

# 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 28, 2025.

The Report is the 54<sup>th</sup> 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) 2025-26.

The PAWS Report can be found at [www.valleywater.org](http://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 2025-26.

## Staff Recommendations

Exhibit 1 shows the recommended groundwater production charges and other charges for FY 2025-26.

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

### Summary of Groundwater Production and Other Water Charges

		Dollars Per Acre Foot		
	Basic User/Groundwater Production Charge	FY 2023-24	FY 2024-25	Recommended FY 2025-26
Zone W-2 (North County)	Municipal and Industrial	1,974.00	2,229.00	2,450.00
	Agricultural	36.85	39.80	43.00
	<b>Surface Water Charge</b>			
	Surface Water Master Charge	54.00	61.00	67.00
	Total Surface Water, Municipal and Industrial*	2,028.00	2,290.00	2,517.00
	Total Surface Water, Agricultural*	90.85	100.80	110.00
	<b>Treated Water Charges</b>			
	Contract Surcharge	115.00	115.00	115.00
	Total Treated Water Contract Charge**	2,089.00	2,344.00	2,565.00
Zone W-5 (Llagas Subbasin)	Non-Contract Surcharge	200.00	200.00	200.00
	Total Treated Water Non-Contract Charge***	2,174.00	2,429.00	2,650.00
	<b>Basic User/Groundwater Production Charge</b>			
	Municipal and Industrial	543.50	579.00	624.50
	Agricultural	36.85	39.80	43.00
	<b>Surface Water Charge</b>			
	Surface Water Master Charge	54.00	61.00	67.00
	Total Surface Water, Municipal and Industrial*	597.50	640.00	691.50
	Total Surface Water, Agricultural*	90.85	100.80	110.00
Zone W-7 (Coyote Valley)	<b>Recycled Water Charges</b>			
	Municipal and Industrial	523.50	559.00	604.50
	Agricultural	67.20	70.15	73.35
	<b>Basic User/Groundwater Production Charge</b>			
	Municipal and Industrial	657.50	750.50	834.50
	Agricultural	36.85	39.80	43.00
	<b>Surface Water Charge</b>			
	Surface Water Master Charge	54.00	61.00	67.00
	Total Surface Water, Municipal and Industrial*	711.50	811.50	901.50
Zone W-8 (Uvas/Chesbro)	Total Surface Water, Agricultural*	90.85	100.80	110.00
	<b>Basic User/Groundwater Production Charge</b>			
	Municipal and Industrial	398.00	430.00	464.00
	Agricultural	36.85	39.80	43.00
	<b>Surface Water Charge</b>			
	Surface Water Master Charge	54.00	61.00	67.00
	Total Surface Water, Municipal and Industrial*	452.00	491.00	531.00
	Total Surface Water, Agricultural*	90.85	100.80	110.00

\*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 9.9% increase in the North County Zone W-2 Municipal and Industrial groundwater production charge from \$2,229.00 per acre foot (AF) to \$2,450.00/AF. Staff recommends maintaining the treated water surcharge on treated water delivered under the contracts with retail agencies at \$115.00/AF, and maintaining the non-contract treated water surcharge at \$200.00/AF. The proposal equates to a monthly bill increase for the average household of \$7.60 or about 25 cents a day.

In the South County Zone W-5, staff proposes a 7.9% increase in the M&I groundwater production charge from \$579.00/AF to \$624.50/AF. The proposal equates to a monthly bill increase for the average household of \$1.58 or about 5 cents per day.

In the South County Zone W-7, staff proposes a 11.2% increase in the M&I groundwater production charge from \$750.50/AF to \$834.50/AF. The proposal equates to a monthly bill increase for the average household of \$2.89 or about 10 cents per day.

In the South County Zone W-8, staff proposes an 8% increase in the M&I groundwater production charge from \$430.00/AF to \$464.00/AF. The proposal equates to a monthly bill increase for the average household of \$1.18 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.

Staff proposes an 8% increase in the agricultural groundwater production charge, which would mean an increase from \$39.80/AF to \$43.00/AF. The proposed groundwater production charge equates to 9.25% of the lowest M&I rate (Zone W-8) and would translate to an increase of \$0.53 per month per acre, assuming 2 (two) acre-feet of water usage per acre per year.

Staff recommends a 9.9% increase to the surface water master charge from \$61.00/AF to \$67.00/AF to align revenues with the costs related to managing, operating and billing for surface water diversions. This increase results in a 9.9% increase in the overall North County municipal and industrial surface water charge, to \$2,517.00/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: \$691.50/AF, or an 8% increase for Zone W-5; \$901.50/AF, or an 11.1% increase for Zone W-7; and \$531.00/AF, or an 8.1% increase for Zone W-8. The total agricultural surface water charge in any zone represents up to a 9.1% increase at \$110.00/AF.

For recycled water, staff recommends increasing the M&I charge by 7.9% to \$604.50/AF. For agricultural recycled water, the proposed increase is 4.6% to \$73.35/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 2025-26 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 2025-26. 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 2025-26 will be at least \$32.5 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 2023-24 was estimated at approximately 203,400 AF, which is roughly 4,000 AF lower than budgeted. For the current year, FY 2024-25, water use was budgeted at 222,400 AF, which reflected ongoing rebound from the recent drought. Rebound has not been as robust as anticipated, and for FY 2025-26, staff is projecting water usage of 219,000 AF which reflects a slight reduction when compared to the budgeted amount for FY 2024-25.

