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August 5, 2026

James Derbin
General Manager
Castroville Community Services District

SUBJECT: Water and Sewer Financial Plan and Rate Memo

Mr. Derbin and the Board of Directors,

At the July 21, 2026 Board Meeting, RDN presented a detailed analysis of the District's financial outlook and requested Board direction regarding which financial planning scenario should serve as the basis for the Cost of Service and Rate Design analyses. The following memo was requested at the July 21 Board Meeting to provide additional details on the inputs used to determine the financial results and RDN's proposed financial plan scenarios.

Background

The Castroville Community Services District was formed in 1952 under the County Water District Act for the purpose of installing and operating a water supply and distribution system for Castroville. The District is a public agency governed by a five-member elected Board of Directors. Services provided by the District include water, sewer, storm water, street lighting, (open space maintenance, street maintenance in Moro Cojo only) and recreational facilities. The District maintains four enterprise funds for which rates are being analyzed and recommendations will be provided: Castroville Water (Water), Castroville Sewer (Zone 1), Moro Cojo Sewer (Zone 2), and Moss Landing Sewer (Zone 3). Because enterprise funds must be self-sustaining and customer rates from one utility cannot subsidize another, the analysis in this memo considers each financial plan separately.

Inputs

Status quo financial plans were developed for each enterprise to determine the efficacy of the current rates for funding operations, capital plans, and reserve policy targets. The current monthly rates, shown in **Table 1**, and customer growth and usage forecasts were used to project rate revenues. Other revenues included in the analysis are made up of other operating revenues and non-operating revenues such as property tax and interest income. Expense projections were based on FY 2025-26 and FY 2026-27 budgets provided by the District and long-term capital plans. Operating expenses were inflated in future years by using Bureau of Labor Statistics Consumer Price and Producer Price Indices on a line by line basis.

Table 1. Current Water and Sewer Rates[1]

Water		Zone 1*		Zone 2*		Zone 3*	
Monthly Base		**Fixed Rate**		**Fixed Rate**		**Fixed Rate**	
3/4"	$20.81	Per EDU	$0.00	Per EDU	$20.75	Per EDU	$22.13
1"	$34.77						
1 1/2"	$67.96						
2"	$110.43						
3"	$220.94						
4"	$344.65						
6"	$692.74						
Fire Service							
2"	$11.65						
3"	$21.92						
4"	$43.70						
6"	$98.29						
8"	$131.04						
10"	$175.40						
12"	$245.43						
Surcharges*							
Per Unit	$20.81						
Variable							
Per cubic foot	$0.0218						

Figure 1 and **Figure 2** show the District's current rates for an average residential customer compared to other local agencies. The average residential water user has a ¾" meter and uses approximately 900 cubic feet (cf) per month and 800 cf on average during the winter.

[1] Sewer Zone 1 customers do not pay a sewer bill. Sewer Zone 2 customers are billed $248.99 per year on the county tax roll. Sewer Zone 3 customers are billed $265.50 per year on the county tax roll. Water surcharges are billed to multi-unit customers per unit beyond the first unit.

Figure 1. Residential Water Rate Comparison

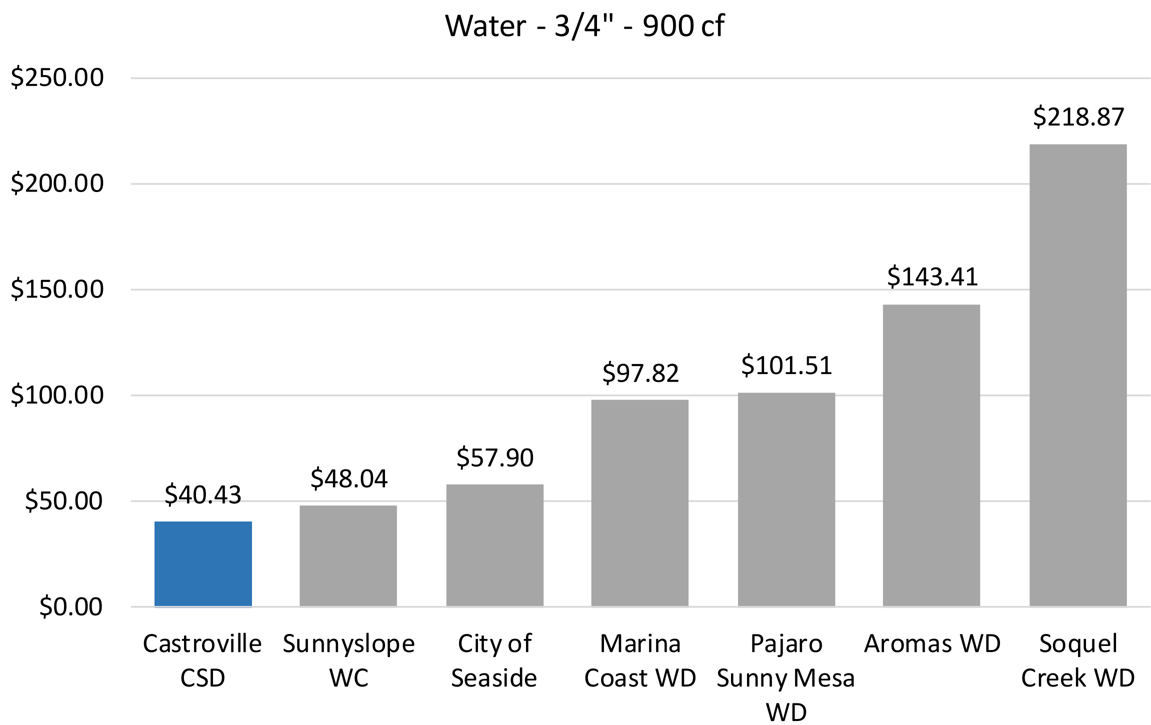
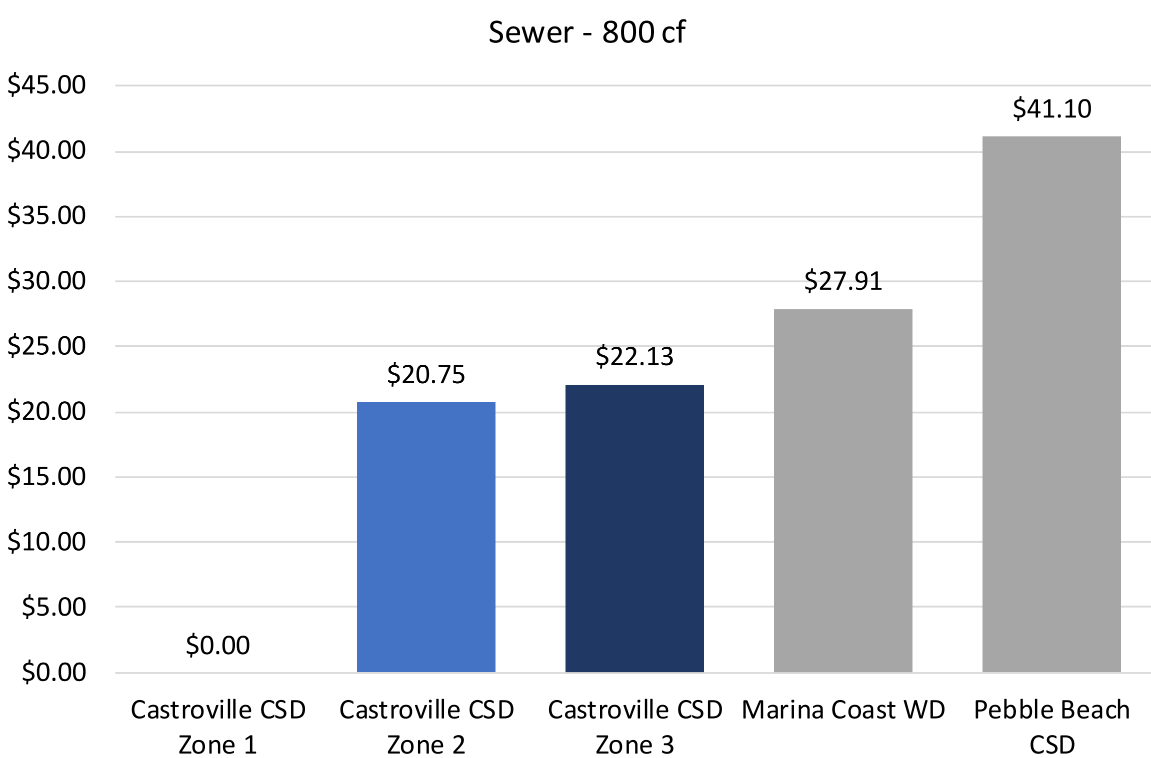


