

# Planning for FY 2019-20 Groundwater Production Charges

November 27, 2018



# Topics

1. Background Information on Groundwater Production Charge Setting Process
  - ▶ District Act
  - ▶ Prop 218 & Prop 26
  - ▶ Pricing Policy
2. North County & South County Infrastructure
3. Water Usage
4. Financial Background
  - ▶ Key Financial Targets
  - ▶ Fixed Charge Analysis
5. Rate Setting Strategy for FY 20
6. Schedule
7. Summary

# District Act Details Several Process Requirements to Set Groundwater Production Charges

- ▶ Requires setting of groundwater production charges once per year
  - ▶ Option to do mid-year adjustment (added in 1992)
  
- ▶ Requires publication of Annual Report on Protection and Augmentation of Water Supplies (PAWS)
  
- ▶ Requires public hearing
  - ▶ Surface, treated, & recycled water rates can be set separately
  
- ▶ Requires establishment of zones of benefit

# District Act Defines Purposes for Groundwater Charges

1

Imported Water Facilities

2

Imported Water Purchases

3

All Facilities which will “conserve or distribute water including facilities for groundwater recharge, surface distribution, and purification and treatment”

4

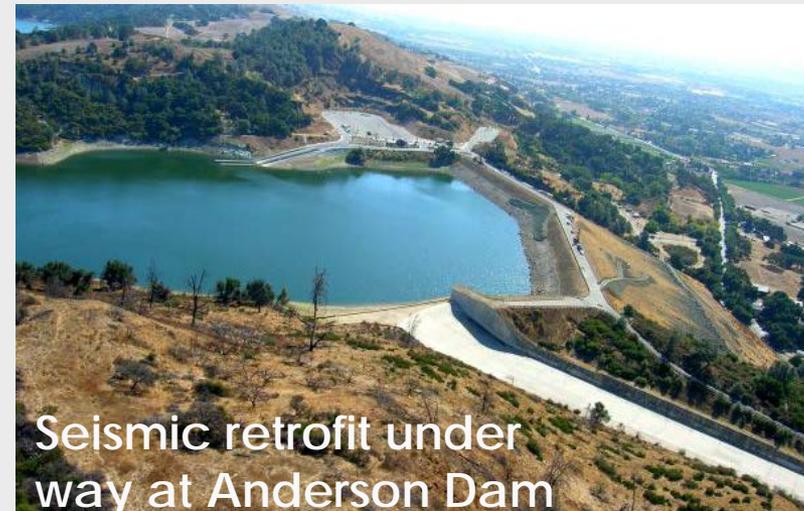
Debt

# Many activities ensure safe, reliable groundwater supplies

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



Penitencia Delivery Main and Penitencia Force Main Seismic Retrofit Project



Seismic retrofit under way at Anderson Dam

# The Surface Water Charge-setting Process is Consistent with Prop 218 Process for Water Service Charges

- ▶ Includes cost of service analysis by customer class
- ▶ Includes protest procedure as defined in Board Resolution 12-10

## Historical Majority Protest Procedure Results

Fiscal Year	2013	2014	2015	2016	2017	2018
Surface Water						
North County	0%	0%	0%	0%	0%	0%
South County	0%	0%	0%	1.3%	0%	0%

# Prop 218 not applicable to Groundwater Charge-setting Process

- ▶ Supreme Court found Prop 218 not applicable to groundwater charges
- ▶ Staff recommends rescinding Board Resolution 12-11, which would eliminate majority protest procedure
  - ▶ Prop 218 requirements like holding a public hearing, and noticing well owners are consistent with District Act, and would continue

## Historical Majority Protest Procedure Results

Fiscal Year	2013	2014	2015	2016	2017	2018
Groundwater						
North County	1.4%	1.3%	1.3%	1.2%	1.7%	1.7%
South County	0.8%	0.5%	0.4%	0.5%	0.3%	0.6%

# The Groundwater charge-setting process is Consistent with Prop 26

- ▶ Supreme Court found Prop 26 is applicable to groundwater charges
  
- ▶ To qualify as a nontax fee under Prop 26, GW charge must satisfy both:
  1. GW charge established at amount that is no more than necessary to cover reasonable costs of government activity
  2. Manner in which costs are allocated to payor bear a fair or reasonable relationship to payor's burdens on, or benefits received from government activity