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

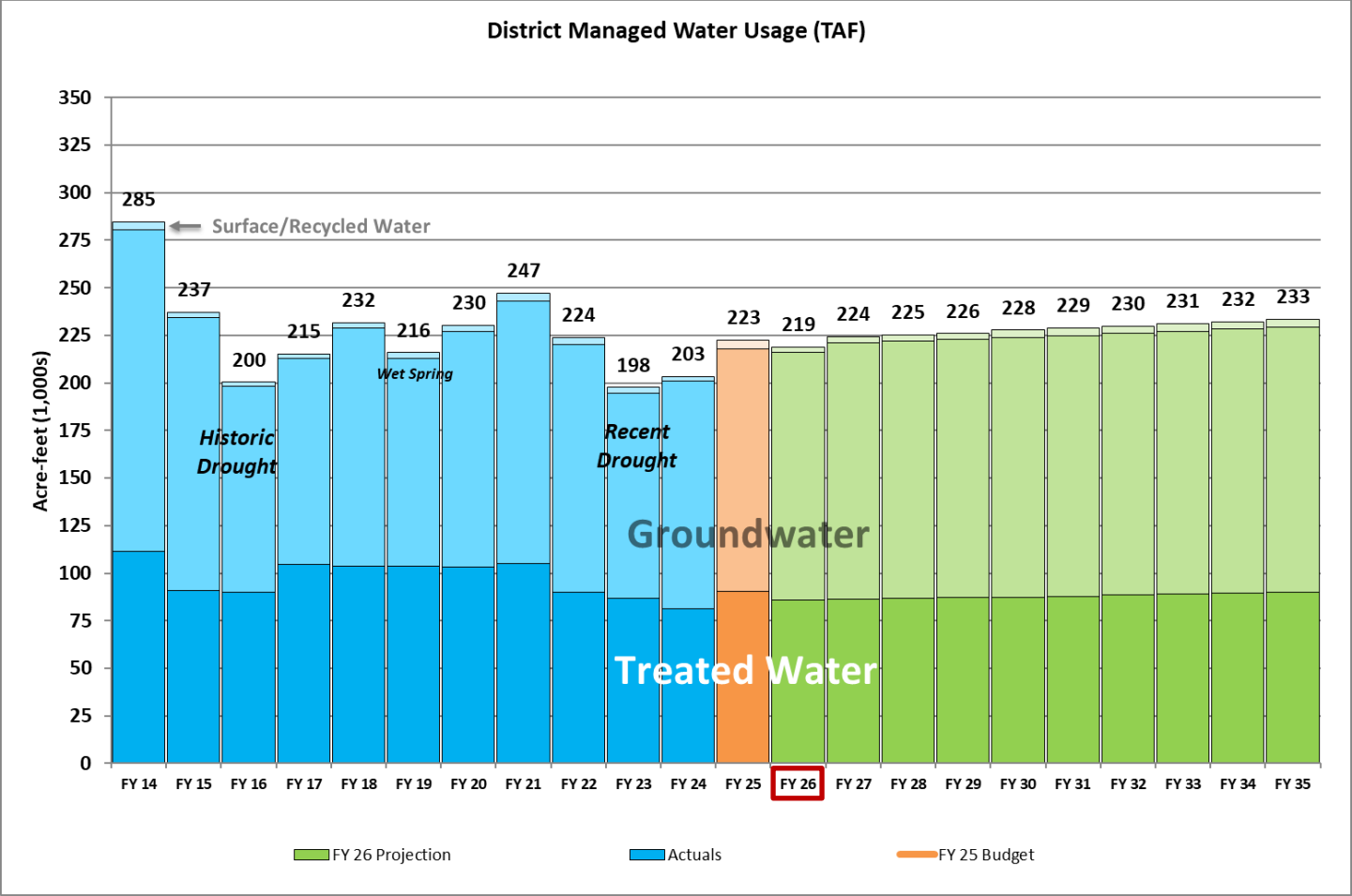


Exhibit 3 shows key financial indicators with staff’s recommendation projected to FY 2030-31. The debt service coverage ratio, which is a ratio of revenue less operations expenses divided by annual debt service, is targeted at 2.0 or better which helps to ensure financial stability and continued high credit ratings keeping cost to borrow low.

