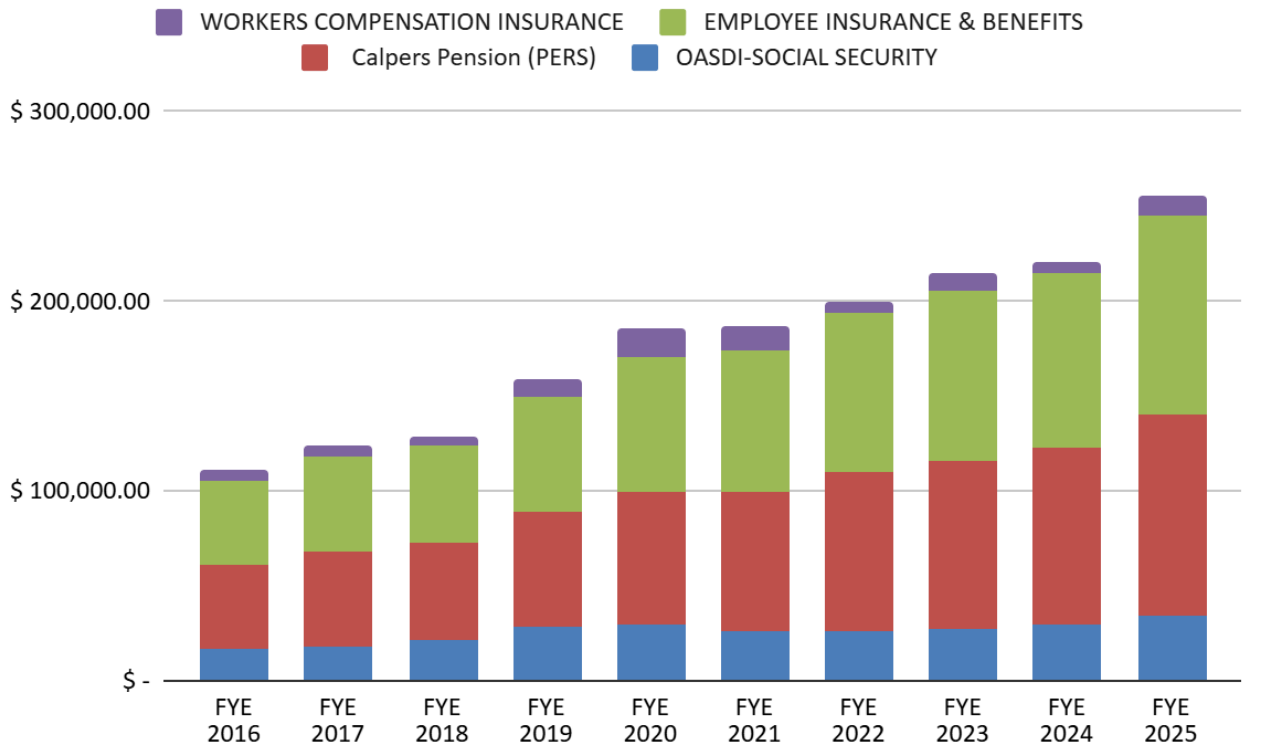


CalPERS employer contribution rates for Central Water District have been on an upward trend for several years due to lower investment return assumptions (discount rates) and efforts to pay down Unfunded Accrued Liability (UAL). While the immediate, short-term trend is higher costs, the long-term outlook supports the projection that the retirement of "Classic" members will lead to cost decreases over the long term. This is supported by the following premises:

- **Classic Members:** Hired before January 1, 2013, these members often have more generous pension formulas (e.g., 2% at 55). When these employees retire, the high cost of funding their benefits is replaced by new hires under PEPRA.
- **PEPRA Members:** Hired on or after January 1, 2013, these members have lower pension formulas (e.g., 2% at 62) and are required by law to contribute at least 50% of the cost of this benefit.
- **The Shift:** As "Classic" employees retire, the proportion of "PEPRA" employees increases, which reduces the "normal cost" component of the employer contribution rate.

However, despite the long-term trend toward cheaper PEPRA labor, agency costs can continue to rise because the agency must pay down the Unfunded Accrued Liability (UAL) associated with the “Classic” employees’ past service.

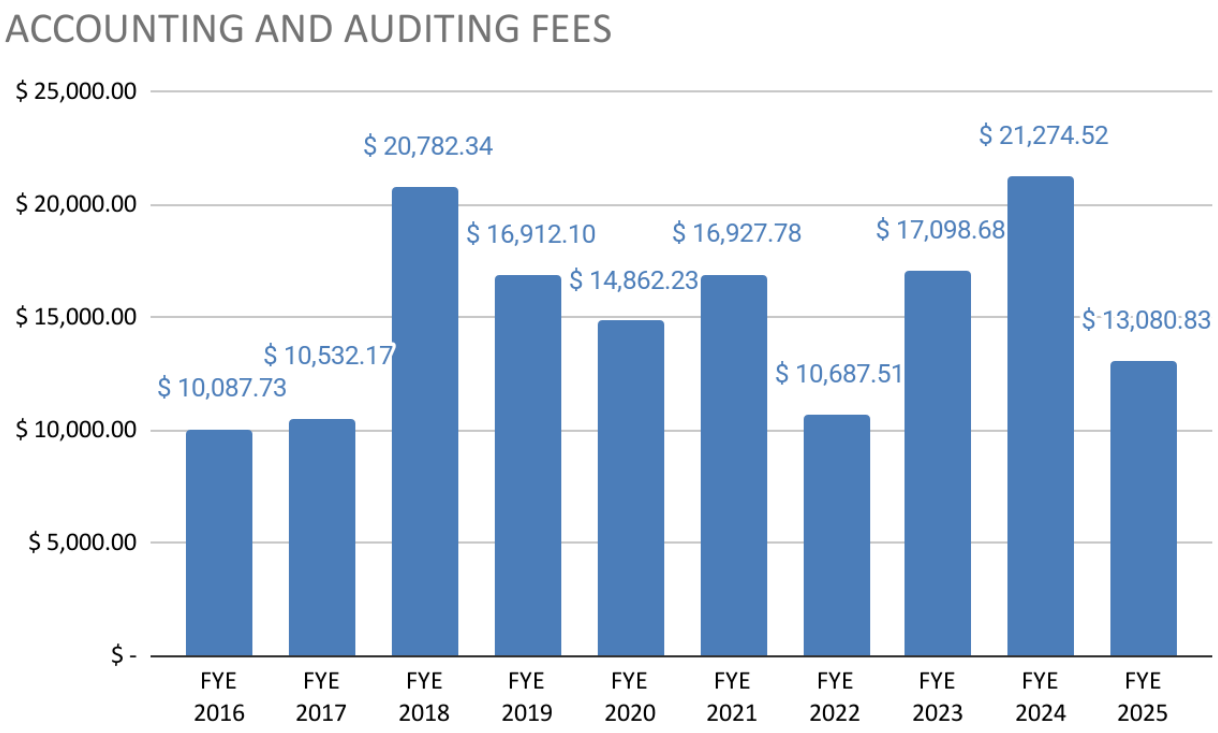

Calpers Pension (PERS)
$ 125,000.00
$ 100,000.00
$ 75,000.00
$ 50,000.00
$ 25,000.00
$ -
$ 43,773.87
$ 49,644.28
$ 51,587.57
$ 60,861.66
$ 70,833.64
$ 73,940.02
$ 83,926.90
$ 89,233.62
$ 92,785.90
$ 105,079.56
FYE 2016
FYE 2017
FYE 2018
FYE 2019
FYE 2020
FYE 2021
FYE 2022
FYE 2023
FYE 2024
FYE 2025


WORKERS COMPENSATION INSURANCE
EMPLOYEE INSURANCE & BENEFITS
Calpers Pension (PERS)
OASDI-SOCIAL SECURITY
$ 300,000.00
$ 200,000.00
$ 100,000.00
$ -
FYE 2016
FYE 2017
FYE 2018
FYE 2019
FYE 2020
FYE 2021
FYE 2022
FYE 2023
FYE 2024
FYE 2025

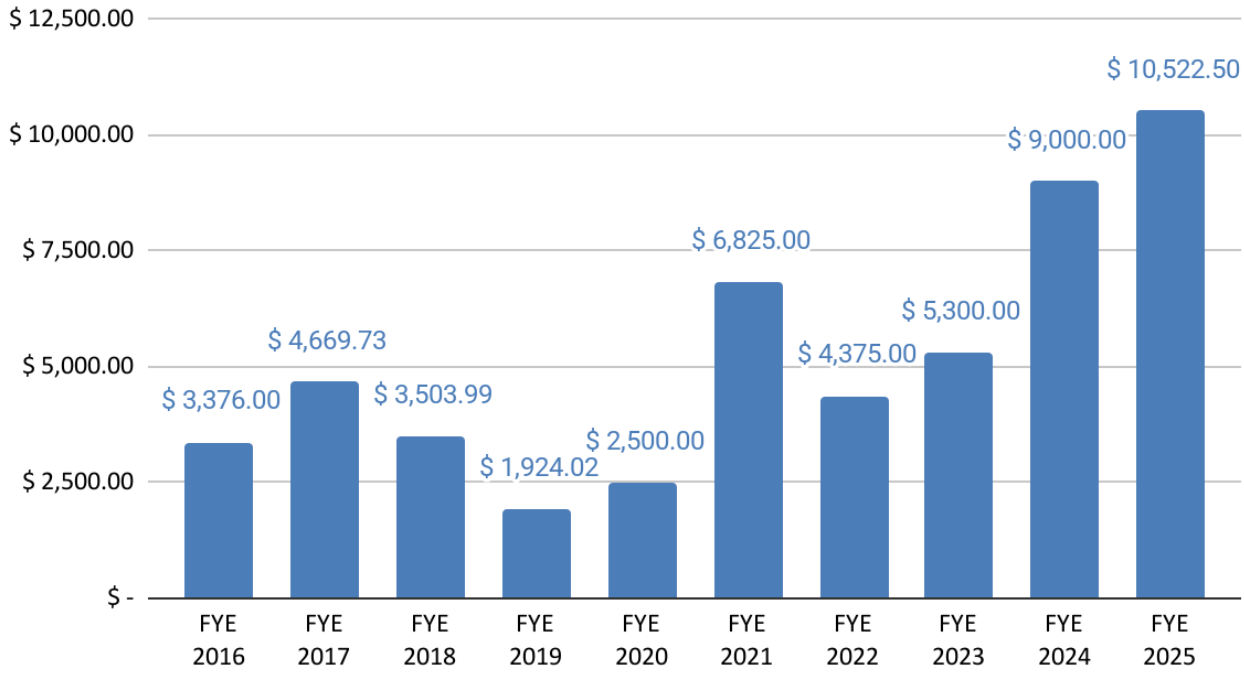
CENTRAL WATER DISTRICT
ADMINISTRATIVE EXPENSES

