

Staff Report

In accordance with the District Act, District staff has prepared an annual report on the Protection and Augmentation of Water Supplies (PAWS), which was filed with the Clerk of the Board on February 23, 2024.

The Report is the 53rd annual report on the Santa Clara Valley Water District's (Valley Water) activities in the protection and augmentation of the water supplies. This Report is prepared in accordance with the requirements of the District Act, section 26.5. The Report provides information on water requirements and water supply availability, and financial analysis of Valley Water's water utility system. The financial analysis includes future capital improvement and maintenance requirements, operating requirements, financing methods and staff's recommended groundwater production and other water charges by zone for fiscal year (FY) 2024-25.

The PAWS Report can be found at www.valleywater.org.

The Rate Setting Process

According to Section 26.3 of the District Act, proceeds from groundwater production charges can be used for the following purposes:

1. Pay for construction, operation and maintenance of imported water facilities
2. Pay for imported water purchases
3. Pay for constructing, maintaining and operating facilities which will conserve or distribute water including facilities for groundwater recharge, surface distribution, and purification and treatment
4. Pay for debt incurred for purposes 1, 2 and 3.

This year, as in past years, staff has carefully evaluated the activities that can be paid for by groundwater production charges. The work of Valley Water is divided into projects. Every project has a detailed description including objectives, milestones, and an estimate of resources needed to deliver the project. To ensure compliance with the District Act, each project manager must justify whether or not groundwater production charges can be used to pay for the activities associated with their project. The financial analysis presented in the annual report is based on the financial forecasts for these vetted projects.

Resolution 99-21 guides staff in the development of the overall pricing structure based on principles established in 1971. The general approach is to charge the recipients of the various benefits for the benefits received. More specifically, pricing is structured to manage surface water, groundwater supplies and recycled water conjunctively to prevent the over use or under use of the groundwater basin. Consequently, staff is very careful to recommend pricing for groundwater production charges, treated water charges, surface water charges and recycled water charges that work in concert to achieve the effective use of available resources.

This year's rate setting process is being conducted consistent with Board Resolutions 99-21 and 12-10. The rate setting process for both groundwater and surface water is consistent with Proposition 26 requirements that the groundwater production and surface water charges are no more than necessary to cover reasonable costs and bear a fair or reasonable relationship to the rate payor's burdens on or benefits received from the groundwater and surface water programs. The surface water charge setting process mirrors the process described in Proposition 218 for property-related fees for water services. As in the past, the Board will continue to hold public hearings and seek input from its advisory committees and the public before rendering a final decision on groundwater production and other water charges for FY 2024-25.

Staff Recommendations

Exhibit 1 shows the recommended groundwater production charges and other charges for FY 2024-25.

Exhibit 1 **Summary of Charges (Dollars Per Acre Foot, \$/AF)**

		Dollars Per Acre Foot		
		FY 2022-23	FY 2023-24	Proposed Maximum FY 2024-25
Zone W-2 (North County)	Basic User/Groundwater Production Charge			
	Municipal and Industrial	1,724.00	1,974.00	2,229.00
	Agricultural	36.85	36.85	39.80
	Surface Water Charge			
	Surface Water Master Charge	47.10	54.00	61.00
	Total Surface Water, Municipal and Industrial*	1,771.10	2,028.00	2,290.00
	Total Surface Water, Agricultural*	83.95	90.85	100.80
	Treated Water Charges			
	Contract Surcharge	115.00	115.00	115.00
	Total Treated Water Contract Charge**	1,839.00	2,089.00	2,344.00
Non-Contract Surcharge	200.00	200.00	200.00	
Total Treated Water Non-Contract Charge***	1,924.00	2,174.00	2,429.00	
Zone W-5 (Llagas Subbasin)	Basic User/Groundwater Production Charge			
	Municipal and Industrial	513.00	543.50	579.00
	Agricultural	36.85	36.85	39.80
	Surface Water Charge			
	Surface Water Master Charge	47.10	54.00	61.00
	Total Surface Water, Municipal and Industrial*	560.10	597.50	640.00
	Total Surface Water, Agricultural*	83.95	90.85	100.80
	Recycled Water Charges			
Municipal and Industrial	493.00	523.50	559.00	
Agricultural	64.25	67.20	70.15	
Zone W-7 (Coyote Valley)	Basic User/Groundwater Production Charge			
	Municipal and Industrial	582.50	657.50	750.50
	Agricultural	36.85	36.85	39.80
	Surface Water Charge			
	Surface Water Master Charge	47.10	54.00	61.00
	Total Surface Water, Municipal and Industrial*	629.60	711.50	811.50
Total Surface Water, Agricultural*	83.95	90.85	100.80	
Zone W-8 (Uvas/Chesbro)	Basic User/Groundwater Production Charge			
	Municipal and Industrial	368.50	398.00	430.00
	Agricultural	36.85	36.85	39.80
	Surface Water Charge			
	Surface Water Master Charge	47.10	54.00	61.00
Total Surface Water, Municipal and Industrial*	415.60	452.00	491.00	
Total Surface Water, Agricultural*	83.95	90.85	100.80	

*Note: The total surface water charge is the sum of the basic user charge (which equals the groundwater production charge) plus the water master charge

**Note: The total treated water contract charge is the sum of the basic user charge (which equals the groundwater production charge) plus the contract surcharge

***Note: The total treated water non-contract charge is the sum of the basic user charge (which equals the groundwater production charge) plus the non-contract surcharge

Staff proposes a 12.9% increase in the North County Zone W-2 Municipal and Industrial groundwater production charge from \$1,974 per acre foot (AF) to \$2,229/AF. Staff recommends maintaining the treated water surcharge on treated water delivered under the contracts with retail agencies at \$115/AF, and maintaining the non-contract treated water surcharge at \$200/AF. The proposal equates to a monthly bill increase for the average household of \$8.78 or about 29 cents a day.