## 5-Year Water Charge and Financial Indicator Projection

Base Case	Adopted Budget						
	2024–25	2025–26	2026–27	2027–28	2028–29	2029–30	2030–31
<b>No. County (W-2) M&amp;I GWP charge (\$/AF)</b>	\$2,229	\$2,450	\$2,692.50	\$2,959	\$3,252	\$3,574	\$3,927.50
<b>Y-Y Growth %</b>	12.9%	9.9%	9.9%	9.9%	9.9%	9.9%	9.9%
<b>So. County (W-5) M&amp;I GWP charge (\$/AF)</b>	\$579	\$624.50	\$673.50	\$727	\$784.50	\$846	\$913
<b>Y-Y Growth %</b>	6.6%	7.9%	7.9%	7.9%	7.9%	7.9%	7.9%
<b>So. County (W-7) M&amp;I GWP charge (\$/AF)</b>	\$750.50	\$834.50	\$927.50	\$1,031.50	\$1,147	\$1,275.50	\$1,418.50
<b>Y-Y Growth %</b>	14.2%	11.2%	11.2%	11.2%	11.2%	11.2%	11.2%
<b>So. County (W-8) M&amp;I GWP charge (\$/AF)</b>	\$430	\$464	\$501	\$541	\$584.50	\$631	\$681.50
<b>Y-Y Growth %</b>	8.0%	8.0%	8.0%	8.0%	8.0%	8.0%	8.0%
<b>Operating &amp; Capital Reserve</b>	\$62,727	\$58,039	\$62,287	\$69,590	\$75,217	\$80,427	\$84,782
<b>Supplemental Water Supply Reserve (\$K)</b>	\$5,277	\$8,677	\$12,077	\$15,477	\$18,877	\$19,677	\$19,877
<b>Drought Contingency Reserve (\$K)</b>	\$0	\$1,000	\$4,000	\$8,000	\$12,000	\$16,000	\$20,000
<b>Sr. Lien Debt Service Coverage Ratio (1.25 min)</b>	2.02	2.04	2.14	2.13	2.21	2.33	2.36
<b>South County (Deficit)/Reserves (\$K)</b>	\$9,012	\$5,713	\$8,182	\$9,201	\$6,892	\$8,195	\$13,064

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 \$9.8 billion in capital investments are planned for the next 10 years. Approximately \$1.7 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 that is nearly finished will shed more light on what infrastructure investments are recommended. 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 4.7% per year driven by: 1) the ramp up of payments associated with both the Delta Conveyance 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 inflation including cost increases associated with employee salaries and benefits. Debt service is projected to rise from \$98.5 million in FY 2025-26 to \$329 million in FY 2034-35 as a result of periodic debt issuances to fund the capital program.

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

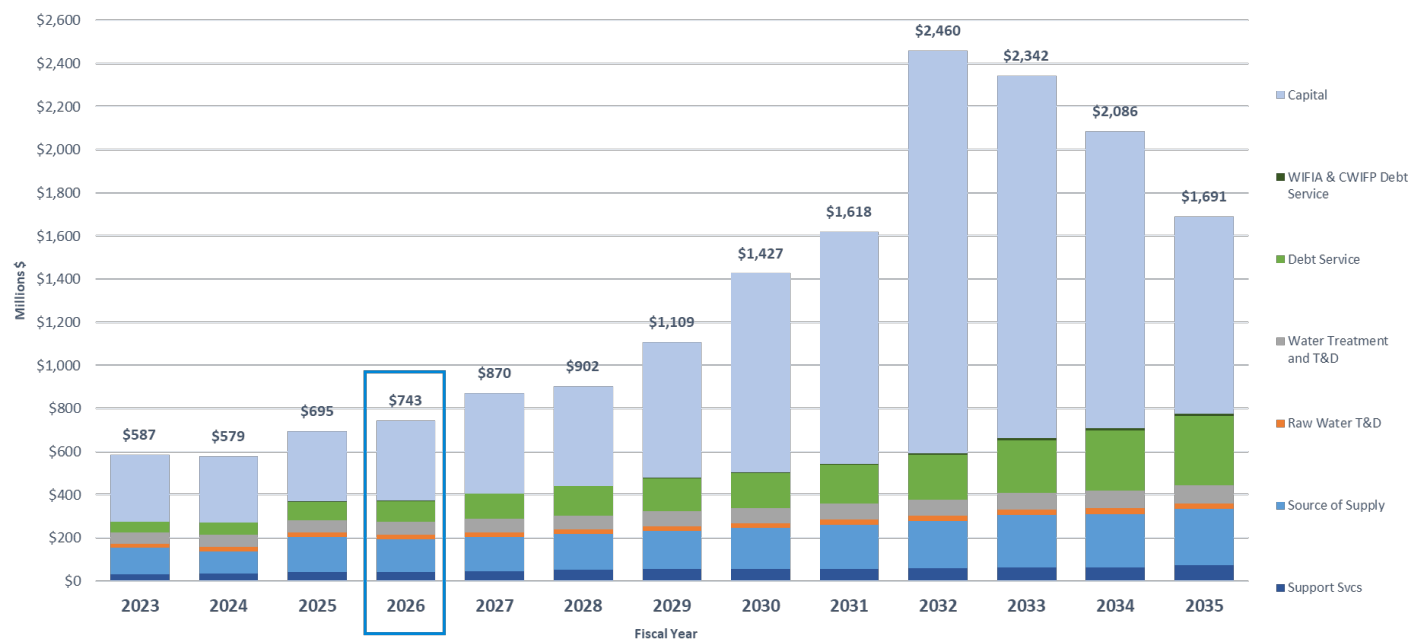


Exhibit 5 shows the groundwater production charge projection for the next 10 years and assumes a continuation of the level of service provided in FY 2024-25 and funding of the draft FY 2025-26 Capital Improvement Program (CIP). Note that there are initiatives and potential uncertainties that could result in the identification of additional capital or operations projects that are not reflected in the projection.