Figure 2. Residential Sewer Rate Comparison



The status quo scenarios assume no changes to existing rates. These projections illustrate the financial consequences of maintaining current rates while completing the District's planned capital program. **Table 2** through **Table 5** show the status quo financial results for each utility. Based on the study inputs, the Water and Sewer Zone 3 utilities require adjustments to their rates in order to fully accomplish operating and capital spending goals and maintain positive fund balances. The Sewer Zone 1 and Sewer Zone 2 utilities have sufficient revenues under the current rates.

Table 2. Status Quo Water Financial Plan

Status Quo Financial Plan	FY 2026	FY 2027	FY 2028	FY 2029	FY 2030	FY 2031	FY 2032	FY 2033	FY 2034	FY 2035	FY 2036
Cash Position Opening Balance	**$6,288,735**	**$5,137,924**	**$4,607,143**	**-$1,590,897**	**-$5,032,047**	**-$10,523,320**	**-$11,102,345**	**-$11,168,511**	**-$11,302,137**	**-$11,506,726**	**-$11,785,979**
Water Rate Revenue	$1,418,965	$1,418,416	$1,425,194	$1,431,972	$1,439,000	$1,446,028	$1,453,055	$1,460,333	$1,467,860	$1,475,637	$1,483,414
Other Operating Revenue	$16,833	$8,090	$8,090	$8,090	$8,090	$8,090	$8,090	$8,090	$8,090	$8,090	$8,090
Non-Operating Revenue	$190,351	$29,416	$29,416	$29,416	$29,416	$29,416	$29,416	$29,416	$29,416	$29,416	$29,416
Property Tax Revenue	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Investment Revenue	$200,000	$200,000	$163,401	$146,521	$0	$0	$0	$0	$0	$0	$0
Total Revenues	**$1,826,149**	**$1,655,922**	**$1,626,101**	**$1,615,999**	**$1,476,506**	**$1,483,534**	**$1,490,561**	**$1,497,839**	**$1,505,366**	**$1,513,143**	**$1,520,920**
Operating Expenses	$1,140,100	$1,207,328	$1,276,641	$1,345,149	$1,417,779	$1,485,558	$1,556,728	$1,631,465	$1,709,955	$1,792,395	$1,878,992
Capital Expenditure	$1,836,860	$979,375	$6,547,500	$3,712,000	$5,550,000	$577,000	$0	$0	$0	$0	$0
Net Income	-$1,150,811	-$530,781	-$6,198,040	-$3,441,150	-$5,491,273	-$579,025	-$66,167	-$133,626	-$204,589	-$279,252	-$358,072
Ending Balance	**$5,137,924**	**$4,607,143**	**-$1,590,897**	**-$5,032,047**	**-$10,523,320**	**-$11,102,345**	**-$11,168,511**	**-$11,302,137**	**-$11,506,726**	**-$11,785,979**	**-$12,144,051**

Table 3. Status Quo Zone 1 Financial Plan

Status Quo Financial Plan	FY 2026	FY 2027	FY 2028	FY 2029	FY 2030	FY 2031	FY 2032	FY 2033	FY 2034	FY 2035	FY 2036
Cash Position Opening Balance	**$10,187,752**	**$10,994,989**	**$11,657,101**	**$9,668,610**	**$9,920,564**	**$10,772,418**	**$11,634,007**	**$12,585,013**	**$13,563,933**	**$14,572,773**	**$15,611,469**
Sewer Rate Revenue	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Other Operating Revenue	$66,000	$66,000	$66,000	$66,000	$66,000	$66,000	$66,000	$66,000	$66,000	$66,000	$66,000
Non-Operating Revenue	$45,182	$6,336	$6,336	$6,336	$6,336	$6,336	$6,336	$6,336	$6,336	$6,336	$6,336
Investment Revenue	$330,000	$330,000	$356,148	$377,595	$313,184	$321,345	$348,938	$376,847	$407,652	$439,361	$472,039
Property Tax Revenue	$1,230,000	$1,267,921	$1,307,011	$1,347,306	$1,388,843	$1,431,662	$1,475,800	$1,521,299	$1,568,200	$1,616,548	$1,666,386
Total Revenues	**$1,671,182**	**$1,670,257**	**$1,735,495**	**$1,797,237**	**$1,774,364**	**$1,825,343**	**$1,897,074**	**$1,970,481**	**$2,048,188**	**$2,128,245**	**$2,210,761**
Operating Expenses	$634,195	$745,020	$783,986	$821,783	$861,509	$902,753	$946,068	$991,562	$1,039,348	$1,089,548	$1,142,288
Capital Expenditure	$229,750	$263,125	$2,940,000	$723,500	$61,000	$61,000	$0	$0	$0	$0	$0
Net Income	$807,237	$662,112	-$1,988,491	$251,954	$851,854	$861,589	$951,006	$978,920	$1,008,840	$1,038,696	$1,068,473
Ending Balance	**$10,994,989**	**$11,657,101**	**$9,668,610**	**$9,920,564**	**$10,772,418**	**$11,634,007**	**$12,585,013**	**$13,563,933**	**$14,572,773**	**$15,611,469**	**$16,679,942**