In the South County Zone W-5, staff proposes a 6.6% increase in the M&I groundwater production charge from \$543.50/AF to \$579/AF. The proposal equates to a monthly bill increase for the average household of \$1.22 or about 4 cents per day.

In the South County Zone W-7, staff proposes a 14.2% increase in the M&I groundwater production charge from \$657.50/AF to \$750.50/AF. The proposal equates to a monthly bill increase for the average household of \$3.20 or about 11 cents per day.

In the South County Zone W-8, staff proposes an 8% increase in the M&I groundwater production charge from \$398/AF to \$430/AF. The proposal equates to a monthly bill increase for the average household of \$1.10 or about 4 cents per day.

Customers in both areas of North and South County may also experience additional charge increases enacted by their retail water providers.

The proposed agricultural groundwater production charge is 9.25% of M&I for Zone W-8, which would mean an increase from \$36.85/AF (9.25% of Zone W-8) to \$39.80/AF. The proposed groundwater production charge for agricultural rates would translate to an increase of \$0.49 per month per acre, assuming 2 (two) acre-feet of water usage per acre per year.

Staff recommends a 12.9% increase to the surface water master charge from \$54/AF to \$61/AF to align revenues with the costs related to managing, operating and billing for surface water diversions. This increase results in a 12.9% increase in the overall North County municipal and industrial surface water charge, to \$2,290/AF. For South County, the overall increases in the basic user charge and surface water master charge result in a total surface water charge for M&I water as follows: \$640/AF, or a 7.1% increase for Zone W-5; \$811.50/AF, or a 12.9% increase for Zone W-7; and \$491/AF, or an 8.6% increase for Zone W-8. The total agricultural surface water charge in any zone represents up to a 10.9% increase at \$100.80/AF.

For recycled water, staff recommends increasing the M&I charge by 6.8% to \$559/AF. For agricultural recycled water, the proposed increase is 4.4% to \$70.15/AF. The increase maximizes cost recovery while concurrently providing an economic incentive to use recycled water. This pricing is consistent with the provisions of the "Wholesale-Retailer Agreement for Supply of Recycled Water Between Santa Clara Valley Water District and City of Gilroy." The proposed rate changes maximize cost recovery while concurrently providing an economic incentive to use recycled water.

The proposed groundwater production charges for FY 2024-25 are necessary to pay ongoing operations and maintenance of the existing water utility system, investments in water supply infrastructure rehabilitation and upgrades, and new water supply reliability investments. Valley Water remains in an era of investment driven by infrastructure rehabilitation needs and climate change.

Staff recommends setting the State Water Project Tax at \$28 million for FY 2024-25. This translates to a property tax bill for the average single-family residence of roughly \$42.00 per year. Valley Water incurs an annual indebtedness to the State of California pursuant to its Water Supply Contract dated November 20, 1961. Such indebtedness is proportional to Valley Water’s allocation of water from the State Water Project and pays for construction, maintenance and operation of state water project infrastructure and facilities. Staff anticipates that Valley Water’s contractual indebtedness to the State under the State Water Supply Contract for FY 2024-25 will be at least \$29 million. Staff’s recommendation regarding the State Water Project tax is consistent with Valley Water’s past practice and with the approach of other water districts and agencies that maintain State Water Project supply contracts.

Projections

Exhibit 2 shows actual and projected District-managed water use. Water usage in FY 2022-23 was estimated at approximately 198,000 AF, which is roughly 6,000 AF higher than budgeted in FY 2022-23. For the current year, FY 2023-24, staff estimates that water usage will be approximately 207,000 AF, which reflects ongoing rebound from the drought. For FY 2024-25, staff is projecting that water usage of 222,000 AF which reflects continued drought rebound. Water use is projected to return to prior projections of 239,000 AF by FY 2025-26.