Administrative Expenses

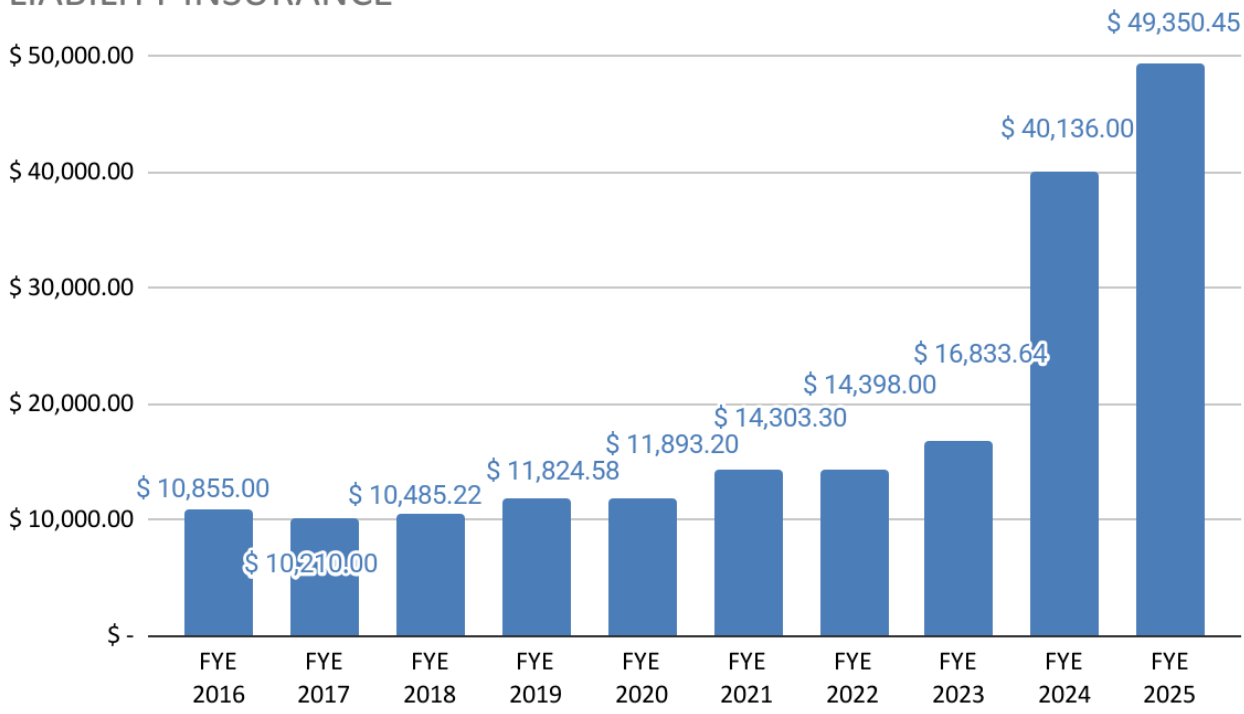
Administrative expenses are essential for the operation of the District, and have significantly increased since 2020. This upward trend is primarily attributable to several key areas.. Specifically, the Central Water District has experienced substantially higher expenditures related to regulatory and financial oversight, with accounting audits becoming more comprehensive and thus more costly. Concurrently, legal expenses, such as monthly attorney retainer fees, have also increased due to the need for specialized counsel to assist with compliance and operational matters. Furthermore, fluctuating and rising general liability and property insurance premiums continue to increase Administrative expenses. In all, these combined factors have placed notable pressure on the overall administrative budget required to sustain the District's operations. The fiscal year-end graphs found below and on the following pages, summarize the costs associated with common Administrative expenses.



