



Central Water District Biannual Report

Serving Our Community
Quality Water for 75 Years

Central Water District

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

LEGAL COUNSEL:

Heidi A. Quinn, Esq.

INDEPENDENT AUDITOR:

C.J. Brown & Company, CPAs

to the Board of Directors ...

Last month we reviewed:



• History / GroundWater Management



• Facilities / Connections



• Production and Usage



• Tax Revenue,
Interest Revenue



• Water Sales



• Reserve Fund Balance

Today we will review:



Expenditures:

- Salaries, Administrative Cost, Operational Cost



Debt

Overview of current financial obligations and strategies.



Capital Improvements and Future Opportunities and Concerns

Planning for infrastructure upgrades and addressing future challenges.

Financial Summary



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 large capital improvement project for Well 14.

Financial Highlights



REVENUES

FY 2025: \$1,413,353.81 (↑ 11.64%, \$128,624.44)

FY 2024: \$1,248,784.25 (↑ 5.15%, \$30,668.04)



EXPENSES

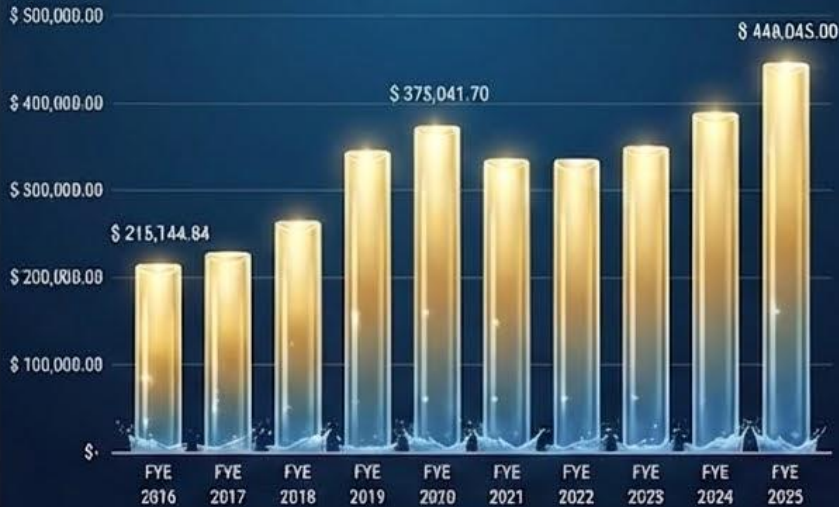
FY 2025: \$1,288,349.93 (↑ 7.40%, \$88,724.03)

FY 2024: \$1,199,625.90 (↑ 8.67%, \$95,711.81)

Employee Compensation 2016-2025



REGULAR PAY-PERMANENT



Central Water District has recently experienced significant staff turnover, including the replacement of its operating staff due to retirements and the loss of key employees to agencies offering higher compensation.



Cost of Living/Inflation: Agencies, particularly those in high cost-of-living areas such as California, have been necessitated to increase compensation to ensure personnel retention.



Recruitment Competition: The requirement to offer competitive compensation to align with private-sector salaries for specialized technical positions.



High Turnover and Workforce Aging: A principal contributing factor is the advancing age of the workforce and the resulting difficulty in recruiting new personnel.

Key Drivers of Increased Overtime in 2025:

OVERTIME PAY-PERMANENT



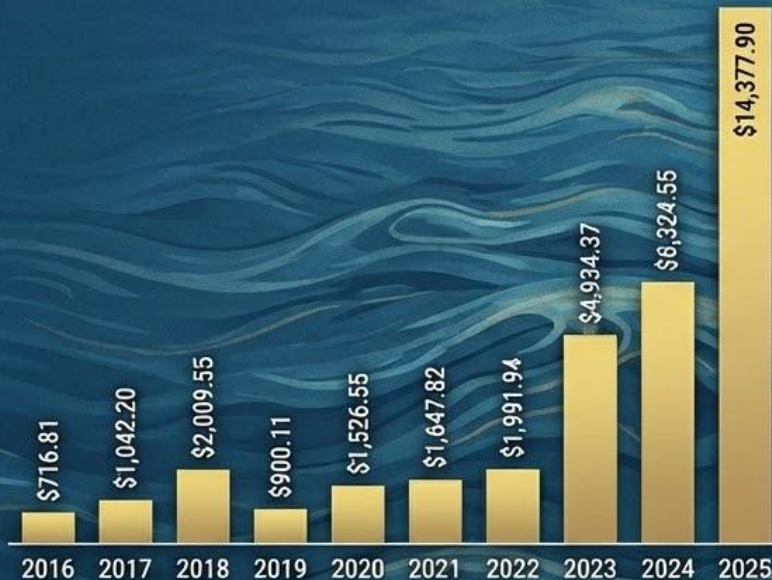
Aging Infrastructure

The systemic, ongoing deterioration of the District's core infrastructure—including pipelines, pumping stations, and treatment facilities—has dramatically elevated the inherent risk of catastrophic service disruptions. This necessitates a more frequent, often immediate, and labor-intensive manual repair and maintenance response by field crews, often outside of normal operating hours, to prevent prolonged service interruptions to the customer base.