Exhibit 2 **District-managed Water Use Projection (1,000’s AF)**

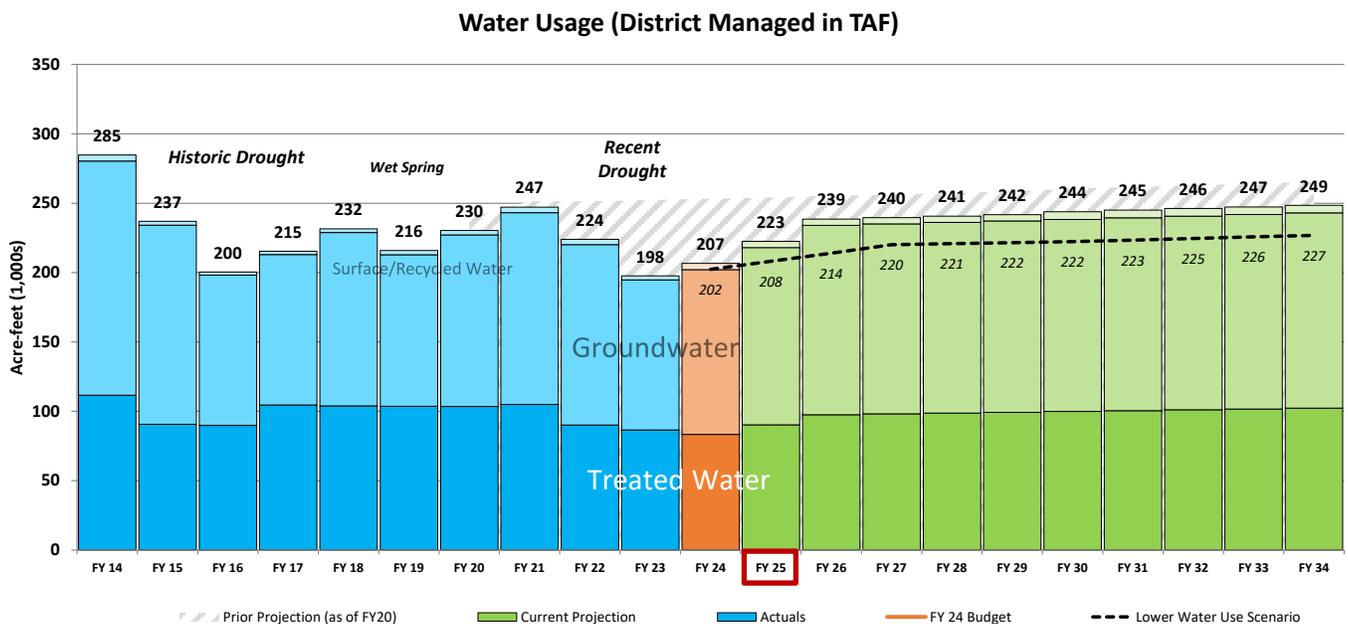


Exhibit 3 shows key financial indicators with staff’s recommendation projected to FY 2029-30. The debt service coverage ratio, which is a ratio of revenue less operations expenses divided by annual debt service, is targeted at 2.0 or better which helps to ensure financial stability and continued high credit ratings keeping cost to borrow low.

Exhibit 3 5-Year Water Charge and Financial Indicator Projection

Base Case	Adopted Budget						
	2023–24	2024–25	2025–26	2026–27	2027–28	2028–29	2029–30
No. County (W-2) M&I GWP charge (\$/AF)	\$1,974	\$2,229	\$2,450	\$2,692	\$2,959	\$3,252	\$3,574
Y-Y Growth %	14.5%	12.9%	9.9%	9.9%	9.9%	9.9%	9.9%
So. County (W-5) M&I GWP charge (\$/AF)	\$544	\$579	\$617	\$658	\$701	\$748	\$797
Y-Y Growth %	6.0%	6.6%	6.6%	6.6%	6.6%	6.6%	6.6%
So. County (W-7) M&I GWP charge (\$/AF)	\$658	\$750.50	\$857	\$979	\$1,118	\$1,276	\$1,458
Y-Y Growth %	12.9%	14.2%	14.2%	14.2%	14.2%	14.2%	14.2%
So. County (W-8) M&I GWP charge (\$/AF)	\$398	\$430	\$464	\$502	\$542	\$585	\$632
Y-Y Growth %	8.0%	8.0%	8.0%	8.0%	8.0%	8.0%	8.0%
Operating & Capital Reserve	\$56,931	\$43,942	\$64,555	\$65,451	\$70,674	\$74,309	\$81,991
Supplemental Water Supply Reserve (\$K)	\$5,277	\$5,277	\$5,277	\$8,677	\$12,077	\$15,477	\$18,877
Drought Contingency Reserve (\$K)	\$0	\$0	\$0	\$1,000	\$4,000	\$8,000	\$12,000
Sr. Lien Debt Service Coverage Ratio (1.25 min)	2.54	2.02	2.52	2.56	2.63	2.39	2.06
South County (Deficit)/Reserves (\$K)	\$7,317	(\$478)	(\$2,199)	(\$2,042)	(\$5,507)	(\$9,001)	(\$9,249)

A significant portion of the projected increases in the groundwater production charge are driven by the capital improvement program as shown in Exhibit 4. Around \$5.5 billion in capital investments are planned for the next 10 years. Approximately \$1.6 billion is projected to be spent on the Anderson Dam Seismic Retrofit, which would improve public safety and restore operational capacity. Climate change has brought the need for new infrastructure investments. Planning work continues on efforts to build local storage through the Pacheco Reservoir Expansion Project and to expand the purified water program, which would provide new drought proof water supply. The Water Supply Master Plan 2050 will shed more light on what new infrastructure investments are recommended to be built. The remaining portion of the capital program is primarily dedicated to asset management of Water Utility Enterprise facilities throughout the county.

Over the next 10 years, operating outlays are projected to increase an average of 6.4% per year driven by: 1) the ramp up of payments associated with both the Delta Conveyance Project and the Los Vaqueros Reservoir Expansion Project; and 2) the inclusion of the new B.F. Sisk Dam Raise Project at San Luis Reservoir. Operations cost increases are also driven by significant inflation impacting the nation including cost increases associated with employee salaries and benefits. Debt service is projected to rise from \$1.2 billion in FY 2024-25 to \$7 billion in FY 2033-34 as a result of periodic debt issuances to fund the capital program.

Exhibit 4 Cost Projection by Cost Center (\$M)