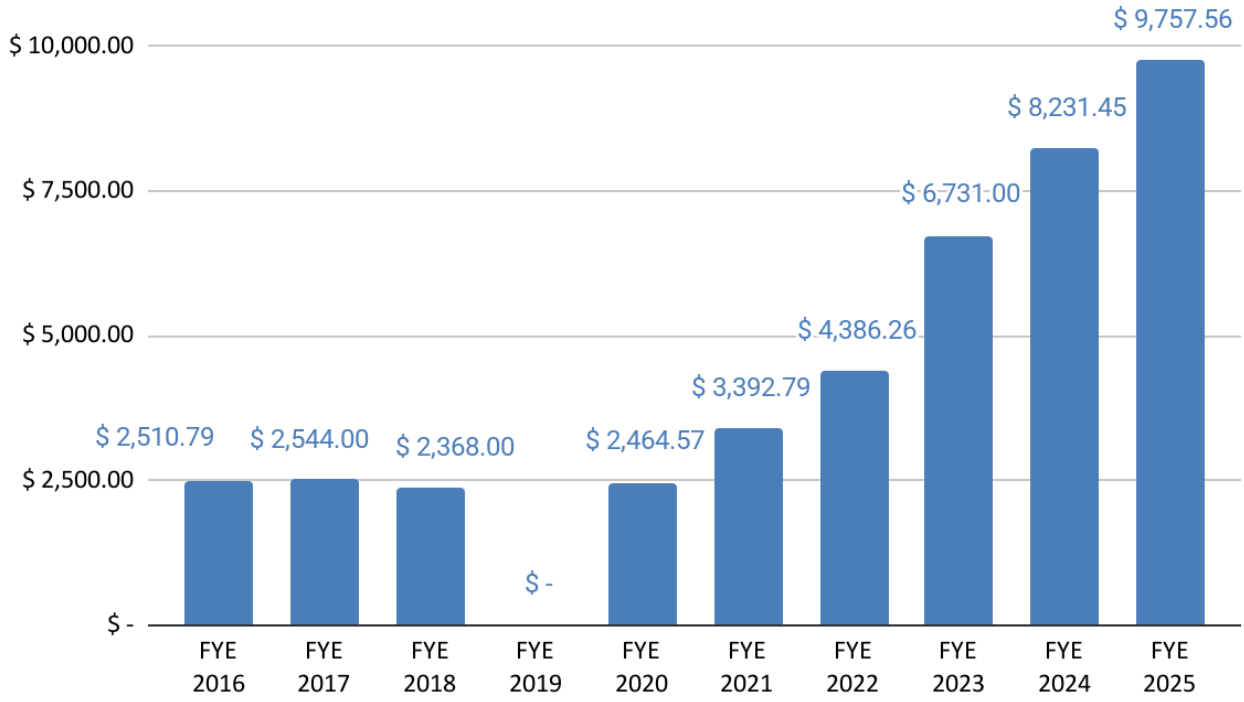
ATTORNEY



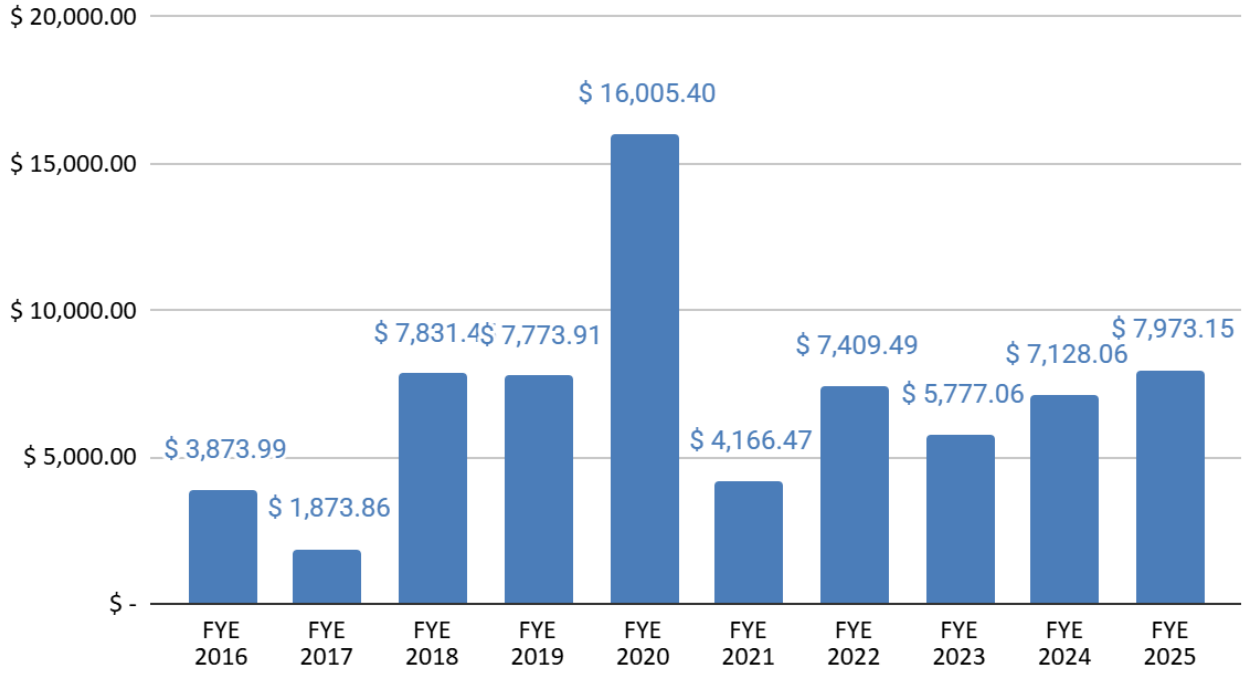
LIABILITY INSURANCE

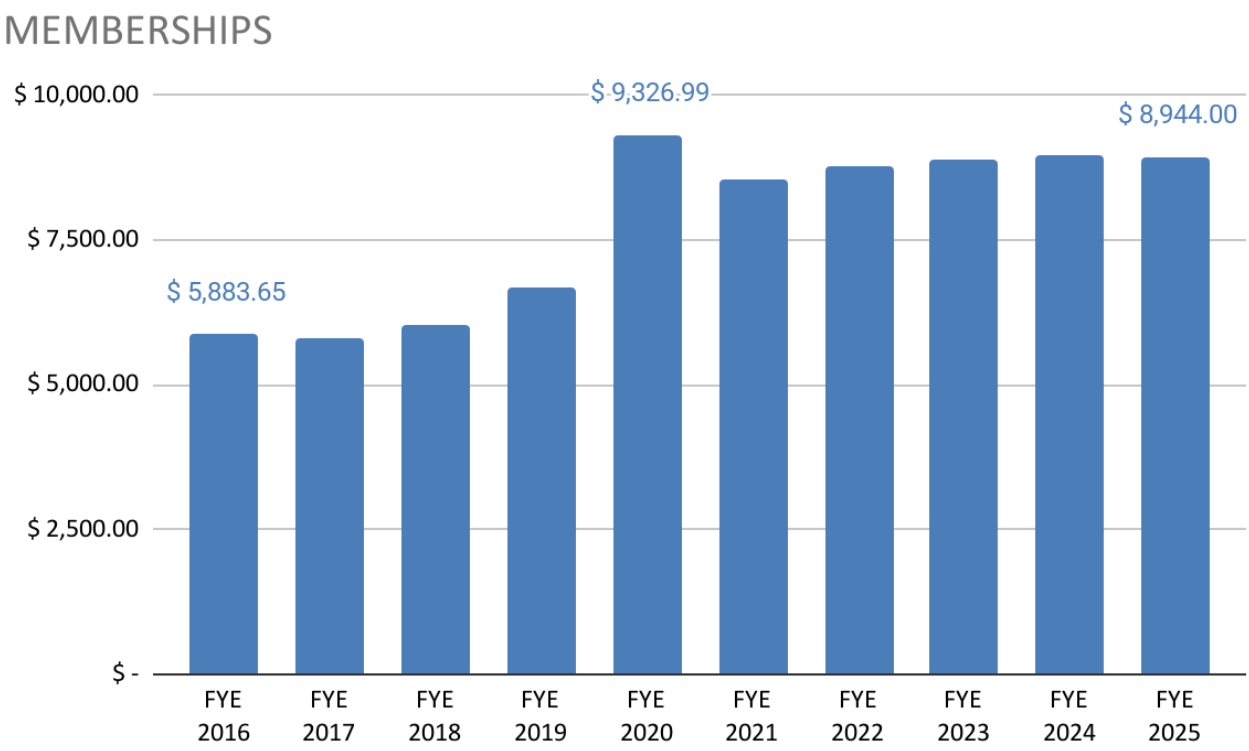


PROPERTY INSURANCE

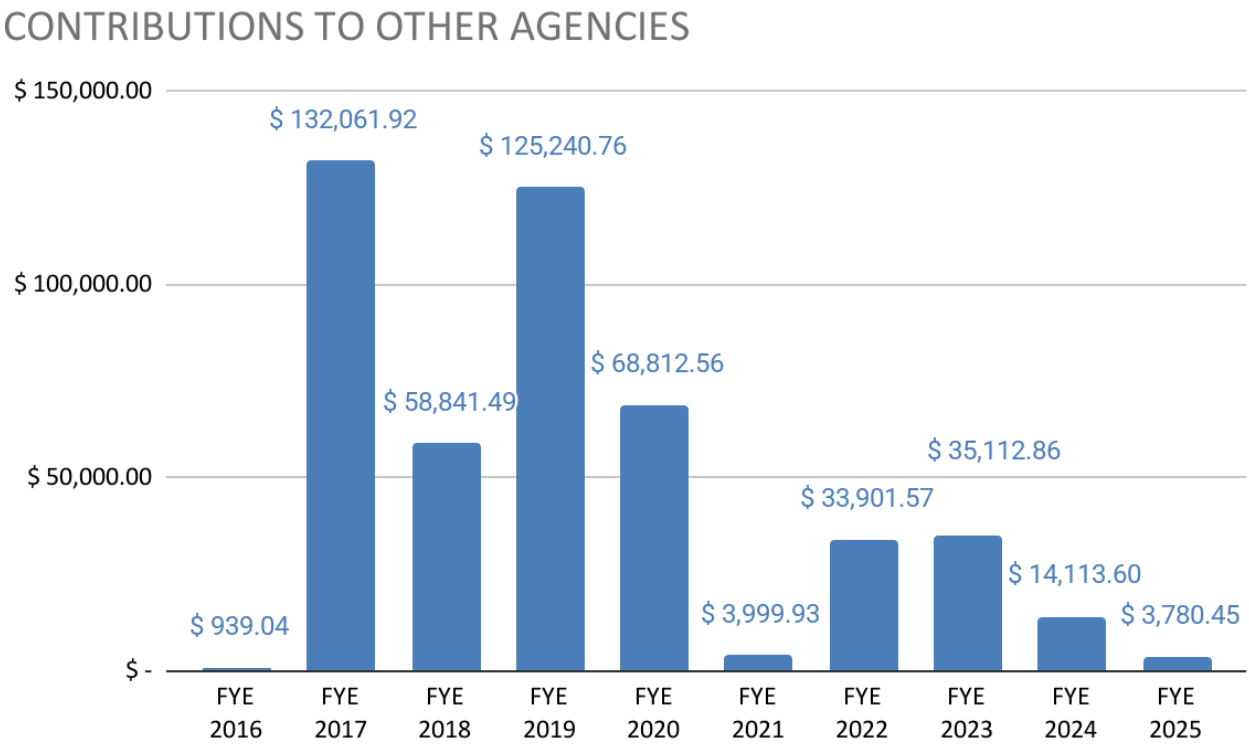


PC SOFTWARE PURCHASES

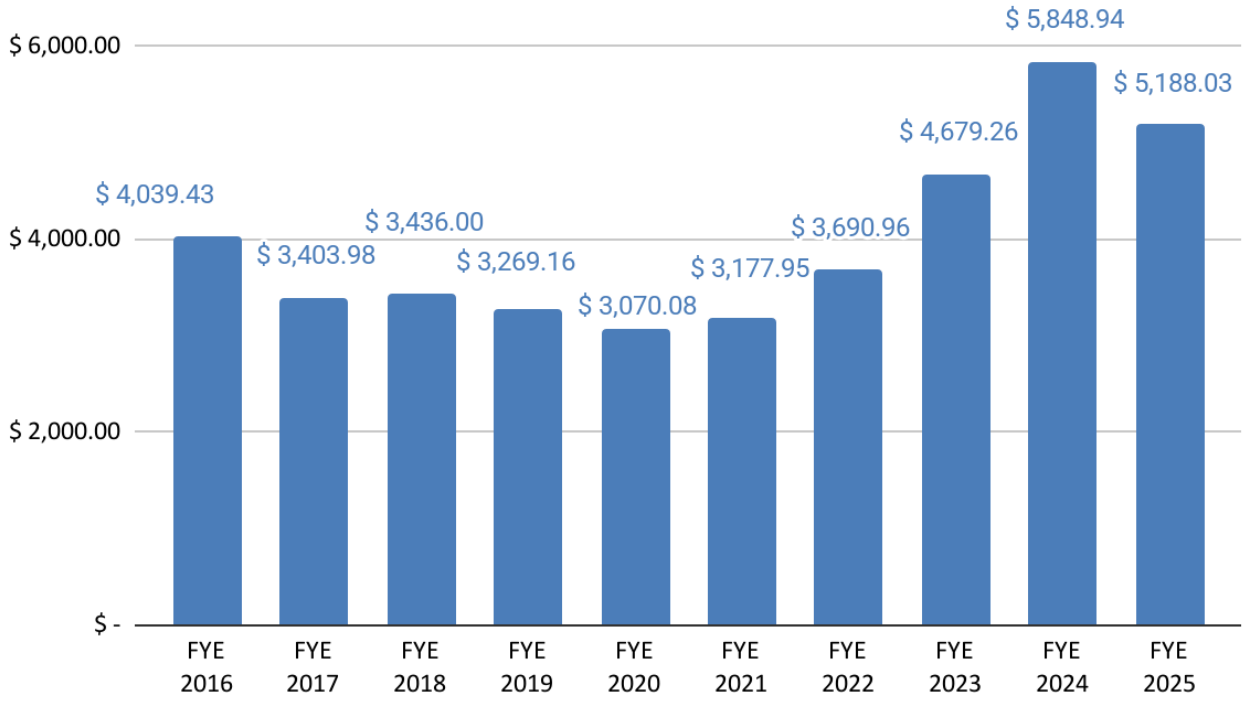




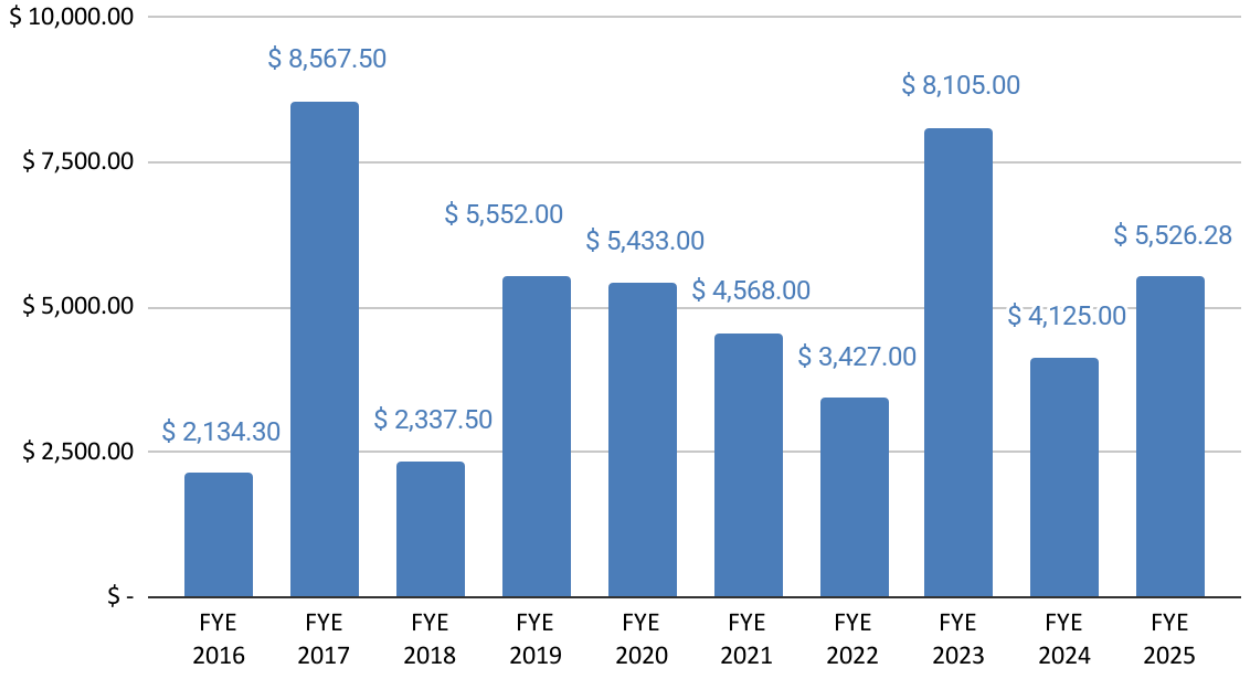
The District's largest contribution to an outside agency is made to the Santa Cruz Mid-County Agency. This contribution has been partially offset due to grants received by the Santa Cruz Mid-County Agency. However, the District must budget for future years, as these offsets will not always be available.



