

# Open Space Credit Policy Discussion

Santa Clara Valley  
Water District





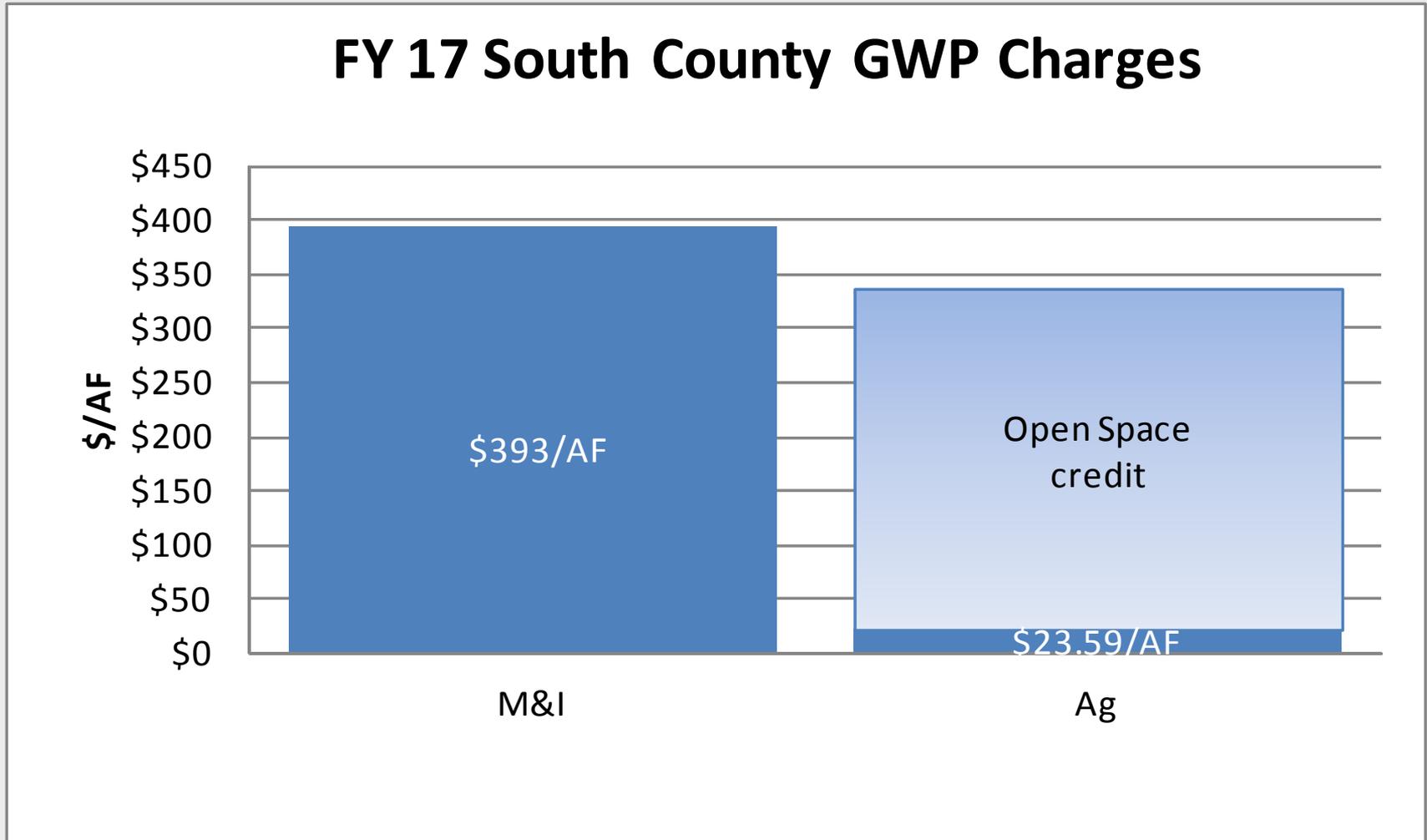
# What is the Open Space Credit?