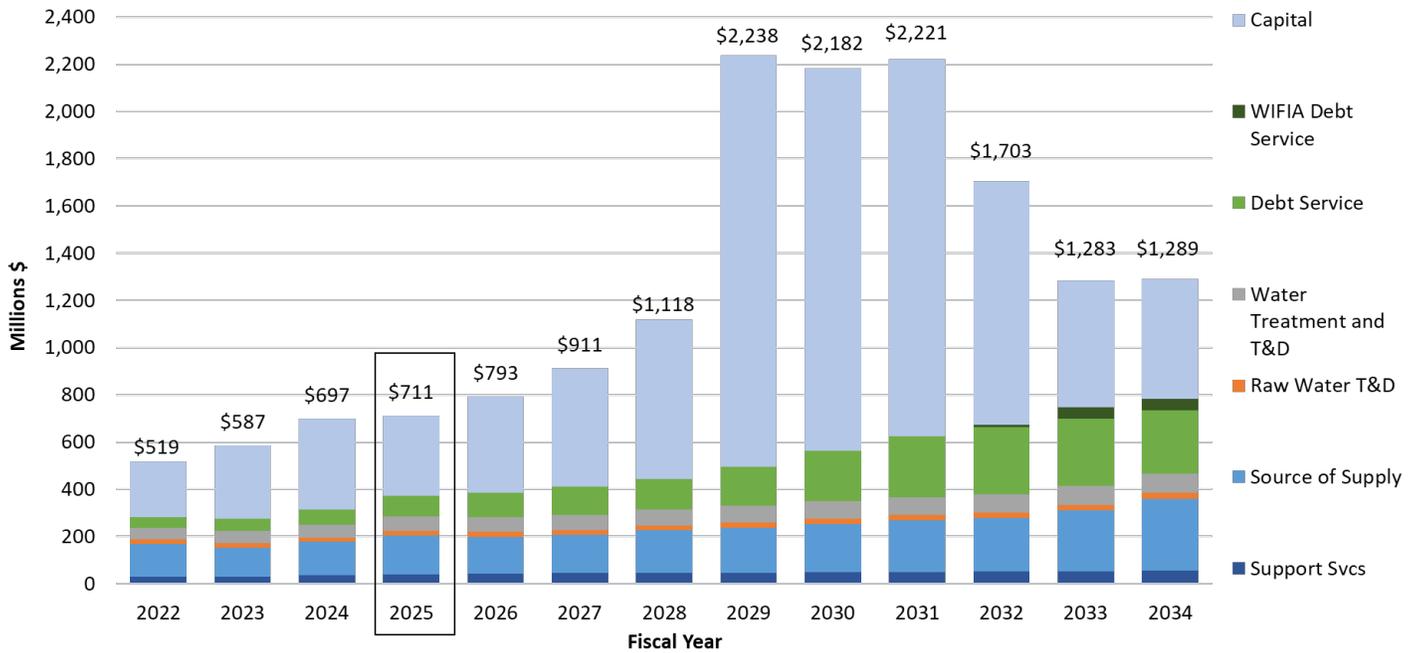


Exhibit 5 shows the groundwater production charge projection for the next 10 years and assumes a continuation of the level of service provided in FY 2023-24 and funding of the draft FY 2024-25 Capital Improvement Program (CIP). Note that there are initiatives and potential uncertainties that could result in the identification of additional capital or operations projects that are not reflected in the projection.

Exhibit 5 10-Year Groundwater Charge Projection

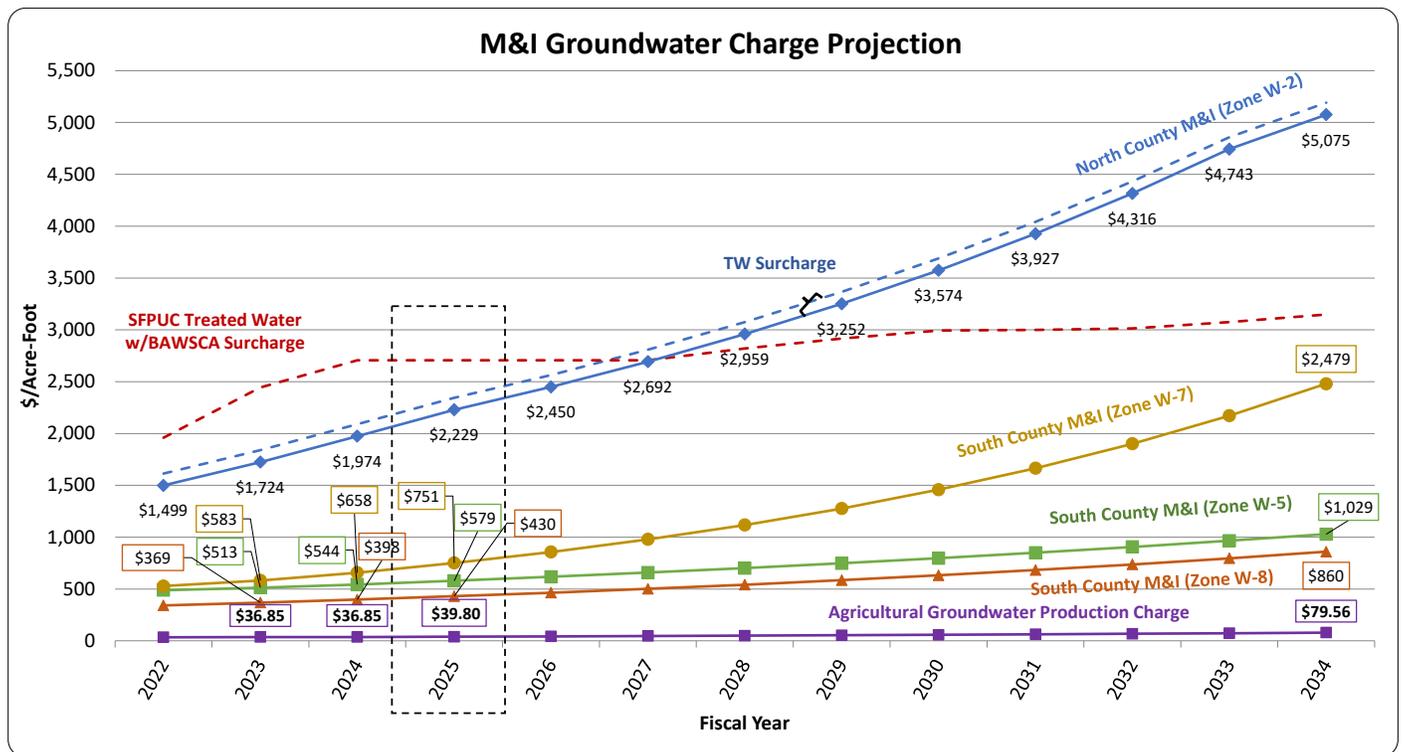


Exhibit 6 shows a comparison of the adjusted proposed groundwater production and treated water charges relative to the anticipated increases for the following similar agencies: Metropolitan Water District, Orange County Water District, San Diego County Water Authority, San Francisco PUC (Hetch Hetchy), and Zone 7.