Exhibit 5                      10-Year Groundwater Charge Projection

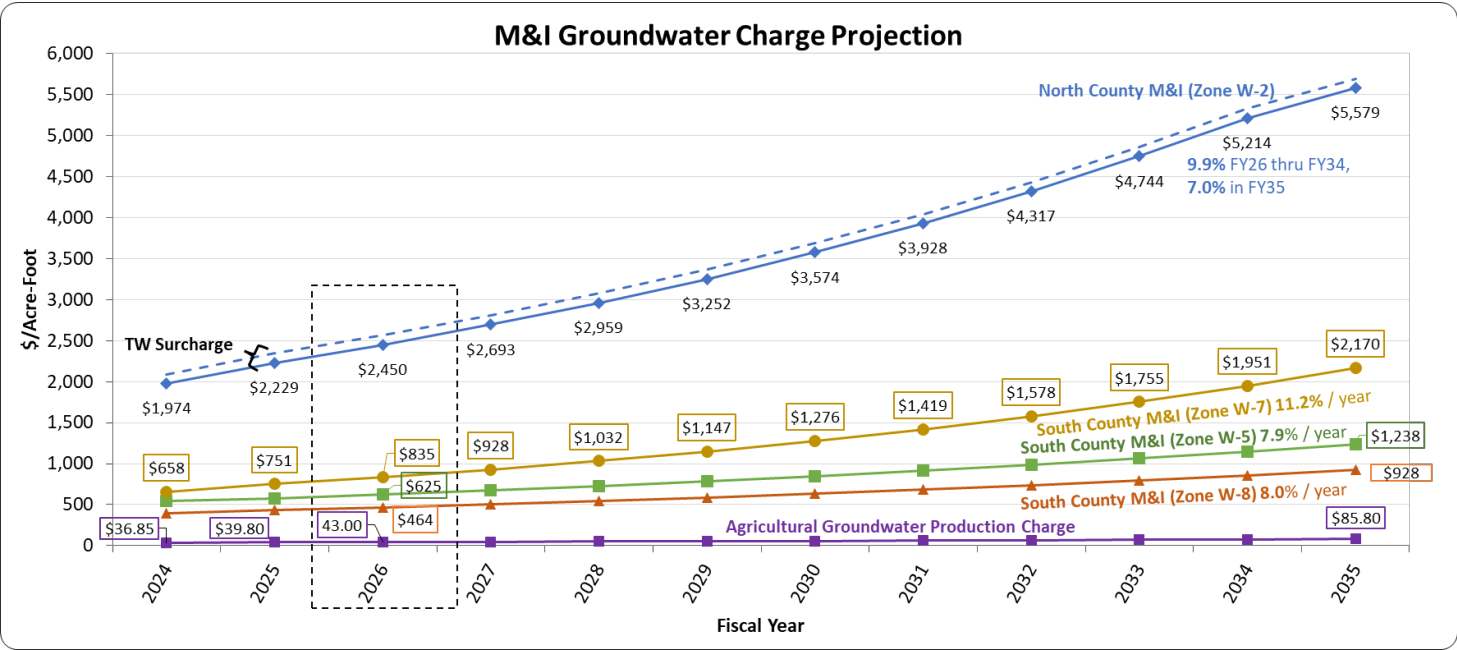


Exhibit 6 shows a comparison of the adjusted proposed groundwater production and treated water charges relative to the anticipated increases for the following similar agencies: Metropolitan Water District, Orange County Water District, San Diego County Water Authority, San Francisco PUC (Hetch Hetchy),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

## Anticipated FY 2025-26 Water Charge Increases for Similar Agencies

Agency	% inc.		% inc.		% inc.		FY 26
	FY 23	'23 to '24	FY 24	'24 to '25	FY 25	'25 to '26	
SCVWD North W-2 (Groundwater prdctn per AF) <sup>1</sup>	\$1,724	14.5%	\$1,974	12.9%	\$2,229	9.9%	\$2,450
SCVWD North W-2 (Treated Water per AF) <sup>1</sup>	\$1,839	13.6%	\$2,089	12.2%	\$2,344	9.4%	\$2,565
SCVWD South W-5 (Groundwater prdctn per AF) <sup>1</sup>	\$513	5.9%	\$544	6.6%	\$579	6.6%	\$625
SCVWD South W-7 (Groundwater prdctn per AF) <sup>1</sup>	\$583	12.9%	\$658	14.2%	\$751	14.2%	\$835
SCVWD South W-8 (Groundwater prdctn per AF) <sup>1</sup>	\$369	8.0%	\$398	8.0%	\$430	7.9%	\$464
Metropolitan WD (Untreated Water per AF) <sup>2</sup>	\$1,011	5.9%	\$1,070	2.5%	\$1,097	7.6%	\$1,181
Metropolitan WD (Treated Water per AF) <sup>2</sup>	\$1,365	4.3%	\$1,423	11.0%	\$1,580	9.1%	\$1,725
Orange County WD (Groundwater per AF)	\$558	11.8%	\$624	10.3%	\$688	3.3%	\$711
San Diego County WA (Treated Water per AF) <sup>2</sup>	\$1,937	10.8%	\$2,147	10.4%	\$2,369	11.7%	\$2,647
San Francisco PUC (Treated Water per AF) <sup>3</sup>	\$2,244	8.3%	\$2,430	8.0%	\$2,625	1.5%	\$2,663
Zone 7 (Treated Water per AF) <sup>2</sup>	\$1,798	3.1%	\$1,853	4.3%	\$1,932	1.2%	\$1,956