Table 4. Status Quo Zone 2 Financial Plan

Status Quo Financial Plan	FY 2026	FY 2027	FY 2028	FY 2029	FY 2030	FY 2031	FY 2032	FY 2033	FY 2034	FY 2035	FY 2036
Cash Position Opening Balance	**$293,284**	**$384,390**	**$442,477**	**$551,597**	**$651,490**	**$750,355**	**$841,163**	**$955,463**	**$1,066,553**	**$1,174,726**	**$1,279,378**
Sewer Rate Revenue	$156,999	$157,790	$158,585	$159,384	$160,188	$160,996	$161,809	$162,626	$163,448	$164,274	$165,104
Other Operating Revenue	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Non-Operating Revenue	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Investment Revenue	$9,500	$9,500	$12,451	$14,333	$17,867	$21,103	$24,305	$27,247	$30,949	$34,548	$38,052
Property Tax Revenue	$172,000	$177,303	$182,769	$188,404	$194,212	$200,200	$206,372	$212,734	$219,293	$226,054	$233,023
Total Revenues	**$338,499**	**$344,593**	**$353,805**	**$362,121**	**$372,268**	**$382,299**	**$392,486**	**$402,607**	**$413,690**	**$424,875**	**$436,179**
Operating Expenses	$203,893	$217,756	$229,685	$241,227	$253,402	$265,492	$278,186	$291,517	$305,517	$320,222	$335,670
Capital Expenditure	$43,500	$68,750	$15,000	$21,000	$20,000	$26,000	$0	$0	$0	$0	$0
Net Income	$91,106	$58,087	$109,120	$99,894	$98,865	$90,807	$114,300	$111,090	$108,173	$104,653	$100,509
Ending Balance	**$384,390**	**$442,477**	**$551,597**	**$651,490**	**$750,355**	**$841,163**	**$955,463**	**$1,066,553**	**$1,174,726**	**$1,279,378**	**$1,379,888**

Table 5. Status Quo Zone 3 Financial Plan

Status Quo Financial Plan	FY 2026	FY 2027	FY 2028	FY 2029	FY 2030	FY 2031	FY 2032	FY 2033	FY 2034	FY 2035	FY 2036
Cash Position Opening Balance	**$1,984,629**	**$2,336,485**	**$2,628,720**	**-$1,967,963**	**-$6,634,705**	**-$6,312,830**	**-$5,996,103**	**-$5,661,764**	**-$5,327,074**	**-$4,992,316**	**-$4,657,797**
Sewer Rate Revenue	$187,538	$188,571	$189,608	$190,652	$191,701	$192,756	$193,817	$194,883	$195,956	$197,034	$198,119
Other Operating Revenue	$500	$500	$500	$500	$500	$500	$500	$500	$500	$500	$500
Non-Operating Revenue	$3,168	$3,168	$3,168	$3,168	$3,168	$3,168	$3,168	$3,168	$3,168	$3,168	$3,168
Investment Revenue	$70,000	$70,000	$82,410	$92,718	$0	$0	$0	$0	$0	$0	$0
Property Tax Revenue	$354,000	$364,914	$376,164	$387,761	$399,716	$412,039	$424,742	$437,837	$451,336	$465,250	$479,594
Total Revenues	**$615,206**	**$627,152**	**$651,851**	**$674,799**	**$595,085**	**$608,463**	**$622,227**	**$636,389**	**$650,960**	**$665,953**	**$681,381**
Operating Expenses	$211,350	$225,168	$237,534	$249,541	$262,210	$274,736	$287,888	$301,699	$316,202	$331,434	$347,433
Capital Expenditure	$52,000	$109,750	$5,011,000	$5,092,000	$11,000	$17,000	$0	$0	$0	$0	$0
Net Income	$351,856	$292,234	-$4,596,683	-$4,666,742	$321,875	$316,727	$334,339	$334,690	$334,758	$334,519	$333,948
Ending Balance	**$2,336,485**	**$2,628,720**	**-$1,967,963**	**-$6,634,705**	**-$6,312,830**	**-$5,996,103**	**-$5,661,764**	**-$5,327,074**	**-$4,992,316**	**-$4,657,797**	**-$4,323,849**

Preliminary Study Recommendations

At the July 21 Board Meeting, RDN presented four revenue adjustment scenarios for both the Water utility and the Sewer Zone 3 utility. In addition to adjusting revenues for the Water and Sewer Zone 3 utilities, RDN recommends that the Board adopt a formal reserve policy for all four utilities. Financial reserves allow the District to maintain uninterrupted operations during emergencies, manage seasonal cash flow, respond to unexpected infrastructure failures, and reduce reliance on borrowing for routine capital expenditures. Each of the utilities has unique reserve needs. For example, because the sewer utilities only receive revenue from the tax roll and not monthly billing, they must have sufficient cash on hand to fund annual expenses. **Table 6** shows the recommended reserve policy developed by RDN that will ensure that each utility maintains sufficient reserves at the end of the 5-year rate planning period. The financial plan recommendations are designed to fully fund operational needs and capital expenditures and reach the target reserve level at the end of five years of adjustments.

Table 6. Recommended Reserve Policy

Reserve Type	Water	Sewer Zone 1
Operating Reserve	6 months of operating expenses	6 months of operating expenses
Capital Reserve	10% of asset replacement costs	10% of asset replacement costs
Emergency Reserve	—	—
Rate Stabilization Reserve	—	Sufficient reserves to fund operations through interest income
Reserve Type	**Sewer Zone 2**	**Sewer Zone 3**
Operating Reserve	6 months of operating expenses	6 months of operating expenses
Capital Reserve	10% of asset replacement costs	10% of asset replacement costs
Emergency Reserve	3 months of operating expenses	3 months of operating expenses
Rate Stabilization Reserve	—	—

Water Utility

RDN reviewed 4 revenue adjustment scenarios. The scenarios were developed by adjusting a series of assumptions which included:

- Capital funding sources
    - Rate funding
    - Debt funding
- The timing of capital expenditures
    - Option 1
    - Option 2

Table 7 shows the four scenarios reviewed. Scenario 2 and Scenario 4 are designed to fund some of the major capital projects with debt. At the direction of District staff, the analysis assumed a 30-year repayment schedule at 2.5 percent interest. Scenario 3 and Scenario 4 are designed to accomplish all the planned capital expenditures but delays some expenses to spread the impact over a longer time span.

Table 7. Water Financial Planning Scenarios

Financial Planning Scenario	Capital Funding Source	Capital Plan Option
Scenario 1	Rates	Option 1
Scenario 2	Debt	Option 1
Scenario 3	Rates	Option 2
Scenario 4	Debt	Option 2

Table 8 shows the resulting revenue adjustments and timing needed to accomplish each financial planning scenario. **Table 9** shows the proposed debt issuance amount and timing required to accomplish each financial planning scenario.