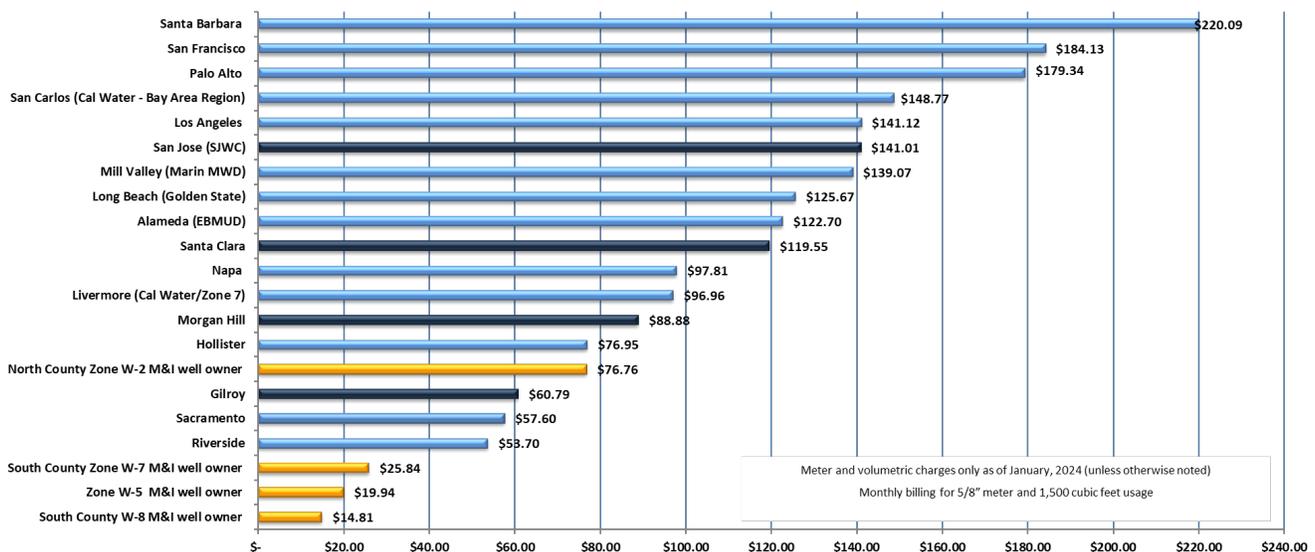
Exhibit 6 Anticipated FY 2024-25 Water Charge Increases for Similar Agencies

Agency	% inc.		% inc.		Projection		
	FY 22	'22 to '23	FY 23	'23 to '24	FY 24	'24 to '25	
SCVWD North W-2 (Groundwater prdctn per AF) ¹	\$1,499	15.0%	\$1,724	14.5%	\$1,974	12.9%	\$2,229
SCVWD North W-2 (Treated Water per AF) ¹	\$1,614	13.9%	\$1,839	13.6%	\$2,089	12.2%	\$2,344
SCVWD South W-5 (Groundwater prdctn per AF) ¹	\$488	5.1%	\$513	5.9%	\$544	6.6%	\$579
SCVWD South W-7 (Groundwater prdctn per AF) ¹	\$529	10.2%	\$583	12.9%	\$658	14.2%	\$751
SCVWD South W-8 (Groundwater prdctn per AF) ¹	\$342	7.9%	\$369	8.0%	\$398	8.0%	\$430
Metropolitan WD (Untreated Water per AF) ²	\$920	11.1%	\$1,022	7.3%	\$1,097	4.8%	\$1,150
Metropolitan WD (Treated Water per AF) ²	\$1,264	9.6%	\$1,386	5.8%	\$1,467	5.3%	\$1,544
Orange County WD (Groundwater per AF)	\$507	10.1%	\$558	11.8%	\$624	6.6%	\$665
San Diego County WA (Treated Water per AF) ²	\$1,807	8.5%	\$1,962	19.5%	\$2,344	2.7%	\$2,408
San Francisco PUC (Treated Water per AF) ³	\$1,786	15.9%	\$2,069	11.6%	\$2,309	7.7%	\$2,487
Zone 7 (Treated Water per AF) ²	\$1,561	15.2%	\$1,798	3.1%	\$1,853	4.3%	\$1,932

1. Amounts may be rounded to the nearest dollar.
2. MWD, SDCWA and Zone 7 rates based on calendar year (i.e., 2024 rate would be effective on 1/1/2024)
3. SFPUC rate excludes BAWSCA bond surcharge

Exhibit 7 shows a comparison of the average monthly bill for several of Valley Water’s retail customers (e.g., San Jose Water Company, City of Santa Clara, City of Morgan Hill, and City of Gilroy) relative to Valley Water’s perennial list of retail agency comparators across the state. SCVWD retailer rates shown include the staff recommended increase for FY 2024-25. North County and South County well owner rates are also shown, which exclude pumping costs (e.g., electricity) and well maintenance costs.

Exhibit 7 Retail Agency Benchmarks



Cost of Service

The cost of service analyses for FY 2024-25 are shown in Exhibit 8 for North County and Exhibit 9 for South County. The exhibits are laid out in a format that follows six industry standard rate making steps.

1. Identify utility pricing objectives and constraints
2. Identify revenue requirements
3. Allocate costs to customer classes
4. Reduce costs by revenue offsets or non-rate related funding sources
5. Develop unit costs by customer class or net revenue requirements by customer class
6. Develop unit rates by customer class

Water Utility pricing objectives and constraints representing rate making step 1 are identified in Resolution 99-21, the District Act, Proposition 218, Proposition 26, and existing contracts.

Step 2 includes identifying and segregating Water Utility Fund costs from Watershed and Administrative Funds and allocating Water Utility costs between zones W-2 (North County) and W-5, W-7, and W-8 (South County) according to benefits provided in each zone. Step 3 involves allocating costs by customer class either directly or based on water usage. Steps 4 and 5 result in unit costs by customer class after applying non-rate related offsets.

Step 6 includes two adjustments. The first adjustment is the application of 1% ad valorem property taxes, to offset the costs of agricultural water in accordance with Board Resolution 99- 21, also known as the "Open Space Credit." For FY 2024-25, staff is proposing a \$4 million transfer of 1% ad valorem property taxes from the General Fund and the Watershed Stream Stewardship Fund into the Water Utility Fund to help offset the reduced revenue from keeping agricultural charges lower than the cost of service.