1. Amounts may be rounded to the nearest dollar.

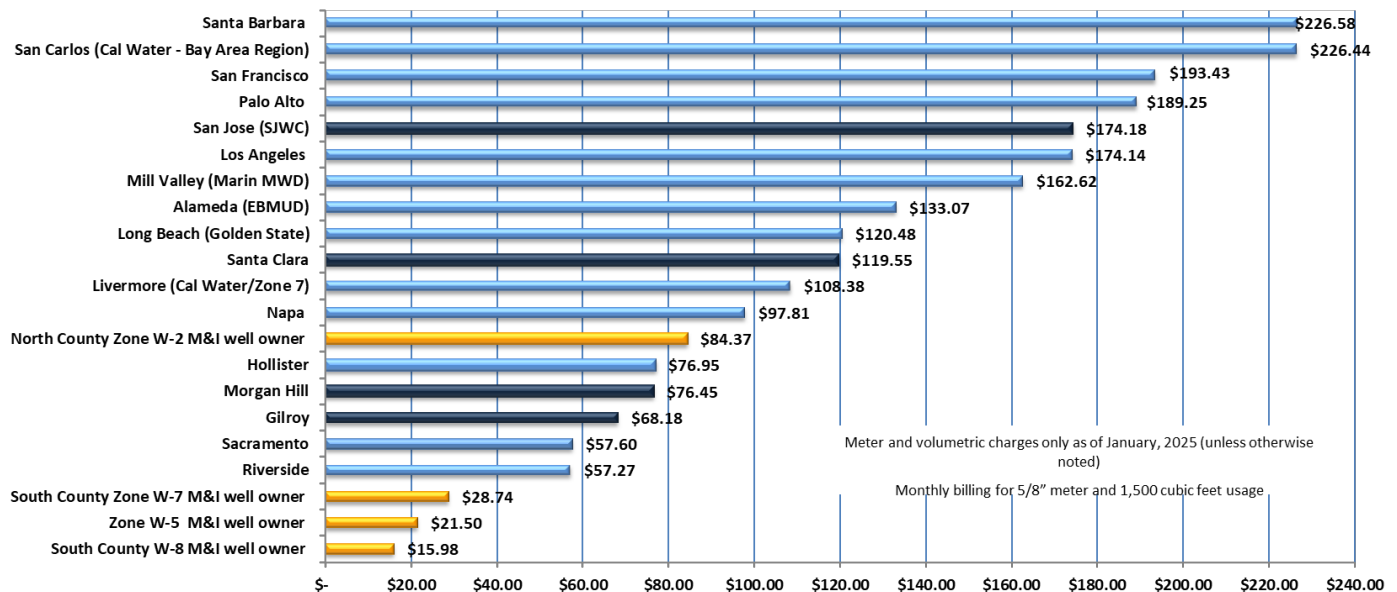
2. MWD, SDCWA and Zone 7 rates based on calendar year (i.e., 2025 rate would be effective on 1/1/2025)

3. SFPUC rate includes 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 2025-26. 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 2025-26 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 2025-26, staff is not proposing a transfer of 1% ad valorem property taxes from the General Fund and the Watershed Stream Stewardship Fund into the Water Utility Fund due to true-up adjustments related to FY 2022-23, which have reduced the amount of Open Space Credit needed in FY 2025-26.

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 26 Projection (\$ in Thousands)		Zone W-2					Total W-2
		GW		TW	SW		
		M&I	AG	M&I	M&I	Ag	
1	Operating Outlays						
2	Operations/Operating Projects	67,184	600	142,323	1,073	0	211,180
3	SWP Imported Water Costs	8,380	75	23,721	363	0	32,540
4	Debt Service	24,413	220	73,644	287	0	98,564
5	Total Operating Outlays	99,978	895	239,688	1,723	0	342,284
6	Capital & Transfers						
7	Operating Transfers Out	8,124	73	9,675	79	0	17,951
8	Capital Outlays excl. carryforward	69,293	624	237,146	660	0	307,724
9	Total Capital & Transfers	77,417	697	246,822	739	0	325,675
10	Total Annual Program Costs	177,395	1,593	486,510	2,462	0	667,959
11	Revenue Requirement Offsets	Step 3 - Allocate costs to customer classes					
12	Capital Cost Recovery	(4,465)	(40)	(5,318)	(43)	(0)	(9,866)
13	Debt Proceeds	(48,855)	(440)	(167,200)	(465)	(0)	(216,961)
14	Inter-governmental Services	(618)	(6)	(736)	(6)	(0)	(1,366)
15	SWP Property Tax	(6,779)	(61)	(19,187)	(293)	(0)	(26,320)
16	South County Deficit/Reserve	(3,519)	(32)	(4,191)	(34)	(0)	(7,775)
17	Interest Earnings	(3,214)	(29)	(3,828)	(31)	(0)	(7,103)
18	Inter-zone Interest	43	0	52	0	0	96
19	Capital Contributions	(310)	(3)	(369)	(3)	(0)	(684)
20	Transfers In	(3,392)	(31)	(4,040)	(33)	(0)	(7,496)
21	Other	(751)	(7)	(760)	(11)	(0)	(1,529)
22	Reserve Requirements	(10,301)	(2)	(23,448)	(98)	(0)	(33,849)
23	Adjusted Revenue Requirement (FY 26)	95,234	943	257,484	1,443	0	355,106
24	Adjusted Revenue Requirement (FY 23 adj)	34,421	(9)	8,542	1,851	(77)	44,727
25	Total Adjusted Revenue Requirement	129,655	934	266,026	3,294	(77)	399,832
26	Volume (KAF)	72.2	0.7	85.9	0.7	0.0	159.4
27	Revenue Requirement (\$ per AF)	\$ 1,797	\$ 1,437	\$ 3,096	\$ 4,706	\$ (767,121)	\$ -
28	Adjustments for Agricultural Preservation	Step 5 - Develop unit costs by customer class					
29	Allocate WU 1% Ad Valorem Prop Tax	-	(906)	-	-	77	(829)
30	Transfer GF 1% Ad valorem Prop Tax	-	-	-	-	-	-
31	Transfer WS 1% Ad Valorem Prop Tax	-	-	-	-	-	-
32	Revenue Requirement (\$ per AF)	\$ 1,797	\$ 43	\$ 3,096	\$ 4,706	\$ 110	\$ -
33	Adjustments to Facilitate Conjunctive Use	Step 6 - Rate Design					
34	Reallocate TW/SW/RW costs	47,127	-	(45,595)	(1,532)	-	0
35	Water Charge (\$ per AF)	\$ 2,450.00	\$ 43.00	\$ 2,565.00	\$ 2,517.00	\$ 110.00	\$ -
36	Total Revenue (\$K)	\$ 176,782	\$ 28	\$ 220,431	\$ 1,762	\$ 0	\$ 399,003