Table 8. Water Financial Planning Scenarios Revenue Adjustment[2]

Scenario	FY 2027	FY 2028	FY 2029	FY 2030	FY 2031
Scenario 1	75%	40%	35%	30%	5%
Scenario 2	12%	12%	12%	12%	10%
Scenario 3	50%	25%	25%	25%	15%
Scenario 4	10%	10%	10%	10%	10%

Table 9. Water Financial Planning Scenarios Proposed Debt Issuance

Scenario	FY 2027	FY 2028	FY 2029	FY 2030	FY 2031
Scenario 1	$0	$0	$0	$0	$0
Scenario 2	$0	$15,000,000	$0	$0	$0
Scenario 3	$0	$0	$0	$0	$0
Scenario 4	$0	$10,000,000	$0	$0	$0

RDN recommends that the District move forward with Scenario 4. Scenario 4 has the least impact on customers while still accomplishing the District's goals. **Figure 3** through **Figure 5** illustrate how Scenario 4 maintains reserve targets while meeting debt service coverage requirements through phased revenue adjustments. The District will achieve fund balance targets as well as maintain debt service coverage ratios.[3]

[2] Proposed adjustments would occur January 1, 2027, July 1, 2027, July 1, 2028, July 1, 2029, and July 1, 2030

[3] Debt issuances often require that the borrower maintain a certain level of revenues above capital expenditures in order to ensure that the borrow is not a risk of defaulting on a loan. Not maintaining this level also impacts the borrowers credit rating and may impact the terms of future debt issuance. The analysis assumes a debt service coverage ratio requirement of 120 percent, or total revenue which is 1.2 times operating expenses.