The second adjustment involves reallocating a portion of the cost of treated water (or recycled water in the case of South County) to groundwater and surface water users. Treated and recycled water offsets the need to pump groundwater and therefore increases the volume of stored groundwater and improves reliability. The reallocation of a portion of the treated water cost for example represents the value of treated water to groundwater and surface water users and facilitates a pricing structure that prevents the over use of the groundwater basin. Preventing over use not only preserves groundwater for use in times of drought, but also prevents land subsidence or sinking of the land, which can cause serious infrastructure issues.

Another aspect of the second adjustment is related to setting the basic user charge for surface water equal to the groundwater production charge. Surface water use is effectively in-lieu groundwater use permitted by Valley Water to help preserve the groundwater basin. As such, the costs related to preserving the groundwater basin provide value to surface water users because it makes available District surface water, which otherwise would only be used for groundwater recharge. Similarly, the costs related to providing surface water benefit groundwater users because surface water usage helps preserve the groundwater basin.

The second adjustment reallocates costs between surface water and groundwater customers in order to set the basic user charge for surface water equal to the groundwater production charge in recognition of this conjunctive use relationship, and in accordance with board policy. A 2015 study was conducted by Raftelis Financial Consultants, Inc (RFC) that confirms the reasonableness of such an adjustment. The report titled "Report Documenting the Reasonableness of the Conjunctive Use Benefit of Surface Water and Recycled Water to Groundwater Customers" documents the support and justification for the water district's cost of service methodology and can be found on Valley Water's website.

Cost of Service North County Zone W-2 (\$K)

FY 25 Projection (\$ in Thousands)	Zone W-2					Total W-2
	GW		TW	SW	Ag	
	M&I	AG	M&I	M&I		
1 Operating Outlays						
2 Operations/Operating Projects	69,149	597	149,882	1,865	52	221,544
3 SWP Imported Water Costs	7,885	69	23,172	340	9	31,475
4 Debt Service	21,916	190	64,763	285	8	87,162
5 Total Operating Outlays	98,949	856	237,816	2,490	69	340,181
6 Capital & Transfers						
7 Operating Transfers Out	3,848	33	4,646	71	2	8,600
8 Capital Outlays excl. carryforward reqmnts	96,855	842	210,600	1,751	49	310,096
9 Total Capital & Transfers	100,703	875	215,246	1,822	51	318,697
10 Total Annual Program Costs	199,653	1,731	453,062	4,312	120	658,878
11 Revenue Requirement Offsets	Step 3 - Allocate costs to customer classes					
12 Capital Cost Recovery	(4,967)	(43)	(5,998)	(91)	(3)	(11,102)
13 Debt Proceeds	(81,618)	(709)	(177,467)	(1,476)	(41)	(261,311)
14 Inter-governmental Services	(1,407)	(12)	(1,698)	(26)	(1)	(3,144)
15 SWP Property Tax	(6,594)	(57)	(19,377)	(285)	(8)	(26,320)
16 South County Deficit/Reserve	2,756	24	3,328	51	1	6,160
17 Interest Earnings	(1,634)	(14)	(1,973)	(30)	(1)	(3,652)
18 Inter-zone Interest	15	0	18	0	0	34
19 Capital Contributions	(18)	(0)	(22)	(0)	(0)	(41)
20 Transfers In	(3,336)	(29)	(4,028)	(61)	(2)	(7,455)
21 Other	(741)	(6)	(764)	(11)	(0)	(1,524)
22 Reserve Requirements	2,529	84	7,134	46	5	9,798
23 Adjusted Revenue Requirement (FY 25)	104,638	968	252,216	2,429	71	360,321
24 Adjusted Revenue Requirement (FY 22 adj)	17,505	558	5,364	(574)	14	22,867
25 Total Adjusted Revenue Requirement	122,144	1,525	257,579	1,855	85	383,188
26 Volume (KAF)	74.8	0.7	90.3	1.4	0.0	167.2
27 Revenue Requirement (\$ per AF)	\$ 1,633	\$ 2,346	\$ 2,852	\$ 1,352	\$ 2,227	\$ -
28 Adjustments for Agricultural Preservation	Step 5 - Develop unit costs by customer class					
29 Allocate WU 1% Ad Valorem Prop Tax	-	(1,499)	-	-	(81)	(1,580)
30 Transfer GF 1% Ad valorem Prop Tax	-	-	-	-	-	-
31 Transfer WS 1% Ad Valorem Prop Tax	-	-	-	-	-	-
32 Revenue Requirement (\$ per AF)	\$ 1,633	\$ 40	\$ 2,852	\$ 1,352	\$ 101	\$ -
33 Adjustments to Facilitate Conjunctive Use	Step 6 - Rate Design					
34 Reallocate TW/SW/RW costs	44,588	-	(45,876)	1,288	-	0
35 Water Charge (\$ per AF)	\$ 2,229.00	\$ 39.80	\$ 2,344.00	\$ 2,290.00	\$ 100.80	\$ -
36 Total Revenue (\$K)	\$ 166,732	\$ 26	\$ 211,703	\$ 3,143	\$ 4	\$ 381,608

Cost of Service South County Zone W-5 (\$K)