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

FY 26 Projection (\$ in Thousands)		Zone W-5						
		GW		SW		RW		Total W-5
		M&I	AG	M&I	AG	M&I	AG	
1	Operating Outlays							
2	Operations/Operating Projects	8,809	10,174	209	312	260	223	19,988
3	SWP Imported Water Costs	-	-	-	-	-	-	-
4	Debt Service	-	-	-	-	-	-	-
5	Total Operating Outlays	8,809	10,174	209	312	260	223	19,988
6	Capital & Transfers	Step 2- Identify revenue reqmnts						
7	Operating Transfers Out	-	-	-	-	-	-	-
8	Capital Outlays excl. carryforward	-	-	-	-	-	-	-
9	Total Capital & Transfers	-	-	-	-	-	-	-
10	Total Annual Program Costs	8,809	10,174	209	312	260	223	19,988
11	Revenue Requirement Offsets	Step 3 - Allocate costs to customer classes						
12	Capital Cost Recovery	2,329	2,721	35	52	838	718	6,694
13	Debt Proceeds	-	-	-	-	-	-	-
14	Inter-governmental Services	(34)	(40)	(1)	(1)	-	-	(75)
15	SWP Property Tax	(561)	(656)	(8)	(13)	(21)	(18)	(1,277)
16	South County Deficit/Reserve	2,080	921	(14)	18	1,467	25	4,498
17	Interest Earnings	-	-	-	-	-	-	-
18	Inter-zone Interest	(30)	(35)	(0)	(1)	(1)	(1)	(69)
19	Capital Contributions	-	-	-	-	-	-	-
20	Transfers In	(44)	(52)	(1)	(1)	(2)	(1)	(101)
21	Other	(63)	(74)	(1)	(1)	(1)	(1)	(141)
22	Reserve Requirements	-	-	-	-	-	-	-
23	Adjusted Revenue Requirement (FY 26)	12,485	12,961	220	366	2,540	945	29,517
24	Adjusted Revenue Requirement (FY 23 adj)	(1,531)	(3,417)	25	(400)	(1,438)	(1,724)	(8,485)
25	Total Adjusted Revenue Requirement	10,954	9,543	246	(34)	1,102	(780)	21,032
26	Volume (KAF)	18.7	21.9	0.3	0.4	0.7	0.6	42.6
27	Revenue Requirement (\$ per AF)	\$ 585	\$ 437	\$ 877	\$ (80)	\$ 1,575	\$ (1,299)	
28	Adjustments for Agricultural Preservation	Step 5 - Develop unit costs by customer class						
29	Allocate WU 1% Ad Valorem Prop Tax	-	(8,603)	-	80	-	824	(7,700)
30	Transfer GF 1% Ad valorem Prop Tax	-	-	-	-	-	-	-
31	Transfer WS 1% Ad Valorem Prop Tax	-	-	-	-	-	-	-
32	Revenue Requirement (\$ per AF)	\$ 585	\$ 43	\$ 877	\$ 110	\$ 1,575	\$ 73	
33	Adjustments to Facilitate Conjunctive Use	Step 6 - Rate Design						
34	Reallocate TW/SW/RW costs	731	-	(52)	-	(679)	-	-
35	Water Charge (\$ per AF)	\$ 624.50	\$ 43.00	\$ 691.50	\$ 110.00	\$ 604.50	\$ 73.35	
36	Total Revenue (\$K)	\$11,685	\$940	\$194	\$46	\$423	\$44	\$13,332