POSTAGE



LABORATORY FEES

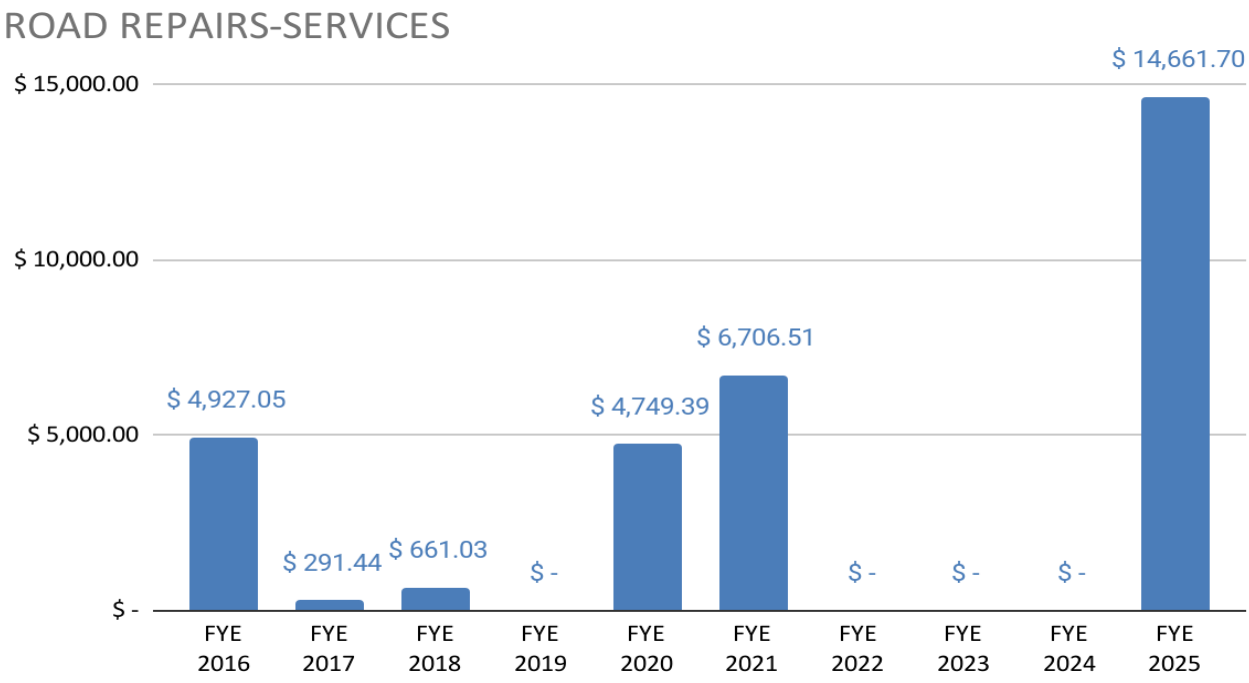


Operations Expenses

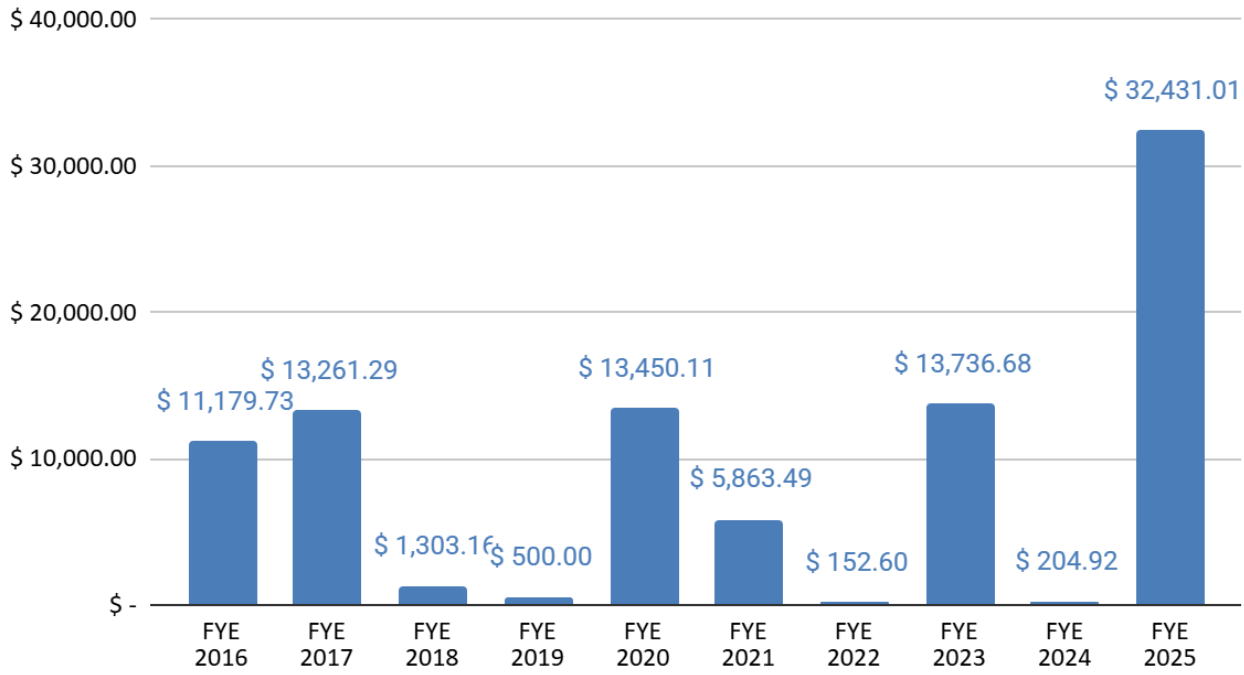
The rising cost of Operations is driven by a combination of aging infrastructure, surging material prices, and specialized labor requirements as described below.

- **Aging Infrastructure:** Older pipes, especially those made of **cast iron** or **galvanized steel**, are highly prone to corrosion and frequent breaks.
- **Material Price Spikes:** The cost of essential materials like copper, steel, and brass has risen due to **tariffs** and global supply chain pressures.
- **Labor Shortages:** A shortage of skilled tradespeople has pushed hourly rates higher.
- **Looking ahead**: The District anticipates annual cost increases of about 5–6% for Fiscal Year 2026 through Fiscal Year 2036. This continued increase is fueled by several factors: persistent labor shortages, unpredictable material and equipment costs, risks associated with energy pricing, and uncertainty in tariff and trade policies.

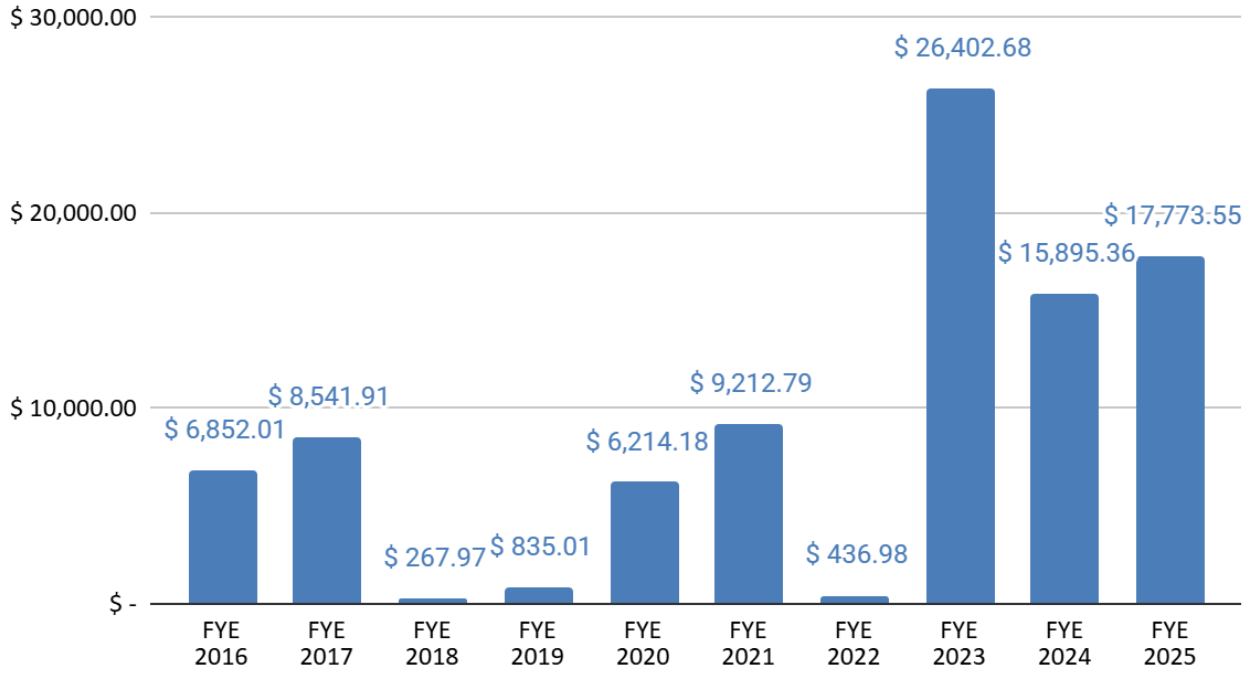
The fiscal year-end graphs found below and on the following pages, summarize the costs associated with key Operations expenses.