FY 25 Projection (\$ in Thousands)	Zone W-5						Total W-5
	GW		SW		RW		
	M&I	AG	M&I	AG	M&I	AG	
1 Operating Outlays							
2 Operations/Operating Projects	8,431	10,179	231	595	254	218	19,906
3 SWP Imported Water Costs	-	-	-	-	-	-	-
4 Debt Service	-	-	-	-	-	-	-
5 Total Operating Outlays	8,431	10,179	231	595	254	218	19,906
6 Capital & Transfers							
7 Operating Transfers Out	-	-	-	-	-	-	-
8 Capital Outlays excl. carryforward	-	-	-	-	-	-	-
9 Total Capital & Transfers	-	-	-	-	-	-	-
10 Total Annual Program Costs	8,431	10,179	231	595	254	218	19,906
11 Revenue Requirement Offsets							
12 Capital Cost Recovery	2,053	2,506	40	105	2,085	1,787	8,576
13 Debt Proceeds	-	-	-	-	-	-	-
14 Inter-governmental Services	(29)	(35)	(1)	(1)	-	-	(66)
15 SWP Property Tax	(540)	(659)	(11)	(28)	(21)	(18)	(1,277)
16 South County Deficit/Reserve	(850)	(2,782)	(26)	(116)	13	(77)	(3,838)
17 Interest Earnings	-	-	-	-	-	-	-
18 Inter-zone Interest	(11)	(13)	(0)	(1)	(0)	(0)	(26)
19 Capital Contributions	-	-	-	-	-	-	-
20 Transfers In	-	-	-	-	-	-	-
21 Other	(60)	(74)	(1)	(2)	(1)	(1)	(138)
22 Reserve Requirements	-	-	-	-	-	-	-
23 Adjusted Revenue Requirement (FY 25)	8,993	9,121	233	552	2,329	1,908	23,137
24 Adjusted Revenue Requirement (FY 22 adj)	(490)	(541)	(19)	10	(103)	(180)	(1,323)
25 Total Adjusted Revenue Requirement	8,503	8,580	214	562	2,226	1,729	21,815
26 Volume (KAF)	17.8	21.8	0.4	0.9	0.7	0.6	42.2
27 Revenue Requirement (\$ per AF)	\$ 477	\$ 394	\$ 612	\$ 618	\$ 3,181	\$ 2,881	
28 Adjustments for Agricultural Preservation							
29 Allocate WU 1% Ad Valorem Prop Tax	-	(7,714)	-	(471)	-	(839)	(9,024)
30 Transfer GF 1% Ad valorem Prop Tax	-	-	-	-	-	(424)	(424)
31 Transfer WS 1% Ad Valorem Prop Tax	-	-	-	-	-	(424)	(424)
32 Revenue Requirement (\$ per AF)	\$ 477	\$ 40	\$ 612	\$ 101	\$ 3,181	\$ 70	
33 Adjustments to Facilitate Conjunctive Use							
34 Reallocate TW/SW/RW costs	1,825	-	10	-	(1,835)	-	-
35 Water Charge (\$ per AF)	\$ 579.00	\$ 39.80	\$ 640.00	\$ 100.80	\$ 559.00	\$ 70.15	
36 Total Revenue (\$K)	\$10,328	\$867	\$224	\$92	\$391	\$42	\$11,944

Exhibit 9, continued **Cost of Service South County Zone W-7 (\$K)**

FY 25 Projection (\$ in Thousands)	Zone W-7				Total W-7
	GW		SW		
	M&I	AG	M&I	AG	
1 Operating Outlays					
2 Operations/Operating Projects	7,038	2,538	164	418	10,157
3 SWP Imported Water Costs	-	-	-	-	-
4 Debt Service	-	-	-	-	-
5 Total Operating Outlays	7,038	2,538	164	418	10,157
6 Capital & Transfers	-	-	-	-	-
7 Operating Transfers Out	-	-	-	-	-
8 Capital Outlays excl. carryforward	-	-	-	-	-
9 Total Capital & Transfers	-	-	-	-	-
10 Total Annual Program Costs	7,038	2,538	164	418	10,157
11 Revenue Requirement Offsets	Step 3 - Allocate costs to customer classes				
12 Capital Cost Recovery	1,757	657	20	53	2,487
13 Debt Proceeds	-	-	-	-	-
14 Inter-governmental Services	(44)	(16)	(1)	(1)	(62)
15 SWP Property Tax	(261)	(98)	(3)	(8)	(370)
16 South County Deficit/Reserve	(1,773)	(412)	(5)	(33)	(2,223)
17 Interest Earnings	-	-	-	-	-
18 Inter-zone Interest	(5)	(2)	(0)	(0)	(8)
19 Capital Contributions	-	-	-	-	-
20 Perchlorate Response	-	-	-	-	-
21 Other	(20)	(8)	(0)	(0)	(28)
22 Reserve Requirements	-	-	-	-	-
23 Adjusted Revenue Requirement (FY 25)	6,692	2,659	175	428	9,954
24 Adjusted Revenue Requirement (FY 22 adj)	(299)	34	(8)	(62)	(334)
25 Total Adjusted Revenue Requirement	6,393	2,693	168	367	9,620
26 Volume (KAF)	8.6	3.2	0.1	0.3	12.2
27 Revenue Requirement (\$ per AF)	\$ 740	\$ 835	\$ 1,676	\$ 1,410	
28	Step 5 - Develop unit costs by customer				
29 Allocate WU 1% Ad Valorem Prop Tax	-	-	-	-	-
30 Transfer GF 1% Ad valorem Prop Tax	-	(1,282)	-	(170)	(1,453)
31 Transfer WS 1% Ad Valorem Prop Tax	-	(1,282)	-	(170)	(1,453)
32 Revenue Requirement (\$ per AF)	\$ 740	\$ 40	\$ 1,676	\$ 101	
33 Adjustments to Facilitate Conjunctive Use	Step 6 - Rate Design				
34 Reallocate TW/SW/RW costs	86	-	(86)	-	-
35 Water Charge (\$ per AF)	\$ 750.50	\$ 39.80	\$ 811.50	\$ 100.80	
36 Total Revenue (\$K)	\$6,479	\$128	\$81	\$26	\$6,715