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

FY 26 Projection (\$ in Thousands)		Zone W-7				Total W-7
		GW		SW		
		M&I	AG	M&I	AG	
1	Operating Outlays					
2	Operations/Operating Projects	7,581	1,826	163	240	9,810
3	SWP Imported Water Costs	-	-	-	-	-
4	Debt Service	-	-	-	-	-
5	Total Operating Outlays	7,581	1,826	163	240	9,810
6	Capital & Transfers	-	-	-	-	-
7	Operating Transfers Out	-	-	-	-	-
8	Capital Outlays excl. carryforward	-	-	-	-	-
9	Total Capital & Transfers	-	-	-	-	-
10	Total Annual Program Costs	7,581	1,826	163	240	9,810
11	Revenue Requirement Offsets					
12	Capital Cost Recovery	2,457	625	15	23	3,121
13	Debt Proceeds	-	-	-	-	-
14	Inter-governmental Services	(60)	(15)	(0)	(1)	(76)
15	SWP Property Tax	(291)	(74)	(2)	(3)	(370)
16	South County Deficit/Reserve	3,132	136	14	5	3,287
17	Interest Earnings	-	-	-	-	-
18	Inter-zone Interest	(20)	(5)	(0)	(0)	(26)
19	Capital Contributions	-	-	-	-	-
20	Perchlorate Response	(4)	(1)	(0)	(0)	(5)
21	Other	(23)	(6)	(0)	(0)	(29)
22	Reserve Requirements	-	-	-	-	-
23	Adjusted Revenue Requirement (FY 26)	12,773	2,486	190	265	15,714
24	Adjusted Revenue Requirement (FY 23 adj)	(2,295)	(678)	(11)	(273)	(3,256)
25	Total Adjusted Revenue Requirement	10,478	1,809	179	(8)	12,457
26	Volume (KAF)	12.7	3.2	0.1	0.1	16.1
27	Revenue Requirement (\$ per AF)	\$ 826	\$ 560	\$ 2,238	\$ (67)	
28	Revenue Requirement Offsets					
29	Allocate WU 1% Ad Valorem Prop Tax	-	(1,670)	-	21	(1,649)
30	Transfer GF 1% Ad valorem Prop Tax	-	-	-	-	-
31	Transfer WS 1% Ad Valorem Prop Tax	-	-	-	-	-
32	Revenue Requirement (\$ per AF)	\$ 826	\$ 43	\$ 2,238	\$ 110	
33	Adjustments to Facilitate Conjunctive Use					
34	Reallocate TW/SW/RW costs	107	-	(107)	-	-
35	Water Charge (\$ per AF)	\$ 834.50	\$ 43.00	\$ 901.50	\$ 110.00	
36	Total Revenue (\$K)	\$10,585	\$139	\$72	\$13	\$10,809

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

FY 26 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	215	244	20	29	508	30,307
3	SWP Imported Water Costs	-	-	-	-	-	-
4	Debt Service	-	-	-	-	-	-
5	Total Operating Outlays	215	244	20	29	508	30,307
6	Capital & Transfers	-	-	-	-	-	-
7	Operating Transfers Out	-	-	-	-	-	-
8	Capital Outlays excl. carryforward	-	-	-	-	-	-
9	Total Capital & Transfers	-	-	-	-	-	-
10	Total Annual Program Costs	215	244	20	29	508	30,307
11	Revenue Requirement Offsets	Step 3 - Allocate costs to customer classes					
12	Capital Cost Recovery	22	24	2	3	52	9,866
13	Debt Proceeds	-	-	-	-	-	-
14	Inter-governmental Services	(0)	(0)	(0)	(0)	(0)	(152)
15	SWP Property Tax	(14)	(16)	(2)	(2)	(34)	(1,680)
16	South County Deficit/Reserve	(31)	18	(0)	3	(11)	7,775
17	Interest Earnings	-	-	-	-	-	-
18	Inter-zone Interest	(1)	(1)	(0)	(0)	(1)	(96)
19	Capital Contributions	-	-	-	-	-	-
20	Perchlorate Response	(2)	(2)	(0)	(0)	(5)	(110)
21	Other	(1)	(1)	(0)	(0)	(2)	(172)
22	Reserve Requirements	-	-	-	-	-	-
23	Adjusted Revenue Requirement (FY 26)	189	266	20	33	507	45,738
24	Adjusted Revenue Requirement (FY 23 adj)	(17)	(9)	2	(42)	(65)	(11,806)
25	Total Adjusted Revenue Requirement	172	258	22	(9)	442	33,932
26	Volume (KAF)	0.4	0.4	0.0	0.1	0.9	59.6
27	Revenue Requirement (\$ per AF)	\$ 462	\$ 612	\$ 545	\$ (150)		
28	Step 5 - Develop unit costs by customer class						
29	Allocate WU 1% Ad Valorem Prop Tax	-	(239)	-	16	(224)	(9,573)
30	Transfer GF 1% Ad valorem Prop Tax	-	-	-	-	-	-
31	Transfer WS 1% Ad Valorem Prop Tax	-	-	-	-	-	-
32	Revenue Requirement (\$ per AF)	\$ 462	\$ 43	\$ 545	\$ 110		
33	Step 6 - Rate Design						
34	Adjustments to Facilitate Conjunctive Use	1	-	(1)	-	-	-
35	Reallocate TW/SW/RW costs						
36	Water Charge (\$ per AF)	\$ 464.00	\$ 43.00	\$ 531.00	\$ 110.00		
36	Total Revenue (\$K)	\$172	\$18	\$21	\$7	\$218	\$24,359