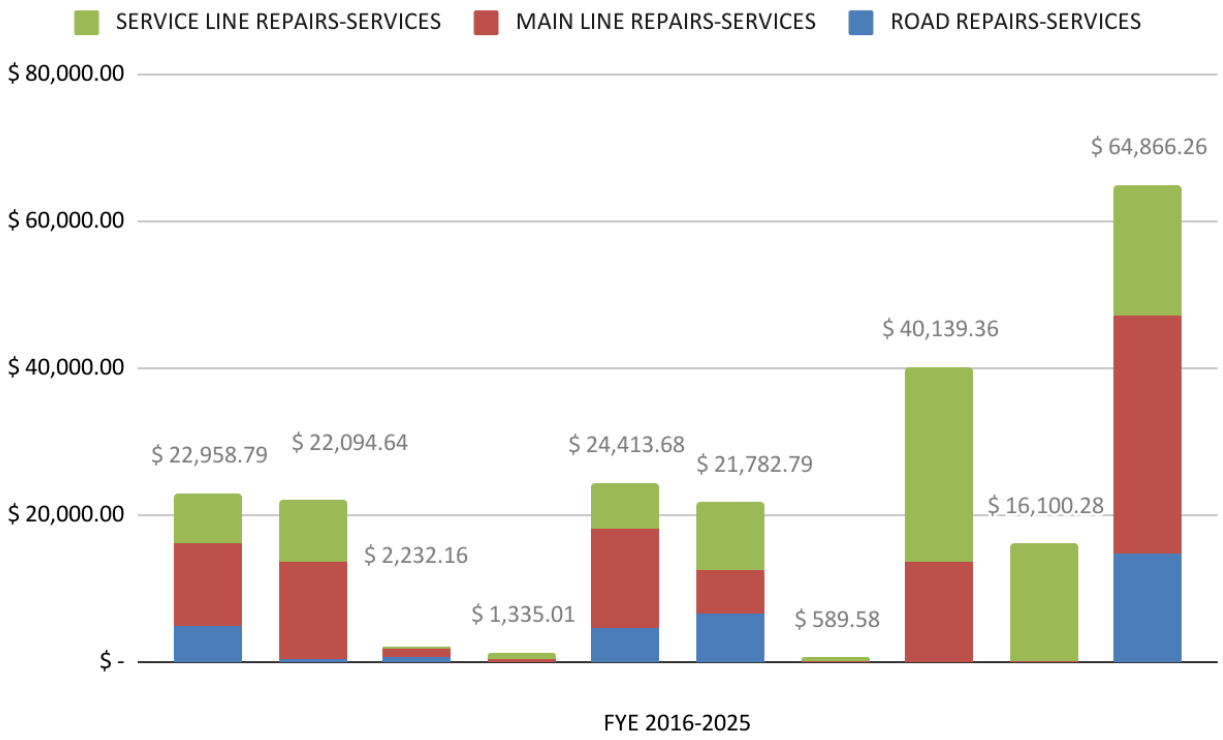
MAIN LINE REPAIRS-SERVICES



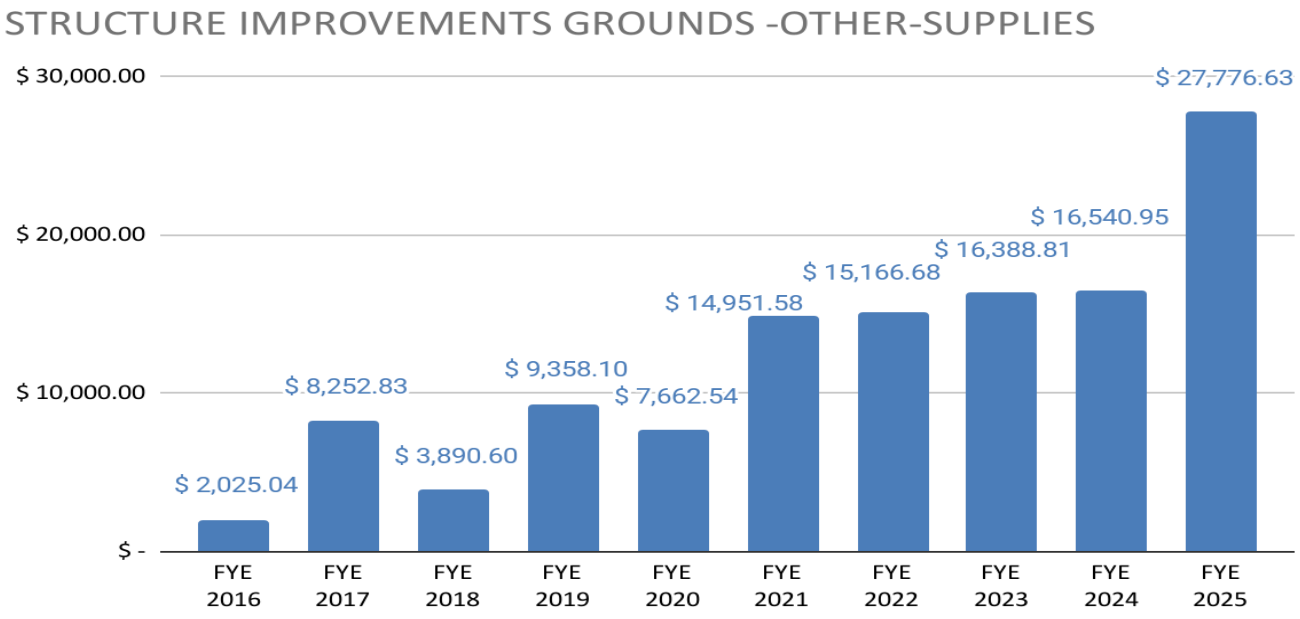
SERVICE LINE REPAIRS-SERVICES



The Chart below is a stacked column chart from the Operations expense data presented above.



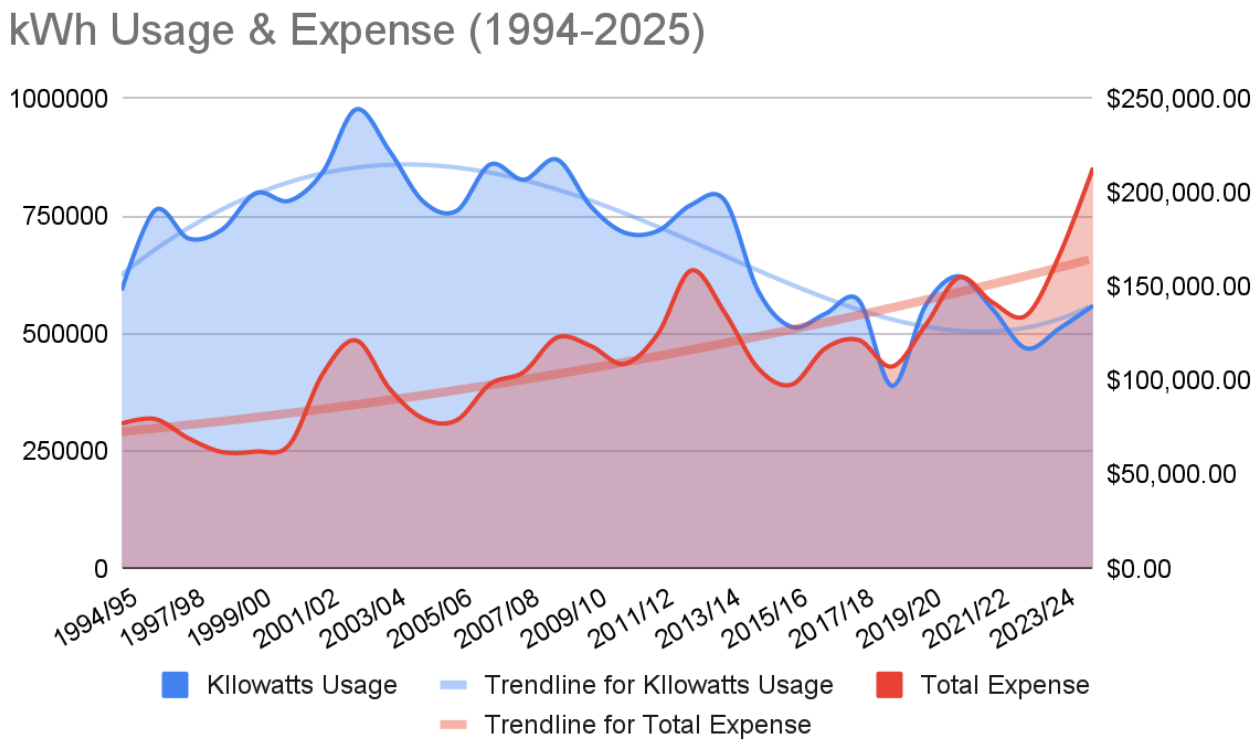
In Fiscal Year 2024/25 there was also a noticeable increase in Operations expenses for improvements made to the District's infrastructure. Improvements included replacing a failed retaining wall located between the Day Tanks to protect the integrity of the tanks, installing a new chlorinator at Well 12, installation of lighting at the District Office to ensure employee and customer safety. See graph below.