# Resolution 99-21 is the Board's Pricing Policy



- ▶ Groundwater charges are levied within a zone for benefits received
- ▶ All water sources and water facilities contribute to common benefit within a zone regardless of cost, known as “pooling” concept
  - ▶ Helps maximize effective use of available resources
- ▶ Agricultural water charge shall not exceed 10% of M&I water charge

Zone of Benefit Study in progress

# Groundwater Charge-Setting Approach

September

Begin multi-year financial forecast prep

Water Utility activities must meet purpose defined in District Act Section 26.3

November/December

Board provides guidance for upcoming rate setting cycle

January

Preliminary Rate Projection Discussed with Board

Pricing based on Resolution 99-21 to maximize use of available water resources

February

Prepare Report on Protection & Augmentation of Water Supplies (PAWS)

Includes Cost of Service by customer class:

- Groundwater
- Treated Water
- Surface Water
- Recycled Water

April

Majority protest procedures and public hearings

Process detail explained in Board Resolutions 12-10 and 12-11

May

Adoption of Groundwater and Other Water Charges

# Infrastructure differences drive different groundwater production charges in each zone

## North County

- 3 water treatment plants
- Reservoirs – Almaden, Calero, Guadalupe, Lexington, Stevens Creek, Vasona
- Silicon Valley Advanced Water Purification Center
- Imported Water – State Water Project