Increased PG&E Power Outages

The growing frequency and duration of power outages provided by Pacific Gas and Electric Company (PG&E) pose a severe challenge. These unscheduled outages require District personnel to rapidly deploy and manage our emergency generator, implement manual operations protocols at key facilities, and perform post-outage system checks and recalibrations, all of which substantially increase required man-hours.



Administrative Staffing Expenses



CENTRAL WATER DISTRICT
BENEFITS EXPENSE

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

Key Components of Administrative Employee Rising Costs:



Benefits & Insurance: Health insurance, retirement plan contributions, and workers' compensation.



Payroll Taxes & Compliance: State unemployment tax, Social Security, Medicare, and HR-related compliance costs.



Retirement Expense



Operational Overheads: Office space, utilities, software subscriptions, memberships, and office supplies.

Employee Insurance Costs (2016-2025)

EMPLOYEE HEALTH INSURANCE



WORKERS COMPENSATION INSURANCE



CalPERS Contribution Trends & Future Outlook

Upward trend due to lowered return assumptions and UAL payments, but long-term outlook shows potential decreases.

CalPERS employer contribution rates for Central Water District have been on an upward trend for several years due to lowered 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 your projection that the retirement of "Classic" members will lead to cost decreases.

OASDI - SOCIAL SECURITY



CALPERS PENSION (PERS)



Administrative Expenses

The administrative expenses essential for the operation of the District have seen a significant increase since 2020. This upward trend is primarily attributable to several key areas of rising costs. Specifically, the Agency has experienced substantially higher expenditures related to regulatory and financial oversight, with accounting audits becoming more comprehensive and thus more costly. Concurrently, legal expenses, encompassed by attorney fees, have also escalated due to an increased need for specialized counsel on compliance and operational matters.

ATTORNEY



Administrative Expenses

Furthermore, a substantial component of the cost increase stems from the financial volatility and rising premiums in the insurance sector, impacting both the District's general liability insurance and its property insurance. These combined factors have placed notable upward pressure on the overall administrative budget required to sustain the Agency's operations.

LIABILITY INSURANCE



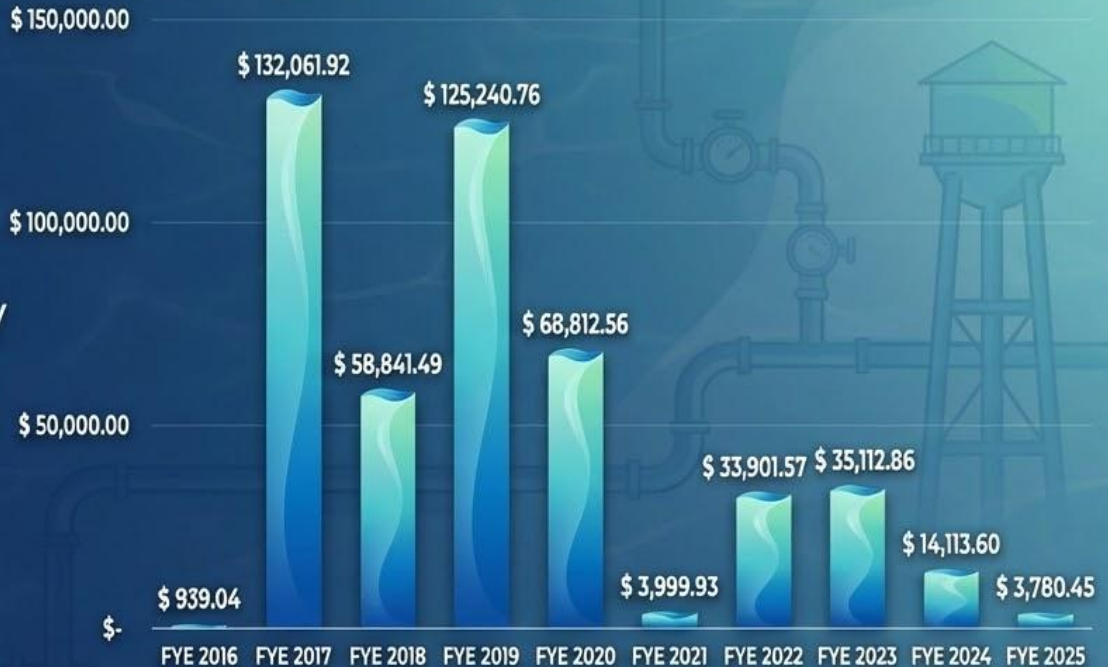
PROPERTY INSURANCE



Administrative Expenses

The District's largest contribution to other agencies goes to the Santa Cruz Mid-County Agency. This contribution has been partially offset because the Santa Cruz Mid-County Agency has received multiple grants. However, the District must budget for future years, as these offsets will not be available.