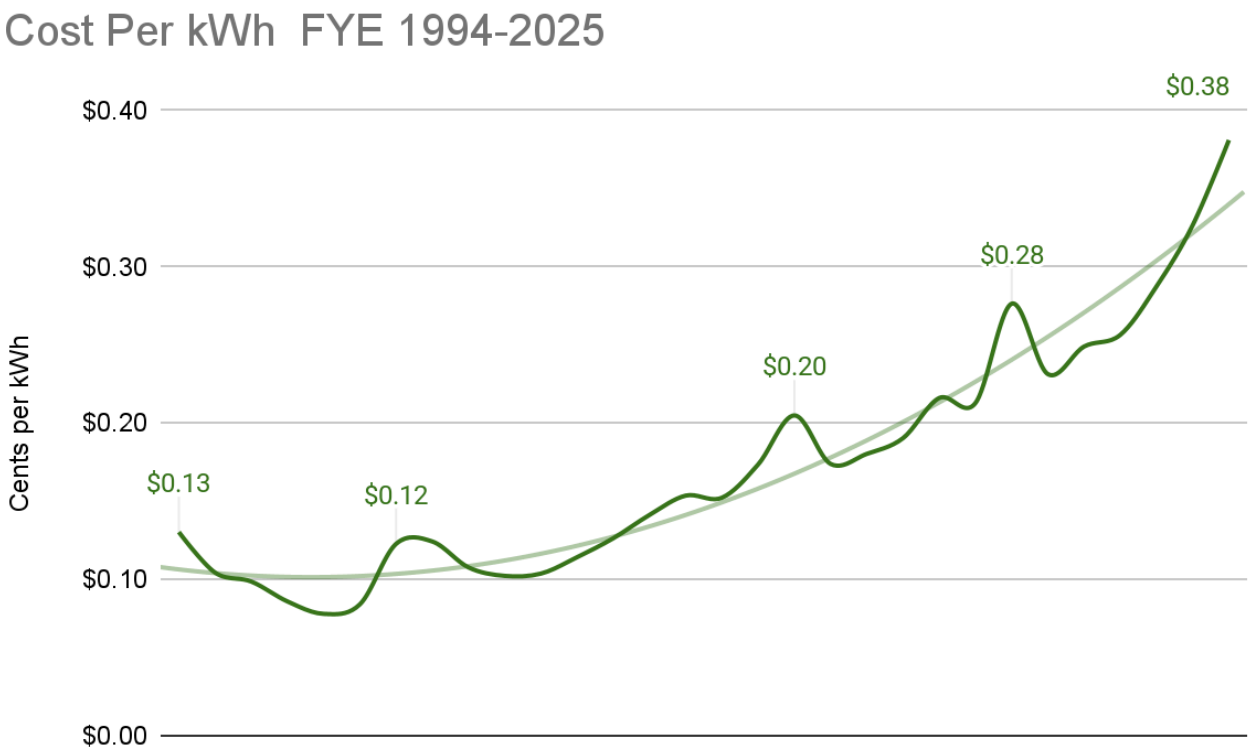
Utility Expenses

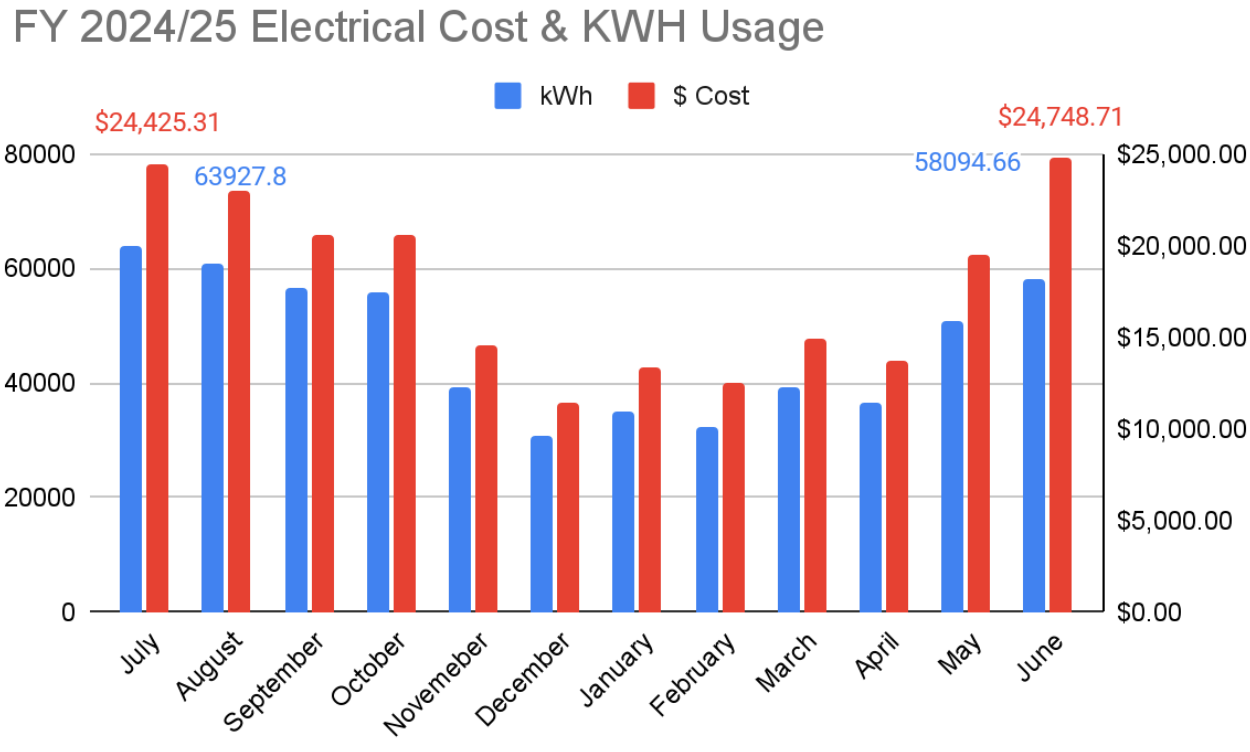
In Fiscal Year 2024/25 the District's electrical expenses increased **$46,201** due a slight increase in consumption and higher rates. Total kilowatt-hour (kWh) usage was **48,224 kWh** more than the previous fiscal year; and the rate per kWh increased from **$0.33 to $0.38**.

To mitigate the rising kWh charge and maintain current pumping costs, adjustments are necessary. District staff will continue optimizing the pumping schedule to reduce electrical usage charges, particularly during peak and partial-peak periods, to realize additional savings. See below for a summary of the District's fiscal year electrical usage and expenses.



** Polynomial Trendline Utilized for Trends*

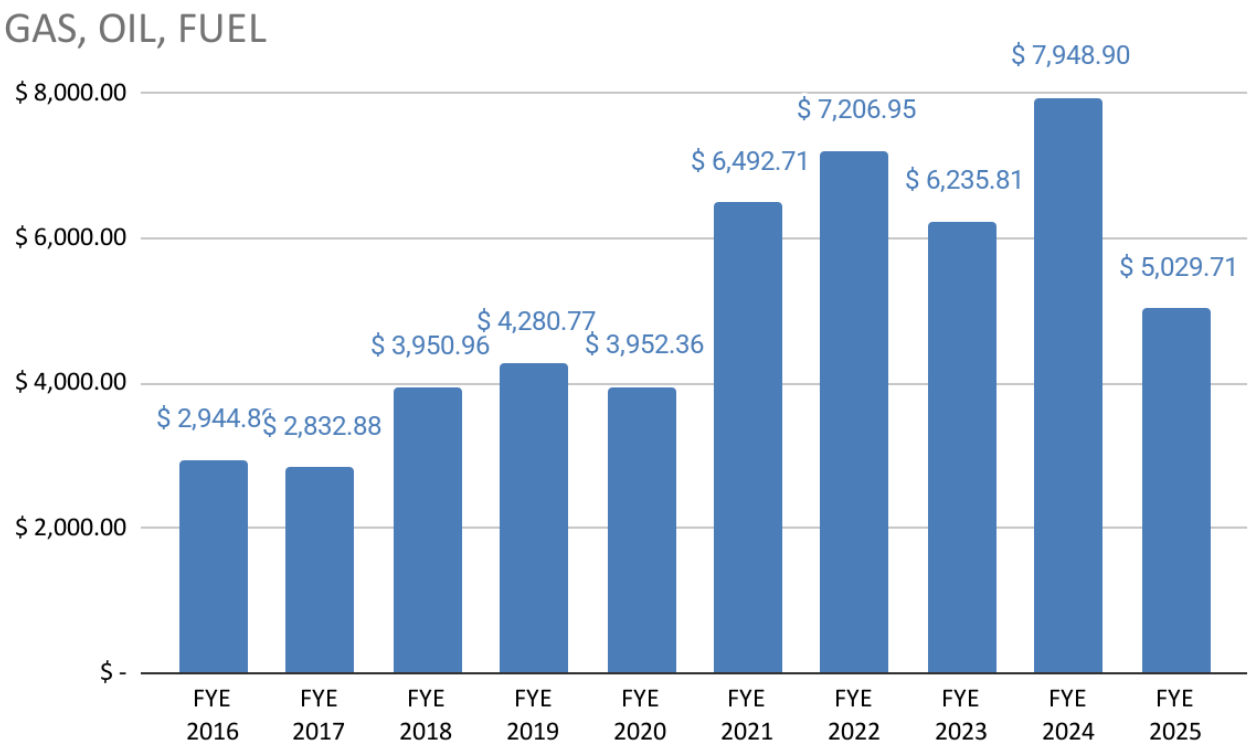




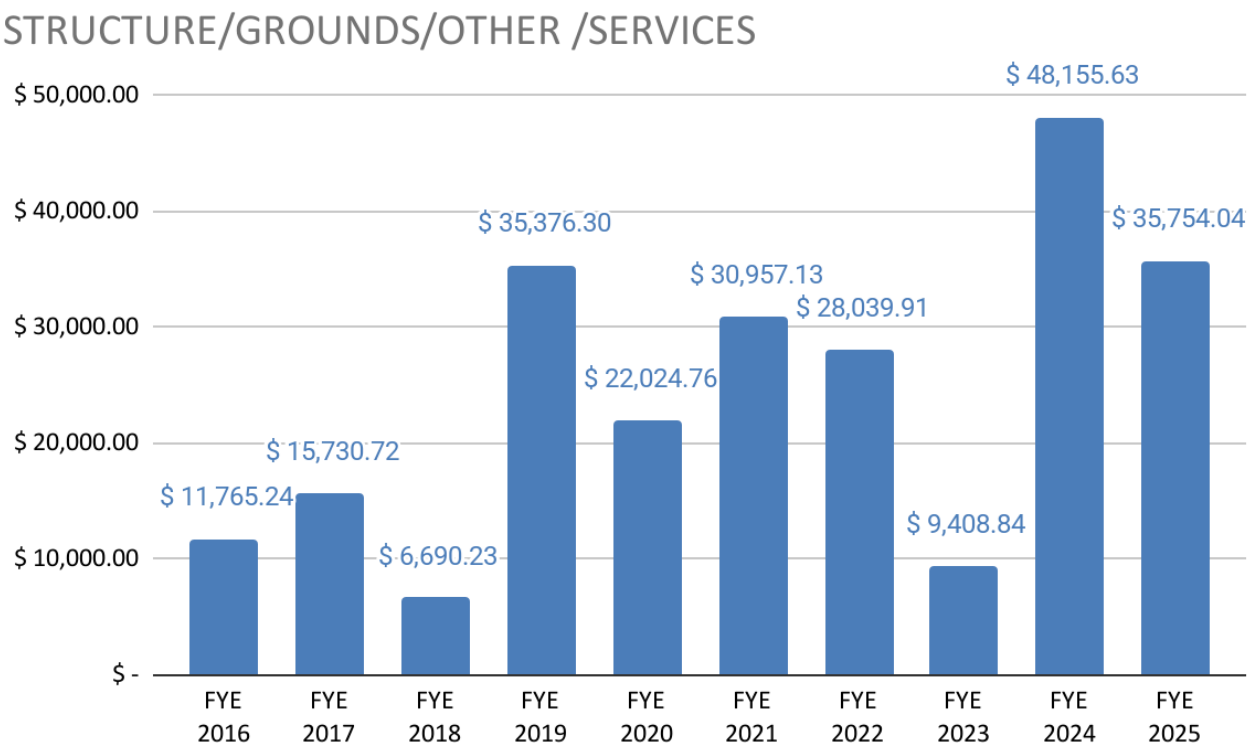
In FY 2024/25 the District implemented changes to fleet operations, successfully lowering its fuel demand and consumption. However, the long-term budget outlook for fuel prices in California remains challenging, with costs expected to continue climbing.