## Open Space Credit

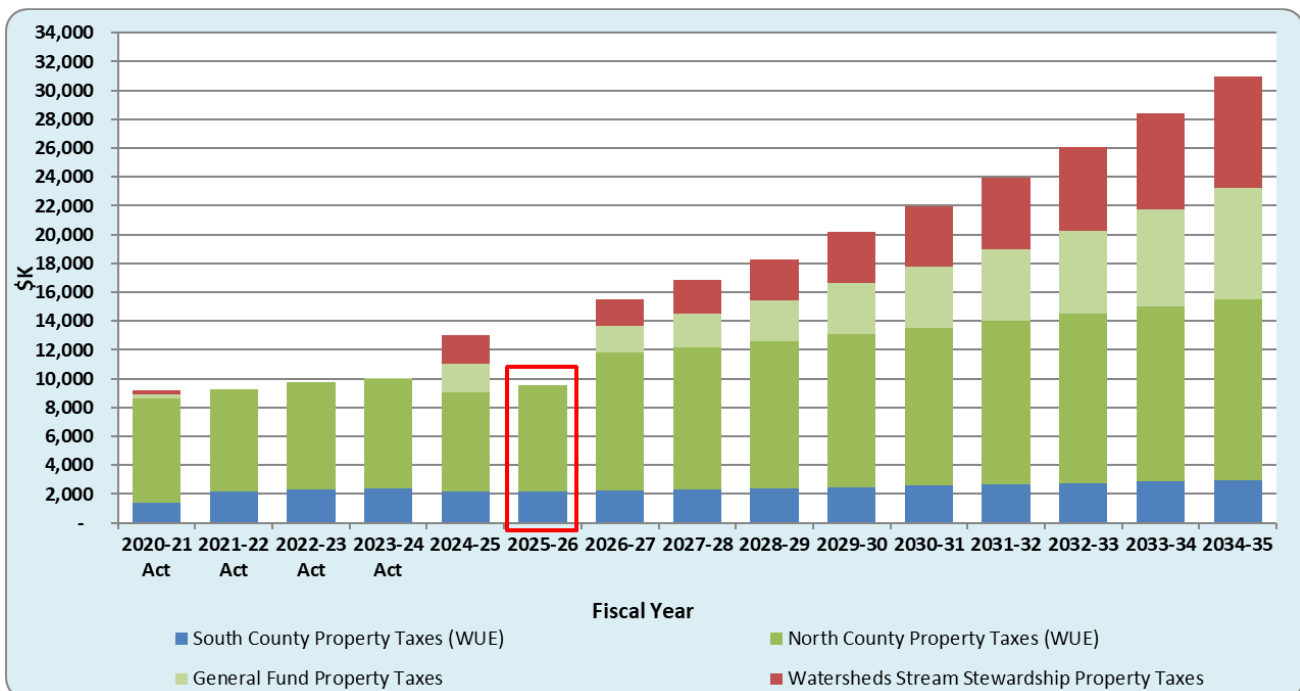
The District Act limits agricultural groundwater production charges to a maximum of 25% of the M&I groundwater production charges. Current board policy adds an “open space” credit to agricultural revenues. The purpose of the credit is to preserve the open space benefits provided by agricultural lands 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 1.8% of M&I charges in North County Zone W-2, 6.9% of M&I charges in South County Zone W-5, and 5.2% of M&I charges in South County Zone W-7. The current FY 2024-25 agricultural groundwater production charge is \$39.80/AF, or 9.25% of the South County Zone W-8 M&I charge of \$430/AF. The FY 2025-26 proposed agricultural groundwater production charge is 9.25% of M&I for Zone W-8, or an increase from \$39.80/AF in FY 2024-25 to \$43.00/AF in FY 2025-26, translating to an increase of up to \$0.53 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 \$9.6 million in FY 2025-26 (funded by 1% ad valorem property taxes). This incorporates an adjustment that reconciles FY 2022-23 actuals against what was projected for that year. The \$9.6 million is comprised of a \$7.4 million transfer from North County Water Utility 1% ad valorem property taxes, a \$2.2 million contribution from South County Water Utility 1% ad valorem property taxes. As shown in Exhibit 10, the Open Space Credit is projected to grow to \$31.0 million by FY 2034-35.

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 – 2025**

<b>Date</b>	<b>Hearing/Meeting</b>
January 7	Agricultural Water Advisory Committee Meeting
January 14	Board Meeting: Preliminary Groundwater Charge Analysis
January 15	Water Retailers Meeting: Preliminary Groundwater Charge Analysis
January 22	Water Commission Meeting: Prelim Groundwater Charge Analysis
February 13	Board Meeting: Set time and place of Public Hearing
February 28	Mail notice of public hearing and file PAWS report
March 11	Board Meeting: Budget development update
March 19	Water Retailers Meeting: FY 26 Groundwater Charge Recommendation
April 7	Agricultural Water Advisory Committee Meeting
April 8	Open Public Hearing
April 9	Water Commission Meeting
April 23-24	Board Meeting: Budget work study session
April 25	Continue Public Hearing (Informational Open House with South County focus) *
May 16	Conclude Public Hearing *
May 27	Adopt Biennial Budget & Groundwater Production and Other Water Charges

\* Rescheduled and pending Board approval at time of publication.