- ▶ Formal definition: “The use of non-rate related revenue to offset reduced agricultural revenue as a result of keeping agricultural rates lower than needed to recoup the full cost of service”
- ▶ Applies to agricultural water users only, not to all open space

# History of Open Space Credit

- Pre-1991
  - ▶ Ag charge set at 25% of M&I charge
- 1991
  - ▶ Board implements “Open Space Credit” to avoid spike in Ag charge (caused by drought) that would have threatened viability of agriculture in the county
    - ▶ Board establishes practice of setting Ag charge at 10% of M&I
- 1999
  - ▶ Board practice to set Ag charge at 10% of M&I becomes policy under Resolution 99-21
- 2011
  - ▶ Open Space Credit methodology changes to conform to Proposition 218

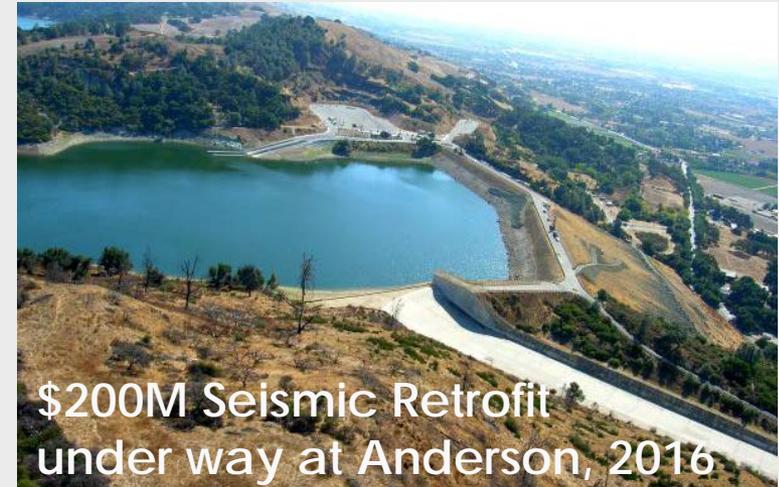
# FY 17 South County Groundwater Production Charges



- ▶ Ag Charge would be \$337/AF if there were no Open Space Credit

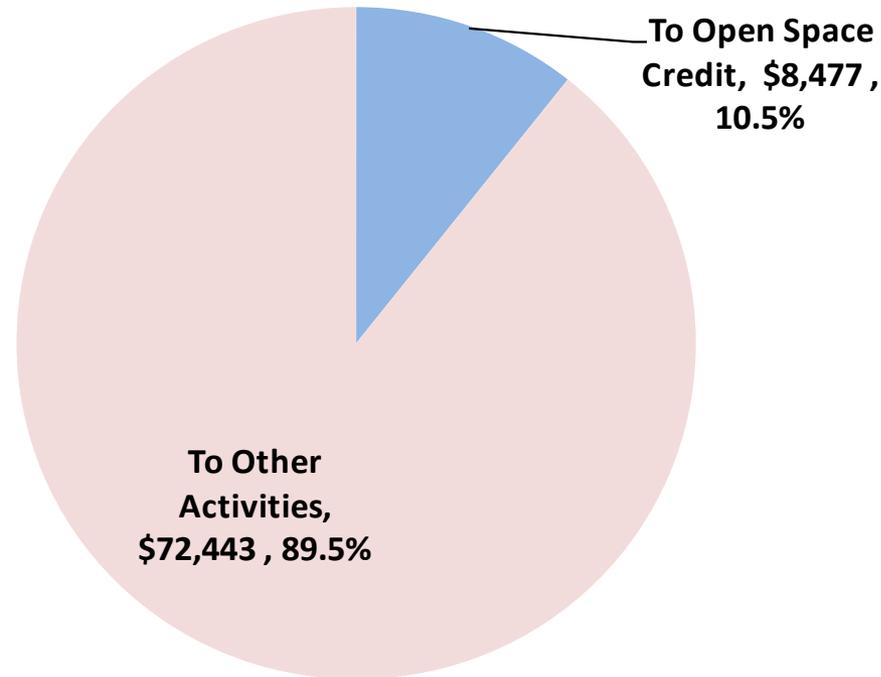
# What do Groundwater Charges pay for?