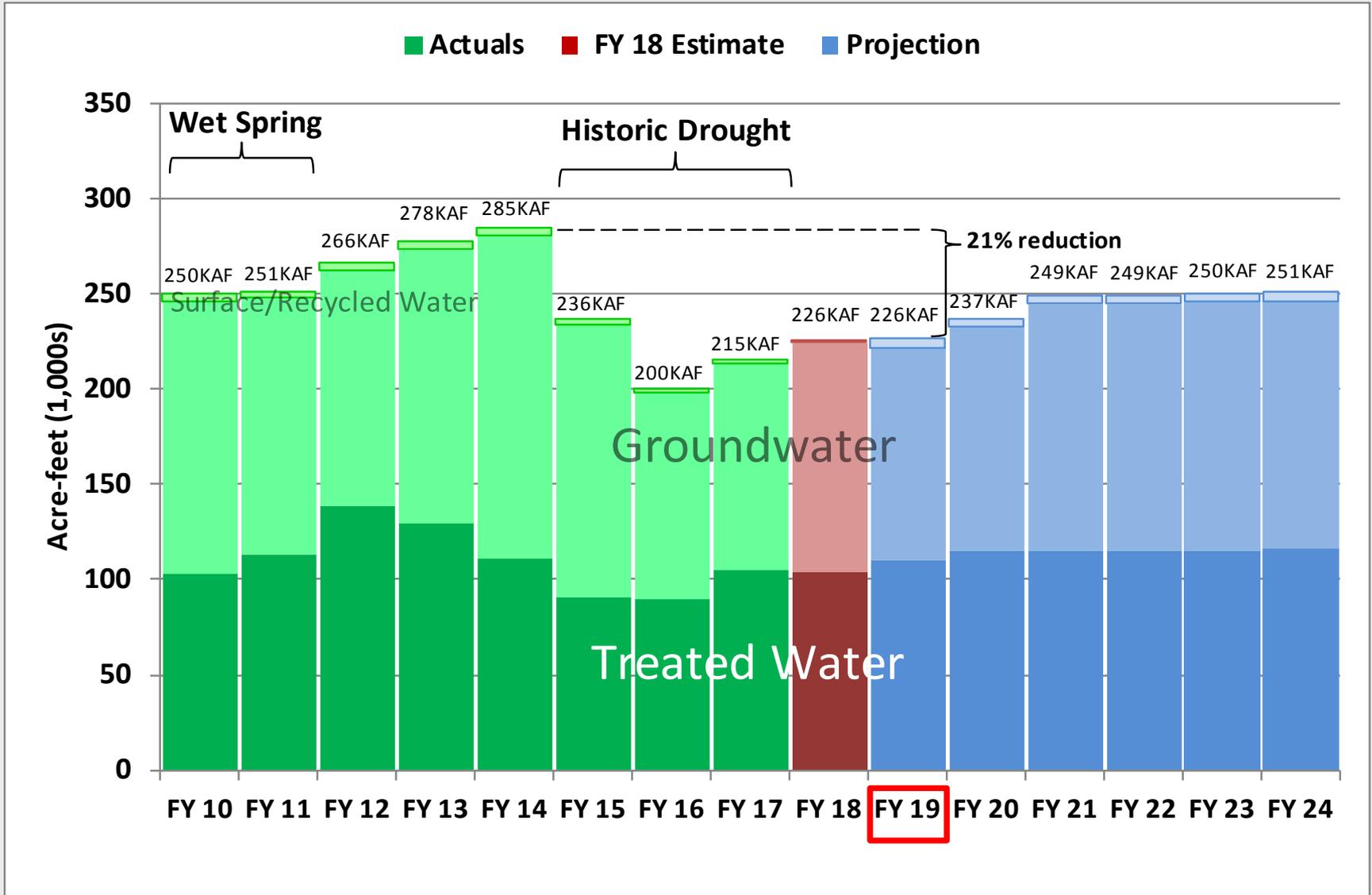
## Shared

- Reservoirs – Anderson & Coyote
- Imported Water – Central Valley Project

## South County

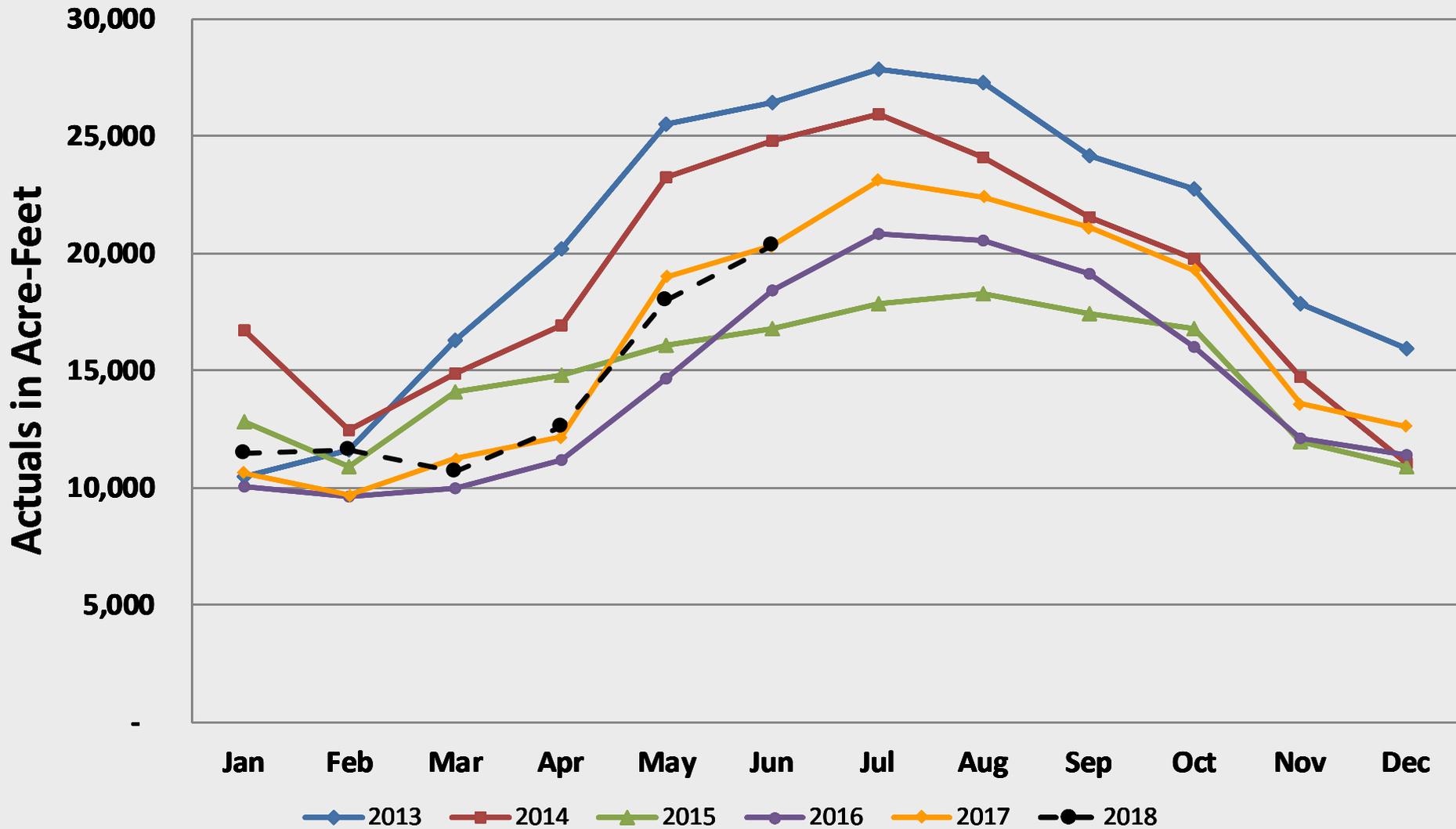
- Reservoirs – Chesbro, Uvas
- SCRWA Recycled Water System