Figure 3. Water Scenario 4 Operating Position

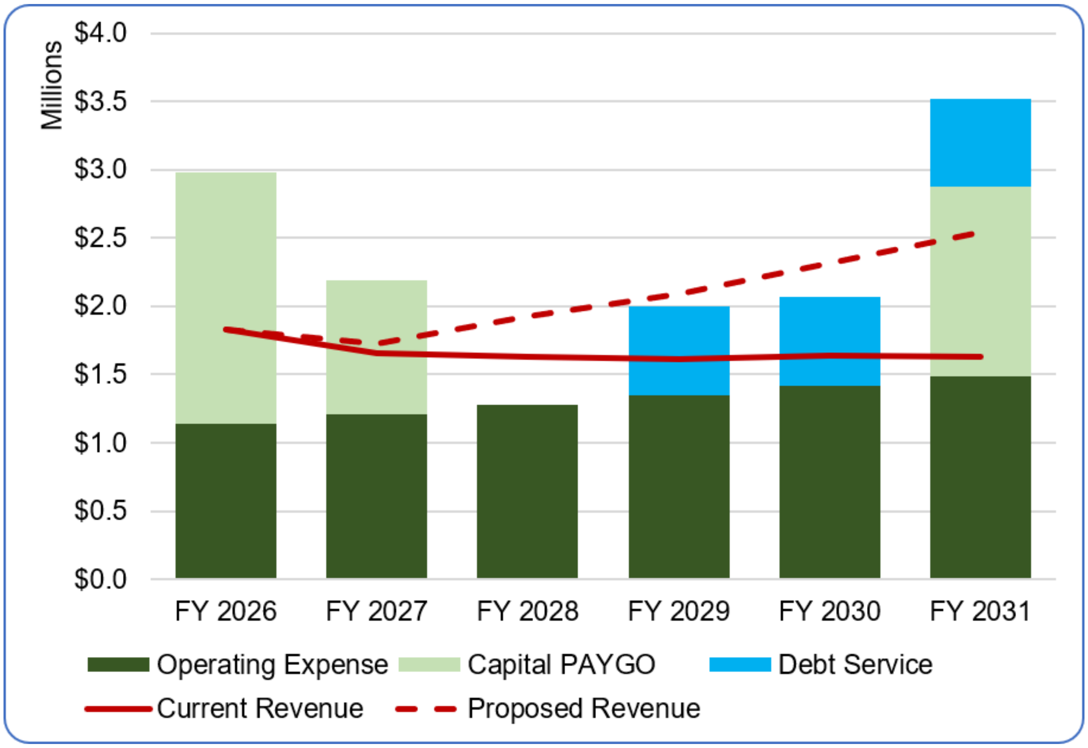


Figure 4. Water Scenario 4 Ending Reserve Balance

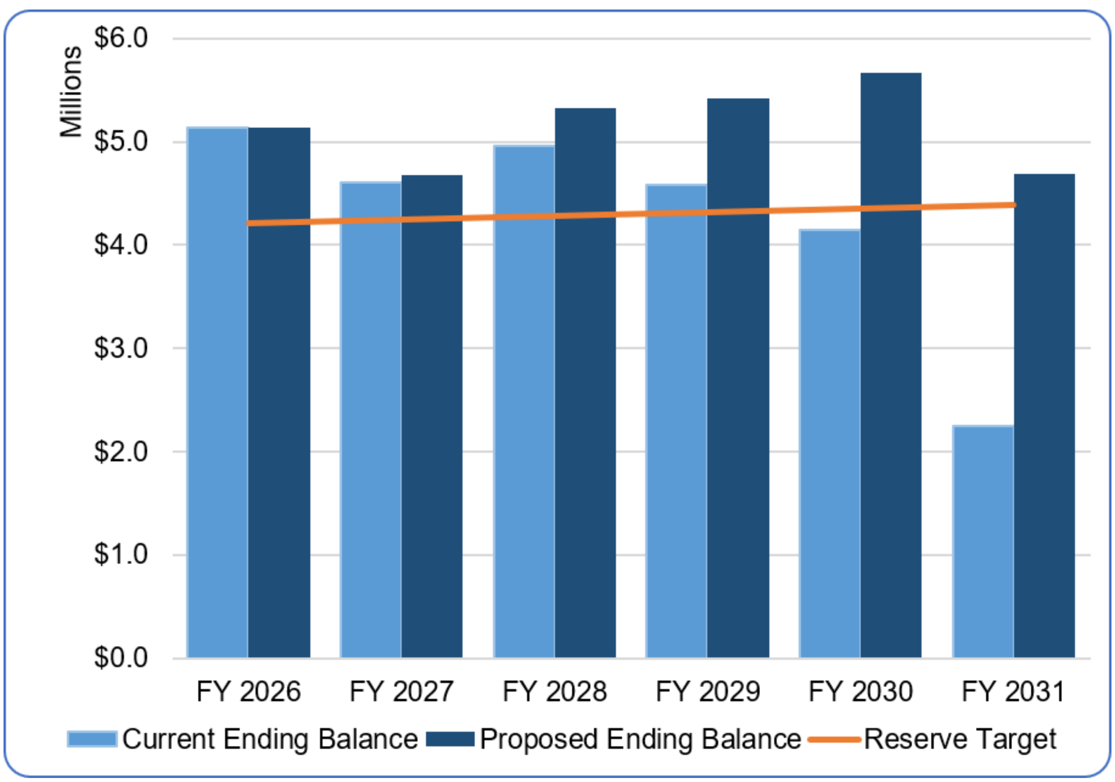
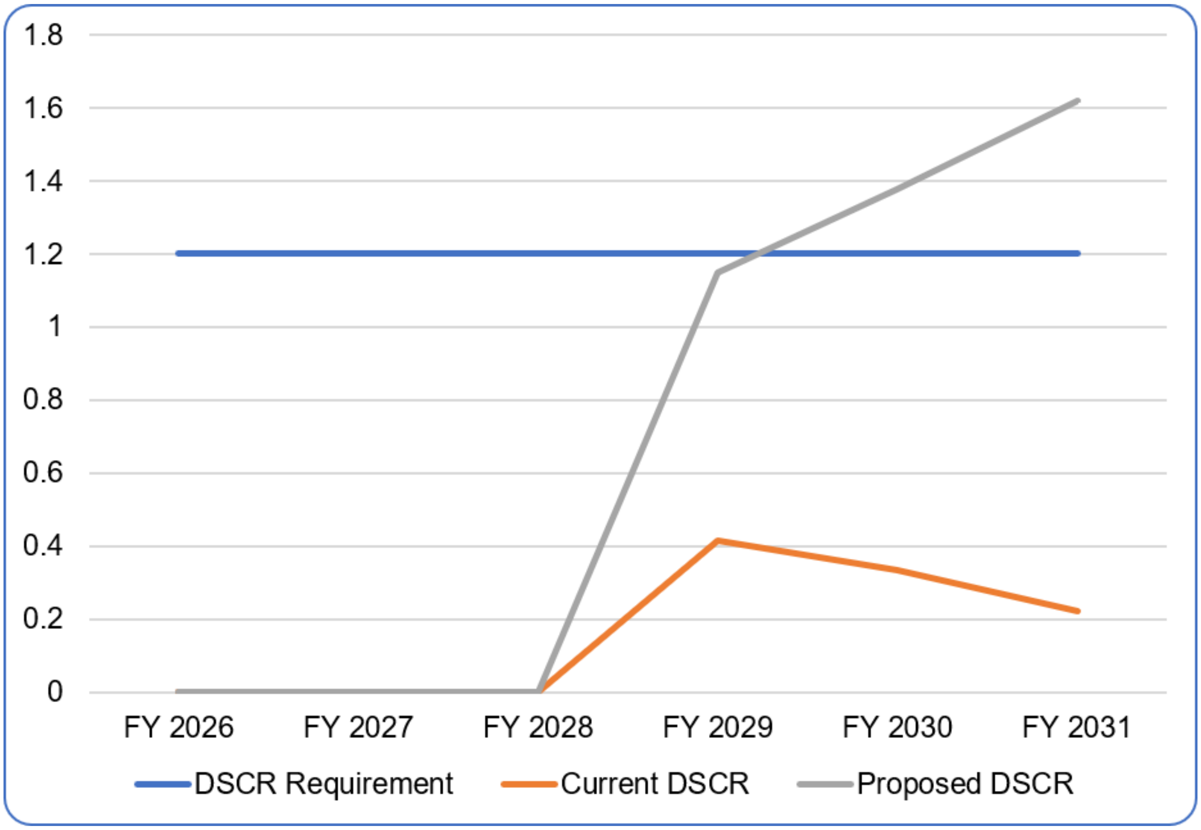


Figure 5. Water Scenario 4 Debt Coverage Ratio



Sewer Zone 3 Utility

RDN reviewed 4 revenue adjustment scenarios. The scenarios were developed by adjusting a series of assumptions which included:

- Capital funding sources
    - Rate funding
    - Debt funding
- The timing of capital expenditures
    - Option 1
    - Option 2

Table 10 shows the four scenarios reviewed. Scenario 2 and Scenario 4 are designed to fund some of the major capital projects with debt. At the direction of District staff, the analysis assumed a 30-year repayment schedule at 2.5 percent interest. Scenario 3 and Scenario 4 are designed to accomplish all the planned capital expenditures but delays some expenses to spread the impact over a longer time span.

Table 10. Sewer Zone 3 Financial Planning Scenarios

Financial Planning Scenario	Capital Funding Source	Capital Plan Option
Scenario 1	Rates	Option 1
Scenario 2	Debt	Option 1
Scenario 3	Rates	Option 2
Scenario 4	Debt	Option 2

Table 11 shows the resulting revenue adjustments and timing needed to accomplish each financial planning scenario. **Table 12** shows the proposed debt issuance amount and timing required to accomplish each financial planning scenario.

Table 11. Sewer Zone 3 Financial Planning Scenarios Revenue Adjustment[4]

Scenario	FY 2027	FY 2028	FY 2029	FY 2030	FY 2031	FY 2032
Scenario 1	0%	1000%	150%	-100%	0%	0%
Scenario 2	0%	10%	10%	10%	10%	10%
Scenario 3	0%	200%	200%	160%	-80%	-80%
Scenario 4	0%	8%	8%	8%	8%	8%

Table 12. Sewer Zone 3 Financial Planning Scenarios Proposed Debt Issuance

Scenario	FY 2027	FY 2028	FY 2029	FY 2030	FY 2031	FY 2032
Scenario 1	$0	$0	$0	$0	$0	$0
Scenario 2	$0	$7,000,000	$0	$0	$0	$0
Scenario 3	$0	$0	$0	$0	$0	$0
Scenario 4	$0	$0	$6,750,000	$0	$0	$0

RDN recommends that the District move forward with Scenario 4. Scenario 4 has the least impact on customers while still accomplishing the District's goals. **Figure 6** through **Figure 8** illustrate how Scenario 4 maintains reserve targets while meeting debt service coverage requirements through phased revenue adjustments. The District will achieve fund balance targets as well as maintain debt service coverage ratios.[5]

[4] Proposed adjustments would occur July 1, 2027, July 1, 2028, July 1, 2029, July 1, 2030, and July 1, 2031