CONTRIBUTIONS TO OTHER AGENCIES





OPERATIONS EXPENSES

The rising cost of water main repairs is driven by a combination of aging infrastructure, surging material prices, and specialized labor requirements.

WHY COSTS ARE INCREASING



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 chain pressures.



Labor Shortages: A shortage of skilled tradespeople has pushed hourly rates higher.

Since 2020, the construction industry has faced considerable cost escalation, driven by supply-chain disruptions, labor shortages, and the lasting effects of COVID-19. This peaked in Fiscal Year 2022 with a construction cost escalation rate of 14%.

ROAD REPAIRS-SERVICES



OPERATIONS EXPENSES

SERVICE LINE REPAIRS-SERVICES



MAIN LINE REPAIRS-SERVICES



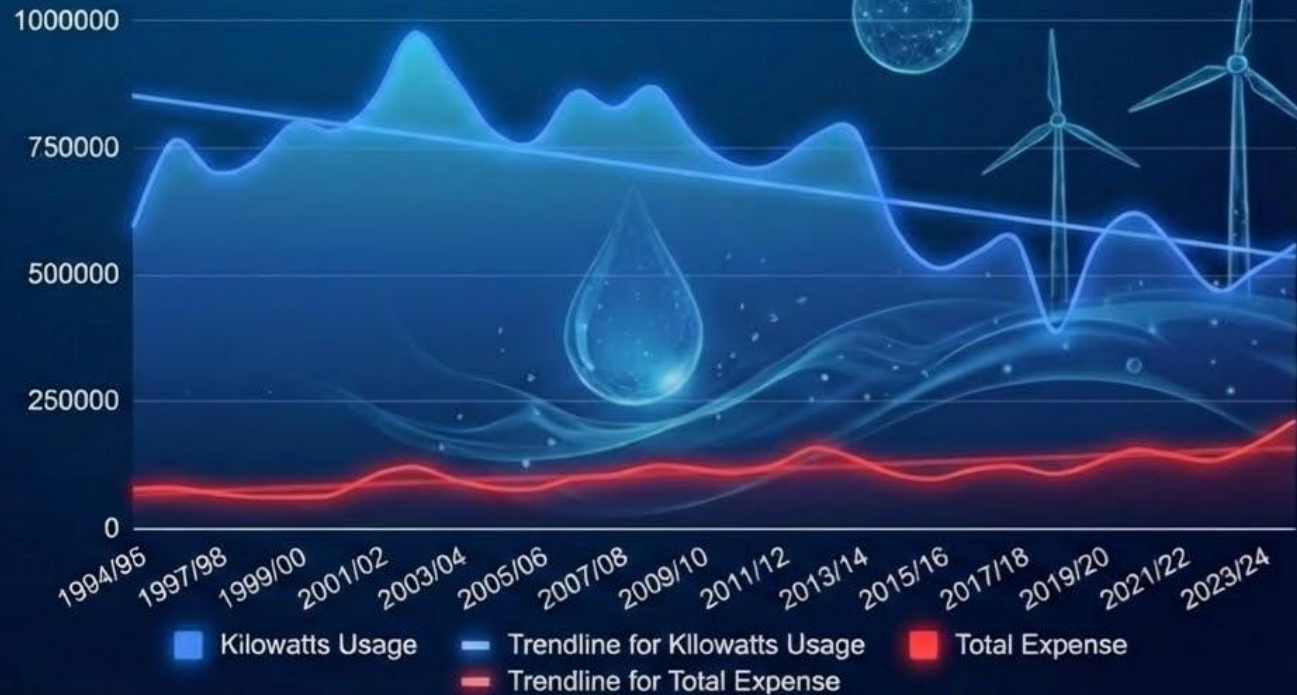
Utility Expenses



The District's electrical expenses rose by **\$46,201.42** this year, due to both a slight increase in consumption and a higher rate. Total kilowatt-hour (kWh) usage was **48,224 kWh** more than the previous fiscal year. 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, particularly during partial-peak periods, to realize additional savings

kWh Usage & Expense (1994-2025)



Financial Health and Long Term Sustainability

- Ten-year retrospective shows sustained financial discipline and strategic investment, enhancing long-term sustainability.

Key Financial Achievements:



Consistent Operational Efficiency

- Consistently managing expenses below total revenue.
- Continuous surplus due to effective budgetary controls, efficient operations, and responsible rate-setting.