- ▶ Operate & maintain local reservoirs
- ▶ Purchase imported water
- ▶ Operate & maintain raw & recycled water pipelines
- ▶ Plan & construct improvements to infrastructure
- ▶ Monitor & protect groundwater from pollutants



# What percentage of 1% Ad Valorem Property Taxes Are Used to Fund the Open Space Credit?

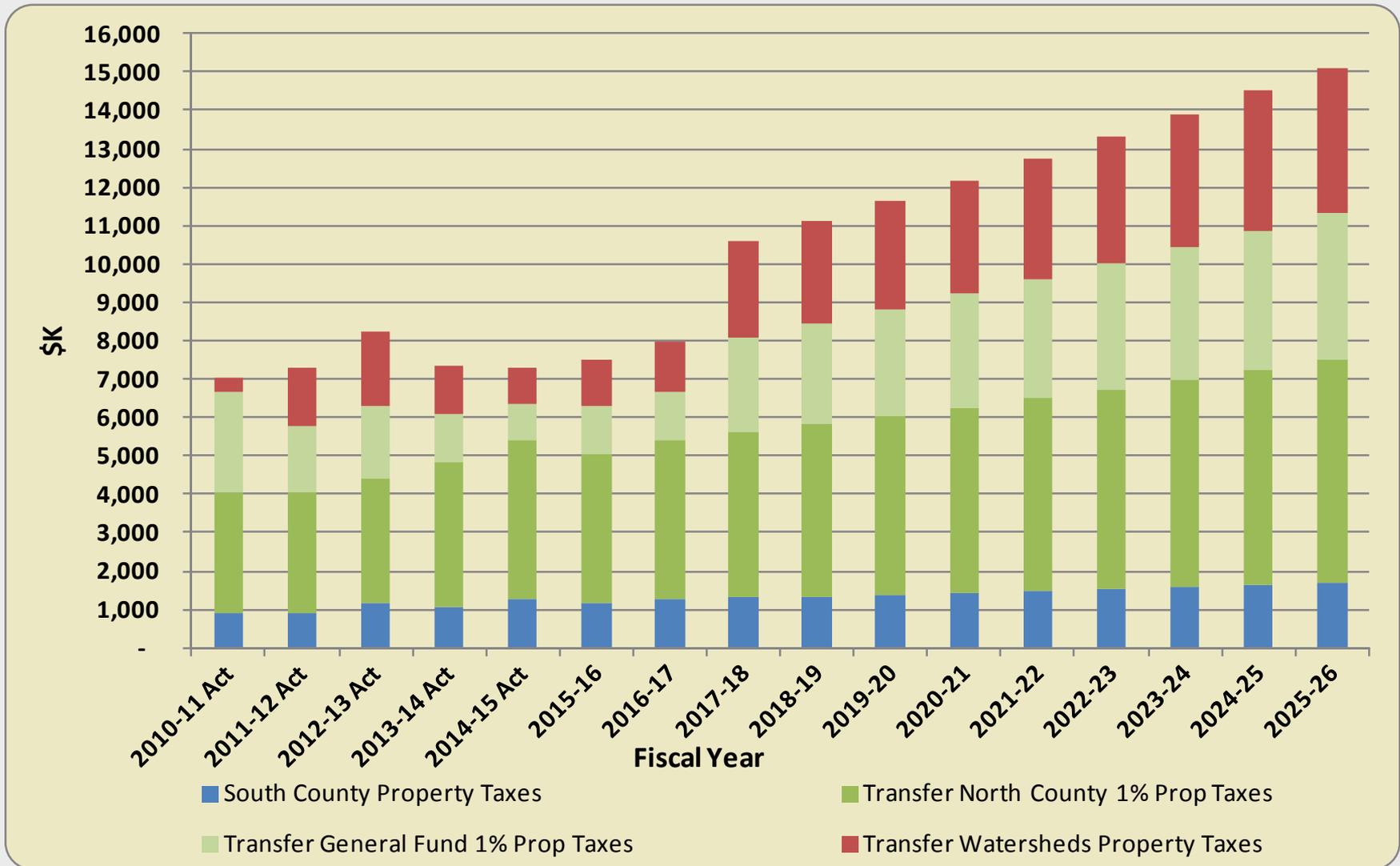
## FY 17 Budgeted 1% Ad Valorem Property Tax (\$K)