Figure 6. Sewer Zone 3 Scenario 4 Operating Position

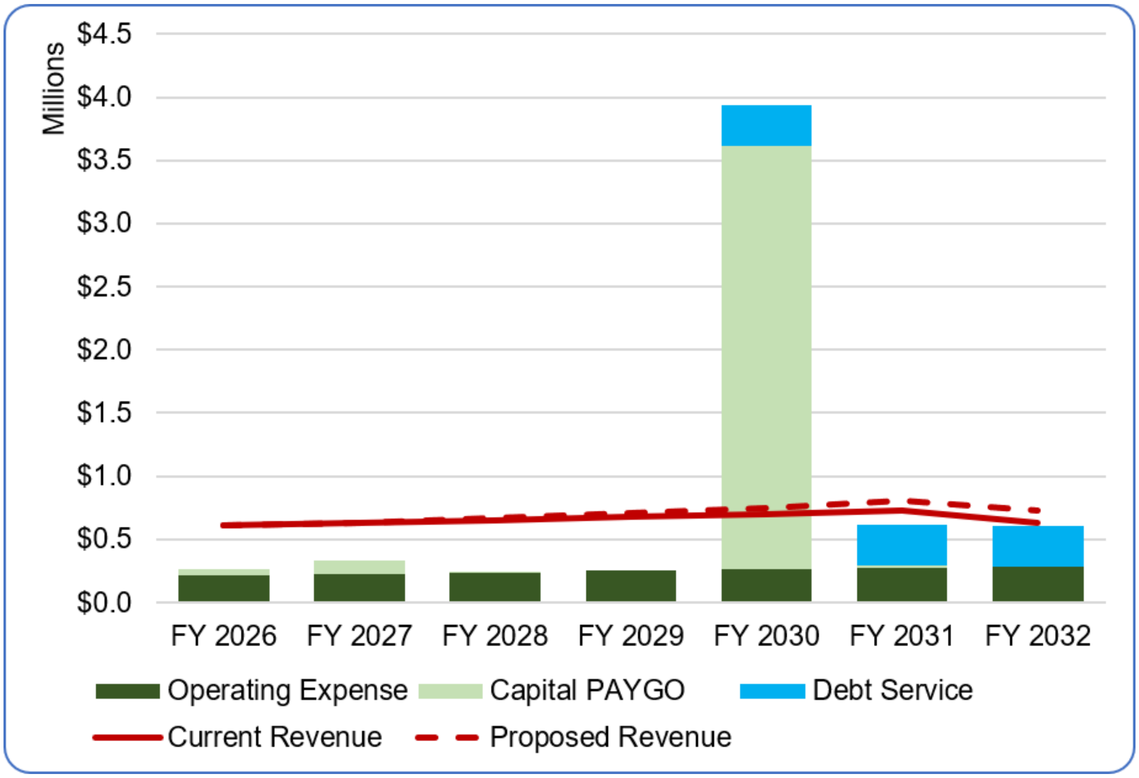


Figure 7. Sewer Zone 3 Scenario 4 Ending Reserve Balance

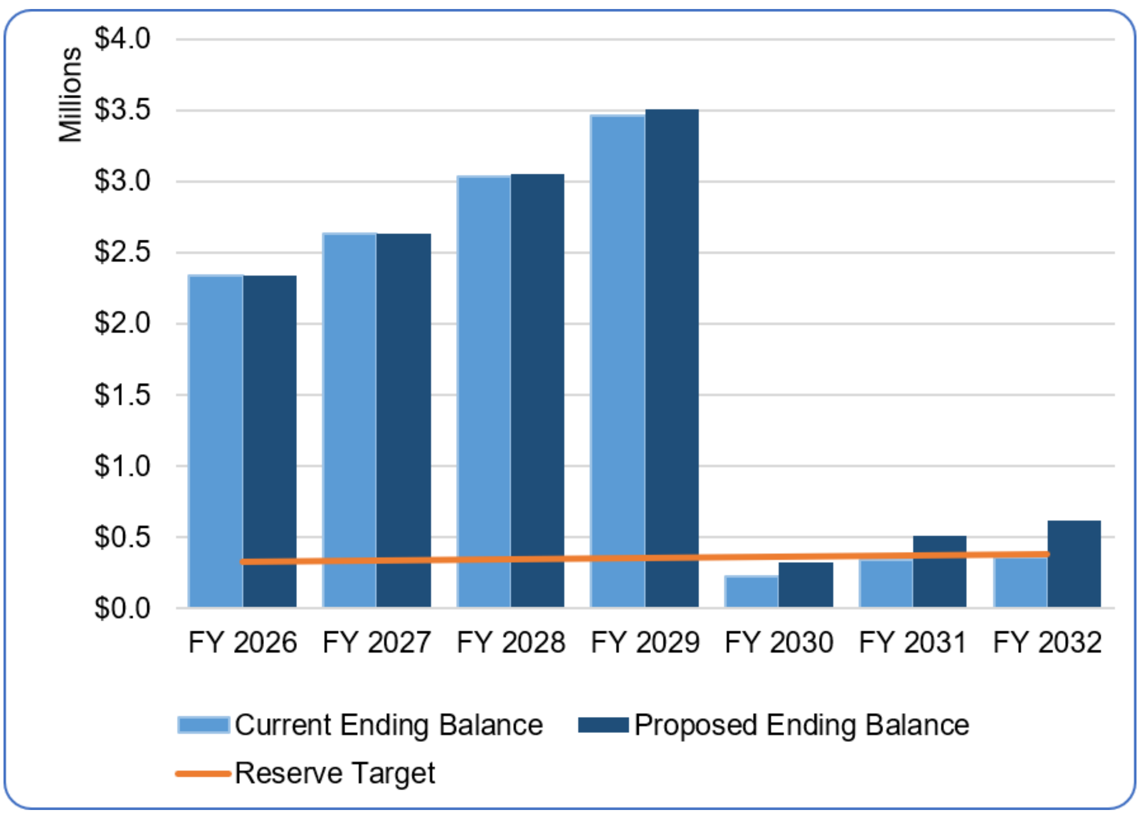
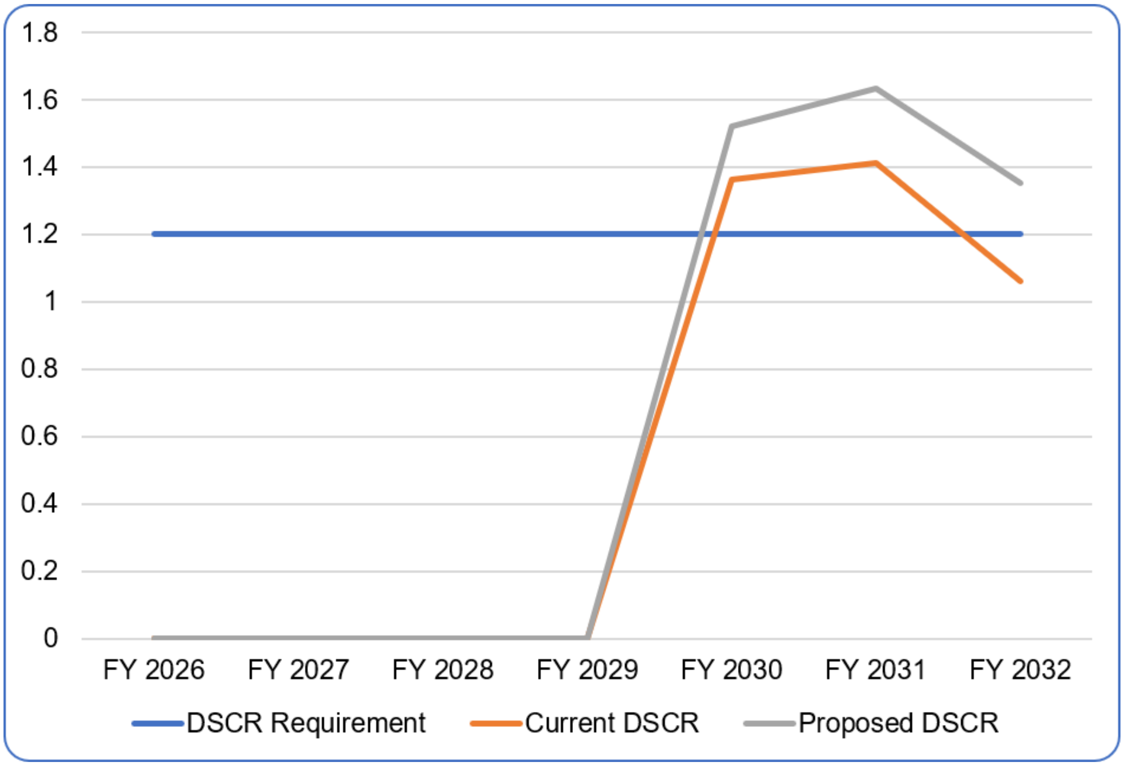