Strategic Capital Investment

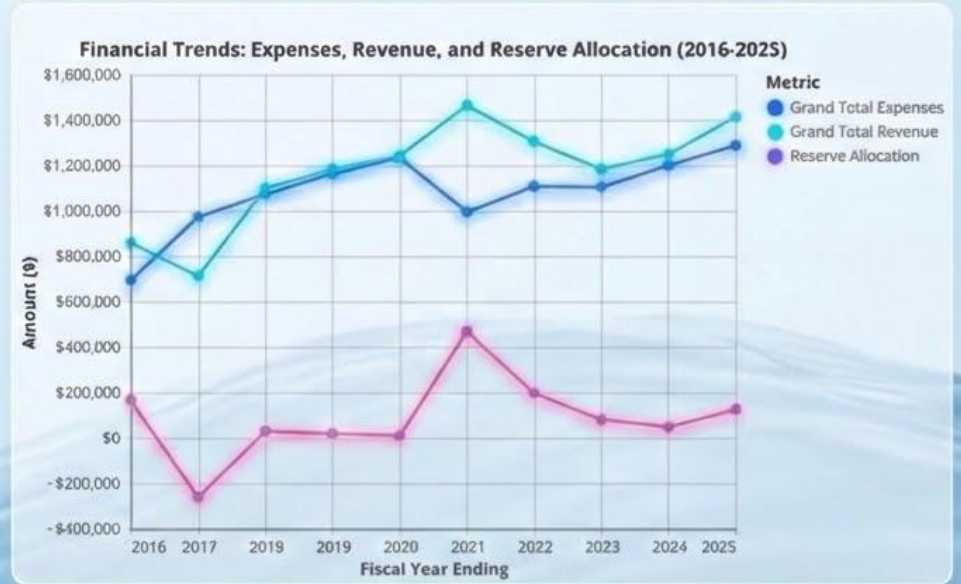
- Positive revenue-to-expense ratio without deferring necessary infrastructure work.
- Successfully completed multiple critical Capital Improvement Projects (CIPs) from 2016-2025.
- Projects (upgrades, replacements, enhancements) ensure service reliability and quality.



Growth of Dedicated Reserve Funds

- Operating surplus led to substantial increase in funds for future capital needs and emergencies.
- Dedicated reserve funds augmented by a total of \$879,869.41 over the last ten fiscal years.
- Significant reserve growth provides a crucial financial buffer, reducing reliance on debt.
- Ensures robust response to unforeseen issues without sudden, drastic rate hikes.

- Consistent financial performance underscores commitment to operational excellence and responsible stewardship.
- Lays a solid financial foundation for the next decade.



Capital Improvement Plan (CIP)



10-Year Plan: \$4,500,000 | Focus on replacing aging infrastructure and ensuring reliability



Storage Facilities

MEDIUM PRIORITY

Day Tanks Top Recoat / New Ladder
Connections: \$100,000



Groundwater Wells

IN PROGRESS

Well #14: \$1,500,000
SCADA for new well: \$25,000

IN PROGRESS



Portable Power Station

LOW PRIORITY

Emergency Backup Units: \$25,000



Transmission Facilities

HIGH PRIORITY

Replacement of 6" steel water main:
\$3,000,000

Pressure Reducing Valve (PRV)
Stations - Remove abandoned
PRV Station: \$5,000

LOW PRIORITY



Booster Pump Stations

LOW PRIORITY

SCADA Upgrades: \$50,000

Future Concerns

The District is proactively exploring several 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): Aptos High School has an aging well that is high in Chromium 6 and a connection to the District could save the Pajaro school District millions of savings due to the high cost of treatment or a replacement well. A feasibility study and engineering assessment are the next steps to determine the full scope, necessary infrastructure modifications, and implementation timeline for this significant addition.



Inter-Agency Collaboration and Water Transfers



New Intertie Connection to Watsonville: 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.



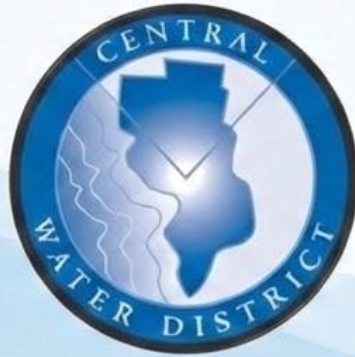
Transfer Water to Neighboring Agencies: Beyond the Watsonville intertie, the District is positioned to leverage its watsonville intertie, the District is positioned reroage its water resources to support other neighboring agencies experiencing supply deficits. Engaging in water transfer agreements would 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.



Consolidation Pressure

Due to these burdens, many small, under-resourced water systems may be forced to consolidate.

Questions?



Thank you!

Note: A full in-depth report will be presented in March for Board acceptance