Exhibit 9, continued **Cost of Service South County Zone W-8 (\$K)**

FY 25 Projection (\$ in Thousands)	Zone W-8				Total W-8	Total South County
	GW		SW			
	M&I	AG	M&I	AG		
1 Operating Outlays						
2 Operations/Operating Projects	184	230	23	59	496	30,559
3 SWP Imported Water Costs	-	-	-	-	-	-
4 Debt Service	-	-	-	-	-	-
5 Total Operating Outlays	184	230	23	59	496	30,559
6 Capital & Transfers						
7 Operating Transfers Out	-	-	-	-	-	-
8 Capital Outlays excl. carryforward	-	-	-	-	-	-
9 Total Capital & Transfers	-	-	-	-	-	-
10 Total Annual Program Costs	184	230	23	59	496	30,559
11 Revenue Requirement Offsets	Step 3 - Allocate costs to customer classes					
12 Capital Cost Recovery	14	17	2	5	38	11,102
13 Debt Proceeds	-	-	-	-	-	-
14 Inter-governmental Services	(0)	(0)	(0)	(0)	(0)	(128)
15 SWP Property Tax	(12)	(15)	(2)	(5)	(34)	(1,680)
16 South County Deficit/Reserve	(22)	(54)	(6)	(17)	(98)	(6,160)
17 Interest Earnings	-	-	-	-	-	-
18 Inter-zone Interest	(0)	(0)	(0)	(0)	(1)	(34)
19 Capital Contributions	-	-	-	-	-	-
20 Perchlorate Response	-	-	-	-	-	-
21 Other	(1)	(1)	(0)	(0)	(2)	(169)
22 Reserve Requirements	-	-	-	-	-	-
23 Adjusted Revenue Requirement (FY 25)	162	177	17	43	399	33,490
24 Adjusted Revenue Requirement (FY 22 adj)	(9)	26	(1)	5	20	(1,636)
25 Total Adjusted Revenue Requirement	153	202	17	48	419	31,854
26 Volume (KAF)	0.3	0.4	0.1	0.1	0.9	55.3
27 Revenue Requirement (\$ per AF)	\$ 454	\$ 480	\$ 331	\$ 369		
28	Step 5 - Develop unit costs by customer class					
29 Allocate WU 1% Ad Valorem Prop Tax	-	-	-	-	-	(9,024)
30 Transfer GF 1% Ad valorem Prop Tax	-	(93)	-	(17)	(110)	(1,986)
31 Transfer WS 1% Ad Valorem Prop Tax	-	(93)	-	(17)	(110)	(1,986)
32 Revenue Requirement (\$ per AF)	\$ 454	\$ 40	\$ 331	\$ 101		
33 Adjustments to Facilitate Conjunctive Use	Step 6 - Rate Design					
34 Reallocate TW/SW/RW costs	(8)	-	8	-	-	-
35 Water Charge (\$ per AF)	\$ 430.00	\$ 39.80	\$ 491.00	\$ 100.80		

Open Space Credit

The District Act limits agricultural groundwater production charges to a maximum of 25% of the M&I groundwater production charges. Current board policy adds an “open space” credit to agricultural revenues. The purpose of the credit is to preserve the open space benefits provided by agricultural lands by keeping agricultural groundwater production charges low. While the Supreme Court found Proposition 218 inapplicable to groundwater production charges, the Court determined that Proposition 26 does apply, which means that in order for the groundwater production charge to qualify as a nontax fee, costs to end users must be proportional such that one class of users is not subsidizing another.

The agricultural community currently benefits from low groundwater charges that are 2% of M&I charges in North County Zone W-2, 6.9% of M&I charges in South County Zone W-5, and 5.3% of M&I charges in South County Zone W-7. The current FY 2023-24 agricultural groundwater production charge is \$36.85/AF, or 9.25% of the South County Zone W-8 M&I charge of \$398/AF. The FY 2024-25 proposed agricultural groundwater production charge is 9.25% of M&I for Zone W-8, or an increase from \$36.85/AF in FY 2023-24 to \$39.80/AF in FY 2024-25, translating to an increase of up to \$0.49 per month per acre, assuming 2 (two) acre-feet of water usage per acre per year.

The credit to agricultural water users has become known as an “Open Space Credit.” It is paid for by fungible, non-rate related revenue. To offset lost revenue that results from the difference between the adopted agricultural groundwater production charge and the agricultural charge that would have resulted at the full cost of service, Valley Water redirects a portion of the 1% ad valorem property taxes generated in the Water Utility, General and Watershed Stream Stewardship Funds.

To comply with the current agricultural groundwater production charge setting policy, staff recommends the open space credit received by South County be \$13 million in FY 2024-25 (funded by 1% ad valorem property taxes). This incorporates an adjustment that reconciles FY 2021-22 actuals against what was projected for that year. The \$13 million is comprised of a \$7.1 million transfer from North County Water Utility 1% ad valorem property taxes, a \$1.9 million contribution from South County Water Utility 1% ad valorem property taxes and a \$4 million transfer of 1% ad valorem property taxes from the General Fund and Watershed Stream Stewardship Fund. As shown in Exhibit 10, the Open Space Credit is projected to grow to \$28.0 million by FY 2033-34.

Exhibit 10 Open Space Credit Trend



Hearings and Meetings Schedule

Exhibit 11 presents the schedule for the annual groundwater production charge setting process.

Exhibit 11 Hearings and Meetings Schedule – 2024

Date	Hearing/Meeting
January 8	Agricultural Water Advisory Committee Meeting
January 9	Board Meeting: Preliminary Groundwater Charge Analysis
January 17	Water Retailers Meeting: Preliminary Groundwater Charge Analysis
January 24	Water Commission Meeting: Prelim Groundwater Charge Analysis
February 13	Board Meeting: Set time and place of Public Hearing
February 23	Mail notice of public hearing and file PAWS report
March 12	Board Meeting: Budget development update
March 20	Water Retailers Meeting: FY 25 Groundwater Charge Recommendation
April 8	Agricultural Water Advisory Committee Meeting
April 9	Open Public Hearing
April 10	Water Commission Meeting
April 11	Continue Public Hearing (Informational Open House with South County focus)
April 23	Conclude Public Hearing
April 24-25	Board Meeting: Budget work study session
May 14	Adopt Biennial Budget & Groundwater Production and Other Water Charges