- ▶ FY 17 Budget 1% ad valorem property taxes total \$80.9M
- ▶ Approximately 10.5% used for Open Space Credit

# South County Open Space Credit

April 2016 Projection



# Extensive Review Conducted in 2013

At February 12, 2013 Board meeting, Board expressed concern about the sustainability of the Open Space Credit and requested stakeholder engagement.

1. Contracted with Economic Consultant, era economics LLC
2. Established a Working Group
3. Conducted Community Stakeholder Meeting
4. Obtained feedback from 3 Advisory Committees
5. Reviewed Findings with Board on 11/12/13

# Result of Economic Study – Changes in Ag Charges

## ▶ Constructed an economic model of agriculture in Santa Clara County

### ▶ 3 scenarios with 10 year phase-in

- ▶ Baseline (Maintain Ag Charge at 6% of M&I rate)
- ▶ 10 % of M&I rate
- ▶ 25 % of M&I rate

Scenario	Permanent Fallow (acres)	% Change in Irrigated Acres	Irrigated Acres <sup>1</sup>
<b>Baseline</b>	-	-	15,668
<b>10% of M&amp;I</b>	17	0.11%	15,651
<b>25% of M&amp;I</b>	549	3.50%	15,119

<sup>1</sup> Harvested acreage includes an additional 3,650 acres of grain hay



# Input from Working Group

1. Maintain Open Space Credit as is; both in practice (keep ag at 6% of M&I charge) and policy (limit ag charge to 10% of M&I charge)
2. Weigh any decisions regarding the open space credit policy in the context of other external factors that affect agriculture
  - Credit is only one factor that impacts agricultural costs
  - Incremental increases to ag can have significant impact
3. Explore other sources of money for capital and operating projects that are not fully funded or where funding sources are less than robust

1. Maintain Open Space Credit Policy language as is (limit ag charge to 10% of M&I charge)
  - Staff to continue referring to the Board's policy as the "Open Space Credit Policy"
  
2. Explore other sources of funding to improve the financial health of the Watershed Stream Stewardship Fund
  
3. Maintain the South County agricultural charge at 6% of M&I
  - Continue practice of setting the North County ag charge equal to South County ag charge

# Alternatives to minimize Open Space Credit

1. M&I users pay for open space credit – Not feasible now, but could be in future depending on outcome of City of San Buenaventura v. United Water Conservation District
2. Increase agricultural charge to 10% of M&I over 5-year time frame, discount to 6% for Williamson Act participants & those ineligible for Williamson Act (i.e. less than 10 acres in size)
  - Anticipated savings \$200K to \$400K over 5 years
  - Offset by \$25K implementation cost and potentially some ongoing operations costs
3. November 2013 Staff Proposal – Increase agricultural charge to 10% of M&I over 5-year timeframe
  - <1% of Agricultural Lands will fallow if Ag charges increased to 10% of M&I
  - \$1.5M savings over 5 years
  - Ag GW charge in FY 22 would be \$50.70/AF vs \$30.43/AF

# Agricultural Commissioner's Office Study – Jan 2016

- Study prepared by era economics LLC
- Ecosystem service benefits of Agricultural lands quantified below:

Service	Low Value per acre	High Value per acre
Flood Control	\$40	\$85
Recharge	\$55	\$70
Water Quality	\$25	\$30
Pollination	\$20	\$65
Biodiversity	\$20	\$30
Open Space	\$450	\$1,000
<b>Total</b>	<b>\$610</b>	<b>\$1,280</b>

- No staff proposed changes to Open Space Credit policy or practice
- Any Board directed changes needed soon to incorporate into FY 18 rate setting process