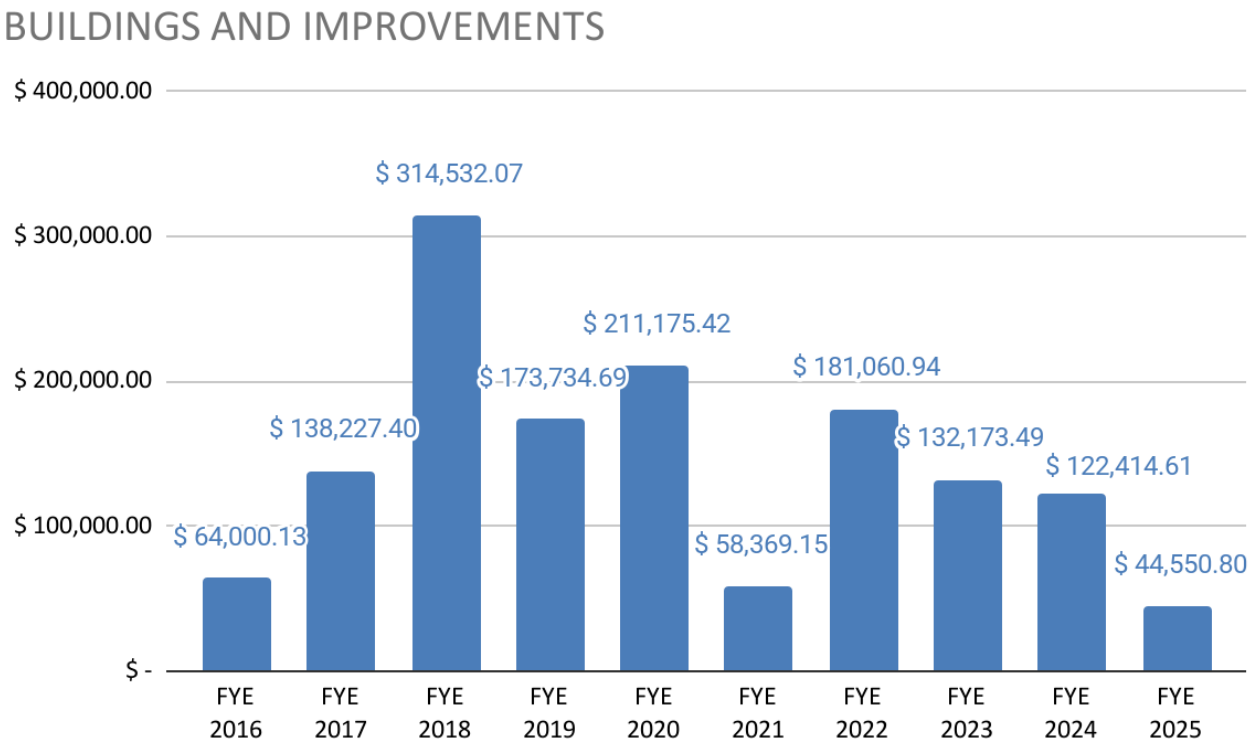
California's average gasoline prices—ranging from roughly $4.39 to $4.52 per gallon—are notably higher than the national average. This is most likely due to a local supply crisis combined with strict regulatory policies, as described below.

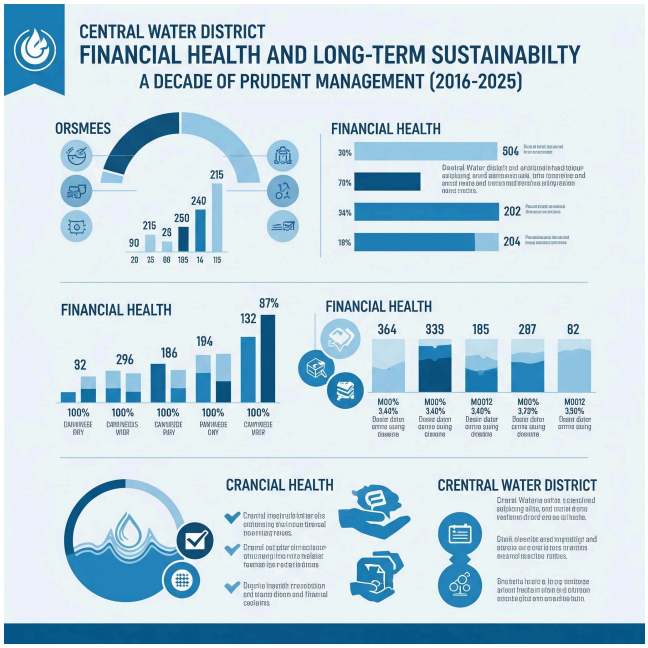
- **Refinery Closures and Supply Shortfall:** The in-state production capacity has fallen by approximately 17–20% due to the closure or planned closure of major refineries (e.g., Valero and Phillips 66). This forces California to rely on costlier, less dependable overseas imports.
- **Stringent Environmental Regulations:** California mandates a unique, complex, and more expensive-to-produce clean-burning fuel blend. Furthermore, regulatory policies like the Low Carbon Fuel Standard (LCFS) and Cap-and-Trade systems add over $1.30 per gallon in various taxes and compliance costs.
- **Impact on Price:** As of March 2025, California's environmental programs added approximately $0.54 per gallon, while total taxes and fees added about $0.90, contributing to a total burden of over $1.44 per gallon in 2025.



Additional graphs outlining the District's Operations expenses are as follows:







Financial Health & Long-Term Sustainability

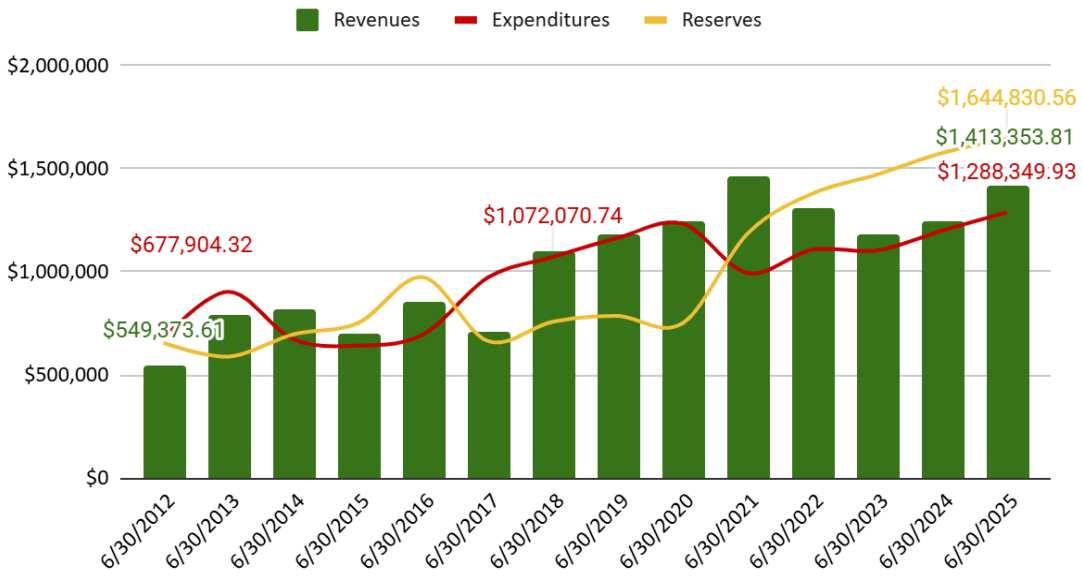
The ten-year financial review of the Central Water District presented above demonstrates sustained financial discipline and strategic investment, that will significantly enhance the District's long-term sustainability. The District's key financial achievements are summarized as follows:

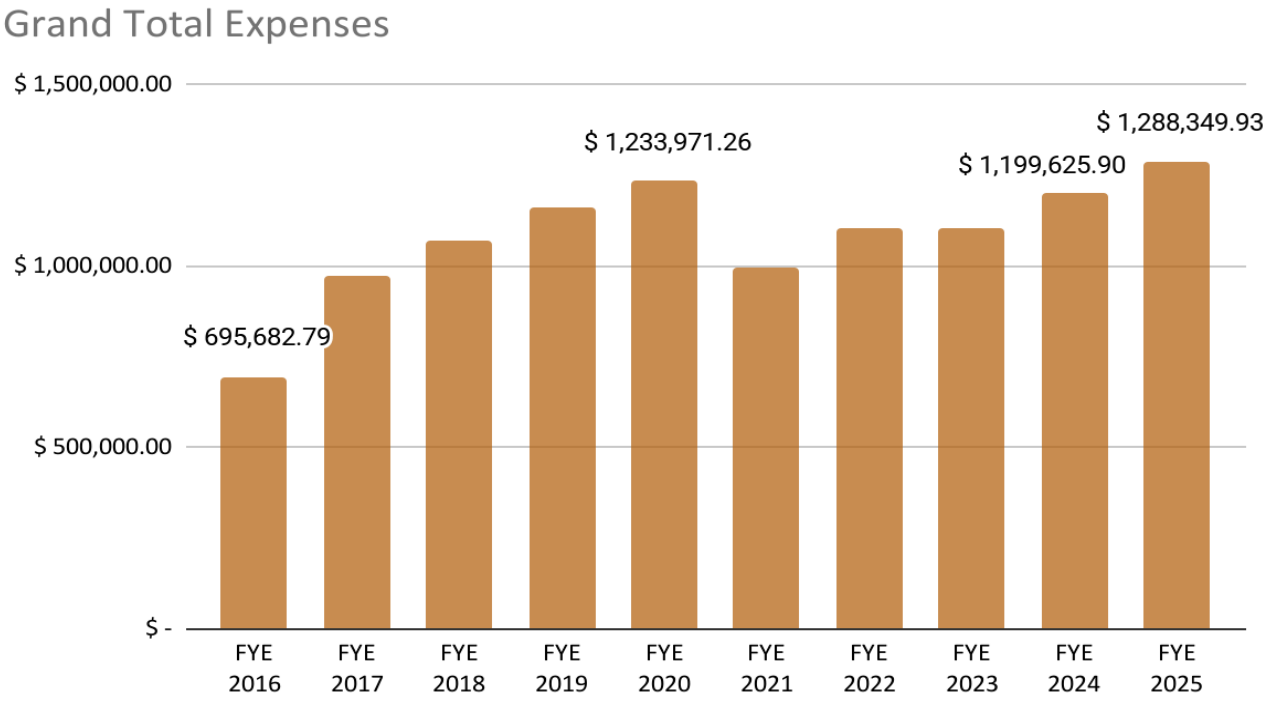
- **Consistent Operational Efficiency:** TheDistrict's financial strategy of consistently managing expenses below total revenue is key. The continuous surplus of funds is a demonstration of the District's effective budgetary controls, efficient operational practices, and responsible rate-setting policies.
- **Strategic Capital Investment:** Despite maintaining a positive revenue-to-expense ratio, the District has not deferred necessary infrastructure work. From 2016-2025, the District successfully completed multiple critical Capital Improvement Projects (CIPs). These projects—ranging from system upgrades and replacements to capacity enhancements—ensure the reliability and quality of service for our constituents.
- **Growth of Dedicated Reserve Funds:** The cumulative effect of operating with a surplus has been a substantial increase in reserve funds for emergencies and future capital needs. Over the past ten years, the District successfully built up its dedicated reserve funds to $879,869. This significant growth in reserves provides a crucial financial buffer, reducing the reliance on debt for future large-scale projects and ensuring the District can respond robustly to unforeseen infrastructure failures or regulatory mandates without imposing sudden, drastic rate hikes.