Figure 8. Sewer Zone 3 Scenario 4 Debt Coverage Ratio



Conclusion

Based on the data provided by the District and input from District staff, RDN recommends that the District move forward with the cost of service analysis based on Scenario 4 for both the Water Utility and the Sewer Zone 3 utility. Scenario 4 balances affordability and financial sustainability by combining moderate annual rate adjustments with debt financing and revised capital project timing. Compared with the other scenarios, it:

- produces the lowest cumulative rate increases,
- fully funds planned capital improvements,
- meets debt service coverage requirements, and
- maintains positive reserve balances, while
- minimizing financial risk to the District.

RDN further recommends that the District make no changes to the Sewer Zone 1 and the Sewer Zone 2 rates. These results are preliminary barring any additional analysis directed by the Board, which includes a future review of tax revenue allocations, testing additional scenarios, or potential grant funding; however, it is certain that some combination of rate increases and debt issuances will be necessary to accomplish the District's goals as stated.

Please provide any feedback, questions, or comments on the above memo and we will include these items into our initial rate recommendation discussion which will be provided at the August 19 Board Meeting.

Thank you for your time.

Anthony Elowsky

Project Manager, RDN

Addendum – Scenario 5

After discussion with the Boad of Directors and District staff, an additional scenario was developed for the water utility. Scenario 5 mirrors Scenario 4 in every way, except that it includes a share of property taxes from the Sewer Zone 1 (the same customer base in Castroville). The District has latitude to use property taxes in the way that best represents the needs of the District and its customers. With the reallocation of 20 percent of Castroville property tax revenue to the water utility, the District can decrease the proposed revenue adjustments by 2 percent per year. **Table 13** shows the proposed allocation of property taxes at the 20 Percent level. Under the proposed plan, approximately $1.3 million in property taxes will be transferred to the water utility.

Table 13. Proposed Property Tax Allocation for Scenario 5

Fund	FY 2027	FY 2028	FY 2029	FY 2030	FY 2031
Water	$246,000	$253,584	$261,402	$269,461	$277,769
Sewer Zone 1	$984,000	$1,014,337	$1,045,609	$1,077,845	$1,111,075
Total Property Tax	**$1,230,000**	**$1,267,921**	**$1,307,011**	**$1,347,306**	**$1,388,843**

Table 14 and **Table 15** show the proposed revenue adjustments and debt issuances associated with water scenario 5.

Table 14. Water Financial Planning Scenario 5 Revenue Adjustment

Scenario	FY 2027	FY 2028	FY 2029	FY 2030	FY 2031
Scenario 5	8%	8%	8%	8%	8%

Table 15. Water Financial Planning Scenario 5 Proposed Debt Issuance

Scenario	FY 2027	FY 2028	FY 2029	FY 2030	FY 2031
Scenario 5	$0	$9,000,000	$0	$0	$0

Figure 9 through **Figure 11** show the financial planning results under scenario 5 for the water utility. Under the proposed scenario the District will achieve fund balance targets as well as maintain debt service coverage ratios.