# Water Usage (District Managed)



Note: FY 19 refers to fiscal year 2018-19

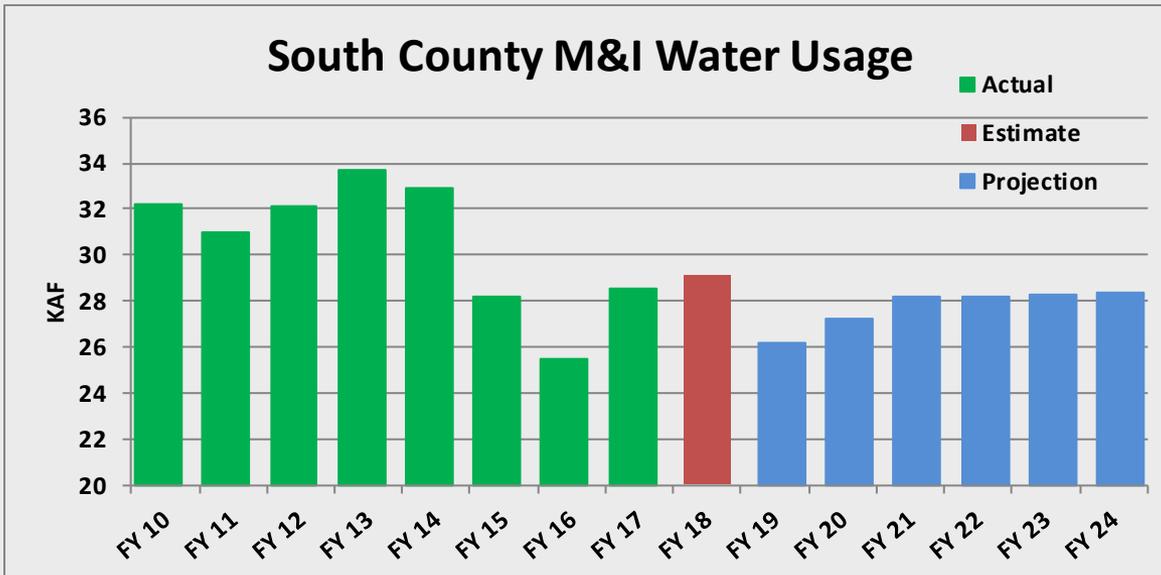
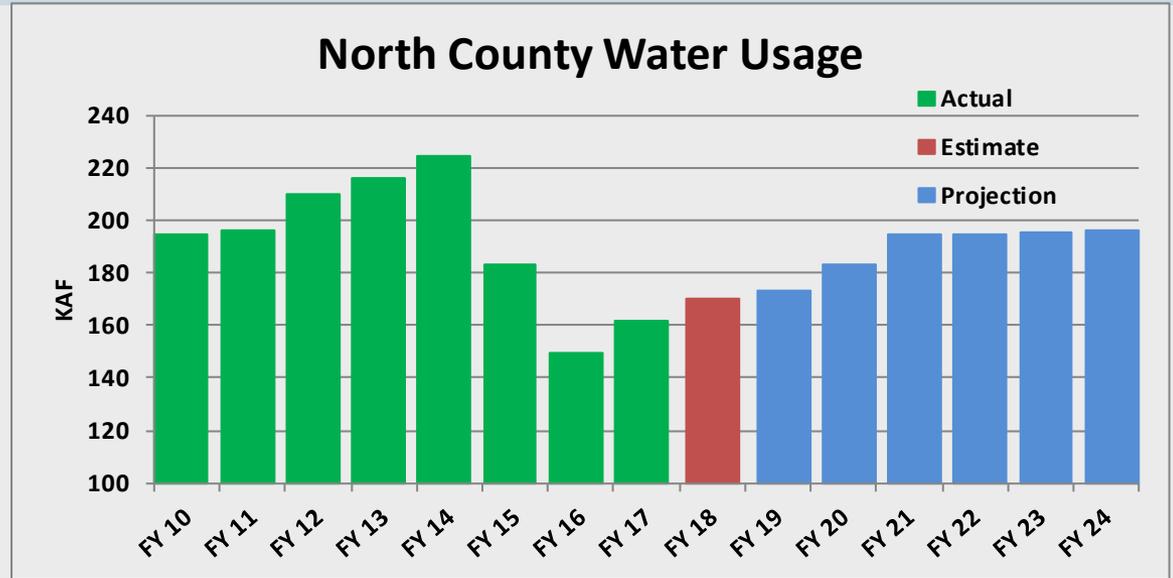
# Historic Water Usage (Groundwater & Treated Water)