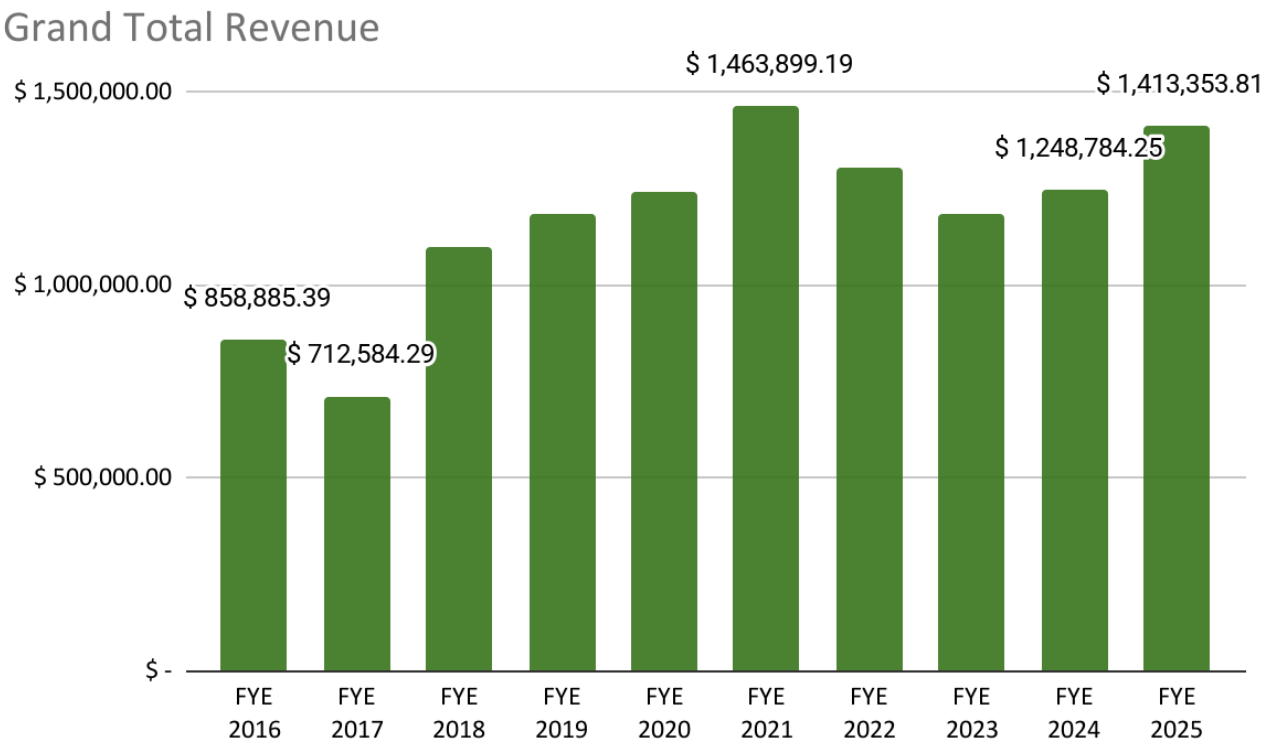
The District's consistent financial performance demonstrates its commitment to both operational excellence and responsible stewardship of public funds, laying a solid financial foundation for the next decade of service.

The graph below, offers a comprehensive, year-over-year analysis of the District's financial performance, specifically comparing Grand Total Expenses, Grand Total Revenue, and the strategic allocation to Reserves.

Financial Trends: Expenses, Revenue, and Reserve Allocation (FYE 2012-2025)







In the interest of providing a clear and focused overview of our financial expenditures for the reporting period, this report does not present a comprehensive, line-by-line accounting of every single-expense category. Instead, District staff have exercised professional judgment to concentrate the narrative on the most significant and consequential areas of spending.

Specifically, the financial data presented, highlights only the largest expense categories—those which individually represent a substantial portion of our overall operating budget or capital outlay. These significant categories were prioritized for inclusion as they are most illustrative of our strategic financial decisions and the core operational costs of the organization. By focusing on these major expenditures, we aim to provide stakeholders with the clearest possible understanding of where the bulk of the organization's resources have been directed and the rationale behind those allocations. A complete, detailed breakdown of all expense categories can be found in the below document link.

Expenditures 2016-2025 - EXPENDITURES 10 YEARS.pdf

Capital Improvement Plan (CIP)

The District manages and operates a complex and integrated water supply infrastructure that includes storage tanks, a transmission system, wells, and booster pumps. Most projects included in the 10-Year Capital Improvement Plan (CIP) support a strategic asset management approach that focuses on replacing aging equipment and facilities to ensure infrastructure reliability. The District's water main replacement program accounts for a significant portion of the CIP, since the water main system is a critical component of the District's infrastructure and some piping is approaching fifty years of age. Maintaining and upgrading this asset is essential to ensure a sustainable, high-quality water supply for future generations. The total estimated completion cost of the 10-year CIP is $4,500,000. The CIP is reviewed and revised on an annual basis so that necessary updates, including project priority and cost, can be made. A list of the District's current and recently completed CIP projects is listed below.

Central Water District CIP Project List		
Storage Facilities	**Cost**	**Priority/Status**
Day Tanks Top Recoat/New Ladder	$100,000	Medium
Groundwater Wells	**Cost**	**Priority/Status**
Well 14	$1,5000,000	In Progress
SCADA for Well 14	$25,000	In Progress
Transmission Facilities	**Cost**	**Priority/Status**
Replacement of 6" Steel Main	$3,000,000	High
Remove abandoned PRV Station	$5,000	Low

Central Water District CIP Project List		
Booster Pump Stations	**Cost**	**Priority/Status**
SCADA Upgrades	$50,000	Low
General Operations	**Cost**	**Priority/Status**
Tank Site Solar Battery Backup	$10,000	In Progress

RECENT CAPITAL IMPROVEMENT ACCOMPLISHMENTS

- Redwood Heights Scada Upgrade
- Updated Billing Software
- New Water Meter Installation
  Parkhurst Terrace/ Aptos Pines
- Installation of 5,280 feet of 8” C900 Water Pipe on Valencia Road
- Interior Recoating of 300,000-gallon tank
- Recoating of the top of the Morrison Tank
- Replacement of Maintenance District Tank
- Standby Battery backup system at one site (3 more to Complete)

Debt

The District is currently in a very strong financial position, which is notable for being entirely debt-free. This status means that the District does not carry any outstanding bonds, loans, or other long-term financial obligations. This strategic fiscal management minimizes mandatory debt service payments, thereby freeing up significant operational and capital funds. The absence of debt allows the District greater flexibility in prioritizing investments in critical infrastructure upgrades, maintaining water quality and reliability, and responding proactively to unforeseen emergencies without the immediate pressure of servicing financial liabilities. This debt-free state is a key indicator of the District's prudent fiscal planning and commitment to long-term financial stability for the benefit of its ratepayers.

Future Opportunities

The District continues to proactively explore avenues for growth, enhanced service delivery, and regional water resilience, focusing on both infrastructure upgrades and collaborative partnerships.

Service Expansion and New Connections

- **Possible New Connection:** Aptos High School has an aging well that is high in hexavalent chromium, and a connection to the District could save the Pajaro Valley Unified School District millions of dollars that would be needed for the treatment or replacement of their well. A feasibility study and engineering assessment are the next steps required to determine the full scope of the project, including what necessary infrastructure modifications are required..

Inter-Agency Collaboration and Water Transfers

- **New Intertie Connection:** A critical project is the establishment of a new intertie connection with the City of Watsonville. This physical connection would create essential redundancy for both agencies, significantly bolstering regional drought preparedness and emergency response capabilities. The intertie would allow for the mutual transfer of water supplies during periods of shortage or infrastructure outages, formalizing a robust framework for regional water security.
- **Transfer of Water to Neighboring Agencies:** Beyond the Watsonville intertie, the District is positioned to leverage its water resources to support other neighboring agencies experiencing supply deficits. Engaging in water transfer agreements would optimize the use of regional water assets, foster goodwill, and ensure broader community resilience across the region. These transfers would be governed by formal agreements that protect the District's primary service obligations while providing a valuable regional resource.

Infrastructure Modernization and Water Quality Improvements

- **Iron/Manganese Treatment Plant for the Cox Well Field / Collaboration with Water Transfers:** A major infrastructure project identified is the construction of a new treatment plant specifically designed to address elevated levels of naturally occurring iron and manganese in the water extracted from the Cox Well Field. This investment is crucial for maintaining the highest possible water quality standards and enhancing the aesthetic quality of the water supply (reducing discoloration and taste issues). This project is being strategically evaluated in collaboration with potential water transfer opportunities, as the improved quality and reliability of the Cox Well Field source could increase its value in regional exchange agreements.

Strategic Financial and Grant Seeking Initiatives

- **Grants that can Assist and Offset Future Projects:** Recognizing the substantial capital investment required for these essential projects, the District is aggressively pursuing state and federal grant opportunities. A dedicated initiative is underway to identify, apply for, and secure funding that can significantly offset the financial burden on ratepayers. The primary focus is on grants related to water quality improvements, drought resilience, infrastructure modernization, and regional collaboration, ensuring the financial sustainability of future operational and capital improvements.

Future Concerns

Operation of small water agencies in California is becoming increasingly difficult due to strict, ongoing regulations—such as SB 552 drought planning, "Making Conservation a California Way of Life" rules, and new water quality monitoring—combined with critical workforce shortages, aging infrastructure, and limited financial resources.

Key future concerns and challenges include:

- **Regulatory Burden & Compliance:** Central Water District (under 3,000 connections) must adhere to intense regulations, including mandatory drought contingency plans, water efficiency reporting, and potential infrastructure upgrades. The shift in environmental permitting from federal to state agencies is increasing compliance timelines and costs.
- **Staffing & Workforce Shortages:** There is a looming shortage of skilled operators, with many agencies facing an aging workforce and difficulty recruiting, training, and retaining talent.
- **Technological Gap:** Small systems often struggle to adopt digital, smart technology, creating a "digital divide" that reduces operational efficiency compared to larger systems.
- **Financial & Operational Constraints:** Increased compliance, combined with Proposition 218 restrictions on rate increases, makes it difficult to fund required upgrades or hire necessary staff.
- **Consolidation Pressure**: Due to these burdens, many small, under-resourced water systems may be forced to consolidate or regionalize to remain viable.

INDEPENDENT AUDITOR'S REPORT

Auditor's Report

- District Independent Audit Financial Reports are available at the District Office or online at www.centralwaterdistrict.us.com/annual-financial-audit-reports. The District's most recent financial report can be found using the following link: 2024-2025 Annual Financial /Audit report