Figure 9. Water Scenario 5 Operating Position

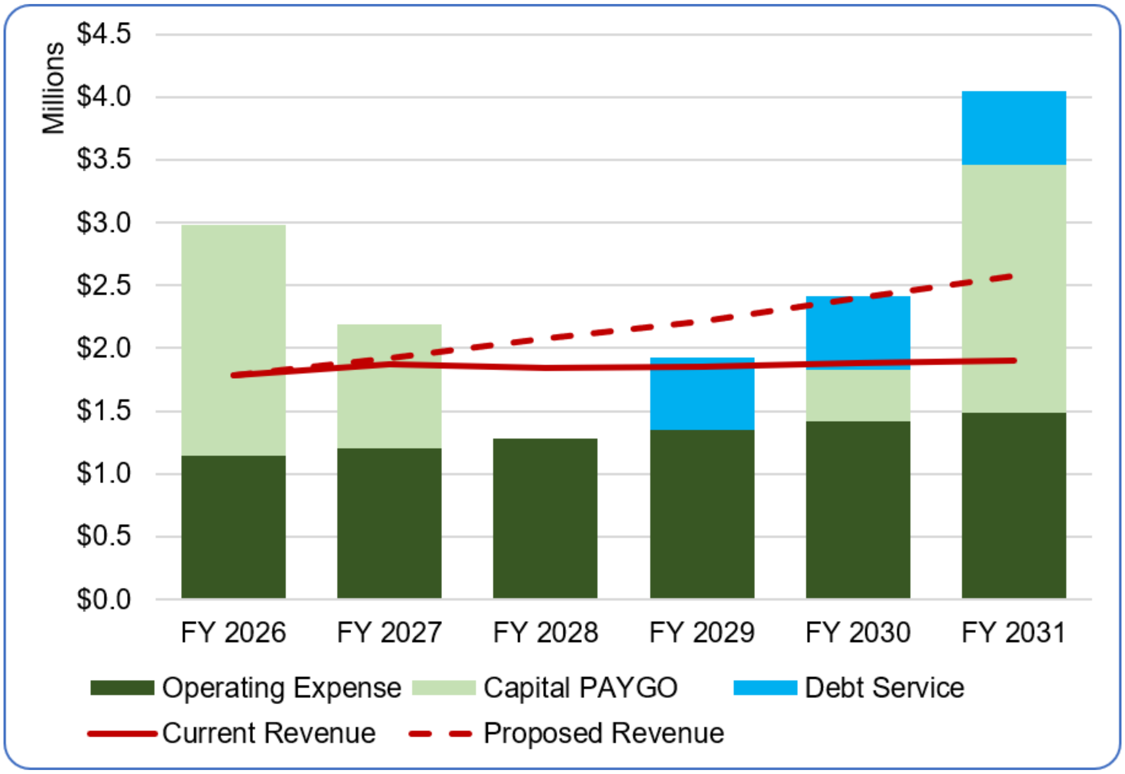


Figure 10. Water Scenario 5 Ending Reserve Balance

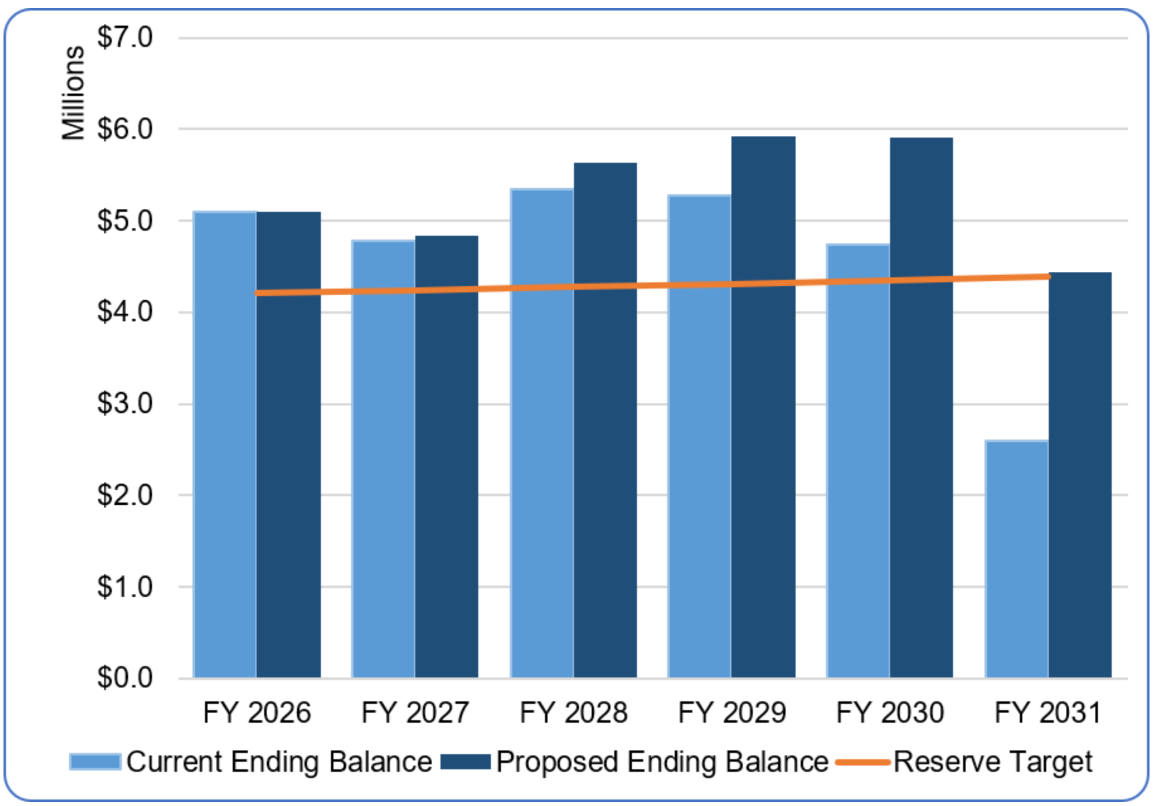


Figure 11. Water Scenario 5 Debt Coverage Ratio

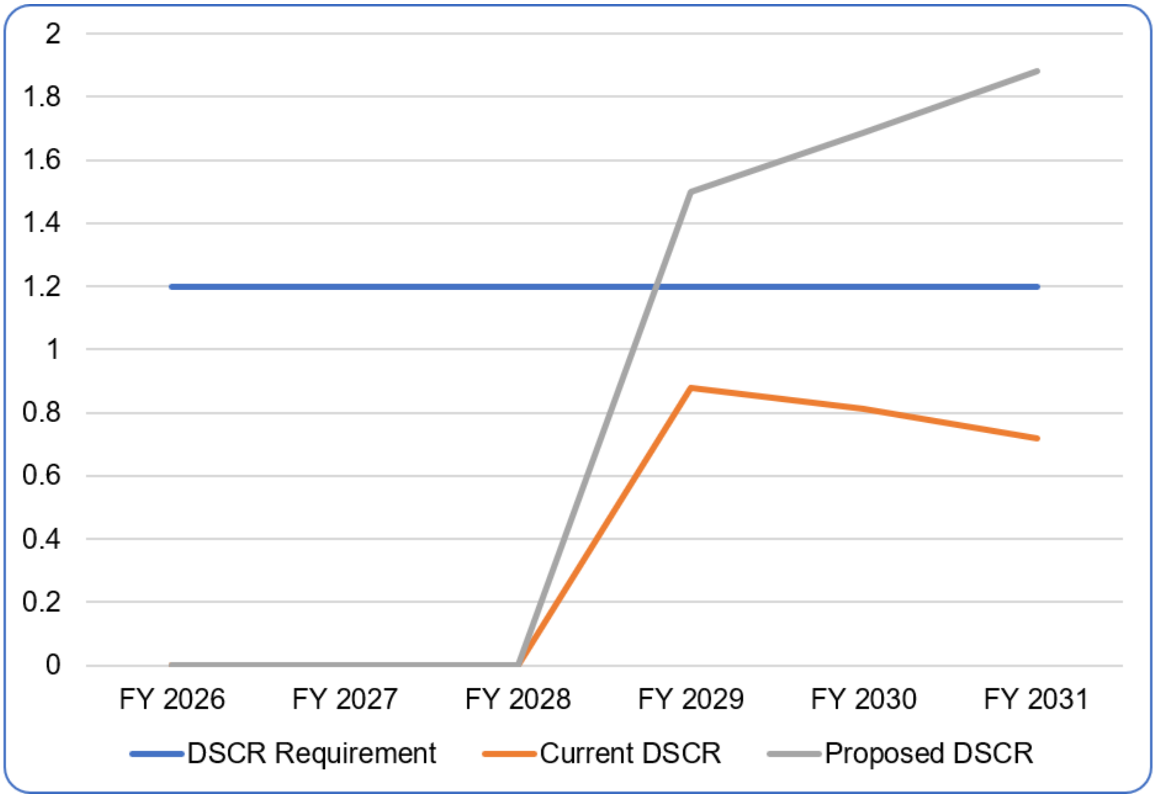


Figure 12 shows the ending fund balances for the Sewer Zone 1 utility under the proposed Scenario 5. Under the proposed scenario the District will maintain fund balance targets and have no negative impact on Zone 1 Sewer.

Figure 12. Sewer Zone 1 Scenario 5 Ending Reserve Balance