Note: Groundwater Actuals do not include semi-annual and annual billings

# Water Usage Trend by Zone

North County Water Usage  
Includes Groundwater, Treated  
Water, & Surface Water



South County Water Usage  
Includes Groundwater, Surface  
Water & Recycled Water

# Water Usage (District Managed)

	FY14	FY 15	FY 16	FY 17	FY 18	FY 19	FY 20	FY 25	FY 30
<b>Water Use (AF)</b>	285	236	200	215	226	226	237	252	258
<b>% Change vs FY 14</b>		-17%	-30%	-25%	-21%	-21%	-17%	-12%	-9%
<b>% Change Adjusted for Growth</b>							-23%	-22%	-24%

Note: FY14 water use is equivalent to calendar year 2013, which is the District's base year for conservation comparison purposes

Forecasted water use maintains 20%+ reduction vs FY 14 when adjusted for projected population growth

# Sound Financial Targets Keep Bond Ratings High

## Key Targets:

- ▶ Debt service coverage ratio targeted at 2.0 or better to minimize borrowing cost and promote continued high credit ratings (Aa1 from Moody's and AA+ from Fitch)
- ▶ Discretionary Reserves (Operating & Capital + Supplemental Water Supply) targeted at minimum per policy

# Fixed Charge Consideration

## Background:

- ▶ Staff has been evaluating fixed charge concept in conjunction with SGMA authority
- ▶ Objective is improved revenue stability while maintaining revenue neutrality relative to current rate structure

## Project Status:

- ▶ Majority of Water Retailers oppose fixed charge
  - ▶ Retailers see fixed charge as redundant relative to take-or-pay treated water contract
  - ▶ District already has ability to do mid-year increase
  - ▶ Fixed charge may complicate process for regulated retailers
- ▶ District challenges
  - ▶ Could fixed charge be implemented for large retailers only? (versus unmetered individual well owners for example)

Staff recommends suspending FY 20 implementation effort

# Rate setting strategy for FY 20

## Baseline Case Assumptions:

- Pacheco Reservoir Expansion (Non-Prop 1 portion funded by water charges)
- CWF CVP at 6.7% of 33% share
- CWF SWP at 2.5% of 67% share
- Purified Water Expansion (24KAF)
- Los Vaqueros (Bethany Pipeline)
- Guiding Principle #5

## Scenarios:

- Pacheco Reservoir Expansion Funding Alternatives
- Sites, Los Vaqueros (in addition to Bethany Pipeline)
- Purified Water Expansion alternatives beyond 24KAF

# 2019 Schedule

- Jan 7 Ag Water Advisory Committee
- Jan 8 Board Meeting: Preliminary Groundwater Charge Analysis
- Jan 16 Water Retailers Meeting: Preliminary Groundwater Charge Analysis
- Jan 23 Water Commission Meeting: Prelim Groundwater Charge Analysis
  
- Feb 12 Board Meeting: Budget development update & Set time & place of Public Hearing
- Feb 22 Mail notice of public hearing and file PAWS report
  
- Mar 20 Water Retailers Meeting: FY 19 Groundwater Charge Recommendation
- Mar 26 Board Meeting: Budget development update
  
- Apr 1 Ag Water Advisory Committee
- Apr 2 Landscape Committee Meeting
- Apr 9 Open Public Hearing
- Apr 10 Water Commission Meeting
- Apr TBD Continue Public Hearing in South County
- Apr 23 Conclude Public Hearing
- Apr 24-26 Board Meeting: Budget work study session
  
- May 14 Adopt budget & groundwater production and other water charges

# Summary

- Anticipating increased retailer/public pushback during the FY 20 rate setting cycle

April 2018 annual percentage increase forecast (M&I Groundwater)

	FY 20	FY 21	FY 22	FY 23	FY 24	FY 25
North County	9.7%	9.7%	9.7%	9.7%	9.7%	9.7%
South County	7.7%	7.7%	7.7%	7.7%	7.7%	7.7%

- Staff seeking Board guidance on FY 20 rate setting cycle